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)

**March 31, 2005**

(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 **March 31, 2005**

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 March 31, 2005**

    | Title of each class | Number of shares issued and outstanding |
    |---|---|
    | **Common shares** | **10,785,376,451** |

    Amount of Debt Outstanding
    **P12.95 Billion**

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

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

Yes [x]  No [ ]

# TABLE OF CONTENTS

## PART I – FINANCIAL STATEMENTS

### Item 1. Financial Statements

***AYALA LAND, INC. AND SUBSIDIARIES***
***CONSOLIDATED BALANCE SHEETS***
***As of March 31, 2005 and December 31, 2004***

| | Unaudited MAR 2005 | Audited DEC 2004 |
|---|---|---|
| **(in million pesos)** | | |
| ASSETS | | |
| **Current Assets** | | |
| Cash and cash equivalents | 4,625 | 6,360 |
| Accounts and notes receivables - net | 10,989 | 7,451 |
| Subdivision land for sale | 3,377 | 3,103 |
| Condominium and residential units for sale | 3,526 | 2,900 |
| Deferred tax and other current assets | 1,418 | 1,045 |
| Total Current Assets | 23,934 | 20,860 |
| **Noncurrent Accounts and Notes Receivable** | 5,661 | 6,445 |
| **Land and Improvements** | 16,871 | 17,309 |
| **Investments** | 24,455 | 26,625 |
| **Property and Equipment** | 1,242 | 1,501 |
| **Other Assets** | 1,487 | 1,290 |
| | **73,650** | **74,029** |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | 6,090 | 5,739 |
| Loans payable | 1,957 | 1,937 |
| Income tax payable | 156 | 166 |
| Current portion of: | | |
| Long-term debt | 1,401 | 1,111 |
| Estimated liability for land and property development | 2,285 | 3,043 |
| Other current liabilities | 504 | 194 |
| Total Current Liabilities | 12,392 | 12,189 |
| **Long-term Debt - net of current portion** | 9,589 | 10,389 |
| **Noncurrent Liabilities and Deposits** | 4,432 | 4,390 |
| **Estimated Liability for Land and Property Development** | 2,275 | 2,225 |
| **Minority Interest** | 6,789 | 6,776 |
| **Stockholders' Equity** | 38,172 | 38,059 |
| | **73,650** | **74,029** |

## *AYALA LAND, INC. AND SUBSIDIARIES*
## *CONSOLIDATED STATEMENTS OF INCOME AND UNAPPROPRIATED RETAINED EARNINGS*
***For the Three Months Ended March 31, 2005 and 2004***

| | UNAUDITED January 1 to March 31 | |
|---|---|---|
| | **2005** | **2004** |
| **(in million pesos)** | | |
| **REVENUES** | | |
| Real estate | 4,183 | 3,559 |
| Interest and other income | 2,732 | 127 |
| | 6,915 | 3,686 |
| **COSTS AND EXPENSES** | | |
| Real estate | 2,795 | 2,241 |
| General and administrative expenses | 558 | 430 |
| Interest and other charges | 2,175 | 235 |
| Provision for income tax | 154 | 250 |
| | 5,682 | 3,155 |
| **INCOME BEFORE NET EARNINGS APPLICABLE TO MINORITY INTEREST** | 1,233 | 530 |
| **NET EARNINGS APPLICABLE TO MINORITY INTEREST** | (72) | (34) |
| **NET INCOME** | 1,162 | 496 |
| **UNAPPROPRIATED RETAINED EARNINGS, BEG, as previously stated** | 17,357 | 14,995 |
| Effect of changes in accounting for: | | |
| PFRS 2 - Share options granted in prior years | (291) | (252) |
| PFRS 3 - Cessation of amortization of negative goodwill | 717 | 713 |
| PAS 19 - Unfunded defined benefit obligations | (406) | (341) |
| PAS 21 - Elimination of capitalization of FOREX losses | (37) | (28) |
| **UNAPPROPRIATED RETAINED EARNINGS, BEG, as re-stated** | 17,340 | 15,086 |
| Cash dividends (P0.10 per share) | (1,079) | |
| **UNAPPROPRIATED RETAINED EARNINGS, ENDING** | 17,423 | 15,582 |
| **EARNINGS PER SHARE*** | 0.11 | 0.05 |

* *Based on 10,783,672,138 and 10,706,701,000 weighted average number of shares as of March 31, 2005 and 2004, respectively.*

***AYALA LAND, INC. AND SUBSIDIARIES***
***CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY***
***For Three Months Ended March 31, 2005 and 2004***

| | UNAUDITED January 1 to March 31 | |
|---|---|---|
| | **2005** | **2004** |
| **(in million pesos)** | | |
| **CAPITAL STOCK - P1 par value** | | |
| **Issued** | | |
| Balance at beginning of year | 10,774 | 10,761 |
| Stock options exercised | 10 | 0 |
| Balance at end of the year | 10,784 | 10,761 |
| **Subscribed** | | |
| Balance at beginning of year | 1 | 2 |
| Stock options exercised | (0) | (0) |
| Balance at end of the year | 1 | 2 |
| | | |
| **ADDITIONAL PAID-IN CAPITAL** | | |
| Balance at beginning of year | 3,598 | 3,526 |
| Stock options exercised -net | 79 | 0 |
| Balance at end of year | 3,677 | 3,526 |
| | | |
| **STOCK OPTIONS OUTSTANDING** | 291 | 252 |
| | | |
| **SUBSCRIPTIONS RECEIVABLE** | | |
| Balance at beginning of year | (5) | (10) |
| Stock options exercised - net | 0 | 0 |
| Balance at end of year | (4) | (10) |
| | **14,749** | **14,531** |
| | | |
| **RETAINED EARNINGS** | | |
| Appropriated for future expansion | 6,000 | 6,000 |
| Unappropriated: | | |
| Balance at beginning of year, as previously stated | 17,357 | 14,995 |
| Effect of changes in accounting for: | | |
| PFRS 2 - Share options granted in prior years | (291) | (252) |
| PFRS 3 - Cessation of amortization of negative goodwill | 717 | 713 |
| PAS 19 - Unfunded defined benefit obligations | (406) | (341) |
| PAS 21 - Elimination of capitalization of FOREX losses | (37) | (28) |
| Balance at beginning of year, as restated | 17,340 | 15,086 |
| | | |
| Cash dividends | (1,079) | 0 |
| Net income | 1,162 | 496 |
| Balance at end of year | 17,423 | 15,582 |
| | 23,423 | 21,582 |
| | | |
| **TREASURY STOCK** | | |
| Balance at beginning of year | (1) | (1) |
| Shares repurchased | | |
| Balance at end of year | (1) | (1) |
| | **38,172** | **36,113** |

***AYALA LAND, INC. AND SUBSIDIARIES***
***CONSOLIDATED STATEMENTS OF CASH FLOWS***
***For the Three Months Ended March 31, 2005 and 2004***

| | UNAUDITED January 1 to March 31 | |
|---|---|---|
| | **2005** | **2004** |
| **(in million pesos)** | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | 1,162 | 496 |
| Adj. to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 245 | 228 |
| Provision for doubtful accounts | | |
| Provision for decline in value of assets / asset write-off | 1,644 | |
| Net earnings applicable to minority interest | 72 | 34 |
| Equity in net earnings of affiliates | (20) | (34) |
| Gain from sale of investment | (2,590) | |
| Prior years' adjustment on retained earnings | (111) | 0 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Accounts and notes receivable - trade | 816 | (1,313) |
| Subdivision land for sale | (274) | 184 |
| Condominium and residential units for sale | (626) | (382) |
| Deferred tax and other current assets | (364) | (175) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 672 | 600 |
| Income tax payable | (10) | 29 |
| Other current liabilities | 310 | (133) |
| Estimated liability for land and property development | (708) | 434 |
| Net cash provided by operating activities | 218 | (32) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Disposal of (addition to): | | |
| Land and improvements | 219 | 134 |
| Investments | 11 | (615) |
| Property and equipment | (137) | (54) |
| Decrease (increase) in: | | |
| Accounts and notes receivable - non trade | (3) | 299 |
| Other assets | (218) | (264) |
| Net cash used by investing activities | (128) | (500) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from (payment of) short-term loans | 20 | 50 |
| Proceeds from (payment of) long-term debt | (510) | (190) |
| Dividends paid | (1,399) | (321) |
| Increase (decrease) in: | | |
| Noncurrent liabilities and deposits | 33 | 41 |
| Minority interest | (59) | 105 |
| Additional issuance of capital stock | 90 | 0 |
| Net cash provided by financing activities | (1,825) | (315) |
| **NET INC. (DEC.) IN CASH AND CASH EQUIVALENTS** | (1,736) | (847) |
| **CASH AND CASH EQUIVALENTS AT BEG. OF PERIOD** | 6,360 | 4,855 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 4,625 | 4,008 |

**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 three months ended March 31, 2005 are the same as those applied in the preceding calendar year, except for the adoption of new accounting standards based on the revised Philippine Accounting Standards (PAS) and new Philippine Financial Reporting Standards (PFRS) which became effective beginning January 1, 2005: PAS 19 (Employee Benefits), PAS 21 (The Effects of Changes in Foreign Exchange Rates), PFRS 2(Share-Based Payments), and PFRS 3 (Business Combination).

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:

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

| | |
|---|---|
| *Property Management:* | |
| Ayala Property Management Corporation | 100 |
| Ayala Theatres Management, Inc. and subsidiaries | 100 |
| | |
| *Entertainment:* | |
| Five Star Cinema, Inc. | 100 |
| Leisure and Allied Industries Phils., Inc (LAIPI) | 50 |
| *Others:* | |
| ALInet.com, Inc. | 100 |
| Astoria Investment Ventures, Inc. | 100 |
| Food Court Company, Inc. | 100 |

3. Receivables / Payables

Aging of Receivables (as of March 31, 2005; in Million Pesos)

| | Up to 6 mos. | Over 6 mos. to One Year | Over One Year | Past Due | Total |
|---|---|---|---|---|---|
| Trade Receivables | 3,228 | 1,957 | 4,640 | 461 | 10,286 |
| Non-Trade Receivables | 4,998 | 342 | 1,021 | 3 | 6,364 |
| Total | 8,226 | 2,299 | 5,661 | 464 | 16,650 |

Aging of Payables (as of March 31, 2005; in Million Pesos)

| | Up to 6 mos. | Over 6 mos. to One Year | Over One Year | Past Due | Total |
|---|---|---|---|---|---|
| Trade Payables | 1,145 | 1,252 | 485 | 0 | 2,882 |
| Non-Trade Payables | 3,586 | 767 | 3,947 | 0 | 8,300 |
| Total | 4,731 | 2,019 | 4,432 | 0 | 11,182 |

4. Loans Payable and Long-Term Debt

Loans Payable (as of March 31, 2005; in Million Pesos)

| Borrower | Amount |
|---|---|
| ALI | 1,214.8 |
| API | 44.0 |
| AGDC | 223.0 |
| LAIPI | 130.0 |
| LPHI | 345.0 |
| Total | 1,956.8 |

Long-Term Debt (as of March 31, 2005; in Million Pesos / US$)

| | Current | | Non-Current | | Total | |
|---|---|---|---|---|---|---|
| Borrower | Peso * | US$ | Peso * | US$ | Peso * | US$ |
| ALI (incl. bonds) | 780.4 | | 6,556.2 | | 7,336.7 | |
| AGDC | 51.7 | | 103.3 | | 155.0 | |
| CIHCI | 31.2 | 0.6 | | | 31.2 | 0.6 |
| | 47.9 | | 125.7 | | 173.7 | |
| LPHI | 243.6 | | 503.2 | | 746.8 | |
| SSECC | 90.0 | | 1,910.0 | | 2,000.0 | |
| MPVI | 156.6 | 2.9 | 390.3 | 7.1 | 546.9 | 10.0 |
| Total | 1,401.4 | 3.5 | 9,588.8 | 7.1 | 10,990.2 | 10.6 |

** Peso equivalent of US$ loans (when applicable);*
*Exchange rate of P54.747/US$ (PDS average for March 31, 2005)*

Issuances, Repurchases and Repayments of Debt and Equity Securities

Issuances of Debt and Equity Securities / New Financing through Loans –
January – March 2005 (in Million Pesos)

| Borrower | Amount | Nature |
|---|---|---|
| ALI | 400.0 | renewal of short-term loan |
| AGDC | 113.0 | renewal of short-term loans |
| API | 29.0 | renewal of short-term loan |
| LAIPI | 40.0 | renewal of short-term loan and new short-term loans |
| LPHI | 365.0 | renewal of short-term loans |
| SSECC | 99.3 | new long-term loan |
| Total | 1,046.3 | |

Repayments of Debt and Equity Securities –
January – March 2005 (in Million Pesos)

| Borrower | Amount | Nature |
|---|---|---|
| ALI | 806.7 | maturity & prepayment of FXCN, payment of matured short-term loan and amortization on long-term loans |
| AGDC | 113.0 | payment of matured short-term loans |
| AHI | 10.0 | payment of matured short-term loan |
| API | 29.0 | payment of matured short-term loan |
| CIHCI | 12.0 | amortization on long-term loans |
| | 31.2 | amortization on US$ loan * |
| LAIPI | 10.0 | payment of matured short-term loan |
| LPHI | 425.9 | payment of matured short-term loans and amortization on long-term loans |
| MPVI | 78.3 | amortization on US$ loan * |
| Total | 1,516.1 | |

** Amounts converted into Pesos at P54.747/US$ (PDS average for March 31, 2005)*

5. Commercial Paper Issuances and Outstanding Balance
(as of March 31, 2005; in Million Pesos)

| Name of Company (Selling Agents) | Issuances During the Quarter (Amt.) | Interest Rate | Issue Date | Maturity Date | Original Amount Underwritten | Outstanding Balance |
|---|---|---|---|---|---|---|
| ***SHORT TERM (Floating)*** | | | | | | |
| Standard Chartered Bank | 0 | 90d MART1 + 0.50% p.a. | 9/14/2004 | 9/14/2005 | 225.00 | 225.00 |
| | 0 | 90d MART1 + 0.50% p.a. | 5/21/2004 | 5/20/2005 | 209.75 | 209.75 |
| SB Capital Invest. Corp. | 0 | 90d MART1 + 0.50% p.a. | 5/21/2004 | 5/20/2005 | 105.00 | 105.00 |
| PCI Capital Corp. | 0 | 90d MART1 + 0.50% p.a. | 5/21/2004 | 5/20/2005 | 50.00 | 50.00 |
| **Sub-total** | **0** | | | | **589.75** | **589.75** |
| ***SHORT TERM (Fixed)*** | | | | | | |
| Standard Chartered Bank | 0 | Fixed @ 10.2536% | 9/14/2004 | 9/14/2005 | 225.00 | 225.00 |
| **Sub-total** | **0** | | | | **225.00** | **225.00** |
| **TOTAL** | **0** | | | | **814.75** | **814.75** |

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 – 1Q 2005 versus 1Q 2004

*18% increase in real estate revenues*
Principally due to higher sales bookings at Ayala Greenfield Estates, Ayala Westgrove Heights, Ayala Northpoint, and Laguna Technopark; sales at new projects Sonera, Serendra and Verdana Homes Mamplasan; additional sales and revenue recognition on prior years' sales at The Residences at Greenbelt, One Legazpi Park, The Columns and Serendra; higher leasing revenues from shopping centers and hotels; and higher construction revenues.

*2,055% increase in interest and other income*
Primarily due to the gain on sale of Astoria Investment Ventures, Inc. (AIVI) preferred shares and higher interest income on placements.

*25% increase in real estate cost and expenses*
Mainly due to higher real estate revenues; depreciation and direct operating expenses of recently-opened Market! Market!; advertising and promotion expenses in preparation for new launches.

*30% increase in general and administrative expenses*
Primarily due to higher payroll costs given the CBA and subsidiaries' expansion.

*825% increase in interest and other charges*
Principally due to provision for decline in asset value and write-off of deferred charges.

*38% decline in provision for income tax*
Mainly due to lower income subject to 32% corporate income tax.

*108% increase in net earnings applicable to minority interest*
Largely due to higher income of Ayala Hotels, Inc. and Laguna Technopark, Inc.

<u>Balance Sheet items</u> – March 31, 2005 versus End-2004

*27% decline in cash and cash equivalents*
Mainly due to payment of bank loans and special cash dividends.

*47% increase in accounts and notes receivables (current portion)*
Primarily due to receivables pertaining to proceeds from the sale of AIVI shares which was subsequently collected in April 2005.

9% increase in subdivision land for sale
Mainly due to continued development at existing residential subdivision projects such as Ayala Greenfield Estates, Ayala Westgrove Heights, and Plantazionne Verdana Homes, as well as development of a new project, Sonera.

*22% increase in condominium and residential units for sale*
Largely due to construction accomplishment at residential building projects such as Serendra, The Residences at Greenbelt, One Legazpi Park, Montgomery Place, The Columns and One Aeropolis.

*36% increase in deferred tax and other current assets*
Mainly due to higher prepaid expenses and creditable withholding taxes of some subsidiaries.

*12% decline in non-current accounts and notes receivables*
Largely due collection of payments at various projects.

*8% decrease in investments*
Primarily due to provision for decline in asset value and write-off of deferred charges.

*17% decline in property and equipment*
Mainly due to provision for decline in asset value.

*15% increase in other assets*
Mainly due to deposit made for Manila Jockey Club's 6.5-hectare property in Manila.

*6% increase in accounts payable and accrued expenses*
Primarily due to higher payables to contractors for various projects and additional purchases by ALI and some subsidiaries such as Makati Development Corporation and Serendra, Inc.

*6% decline in income tax payable*
Mainly due to lower income that is subject to 32% corporate income tax.

*26% increase in current portion of long-term debt*
Largely due to reclass of maturing principal amortization of long-term debt.

*25% decline in current portion of estimated liability for land and property development*
Mainly due to construction accomplishment at various projects.

*160% increase in other current liabilities*
Primarily due to higher deposits from customers and tenants.

*8% decline in long-term debt (net of current portion)*
Mainly due to payment and reclassification to current of some long-term debt.

8. Segment information

| **YTD-MARCH 2005** | **Development** | **Leasing** | **Services** | **Others** | **Total** |
|---|---|---|---|---|---|
| *(in million Pesos)* | | | | | |
| Revenues | 1,947 | 1,494 | 743 | 2,732 | 6,915 |
| Operating expenses | 1,679 | 557 | 493 | 379 | 3,108 |
| Earnings before interest, taxes, depreciation and amort. (EBITDA) | 268 | 937 | 249 | 2,353 | 3,807 |
| Depreciation and amortization | 23 | 173 | 23 | 26 | 245 |
| EBIT | 245 | 764 | 226 | 2,327 | 3,562 |
| Segment assets | 36,082 | 21,468 | 1,587 | 14,119 | 73,257 |
| Deferred tax assets | 61 | 122 | 2 | 207 | 393 |
| Total assets | 36,144 | 21,591 | 1,589 | 14,327 | 73,650 |
| Segment additions to property and equipment | 13 | 90 | 22 | 18 | 143 |
| Segment liabilities | 14,763 | 8,179 | 1,497 | 10,125 | 34,564 |
| Deferred tax liabilities | 248 | 5 | - | 661 | 914 |
| Total liabilities | 16,011 | 8,184 | 1,497 | 10,785 | 35,477 |

| **YTD-MARCH 2004** | **Development** | **Leasing** | **Services** | **Others** | **Total** |
|---|---|---|---|---|---|
| *(in million Pesos)* | | | | | |
| Revenues | 1,738 | 1,326 | 494 | 127 | 3,686 |
| Operating expenses | 1,340 | 450 | 281 | 372 | 2,443 |
| Earnings before interest, taxes, depreciation and amort. (EBITDA) | 398 | 877 | 213 | (245) | 1,243 |
| Depreciation and amortization | 16 | 150 | 21 | 43 | 229 |
| EBIT | 382 | 727 | 193 | (288) | 1,015 |
| Segment assets | 32,046 | 19,923 | 1,281 | 15,056 | 68,306 |
| Deferred tax assets | 136 | 110 | 2 | 330 | 578 |
| Total assets | 32,182 | 20,033 | 1,283 | 15,386 | 68,884 |
| Segment additions to property and equipment | 2 | 43 | 7 | 9 | 61 |
| Segment liabilities | 10,235 | 6,737 | 1,004 | 13,927 | 31,903 |
| Deferred tax liabilities | 258 | 5 | - | 547 | 810 |
| Total liabilities | 10,493 | 6,742 | 1,004 | 14,474 | 32,713 |

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

***Results of Operations for the Three Months Ended March 31, 2005***

For the first three months of the year, Ayala Land capitalized on market opportunities to significantly grow earnings and, at the same time, fortify its balance sheet as a means to improve long term profitability and value.

Revenues increased to P6.9 billion, 88% higher than the previous year's level. The sharp rise in revenues resulted primarily from the sale of the Company's interest in preferred redeemable shares of Astoria Investment Ventures, Inc. (AIVI), consistent with the Company's continuing initiative to improve asset efficiency. AIVI is the company organized by ALI to hold an effective 15.79% beneficial interest in the LRT-3 Project (Phase 1).

Net income amounted to P1.2 billion, 134% higher than the P496 million registered in the same period last year. Previous year's net income of P536 million has been restated as a result of the adoption of new accounting standards based on the revised Philippine Accounting Standards (PAS) and new Philippine Financial Reporting Standards (PFRS) which became effective beginning January 1, 2005. The new accounting standards pertain to the accrual of retirement benefits (PAS 19), non-capitalization of foreign exchange losses (PAS 21), earlier recognition of stock option grants (PFRS 2), and cessation of the amortization of goodwill (PFRS 3). These lowered the 2004 first quarter net income by P40 million and the beginning retained earnings by P92 million in 2004 and P17 million in 2005.

The 2005 first quarter net income includes the net gain from the AIVI transaction of P2.2 billion, offset by provisions for decline in value of certain assets intended to be sold and write-off of deferred charges amounting to P1.6 billion.

***Revenues***

Also contributing to revenue growth were the strong results reported by all three core operating business lines, namely leasing, development and services.

*Leasing Revenues.* Leasing operations, involving shopping centers, office and hotel properties, continued to provide recurring cash flows, and generated revenues of P1.5 billion or 22% of total revenues. This is 13% higher in comparison to the same period in 2004.

Shopping center revenues remained the key driver of leasing revenues, and amounted to P894 million or 13% of total. Due to a 20% increase in retail gross leasable area (GLA) since end-March 2004, largely from Market! Market!, total retail sales were up 11%. Same store sales across all malls was slightly higher by 1%. Average occupancy was 90%, taking into account the 70% occupancy of recently opened Market! Market! As of end-March 2005, Market! Market! was 82% leased out. The increase in total retail sales was complemented by the 4% increase in average effective rent.

Ayala Center Makati accounted for about two-thirds of total shopping center revenues. Same store sales declined by 1%, as a result of the February 14 bombing incident in

EDSA, the higher rental base in 2004 due to election spending, and lost sales due to the mall's 2-day closure during Holy Week which fell on the first quarter. Total sales at the mall, however, grew by 8% as a result of the full operations of the SM expansion, full quarter operations at Greenbelt 4 and incremental sales from replacement merchants.

Office rental revenues contributed P94 million, down by 4% largely due to the lower occupancy of our office buildings given the non-renewal of space occupied by a major tenant. Occupancy rate averaged at 90%, lower than the 95% in the first quarter of 2004. However, higher effective lease rate resulting from the implementation of the annual rate escalation in existing lease contracts partly offset the decline in occupancy. We expect occupancy to improve as we close deals with replacement tenants. In the coming months, revenue growth will accelerate with the full operations of PeopleSupport Center and Convergys, representing total GLA of about 30,000 sqms. Office spaces have been turned over to PeopleSupport for fit-out beginning January 2005, with some office spaces turned over to Convergys beginning end-April.

Hotels contributed P398 million in revenues, 5% higher than the previous year. The Company's three hotel properties benefited from higher room rates. Oakwood's occupancy improved to 88%, higher than MCBD hotels average of 80%. Hotel revenues accounted for 6% of total revenues.

*Revenues from Development Projects.* Our development business remained healthy. Our projects enjoyed steady take-up as we continued to offer additional inventory in various product lines, such as Sonera at Ayala Southvale, consisting of 88 lots, and 36 house-and-lot units at Verdana Mamplasan.

For the first three months of the year, booked sales, including four industrial lots, amounted to 754 units, up 11%. Compared to the previous year, development revenues improved by 12% to P1.9 billion and contributed 28% to total revenues.

Booked lot sales, mostly from Ayala Westgrove Heights, Ayala Greenfield Estates, Sonera and Plantazionne Verdana Homes increased to 159 lots compared to 115 lots in the previous year. Revenues from residential lots were complemented by the sale of 2.4 hectares at Laguna Technopark, bringing total revenues from land sales to P680 million, up 13% year-on-year and accounting for 10% of total revenues.

Revenues from high-end residential units increased 6% to P483 million, 63% of which were from Serendra and The Residences at Greenbelt. Booked sales, excluding Bonifacio Ridge units, amounted to 40 units and contributed 7% of total revenues.

Accounting for 5% of total revenues, middle-income residential revenues were up 88% and amounted to P381 million. About half of the revenues came from The Columns. Total middle income units booked in the first quarter was 155 units, compared to 63 in the previous year, with Serendra and Verdana Homes Mamplasan accounting for most of the increase.

Booked mass housing sales amounted to 400 units, with mass housing revenues contributing 6% to total or P403 million, 60% of which were derived from the affordable product line. In January 2005, mass housing arm, Laguna Properties Holdings, Inc. adopted a conservative booking policy to significantly improve the quality of in-house receivables and documentation. While this resulted in a decline in unit sales and revenues during the first quarter of 2005 compared to previous year, it is expected to reduce sales cancellations, and expedite receivables sale to banks and take-out by Pag-ibig. The decline in mass housing revenues was also due to bookings of lower-priced units of Riego de Dios Village.

*Revenues from Services.* Our service lines contributed P743 million in revenues, or 11% of total revenues, or a growth of 50% versus last year. Construction and property management revenues derived by Makati Development Corporation and Ayala Property Management Corporation from third party contracts accounted for P559 million. Other fee-based income derived from project management, sales and marketing services, buyer financing and waterworks operation accounted for the balance of P184 million.

*Interest and Other Income*. Interest and other income amounted to P2.7 billion, significantly up from P127 million in the first quarter of 2004 primarily due to the gain from the AIVI transaction.

***Net Operating Income and NOI Margin***
Net Operating Income (NOI) amounted to P1.4 billion. Leasing operations contributed 59% to total NOI, followed by development projects which contributed 23%. Services accounted for 18% of NOI.

The overall NOI margin declined from 37% in the first quarter of 2004 to 33% in 2005. Generally, our NOI margins fluctuate from period to period depending on the magnitude of higher margin leasing revenues relative to development revenues, and within the development business, the mix of sales between product lines.

NOI margins for leasing, development and services were 55%, 16% and 34%, respectively. Overall leasing margin was steady. The decline in shopping center margin due to the start of depreciation and direct operating expenses of Market! Market! which is still in a start up mode, was offset by the higher hotel margin. Development margins declined due to the absence of higher margin Paseo de Magallanes lot sales, lower Ayala Hillside Estates lot sales and booking of lower-margin Riego de Dios units. Margin for the service business line was lower due to deferral of construction works at new phases of high-margin Ayala Greenfield Estates.

Going forward, we expect to improve our margins through selective price increases and a comprehensive program to reduce operating, construction and development costs and improve materials management.

***Liquidity and Debt Level***
Our principal sources of liquidity included cash flows generated from operations, existing cash and proceeds from the sale of non-core assets. At the end of the first quarter, cash level stood at P4.6 billion, 27% lower than end-2004 level, mainly due to loan payments of P490 million (net of new availments and refinancing) and the P0.10 per share special cash dividend amounting to P1.1 billion. Meanwhile, the P3.5 billion expected proceeds from the AIVI transaction, which was subsequently collected in April, increased our receivables, improving our current ratio to 1.93:1.

We continue to pare down our more expensive debt, resulting in a reduced consolidated debt of P12.9 billion, down from P13.4 billion as of end-2004. Debt-to-equity and net debt-to-equity ratios stood at comfortable levels of 0.34:1 and 0.22:1, respectively. We are, however, open to gear up should the appropriate investment opportunities present themselves.

***Project and Capital Expenditures***
In the first quarter, project and capital expenditures amounted to P1.5 billion, representing 11% of the P13.6 billion budget for the year.

About 46% of the first quarter expenditures was used for various residential building projects including Serendra, The Residences at Greenbelt, One Legazpi Park, Montgomery Place, The Columns and One Aeropolis. Residential subdivision projects including Ayala Greenfield Estates, Ayala Westgrove Heights, Ayala Hillside Estates, Sonera and Verdana Homes Mamplasan, accounted for 23%. The balance of 31% was spent to fund buildings for lease, primarily Market! Market! and build-to-suit office buildings PeopleSupport Center and Convergys.

***Looking Ahead***
The Company continues to pursue growth opportunities – including new products and projects in new geographic areas and markets.

Pipeline projects to be completed in the next three years will significantly augment our recurring revenue stream. We will be opening Phase1B of Market! Market!, consisting of 34,000 sqms of GLA by year-end and will shortly begin construction of the 200,000-sqm North Triangle Commercial Center which will be completed by mid-2007. PeopleSupport Center and Convergys office buildings, will be operational within the year.

We are steadily expanding geographic coverage even as we pursue new product concepts. Groundwork is being laid and initial development undertaken for the launch of Anvaya Cove in Morong, Bataan, our initial foray into leisure community development. Through our subsidiaries, we have signed agreements for the joint development of Manila Jockey Club's 6.47-hectare property in Sta. Cruz, Manila. This is our first real estate venture in the City of Manila and will enable us to reach the mass and middle income segments in the area.

In the coming months, we shall also be replicating our earlier projects for the different residential markets we cover. For the high end market, in addition to next phases at Ayala Westgrove Heights and Ayala Greenfield Estates, we shall launch the second tower of The Residences at Greenbelt, consisting of 383 units. Plans for the sequel to The Columns and a project similar to Ferndale Homes are also being prepared to target the middle-income market.

In support of our new projects and to further broaden customer reach, we are expanding our sales coverage with the formation of Ayala Land International Sales, Inc., a dedicated international sales force. This should further grow our sales volume in the large overseas Filipino market.

## PART II - OTHER INFORMATION

### Item 3. 1Q 2005 Developments

| | |
|---|---|
| **A. New project or investments in another line of business or corporation** | Ayala Land and Subic Bay Development & Industrial Estate Corp. signed in January 2005 an agreement to jointly develop the latter's property in Morong, Bataan. The project, a high-end seaside residential resort community, is Ayala Land's first venture into leisure community development. |
| **B. Composition of Board of Directors (as of March 31, 2005)** | Fernando Zobel de Ayala — Chairman<br>Jaime Augusto Zobel de Ayala II — Vice Chairman<br>Jaime I. Ayala — President & CEO<br>Mercedita S. Nolledo — Corp. Secretary<br>Nieves R. Confesor — Director<br>Delfin L. Lazaro — Director<br>Leandro Y. Locsin, Jr. — Director<br>Aurelio R. Montinola III — Director<br>Ramon R. del Rosario, Jr. — 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** | P0.10/share special cash dividend -<br>Declaration date: February 14, 2005<br>Record date: March 14, 2005<br>Payment date: March 30, 2005 |
| **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:*<br>As of March 31, 2005, stock options outstanding are as follows:<br>ESOP 85,900,566 shares<br>ESOWN 1,258,000 shares<br>87,158,566 shares |
| **G. Acquisition of additional mining claims or other capital assets or patents, formula, real estate** | None. |
| **H. Other information, material events or happenings that may have affected or may affect market price of security** | ALI's sale of Astoria Investment Ventures, Inc. (AIVI) preferred shares to Goldman Sachs for US$65M. AIVI is the company organized by ALI to hold an effective 15.79% beneficial interest in the LRT-3 Project (Phase 1). |

| | |
|---|---|
| **I. Transferring of assets, except in normal course of business** | None. |

## Item 4. Other Notes to 1Q2005 Operations and Financials

| | |
|---|---|
| **J. Nature and amount of items affecting assets, liabilities, equity, or net income that are unusual because of their nature, size, or incidents** | Please see Notes to Financial Statements (Item #7). |
| **K. Nature and amount of changes in estimates of amounts reported in prior periods and their material effect in the current period** | Previous year's net income of P536 million has been restated as a result of the adoption of new accounting standards based on the revised Philippine Accounting Standards (PAS) and new Philippine Financial Reporting Standards (PFRS) which became effective beginning January 1, 2005. The new accounting standards pertain to the accrual of retirement benefits (PAS 19), non-capitalization of foreign exchange losses (PAS 21), earlier recognition of stock option grants (PFRS 2), and cessation of the amortization of goodwill (PFRS 3). These lowered the 2004 first quarter net income by P40 million and the beginning retained earnings by P92 million in 2004 and P17 million in 2005. |
| **L. New financing through loans / Issuances, repurchases, and repayments of debt and equity securities** | Please see Notes to Financial Statements (Item #4). |
| **M. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period** | Collection in April 2005 of the P3.5B proceeds from the sale of AIVI preferred shares in March. |
| **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** | None. |
| **O. Changes in contingent liabilities or contingent assets since the last annual balance sheet date** | None. |
| **P. Existence of material contingencies and other material events or transactions during the interim period** | ALI's sale of AIVI preferred shares to Goldman Sachs for US$65M. |

| | |
|---|---|
| **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 year 2005, Ayala Land's consolidated budget for project and capital expenditures amount to P13.6 billion. This will be financed through a combination of internally-generated funds, borrowings, pre-selling and with proceeds from sale of receivables and non-core assets.<br><br>In the first quarter, project and capital expenditures amounted to P1.5 billion, representing 11% of the P13.6 billion budget for the year. About 46% of the first quarter expenditures was used for various residential building projects including Serendra, The Residences at Greenbelt, One Legazpi Park, Montgomery Place, The Columns and One Aeropolis. Residential subdivision projects including Ayala Greenfield Estates, Ayala Westgrove Heights, Ayala Hillside Estates, Sonera and Verdana Homes Mamplasan, accounted for 23%. The balance of 31% was spent to fund construction of buildings for lease, primarily Market! Market! and build-to-suit office buildings PeopleSupport Center and Convergys. |
| **T. Known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/ income from continuing operations** | Ayala Land's performance will continue to hinge on the overall economic performance of the country. Interest rate movements may affect the performance of the real estate industry, including the Company. |
| **U. Significant elements of income or loss that did not arise from continuing operations** | The 2005 first quarter net income includes the net gain from the AIVI transaction of P2.2 billion, offset by provisions for decline in value of certain assets intended to be sold and write-off of deferred charges amounting to P1.6 billion. |
| **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 leasing portfolio generates a fairly stable stream of revenues throughout the year, with higher sales experienced in the fourth quarter from shopping centers due to holiday spending.

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. Performance Indicators

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

| | *End-1Q05* | *End-1Q04* |
|---|---|---|
| Current ratio [1] | 1.93:1 | 1.74:1 |
| Debt-to-equity ratio [2] | 0.34:1 | 0.40:1 |
| Net debt-to-equity ratio [3] | 0.22:1 | 0.29:1 |
| | | |
| | *1Q05* | *1Q04* |
| Return on assets [4] | 1.6% | 0.7% |
| Return on equity [5] | 3.1% | 1.4% |

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

*(original copy signed)*

**Jaime E. Ysmael**
Senior Vice President and Chief Finance Officer

Date: May 13, 2005