

PSE Number: PR-010  
SEC Number: 152-747  
File Number: \_\_\_\_\_

**AYALA LAND, INC.**

---

(Company's Full Name)

c/o 29/F, Tower One, Ayala Triangle  
Ayala Avenue, Makati City 1226

---

(Company Address)

(632) 848-5313

---

(Telephone Number)

**September 30, 2004**

---

(Quarter Ending)

**SEC Form 17-Q Quarterly Report**

---

(Form Type)

---

(Amendments)

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE  
SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended **September 30, 2004**
2. Commission Identification Number **152747**
3. BIR Tax Identification No. **050-000-153-790**
4. Exact name of issuer as specified in its charter: **AYALA LAND, INC.**
5. Province, Country or other jurisdiction of incorporation or organization:  
**Makati City, Philippines**
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of issuer's principal office and postal code:  
**c/o 29/F, Tower One, Ayala Triangle, Ayala Avenue, Makati City 1226**
8. Issuer's telephone number, including area code: **(632) 848-5313**
9. Former name, former address, former fiscal year: **not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

**As of September 30, 2004**

<u>Title of each class</u>	<u>Number of shares issued and outstanding</u>
<b>Common shares</b>	<b>10,769,250,668</b>

Amount of Debt Outstanding  
**P13.7 Billion**

11. Are any or all of the securities listed on a Stock Exchange?  
Yes []      No []

Stock Exchange: **Philippine Stock Exchange**  
Securities listed: **Common shares**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):

Yes  No

(b) has been subject to such filing requirements for the past 90 days:

Yes  No

## TABLE OF CONTENTS

Page No.

### **PART I - FINANCIAL STATEMENTS**

#### Item 1. Financial Statements

- Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003 1
- Consolidated Statements of Income and Unappropriated Retained Earnings for the Three Months and Nine Months Ended September 30, 2004 and September 30, 2003 2
- Statement of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2004 and September 30, 2003 3
- Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2004 and September 30, 2003 4
- Notes to Consolidated Financial Statements 5

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 12

### **PART II - OTHER INFORMATION**

#### Item 3. 3Q 2004 Developments 15


#### Item 4. Other Notes to 9M 2004 Operations and Financials 16

#### Item 5. Key Performance indicators 18

#### Signatures 19

## PART I – FINANCIAL STATEMENTS

### Item 1. Financial Statements

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

	<b>Unaudited</b>	<b>Audited</b>
	<b>SEPT 2004</b>	<b>DEC 2003</b>
<i>(in million pesos)</i>		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	5,497	4,855
Accounts and notes receivable - net	6,566	4,506
Subdivision land for sale	3,962	3,884
Condominium and residential units for sale	2,768	3,264
Deferred tax and other current assets	1,635	995
Total Current Assets	20,428	17,504
<b>Noncurrent Accounts and Notes Receivable</b>	6,581	5,459
<b>Land and Improvements</b>	18,403	19,065
<b>Investments</b>	22,329	22,712
<b>Property and Equipment</b>	1,514	1,514
<b>Other Assets</b>	1,060	758
	<b>70,315</b>	<b>67,012</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	4,858	4,023
Loans payable	1,837	1,457
Income tax payable	365	113
Current portion of:		
Long-term debt	1,756	1,336
Estimated liability for land and property development	2,728	2,446
Other current liabilities	277	458
Total Current Liabilities	11,821	9,833
<b>Long-term Debt - net of current portion</b>	10,116	11,588
<b>Noncurrent Liabilities and Deposits</b>	3,522	3,247
<b>Estimated Liability for Land and Property Development</b>	2,083	1,228
<b>Minority Interest</b>	5,918	5,843
<b>Stockholders' Equity</b>	36,855	35,273
	<b>70,315</b>	<b>67,012</b>



**CONSOLIDATED STATEMENTS OF INCOME  
AND UNAPPROPRIATED RETAINED EARNINGS**

*For the Three Months and Nine Months Ended September 30, 2004 and 2003*

	<b>2004 Unaudited</b>		<b>2003 Unaudited</b>	
	<b>July 1 to Sept 30</b>	<b>January 1 to Sept 30</b>	<b>July 1 to Sept 30</b>	<b>January 1 to Sept 30</b>
<b>(in million pesos)</b>				
<b>REVENUES</b>				
Real estate	3,249	9,945	2,949	7,896
Hotel operations	393	1,129	328	924
Interest and other income	503	1,139	266	1,176
	<b>4,145</b>	<b>12,213</b>	<b>3,543</b>	<b>9,996</b>
<b>COSTS AND EXPENSES</b>				
Real estate	2,064	6,398	1,689	4,780
Hotel operations	296	853	356	784
General and administrative expenses	501	1,429	445	1,194
Interest and other charges	253	824	208	1,052
Provision for income tax	320	868	225	436
	<b>3,434</b>	<b>10,372</b>	<b>2,923</b>	<b>8,246</b>
<b>INCOME BEFORE NET EARNINGS APPLICABLE TO MINORITY INTEREST</b>				
	711	1,841	620	1,750
<b>NET EARNINGS APPLICABLE TO MINORITY INTEREST</b>				
	27	(18)	16	43
<b>NET INCOME</b>				
	684	1,859	604	1,707
<b>UNAPPROPRIATED RETAINED EARNINGS, BEGINNING</b>				
	16,170	14,995	16,480	15,780
Prior period adjustments - Per SFAS38/IAS38 Intangible Assets (Write-off of Pre-operating Expenses)	-	-	-	(82)
Cash dividends	(323)	(323)	(2,782)	(3,103)
<b>UNAPPROPRIATED RETAINED EARNINGS, ENDING</b>				
	16,531	16,531	14,302	14,302
<b>EARNINGS PER SHARE*</b>				
		0.17		0.16

\* Based on 10,763,686,888 and 10,696,351,882 weighted average number of shares as of September 30, 2004 and 2003, respectively.

\*\* Certain 2003 accounts were reclassified to conform to 2004 presentation of accounts



**AYALA LAND, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES**  
**IN STOCKHOLDERS' EQUITY**

*For the Nine Months Ended September 30, 2004 and 2003*

	UNAUDITED	
	January 1 to Sept 30	
	2004	2003
<b>(in million pesos)</b>		
<b>CAPITAL STOCK - P1 par value</b>		
<b>Issued</b>		
Balance at beginning of year	10,761	10,684
Issuance of shares		
Stock options exercised	7	6
Stock dividends		
Balance at end of the year	10,768	10,690
<b>Subscribed</b>		
Balance at beginning of year	2	9
Issuance of shares		
Stock options exercised (cancelled)	0	0
Stock dividends		
Balance at end of the year	2	9
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance at beginning of year	3,526	3,019
Stock options exercised -net	35	38
Balance at end of year	3,561	3,057
<b>SUBSCRIPTIONS RECEIVABLE</b>		
Balance at beginning of year	(10)	(17)
Stock options exercised - net	4	7
Balance at end of year	(6)	(10)
	<b>14,325</b>	<b>13,746</b>
<b>RETAINED EARNINGS</b>		
Appropriated for future expansion	6,000	6,000
Unappropriated:		
Balance at beginning of year	14,995	15,780
Prior period adjustments		(82)
Cash dividends - P0.03 per share in 2004, P0.29 in 2003	(323)	(3,103)
Net income	1,859	1,707
Balance at end of year	16,531	14,302
	<b>22,531</b>	<b>20,302</b>
<b>TREASURY STOCK</b>		
Balance at beginning of year	(1)	(1)
Shares repurchased		
Balance at end of year	(1)	(1)
	<b>36,855</b>	<b>34,047</b>



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

	<b>UNAUDITED</b>	
	<b>January 1 to Sept 30</b>	
	<b>2004</b>	<b>2003</b>
<b>(in million pesos)</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	1,859	1,707
Adj. to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	674	548
Provision for doubtful accounts	14	11
Net earnings applicable to minority interest	(18)	43
Equity in net earnings of affiliates	(191)	(49)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts and notes receivable - trade	(2,114)	(1,246)
Subdivision land for sale	(77)	904
Condominium and residential units for sale	495	(293)
Deferred tax and other current assets	(640)	(73)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,156	(265)
Other current liabilities	71	(683)
Estimated liability for land and property development	1,137	1,678
<b>Net cash provided by operating activities</b>	<b>2,366</b>	<b>2,282</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposal of (addition to):		
Land and improvements	662	582
Investments	153	(3,272)
Property and equipment	(231)	(501)
Decrease (increase) in:		
Accounts and notes receivable - non trade	(1,082)	(1,103)
Other assets	(323)	(172)
<b>Net cash used by investing activities</b>	<b>(821)</b>	<b>(4,466)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from (payment of) short-term loans	380	565
Proceeds from (payment of) long-term debt	(1,052)	1,846
Dividends paid	(644)	(642)
Increase (decrease) in:		
Noncurrent liabilities and deposits	275	4
Minority interest	93	(178)
Additional issuance of capital stock	45	49
<b>Net cash provided by financing activities</b>	<b>(903)</b>	<b>1,644</b>
<b>NET INC. (DEC.) IN CASH AND CASH EQUIVALENTS</b>	<b>642</b>	<b>(540)</b>
<b>CASH AND CASH EQUIVALENTS AT BEG. OF PERIOD</b>	<b>4,855</b>	<b>5,713</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>5,497</b>	<b>5,173</b>



**Ayala Land, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

1. The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the Philippines using the historical cost basis. Accounting principles/policies and methods of computation applied for the nine months ended September 30, 2004 are the same as those applied in the preceding calendar year.
2. Principles of Consolidation

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

	<u>Effective Ownership</u>
	<u>(%)</u>
<i>Real Estate:</i>	
Aklan Holdings, Inc.	100
Amorsedia Development Corporation and subsidiaries	100
OLC Development Corporation	100
Ayala Greenfield Development Corporation (AGDC)	50
Ayala Land Sales, Inc.	100
Buendia Landholdings, Inc.	100
Community Innovations, Inc. (CII)	100
Crimson Field Enterprises, Inc.	100
Food Court Company, Inc.	100
Laguna Properties Holdings, Inc. (LPHI) and subsidiaries	100
MCX Corp.	100
Regent Time International, Limited	100
Red Creek Properties, Inc.	100
Serendra, Inc.	100
Station Square East Commercial Corporation (SSECC)	81
Aurora Properties, Inc. (API)	70
Vesta Property Holdings, Inc.	70
Ayala Realty Development Corporation	65
Laguna Technopark, Inc.	61
CMPI Holdings, Inc.	60
ALI-CII Development Corporation	50
Roxas Land Corporation (RLC)	50
<i>Construction:</i>	
Makati Development Corporation	100
<i>Hotels:</i>	
Ayala Hotels, Inc. and subsidiaries	50
<i>Property Management:</i>	
Ayala Property Management Corporation	100
Ayala Theatres Management, Inc. and subsidiaries	100

*Entertainment:*

Five Star Cinema, Inc.	100
Leisure and Allied Industries Phils., Inc (LAIPI)	50

*Others:*

ALLnet.com, Inc.	100
Ayala Infrastructure Ventures, Inc	100

3. Receivables / Payables

Aging of Receivables (as of September 30, 2004; in Million Pesos)

	Up to 6 mos.	Over 6 mos. to One Year	Over One Year	Past Due	Total
Trade Receivables	2,208	709	6,214	553	9,684
Non-Trade Receivables	2,169	924	367	3	3,463
Total	4,377	1,633	6,581	556	13,147

Aging of Payables (as of September 30, 2004; in Million Pesos)

	Up to 6 mos.	Over 6 mos. to One Year	Over One Year	Past Due	Total
Trade Payables	1,405	759	467	0	2,631
Non-Trade Payables	2,684	652	3,055	0	6,391
Total	4,089	1,411	3,522	0	9,022

4. Loans Payable and Long-Term Debt

Loans Payable (as of September 30, 2004; in Million Pesos)

<u>Borrower</u>	<u>Amount</u>
ALI	1,214.8
API	44.0
AGDC	183.0
LAIPI	60.0
LPHI	310.0
RLC	25.0
Total	<u>1,836.8</u>

Long-Term Debt (as of September 30, 2004; in Million Pesos / US\$)

<u>Borrower</u>	<u>Current</u>		<u>Non-Current</u>		<u>Total</u>	
	<u>Peso *</u>	<u>US\$</u>	<u>Peso *</u>	<u>US\$</u>	<u>Peso *</u>	<u>US\$</u>
ALI (incl. bonds)	1,227.9		7,307.1		8,535.0	
AGDC	25.8		129.2		155.0	
CIHCI	64.2	1.1			64.2	1.1
	41.3		149.7		191.0	
LPHI	208.4		656.0		864.4	
SSECC	27.5		1,392.5		1,420.0	
MPVI	160.9	2.9	481.7	8.6	642.6	11.4
Total	1,756.0	4.0	10,116.2	8.6	11,872.2	12.5

\* *Peso equivalent of US\$ loans (when applicable);  
Exchange rate of P56.276/US\$ (PDS average for September 30, 2004)*

Issuances, Repurchases and Repayments of Debt and Equity Securities

Issuances of Debt and Equity Securities / New Financing through Loans –  
January – September 2004 (in Million Pesos)

<u>Borrower</u>	<u>Amount</u>	<u>Nature</u>
ALI	1,314.8	STCP, bank loan
AGDC	60.0	bank loan
CII	85.0	bank loan
LAIFI	20.0	bank loan
LPHI	80.0	bank loan
SSECC	110.0	bank loan
RLC	100.0	bank loan
Total	1,769.8	

Repayments of Debt and Equity Securities –  
January – September 2004 (in Million Pesos)

<u>Borrower</u>	<u>Amount</u>	<u>Nature</u>
ALI	1,983.3	STCP payment; loan prepayment & amortization
CIHCI	9.3	amortization on bank loan
	64.2	amortization on US\$ loan *
LPHI	87.4	amortization on bank loan
MPVI	160.9	amortization on US\$ loan *
RLC	75.0	amortization on bank loan
Total	2,380.1	

\* *Amounts converted into Pesos at P56.276/US\$ (PDS average for September 30, 2004)*

5. Commercial Paper Issuances and Outstanding Balance  
(as of September 30, 2004; in Million Pesos)

Name of Company (Selling Agents)	Issuances During the Quarter (Amt.)	Interest Rate	Issue Date	Maturity Date	Original Amount Underwritten	Outstanding Balance
<b>SHORT TERM (Floating)</b>						
Standard Chartered Bank	225.00	90d MART1 + 0.50% p.a.	9/14/2004	9/14/2005	225.00	225.00
	0.00	90d MART1 + 0.50% p.a.	5/21/2004	5/20/2005	209.75	209.75
SB Capital Invest. Corp.	0.00	90d MART1 + 0.50% p.a.	5/21/2004	5/20/2005	105.00	105.00
PCI Capital Corp.	0.00	90d MART1 + 0.50% p.a.	5/21/2004	5/20/2005	50.00	50.00
<b>Sub-total</b>	<b>225.00</b>				<b>589.75</b>	<b>589.75</b>
<b>SHORT TERM (Fixed)</b>						
Standard Chartered Bank	225.00	Fixed @ 10.2536%	9/14/2004	9/14/2005	225.00	225.00
<b>Sub-total</b>	<b>225.00</b>				<b>225.00</b>	<b>225.00</b>
<b>TOTAL</b>	<b>450.00</b>				<b>814.75</b>	<b>814.75</b>

6. Accounts Payable and Accrued Expenses

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

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

7. Causes for any material changes (+/- 5% or more) in the financial statements

Income Statement items – 9M 2004 versus 9M 2003

*26% increase in real estate revenues*

Principally due to higher sales bookings at Ayala Greenfield Estates, Ayala Hillside Estates, Ayala Northpoint and Montgomery Place; sales at newly-launched projects Serendra and Verdana Homes Mamlasan; sale of office spaces at Ayala Life FGU Center in Makati and a gasoline station site in Alabang; accelerated revenue booking of installment sales at One Legazpi Park due to the sale of receivables; revenue recognition on prior years' sales due to additional construction accomplishment at One Legazpi Park, The Residences at Greenbelt (Laguna Tower) and The Columns; higher mass housing sales due to new projects such as One Aeropolis and Sta. Arcadia; higher rental revenues from shopping centers; and higher construction revenues.

*22% increase in revenues from hotel operations*

Primarily due to higher occupancy and room rates at the Company's hotel properties.

*34% increase in real estate cost and expenses*

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

*9% increase in hotel operations expenses*

Largely due to higher occupancy rates at the Company's hotel properties.

*20% increase in general and administrative expenses*

Primarily due to higher payroll costs; higher contributions to retirement fund; and additional expenses from expanding subsidiaries such as Ayala Land Sales, Inc., Community Innovations, Inc. and Serendra, Inc.

*22% decrease in interest and other charges*

Principally due to the real property tax (RPT) charges in 2003.

*99% increase in provision for income tax*

Basically due to lower tax in 2003 given the tax deductibility of the RPT charges.

*141% 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 – September 30, 2004 versus End-2003

*13% increase in cash and cash equivalents*

Mainly due to proceeds from the sale of investment in Pilipinas Makro and receivables sale, partly offset by the upfront cash payment to BCDA for the Serendra project.

*46% increase in accounts and notes receivables (current portion)*

Primarily due to additional sales from new projects of ALI, Laguna Properties Holdings, Inc. & Community Innovations, Inc.; advances to a subsidiary; and increase in advances to contractors.

*15% decrease in condominium and residential units for sale*

Largely due to continued sales at residential building projects such as One Legazpi Park, The Residences at Greenbelt (Laguna Tower), The Columns and One Aeropolis.

*64% increase in deferred tax and other current assets*

Mainly due to higher prepaid expenses and creditable withholding taxes of some subsidiaries.

*21% increase in non-current accounts and notes receivables*

Largely due to increase in installment sales at various projects.

*40% increase in other assets*

Mainly due to increase in prepaid items.

*21% increase in accounts payable and accrued expenses*

Primarily due to the additional purchases by ALI and some subsidiaries such as Laguna Properties Holdings, Inc., Roxas Land Corporation, Makati Development Corporation and Serendra, Inc.

*26% increase in loans payable*

Largely due to ALI's STCP issuance and new loan availments of Laguna Properties Holdings, Inc., Ayala Greenfield Development Corporation, Roxas Land Corporation and Leisure and Allied Industries Phils.

*223% increase in income tax payable*

Additional income tax payable mainly due to 9M2004 operations.

*31% increase in current portion of long-term debt*

Largely due to reclass of maturing principal amortization of long-term debt.

*12% increase in current portion of estimated liability for land and property development*

Primarily due to new sales at existing and new projects.

*40% decrease in other current liabilities*

Due to payment made to a landowner.

*13% decline in long-term debt (net of current portion)*

Mainly due to payment and reclassification to current of some long-term debt.

*8% increase in non-current liabilities and deposits*

Due to increase in tenants' deposits at Market! Market! and higher deferred credits such as DST and transfer taxes.

*70% increase in non-current portion of estimated liability for land and property development*

Primarily due to new sales at existing and new projects.

## 8. Segment information

<b>YTD-SEPT 2004</b> <i>(in million Pesos)</i>	<b>Land, Condo- minium and Resd'l Units</b>	<b>Rentals</b>	<b>Hotel Operations</b>	<b>Construction</b>	<b>Others</b>	<b>Total</b>
Revenues	6,181	2,869	1,129	895	1,139	12,213
Operating expenses	5,134	866	781	673	552	8,006
Earnings before interest, taxes, depreciation and amort (EBITDA)	1,047	2,003	348	222	587	4,207
Depreciation and amortization	56	344	133	65	76	674
EBIT	991	1,659	215	157	511	3,533
Segment assets	33,461	16,152	4,564	1,359	14,779	70,315
Segment liabilities	10,889	4,427	3,261	990	13,893	33,460

<b>YTD-SEPT 2003</b> <i>(in million Pesos)</i>	<b>Land, Condo- minium and Resd'l Units</b>	<b>Rentals</b>	<b>Hotel Operations</b>	<b>Construction</b>	<b>Others</b>	<b>Total</b>
Revenues	4,695	2,666	924	535	1,176	9,996
Operating expenses	3,889	718	715	409	463	6,194
Earnings before interest, taxes, depreciation and amort (EBITDA)	806	1,948	209	126	713	3,802
Depreciation and amortization	29	281	142	60	52	564
EBIT	777	1,667	67	66	661	3,238
Segment assets	32,879	14,354	4,425	1,315	13,220	66,193
Segment liabilities	12,999	2,227	3,162	1,042	12,719	32,149

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

### ***Results of Operations for the Nine Months Ended September 30, 2004***

Ayala Land posted a 22% increase in its nine-month consolidated revenues to P12.21 billion. Net income grew by 9% to P1.86 billion.

Rental properties remained the main revenue driver, contributing P2.87 billion or 24% to total revenues. Rental revenues grew by 8% year-on-year, primarily due to higher merchant sales at the Company's shopping malls. Ayala Center's total sales grew by 12% while same-store sales growth was registered at 10%. Ayala Center's occupancy rate remained high at 93% even as its merchant replacement program continued. Pushing shopping center rentals up were additional spaces due to the opening of the SM expansion area (4Q03), Greenbelt 4 (1Q04) and Market! Market! (3Q04). As of end-September, Phase 1A of Market! Market! was 85% leased out. Its 45,000-sqm department store and supermarket, Metro Gaisano, and additional merchants, will commence operations in the coming weeks.

Ayala Land's office buildings held their ground and maintained an average occupancy rate of 94%, higher than Makati CBD's average of 90%. Meanwhile, construction of the Company's two build-to-suit office buildings are in full swing. Both buildings, dedicated to Business Process Outsourcing (BPO) operations, will be completed within 2005 and will add about 30,000 sqms of leasable space to the Company's office rental portfolio.

Revenues from condominium and high-end residential unit sales amounted to P2.22 billion, representing a 64% growth year-on-year and accounting for 18% of total revenues in the first nine months. Accounting for the revenue growth were the accelerated revenue booking at One Legazpi Park due to the sale of receivables in the second quarter and the continued take-up and construction progress at The Residences at Greenbelt and Serendra. At the end of September, The Residences was 78% sold and 13% complete. Given the encouraging take-up of 78% out of 586 Serendra Phase 1 units launched in March, Ayala Land offered, in October, an additional 250 units in District 1 with a 5% price increase. Also contributing to condominium sales was the sale of 1,773 square meters of office space at the Ayala Life-FGU Center in Makati.

Revenues from land sales, representing 15% of total revenues, increased by 8% to P1.87 billion. Sales at the Ayala South communities of Ayala Westgrove Heights and Ayala Greenfield Estates moved steadily. At the end of the third quarter, Westgrove's 1,513 cumulative lot offering and Greenfield's 508 lots were both 87% taken up. Meanwhile, an additional 29 lots was launched in Phase 3 of Ayala Hillside Estates, bringing the project's total lot offering to 240 which as of end-September was 92% taken up. Also contributing to land sales were the 3 industrial lots in Laguna Technopark and the 2,997-sqm gas station site in Alabang sold in the first half.

Mass housing arm Laguna Properties Holdings, Inc. (LPHI) booked a total of 1,030 units in the first nine months, compared to 914 units in the same period last year,



and contributed P1.36 billion or 11% to consolidated revenues. This represents a 14% year-on-year growth, mainly due to new projects, primarily One Aeropolis in Parañaque and Sta. Arcadia in Cabanatuan. At the end of the third quarter, Sta. Arcadia's 167 house-and-lot units and 99 commercial lots were 54% and 21% taken up, respectively. The first tower at One Aeropolis was nearly fully sold and the second tower already 60% taken-up. Given brisk sales of its initial mid-rise condominium project offering, LPHI launched in September a sequel, Aeropolis 2, a 400-unit building in Quezon City.

The Company's core-middle income residential business, established only in 2002, continued to do well, contributing P739 million in revenues, and accounting for 6% of total revenues. Core-mid revenues grew by 77% year-on-year primarily due to new sales and construction accomplishment at The Columns. The first tower of The Columns has been fully sold and 65% completed; the second and third towers were 76% and 64% sold and 30% and 9% completed, respectively. Also contributing to the growth were new projects Verdana Homes Mamplasan and Serendra. By November, 424 additional units will be launched at the second phase of Serendra's District 2.

Revenues from hotel operations, 9% of consolidated revenues, improved by 22% to P1.13 billion owing to higher occupancy and room rates compared to the previous year. Oakwood Premier Ayala Center posted an average occupancy rate of 87%, well above Makati CBD's average of 74%, while Cebu City Marriott Hotel's occupancy rate averaged at a high 85%, much better than Cebu hotel's average of 73%. Hotel InterContinental Manila's occupancy rate of 72%, however, was slightly lower than the MCBD average.

Construction projects of wholly owned subsidiary Makati Development Corporation contributed 7% to consolidated revenues or P895 million, up by 67%. Key projects accounting for the increase were, primarily Market! Market!, Ayala Greenfield Estates and government infrastructure projects.

### ***Financial Condition***

Ayala Land's financial statements continued to reflect its fundamental strength. The Company remained highly liquid with cash reserves of P5.50 billion and a current ratio of 1.73:1. A total of P450 million worth of Short-term Commercial Papers (STCPs) were issued in the third quarter, bringing year-to-date STCP issuance to P815 million, about 40% of the P2.0 billion approved STCP line.

Proceeds from the sale of receivables and non-strategic assets enabled the Company to pare down debt in the midst of expanding project offerings. P903 million worth of receivables were sold in the first nine months, while the sale of non-strategic assets, including the Company's 28% stake in Pilipinas Makro and a gas station site in Alabang, generated P1.1 billion in proceeds.

Thus, as of end-September, borrowings amounted to P13.71 billion, 5% below the end-2003 level. Debt-to-equity and net debt-to-equity ratios remained at comfortable levels of 0.37:1 and 0.22:1, respectively.

During the nine-month period, Ayala Land (parent company) disbursed P2.74 billion or 49% of the P5.60 billion project & capital expenditures earmarked for the year. In terms of consolidated project & capital expenditures, Ayala Land spent P5.55 billion or 58% of the P9.52 billion budget for the year. Fifty-six percent of the nine-month consolidated project and capital expenditures was used for residential building projects including Serendra, One Legazpi Park, The Columns and One Aeropolis. About 26% was utilized for the development of investment properties such as shopping centers, primarily Market! Market!, and build-to-suit office buildings. Nearly 15% was spent for residential subdivision projects while the balance was used for equity investments.

## PART II - OTHER INFORMATION

### Item 3. 3Q 2004 Developments

- A. New project or investments in another line of business or corporation** None.
- B. Composition of Board of Directors (as of Sept. 30, 2004)**
- |                                 |               |
|---------------------------------|---------------|
| Fernando Zobel de Ayala         | Chairman      |
| Jaime Augusto Zobel de Ayala II | Vice Chairman |
| Jaime I. Ayala                  | President     |
| Francisco H. Licuanan III       | Director      |
| Mercedita S. Nollo              | Director      |
| Delfin L. Lazaro                | Director      |
| Leandro Y. Locsin, Jr.          | Director      |
| Ramon R. del Rosario, Jr.       | Director      |
| Nieves R. Confesor              | Director      |
- C. Performance of the corporation or result/progress of operations** Please see unaudited consolidated financial statements and management's discussion on results of operations.
- D. Declaration of dividends** P0.03/share cash dividend -  
Declaration date: July 27, 2004  
Record date: August 13, 2004  
Payment date: August 27, 2004
- E. Contracts of merger, consolidation or joint venture; contract of management, licensing, marketing, distributorship, technical assistance or similar agreements** None.
- F. Offering of rights, granting of Stock Options and corresponding plans therefore** Stock Options:  
As of September 30, 2004, stock options outstanding are as follows:
- |       |                         |
|-------|-------------------------|
| ESOP  | 128,114,640 shares      |
| ESOWN | <u>1,258,000</u> shares |
|       | 129,372,640 shares      |
- G. Acquisition of additional mining claims or other capital assets or patents, formula, real estate** None.

- |  |       |
|--|-------|
| <b>H. Other information, material events or happenings that may have affected or may affect market price of security</b> | None. |
| <b>I. Transferring of assets, except in normal course of business</b>  | None. |

**Item 4. Other Notes to 9M2004 Operations and Financials**

- |   |  |
|---|--|
| <b>J. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents</b>  | Please see Notes to Financial Statements (Item #7).  |
| <b>K. Nature and amount of changes in estimates of amounts reported in prior periods and their material effect in the current period</b>  | Reclassification of about P105M hotel expenses to rental expenses in 2003. This represents only 1% of total costs and expenses and has no material effect. |
| <b>L. New financing through loans / Issuances, repurchases, and repayments of debt and equity securities</b>  | Please see Notes to Financial Statements (Item #4).  |
| <b>M. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period</b>   | None.  |
| <b>N. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations</b> | None.  |
| <b>O. Changes in contingent liabilities or contingent assets since the last annual balance sheet date</b>   | None.  |

- P. Existence of material contingencies and other material events or transactions during the interim period** None.
- Q. Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation** None.
- R. Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period** None.
- S. Material commitments for capital expenditures, general purpose and expected sources of funds** For 2004, Ayala Land (parent company) is budgeting P5.6 billion for project and capital expenditures. Consolidated project & capital expenditures is budgeted at P9.5 billion. This will be financed through a combination of internally-generated funds, borrowings and pre-selling.
- For January to September 2004, Ayala Land (parent company) disbursed P2.74 billion or 49% of the P5.6 billion full year budget. Consolidated project & capital expenditures for 9M2004 totaled P5.55 billion or 58% of the P9.5 billion consolidated budget for the year.
- Fifty-six percent of the nine-month consolidated project and capital expenditures was used for residential building projects including Serendra, One Legazpi Park, The Columns and One Aeropolis. About 26% was utilized for the development of investment properties such as shopping centers, primarily Market! Market!, and build-to-suit office buildings. Nearly 15% was spent for residential subdivision projects while the balance was used for equity investments.
- T. Known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/ income** Ayala Land's performance will continue to hinge on the overall economic performance of the country. A possible increase in interest rates may affect the performance of the real estate industry,

- from continuing operations** including the Company.
- U. Significant elements of income or loss that did not arise from continuing operations** ALI booked a loss of about P170M as it sold its 28% stake in Pilipinas Makro, Inc. in August 2004.
- V. Causes for any material change/s from period to period in one or more line items of the financial statements** Please see Notes to Financial Statements (Item #7).
- W. Seasonal aspects that had material effect on the financial condition or results of operations** ALI's rental portfolio generates a fairly stable stream of revenues throughout the year, with higher sales experienced in the fourth quarter from retail rental properties due to holiday spending in malls.
- The Company's development operations do not show any seasonality. Projects are launched anytime of the year depending on several factors such as completion of plans and permits and appropriate timing in terms of market conditions and strategy. Development and construction work follow target completion dates committed at the time of project launch.
- X. Disclosures not made under SEC Form 17-C** None.

## Item 5. Key Performance Indicators

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

	<i>End-9M03</i>	<i>End-9M04</i>
Current ratio <sup>1</sup>	1.41:1	1.73:1
Debt-to-equity ratio <sup>2</sup>	0.39:1	0.37:1
Net debt-to-equity ratio <sup>3</sup>	0.24:1	0.22:1
	<i>9M03</i>	<i>9M04</i>
Return on assets <sup>4</sup>	2.8%	2.8%
Return on equity <sup>5</sup>	4.8%	5.3%

<sup>1</sup> *Current assets / current liabilities*

<sup>2</sup> *Total interest-bearing debt (inclusive of bonds and CPs) / stockholders' equity*

<sup>3</sup> *Interest-bearing debt less cash & cash equivalents / stockholders' equity*

<sup>4</sup> *Net income / total assets (at the beginning of the year)*

<sup>5</sup> *Net income / stockholders' equity (at the beginning of the year)*

## **SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the Issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: **AYALA LAND, INC.**

By:

**Jaime E. Ysmael**  
Senior Vice President, Chief Finance Officer & Treasurer

Date: October 26, 2004