AYALA LAND, INC.

₱2,000,000,000

Short Term Commercial Paper Issue

Issue Price: 100% of Face Value

Ayala Land, Inc. ("Ayala Land" or the "Issuer") is authorized by the Securities and Exchange Commission to issue up to ₱2,000,000,000 worth of short-term commercial papers (the "STCPs"), composed of floating rate STCPs ("Floating Rate STCPs") and fixed rate STCPs ("Fixed Rate STCPs"). The STCPs shall be issued on a staggered basis in two (2) or more tranches.

The STCPs will carry interest based on market rates at the time of issuance and payable on the corresponding Interest Payment Date for the Floating Rate STCPs and on the Principal Repayment Date for the Fixed Rate STCPs. (See "*Terms and Description of the STCPs – Interest Rate"*).

The STCPs shall be offered to the public (the "Offer") at face value and in tranches through the Underwriter and the Selling Agents named below subject to certain conditions in the Issue Management and Underwriting Agreement executed between the Issuer and the Issue Manager/Underwriter. Trading of the STCPs will be done over-the-counter. The STCPs have been assigned a credit rating of **PRS 1** by the Philippine Ratings Services Corporation ("PhilRatings"). A credit rating is not a recommendation to buy, sell, or hold the securities and may be subject to revision, suspension, or withdrawal at any time by PhilRatings.

Issue Manager / Underwriter

Standard Chartered Bank

Selling Agents

PCI Capital Corporation
SB Capital Investment Corporation

The date of this Prospectus is September 13, 2004

The STCPs 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 STCPs 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 "*Risk Factors*". As of June 30, 2004, after giving effect to the Offering and the application of the net proceeds from the Offering, Ayala Land shall have ₱4.7 billion of secured indebtedness and ₱9.36 billion 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 ₱1,980 million after fees and expenses of the Offering. Such proceeds are expected to fund payment of certain maturing obligations, operating expenses and purchase of inventories. See "*Use of Proceeds*". The Issue Manager/Underwriter will receive 0.25% flat on the underwritten amount of the STCPs. 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.

Ayala Land confirms that this Prospectus contains all information relating to the STCPs which is (in the context of the issue of the STCPs) 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 Prospectus 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 Prospectus. Ayala Land, however, has not independently verified any such publicly available information, data or analysis.

Neither the delivery of this Prospectus nor any sale made pursuant to the Offering shall, under any circumstance, create any implication that the information contained or referred to in this Prospectus is accurate as of any time subsequent to the date hereof. The Issue Manager/Underwriter 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 Prospectus.

The contents of this Prospectus are not to be considered as legal, business or tax advice. Each prospective purchaser of the STCPs receiving a copy of this Prospectus acknowledges that he has not relied on the Issue Manager/Underwriter 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 STCPs.

No dealer, salesman or other person has been authorized by Ayala Land, the Issue Manager/Underwriter and Selling Agents to give any information or to make any representation concerning the STCPs 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 Issue Manager/Underwriter or Selling Agents.

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

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

JAIME E. YSMAEL
Senior Vice President, Chief Finance Officer and Treasurer

SUBSCRIBED AND SWORN TO BEFORE ME this 13th day of September 2004, affiant exhibiting to me his Community Tax Certificate No. 15189966 issued at Makati City on January 19, 2004.

Doc No. 71
Book No. 3
Page No. XII
Series of 2004.

MARIA [illegible] LERMA-FERRER
NOTARY PUBLIC
UNTIL DECEMBER 31, 2005
PTR # 7012453
ISSUED JAN. 5, 2004
ISSUED AT MAKATI CITY

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Except as otherwise required by the context, references in this Prospectus to "Ayala Land" refer to the combined business of Ayala Land, Inc. and its subsidiaries.

FORWARD-LOOKING STATEMENTS

This Prospectus 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 STCPs 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 Prospectus and Ayala Land undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

DEFINITION OF TERMS

"**Application**" shall mean a duly completed application to purchase STCPs.

"**Auction Date**" shall mean the date on which the Underwriter and/or Selling Agents shall submit their respective Bids.

"**Awarded Spread**" shall mean the final spread expressed as a percentage of interest which shall be added to the Base Rate for the purposes of determining the applicable Interest Rate for an Award; such final spread shall be determined *via* a Dutch auction to be participated in by the Underwriter and/or Selling Agents on an Auction Date.

"**Bangko Sentral**" shall mean the Bangko Sentral ng Pilipinas or its successor agency/ies.

"**Banking Day**" shall mean a day on which commercial banks are open for business in Manila, Makati City and Pasig City.

"**Base Rate**" shall mean the relevant benchmark of the applicable tenor (which shall be set by the Issuer in the Notice of Issuance) of the STCPs or a tranche thereof as displayed on the "MART1" page of Bloomberg at approximately 11:30 A.M. of an Interest Rate Setting Day. In the event that such rate or screen page from Bloomberg is not available, the applicable Base Rate shall be determined by reference to the Bloomberg "MART1" rate at approximately 11:30 A.M. of the immediately preceding Banking Day.

"**Bid**" shall mean, as applicable, an offer to purchase which is submitted by the Underwriter and/or Selling Agents, or an offer to purchase which is deemed submitted by the Underwriter on an Auction Date.

"**Benificial Owner or Beneficial Ownership**" shall mean any person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote, or to direct the voting of such security; and/or investment returns or power, which includes the power to dispose of, or to direct, the disposition of such security; provided, however, that a person shall be deemed to have an indirect beneficial ownership interest in any security which is:

i. held by members of his immediate family sharing the same household;
ii. held by partnership in which he is a general partner;
iii. held by a corporation of which he is a controlling shareholder; or
iv. subject to any contract, arrangement or understanding which gives him voting power or investment power with respect to such securities; provided however, the following persons or institutions shall not be deemed to be beneficial owners of securities held by them for the benefit of third parties or in customer or fiduciary accounts in the ordinary course of business, so long as such shares were acquired by such persons or institutions without the purpose or effect of changing or influencing control of the issuer:
   a. A Broker Dealer;
   b. An investment house registered under the Investment Houses Law;
   c. A bank authorized to operate as such by the Bangko Sentral ng Pilipinas;
   d. An insurance company subject to the supervision of the Office of the Insurance Commission
   e. An investment company registered under the Investment Company Act;

f. A pension plan subject to regulation and supervision by the Bureau of Internal Revenue and/or the Office of the Insurance Commission or relevant authority; and
g. A group in which all of the members are persons specified above.

"**Confirmation of Sale**" shall mean a written confirmation to be issued by the Underwriter or a Selling Agent evidencing the sale of the STCPs held by the Underwriter or such Selling Agent, or an interest therein, to a third party buyer/investor.

"**EBITDA**" means Earnings Before Interest, Taxes, Depreciation, and Amortization.

"**Floating Interest Rate Period**" shall mean the period commencing on the Issue Date of the relevant Tranche with a floating interest rate and having a duration corresponding to the tenor of the relevant Base Rate, and each of the successive like periods thereafter, commencing upon the expiry of the immediately proceding floating interest rate period.

"**Initial Public Offering/IPO**" means the initial offering of securities to the general public or to anyone who will buy, whether solicited or unsolicited.

"**Interest Payment Schedule**" shall mean the relevant schedule of payment of interest for a relevant STCP.

"**Interest Rate**" shall mean, either, as applicable:

(a) a floating interest rate which shall be repriceable in accordance with the tenor of a relevant STCP as determined by the Issuer, which floating interest rate is understood to be equal to the applicable Base Rate plus the Awarded Spread; or

(b) a fixed interest rate applicable to a relevant STCP as determined by the Issuer, which fixed interest rate is understood to be equal to the applicable Base Rate plus the relevant Awarded Spread.

"**Issue Date**" shall mean a date at which the STCPs or a portion thereof shall be issued by the Issuer, which date shall be set by the Issuer in consultation with the Issue Manager. For the avoidance of doubt, an Issue Date shall at any time be a date which is within the validity of the SEC Permit.

"**Notice of Issuance**" shall mean the notice to be issued by the Issuer.

"**Pesos**", "**₱**", and "**Philippine currency**" shall mean the legal currency of the Republic of the Philippines.

"**Principal Repayment Date**" shall mean the date of maturity of an STCP as stated in the STCP certificate, at which the Issuer shall effect payment in full of the principal amount thereof.

"**SEC**" means the Philippine Securities and Exchange Commission or its successor agency/ies.

"**SEC Permit**" shall mean the Permit to Sell issued by the SEC in connection with the Offer.

"**STCPs**" means the short term commercial papers, an evidence of indebtedness of any person with a maturity of three hundred and sixty five (365) days or less.

"**STCP Terms**" shall refer to attachment to the STCP certificate covering the following: (i) the specific terms of a particular Tranche of the Series A STCPs and (ii) the general terms as outlined in the Terms and Description of the STCPs in the Prospectus.

"**Taxes**" shall mean any present or future taxes including, but not limited to, documentary stamp tax, levies, imposts, stamp duties, filing and other fees or charges imposed by the Republic of the Philippines or any political subdivision or taxing authority thereof including surcharges, penalties and interests on said taxes, but excluding final withholding tax, gross receipts tax, documentary stamp tax on subsequent transfers of the STCP between or among the Underwriter, Selling Agents and/or their respective investors, and taxes on the overall income of the Underwriter, Selling Agents and/or their respective investors.

"**Term**" shall mean, with respect to an STCP, the duration and maturity of the instrument which shall be up to three hundred sixty five (365) days from a relevant Issue Date.

"**Warehousing Limit**" equivalent to a maximum of 10% of the STCPs respe ctively awarded to the Selling Agents, which shall take effect ten (10) Banking Days after a relevant Issue Date (unless otherwise agreed with the Issuer).

EXECUTIVE SUMMARY

This summary highlights information contained elsewhere in this Prospectus. 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 Prospectus carefully, including the section entitled "Risk Factors" and the financial statements and the related notes to those statements included in this Prospectus.

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 64.6% as of June 30, 2004. Ayala Land's shares are listed on the PSE with a market capitalization of ₱62.0 billion as of end-June 2004 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 subsidiary, Laguna Properties Holdings, Inc., 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 130 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 owned and 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 then owned approximately 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 150,000-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 2003 amounted to ₱14.62 billion, up by 20% year-on-year. Net income for the same period was ₱2.71 billion, about 8% higher than 2002 results. In 1H2004, consolidated revenues totaled ₱8.07 billion, up 25% year-on-year, while net income was posted at ₱1.18 billion, up 7%.

Ayala Land's rental properties generated ₱3.59 billion in revenues 2003 and P1.88 billion in 1H2004, 24% and 23% of total revenues in 2003 and 1H2004 respectively. Building occupancy rates at Ayala Center in Makati averaged 95% in 2003 and 94% in 1H2004.

As of end-June 2004, Ayala Land had ₱70.39 billion in assets. Its stockholders' equity amounted to ₱36.46 billion. Ayala Land's cash reserves stood at ₱4.18 billion with a current ratio of 1.70:1 as of such date. Bank debt-to-equity ratio was at 0.39:1 while net debt-to-equity was at 0.28:1.

Projects and capital expenditures of Ayala Land (parent company) in 2003 amounted to ₱5.2 billion. These disbursements included the investment in Bonifacio Land described above, of ₱2.6 billion.

Ayala Land (parent company) is allocating a budget of P5.6 billion for project and capital expenditures in 2004. About ₱2.4 billion or 43% is earmarked for projects, primarily for residential buildings and high-end residential subdivisions. The balance of ₱3.2 billion or 57% is allocated for capital expenditures, primarily for investments in commercial centers and office buildings, as well as equity investments in various subsidiaries. As of 1H2004, about ₱2.0 billion or 36% of the ₱5.6 billion budget for 2004 has been spent. In terms of consolidated project and capital expenditures, about ₱3.9 billion or 41% of the ₱9.5 billion budget for 2004 has been spent in the first half.

Projects

Notwithstanding continued market uncertainties, the Company has lined-up projects to tap available market opportunities. In the retail segment, Ayala Land expects to break ground on the 200,000-sqm North Triangle Commercial Center in Quezon City by late-2004 while Phase 1A of Market! Market! is opening on September 16, 2004. in 2Q2004, development commenced on a residential enclave located at the 8.5-hectare Lot B in Fort Bonifacio area, a joint venture with the Bases Conversion Development Authority. Answering the demand from call centers and business process outsourcing firms, In March, Ayala Land broke ground for the People Support Center, a 5-storey building in Makati with over 15,000 sqms of office space while it broke ground for its second building-to-suit office building project last July 2004. New residential projects for the middle-income market are being introduced in various locations by Community Innovations and Laguna Properties.

Ayala Land's Principal Strengths

Ayala Land's principal strength lies in its involvement in highly diversified business segments such as the development of high-end subdivision lots and residential buildings, core-mid residential projects and mass housing development, as well as in office and shopping center leasing, development and sale of industrial lots, hotel operations and construction. Ayala Land holds the dominant share of the market in most of these business segments.

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 64.6% of Ayala Land, 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 28th 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.

Risk of Investing

Prospective purchasers should consider carefully all of the information set forth in this Prospectus and, in particular, prospective purchasers should evaluate the specific factors set forth under "Risk Factors" for risks involved with a purchase of the STCPs. 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 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 STCPs should read the summary financial data below together with the financial statements, including the notes thereto, included in this Prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary financial data for the three years ended December 31, 2003 are derived from Ayala Land's audited financial statements, including the notes thereto, which are included in this Prospectus beginning on page F-1. Summary financial data for the six months ended June 30, 2004 are derived from Ayala Land's unaudited financial statements.

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

(in million Pesos)	*1H2004 June 30 UNAUDITED	2003 December 31 AUDITED	2002 December 31 AUDITED	2001 December 31 AUDITED
Income Statement Data			(as restated)	(as restated)
Revenues	8,068	14,624	12,214	11,669
Costs and expenses				
Real estate	4,334	6,911	5,459	5,617
Hotel operations	557	1,068	1,080	1,056
General & Administrative	928	1,541	1,314	1,044
Interest and other charges	571	1,517	695	784
Provision for income tax	548	793	1,125	919
Income Before Net Earnings applicable to minority interest	1,130	2,794	2,541	2,249
Net Income	1,175	2,709	2,519	2,278
Unappropriated retained earnings,				
Beginning	14,995	15,780	15,506	13,860
Stock Dividends - 20%	-	(69)	(68)	(59)
Cash dividends	-	(3,426)	(2,245)	(642)
Prior period adjustment	-	2,709	2,519	2,278
Unappropriated retained earnings, end	16,170	14,995	15,711	15,438
Earnings per share	0.11	**0.25	**0.24	*0.21

***Based on weighted average number of shares: 10,763,422,905 as of June 30, 2004; 10,706,701,000 in 2003; 10,693,608,000 in 2002; and 10,693,190,000 in 2001*

Balance Sheet Data				
Cash and cash equivalents	4,179	4,855	5,713	6,737
Land and improvements	19,246	19,065	19,713	19,888
Investments	23,248	22,712	18,834	17,279
Total assets	70,393	67,012	61,767	61,708
Long-term debt-current portion	1,605	1,336	310	6,419
Long-term debt (net of current portion)	10,773	11,588	8,623	3,741
Total liabilities (including minority interests)	33,936	31,739	26,360	26,517
Stockholders' Equity	36,457	35,273	35,407	35,190

* should be read together with SEC Form 17-Q which will be subsequently submitted by the Issuer from time to time

RISK FACTORS

An investment in the STCPs offered hereby involves a certain degree of risk. A prospective purchaser of the STCPs should carefully consider the following factors, in addition to the other information contained in this Prospectus, in deciding whether to invest in the STCPs. This Prospectus 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.

Land, Condominium, Mass Housing and Core Midde-Income Residential Sales

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 residential developments, Ayala Land competes with a number of other developers. For the mass housing and core middle market, Ayala Land competes for buyers based on quality of projects, affordability of units, and availability of in-house financing.

Office Space, Retail and Land Rental

With 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.

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

Industrial Property Business

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

Hotel Operations

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.

Infrastructure, Construction and Property Development

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.

Ayala Land's leverage creates a number of operating risks and might affect its ability to repay the STCPs

Increased Amount of Debt

Assuming that the STCPs were outstanding at end-2003 at an increased amount of P2 billion, Ayala Land would have had the following capital structure under Philippine GAAP:

	Actual as of June 30, 2004	**Pro-Forma, Including balance of P2B STCPs** (P1B existing for renewal + P1B additional)
Total debt	₱14.21 billion	₱15.85 billion
Shareholders' equity	₱ 36.46 billion	₱ 36.46 billion
Borrowed Debt to equity ratio	0.39:1	0.43:1

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 STCPs;
- 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 Selling Agreement for the STCPs 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 on certain of 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 STCPs.”

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

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 STCPs.

The STCPs will be effectively subordinated to other debt

The STCPs 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, 2004, after giving effect to the offering of the STCPs and the application of the net proceeds from the offering, Ayala Land would have had ₱4.7 billion of secured indebtedness and ₱11.13 billion of unsecured indebtedness evidenced by a public instrument under Article 2244(14).

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

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 end-June 2004, ₱12.44 billion of Ayala Land's consolidated indebtedness of ₱14.21 billion 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 STCPs in the event of the liquidation of Ayala Land.

Market for the STCPs

There is no active secondary market for the STCPs. Ayala Land cannot assure investors that an active market will develop for the STCPs. Even if an active market for the STCPs developed, the STCPs 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 STCPs. In addition, the purchase of a significant proportion of the STCPs by parties affiliated or related to the Ayala Land may affect the liquidity and/or trading of the STCPs in the secondary 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 $14.56 million (approximately ₱818 million) which constitutes 6% of Ayala Land's consolidated loans as of June 30, 2004. 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 June 30, 2004, the Peso closed at ₱56.176 to the U.S. dollar.

Ayala Land from time to time considers business combination alternatives

Although Ayala Land's loan covenants 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 STCPs and reduce the value of the STCPs. 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 STCPs.

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.

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.

The country is holding its national elections in May of this year. Presidential candidates are President Gloria Macapagal-Arroyo, former Education Secretary Raul S. Roco, Senator Panfilo Lacson, actor Fernando Poe, Jr., religious leader Eddie Villanueva, and businessman Eddie Gil. Consistently topping the surveys are Pres. Arroyo and Mr. Poe. Recently, the Supreme Court has ruled in favor of the legality of Fernando Poe, Jr.'s candidacy, which has been questioned due to issues on his citizenship.

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. This resulted to a plunge of GDP to 3.4% in 2001. The change in policies under the administration of Gloria Macapagal-Arroyo resulted to a boost of GDP to 4.6% in 2002.

The Philippine economy continues to face significant budget deficits with deficit of ₱198.6 billion as of end-2003. This deficit is expected to continue despite government's resolve to keep a tight reign on expenditures. The country's depleting Gross International Reserve (GIR) as well as the political jitters preceding the May election have continued to put pressure on the peso. Government's use of more restrictive monetary policies to curb the depreciation of peso has resulted to an uptick in interest rates recently.

Managing the Risks

To mitigate the above mentioned risks, Ayala Land shall continue to adopt what it considers conservative financial and operational controls and policies to manage the various business risks it faces.

TERMS AND DESCRIPTION OF THE STCPS

Issuer	:	Ayala Land, Inc.
Instrument	:	Negotiable short term commercial papers registered with the Securities and Exchange Commission [“**SEC**”] (the “**STCPs**”) constituting the direct, unconditional, and general obligations of the Issuer, ranking pari passu among themselves and with all other direct, unconditional, and general obligations of the Issuer.
Issue Size	:	Up to Pesos 2.0 Billion, composed of floating rate STCPs (“Floating Rate STCPs”) and fixed rate STCPs (“Fixed Rate STCPs”, and together with the Floating Rate STCPs, the “STCPs”), to be issued in several tranches (“Tranche” or “Tranches”), at the determination of the Issuer in consultation with its designated issue manager/s and/or underwriter/s and/or selling agent/s. The first series of STCP issuance/s (“Series A”) shall be for an aggregate principal amount of P1.0 Billion or such higher amount as may be agreed upon with the Issuer, but in no case to exceed ₱2.0 Billion. Specific terms for each Tranche are presented as Annexes in the Prospectus.
Issue Manager / Underwriter for Series A STCPs	:	Standard Chartered Bank
Selling Agents	:	PCI Capital Corporation and SB Capital Investment Corporation (and other selling agents acceptable to the Issuer as may subsequently be appointed by the Issue Manager/Underwriter)
Use of Proceeds	:	For general corporate purposes such as, but not limited to, loan refinancing, operating expenses and purchase of inventories.
Issue or Offer Price	:	100% of face value The STCP will be issued at par value. The pricing strategy took into consideration the Issuer’s general corporate funding requirements as well as the prevailing conditions in the domestic capital markets.
Term	:	Up to three hundred sixty five (365) days
Issue Date(s)	:	In tranches at dates to be set by the Issuer in consultation with the Issue Manager/Underwriter; for the avoidance of doubt, an Issue Date shall at any time be a date which is within the validity of the SEC Permit to Sell (the “**SEC Permit**”).
Interest Rate	:	Interest on the Floating Rate STCPs shall be equal to the applicable Base Rate plus the Awarded Spread, repriceable at the beginning of each respective Floating Interest Rate Period. Interest on the Fixed Rate STCPs shall be equal to the applicable Base Rate plus the

		Awarded Spread.
Base Rate	:	The Base Rate shall be the relevant benchmark of the applicable tenor (which shall be set by the Issuer) of the STCP as displayed on the "MART1" page of Bloomberg at approximately 11:30 AM of the Interest Rate Setting Day. In the event that such rate or screen page from Bloomberg is not available, the applicable Base Rate shall be determined by reference to the Bloomberg "MART1" rate at approximately 11:30 AM of the immediately preceding Banking Day.
Computation of Interest	:	Interest for the Floating Rate STCPs shall be calculated on the basis of the actual number of days elapsed for the relevant Floating Interest Rate Period over a 360-day year. Interest for the Fixed Rate STCPs shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each month.
Interest Payment Date		Interest on the Floating Rate STCPs shall be payable on the date which corresponds to the last day of a Floating Interest Rate Period for such relevant STCPs. Interest on the Fixed Rate STCPs shall be payable on the Principal Repayment Date for such relevant STCPs.
Principal Repayment	:	The principal amount of the STCPs shall be paid in one lump sum upon maturity.
Manner of Payment of Interest and STCP Principal	:	On each Interest Payment Date or Principal Repayment Date (as applicable), the Issuer shall make available check payments payable to the order of the registered holders of the STCPs for personal pick-up by such registered holder, or the registered holder's duly designated representative, at the office of the Issuer (or its designated paying agent), upon presentation and authentication by the Issuer of the proper identification. In the event that an STCP is issued in the name of the underwriter or selling agent, such underwriter or selling agent shall be solely responsible for effecting payment to its respective STCP investors the corresponding amounts due to the latter in same-day funds. If any Interest Payment Date or Principal Repayment Date would otherwise fall on a day which is not a Banking Day, such Interest Payment Date or Principal Repayment Date (as applicable) shall be extended to the next succeeding Banking Day without adjustment to the amount of interest due.
Penalty Interest	:	In case any amount payable by the Issuer under the STCPs, 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 from the time the amount is due until it is fully paid.
Prepayment	:	The Issuer may effect a prepayment of the whole of the STCPs pertaining to a particular Tranche subject to the following conditions: (a) the Issuer shall notify the STCP registered holders either by (i) registered mail or (ii) personal delivery or (iii) publication in a newspaper of general circulation in the Philippines, in either case no

less than thirty (30) days prior to intended date of prepayment of a relevant Tranche of the STCPs (the "Prepayment Date"), which notice shall be irrevocable and binding upon the Issuer to prepay the STCPs pertaining to such particular Tranche; (b) any prepayment on such STCPs pertaining to a particular tranche shall be made on an Interest Payment Date of such Tranche of STCPs; and (c) the Issuer shall be required to prepay the entire outstanding amount of STCPs of such particular Tranche and not only a part of such Tranche.

Security	:	Clean
Taxation	:	Except as otherwise provided, all payments of principal and interest will be made without set-off or counterclaim, free and clear of any deductions or withholding for or on account of any present or future taxes, duties or charges 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, duties or charges are imposed, the same shall be for the account of the Issuer and paid by it directly to the relevant taxing or other authority when due. *Provided, however*, that the Issuer shall not be liable for:

(a) the twenty percent (20%) final withholding tax or such rate as may be provided by law or regulation applicable on interest income on the STCPs prescribed under the National Internal Revenue Code of 1997, as amended and its implementing rules and regulations (the "Tax Code"); 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 STCP Investor claiming the benefit of any exemption of reasonable evidence of such exemption. 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: (i) certified true copy of the tax exemption certificate issued by the Bureau of Internal Revenue; (ii) a duly notarized undertaking, in the prescribed form, 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. The Issuer reserves the right to withhold the required tax on the interest income of an STCP investor otherwise representing itself to be a tax-exempt institution in the event that such STCP investor fails to comply with or submit the foregoing documentary requirements;

(b) gross receipts tax under Section 121 of the Tax Code or value added tax, if any;

(c) taxes on the overall income of the Underwriter, Selling Agent, STCP holder or investor, whether or not subject to withholding;

(d) documentary stamp tax on subsequent transfers of the STCPs between and among Selling Agents and/or their respective investors, if applicable, shall be for the account of either the seller or the buyer in accordance with the agreement between them.

Documentary Stamps on Original Issuance	:	The cost of the documentary stamps on the original issuance of the STCPs shall be for the account of the Issuer.
Procedure for Application	:	The Issuer and the Issue Manager shall advise the Selling Agents of the procedure for application for each tranche of the STCPs.
Acceptance / Rejection of the Application	:	The Issuer and the Issue Manager reserve the right to accept or reject any application for STCPs. In case of over-subscription, the Issuer and the Issue Manager reserve the right to allocate the STCPs available to the investors in a manner they deem appropriate.
Form and Denomination of the STCPs	:	Each STCP shall be issued in the name of the Underwriter, Selling Agent or a third-party investor named by the Underwriter or Selling Agent acting on behalf of such third-party investor. The Issuer shall issue the relevant STCP certificate to the Underwriter, Selling Agent or third-party investor who has completed the requirements for application and/or as advised in writing to the Issuer by the Underwriter or Selling Agent. In addition to the STCPs, the Issuer shall cause the issuance to such persons named in the notice as aforesaid or, in the absence thereof, to the relevant Underwriter or Selling Agent, the following: (i) the STCP Terms; and (ii) the Interest Payment Schedule. In the event that an STCP is issued in the name of the Underwriter or Selling Agent, the relevant Underwriter or Selling Agent shall be responsible for issuing a written confirmation of sale to each of their respective investors to evidence purchase by the latter of the STCPs (the "Confirmation of Sale"). For the avoidance of doubt, the Issuer shall not be liable for any loss, charges, damages, costs, and expenses arising out of the transfer of ownership of the STCPs or manner of transfer in connection therewith between an Underwriter or Selling Agent and an investor. The minimum purchase and denomination of the STCPs shall be One Hundred Thousand Pesos (₱100,000.00) and in multiples of Fifty Thousand Pesos (₱50,000.00) thereafter.
Registry of STCP Holders	:	The Issuer shall keep or cause to be kept an accurate register of the issuances and transfers of the STCPs. Any transfers of the STCPs shall be transacted by the registered holder of an STCP directly with the Issue or with the registrar as may be designated by the Issuer.
Procedure for Transfers	:	Upon receipt by the Issuer or its designated registrar of a written notification of a transfer of an STCP, the surrender of the STCP

		certificate pertaining to the same and submission of all related documents, endorsements and evidences of payment of taxes relating to such transfer, the Issuer or its designated registrar shall register the transfer in the registry book, cancel the STCP certificate and, subject to the prescribed minimum denominations, issue a new STCP certificate in the name of the transferee within a reasonable period.
Record Date	:	Payments of Principal or Interest accruing to an Interest Payment Date shall be paid to the person in whose name the outstanding STCPs is registerd as of the Record Date, as defined herein, immediately preceding such Interest Payment Date. The Record Date used with respect to any Interest Payment Date shall mean the fifteenth (15th) day immediately preceding any of the Interest Payment Dates. If the fifteenth (15th) day falls on a non-Banking Day in the location where the Issuer maintains the registry book for the STCPs, the Record Date shall be the next immediately succeeding Banking Day. Subsequent to such Record Date, the registry book shall be closed for the registration of the transfers by registered holders for the period commencing on the date after the Record Date until the Interest Payment Date.
Cancellation of the STCPs	:	On the Principal Repayment Date or a Prepayment Date, the Issuer shall fully pay the respective registered holders the principal amount of the STCPs and all accrued and unpaid interest and penalty interest, (as applicable) upon the delivery by the respective registered holders of their respective STCP certificates to the Issuer. Upon effecting payment in full, the Issuer shall cancel the relevant STCP certificates to evidence discharge of its obligations under such STCP. In the event that the registered holder of the STCP shall be the Underwriter or a Selling Agent, said Underwriter or Selling Agent shall be solely responsible for the discharge and payment of its obligation to its respective STCP investors as it is understood that the Issuer shall be under no obligation to effect payment to the STCP investors of the Underwriter and/or Selling Agents.
Other Terms and Conditions	:	1. The STCPs will not be convertible to any other security or equity of the Issuer. 2. The Issuer will not set up any sinking fund for the redemption of the STCPs. 3. Substitution of the STCP with another type of security will not be permitted. 4. No trustee will be appointed by the Issuer with regard to the issuance of the STCPs. 5. All costs related to the issuance of the STCPs, including but not limited to documentary stamp taxes, SEC registration, legal advisory and documentation expenses, publication, flotation, representation, transportation and other related out-of-pocket expenses are for the exclusive account of the Issuer; and 6. Other terms and conditions as may be agreed upon among the Issuer, the Issue Manager and the Selling Agents.

Credit Rating : PhilRatings has assigned a **PRS 1** rating to Ayala Land, Inc.'s proposed ₱2 billion commercial paper issue. A PRS 1 short-term rating denotes strongest capability for timely payment of short-term commercial paper issue on both interest and principal.

The ratings reflect Ayala Land's ample liquidity and above-average debt coverage measures given the company's satisfactory internal cash generation and moderate debt use. PhilRatings also considered Ayala Land's strong earnings generation supported by a diversified property portfolio and sound business strategy. Ayala Land's consolidated cash balance at end-2003 of ₱4,854 million and annual funds from operations averaging ₱2,800 million in the last three years, provide sufficient coverage of maturing debt in the near term. While Ayala Land's consolidated debt increased significantly from ₱10,874 million to ₱14,381 million in the last year, its net debt to capitalization ratio of 18.8% remains moderate, and cash flow coverage of net debt at 33% is still adequate. Ayala Land's debt service needs over the medium term appear manageable although some refinancing may be required in 2007-2008. Earnings generation is strong, supported by recurrent income from Ayala Land's rental portfolio and increased property development activity, providing ample coverage of interest charges (EBITDA to gross interest of 4.9 times). The satisfactory take-up of the company's residential projects and maintenance of high occupancy rates in its commercial centers despite heightened competition reflect Ayala Land's established brand name, as well as a more stable domestic property market.

The assigned rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as they are outstanding.

The following are Ayala Land's financial ratios as of end-June 2004:

Current Ratio[1]	1.70:1
Debt-to-equity ratio[2]	0.39:1
Net debt-to-equity ratio[3]	0.28:1
Return on assets[4]	1.80%
Return on Equity[5]	3.3%

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

Debt Securities : Aside from the ₱2.0 Billion STCPs to be registered as described above, a ₱3.0 Billion bond, ₱1.0 Billion STCPs and ₱2.0 Billion bond were registered with the SEC and issued by Ayala Land in April 2002, May/August 2003 and November 2003, respectively.

Interest of Named Experts and Independent Counsel	:	Preparation and review of documents in connection with the issuance of the STCPs will be handled by Romulo Mabanta Buenaventura Sayoc & De Los Angeles Law firm. Romulo Mabanta Buenaventura Sayoc & De Los Angeles passed upon certain Philippine legal matters in respect of the offering for the Issue Manager/Underwriter. SyCip Gorres Velayo & Company, independent public accountants and a member of Ernst and Young, audited the Ayala Land, Inc. financial statements and schedules for the years ended 31 December 2001, 2002 and 2003, included in this Prospectus.

PLAN OF DISTRIBUTION

Ayala Land (the "Issuer") plans to issue the STCPs on a staggered basis, through designated issue manager/s, underwriter/s and/or selling agent/s. The first series of STCP issuance/s ("Series A") shall be for an aggregate principal amount of P1.0 Billion, or such higher amount as may be agreed upon with by the parties, but in no case to exceed an aggregate principal amount of P2.0 Billion.

Issue Manager/Underwriter and Underwriting Obligation

Standard Chartered Bank ("SCB" or the "Issue Manager" and/or "Underwriter", as applicable), pursuant to an Issue Management and Underwriting Agreement dated May 12, 2004 entered into with the Issuer (the "Issue Management and Underwriting Agreement"), has agreed to act as issue manager for the Offer and as such, distribute and sell at the Issue Price the entire Series A STCPs in various tranches, and has also committed to underwrite up to P1.0 Billion STCPs on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses. There is no arrangement for the Underwriter to put back to the Issuer any unsold STCPs. The Issue Management and Underwriting Agreement may be terminated in certain circumstances prior to payment being made to the Issuer of the net proceeds of the STCPs.

SCB is duly licensed by the Securities and Exchange Commission to engage in underwriting or distribution of the STCPs. SCB may, from time to time, engage in transactions with and perform services in the ordinary course of its business for the Issuer or other members of the Ayala Group of which the Issuer forms a part. SCB has no direct relations with the Issuer in terms of ownership by either of their respective major stockholder/s.

Sale and Distribution by the Underwriter and Selling Agents

(a) The distribution and sale of the STCPs shall be undertaken by the Underwriter and Selling Agents who shall sell and distribute the STCPs to third party buyers/investors. Nothing herein shall limit the right of the Underwriter and each of the Selling Agents to purchase the STCPs for their own respective accounts; provided that, each of the Selling Agents shall only hold, in their respective names, such amount of STCPs which shall not exceed the Warehousing Limit.

(b) Such Underwriter or a Selling Agent may appoint one or more persons to act as their sub-selling agents; provided that, the said Underwriter or Selling Agent shall be solely responsible for the acts of its sub-selling agents, it being understood that notwithstanding such appointment of sub-selling agents, the said Underwriter or Selling Agent shall remain solely responsible to the Issuer in respect of its obligations under the respective agreement/s entered into by each with the Issuer and the Issuer shall not be bound by any of the terms and conditions of any agreement entered into by an Underwriter or Selling Agent with its sub-selling agent in any respect.

(c) The Issuer reserves the right to appoint any other person or persons as issue manager, underwriter and/or selling agents of the Issue at any time during the validity of the SEC Permit.

Designated Shares and Allocations

Subject to the Warehousing Limit, each Selling Agent may take on any portion up to the full amount of the Issue, as determined by the Issuer.

Term of Appointment

The engagements of the Issue Manager as well as the Selling Agents shall subsist so long as the SEC Permit remains valid, unless otherwise terminated by the Issuer and Issue Manager.

Fees and Commissions

The Issue Manager will receive a flat fee of 0.25% on the underwritten amount of the STCPs issued for each tranche. 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 for a particular tranche on a relevant Issue Date.

Manner of Distribution

The Issuer shall, in its sole discretion, determine the manner by which proposals for subscriptions to, and issuances of, STCPs shall be solicited. However, notwithstanding the method of origination selected by the Issuer, the primary sale of STCPs by the Issuer shall be effected only through the Underwriter or a Selling Agent.

Warehousing Limit

The STCPs purchased by the Underwriter and/or the relevant Selling Agent in its own name and for its own account shall be sold by the Underwriter and/or relevant Selling Agent to retail and institutional investors (other than the commercial banks and trust accounts which form part of the commercial banks' exposure in determining compliance with the rules of the Bangko Sentral on single borrower's limit), within ten (10) Banking Days after a relevant Issue Date. However, each of the Selling Agents shall be allowed to hold in their respective names and for their own account STCPs which are subject of the single borrower's limit mentioned above, equivalent to a maximum of 10% of the STCPs respectively awarded to them (the "**Warehousing Limit**"). Notwithstanding the foregoing, the Issuer shall not be liable for any loss, charges, damages, costs, and expenses arising out of the transfer of ownership of the STCPs, or manner of transfer in connection therewith, between the Underwriter or Selling Agent and an investor.

Registry of STCP Holders

The Issuer shall keep or cause to be kept an accurate register of the issuances and transfers of the STCPs. Any transfers of the STCPs shall be transacted by the registered holder of the STCP directly with the Issuer or with the registrar as may be designated by the Issuer

Expenses

All out-of-pocket expenses, including but not limited to, registration with the Securities and Exchange Commission, credit rating, printing, publicity, communication and signing expenses incurred by the Issue Manager 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... *(Registration fee, legal research fee, publication fee, credit rating fee, DST, Underwriting Commission, Legal fees and Out-of-pocket expenses)*	₱ 20 million
Net Proceeds to Ayala Land, Inc.	₱1,980 million

All other expenses incurred in connection with the issuance of the STCPs, will be for the account of the Issuer.

USE OF PROCEEDS

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

Payment of maturing obligations	₱	1,500 million
Operating expenses	₱	300 million
Purchase of inventories *(construction materials for vertical residential and commercial center projects)*	₱	180 million
Expenses related to the Issue *(Registration fee, legal research fee, publication fee, credit rating fee, DST, Underwriting Commission, Legal fees and Out-of-pocket expenses)*	₱	20 million
TOTAL	**₱**	**2,000 million**

Furthermore, the debt expected to be repaid with the net proceeds of the Offering, represents portions of the following maturing loans as of December 31, 2003:

	Amount	Interest Rate
STCPs maturing in 2004	₱ 1,000 million	7.1% - 8.6%
Portion of Term Loan maturing in 2004	₱ 1,050 million	7.5 % - 8.3%
Total	₱ 2,050 million	

No material amount will be used to acquire major assets or finance the acquisition of other business.

THE COMPANY

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 about 64.6% as of June 30, 2004 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 ₱62.0 billion as of June 30, 2004 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 continued to develop and sell high-end house-and-lots packages in its residential developments and, through its subsidiary, Laguna Properties Holdings, Inc. begun 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 subsidiary, Community Innovations, Inc.

Ayala Land is also engaged in the development of commercial centers and leases to third parties retail space and land therein. Through its subsidiaries, Ayala Theaters Managaement, Inc. and Five Star Cinema, Inc., 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.

In summary, the industry segments Ayala Land and its subsidiaries 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

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, 17% in 2002, 19% in 2003 and 16% in 1H2004. 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, 2003 and 1H2004. 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 2004, 84% of the 1,513 cumulative lot offering at Westgrove has been taken up while 83% of the 508 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, 2002 and 2003 and 17% in 1H2004. 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. Meanwhile, Serendra, a residential enclave development at the 8.5-hectare Lot B in Fort Bonifacio was launched in March 2004.

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 2004, 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 2003 and 1H2004, 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 projects, including a mid-rise residential condominium complex and farm estate lots project, in 11 locations.

Core-Mid Residentials

Revenues from the core middle-income residential segment, a new business line, contributed 4% in 2002 and 5% to total revenues in 2003 and 6% in 1H2004. 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. 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 and the third tower in October 2003. By end-June 2004, the first tower was 99% taken up while the second and third towers were 73% and 52% taken up, respectively. In February 2004, Community Innovations launched 416 residential lots at Verdana Mamplasan which as of June 30, 2004 was 20% 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, 24% in 2003 and 23% in 1H2004.

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 and Greenbelt 4 in 2003. In addition, Ayala Land also manages nearly 86,000 sq.ms of retail space in Bonifacio Global City.

As of June 30, 2004, Ayala Land's commercial centers occupy over 70 hectares of land and have a gross leasable area of approximately 900,000 sq.ms. 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 project is 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. Phase 1A of Market! Market! will open September 16, 2004. 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 72,000 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, 95% in 2003 and 94% in 1H2004.

Ayala Land is now building two build-to-suit office buildings within Makati. The first building, People Support Center broke ground last March 2004 and will be completed by April 2005. The second building broke ground last July 2004 and will be completed by October 2005.

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 2003 and 1H2004.

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, 5% in 2003 and 8% in 1H2004.

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.

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, Mass Housing and Core Middle-Income Residential 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.

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 expanded 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 break ground in late-2004 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.

Landbank

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 3,654 hectares of property, 2,816 hectares or 77% are in the Calabarzon region, 362 hectares are in Metro Manila, while 370 hectares are in the Visayas-Mindanao region and 105 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.

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".

Land Bank

As of June 2004, Ayala Land's land bank comprised a total of 3,654 hectares of fully converted properties in various locations nation-wide. There are currently no major acquisitions contemplated by Ayala Land for the rest of 2004. Following is a breakdown of Ayala Land's land bank as of said period:

Location	Hectares	% of Total
Makati[1]	57	1.57%
Taguig[2]	68	1.86%
Alabang[3]	18	0.49%
Parañaque	2	0.05%
Quezon City[4]	56	1.53%
Antipolo	15	0.42%
Las Piñas	146	4.00%
Metro Manila	**362**	**9.92%**
Laguna[5]	2,397	65.59%
Cavite[6]	301	8.24%
Batangas[7]	57	1.56%
Quezon[8]	62	1.70%
Calabarzon	**2,816**	**77.09%**

Naga	42	1.16%
Cabanatuan/ Baguio[9]	62	1.70%
Other Luzon Area	**105**	**2.86%**
Bacolod[10]	167	4.58%
Cebu[11]	156	4.26%
Davao	32	0.88%
Cagayan De Oro	15	0.42%
Visayas/Mindanao	**370**	**10.13%**
TOTAL	**3,654**	**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; 49 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 12 has. in Ayala Hillside under joint venture with Capitol Hills Golf and Country Club, Inc.

[5]Includes the 1,314-ha. Canlubang property which is 70% owned through Aurora Properties, Inc. and Vesta Holdings, Inc.; also includes remaining 415 has. which are under a 50-50% joint venture with Greenfield Development Corp.; and remaining 9 has. in Laguna Technopark, Inc. which is 61% owned by Ayala Land. 6.92 has. is mortgaged to Land Bank of the Philippines as a security for term loan of Laguna Properties; 12.78 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 23 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 13.68 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 99 has. in Ayala Northpoint which is under an override arrangement and 52 hectares under joint venture.

[11]Includes about 13 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 11 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.

With 3,654 hectares in its landbank as of end-June 2004, 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.

Ayala Land's Projects

The following tables set forth the type and location of Ayala Land's ongoing, planned and completed projects as of June 30, 2004.

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

PROJECTS UNDER DEVELOPMENT	TYPE	LOCATION
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 / The Legacy	Townhomes	Quezon City
One Legazpi Park	Residential condominium	Makati
The Residences at Greenbelt-Laguna Tower	Residential condominium	Makati
The Columns	Residential condominium	Makati
Bonifacio Ridge	Residential condominium	Makati
Bonifacio Triangle	Business lots	Taguig
Serendra	Residential Condominium	Taguig
Verdana Homes	Core-mid lots; house & lots	Las Piñas/Cavite
Verdana Village Center	Commercial lots	Cavite
Verdana Homes Mamplasan	Core-mid lots; house & lots	Laguna
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
Aeropolis Two**	Mid-rise residential condo	Quezon City
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
Santa Barbara Homes	Low-cost housing	Tayabas
Market! Market!	Rental properties; Commercial Center	Taguig
People Support Center	Office	Makati
2nd building-to-suit office bldg	Office	Makati

* inaugurated but not yet launched for sale
** launched in August 2004

PLANNED PROJECTS	TYPE	LOCATION
North Triangle Commercial Center	Commercial Center	Quezon City
Lake Aurora	Residential lots	Laguna (Ayala South)
Mass Housing Project	Middle-income house & lots	Cavite
Cebu Civic & Trade Center (Phase II)	Business lots	Cebu
Laguna Technopark (Phase 6)	Industrial lots	Laguna

COMPLETED PROJECTS	TYPE	LOCATION
Makati Subdivisions	Residential subdivision	Makati
Ayala Alabang Village	Residential subdivision	Muntinlupa
Ayala Heights Village	Residential subdivision	Quezon City
Ayala Southvale (Phase 1)	Residential lots	Las Piñas/Cavite
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
The Residences at Greenbelt	Townhomes	Makati
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
McKinley Business Park	Business lots	Taguig
Cebu Business Park	Business lots	Cebu
Cebu Civic & Trade Center (Phase I)	Business lots	Cebu
Laguna Technopark (Phase 1-5)	Industrial lots	Laguna
Ayala Center Makati	Commercial center	Makati
Magallanes Commercial Center [1]	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 [2]	Hotel	Davao
Cebu City Marriott Hotel	Hotel	Cebu

COMPLETED PROJECTS	TYPE	LOCATION
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

1-Redeveloped as residential/ commercial lots.
2-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, 2004.

LAND SALES	TOTAL PROJECT AREA	LAUNCHED/ SALEABLE LOTS	TAKE-UP RATE
Residential Subdivisions			
Ayala South			
Ayala Westgrove Heights (14 phases)	400 hectares	1,513	84%
Ayala Greenfield Estates (3 phases)	500 hectares	508	83%
Ayala Northpoint (2 Phases)	122 hectares	416	69%
Ayala Hillside Estates (3 phases-Ayala Land share)	23 hectares	121	98%
Tamarind Cove, Ayala Alabang Village (Ayala Land share)	1.7 hectares	9	56%
Paseo de Magallanes (residential) Phase 1	2.3 hectares	48	100%
Paseo de Magallanes (residential) Phase 2	0.9 hectares	17	82%
Ferndale Homes (lots only)	8.5 hectares	142*	97%
Verdana Homes (lots only) Phase 1 & 2	**25 hectares	468	100%
Plantazione Verdana Homes (2 Phases)	21.5 hectares	345	37%
Verdana Mamplasan (Phase 1)	60 hectares	416	20%
Business and Industrial Lots			
Madrigal Business Park	25 hectares	82 lots	96%
Cebu Business Park	50 hectares	120 lots	84%
Cebu Civic & Trade Center (Phase 1)	24 hectares	45 lots	44%
Laguna Technopark (Phase 1-5)	389 hectares	294 hectares* (saleable area)	99%
Paseo de Magallanes (commercial) Phase 1	3.3 hectares	22 lots	100%
Paseo de Magallanes (commercial) Phase 2	0.95 hectares	6 lots	100%
McKinley Business Park	2.1 hectares	17	100%
Bonifacio Triangle	5 hectares	36 lots	39%

Verdana Village Center	18 hectares	28	46%

*additional saleable area of 9.4 hectares for future sale

CONDOMINUM SALES	AVAILABLE UNITS	COMPLETION RATE	TAKE-UP RATE
Residential Condominiums & Townhouses			
One Roxas Triangle	182	100%	79%
One Legazpi Park	369	68%	99%
The Columns-Tower 1	284	47%	99%
The Columns-Tower 2	284	18%	73%
The Columns-Tower 3	284	0%	52%
The Residences at Greenbelt-Laguna Tower	249	9%	78%
Bonifacio Ridge	288	97%	83%
Ferndale Homes (house and lot)			
Phase 1	43*	100%	100%
Phase 2	52*	100%	100%
Phase 3A	59*	99%	98%
Montgomery Place			
Phase 1	136	100%	99%
Phase 1B	44	65%	55%
Phase 2	90	98%	87%
Phase 3 (The Legacy)	27	0%	59%
Verdana Homes (house and lot) Phase 1	50	100%	100%
Verdana Homes (house and lot) Phase 2	38	96%	100%
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 6,700 sqm also being offered for sale.
**** - CHI owned units only

Project and Capital Expenditures (Parent Company)

Ayala Land's total capital expenditures for 2001, 2002 and 2003 amounted to ₱2.5 billion, ₱2.6 billion and ₱5.2 billion respectively. In 1H2004, ALI spent about ₱2 billion or 36% of the ₱5.6 billion budget for the whole year. The following table sets out the distribution of Ayala Land's project and capital expenditures in 2001, 2002, 2003 and 1H2004:

	2001	2002	2003	1H2004 Actual	2004 Budget
Commercial center development	45%	33%	13%	9%	16%
Residential buildings/units	34%	40%	23%	25%	28%
Land and community development	14%	12%	7%	14%	12%
Office	-	1%	1%	5%	7%
Visayas-Mindanao projects	5%	5%	2%	1%	3%
Equity investments in key subsidiaries and affiliates	2%	9%	54%*	46%	34%
Total	100%	100%	100%	100%	100%

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

Subsidiaries and Affiliates

As of June 30, 2004, there are forty six 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	-----	32.1
	Fort Bonifacio Development Corp.	06/11/1996	-----	17.6
	Serendra, Inc.	06/07/1994	42.0	100.0
	Ayala Realty Development Corp.	08/22/1974	65.0	65.0
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
	Red Creek Properties, Inc.	10/17/1994	100.0	100.0
	Crimson Field enterprises, Inc.	10/26/1995	100.0	100.0
	Streamwood Property, Inc.	8/21/1996	100.0	100.0
	Piedmont Property Ventures, Inc.	8/28/1996	100.0	100.0
	Stonehaven Land, Inc.	8/21/1996	100.0	100.0
	Buendia Landholdings, Inc.	10/27/1995	100.0	100.0
	Aklan Holdings, Inc.	08/07/1992	100.0	100.0
	MCX Corp.	12/10/1999	100.0	100.0
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
	ALI – CII Development Corp.	8/6/1997	50.0	50.0
	Station Square East Commercial Corp.	3/17/1989	80.0	80.0
	North Triangle Depot Commercial Corp.	12/6/2000	-----	16.0

Business Line	Subsidiary or Affiliate	Date of Incorporation	% Direct	% Effective
IT-related Ventures	ALInet.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
Holding Company	CMPI Holdings, Inc.	05/30/1997	60.0	60.0
	Emerging City Holdings, Inc.	07/19/2002	50.0	50.0
	Columbus Holdings, Inc.	07/19/2003	------	50.0
	Berkshire Holdings, Inc.	12/04/2002	50.0	50.0
	Regent Time International Limited	03/28/2003	100.0	100.0

* sold in August 2004

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 Evergreen Holdings, Inc. of the Unilab Group. Through Columbus Holdings, Ayala Land and Evergreen 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 ten 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 79% as of June 30, 2004.

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 50-50% 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.

Station Square East Commercial Corp. (SSECC), 80.5% owned by Ayala Land is a joint venture with Galapagos, Inc. and Longstreet Holdings, Inc. SSECC broke ground in 2002 for Market! Market!, a value mall along C-5 Road in Taguig.

Laguna Technopark, Inc., 61% owned by Ayala Land, is a joint venture with Kawasaki and Mitsubishi. Laguna Technopark sells industrial lots to local and foreign company locators. A ready-built factory was constructed at the Laguna Technopark and is now being leased.

Ayala Hotels, Inc., a 50-50% joint venture with Ayala Corporation, is the owner of Hotel InterContinental Manila, Cebu City Marriott Hotel and Oakwood Premier Ayala Center.

Ayala Greenfield Development Corporation, 50-50% owned by Ayala Land and Greenfield Development Corporation, started development of Ayala Greenfield Estates in Calamba, Laguna in 1999. Ayala Greenfield continues to develop and sell lots in this 500-hectare high-end residential subdivision which was initially launched in March 2000.

ALI-CII Development Corporation, a 50-50% joint venture with Concepcion Industries, started in 2000 the development of Metro Point, an 8,400-sqm mall at the corner of EDSA and Taft Avenue. The project was completed in the fourth quarter of 2001 and is now being leased.

Alabang Commercial Corporation, a 50-50% joint venture with the Madrigal Family, manages and operates the Alabang Town Center.

Lagoon Development Corporation, 30%-owned by Ayala Land, is a joint venture company with Extraordinary Development Corporation. It operates a mall in Biñan, Laguna, Pavilion Mall, which started operations in 1999.

Aurora Properties, Inc. and Vesta Property Holdings, Inc., are 70% owned by Ayala Land. These companies are joint ventures with the Yulo Family for the development of about 1,300 hectares of land in Canlubang, Laguna.

Capitalization and Ownership

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 June 30, 2004, Ayala Land had a market capitalization of ₱ 62.0 billion.

Ayala Land had 14,084 shareholders as of end-June 2004. Following is a list of 20 of its largest stockholders as of that date:

NAME	NATIONALITY	OWNERSHIP	% OWNERSHIP
(1) Ayala Corporation	Filipino	6, 667,824,095	61.95%
(2) PCD Nominee Corporation	Non-Filipino	2, 408,623,610	22.38%
(3) PCD Nominee Corporation	Filipino	1,043,594,142	9.70%
(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	12,376,572	0.11%
(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) BPI Trust Account #14016724	American	4,940,340	0.05%
(14) Abacus Capital & Investment Corp.	Filipino	4,820,000	0.04%
(15) Estrellita B. Yulo	Filipino	4,777,353	0.04%
(16) Rivercrest Realty Corporation	Filipino	4,705,000	0.04%
(17) The Insular Life Assurance Co., Ltd.	Filipino	4,521,800	0.04%
(18) BPI Trust Account # 14016783	American	4,502,282	0.04%
(19) Carlos D. Apostol	Filipino	4,285,840	0.04%
(20) Meralco Foundation Inc.	Filipino	4,013,259	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 STCPs 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.

Stock Price History

The following table sets out Ayala Land's share prices (adjusted for the effects of stock dividends) for the years 2001 to 2003 and for the first half of 2004.

	2004			2003			2002			2001		
QUARTER	**HIGH**	**LOW**	**CLOSE**	**HIGH**	**LOW**	**CLOSE**	**HIGH**	**LOW**	**CLOSE**	**HIGH**	**LOW**	**CLOSE**
First	6.50	4.90	5.30	5.30	4.35	4.55	7.20	4.80	6.90	8.20	5.00	5.50
Second	5.90	5.20	5.80	6.60	4.50	6.00	7.50	5.20	5.60	6.00	4.50	5.40
Third	---	---	---	6.90	5.70	6.30	6.20	5.20	5.60	5.40	4.20	4.30
Fourth	---	---	---	6.70	5.30	6.10	5.60	4.15	4.55	5.00	3.55	4.85

Directors and Executive Officers*

*should be read together with SEC Form 17-Q which will be subsequently submitted by the Issuer from time to time

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 as of end-June 2004:

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

*Independent directors appointed to the Board of Ayala Land pursuant to the requirements of the Securities Regulation Code.
**assumed presidency effective July 1, 2004
***will resign as director effective September 15, 2004

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
Jaime I. Ayala*	Executive Vice 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

* Mr. Jaime I. Ayala joined Ayala Land in 2004 as Executive Vice President and is nominated to the Board of Directors for the year. He succeeded Mr. Licuanan as President effective July 1, 2004. Mr. Jaime I. Ayala is not related to any of Ayala Land's directors. He was previously 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.

** Effective July 1, 2004, they are no longer members of the Management Committee. The new members are Ma. Cynthia H. Poblador and Raul M. Irlanda.

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

Jaime Augusto Zobel de Ayala II, 45, Filipino, has served as Director and member of the Executive Committee of Ayala Land since 1988. He also serves as the Co-Vice Chairman of the Board of Directors, Member of the Executive Committee and Management Committee and President 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., Integrated Microelectronics Inc. (IMI), and iAyala Company, Inc.; Member of the Board of Directors of Asia Pacific Advisory Committee to the New York Stock Exchange, Inc., International Youth Foundation, and World Wildlife Fund; Member of the Board of Trustees of Asian Institute of Management, AIM-Washington Sycip Policy Center, Carlos P. Romulo Foundation for Peace and Development, and Makati Business Club. He graduated with B.A. in Economics (Cum Laude) at Harvard College in 1981 and took his MBA (with Distinction) at the Harvard Graduate School of Business Administration in 1987.

*Francisco H. Licuanan III***,** 60, Filipino, 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 Ayala Corporation; Director and President of Ayala Hotels, Inc. (AHI), Enjay Hotels, Inc. (EHI), Enjay, Inc., Aurora Properties Holdings Inc., Vesta Properties Holdings, Inc., Alabang Commercial Corporation, and Roxas Land Corporation; Chairman of the Board of Directors and President of Makati Property Ventures, Inc.; Chairman of the Board of Directors of Cebu Holdings, Inc. (CHI), Laguna Technopark Inc., Makati Development Corporation (MDC), Gammon Philippines Inc., and Cebu Property Ventures Development Corporation; Vice Chairman of the Board of Directors of Laguna Properties Holdings, Inc.; Director of Ayala Aviation Corporation, Manila Water Company, Philippine Hoteliers Inc., Metro Rail Transit Corporation, ALI-CII Development Corporation, Ayala Infrastructure Ventures, Inc., Ayalaport Makati, Inc., Ayala Land Sales, Inc., and Ayala International Properties Pte. Ltd. He also serves as Member of the Board of Trustees of Ayala Foundation, Inc. (AFI). He graduated with Bachelor of Arts Major in Economics (Cum Laude) at Ateneo de Manila University in 1964 and had Masters in Business Administration at Harvard Graduate School of Business Administration in 1967.

Mercedita S. Nolledo, 63, Filipino, 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 (APMC) and Cebu Insular Hotel Co., Inc.; Director of Cebu Holdings, Inc. (CHI), Ayala Aon Risk Services, Inc., Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings, Inc., and Bank of the Philippine Islands; Corporate Secretary and Member of the Board of Trustees of Ayala Foundation, Inc. (AFI); Director, Treasurer and Corporate Secretary of Enjay Hotels, Inc., Enjay, Inc., Ayala Hotels, Inc.

(AHI) and Laguna Technopark, 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. (LPHI). She also serves as Treasurer of Makati Development Corporation, Ayala Realty Development Corp. and Roxas Land Corporation. She had her education at University of the Philippines and graduated Magna Cum Laude and Class Valedictorian in Bachelor of Science in Business Administration and Cum Laude and Class Valedictorian in Bachelor of Laws.

Nieves R. Confesor, 54, Filipino, has served as an Independent Director of Ayala Land since 2003. She 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 a Master in Public Policy and Administration from Harvard University in 1990 as an Edward S. Mason Fellow; had her Master in Business Administration from the Graduate School of Business of the Ateneo de Manila University in 1978; took special courses in Labor and Employment and in Asian Studies at the University of the Philippines and in International Economics, Negotiations, Women in Politics at Harvard University. She completed Bachelor of Arts in Literary Studies (Magna Cum Laude and Class Valedictorian) at Maryknoll College in 1971.

Ramon R. del Rosario, Jr., 60, Filipino, 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, 58, Filipino, 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 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 units (with Distinction) at Harvard Graduate School of Business in 1971.

Leandro Y. Locsin, Jr., 42, Filipino, 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.

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

Vincent Y. Tan, 53, Filipino, is Executive Vice-President, member of the Management Committee and Head of the Planning Group of Ayala Land. His other positions include: Chairman of the Board of Laguna Technopark, Inc., CMPI Holdings, Inc. and CMPI Land, Inc.; Vice Chairman of the Board of Directors of Ayalaport, Inc.; President of ALInet.com, Inc.; and Member of the Board of Directors of Ayala Greenfield Development Corporation, Community Innovations, Inc., Liberty Real Holdings Corp., Aurora Properties, Inc., Vesta Property Holdings, Inc., Ayalaport Makati, Inc., myAyala.com, Inc., Metro Rail Transit Corporation, Metro Rail Transit Dev. Corp., Metro Rail Transit Holdings II, Inc., MRT Holdings, Inc. and North Triangle Development Corporation. He graduated with a degree of B.S. Management Engineering (Cum Laude) at the Ateneo de Manila University in 1971 and earned his M.B.A. (Concentration in Management Science and Finance) at the University of Chicago in 1973.

Manuel J. Colayco, 65, Filipino, 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. He graduated with a degree of A.B. Major in Mathematics and English at the University of Sto. Tomas and was an undergraduate in Masters in Industrial Management at the University of the Philippines.

Tristan B. de la Rosa, 52, Filipino, joined Ayala Land in September 2002 as Senior Vice President. He heads both the Sales and Marketing Services Group and the Land & Community Development Group. A member of the Management Committee of Ayala Land, he is also President of Ayala Land Sales, Inc. Prior to joining Ayala Land, Mr. de la Rosa was Managing

Director of Wrigley Philippines, Inc. (1998-2002); and Managing Director and General Manager, respectively, of Johnson & Johnson Hong Kong (1997-98) and Vietnam (1993-96). He graduated as class valedictorian, with a degree of Bachelor of Science in Business Administration and Marketing at the University of the Philippines.

Miriam O. Katigbak, 50, Filipino, 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., ALI-Concepcion Industries, Inc., Liberty Real Holdings Corp., Five-Star Cinema Corp., South Innovative Theaters Management, Inc.; Vice-President and Director of Leisure Allied Industries (Phils.); Board member of Lagoon Development Corporation and Governor of Ayala Center Association. She graduated with a degree of Bachelor of Science in Education, Major in Mathematics at the St. Scholastica's College. She took the Management Development Program at the Asian Institute of Management in 1993 and at the University of Michigan in 1997.

Angela de Villa-Lacson, 58, Filipino, joined Ayala Land in July 1999. She is Senior Vice President and Head of the Residential Buildings Group and Core Middle-Income Residential Group of Ayala Land. Her other significant positions include: President of Community Innovations, Inc.; General Manager of Roxas Land Corporation; and Director of Ayala Land, Sales, Inc., Ayala Property Management Corporation, Makati Development Corporation and Laguna Properties Holdings, Inc.. Prior to joining Ayala Land, she was Vice President and Marketing Director of San Miguel Brewing Philippines (1998-1999), Marketing Director of the San Miguel Food Group (1996-1997), VP and Division Head of J. Walter Thompson (1995). She graduated with a degree of Bachelor of Liberal Arts, Major in Mathematics and English Literature (Magna Cum Laude) at the Assumption College.

Jaime E. Ysmael, 44, Filipino, 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 ALInet.com, Inc., Aurora Properties, Inc., CMPI Land, Inc., CMPI Holdings, Inc., Concorde Building Systems Corp., Enjay Hotels, Inc., Laguna Phenix Structures Corp., Laguna Technopark, Inc., Liberty Real Holdings Corporation and Vesta Properties Holdings, Inc.; Director and Chairman of Aklan Holdings, Inc., Boracay Property Holdings, Inc. and Southern Visayas Property Holdings, Inc.; Director and Treasurer of Ayala Westgrove Heights Homeowners Association, Inc., Cebu Insular Hotel Co., Inc. and Tower One Condominium Corp.; Director and President of First Communities Finance Corp.; Chief Finance Officer of Roxas Land Corporation; and Treasurer of Ayala Hotels, Inc., Enjay Hotels, Inc. and Ayala Infrastructures Ventures, Inc. He graduated Summa Cum Laude at the University of the East with a degree of Bachelor of Science in Business Administration, Major in Accounting in 1980. At the University of Pennsylvania, USA, he got his M.B.A. degree (Major in Finance) at The Wharton School and the School of Arts and Sciences and took Master of Arts in International Studies (Concentration in Latin America) at The Joseph H. Lauder Institute of Management and International Studies. He also took The Executive Program at the University of Michigan Business School in 2000.

Jose Rene D. Almendras, 44, Filipino, is Vice-President assigned to the Visayas-Mindanao group and a member of the Management Committee of Ayala Land. His other significant positions include: President and Director of Cebu Holdings, Inc., Cebu Property Ventures and Development Corporation and City Sports Club Cebu; and Director of Cebu Insular Hotel, Inc., Laguna Properties Holdings, Inc. and Community Innovations, Inc. He graduated with a degree of Bachelor of Science in Business Management at Ateneo de Manila University and took the Strategic Business Economic Program at the University of Asia and the Pacific.

Ma. Victoria E. Añonuevo, 54, Filipino, is Vice-President and Member of the Management Committee of Ayala Land. She also serves as Head of the Corporate Business Group and the Leisure & Lifestyle Communities Group of Ayala Land, as well as President of Laguna Technopark, Inc. She graduated with a degree of Bachelor of Science in Business Administration, Major in Marketing (Cum Laude) at the University of the Philippines in 1971 and had her Masters in Business Administration at the University of the Philippines in 1975.

Emilio J. Tumbocon, 47, Filipino, is Vice-President, member of the Management Committee and Head of the Construction Group of Ayala Land and concurrently serves as President of Makati Development Corporation. He is also the President of the Philippine Constructor's Association (PCA) and Member of the Board of Directors of the Construction Industry Authority of the Philippines, Department of Trade & Industry and the International Federation of Asia & Western Pacific Contractors Association (IFAWPCA). He graduated at the University of the Philippines with a degree of Bachelor of Science in Civil Engineering and took Masters in Business Administration at the same university. He also took the Construction Executive Program at Stanford University in the USA, the Senior Business Executive Program at the University of Asia and the Pacific, and The Executive Program at Darden School of Business, University of Virginia.

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.

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.

Significant Employees

Ayala Land values its human resources. It expects each employee to do his share in achieving the Corporation's set goals.

Executive Compensation

Directors

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

During last year's Annual Stockholders' Meeting held on 02 April 2003, the stockholders ratified the resolution on director's remuneration to non-executive directors which is fixed at ₱1,000,000.00 consisting of the following components:

Retainer Fee: ₱500,000.00
Per diem per Board meeting attended: ₱100,000.00

In addition, a non-executive director is entitled to a per diem of ₱20,000.00 per board committee meeting actually attended.

Officers

Ayala Land adopts a performance-based compensation scheme as incentive. Total compensation paid to all senior personnel from Manager and up amounted to ₱279.4 million in 2002 and ₱352.8 million in 2003. The projected total annual compensation for the current year is ₱388.1 million.

The total annual compensation of the top 10 officers including the President of Ayala Land amounted to ₱75.7 million in 2002 and ₱91.4 million for 2003. This projected total annual compensation for the current year is ₱100.5 million.

The total annual compensation paid to all senior personnel from Manager and up was all paid in cash. The total annual compensation includes the basic salary and the mid-year and 13th month bonuses.

Name	Principal Position	Compensation				
		2004*		2003		2002
		Basic Pay	Other Variable Pay	Basic Pay	Other Variable Pay	
Francisco H. Licuanan III Mercedita S. Nolledo Vincent Y. Tan Tristan b. dela rosa Manuel J. Colayco, Jr. Miriam O. Katigbak Jaime E. Ysmael Ma. Victoria E. Añonuevo Rene D. Almendras Angela V. Lacson Emilio J. Tumbocon	President Exec Vice President Exec Vice President Senior Vice President Senior Vice President Senior Vice President Senior Vice President Vice President Vice President Vice President Vice President					
All above-named Officers as a group		₱94,589,064	₱5,949,378	₱85,990,058	₱5,408,526	₱75,738,920

	Compensation				
	2004*		2003		2002
	Basic Pay	Other Variable Pay	Basic Pay	Other Variable Pay	
All Officers** and Directors as a Group	₱366,160,443	₱21,910,647	₱332,873,130	₱19,918,770	₱279,365,930

* Projected Annual Compensation
** Managers and up

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

Security Ownership of Management

As of June 30, 2004, 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)	0.000093%
Jaime August Zobel de Ayala II	Vice Chairman-Board of Directors & ExCom	10,000	(R)	0.000093%
Jaime I. Ayala	Member-Board of Directors & President	1	(R)	0.000001%
Francisco H. Licuanan III*	Member–Board of Directors & ExCom	1	(R)	0.000001%
Mercedita S. Nolledo	Member-Board of Directors & Corporate Secretary	51,858	(R)	0.000482%
Nieves R. Confesor	Member-Board of Directors	1	(R)	0.000001%
Ramon R. Del Rosario, Jr.	Member-Board of Directors	1	(R)	0.000001%
Delfin L. Lazaro	Member-Board of Directors	1	(R)	0.000001%
Leandro Y. Locsin, Jr.	Member-Board of Directors	1,422,885	(R)	0.013220%
Vincent Y. Tan	Executive Vice President	1,201,087	(R)	0.011159%
Manuel J. Colayco, Jr.	Senior Vice President	437,631	(B)	0.004066%
Tristan B. dela Rosa	Senior Vice President	0	0	
Miriam O.Katigbak	Senior Vice President	153,672	(R)	0.001428%
Angela V. Lacson	Senior Vice President	102,935	(R)	0.000956%
Jaime E. Ysmael	Senior Vice President/ Chief Finance Officer/Treasurer	171,973	(R)	0.001598%
Jose Rene D. Almendras	Vice President	0	0	
Ma. Victoria E. Añonuevo	Vice President	411,152	(R)	0.003820%
Emilio J. Tumbocon	Vice President	1,119,799	(R)	0.010404%
Security Ownership of all Directors and Officers		**5,092,997**		**0.047318%**

Security Ownership of Certain Record and Beneficial Owners

As of June 30, 2004, 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	6,667,824,095*	(R)/(B)	61.95%
PCD Nominee Corporation (Non-Filipino)	2,408,623,610**	(R)	22.38%
PCD Nominee Corporation (Filipino)	1,043,594,142**	(R)	9.70%

* Ayala Corporation holds 61.95% interest. Mermac, Inc. and the Mitsubishi Group own an aggregate of 68.91% 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 Non Fil and Filipino hold an aggregate of 32.08% interest. PCD Nominee is the registered owner of shares beneficially owned by the Custodian Banks and Brokers, who are the participants of 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 to be voted. The participants of PCD who owns more than 5% ownership are as follows:

i. Hongkong and Shanghai Banking Corporation (HSBC) holds 14.86% interest.
ii. Standard Chartered Bank (SCB) holds 5.46% interest.

The clients of HSBC and SCB who have beneficial interest in the shareholdings with the Company have the power to decide how Ayala Land shares are to be voted.

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.

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	
	2003	2002	**2003**	2002
At January 1	**105,917,962**	71,433,929	**2,141,100**	2,141,100
Granted	**37,592,500**	37,341,481	**–**	–
Exercised	**(7,837,382)**	(2,857,448)	**–**	–
Cancelled	**(114,279)**	–	**–**	–
At December 31	**135,558,801**	105,917,962	**2,141,100**	2,141,100

The options that have been exercised during the year had a weighted average exercise price of ₱4.17 or about ₱88.6 million. The fair value of the shares as of exercise date was ₱6.36 or about ₱135.5 million.

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

Exercise Dates	Number of Options
2002 to 2011	25,947,443
2003 to 2012	28,356,591
2004 to 2013	47,496,823
2005 to 2014	22,480,194
2006 to 2015	11,277,750
	135,558,801

Of the directors and key officers, there were 6.23 million common shares exercised as of January 31, 2004 by the following directors/officers to wit:

Name	No. of Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Francisco H. Licuanan III		Sept 1, 1998	4.93	5.50
Fernando Zobel de Ayala		June 20, 2001	4.03	5.40
Ma. Victoria E. Añonuevo		June 20, 2001	4.03	5.40
Angela De Villa-Lacson		June 20, 2001	4.03	5.40
Emilio J. Tumbocon		June 20, 2001	4.03	5.40
All above-named Directors and Officers as a group	6,298,722			

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

Employees

Ayala Land's workforce is composed of 403 employees (1,616 if subsidiaries' manpower is included) as of June 30, 2004. 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 403 Ayala Land employees, the breakdown of employees according to type is as follows:

Sales & Marketing Services Group	40
Project Development Group	162
Support Group	201
Total	403

Ayala Land accords its employees with certain benefits such as but not limited to car financing, housing financing, health benefits, retirement benefits, group term insurance.

RELATED PARTY TRANSACTIONS

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, telecommunications, electronics, information technology, automotive dealership, and water 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; water distribution; electronics and information technology; automotive; and international operations. Its operating companies are among leaders in their respective industry sectors. Ayala Corporation's shares are listed on the Philippine Stock Exchange and as of end-June 2004 had market capitalization of approximately ₱97.74 billion.

Group Strategy

Ayala's strategy is to maintain the Group's commitment to its business activities in the Philippines and to explore possible international initiatives on a selective and opportunistic basis. Ayala intends to build on its leadership position in the Group's existing core businesses in real estate, financial services, and telecommunications, and actively manage its portfolio of other investments and assets under AC Capital with a view toward maximum value creation and realization. Ayala expects its real estate, financial services, and telecommunications businesses to remain its principal sources of dividend income. Ayala is presented from time to time with opportunities to invest in new business areas and will continue to consider such opportunities to the extent that such business would contribute to the overall strategic objectives of the Group.

The following table shows Ayala Corporation's direct and effective ownership in its principal subsidiaries and affiliates within business sectors as of end-June 2004:

	Direct ownership	Effective ownership
Real estate and hotels		
Ayala Land, Inc.	*63.0%	64.6%
Ayala Hotels, Inc.	50.0%	82.3%

Financial Services		
Bank of the Philippine Islands	23.3%	35.1%
Telecommunications		
Globe Telecom, Inc.	38.2%	40.0%
AC Capital		
Integrated Microelectronics, Inc.	78.0%	78.0%
Azalea Technology Investments, Inc.	100.0%	100.0%
Manila Water Company, Inc.	40.4%	48.5%
Ayala Automotive Holdings Corp.	100.0%	100.0%
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 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.

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

1. Ayala Land shares: ₱8.40 per share which is 29% above the August 19, 2003 closing price; and
2. Museum lot: ₱227,500 per sq.m. This is the average of the appraised values determined by Asian Appraisal Company, Inc. and Cuervo Appraisers as of June 2, 2003.

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

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

The exchange enabled Ayala Land to consolidate its ownership of the 11 hectare Greenbelt property, which recently completed the initial phase of a major redevelopment.

Furthermore, Ayala Land obtains borrowings from one of its affiliates, BPI. As of June 30, 2004, Ayala Land's consolidated borrowings with BPI amounted to ₱2,038 million. Of this amount, ₱1,546 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).

Ayala Land 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.

Revenue from transactions with associates and other related parties amounted to ₱149.1 million in 2003, ₱230.4 million in 2002 and ₱567.9 million in 2001.

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 registered with the SEC issued in 2003 and ₱3.0 billion and ₱2.0 billon bonds were registered with the SEC and issued by Ayala Land in 2002 and 2003, respectively. As of June 30, 2004 Ayala Land had the equivalent of ₱14.21 billion of outstanding debt, of which ₱4.7 billion is secured. Of Ayala Land's outstanding unsecured debt, ₱7.7 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, 2004 which was US$1.00 = ₱ 56.176. See "Risk Factors -- Debt notarized under Philippine law could have effective priority over the STCPs." The following table sets forth the outstanding long and short term debt of Ayala Land and its subsidiaries as of June 30, 2004:

Short Term Indebtedness in millions of Pesos:*

Borrower	Amount
Ayala Land	1,123.9
Aurora Properties, Inc.	44.0
Ayala Greenfield Development Corp.	183.0
Community Innovations, Inc.	85.0
Leisure and Allied Industries, Phils., Inc.	40.0
Laguna Properties Holdings, Inc.	260.0
Roxas Land Corporation	100.0
Totals	**₱1,835.9**

Long Term Indebtedness in millions:*

	Current		Non-Current		Total	
Borrower	**Peso (*)**	**US $**	**Peso (*)**	**US $**	**Peso (*)**	**US Dollar**
Ayala Land	1,155.8		7,854.2		9,010.0	
Ayala Greenfield Development Corp.	25.8		129.2		155.0	
Cebu Insular Hotel Company, Inc.	34.6		161.7		196.3	
	64.0	$ 1.1	32.0	$ 0.6	96.1	$ 1.7
Laguna Properties Holdings, Inc.	164.0		724.4		888.4	
Liberty Real Holdings Corp.	-		1,310.0		1,310.0	
Makati Property Ventures, Inc.	160.7	$ 2.9	561.2	$ 10.0	721.9	$ 12.9
Totals	**₱1,604.9**	**$ 4.0**	**₱ 10,772.6**	**$ 10.6**	**₱ 12,377.6**	**$ 14.6**

*Should be read together with SEC Form 17-Q which will be subsequently submitted by the Issuer from time to time.

Peso Equivalent of U.S. dollar loans, when applicable, using average exchange rate at the Philippine Dealing System of ₱ 56.176 to US$1.00 on June 30, 2004.

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

Prospective purchasers of the STCPs should read the following discussion together with Ayala Land's audited financial statements and the related notes thereto, 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 STCPs should read the information under "Forward-Looking Statements" for special information about the presentation of Ayala Land's forward-looking information.

Results of Operations – Six Months Ended June 30, 2004*

***** should be read together with SEC Form 17-Q which will be subsequently submitted by the Issuer from time to time

Despite political and economic uncertainties, Ayala Land's performance in the first half of 2004 remained solid. The Company generated P8.07 billion in consolidated revenues, up 25% year-on-year, enabling it to derive a net income of P1.18 billion, up by 7%.

The Company's rental portfolio continued to grow and contributed P1.88 billion or 23% to total revenues. Rental revenues were up 5% year-on-year, driven by robust merchant sales. Ayala Center posted a 10% growth in total sales and a 9% increase in same-store sales while maintaining a high occupancy rate of 94%. From a low base in the first half of 2003 due to the effect of SARS, sales in 2004 received a strong boost from the opening of the SM expansion (4Q2003) and Greenbelt 4 (1Q2004), promotional events including the Lov'emall campaign, continued enhancement of merchant mix, improved pedestrian traffic circulation and, to a certain extent, election-related spending.

This September, the Company will open Phase 1A of Market! Market! to capture a share of the growing market for value shopping. As of end-June, 87% of the 264 regular spaces had been leased out, while 77% of the 676 bazaar spaces had been taken up.

Office leasing remained resilient as seen in the high 94% average occupancy rate enjoyed by the Company's office buildings. Ayala Land continued to carve a niche in the build-to-suit IT facilities market segment. In addition to PeopleSuppport Center which started construction in the first quarter, the Company recently broke ground for its second building fully dedicated to Business Process Outsourcing (BPO) operations. Also located within the Makati Central Business District (MCBD), the project will have 14,300 sqms of office leasable area. PeopleSupport will be completed by April 2005 while the second BPO-dedicated building will be ready for use by October next year.

High end residential unit sales almost doubled from last year's level and amounted to P 1.41 billion or 17% of total revenues. The substantial increase is largely due to 53 units booked at the 48-storey The Residences at Greenbelt which was 9% complete and 78% taken up as of end-June. The sale of nearly P500 million worth of receivables from nearby One Legazpi Park also paved the way for the accelerated revenue booking of installment sales. As of end June, this residential condominium project was 68% complete and nearly fully taken up.

A third phase of Montgomery Place, The Legacy, consisting of 27 out of a total of 71 single-detached units, was launched in June. Total product offering todate consisted of 297 townhouse and single detached units, 88% of which were taken up as of the end of the second quarter. The 586-unit initial phase of Serendra, launched in March, started to contribute to revenues in the second quarter. With an encouraging take up of 54%, launch of Serendra's second phase is being accelerated to August and October for Districts 1 and 2, respectively.

Revenues from land sales posted a healthy increase of 15% to P1.27 billion, and accounted for 16% of consolidated revenues. Additional lot offerings at Ayala Westgrove Heights and Ayala Greenfield Estates generated renewed buyer interest and increased sales bookings. During the first half, 184 lots were offered for sale at Westgrove, bringing cumulative offering to 1,513 lots, 84% of which has been taken up as of end-June. At Greenfield Estates, additional 50 lots were launched and brought total offering to 508 lots, 83% of which has been taken up.

Also contributing to the growth in land sales were higher bookings at Ayala Northpoint, Ayala Hillside Estates, Paseo de Magallanes and Laguna Technopark. A 2,997-sqm gas station site in Alabang was sold for P80 million in May as part of the Company's non-strategic asset disposition program.

Notwithstanding the uptick in interest rates, the Company's middle income housing operations, consisting of mass housing and core middle income residential products, continued to perform well.

Laguna Properties Holdings, Inc.'s (LPHI) bookings of mass housing units during the first half totaled 777 units, 39% higher year-on-year. Revenues were up 24% year-on-year and amounted to P1.01 billion or 13% of total revenues. New projects, particularly One Aeropolis in Parañaque and Sta. Arcadia in Cabanatuan, were key contributors to LPHI's improved performance. As of end-June, the initial phase of Sta. Arcadia Estates consisting of 167 housing units and 99 commercial lots were 43% and 16% taken up, respectively. Meanwhile, the 240-unit first tower of One Aeropolis was 98% taken up and 79% complete; the second tower, launched only in November 2003, was 45% sold and 8% complete. Within the third quarter, LPHI will launch two new residential projects: a mid-rise condominium in Quezon City and a residential subdivision in Dasmariñas, Cavite.

Revenues from the sale of core-middle income residential units, through Community Innovations, Inc., amounted to P466 million, representing a 133% year-on-year growth and accounting for 6% of Ayala Land's consolidated revenues. Growth came from higher revenues recognized at high-rise condominium project, The Columns, now under construction in the MCBD, Verdana commercial lots in Cavite, newly-launched Verdana Mamplasan residential subdivision in Laguna and Serendra in Fort Bonifacio. As of end-June, Towers 1, 2 and 3 of The Columns were 99%, 73% and 52% taken up, respectively. Meanwhile, 46% of the 28 Verdana commercial lots and 20% of the 416 Verdana Homes Mamplasan residential lots have been taken up.

Revenues from hotel operations accounted for 9% of first half consolidated revenues and grew by 23% year-on-year to P736 million. The Company's hotels and serviced apartments benefited from higher occupancy and room rates compared to last year. Oakwood Premier Ayala Center and Cebu City Marriott Hotel did better than market, with 83% and 85% occupancy, respectively, well above the 74% average occupancy of MCBD and Cebu hotels. Meanwhile, Hotel InterContinental Manila's occupancy rate was posted at 73%.

Construction projects of Makati Development Corporation contributed P656 million or 8% to total revenues, significantly growing by 125% year-on-year. Construction revenues from Market! Market!, accounted for much of the increase. As of end-June, Phase1A and 1B of this project were 91% and 32% complete, respectively.

Financial Condition

Ayala Land's financial condition remains sound. Liquidity was well preserved with a cash balance of P4.18 billion and current ratio of 1.70:1 as of end-June 2004. P365 million worth of Short-Term Commercial Papers (STCPs) were issued out of the P2 billion approved STCP line to support funding requirements. This was augmented by the sale of receivables.

Leverage remains comfortable with total borrowings kept at P14.2 billion, resulting to a debt-to-equity and net debt-to-equity ratios of 0.39:1 and 0.28:1, respectively.

Ayala Land disbursed P3.9 billion in consolidated project and capital expenditures for the first six months, about 41% of the P9.5 billion budget for the year. At the parent company level, Ayala Land spent P2.0 billion or 36% of the P5.6 billion budget for 2004. Substantial disbursements were made for key projects such as Market! Market!, Serendra, One Legazpi Park, The Columns and One Aeropolis.

Material Changes

Income Statement items – 1H2004 vrs 1H2003

35% increase in real estate revenues
Principally due to higher sales bookings at Ayala Westgrove Heights, Ayala Greenfield Estates, Paseo de Magallanes, Ayala Northpoint, Ayala Hillside Estates, Laguna Technopark and The Residences at Greenbelt (Laguna Tower); sales at the recently-launched Serendra and Verdana Mamplasan; revenue recognition on prior years' sales due to additional construction accomplishment at One Legazpi Park and The Columns; higher mass housing sales due to new projects; higher rental revenues from shopping centers; and higher construction revenues.

23% increase in revenues from hotel operations
Primarily due to higher occupancy and room rates at the Company's hotel properties.

30% decrease in interest and other income
Mainly due to the gain on sale of investment in a landholding company in 2003.

45% increase in real estate cost and expenses
Mainly due to higher real estate revenues and change in revenue/product mix.

24% increase in general and administrative expenses
Primarily due to higher payroll costs, as well as additional expenses from expanding subsidiaries such as Ayala Land Sales, Inc., Community Innovations, Inc. and Serendra, Inc.

32% decrease in interest and other charges
Principally due to the real property tax (RPT) charges in 2003

161% increase in provision for income tax
Basically due to lower tax in 2003 given the RPT charges.

265% decrease in net earnings applicable to minority interest
Largely due to Roxas Land Corporation's loss which resulted from project cost adjustments.

Balance Sheet items – June 30, 2004 vrs End-2003

14% decline in cash and cash equivalents
Mainly due to the upfront cash payment to BCDA for the Serendra project.

23% increase in accounts and notes receivables (current portion)
Primarily due to additional sales from new projects of Ayala Land, Laguna Properties Holdings, Inc. and Community Innovations, Inc. and higher receivables from construction projects of Makati Development Corporation.

7% increase in condominium and residential units for sale
Largely due to construction progress at new residential building projects such as One Legazpi Park, The Residences at Greenbelt (Laguna Tower), The Columns, Montgomery Place and One Aeropolis.

32% increase in deferred tax and other current assets
Mainly due to higher prepaid expenses and creditable withholding taxes of some subsidiaries

25% increase in non-current accounts and notes receivables
Largely due to increase in installment sales at various projects.

33% increase in other assets
Mainly due to increase in prepaid items.

19% increase in accounts payable and accrued expenses
Primarily due to the additional purchases by Ayala Land and some subsidiaries such as Laguna Properties Holdings, Inc., Ayala Greenfield Development Corporation and Community Innovations, Inc.

26% increase in loans payable
Largely due to new loan availments of Ayala Land, Laguna Properties Holdings, Inc., Ayala Greenfield Development Corporation, Roxas Land Corporation and Community Innovations, Inc.

86% increase in income tax payable
Additional income tax payable mainly due to first semester operations.

20% increase in current portion of long-term debt
Largely due to reclass of maturing principal amortization of long-term debt.

12% decline in current portion of estimated liability for land and property development
Due to increased construction accomplishment at existing residential building projects.

24% decrease in other current liabilities
Due to the decline in payables to a landowner.

7% decline in long-term debt (net of current portion)
Mainly due to payment and reclass to current of some long-term debt.

26% increase in non-current liabilities and deposits
Due to increase in tenants' deposits at Market! Market! and higher buyers' deposits at new residential projects.

84% increase in non-current portion of estimated liability for land and property development
Primarily due to new sales at existing and new projects.

Results of Operations – Year 2003

Ayala Land continued to maintain its preeminent position in traditional markets while vigorously pursuing available opportunities in emerging growth areas. This enabled the Company to post an 8% growth in net income to ₱2.71 billion derived from consolidated revenues of ₱14.62 billion, 20% higher than previous year's level.

The Company's leasing portfolio performed well with an 8% increase in rental revenues to ₱3.59 billion, contributing 24% total revenues. Rental revenues from commercial centers, primarily driven by Ayala Center, contributed nearly 80% to total rentals. With the full year operations of Greenbelt 2 and 3, as well as the opening of Greenbelt 4 in the fourth quarter, total sales at Ayala Center grew by 6% year-on-year. Ayala Center maintained a high occupancy rate of 95% and attracted more mall visitors as new stores opened. Meanwhile, the Company's office properties also did well, with high occupancy rates averaging at 95%. These properties continued to command premium pricing given their superior location, better quality and high level of property management.

Land sales also drove revenues, contributing ₱2.85 billion, or 19% of total revenues. This represents a 35% increase year-on-year, primarily due to higher sales bookings at Ayala Westgrove Heights, Ayala Hillside Estates and Plantazionne Verdana Homes. At the end of the year, take up rates were 86% of 1,329 lots at Westgrove, 84% of 121 Ayala Land-owned lots at Hillside and 71% of 159 lots at Plantazionne. Industrial lot sales were also higher as Laguna Technopark sold seven lots with a total area of 4.1 hectares in 2003 versus one lot with an area of 0.6 hectare in the previous year. Also pushing revenues from land sales were the two Madrigal Business Park lots sold in the first quarter. Further augmenting lot sales were other subdivision projects such as Ayala Greenfield Estates, Paseo de Magallanes and Tamarind Cove.

With the strong performance of Ayala Land's new condominium projects, revenues from residential unit sales grew by 20% to ₱1.88 billion, accounting for 13% of consolidated revenues. Launched in June, the 249-unit The Residences at Greenbelt – Laguna Tower met favorable market response as seen in the take-up rate of 61% by year-end. One Legazpi Park was nearly fully sold with a 96% take-up rate. Contributions from these two projects, however, were tempered by the revenue recognition process which takes into account the completion rate of the buildings. At the end of 2003, The Residences at Greenbelt – Laguna Tower was 3% complete while One Legazpi Park's completion rate was at 34%. Meanwhile, the Company also realized additional sales at One Roxas Triangle, Ferndale Homes and Montgomery Place.

Through Laguna Properties Holdings, Inc. (LPHI), Ayala Land continued to address the underserved demand for mass housing. With intensified sales efforts, LPHI's sales bookings in 2003 totaled 1,451 units, 29% higher than previous year's 1,121. Revenues grew by 31% to ₱1.86 billion, representing 13% of consolidated revenues. During the year, LPHI ventured into its first medium-rise residential building project, One Aeropolis in Sucat, Parañaque, as well as Sta. Arcadia Estates, its first mass housing project in Northern Luzon. At the end of 2003, 82% of the units at the first tower of One Aeropolis, soft launched in June, was taken up, leading to the launch of the 2nd tower in November. Sta. Arcadia Estates, launched in October, posted a 16% take-up rate for its 167-unit initial phase.

The core-middle income residential segment, through Community Innovations, Inc. (CII), contributed ₱658 million or 5% to total revenues. With Verdana Homes' full sell-out in 2003, CII focused on the sale of The Columns, its three-tower residential complex within Makati. Given encouraging market response in the first two towers, the third tower was launched ahead of schedule in November. By year-end, take-up rates were posted at 93%, 71% AND 13% for the first, second and third tower, respectively. To complete the community offering at Verdana Homes, CII launched the Verdana Village Center in the third quarter. Five out of the 18 commercial lots put on the market were sold as of year-end.

Revenues from hotel operations contributed 9% to total revenues or ₱1.28 billion, slightly lower by 2%, reflecting reduced occupancy rates and lower room rates of hotels at the Makati Central Business District in general. Average occupancy rates at Hotel Intercontinental Manila and Oakwood Premier Ayala Center, both at 75% in 2002, declined to 66% and 69%, respectively. Partly cushioning the Company's hotel revenues, however, was Cebu City Marriott Hotel which posted an improved average occupancy rate of 76% from 65% in the previous year, as well as higher room rates. Compared to their respective markets, Ayala Land's hotel portfolio still did better in terms of occupancy. Makati hotels' average occupancy rate was 63% while occupancy rates at Cebu hotels averaged at 66%.

Construction arm Makati Development Corporation contributed ₱759 million or 5% to consolidated revenues. This represents an 18% decline year-on-year as opportunities in the construction sector continued to be limited.

Financial Condition- Year 2003

During the year, Ayala Land pursued new strategic projects and investments, including the acquisition of a controlling stake in Bonifacio Land Corporation (BLC) in April. This assures the Company ample supply of prime lot inventory for future developments. Given the Company's continuing investments, total assets grew by 8% year-on-year to ₱67.01 billion as of end-2003.

Meanwhile, stockholders' equity leveled at ₱35.27 billion, slightly lower primarily due to the special cash dividend of ₱0.26 per share paid to stockholders in the fourth quarter. The increased dividend yield is part of the Company's continuing effort to reduce its capital base in tandem with its ongoing asset rationalization program.

Ayala Land's excellent financials and credit standing were reflected in the successful issuance of ₱2.0 billion five-year bonds in November. The bond issue received the highest possible rating of PRS Aaa from PhilRatings and found strong support from investors. This borrowing, together with new bank loans, brought total borrowings to ₱14.38 billion by end-2003. While this is higher than end-2002 level of ₱10.87 billion, the Company's bank debt-to-equity ratios were still at comfortable levels of 0.41:1 and 0.27:1, respectively. Ayala Land remained highly liquid with a current ratio at 1.78:1. In addition to the sale of non-strategic assets, liquidity was enhanced by sale of seasoned installment receivables to banks on a no-recourse basis.

Project and Capital Expenditure – Year 2003

In 2003, Ayala Land (parent company) disbursed ₱5.2 billion or 66% of the ₱7.9 billion project and capital expenditures budget for the year. These disbursements included the ₱2.6 billion investment in BLC. The rest were spent on residential building projects, commercial centers, residential subdivision projects and office building improvements.

Material Changes 2003 vs 2002

Income Statement items

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

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

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

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

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

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

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

Balance Sheet items

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

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

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

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

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

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

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

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

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

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

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

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

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

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 ₱12.21 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 2:1 and cash reserves of ₱5.71 billion.

Project and Capital Expenditures – Year 2002

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 were incurred for residential buildings and shopping center projects.

Material Changes 2002 vs 2001

Income Statement items

17% decline in Equity Earnings and Other Income
Mainly due to lower interest income and equity earnings in 2002

25% increase in General and Administrative Expenses
Primarily due to higher payroll and higher amortization of ERP software development costs, as well as overhead costs of new subsidiaries

11% decrease in Interest and Other Charges
Mainly due to lower average effective borrowing rate in 2002

22% increase in Provision for Income Tax
Primarily due to higher income and higher effective income tax rate in 2002

150% increase in Net Earnings (Loss) Applicable to Minority Interest
Mainly due to improved 2002 bottomline of Roxas Land Corporation versus 2001

10% increase in Net Income
Primarily due to higher real estate margins in 2002

Balance Sheet items

15% decline in Cash and Cash Equivalents
Mainly due to payments in 2002 of the P6B LTCPs of Ayala Land

32% decrease in Condominium and Residential Units for Sale
Primarily due to sale of units at One Roxas Triangle and mass housing projects

94% increase in Non-current Accounts and Notes Receivable
Largely due to increase in sales of various projects of Ayala Land and subsidiaries

14% increase in Property and Equipment
Mainly due to additional investment in ERP software by Ayala Land and its subsidiaries, and purchase of new machinery and equipment by Makati Development Corporation

11% decline in Other Assets
Largely due to decrease in deferred charges of Makati Development Corporation

21% decrease in Accounts Payable and Accrued Expenses
Primarily due to settlement of outstanding accounts payable to suppliers

155% increase in Bank Loans
Mainly due to new loan availments of Ayala Land (parent), Roxas Land Corp. and Laguna Properties Holdings, Inc.

71% increase in Income Tax Payable
Primarily due to higher income in 4Q2002 and higher effective income tax rate

95% decline in Current Portion of Long-term Debt
Largely due to payment of P6N LTCPs of Ayala Land which matured in the first semester of 2002

66% increase in Estimated Liability for Land and Property Development
Primarily due to higher sales at existing and new projects

13% decrease in Other Current Liabilities
Mainly due to decline in deferred income tax of a subsidiary

130% increase in Long-term Debt (net of current portion)
Mainly due to new borrowings, including the P3B bond issued by Ayala Land in 2002

14% increase in Estimated Liability for Land and Property Development (net of current portion)
Primarily due to higher sales at existing and new 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 ₱61.6 billion and stockholders' equity of ₱35.1 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 1.50:1 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.

Projects and 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.

Key Performance Indicators of Ayala Land, Inc. and Subsidiaries

*Ayala Land, Inc.**
* should be read together with SEC Form 17-Q which will be subsequently submitted by the Issuer from time to time

	1H2004 unaudited	2003	2002
Revenues	8,068	14,623,932	12,214,133
Net Income	1,175	2,709,155	2,518,515
Total Assets	70,393	67,012,052	61,767,216
Total Borrowings*	14,214	14,381,294	10,874,498
Stockholder's Equity	36,457	35,273,271	35,407,001
Current Ratio	1.70:1	1.78:1	2.00:1
Total Borrowings*-to-Equity Ratio	0.39:1	0.41:1	0.31:1

**Interest-bearing payables, including commercial papers and bonds*

Laguna Properties Holdings, Inc.

	2003	2002
Revenues	1,807,517,655	1,387,070,150
Net Income	200,369,797	115,595,885
Total Assets	5,330,089,341	4,864,551,732
Total Borrowings	319,100,000	288,400,000
Stockholder's Equity	2,249,726,332	2,257,368,636
Current Ratio	1.80:1	1.42:1
Total Borrowings-to-Equity Ratio	0.54:1	0.50:1

Makati Development Corporation

	2003	2002
Revenues	2,588,070,660	1,976,501,478
Net Income	147,921,717	205,099,117
Total Assets	1,750,478,802	1,779,523,054
Total Borrowings	---	---
Stockholder's Equity	526,440,364	483,518,647
Current Ratio	1.12:1	1.14:1
Total Borrowings-to-Equity Ratio	---	---

Community Innovations, Inc.

	2003	2002
Revenues	684,826,433	519,175,407
Net Income	144,309,989	96,188,485
Total Assets	2,005,187,901	1,025,851,165
Total Borrowings	---	---
Stockholder's Equity	918,982,628	381,271,236
Current Ratio	1.33:1	1.34:1
Total Borrowings-to-Equity Ratio	---	---

Ayala Land Sales, Inc.

	2003	2002
Revenues	100,489,575	54,894,304
Net Income	201,066	64,414
Total Assets	54,080,964	34,609,183
Total Borrowings	---	---
Stockholder's Equity	10,265,480	10,064,414
Current Ratio	1.09:1	1.21:1
Total Borrowings-to-Equity Ratio	---	---

Ayala Property Management Corporation

	2003	2002
Revenues	555,364,243	481,232,344
Net Income	69,515,694	65,862,801
Total Assets	207,377,277	167,042,170
Total Borrowings	---	---
Stockholder's Equity	54,577,911	50,062,217
Current Ratio	1.17:1	1.21:1
Total Borrowings-to-Equity Ratio	---	---

Ayala Theatres Management, Inc.

	2003	2002
Revenues	8,861,202	8,976,279
Net Income	673,164	1,170,347
Total Assets	6,507,890	5,693,186
Total Borrowings	---	---
Stockholder's Equity	3,893,964	3,920,800
Current Ratio	2.45:1	3.27:1
Total Borrowings-to-Equity Ratio	---	---

Five Star Cinema, Inc.

	2003	2002
Revenues	26,111,745	25,012,853
Net Income	3,677,960	4,448,765
Total Assets	5,234,175	4,599,865
Total Borrowings	---	---
Stockholder's Equity	344,.777	566,817
Current Ratio	1.03:1	1.14:1
Total Borrowings-to-Equity Ratio	---	---

Red Creek Properties, Inc.

	2003	2002
Revenues	813,109	1,313,028
Net Income	629,213	912,113
Total Assets	615,319,722	614,685,508
Total Borrowings	---	---
Stockholder's Equity	599,067,130	598,437,917
Current Ratio	5,832.1:1	6,135.2:1
Total Borrowings-to-Equity Ratio	---	---

Crimson Field Enterprises, Inc.

	2003	2002
Revenues	164,037	135,635
Net Income (Loss)	108,232	(828,294)
Total Assets	209,162,846	209,054,614
Total Borrowings	---	---
Stockholder's Equity	159,829,650	107,721,418
Current Ratio	712.2:1	708.5:1
Total Borrowings-to-Equity Ratio	---	---

Buendia Landholdings, Inc.

	2003	2002
Revenues	131,066	2,368
Net Income (Loss)	92,479	(18,745)
Total Assets	7,322,312	2,805,708
Total Borrowings	---	---
Stockholder's Equity	2,877,687	2,785,208
Current Ratio	0.58:1	121.3:1
Total Borrowings-to-Equity Ratio	---	---

First South Properties, Inc.

	2003	2002
Revenues	25,150	20,983
Net Income (Loss)	(18,574)	(2,654)
Total Assets	119,752,488	561,757
Total Borrowings	---	---
Stockholder's Equity	119,715,063	534,257
Current Ratio	14.78:1	20.43:1
Total Borrowings-to-Equity Ratio	---	---

ALInet.com, Inc.

	2003	2002
Revenues	---	---
Net Income (Loss)	(12,063,918)	(50,991,543)
Total Assets	28,336,286	40,394,144
Total Borrowings	---	---
Stockholder's Equity (Capital Def)	(73,079,495)	(61,015,577)
Current Ratio	---	---
Total Borrowings-to-Equity Ratio	---	---

Liberty Real Holdings Corporation

	2003	2002
Revenues	4,040,575	500,346
Net Income	3,537,221	350,277
Total Assets	2,801,975,242	1,305,214,887
Total Borrowings	1,310,000,000	440,000,000
Stockholder's Equity	1,320,511,907	806,465,427
Current Ratio	2.70:1	3.14:1
Total Borrowings-to-Equity Ratio	0.99:1	0.55:1

Vesta Property Holdings, Inc.

	2003	2002
Revenues	144,251	108,005
Net Income	115,401	87,253
Total Assets	2,364,193,886	2,318,203,817
Total Borrowings	---	---
Stockholder's Equity	2,154,157,006	2,154,041,605
Current Ratio	0.01:1	0.01:1
Total Borrowings-to-Equity Ratio	---	---

Aurora Properties, Inc.

	2003	2002
Revenues	1,586	3,690
Net Income	1,269	2,867
Total Assets	1,482,869,218	1,448,349,103
Total Borrowings	44,000,000	44,000,000
Stockholder's Equity	1,336,979,185	1,336,977,916
Current Ratio	3.56:1	3.76:1
Total Borrowings-to-Equity Ratio	0.0003:1	0.0002:1

Laguna Technopark, Inc.

	2003	2002
Revenues	277,643,497	148,187,785
Net Income	101,676,753	52,964,447
Total Assets	2,791,791,718	2,636,751,795
Total Borrowings	---	---
Stockholder's Equity	1,405,684,639	1,312,443,472
Current Ratio	0.58:1	0.50:1
Total Borrowings-to-Equity Ratio	---	---

ALI-CII Development Corporation

	2003	2002
Revenues	67,188,561	46,380,436
Net Income	13,858,950	864,774
Total Assets	371,511,901	426,061,520
Total Borrowings	---	---
Stockholder's Equity	226,604,340	212,745,390
Current Ratio	2.72:1	2.47:1
Total Borrowings-to-Equity Ratio	---	---

Food Court Company, Inc.

	2003	2002
Revenues	73,000,698	57,673,851
Net Income	15,150,260	11,338,081
Total Assets	100,098,022	85,159,394
Total Borrowings	---	---
Stockholder's Equity	57,910,958	42,760,698
Current Ratio	3.03:1	1.54:1
Total Borrowings-to-Equity Ratio	---	---

Leisure and Allied Industries Philippines, Inc.

	2003	2002
Revenues	196,415,122	176,690,808
Net Income	22,262,596	27,331,906
Total Assets	142,385,706	138,206,161
Total Borrowings	40,000,000	30,000,000
Stockholder's Equity	74,775,999	79,513,403
Current Ratio	0.29:1	0.48:1
Total Borrowings-to-Equity Ratio	0.53:1	0.38:1

Amorsedia Development Corporation

	2003	2002
Revenues	67,069,978	102,662,750
Net Income	66,986,556	102,578,877
Total Assets	2,724,860,557	2,657,796,692
Total Borrowings	---	---
Stockholder's Equity	2,585,313,445	2,518,326,889
Current Ratio	1.61:1	1.89:1
Total Borrowings-to-Equity Ratio	---	---

Roxas Land Corporation

	2003	2002
Revenues	429,988,627	535,513,997
Net Income (Loss)	54,223,936	(154,066,799)
Total Assets	3,730,955,336	4,072,021,219
Total Borrowings	---	225,000,000
Stockholder's Equity	3,521,481,711	3,575,705,647
Current Ratio	73.03:1	9.28:1
Total Borrowings-to-Equity Ratio	---	0.06:1

Ayala Hotels, Inc.

	2003	2002
Revenues	117,204,587	127,596,007
Net Income	54,922,674	66,275,849
Total Assets	2,101,555,280	2,356,668,274
Total Borrowings	---	---
Stockholder's Equity	2,079,642,045	2,321,232,224
Current Ratio	8.12:1	6.41:1
Total Borrowings-to-Equity Ratio	---	---

Cebu Insular Hotel Company, Inc.

	2003	2002
Revenues	270,716,654	230,009,604
Net Income(Loss)	10,476,030	(36,405,828)
Total Assets	958,255,042	930,871,221
Total Borrowings	330,307,508	285,700,109
Stockholder's Equity	574,951,470	564,475,440
Current Ratio	0.80:1	0.37:1
Total Borrowings-to-Equity Ratio	0.57:1	0.51:1

Enjay Hotels, Inc.

	2003	2002
Revenues	535,784,198	575,203,806
Net Income	2,441,930	8,586,307
Total Assets	790,107,588	793,055,302
Total Borrowings	---	---
Stockholder's Equity	681,688,249	679,246,319
Current Ratio	2.13:1	1.72:1
Total Borrowings-to-Equity Ratio	---	---

Makati Property Ventures, Inc.

	2003	2002
Revenues	488,340,150	509,271,636
Net Income	10,720,170	41,651,943
Total Assets	2,277,861,146	2,462,525,028
Total Borrowings	793,768,080	912,773,560
Stockholder's Equity	1,335,896,205	1,325,176,035
Current Ratio	0.87:1	0.96:1
Total Borrowings-to-Equity Ratio	0.59:1	0.69:1

Audit Matters

SyCip Gorres Velayo & Company, independent public accountants and a member of Ernst and Young, audited the Ayala Land, Inc. financial statements and schedules for the years ended 31 December 2001, 2002 and 2003, included in this Prospectus.

CPA Cert. #	36317
PTR #	7012968
SEC Accreditation #	0069-A

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 Prospectus, please be guided by the following breakdown expressed in Pesos:

Period	Amount
2001	₱179,770,144
2002	₱178,184,821
2003	₱174,069,975

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.

Contingent Obligation

Ayala Land 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.

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.

OVERVIEW OF THE REGULATIONS AND LAWS AFFECTING 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.

TAXATION

The following is a discussion of the material Philippine tax consequences of beneficial ownership of the STCPs to a holder who purchases STCPs in the initial offering. This discussion is based upon laws, regulations, rulings, income tax conventions (treaties), administrative practices and judicial decisions in effect at the date of this Prospectus. 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 STCPs 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 STCPs are not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of STCPs.

STCP HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF AN STCP, 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 STCPs. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the STCPs and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the STCPs 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 STCPs in such other jurisdictions. Each prospective holder of the STCPs should consult its own tax adviser as to the particular tax consequences of the acquisition, ownership and disposition of the STCPs, 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

Interest income on the STCPs received by residents shall be subject to a final withholding tax of 20.0% or such rate as may be provided by law or regulation, which shall be withheld at source. Interest income received by non-resident foreign individuals engaged in trade or business in the Philippines shall be subject to a final withholding tax of 20% while non-resident foreign individuals not engaged in trade or business in the Philippines shall be subject to a final withholding tax of 25%. Interest income received by non-resident foreign corporations shall be subject to a final withholding tax of 32%. The tax shall be for the account of the STCP holder. The foregoing rates are subject to further reduction by any applicable tax treaty.

Tax-exempt Status. Holders who are exempt from or are not subject to final withholding tax on interest income may claim such exemption by submitting the necessary documents. Said holder shall submit the following requirements to the Registrar or to the Selling Agents (together with their completed Application to Purchase) who shall then forward the same 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 form, 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 STCP holder claiming the benefit of any exemption or reasonable evidence of such exemption to the Registrar;

Holders may sell their STCPs anytime to holders of similar tax status (i.e tax exempt to tax exempt, taxable to taxable), otherwise, such holder may sell only on an Interest Rate Setting Date. A selling or purchasing holder, claiming tax-exempt status is required to submit to the Issuer, within <u>three (3) days</u> from settlement date: (i) a written notification of the sale or purchase, including the tax-status of the selling or buying party and; (ii) an indemnity agreement wherein the holder undertakes to indemnify the Issuer for any tax or charge that may later on be assessed on the Issuer on account of such transfer.

Value Added Tax

Gross income arising from the sale of the STCPs in the Philippines by Philippine registered dealers in securities will be subject to a 10% value-added tax.

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 STCPs, at the rate of P1.00 on each P200, or fractional part thereof, of the issue price of such debt instruments; provided, that for such debt instruments with terms of less than one (1) year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to three Hundred sixty-five (365) days.

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 documentary stamp taxes on the original issue will be paid by Ayala Land for its own account.

Taxes on Sale or Disposition of the STCPs.

The holder of an STCP will recognize a gain or loss upon the sale or other disposition (including a redemption at maturity) of the STCPs in an amount equal to the difference between the amount realized from such disposition and such holder's basis in the STCPs. Such gain or loss is likely to be deemed a capital gain or loss assuming that the holder has held the STCPs as capital assets. Generally, any gains derived from the sale or personal property (including the STCPs) effected outside the Philippines shall be treated as having been derived from sources within the country in which such property is sold. Under current law, capital gains tax arising from the transfer of the STCPs, if any, shall be for the account of the holder. Under current law, the net gains realized upon a sale of the STCPs by resident citizens are subject to income tax at graduated rates of 5% to 32%, while those realized by domestic corporations are subject to income tax of 32%.

No documentary stamp tax is due on the secondary trading of the STCPs.

Estate or Gift Taxes

The transfer of an STCP by way of succession upon the death of a holder will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate of the holder is over ₱200,000.

The transfer of an STCP by gift to an individual who is related to the holder will generally be subject to a Philippine donor's tax at progressive rates ranging from 2% to 15% if the net gifts made by the holder during the relevant calendar year exceed ₱100,000. Gifts to unrelated donees are generally subject to tax at a flat rate of 30%. An unrelated donee is a person who is not a (i) brother, sister (whether by whole or half blood), spouse, ancestor and lineal descendant or (ii) relative by consanguinity in the collateral line within the fourth degree of relationship.

The foregoing apply without regard to whether the holder is a non-resident holder. However, the Philippines will not collect estate and donor's taxes on the transfer of the STCPs by gift or succession if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country that provides certain reciprocal rights to citizens of the Philippines (a "Reciprocating Jurisdiction"). For these purposes a Reciprocating Jurisdiction is a foreign country which at the time of death or donation (i) 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 (ii) allowed 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 that foreign country.

FINANCIAL STATEMENTS

The following pages set forth Ayala Land's audited consolidated financial statements for the years ended December 31, 2003, 2002 and 2001 and unaudited consolidated financial statements as of June 30, 2004.

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of June 30, 2004 and December 31, 2003

(in million pesos)	Unaudited JUN 2004	Audited DEC 2003
ASSETS		
Current Assets		
Cash and cash equivalents	4,179	4,855
Accounts and notes receivables - net	5,531	4,506
Subdivision land for sale	4,029	3,884
Condominium and residential units for sale	3,502	3,264
Deferred tax and other current assets	1,312	995
Total Current Assets	18,552	17,504
Noncurrent Accounts and Notes Receivable	6,835	5,459
Land and Improvements	19,246	19,065
Investments	23,248	22,712
Property and Equipment	1,505	1,514
Other Assets	1,006	758
	70,393	**67,012**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	4,790	4,023
Loans payable	1,836	1,457
Income tax payable	210	113
Current portion of:		
Long-term debt	1,605	1,336
Estimated liability for land and property development	2,146	2,446
Other current liabilities	349	458
Total Current Liabilities	10,936	9,833
Long-term Debt - net of current portion	10,773	11,588
Noncurrent Liabilities and Deposits	4,077	3,247
Estimated Liability for Land and Property Development	2,257	1,228
Minority Interest	5,893	5,843
Stockholders' Equity	36,457	35,273
	70,393	**67,012**

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
AND UNAPPROPRIATED RETAINED EARNINGS
For the Three Months and Six Months Ended June 30, 2004 and 2003

	2004 Unaudited		2003 Unaudited	
	April 1 to June 30	January 1 to June 30	April 1 to June 30	January 1 to June 30
(in million pesos)				
REVENUES				
Real estate	3,614	6,696	2,340	4,947
Hotel operations	356	736	280	596
Interest and other income	408	637	728	910
	4,378	8,068	3,348	6,453
COSTS AND EXPENSES				
Real estate	2,376	4,334	1,372	2,987
Hotel operations	274	557	255	533
General and administrative expenses	528	928	459	749
Interest and other charges	328	571	656	844
Provision for income tax	308	548	8	210
	3,814	6,938	2,750	5,323
INCOME BEFORE NET EARNINGS APPLICABLE TO MINORITY INTEREST	564	1,130	598	1,130
NET EARNINGS APPLICABLE TO MINORITY INTEREST	(75)	(45)	5	27
NET INCOME	639	1,175	592	1,102
UNAPPROPRIATED RETAINED EARNINGS, BEGINNING	15,531	14,995	16,208	15,780
Prior period adjustments - Per SFAS38/IAS38 Intangible Assets (Write-off of Pre-operating Expenses)	-	-	-	(82)
Cash dividends	-	-	(321)	(321)
UNAPPROPRIATED RETAINED EARNINGS, ENDING	16,170	16,170	16,479	16,479
EARNINGS PER SHARE*		0.11		0.10

* *Based on 10,763,422,905 and 10,693,696,793 weighted average number of shares as of June 30, 2004 and 2003, respectively.*

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2004 and 2003

(In million pesos)	UNAUDITED January 1 to June 30 2004	2003
CAPITAL STOCK - P1 par value		
Issued		
Balance at beginning of year	10,761	10,692
Issuance of shares		
Stock options exercised	1	0
Stock dividends		
Balance at end of the year	10,762	10,692
Subscribed		
Balance at beginning of year	2	2
Issuance of shares		
Stock options exercised (cancelled)	0	0
Stock dividends		
Balance at end of the year	2	2
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of year	3,526	3,019
Stock options exercised -net	3	7
Balance at end of year	3,529	3,026
SUBSCRIPTIONS RECEIVABLE		
Balance at beginning of year	(10)	(17)
Stock options exercised - net	5	6
Balance at end of year	(5)	(11)
	14,287	**13,709**
RETAINED EARNINGS		
Appropriated for future expansion	6,000	6,000
Unappropriated:		
Balance at beginning of year	14,995	15,780
Prior period adjustments	0	(19)
Cash dividends - P0.03 in 2003	0	(321)
Net income	1,175	1,102
Balance at end of year	16,171	16,543
	22,171	22,543
TREASURY STOCK		
Balance at beginning of year	(1)	(1)
Shares repurchased		
Balance at end of year	(1)	(1)
	36,457	**36,252**

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2004 and 2003

	UNAUDITED January 1 to June 31	
	2004	**2003**
(In million pesos)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	1,175	1,102
Adj. to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	445	400
Provision for doubtful accounts	14	8
Net earnings applicable to minority interest	(45)	27
Equity in net earnings of affiliates	(61)	(42)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts and notes receivable - trade	(1,866)	(1,108)
Subdivision land for sale	(145)	(29)
Condominium and residential units for sale	(238)	(624)
Deferred tax and other current assets	(317)	(116)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,088	(501)
Other current liabilities	(11)	143
Estimated liability for land and property development	728	1,599
Net cash provided by operating activities	768	861
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of (addition to):		
Land and improvements	(181)	(113)
Investments	(750)	(2,866)
Property and equipment	(147)	(157)
Decrease (increase) in:		
Accounts and notes receivable - non trade	(548)	(564)
Other assets	(263)	(133)
Net cash used by investing activities	(1,889)	(3,833)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payment of) short-term loans	379	361
Proceeds from (payment of) long-term debt	(547)	1,105
Dividends paid	(321)	(321)
Increase (decrease) in:		
Noncurrent liabilities and deposits	831	30
Minority interest	95	(56)
Additional issuance of capital stock	8	13
Net cash provided by financing activities	445	1,132
NET INC. (DEC.) IN CASH AND CASH EQUIVALENTS	(676)	(1,840)
CASH AND CASH EQUIVALENTS AT BEG. OF PERIOD	4,855	5,713
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,179	3,873

Results of Operations for the Six Months Ended June 30, 2004

Despite political and economic uncertainties, Ayala Land's performance in the first half of 2004 remained solid. The Company generated P8.07 billion in consolidated revenues, up 25% year-on-year, enabling it to derive a net income of P1.18 billion, up by 7%.

The Company's rental portfolio continued to grow and contributed P1.88 billion or 23% to total revenues. Rental revenues were up 5% year-on-year, driven by robust merchant sales. Ayala Center posted a 10% growth in total sales and a 9% increase in same-store sales while maintaining a high occupancy rate of 94%. From a low base in the first half of 2003 due to the effect of SARS, sales in 2004 received a strong boost from the opening of the SM expansion (4Q2003) and Greenbelt 4 (1Q2004), promotional events including the Lov'emall campaign, continued enhancement of merchant mix, improved pedestrian traffic circulation and, to a certain extent, election-related spending.

This September, the Company will open Phase 1A of Market! Market! to capture a share of the growing market for value shopping. As of end-June, 87% of the 264 regular spaces had been leased out, while 77% of the 676 bazaar spaces had been taken up.

Office leasing remained resilient as seen in the high 94% average occupancy rate enjoyed by the Company's office buildings. Ayala Land continued to carve a niche in the build-to-suit IT facilities market segment. In addition to PeopleSuppport Center which started construction in the first quarter, the Company recently broke ground for its second building fully dedicated to Business Process Outsourcing (BPO) operations. Also located within the Makati Central Business District (MCBD), the project will have 14,300 sqms of office leasable area. PeopleSupport will be completed by April 2005 while the second BPO-dedicated building will be ready for use by October next year.

High end residential unit sales almost doubled from last year's level and amounted to P 1.41 billion or 17% of total revenues. The substantial increase is largely due to 53 units booked at the 48-storey The Residences at Greenbelt which was 9% complete and 78% taken up as of end-June. The sale of nearly P500 million worth of receivables from nearby One Legazpi Park also paved the way for the accelerated revenue booking of installment sales. As of end June, this residential condominium project was 68% complete and nearly fully taken up.

A third phase of Montgomery Place, The Legacy, consisting of 27 out of a total of 71 single-detached units, was launched in June. Total product offering todate consisted of 297 townhouse and single detached units, 88% of which were taken up as of the end of the second quarter. The 586-unit initial phase of Serendra, launched in March, started to contribute to revenues in the second quarter. With an encouraging take up of 54%, launch of Serendra's second phase is being accelerated to August and October for Districts 1 and 2, respectively.

Revenues from land sales posted a healthy increase of 15% to P1.27 billion, and accounted for 16% of consolidated revenues. Additional lot offerings at Ayala Westgrove Heights and Ayala Greenfield Estates generated renewed buyer interest and increased sales bookings. During the first half, 184 lots were offered for sale at Westgrove, bringing cumulative offering to 1,513 lots, 84% of which has been taken up as of end-June. At Greenfield Estates, additional 50 lots were launched and brought total offering to 508 lots, 83% of which has been taken up.

Also contributing to the growth in land sales were higher bookings at Ayala Northpoint, Ayala Hillside Estates, Paseo de Magallanes and Laguna Technopark. A 2,997-sqm gas station site in Alabang was sold for P80 million in May as part of the Company's non-strategic asset disposition program.

Notwithstanding the uptick in interest rates, the Company's middle income housing operations, consisting of mass housing and core middle income residential products, continued to perform well.

Laguna Properties Holdings, Inc.'s (LPHI) bookings of mass housing units during the first half totaled 777 units, 39% higher year-on-year. Revenues were up 24% year-on-year and amounted to P1.01 billion or 13% of total revenues. New projects, particularly One Aeropolis in Parañaque and Sta. Arcadia in Cabanatuan, were key contributors to LPHI's improved performance. As of end-June, the initial phase of Sta. Arcadia Estates consisting of 167 housing units and 99 commercial lots were 43% and 16% taken up, respectively. Meanwhile, the 240-unit first tower of One Aeropolis was 98% taken up and 79% complete; the second tower, launched only in November 2003, was 45% sold and 8% complete. Within the third quarter, LPHI will launch two new residential projects: a mid-rise condominium in Quezon City and a residential subdivision in Dasmariñas, Cavite.

Revenues from the sale of core-middle income residential units, through Community Innovations, Inc., amounted to P466 million, representing a 133% year-on-year growth and accounting for 6% of Ayala Land's consolidated revenues. Growth came from higher revenues recognized at high-rise condominium project, The Columns, now under construction in the MCBD, Verdana commercial lots in Cavite, newly-launched Verdana Mamplasan residential subdivision in Laguna and Serendra in Fort Bonifacio. As of end-June, Towers 1, 2 and 3 of The Columns were 99%, 73% and 52% taken up, respectively. Meanwhile, 46% of the 28 Verdana commercial lots and 20% of the 416 Verdana Homes Mamplasan residential lots have been taken up.

Revenues from hotel operations accounted for 9% of first half consolidated revenues and grew by 23% year-on-year to P736 million. The Company's hotels and serviced apartments benefited from higher occupancy and room rates compared to last year. Oakwood Premier Ayala Center and Cebu City Marriott Hotel did better than market, with 83% and 85% occupancy, respectively, well above the 74% average occupancy of MCBD and Cebu hotels. Meanwhile, Hotel InterContinental Manila's occupancy rate was posted at 73%.

Construction projects of Makati Development Corporation contributed P656 million or 8% to total revenues, significantly growing by 125% year-on-year. Construction revenues from Market! Market!, accounted for much of the increase. As of end-June, Phase1A and 1B of this project were 91% and 32% complete, respectively.

Financial Condition

Ayala Land's financial condition remains sound. Liquidity was well preserved with a cash balance of P4.18 billion and current ratio of 1.70:1 as of end-June 2004. P365 million worth of Short-Term Commercial Papers (STCPs) were issued out of the P2 billion approved STCP line to support funding requirements. This was augmented by the sale of receivables.

Leverage remains comfortable with total borrowings kept at P14.2 billion, resulting to a debt-to-equity and net debt-to-equity ratios of 0.39:1 and 0.28:1, respectively.

Ayala Land disbursed P3.9 billion in consolidated project and capital expenditures for the first six months, about 41% of the P9.5 billion budget for the year. At the parent company level, Ayala Land spent P2.0 billion or 36% of the P5.6 billion budget for 2004. Substantial disbursements were made for key projects such as Market! Market!, Serendra, One Legazpi Park, The Columns and One Aeropolis.

AYALA LAND, INC. AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2003 and 2002
and Years Ended December 31, 2003, 2002 and 2001

and

Report of Independent Auditors

SGV & Co

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

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

BOA/PRC Reg. No. 0001

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, 2003 and 2002, 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, 2003. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the Philippines.

Sycip Gorres Velayo & Co.

J. D. CABALUNA
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 7012968
January 5, 2004
Makati City

February 3, 2004

SGV & Co

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BOA/PRC Reg. No. 0001

Report of Independent Auditors
On Supplementary Schedules

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

We have audited in accordance with auditing standards generally accepted in the Philippines, the consolidated financial statements of Ayala Land, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated February 3, 2004. 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.

Sycip Gorres Velayo & Co.

J. D. CABALUNA
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 7012968
January 5, 2004
Makati City

February 3, 2004

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

	December 31	
	2003	2002 (As Restated)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	**₱4,854,920**	₱5,713,495
Accounts and notes receivable - net (Notes 4, 8 and 13)	**4,506,321**	3,953,451
Subdivision land for sale	**3,884,117**	3,779,670
Condominium and residential units for sale	**3,263,767**	2,697,297
Other current assets (Note 12)	**994,604**	758,775
Total Current Assets	**17,503,729**	16,902,688
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 4 and 13)	**5,458,708**	4,035,244
Land and improvements (Note 8)	**19,065,290**	19,712,712
Investments - net (Notes 5, 8, 10 and 20)	**22,712,299**	18,834,031
Property and equipment - net (Note 6)	**1,514,522**	1,494,390
Other assets (Note 12)	**757,504**	788,151
Total Noncurrent Assets	**49,508,323**	44,864,528
	₱67,012,052	₱61,767,216
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 7)	**₱4,023,475**	₱3,792,662
Short-term debt (Note 8)	**1,457,000**	1,942,000
Income tax payable	**112,507**	538,681
Current portion of:		
Long-term debt (Note 8)	**1,335,995**	309,884
Estimated liability for land and property development	**2,445,702**	1,427,642
Other current liabilities (Note 12)	**458,107**	431,703
Total Current Liabilities	**9,832,786**	8,442,572
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 8)	**11,588,299**	8,622,614
Noncurrent liabilities and deposits (Notes 9 and 12)	**3,246,497**	2,886,994
Estimated liability for land and property development - net of current portion	**1,228,484**	731,546
Total Noncurrent Liabilities	**16,063,280**	12,241,154
Total Liabilities	**25,896,066**	20,683,726
Minority Interest in Consolidated Subsidiaries	**5,842,715**	5,676,489
Stockholders' Equity (Note 10)	**35,273,271**	35,407,001
	₱67,012,052	₱61,767,216

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		
	2003	2002 (As Restated)	2001 (As Restated)
REVENUE			
Real estate (Note 13)	**₱11,602,680**	₱9,860,057	₱9,104,315
Hotel operations	**1,282,325**	1,308,957	1,320,417
Equity in net earnings of investees, interest, fees, investment and other income (Notes 5 and 13)	**1,738,927**	1,045,119	1,243,986
	14,623,932	12,214,133	11,668,718
COSTS AND EXPENSES			
Real estate (Notes 11 and 13)	**6,910,722**	5,458,797	5,616,815
Hotel operations (Note 11)	**1,068,433**	1,080,195	1,055,530
General and administrative expenses (Notes 11 and 14)	**1,540,510**	1,313,540	1,044,054
Interest and other charges (Note 8)	**1,517,493**	695,130	783,524
Provision for income tax (Note 12)	**793,102**	1,125,278	919,320
	11,830,260	9,672,940	9,419,243
INCOME BEFORE NET EARNINGS (LOSS) APPLICABLE TO MINORITY INTEREST	**2,793,672**	2,541,193	2,249,475
NET EARNINGS (LOSS) APPLICABLE TO MINORITY INTEREST	**84,517**	22,678	(28,861)
NET INCOME	**₱2,709,155**	₱2,518,515	₱2,278,336
Earnings Per Share (Note 15)	**₱0.25**	₱0.24	₱0.21

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		
	2003	2002	2001
CAPITAL STOCK - ₱1 par value (Note 10)			
Issued			
Balance at beginning of year	**₱10,684,360**	₱10,684,310	₱10,684,075
Issuance of shares	**68,923**	50	235
Balance at end of year	**10,753,283**	10,684,360	10,684,310
Subscribed (Notes 10 and 16)			
Balance at beginning of year	**9,361**	9,022	9,046
Issuance of shares	**(7,951)**	(50)	(235)
Stock options exercised	**7,837**	389	211
Balance at end of year	**9,247**	9,361	9,022
ADDITIONAL PAID-IN CAPITAL (Note 16)			
Balance at beginning of year	**3,018,990**	3,013,769	3,063,340
Issuance of shares	**468,975**	–	–
Stock options exercised (cancelled)	**38,256**	5,221	(49,571)
Balance at end of year	**3,526,221**	3,018,990	3,013,769
SUBSCRIPTIONS RECEIVABLE (Note 16)			
Balance at beginning of year	**(16,587)**	(22,266)	(56,494)
Stock options exercised	**6,616**	5,679	34,228
Balance at end of year	**6,616**	(16,587)	(22,266)
	14,278,780	13,696,124	13,684,835
RETAINED EARNINGS (Note 10)			
Appropriated for future expansion	**6,000,000**	6,000,000	6,000,000
Unappropriated:			
Balance at beginning of year, as previously stated	**15,780,253**	15,505,985	13,860,295
Effect of change in accounting for preoperating expenses (Note 2)	**(68,819)**	(67,805)	(58,858)
Balance at beginning of year, as restated	**15,711,434**	15,438,180	13,801,437
Cash dividends ₱0.32 per share in 2003, ₱0.21 per share in 2002 and ₱0.06 per share in 2001	**(3,425,541)**	(2,245,261)	(641,593)
Net income	**2,709,155**	2,518,515	2,278,336
Balance at end of year	**14,995,048**	15,711,434	15,438,180
	20,995,048	21,711,434	21,438,180
TREASURY STOCK (Note 10)	**(557)**	(557)	(557)
	₱35,273,271	₱35,407,001	₱35,122,458

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2003	2002 (As Restated)	2001 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and net earnings (loss) applicable to minority interest	**₱3,586,774**	₱3,666,471	₱3,168,795
Adjustments to reconcile income before income tax and net earnings (loss) applicable to minority interest to operating income before changes in working capital:			
Interest expense - net of amount capitalized	**878,939**	685,085	542,465
Depreciation and amortization	**801,677**	810,303	731,954
Dividends received from investee	**18,460**	10,500	14,000
Provision for doubtful accounts	**12,210**	37,003	23,543
Interest income	**(535,830)**	(696,926)	(626,618)
Equity in net earnings of investees	**(128,417)**	(37,195)	(42,916)
Operating income before changes in working capital	**4,633,813**	7,161,768	7,289,103
Decrease (increase) in:			
Accounts and notes receivable - trade	**(1,302,371)**	(1,788,714)	(333,343)
Subdivision land for sale	**(104,447)**	406,244	118,447
Condominium and residential units for sale	**229,843**	1,728,329	652,954
Other current assets	**(98,737)**	73,903	181,353
Increase (decrease) in:			
Accounts payable and accrued expenses	**243,016**	(1,067,411)	340,666
Other current liabilities	**25,559**	5	(175,036)
Estimated liability for land and property development	**1,514,998**	656,338	(116,982)
Cash generated from operations	**5,141,674**	5,760,228	5,118,593
Interest received	**349,674**	390,461	489,788
Income tax paid	**(1,328,544)**	(911,576)	(851,879)
Interest paid - net of amount capitalized	**(893,205)**	(643,763)	(575,196)
Net cash provided by operating activities	**3,269,599**	2,675,294	2,966,799
CASH FLOWS FROM INVESTING ACTIVITIES			
Net additions to:			
Land and improvements	**(148,891)**	(23,179)	(301,666)
Investments	**(3,729,579)**	(2,121,065)	(1,743,552)
Property and equipment	**(299,850)**	(376,602)	(232,538)
Decrease (increase) in:			
Accounts and notes receivable - nontrade	**(500,017)**	386,227	266,160
Other assets	**16,050**	107,859	(206,415)
Net cash used in investing activities	**(4,662,287)**	(1,532,674)	(2,158,266)

(Forward)

	Years Ended December 31		
	2003	2002 (As Restated)	2001 (As Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments of):			
Short-term debt	**(485,000)**	₱1,182,000	₱527,000
Long-term debt	**3,991,796**	(1,227,530)	2,080,390
Increase (decrease) in:			
Noncurrent liabilities and deposits	**318,780**	86,158	(251,179)
Minority interest in consolidated subsidiaries	**81,709**	(122,804)	(395,072)
Proceeds from issuance of capital stock (cancellation of subscriptions)	**50,306**	11,289	(15,131)
Dividends paid	**(3,423,478)**	(2,245,246)	(641,590)
Net cash provided by (used in) financing activities	**534,113**	(2,316,133)	1,304,418
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(858,575)**	(1,023,836)	2,628,402
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**5,713,495**	6,737,331	4,108,929
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱4,854,920**	₱5,713,495	₱6,737,331

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 1,488 in 2003 and 1,491 in 2002.

The consolidated financial statements of Ayala Land, Inc., and Subsidiaries for the year ended December 31, 2003 were authorized for issue by the Audit Committee and Executive Committee on February 3, 2004.

2. Summary of Significant Accounting Policies

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

Adoption of New Accounting Standards
On January 1, 2003, the Company and its subsidiaries adopted the following accounting standards:

- Statement of Financial Accounting Standards (SFAS) 38/International Accounting Standard (IAS) 38, *Intangible Assets*, establishes the criteria for the recognition and measurement of intangible assets. It also requires that expenditures on research, start-up, training, advertising and relocation be expensed as incurred. Accordingly, certain subsidiaries changed their method of accounting for preoperating expenses and reversed their unamortized preoperating expenses to conform to the standard. Previously, such expenses were deferred and amortized. The change in accounting for preoperating expenses was accounted for retroactively and comparative statements for 2002 and 2001 have been restated. The change decreased net income in 2002 and 2001 by ₱1.0 million and ₱ 8.9 million, respectively. Retained earnings as of January 1, 2003, 2002 and 2001 has been reduced by ₱68.8 million, ₱67.8 million and ₱58.9 million, respectively.

- SFAS 22/IAS 22, *Business Combinations*, requires that an acquisition where an acquirer can be identified should be accounted for by the purchase method. Any goodwill arising from the acquisition should be amortized generally over 20 years. Adoption of this standard has no effect on the Company and its subsidiaries' goodwill amortization since existing goodwill is amortized over a ten-year period.

  In addition, under SFAS 22/IAS 22, any negative goodwill arising from a business acquisition should be accounted for as follows:

  - The portion of the negative goodwill that relates to expected future losses and expenses that are identified in the acquirer's plan for the acquisition should be recognized as income when the future losses and expenses are recognized.
  - To the extent that negative goodwill does not relate to expected future losses and expenses:
    - Negative goodwill not exceeding the fair values of acquired nonmonetary assets should be recognized as income over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets; and
    - Negative goodwill in excess of the fair values of acquired identifiable nonmonetary assets should be recognized as income immediately.

  The acquisition of Bonifacio Land Corporation (BLC) shares (see Note 5) has been accounted for using the purchase method. The negative goodwill arising from the acquisition has been accounted for in accordance with SFAS 22/IAS 22 and will be recognized as income as the underlying lots are sold.

- SFAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. Adoption of the standard has no effect on the consolidated financial statements.

- SFAS 10/IAS 10, *Events After the Balance Sheet Date*, prescribes the accounting and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard were included in the financial statements, principally the date of authorization for issuance of the financial statements.

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

(Forward)

	Effective Percentages of Ownership
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. and subsidiaries	100
Regent Time International, Limited (Regent)	100
Red Creek Properties, Inc.	100
Liberty Real Holdings Corporation (LRHC)	80
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. (ALInet)	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.

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, including capitalized borrowing costs.

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, including capitalized borrowing costs. The aggregate net realizable value on a per location basis is substantially in excess of costs.

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

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

A subsidiary discontinues applying the equity method when its investments are reduced to zero. Accordingly, additional losses are not recognized unless the subsidiary has guaranteed certain obligations of the investee. When the investee subsequently reports net income, the subsidiary will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

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

Regent's negative goodwill arising from the acquisition of the BLC shares is amortized to income as the underlying lots are sold.

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 amortized cost using the effective interest rate method less any provision for permanent impairment in value.

Property and Equipment

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

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 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 period of depreciation and method are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statements of income.

Provisions

Starting in 2003, provisions are recognized when the Company and subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company and subsidiaries expect a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

In prior years, provisions for contingencies were accrued when it is probable that a liability had been incurred at balance sheet date and the amount can be reasonably estimated. Otherwise, the loss contingency was disclosed.

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.

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

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

Rental income from investment properties is accounted for based on the terms of the lease contracts.

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

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

Interest is recognized as it accrues.

Stock Option Plans

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

Retirement Costs

The Company and 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.

IAS 19, *Employee Benefits*, will become effective January 1, 2005. Under IAS 19, the only allowed valuation method is the projected unit credit method. The Company and its subsidiaries currently using the entry age normal method will shift to projected unit credit method in 2005. The Company and its subsidiaries have not yet determined the financial impact of the shift to projected unit credit method.

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

<u>Income Tax</u>
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 benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax and, net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates applicable 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.

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

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 in 2002 and 2001 is computed by dividing net income plus interest expense (net of income tax) on convertible long-term commercial papers (LTCPs) by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares and the retroactive effect of stock dividends declared.

Segments

The Company and subsidiaries' operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 17.

New Accounting Standards Effective Subsequent to 2003

The Accounting Standards Council (ASC) has approved the following accounting standards which will be effective subsequent to 2003:

- SFAS 21/IAS 21, *The Effects of Changes in Foreign Exchange Rates*, provides restrictive conditions for the capitalization of foreign exchange losses. Certain subsidiaries will adopt the standard in 2005 on a retroactive basis. As of December 31, 2003, undepreciated capitalized foreign exchange losses included in hotel property and equipment amount to ₱176.6 million. Upon adoption of SFAS 21/IAS 21 in 2005, any undepreciated capitalized foreign exchange losses will be adjusted against beginning retained earnings and prior years' financial statements presented will be restated.

- SFAS 12/IAS 12, *Income Taxes*, prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of a balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, asset for all temporary differences with certain exceptions. The standard provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of a deferred tax liability with respect to asset revaluations. The Company and its subsidiaries will adopt SFAS 12/IAS 12 in 2004. The financial impact of the adoption of SFAS 12/IAS 12 has not yet been determined.

- SFAS 17/IAS 17, *Leases*, prescribes the accounting policies and disclosures to apply to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee.

  A lessor is required to record finance leases as receivables at an amount equal to the net investment in the lease. Lease income should be recognized on the basis of a constant periodic rate of return on the lessor's outstanding net investment. A lessor should present as an asset and depreciate accordingly assets that are subject to operating leases. Rental income from operating leases should be recognized by the lessor on a straight-line basis over the lease term.

The Company and certain subsidiaries will adopt SFAS 17/IAS 17 in 2004 and, based on current circumstances does not believe the effect of adoption will be material.

3. **Cash and Cash Equivalents**

This account consists of:

	2003	2002
		(In Thousands)
Cash on hand and in bank	₱1,389,378	**₱801,693**
Short-term investments	**3,465,542**	4,911,802
	₱4,854,920	₱5,713,495

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:

	2003	2002
		(In Thousands)
Trade - net of unrealized gain of ₱1,476,038 in 2003 and ₱1,228,524 in 2002 (see Note 8)	₱7,384,541	**₱6,049,380**
Related parties (see Note 13)	**934,002**	238,753
Advances	**645,283**	926,179
Accrued receivable	**248,215**	194,037
Advances to contractors	**195,346**	134,699
Dividends receivable	**71,488**	–
Others	**621,082**	571,038
	10,099,957	8,114,086
Less allowance for doubtful accounts	**134,928**	125,391
	9,965,029	7,988,695
Less noncurrent portion	**5,458,708**	4,035,244
	₱4,506,321	₱3,953,451

5. Investments

This account consists of investments in:

	2003	2002 (As restated)
	(In Thousands)	
Shares of stock:		
At equity:		
Acquisition cost	**₱5,181,183**	₱2,617,182
Accumulated equity in net earnings:		
Balance at beginning of year	**597,381**	570,686
Equity in net earnings for the year	**128,417**	37,195
Dividends received during the year	**(18,460)**	(10,500)
Balance at end of year	**707,338**	597,381
	5,888,521	3,214,563
At cost:		
MRT Holdings, Inc.	**855,702**	855,702
Others	**881,505**	1,247,947
	1,737,207	2,103,649
	7,625,728	5,318,212
Land and improvements - net of amortization	**2,443,257**	1,780,561
Buildings - net of accumulated depreciation of ₱2,731,582 in 2003 and ₱2,423,131 in 2002	**9,231,624**	7,848,187
Hotel property and equipment - net of accumulated depreciation of ₱1,362,857 in 2003 and ₱1,186,069 in 2002 (see Note 8)	**3,411,690**	3,772,749
Government bond	**–**	114,322
	₱22,712,299	₱18,834,031

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

	2003 Percentage of Ownership	**Equity in Net Assets 2003**	**Equity in Net Assets** 2002
		(In Thousands)	
Cebu Holdings, Inc. (CHI) and subsidiaries	**47**	**₱1,622,079**	₱1,593,998
Emerging City Holdings, Inc. (ECHI)	**50**	**1,564,576**	–
Pilipinas Makro, Inc. (PMI)	**28**	**1,125,720**	1,078,834
Berkshires Holdings, Inc. (BHI)	**50**	**670,527**	–
Alabang Commercial Corporation (ACC)	**50**	**444,667**	440,337
BLC (through Regent)	**4**	**378,273**	–
Lagoon Development Corporation	**30**	**77,717**	84,401
MyAyala.com, Inc.	**50**	**4,962**	9,000
Ayala Port, Inc. (Ayala Port)	**50**	**–**	7,993
		₱5,888,521	₱3,214,563

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

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

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

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

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

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

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

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 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 ₱493.6 million in 2003, ₱536.6 million in 2002 and ₱550.7 million in 2001. Consolidated amortization of land improvements amounted to ₱13.4 million in 2003, ₱16.2 million in 2002 and ₱14.5 million in 2001.

6. Property and Equipment

This account consists of:

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	2003 Total	2002
			(In Thousands)			
Cost						
January 1	**₱911,926**	**₱843,178**	**₱532,248**	**₱208,226**	**₱2,495,578**	₱2,162,266
Additions	**25,813**	**170,413**	**103,101**	**70,122**	**369,449**	413,143
Disposals	**(17,172)**	**(61,105)**	**(20,177)**	**(26,050)**	**(124,504)**	(79,831)
December 31	**920,567**	**952,486**	**615,172**	**252,298**	**2,740,523**	2,495,578
Accumulated Depreciation						
January 1	**151,017**	**393,233**	**322,354**	**134,584**	**1,001,188**	807,058
Depreciation	**35,391**	**96,176**	**105,482**	**42,669**	**279,718**	240,634
Disposals	**(26)**	**(25,893)**	**(4,741)**	**(24,245)**	**(54,905)**	(46,504)
December 31	**372,764**	**927,032**	**846,190**	**306,016**	**2,452,002**	1,001,188
Net Book Value	**₱186,382**	**₱463,516**	**₱423,095**	**₱153,008**	**₱1,514,522**	₱1,494,390

Consolidated depreciation and amortization of property and equipment (charged to various expense and development cost accounts) amounted to ₱279.7 million in 2003, ₱240.6 million in 2002 and ₱183.1 million in 2001.

7. Accounts Payable and Accrued Expenses

This account consists of:

	2003	2002
		(In Thousands)
Accounts payable and accrued expenses	**₱2,953,989**	₱2,594,890
Taxes payable	**370,195**	434,342
Dividends payable	**322,875**	320,812
Retentions payable	**21,634**	43,479
Others	**354,782**	399,139
	₱4,023,475	₱3,792,662

8. Short-term and Long-term Debt

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

The Company issued STCPs in 2003 with an aggregate face value of ₱1.0 billion at par with fixed and floating interest rates. The STCPs are payable lumpsum at various maturity dates in 2004. The fixed-rate STCPs bear interest at 8.20% and 8.59% per annum while the floating STCPs bear interest at 25 basis points (bps) over the benchmark 91-day rate and are repriceable every three months. The Philippine Rating Service Corporation (PhilRatings) assigned the issue a PRS 1 rating, indicating the Company's strong capacity to meet its financial commitment on this issue.

The bank loans of ₱457.0 million in 2003 and ₱1,942.0 million in 2002 represent unsecured peso-denominated short-term borrowings by the Company and its subsidiaries with interest rates ranging from 5.75 % to 10.75% per annum. The ₱50.0 million loan drawn by a subsidiary in 2003 from an affiliate bank is subject to the Directors, Officers, Stockholders and Related Interests rules of the Bangko Sentral ng Pilipinas.

Long-term debt consists of:

	2003	2002
		(In Thousands)
Parent Company:		
Bonds		
Due 2007	**₱3,000,000**	₱3,000,000
Due 2008	**2,000,000**	–
Bank loans - with interest rates ranging from 6.50% to 11.40% per annum	**3,358,333**	2,170,000
Fixed rate corporate notes (FXCNs)	**1,060,000**	1,060,000
	9,418,333	6,230,000

(Forward)

	2003	2002
	(In Thousands)	
Subsidiaries:		
Bank loans - with interest rates ranging from 6.79% to 14.88% per annum		
Philippine peso	**₱2,585,457**	₱1,607,596
Foreign currency	**920,504**	1,094,902
	3,505,961	2,702,498
	12,924,294	8,932,498
Less current portion	**1,335,995**	309,884
	₱11,588,299	₱8,622,614

In 2002, the Company issued ₱3.0 billion bonds at par, with interest at 200 bps over benchmark 91-day rate.

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

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

The Company's long-term bank loans will mature on various dates up to 2008. These borrowings are unsecured except for a ₱594.2 million loan drawn by the Company in 2003, which is secured by a mortgage on certain parcels of land with a carrying value of ₱213.8 million.

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 2010. Certain subsidiaries' loans are collateralized by trade receivables amounting to ₱52.3 million and ₱65.6 million in 2003 and 2002, respectively; and mortgages on real estate properties, hotel property and equipment and leasehold rights with a total carrying value of ₱3.2 billion and ₱3.6 billion in 2003 and 2002, respectively.

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

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

Interest capitalized amounted to ₱333.4 million in 2003, ₱288.4 million in 2002, ₱337.0 million in 2001.

9. Noncurrent Liabilities and Deposits

Noncurrent liabilities and deposits consist of:

	2003	2002
	(In Thousands)	
Deposits	**₱1,221,607**	₱782,745
Deferred credits	**876,144**	508,345
Deferred tax (see Note 12)	**575,765**	535,042
Retentions payable	**411,349**	502,585
Installment payable - net of current portion of ₱147,222 in 2002	–	147,222
Other liabilities	**161,632**	411,055
	₱3,246,497	₱2,886,994

10. Stockholders' Equity

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

	2003	2002	2001
Authorized	**12,000,000**	12,000,000	12,000,000
Issued	**10,753,283**	10,684,360	10,684,310
Subscribed	**9,247**	9,361	9,022
Treasury	**(24)**	(24)	(24)
	10,762,506	10,693,697	10,693,308

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

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 2003, the Board of Directors approved the declaration and payment from unappropriated retained earnings of the following cash dividends:

a) regular cash dividend of ₱0.06 per share

b) special cash dividend of ₱0.26 per share.

Retained earnings include undistributed net earnings amounting to ₱ 3,908.7 million, ₱3,300.1 million, ₱3,333.2 million as of December 31, 2003, 2002 and 2001, respectively, representing accumulated equity in the net earnings of subsidiaries, associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the investees.

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

11. Costs and Expenses

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

	2003	2002 (As restated)	2001 (As restated)
		(In Thousands)	
Included in:			
Cost of:			
Real estate	**₱457,473**	₱430,801	₱415,694
Hotel operations	**179,389**	206,648	215,835
General and administrative expenses	**164,815**	172,854	100,425
	₱801,677	₱810,303	₱731,954

General and administrative expenses consists of:

	2003	2002 (As restated)	2001 (As restated)
		(In Thousands)	
Manpower cost (see Note 14)	**₱857,011**	₱733,985	₱644,018
Depreciation and amortization	**164,815**	172,854	100,425
Utilities	**62,920**	58,031	73,371
Others	**455,764**	348,670	226,240
	₱1,540,510	₱1,313,540	₱1,044,054

12. **Income Taxes**

Components of the deferred tax assets and liabilities as of December 31, 2003 and 2002 are as follows:

	2003	2002 (As restated)
		(In Thousands)
Deferred tax assets on:		
NOLCO	**₱292,528**	₱221,759
Unrealized gain, deposits and accruals for various expenses on real estate transactions and MCIT	**332,812**	159,825
Allowance for doubtful accounts	**43,177**	40,125
Unrealized foreign exchange loss	**14,681**	22,098
	683,198	443,807
Less valuation allowance	**236,791**	125,930
	446,407	317,877
Deferred tax liabilities on capitalized customs duties, interest and other expenses	**(573,635)**	(554,373)
	(127,228)	(₱236,496)

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

	2003	2002 (As restated)
		(In Thousands)
Other current assets	**₱414,390**	₱277,298
Other assets	**242,434**	228,690
Other current liabilities	**(208,287)**	(207,442)
Noncurrent liabilities and deposits (see Note 9)	**(575,765)**	(535,042)
	(₱127,228)	(₱236,496)

Provision for income tax consists of:

	2003	2002 (As restated)	2001 (As restated)
		(In Thousands)	
Current	**₱902,370**	₱1,107,787	₱875,644
Deferred	**(109,268)**	17,491	43,676
	₱793,102	₱1,125,278	₱919,320

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

	2003	2002 (As restated)	2001 (As restated)
Statutory income tax rate	**32.00%**	32.00%	32.00%
Tax effect of:			
Equity in net earnings of investees	**(1.15)**	(0.32)	(0.43)
Income subjected to lower income tax rates (see Note 19)	**(0.74)**	(0.60)	(1.79)
Interest income and capital gains taxed at lower rates	**(3.16)**	(1.58)	(4.62)
Others - net	**(4.84)**	1.19	3.85
Effective income tax rate	**(9.57)%**	(0.99)%	(2.67)%

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 and other related parties amounted to ₱149.1 million in 2003, ₱230.4 million in 2002 and ₱567.9 million in 2001.

The following are the outstanding balances of receivables from related parties resulting from the above transactions, as of December 31, 2003 and 2002 (see Note 4).

	2003	2002
	(In Thousands)	
BLC	**₱505,754**	₱–
FBDC	**243,777**	–
CHI and subsidiaries	**78,876**	103,993
Ayalaport Makati, Inc.	**24,606**	50,290
Manila Water Company, Inc.	**18,333**	7,034
ACC	**13,226**	9,209
MyAyala.com, Inc.	**8,878**	8,817
PMI	**–**	9,002
Others	**40,552**	50,408
	₱934,002	₱238,753

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

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 ₱ 118.9 million in 2003, ₱76.8 million in 2002 and ₱68.2 million in 2001.

Based on the latest actuarial valuations of the Company and its subsidiaries, the aggregate actuarial present value of pension benefits amounted to ₱898.1 million. The aggregate fair value of their respective plan assets amounted to ₱422.9 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):

		2003	2002 (As restated)	2001 (As restated)
a.	Net income	**₱2,709,155**	₱2,518,515	₱2,278,336
b.	Weighted average number of common shares	**10,706,701**	10,693,608	10,693,190
c.	EPS (a/b)	**₱0.25**	₱0.24	₱0.21

The assumed conversion of the Company's LTCPs into common shares in 2001 (see Note 8) and the assumed exercise of stock options have no dilutive effect. Accordingly, no diluted EPS is presented in the accompanying consolidated statement of income for 2001.

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 one-time cancellation or conversion offers have resulted in the reduction in the subscribed capital stock, additional paid-in capital and subscriptions receivable of the Company.

Starting 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	
	2003	2002	**2003**	2002
At January 1	**105,917,962**	71,433,929	**2,141,100**	2,141,100
Granted	**37,592,500**	37,341,481	–	–
Exercised	**(7,837,382)**	(2,857,448)	–	–
Cancelled	**(114,279)**	–	–	–
At December 31	**135,558,801**	105,917,962	**2,141,100**	2,141,100

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

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

Exercise Dates	Number of Options
2002 to 2011	25,947,443
2003 to 2012	28,356,591
2004 to 2013	47,496,823
2005 to 2014	22,480,194
2006 to 2015	11,277,750
	135,558,801

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

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

Segment assets and results of the segments for 2002 and 2001 have been restated to reflect the effect of the change in accounting policy with respect to preoperating expenses to conform with SFAS 38/IAS 38 (see Note 2).

Business segments

The following tables regarding business segments present assets and liabilities as of December 31, 2003 and 2002 and revenues and income information for each of the three years in the period ended December 31, 2003 (in thousands).

2003

	Land, Condominium and Residential Units	Rentals	Hotel Operations	Construction	Others	Total
Revenues	7,253,899	3,589,669	1,282,325	759,112	1,738,927	14,623,932
Operating expenses	5,553,322	1,103,412	926,653	589,262	545,339	8,717,988
Earnings before interest taxes, depreciation and amortization (EBITDA)	1,700,577	2,486,257	355,672	169,850	1,193,588	5,905,944
Depreciation and amortization	67,308	403,546	186,470	72,713	71,640	801,677
EBIT	1,633,269	2,082,711	169,202	97,137	1,121,948	5,104,267
Segment assets	31,636,683	15,232,374	4,461,189	1,261,527	14,420,279	67,012,052
Segment liabilities	10,292,268	3,434,089	3,179,197	984,413	13,848,814	31,738,781

2002

	Land, Condominium and Residential Units	Rentals	Hotel Operations	Construction	Others	Total
Revenues	5,608,105	3,329,626	1,308,957	922,326	1,045,119	12,214,133
Operating expenses	4,149,660	823,869	904,557	715,318	448,825	7,042,229
Earnings before interest, taxes, depreciation and amortization (EBITDA)	1,458,445	2,505,757	404,400	207,008	596,294	5,171,904
Depreciation and amortization	50,409	432,755	213,862	56,213	57,064	810,303
EBIT	1,408,036	2,073,002	190,538	150,795	539,230	4,361,601
Segment assets	29,188,563	13,469,054	4,810,339	1,256,697	13,042,563	61,767,216
Segment liabilities	7,949,470	1,733,289	3,517,097	950,113	12,210,246	26,360,215

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	1,243,986	11,668,718
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	821,693	4,684,273
Depreciation and amortization	21,526	391,759	219,256	56,222	43,191	731,954
EBIT	834,984	1,893,496	229,941	215,396	778,502	3,952,319

18. Note to Consolidated Statements of Cash Flows

The principal noncash transactions of the Company are as follows:

- Issuance of shares to AC in exchange for land at a transfer price of ₱532.3 million in 2003.
- Assignment of ₱2.1 billion notes receivable from MPC in exchange for equity in ECHI and BHI in 2003.
- Land purchased on installment amounting to ₱442.0 million in 2001.

19. Registration with Philippine Economic Zone Authority (PEZA)

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

20. Long-term Commitments and Contingencies

The Company has an existing contract with the Bases Conversion Development Authority (BCDA) to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱117.0 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, the Company transferred its rights and obligations granted to or imposed under the lease agreement to LRHC, a subsidiary, in exchange for equity.

As part of the bid requirement, the Company procured a performance bond from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion and ₱4.8 billion in 2003 and 2002, respectively, to guarantee the committed capital to BCDA. Moreover, the Company obtained surety bonds to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement. The surety bonds are secured by a mortgage on a property of certain subsidiary with a carrying value of ₱46.0 million in 2003.

In October 2002, the Company was awarded by the BCDA the contract to develop a lot with a gross area of 11.6 hectares 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 ₱1.0 billion over an 8-year period. As of December 31, 2003, the execution of the joint development agreement between the Company and BCDA remains subject to both parties agreeing on certain issues.

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 2006 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 2002 and 2001 consolidated financial statements were reclassified to conform with the 2003 presentation of accounts.

SPECIFIC TERMS AND CONDITIONS OF
SERIES A – 1, SERIES A – 2 & SERIES A - 3 STCPs,

The following page sets forth the specific terms and conditions of the Series A – 1 STCPs, Series A – 2 STCPs and Series A – 3 STCPs

Standard Chartered

CONFORMITY

AYALA LAND, INC.

TERMS AND CONDITIONS OF THE STCPs
SERIES A - 1

Tranche Size	:	Minimum of Two Hundred Million Pesos (PHP 200,000,000.00)
Issue Date	:	May 21, 2004
Maturity Date	:	May 20, 2005
Interest Rate	:	Floating Rate, equal to the applicable Base Rate plus the Award Spread, repriceable at the beginning of each respective Floati Interest Rate Period.
Base Rate Tenor	:	3 months
Stop-Out Rate	:	50 bps

* All other terms and conditions not inconsistent with the foregoing, and as set forth in the Prospectus (Terms and Description of the STCPs) are deemed incorporated, and shall form an integral part of this document.

With our conformity:

STANDARD CHARTERED BANK

Issue Manager and Underwriter

By:

Name: Roberto N. Fernandez
Designation: Head, Fixed Income - Philippines
Date: May 12, 2004

Standard Chartered

CONFORMITY

AYALA LAND, INC.

TERMS AND CONDITIONS OF THE STCPs
SERIES A - 2

Tranche Size	:	Two Hundred Twenty Five Million Pesos (PHP 225,000,000.00)
Issue Date	:	September 14, 2004
Maturity Date	:	September 14, 2005
Interest Rate	:	Floating Rate, equal to the applicable Base Rate plus the Awarde Spread, repriceable at the beginning of each respective Floatin Interest Rate Period.
Base Rate Tenor	:	3 months
Stop-Out Rate	:	50 bps

* All other terms and conditions not inconsistent with the foregoing, and as set forth in the Prospectus (Terms and Description of the STCPs) are deemed incorporated, and shall form an integral part of this document.

With our conformity:

STANDARD CHARTERED BANK

Issue Manager and Underwriter

By:

Name: Roberto N. Fernandez
Designation: Head, Fixed Income - Philippines
Date: September 10, 2004

Standard Chartered Bank
Global Markets
6788 Ayala Avenue, Makati City, Philippines
P.O. Box 1220 Makati Central Post Office
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Fax(632) 886-7034

Standard Chartered

CONFORMITY

AYALA LAND, INC.

TERMS AND CONDITIONS OF THE STCPs
SERIES A - 3

Tranche Size	:	Two Hundred Twenty Five Million Pesos (PHP 225,000,000.00)
Issue Date	:	September 14, 2004
Maturity Date	:	September 14, 2005
Interest Rate	:	Fixed Rate of 10.2536%
Base Rate Tenor	:	1 year
Stop-Out Rate	:	10 bps

* All other terms and conditions not inconsistent with the foregoing, and as set forth in the Prospectus (Terms and Description of the STCPs) are deemed incorporated, and shall form an integral part of this document.

With our conformity:

STANDARD CHARTERED BANK

Issue Manager and Underwriter

By:

Name: Roberto N. Fernandez
Designation: Head, Fixed Income - Philippines
Date: September 10, 2004

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THE ISSUER

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Ayala Avenue, Makati
City, Philippines

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