AyalaLand

NOTICE OF SPECIAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders of **AYALA LAND, INC.** will be held at the Grand Ballroom, InterContinental Manila, Ayala Center, Makati City, on **Tuesday, 28 August 2007** at **9:00 o'clock in the morning**, with the following

AGENDA

1. Proof of Notice and Determination of Quorum

2. Ratification of the Resolutions of the Board of Directors adopted on 05 July 2007 approving:
   i. the increase in authorized capital stock of the Corporation from ₱20 Billion to ₱21.5 Billion,
   ii. the amendment of Article Seventh of the Amended Articles of Incorporation to reflect the capital increase, and
   iii. the offering of 13.034 Billion Preferred Shares to all common shareholders of the Corporation of record of 06 August 2007, including the terms thereof.

3. Adjournment

Only stockholders of record at the close of business on **20 July 2007** are entitled to notice of, and to vote at, this meeting. As per By-Laws, the Stock and Transfer Books of the Corporation will be closed from **20 to 27 July 2007**, inclusive.

Makati City, 06 July 2007.

FOR THE BOARD OF DIRECTORS

Merceditas S. Nolledo

MERCEDITA S. NOLLEDO
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement
of
AYALA LAND, INC.
Pursuant to Section 20 of the Securities Regulation Code

1. **Check the appropriate box:**

   ______ Preliminary Information Sheet
   ___✔___ Definitive Information Sheet

2. **Name of Registrant as specified in its charter:** AYALA LAND, INC.

3. **Province, country or other jurisdiction of incorporation or organization:** REPUBLIC OF THE PHILIPPINES

4. **SEC Identification Number:** 152747

5. **BIR Tax Identification Code:** 000-000-153-790

6. **Address of Principal Office:** 31st Floor, Tower One and Exchange Plaza
   Ayala Triangle, Ayala Avenue
   Makati City
   1226

7. **Registrant's telephone number, including area code:** (632) 848-5772 / 841-5675

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

Date	-	28 August 2007
Time	-	9:00 A.M.
Place	-	Grand Ballroom InterContinental Manila Ayala Center, Makati City

9. **Approximate date on which the Information Statement is first to be sent or given to security holders:**

   03 August 2007

10. **Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA:**

   a. Authorized Capital Stock ₱ 20,000,000,000.00

   Common Shares 20,000,000,000 (₱1.00 par value)

   b. Number of Shares Outstanding as of 30 June 2007

Class	Number of Shares
Common Shares	13,034,603,880 (net of 28,229 Treasury shares)

c. Amount of Debt Outstanding as of 31 March 2007

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

₱ 12.75 billion

11. **Are any or all of registrant's securities listed in a Stock Exchange?**

✔ Yes ______ No

12,986,529,225 Common shares have been listed with the Philippine Stock Exchange as of 30 June 2007, excluding the 48,074,655 shares which have been approved for listing for the ESOWN Plan of the Company.

#

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of security holders

a.	**Date**	-	28 August 2007
	Time	-	9:00 A.M.
	Place	-	Grand Ballroom InterContinental Manila Ayala Center, Makati City
	Principal Office	-	31st Floor, Tower One and Exchange Plaza Ayala Triangle, Ayala Avenue Makati City 1226

b. Approximate date when the Information Statement is first to be sent or given to security holders:

03 August 2007

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

Item 2. Dissenter's Right of Appraisal

The ratification of the Resolutions of the Board of Directors recommending the offer of approximately 13.034 Billion Preferred Shares and approving the increase in authorized capital stock from ₱20 Billion to ₱21.5 Billion and the amendment of Article Seventh of the Amended Articles of Incorporation to reflect the capital increase may give rise to a possible exercise by security holders of their appraisal right under Title X of the Corporation Code of the Philippines.

A stockholder who shall have voted against the aforesaid proposed action (the "dissenting stockholder") may exercise his appraisal right by making a written demand on the Company within 30 days after the Stockholders' Meeting date. Failure to make the demand within the prescribed period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented, the Company shall pay the dissenting stockholder upon surrender of the stock certificates representing his shareholdings in the Company based on the fair value thereof as of the day prior to the date of the Stockholders' Meeting, excluding any appreciation or depreciation in anticipation of such corporate action, provided that no payment shall be made to the dissenting stockholder unless the Company has unrestricted retained earnings to cause such payment.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

a. No current director or officer of the Corporation, nor any associate thereof, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon.

b. No director has informed the Corporation in writing that he intends to oppose any action to be taken by the registrant at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

a. Number of Shares Outstanding as of 30 June 2007: 13,034,603,880 Common Shares (net of 28,229 Treasury Shares)

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

b. All stockholders of record as of 20 July 2007 are entitled to notice and to vote at the Special Stockholders' Meeting

c. Manner of Voting

Article III Section 7 of the Amended By-Laws of the Corporation provides:

> "Section 7 - Each share of stock entitles the person in whose name it is registered in the books of the Corporation to one vote, provided the conditions as regards payment subject to which it was issued have been complied with.

d. Security Ownership of Certain Record and Beneficial Owners and Management

i. Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of 30 June 2007.

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Ayala Corporation[1] 34/F Tower One Bldg. Ayala Ave., Makati City	Ayala Corporation[2]	Filipino	6,939,009,512	53.235%
Common	PCD Nominee Corporation (Non-Filipino)[3] G/F MSE Bldg. Ayala Ave., Makati City	Hongkong and Shanghai Banking Corporation (HSBC) and Standard Chartered Bank (SCB)[4]	Various	5,150,305,477	39.513%

ii. Security Ownership of Directors and Management (Executive Officers) as of 30 June 2007.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Directors				
Common	Fernando Zobel de Ayala	12,000 (direct)	Filipino	0.00009%
Common	Jaime Augusto Zobel de Ayala II	12,000 (direct)	Filipino	0.00009%
Common	Jaime I. Ayala	3,070,171 (direct & indirect)	Filipino	0.02355%
Common	Mercedita S. Nolledo	250,014 (direct & indirect)	Filipino	0.00192%
Common	Corazon S. dela Paz	1,201 (direct & indirect)	Filipino	0.00001%

[1] The President and Chief Operating Officer of Ayala Corporation, Fernando Zobel de Ayala, is the Chairman of the Board of the Company.
[2] The Board of Directors of Ayala Corporation has the power to decide how AC shares in ALI are to be voted.
[3] The PCD is not related to the Company.
[4] HSBC and SCB are participants of PCD. The 3,543,486,756 and 1,155,228,525 shares beneficially owned by HSBC and SCB, respectively, form part of the 5,150,305,477 shares registered in the name of PCD Non-Filipino. The clients of HSBC and SCB have the power to decide how their shares are to be voted.

Common	Ramon R. del Rosario, Jr.	1 (direct)	Filipino	0.00000%
Common	Delfin L. Lazaro	1 (direct)	Filipino	0.00000%
Common	Leandro Y. Locsin, Jr.	1,707,462 (direct)	Filipino	0.01310%
Common	Aurelio R. Montinola III	3,578 (direct & indirect)	Filipino	0.00003%
CEO and Most Highly Compensated Executive Officers				
Common	Jaime I. Ayala	3,070,171 (direct & indirect)	Filipino	0.02355%
Common	Miriam O. Katigbak	1,405,898 (direct & indirect)	Filipino	0.01079%
Common	Vincent Y. Tan	7,052,085 (direct & indirect)	Filipino	0.05410%
Common	Ma. Victoria E. Añonuevo	2,001,276 (direct & indirect)	Filipino	0.01535%
Common	Angela DV. Lacson	2,089,396 (direct & indirect)	Filipino	0.01603%
Common	Rex Ma. A. Mendoza	1,205,110 (direct & indirect)	Filipino	0.00925%
Common	John Philip S. Orbeta	862,144 (direct)	Filipino	0.00661%
Common	Emilio J. Tumbocon	2,722,387 (direct & indirect)	Filipino	0.02089%
Common	Jaime E. Ysmael	1,823,521 (direct & indirect)	Filipino	0.01399%
Common	Dinna G. Bayangos	1,950,750 (direct & indirect)	Filipino	0.01497%
Common	Bernard Vincent O. Dy	1,231,716 (direct)	Filipino	0.00945%
Common	Raul M. Irlanda	281,566 (direct & indirect)	Filipino	0.00216%
Other Executive Officers				
Common	Ruel C. Bautista	1,767 (direct)	Filipino	0.00001%
Common	Augusto D. Bengzon	0	Filipino	n/a
Common	Arturo G. Corpuz	844,833 (direct)	Filipino	0.00648%
Common	Ma. Corazon G. Dizon	920,431 (direct & indirect)	Filipino	0.00706%
Common	Anna Margarita B. Dy	474,852 (direct & indirect)	Filipino	0.00364%
Common	Jose Emmanuel H. Jalandoni	0	Filipino	n/a
Common	Joseph V. Mendoza	1,858,437 (direct & indirect)	Filipino	0.01426%
Common	Francis O. Monera	906,939 (direct & indirect)	Filipino	0.00696%
Common	Ma. Teresa S. Palma	948,184 (direct & indirect)	Filipino	0.00727%
Common	Juanito P. Rosales	405,622 (direct)	Filipino	0.00311%
Common	Eliezer C. Tanlapco	0	Filipino	n/a
Common	Rowena M. Tomeldan	1,431,734 (direct & indirect)	Filipino	0.01098%
All Directors and Officers as a group		**35,475,076**		**0.27216%**

None of the members of the Company's directors and management owns 2.0% or more of the outstanding capital stock of the Company.

iii. **Voting Trust Holders of 5% or More**

The Corporation knows of no persons holding more than 5% of common shares under a voting trust or similar agreement.

e. Changes in Control

No change of control in the Corporation has occurred since the beginning of its last fiscal year.

Item 5. Directors and Executive Officers

There will be no election of directors in the meeting.

Item 6. Compensation of Directors and Executive Officers

a. **Executive Compensation**

The Company adopts a performance-based compensation scheme as incentive. The total annual compensation of the President and Management Committee members of the Company amounted to ₱188.36 million in 2005 and ₱199.21 million in 2006. The projected total annual compensation for the current year is ₱124.57 million.

Total compensation paid to all senior personnel from Manager and up amounted to ₱529.42 million in 2005 and ₱582.10 million in 2006. The projected total annual compensation for the current year is ₱435.26 million.

Name and Principal Position	Year	Salary	Other Variable Pay
Jaime I. Ayala President & CEO			
Miriam O. Katigbak Executive Vice President			
Vincent Y. Tan Executive Vice President			
Ma. Victoria E. Añonuevo Senior Vice President			
Angela DV. Lacson Senior Vice President			
Rex Ma. A. Mendoza Senior Vice President			
John Philip S. Orbeta * Senior Vice President			
Emilio J. Tumbocon Senior Vice President			
Jaime E. Ysmael Senior Vice President			
Jose Rene D. Almendras ** Vice President			
Dinna G. Bayangos Vice President			
Bernard Vincent O. Dy Vice President			
Raul M. Irlanda Vice President			
Ma. Cynthia H. Poblador *** Vice President			
CEO & 13 Most Highly Compensated Executive Officers	Actual 2005	₱93.14 M	₱95.22 M
	Actual 2006	₱103.60 M	₱95.61 M
	Projected 2007	₱113.96 M	₱10.61 M****

All other officers***** as a group unnamed	Actual 2005	₱327.24 M	₱202.18 M
	Actual 2006	₱368.07 M	₱214.03 M
	Projected 2007	₱ 404.88 M	₱30.38 M****

** Compensation reported by Ayala Corporation*
*** Transferred to Ayala Corporation and seconded to Manila Water, effective January 1, 2007*
**** Resigned effective 22 October 2005*
***** Exclusive of Stock Option exercise*
****** Managers and up*

The total annual compensation paid to all senior personnel from Manager and up was all paid in cash.

The total annual compensation includes the basic salary and other variable pay (performance bonus and exercise of Stock Option Plan).

b. **Compensation of Directors**

Article IV Section 17 of the Company's By-Laws provides:

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

i. **Standard Arrangement (Current Compensation)**

During the 2003 Annual Stockholders' Meeting, the stockholders ratified the resolution fixing the remuneration of non-executive directors 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.

ii. **Other Arrangement**

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

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

c. **Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

The above named executive officers are covered by a Letters of Appointment with the Company stating therein their respective job functionalities, among others.

d. **Warrants and Options Outstanding: Repricing**

i. The Company has offered its Executive Stock Option Plan (ESOP) to the Company's officers since 1998. Of the above named officers, there were 13.5 million common shares exercised for the year 2006 by the following officers, to wit:

Name	No. of Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Jaime I. Ayala		Various	Various	Various
Miriam O. Katigbak		Various	Various	Various
Ma. Victoria E. Añonuevo		Various	Various	Various
Angela DV. Lacson		Various	Various	Various
Emilio J. Tumbocon		Various	Various	Various
Jaime E. Ysmael		Various	Various	Various
Jose Rene D. Almendras		Various	Various	Various
Dinna G. Bayangos		Various	Various	Various
Bernard Vincent O. Dy		Various	Various	Various
Raul M. Irlanda		Various	Various	Various
All above-named Officers as a group	13,465,513		4.86 *	5.73 *

** Average prices on the dates of grant.*

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

Item 7. Independent Public Accountants

There will be no election of the public accountant of the Company in the meeting.

Item 8. Compensation Plans

There are no matters or actions to be taken up in the meeting with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other than for Exchange

a. **Title and amount of securities to be issued**

Stock rights offering of one (1) preferred share for every one (1) common share held by all common stockholders of record as of 06 August 2007, indicatively involving the issuance of 13.034 Billion Preferred Shares. The Preferred Shares will be issued out of the ₱1.5 Billion increase in authorized capital stock creating 15 Billion preferred shares with a par value of ₱0.10 per share.

b. **Description of securities**

The following are the features of the Preferred Shares:

Dividend Rate: Fixed rate to be determined on issue date, equivalent to 80% of the 1-year PDST R1, payable annually, non-cumulative, non-participating

Voting Rights: Non-voting

Convertibility: Preferred shareholders have the option to convert one (1) Preferred Share to one (1) Common Share commencing on the 10th year after Issue Date.

The Exercise Price shall be the higher of (i) the 30-day average closing price or (ii) closing price immediately preceding the Exercise Date of the Common Share, less the par value of the Preferred Shares.

Liquidation Rights: Preferred in liquidation to the extent of par value

Redemption: The Preferred Shares are non-redeemable

Others: No pre-emptive rights, non-listed

No transfer of stock or interest which will reduce the ownership of Filipino citizens to less than the required percentage of the capital as provided by existing laws shall be allowed or permitted to be recorded in the proper books of the Corporation and this resolution shall be indicated in all stock certificates issued by the Company.

c. **Description of transaction in which the securities are to be issued**

Approximately ₱1.3 Billion will be received by the Company in relation to the stock rights offering which will be used for general corporate purposes.

d. **Reason for the proposed issuance**

The Philippines has received substantial capital inflows from foreign investors. The stock market has been a major beneficiary of heightened investor interest as evidenced by high share prices and the increasing level of foreign trades.

The preferred shares are being issued to allow a greater number of common shares to be purchased by foreign investors, hence increasing liquidity and further unlocking the value of the listed ALI common shares.

ALI's remaining unissued common capital stock may be freely used as currency for opportunities that may arise in the future i.e., said shares can be freely traded without being restricted by the foreign ownership limit.

The preferred share issue ensures that ALI remains a Philippine national and is fully compliant with the Philippine constitutional requirement.

Item 10. Financial and Other Information

The audited financial statements as of 31 December 2006 and unaudited financial statements as of 31 March 2007 are attached hereto as Annex "B".

D. OTHER MATTERS

Item 11. Amendment of Charter, Bylaws or Other Documents

Upon ratification by the stockholders, the Amended Articles of Incorporation of the Company will be further amended to reflect the capital increase from ₱20B to ₱21.5B to cover the creation of 15 Billion Preferred Shares of par value of ₱0.10 per share.

The Company undertakes to amend its By-laws to incorporate by reference SRC Rule 38 on the nomination and election of independent directors as required by the SEC.

Item 12. Other Proposed Action

Ratification of the Resolutions of the Board of Directors adopted on 05 July 2007 approving the offering of 13.034 Billion Preferred Shares and approving the increase in authorized capital stock from ₱20B to ₱21.5B, and the amendment of Article Seventh of the Amended Articles of Incorporation to reflect the capital increase.

Item 13. Voting Procedures

a. **Vote required**: The vote of stockholders representing at least two-thirds (2/3) of the issued and outstanding capital stock entitled to vote is required.

b. **Method of Voting**: Straight and Cumulative Voting

In all items for approval, each share of stock entitles its registered owner to one vote.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 17th day of July 2007.

AYALA LAND, INC.

Mercedita S. Nolledo

by: MERCEDITA S. NOLLEDO
Corporate Secretary

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Ayala Land, Inc. and its subsidiaries is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2006 and 2005. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

FERNANDO ZOBEL DE AYALA
Chairman, Board of Directors

JAIME I. AYALA
President

JAIME E. YSMAEL
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this **FEB 15 2007** at Makati City, affiants exhibiting to me their respective Community Tax Certificates, to wit:

Name	CTC No.	Date & Place of Issue
Fernando Zobel de Ayala	17694592	15 February 2007 - Makati City
Jaime I. Ayala	17659545	23 January 2007 – Makati City
Jaime E. Ysmael	15137074	19 January 2007 – Makati City

Doc. No. 154 ;
Page No. 32 ;
Book No. XI ;
Series of 2007.

PRIMA LIZA T. GUEVARA
Notary Public-Until 31 Dec. 2007
PTR No. 0300655J 05 Jan. 2007
Issued at Makati City
TIN: 132-783-308

SGV & Co

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

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www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Ayala Land, Inc.
Tower One, Ayala Triangle
Ayala Avenue, Makati City

We have audited the accompanying consolidated financial statements of Ayala Land, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ayala Land, Inc. and Subsidiaries as of December 31, 2006 and 2005, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-1
Tax Identification No. 102-082-365
PTR No. 0266532, January 2, 2007, Makati City

February 13, 2007

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2006	2005 (As Restated - Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 23)	**₱7,558,519**	₱6,160,645
Short-term investments (Notes 2 and 23)	**1,951,090**	595,393
Accounts and notes receivable - net (Notes 5 and 23)	**10,644,524**	6,433,017
Real estate inventories (Notes 6 and 15)	**7,735,587**	6,754,425
Other current assets (Note 7)	**1,411,034**	1,342,241
Total Current Assets	**29,300,754**	21,285,721
Noncurrent assets held for sale (Note 17)	**2,084,317**	–
	31,385,071	21,285,721
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 5 and 23)	**2,025,352**	5,362,692
Land and improvements	**16,874,794**	17,578,187
Investments in associates and jointly controlled entities (Note 8)	**8,791,217**	6,812,216
Available-for-sale financial assets (Notes 22 and 23)	**414,833**	442,491
Investment properties - net (Notes 9, 12 and 15)	**13,032,762**	13,208,712
Property and equipment - net (Notes 10, 12 and 15)	**3,725,035**	5,073,186
Deferred tax assets - net (Note 16)	**782,878**	767,104
Other noncurrent assets	**1,164,419**	1,279,913
Total Noncurrent Assets	**46,811,290**	50,524,501
	₱78,196,361	₱71,810,222

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 11 and 23)	**₱12,126,683**	₱11,202,871
Short-term debt (Notes 12 and 23)	**1,556,000**	1,427,000
Income tax payable	**147,521**	112,344
Current portion of long-term debt (Notes 12, 17 and 23)	**3,563,593**	811,697
Other current liabilities	**442,620**	182,145
Total Current Liabilities	**17,836,417**	13,736,057
Liabilities directly associated with noncurrent assets held for sale (Note 17)	**469,100**	–
	18,305,517	13,736,057
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 12, 17 and 23)	**7,717,818**	8,484,137
Pension liabilities (Note 19)	**91,928**	85,605
Deferred tax liabilities - net (Note 16)	**415,506**	272,967
Deposits and other noncurrent liabilities (Notes13 and 23)	**3,782,281**	3,466,881
Deferred credits	**699,398**	425,397
Total Noncurrent Liabilities	**12,706,931**	12,734,987
Total Liabilities	**31,012,448**	26,471,044

(Forward)

	December 31	
	2006	2005 (As Restated - Note 2)
Equity (Note 14)		
Equity Attributable to Equity Holders of Ayala Land, Inc.		
Paid-up Capital	**₱14,580,590**	₱14,385,091
Stock Options Outstanding (Note 21)	**107,973**	119,953
Unrealized Loss on Available-for-sale Financial Assets	**(64,123)**	(7,508)
Retained Earnings	**25,973,445**	23,950,660
Treasury Stock	**(557)**	(557)
	40,597,328	38,447,639
Minority interests		
Minority interest - net of interest attributable to noncurrent assets held for sale	**5,455,933**	6,891,539
Minority interest attributable to noncurrent assets held for sale	**1,130,652**	–
	6,586,585	6,891,539
	47,183,913	45,339,178
	₱78,196,361	₱71,810,222

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		
	2006	2005 (As Re-presented - Note 2)	2004 (As Re-presented - Note 2)
REVENUE AND OTHER INCOME			
Real estate	**₱22,501,221**	₱16,126,880	₱14,724,906
Hotel operations	**1,091,102**	1,065,016	984,323
Equity in net earnings of investees (Note 8)	**306,233**	227,267	253,403
Interest, fees, investment and other income (Note 15)	**1,660,286**	3,956,206	1,445,743
	25,558,842	21,375,369	17,408,375
COSTS AND EXPENSES			
Real estate (Note 15)	**15,448,634**	10,622,305	9,329,441
Hotel operations (Note 15)	**721,524**	709,652	752,928
General and administrative expenses (Notes 15 and 19)	**2,606,054**	2,317,235	2,013,919
Interest and other charges (Note 15)	**1,093,798**	3,312,593	1,263,784
	19,870,010	16,961,785	13,360,072
INCOME BEFORE INCOME TAX	**5,688,832**	4,413,584	4,048,303
PROVISION FOR INCOME TAX (Note 16)			
Current	**1,483,473**	1,068,904	1,077,036
Deferred	**126,765**	(510,072)	125,942
	1,610,238	558,832	1,202,978
INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE	**4,078,594**	3,854,752	2,845,325
INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE - net of tax (Note 17)	**155,258**	130,679	100,562
NET INCOME	**₱4,233,852**	₱3,985,431	₱2,945,887
Net Income (Loss) Attributable to:			
Equity holders of Ayala Land, Inc.	**₱3,865,602**	₱3,616,673	₱2,986,119
Minority interests	**368,250**	368,758	(40,232)
	₱4,233,852	₱3,985,431	₱2,945,887
Earnings per Share (Note 20)			
Basic			
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.36**	₱0.34	₱0.28
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	**₱0.35**	₱0.33	₱0.27
Diluted			
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.36**	₱0.33	₱0.28
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	**₱0.35**	₱0.33	₱0.27

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2006	2005	2004
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.			
CAPITAL STOCK - ₱1 par value (Note 14)			
Issued			
Balance at beginning of year	**P10,794,539**	₱10,774,189	₱10,760,802
Issuance of shares	**1,071**	65	547
Stock options exercised	**14,065**	20,285	12,840
Balance at end of year	**10,809,675**	10,794,539	10,774,189
Subscribed			
Balance at beginning of year	**1,116**	1,181	1,728
Additions	**34,542**	–	–
Issuance of shares	**(1,071)**	(65)	(547)
Balance at end of year	**34,587**	1,116	1,181
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	**3,593,157**	3,549,922	3,511,339
Additions	**270,274**	43,235	38,583
Balance at end of year	**3,863,431**	3,593,157	3,549,922
SUBSCRIPTIONS RECEIVABLE			
Balance at beginning of year	**(3,721)**	(4,519)	(9,971)
Additions	**(158,897)**	–	–
Collections	**35,515**	798	5,452
Balance at end of year	**(127,103)**	(3,721)	(4,519)
TOTAL PAID-UP CAPITAL	**14,580,590**	14,385,091	14,320,773
STOCK OPTIONS (Note 21)			
Balance at beginning of year	**119,953**	115,087	43,338
Cost of stock options	**35,395**	68,386	121,862
Stock options exercised	**(47,375)**	(63,520)	(50,113)
Balance at end of year	**107,973**	119,953	115,087
TREASURY STOCK (Note 14)	**(557)**	(557)	(557)
RETAINED EARNINGS			
Appropriated for future expansion (Note 14)	**6,000,000**	6,000,000	6,000,000
Unappropriated:			
Balance at beginning of year	**17,950,660**	17,685,310	15,345,369
Effect of adoption of Philippine Accounting Standards No. 39 (Note 2)	**–**	(114,802)	–
Cash dividends - ₱0.17 per share in 2006, P0.30 per share in 2005 and ₱0.06 per share in 2004	**(1,842,817)**	(3,236,521)	(646,178)
Net income	**3,865,602**	3,616,673	2,986,119
Balance at end of year (Note 28)	**19,973,445**	17,950,660	17,685,310
	25,973,445	23,950,660	23,685,310

(Forward)

	Years Ended December 31		
	2006	2005	2004
UNREALIZED LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS			
Balance at beginning of year	(₱7,508)	P–	P
Effect of adoption of Philippine Accounting Standards No. 39 (Note 2)	–	(89,267)	–
Net unrealized gain (loss) recognized in equity	(56,615)	81,759	–
Balance at end of year	(64,123)	(7,508)	
MINORITY INTERESTS			
Balance at beginning of year	6,891,539	6,674,502	5,728,400
Effect of adoption of Philippine Accounting Standards No. 39 (Note 2)	–	(56,185)	–
Net income (loss)	368,250	368,758	(40,232)
Increase (decrease) in minority interests	(440,130)	78,684	994,288
Dividends paid to minority interests	(225,977)	(174,220)	(7,954)
Net unrealized loss recognized in equity	(7,097)	–	–
Balance at end of year	6,586,585	6,891,539	6,674,502
	P47,183,913	₱45,339,178	P44,795,115
Total income and expense recognized for the year			
Net income (loss) attributable to:			
Equity holders of Ayala Land, Inc.	₱3,865,602	P3,616,673	₱2,986,119
Minority interests	368,250	368,758	(40,232)
	4,233,852	3,985,431	2,945,887
Net unrealized gain (loss) recognized in equity:			
Equity holders of Ayala Land, Inc.	(56,615)	81,759	–
Minority interests	(7,097)	–	–
	(63,712)	81,759	–
	₱4,170,140	₱4,067,190	₱2,945,887

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2006	2005 (As Re-presented - Note 2)	2004 (As Re-presented - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱5,688,832**	₱4,413,584	₱4,048,303
Adjustments for:			
Depreciation and amortization (Notes 9, 10 and 15)	**1,067,280**	917,875	833,971
Interest and other charges - net of amount capitalized	**1,026,036**	2,954,677	853,106
Dividends received from investees (Note 8)	**72,779**	94,275	19,034
Cost of share-based payments	**148,004**	68,386	121,862
Equity in net earnings of investees	**(306,233)**	(227,267)	(253,403)
Interest and other income (Note 15)	**(1,096,483)**	(3,673,490)	(837,552)
Operating income before changes in working capital	**6,600,215**	4,548,040	4,785,321
Decrease (increase) in:			
Accounts and notes receivable - trade	**566,430**	(4,475,228)	(1,426,340)
Real estate inventories	**(779,221)**	(637,662)	1,803,914
Other current assets	**(80,282)**	(298,341)	(460,466)
Increase (decrease) in:			
Accounts and other payables	**1,214,997**	5,731,232	1,666,911
Pension liabilities	**(17,117)**	(364,765)	(52,432)
Other current liabilities	**260,475**	(11,855)	(55,820)
Cash generated from operations	**7,765,497**	4,491,421	6,261,088
Interest received	**431,603**	610,191	415,239
Income tax paid	**(1,461,760)**	(1,124,417)	(1,039,930)
Interest paid	**(947,258)**	(1,057,733)	(855,334)
Net cash provided by operating activities before cash items associated with noncurrent assets held for sale	**5,788,082**	2,919,462	4,781,063
Net cash provided by operating activities associated with noncurrent assets held for sale	**291,672**	241,186	225,067
Total cash provided by operating activities	**6,079,754**	3,160,648	5,006,130
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale of investments	**460,000**	3,752,298	1,340,031
Sale of available-for-sale financial assets	**4,980**	16,712	–
Disposal of property and equipment	**263,236**	–	29,049
Disposals of (Additions to):			
Short term investments	**(1,311,856)**	(595,393)	
Available-for-sale financial assets	**(26,840)**		–
Land and improvements	**237,606**	(5,295)	(140,077)
Investments in associates and jointly controlled entities	**(1,528,059)**	–	(739,614)
Investment properties	**(343,689)**	(339,007)	(324,224)

(Forward)

	Years Ended December 31		
	2006	2005 (As Re-presented - Note 2)	2004 (As Re-presented - Note 2)
Property and equipment (Note 10)	**(₱1,696,764)**	(₱1,150,827)	(P2,092,970)
Decrease (increase) in:			
Accounts and notes receivable - non-trade	**(808,944)**	966,284	(620,435)
Other noncurrent assets	**113,220**	(633,629)	(147,707)
Net cash provided by (used in) investing activities before cash items associated with noncurrent assets held for sale	**(4,637,110)**	2,011,143	(2,695,947)
Net cash provided by (used in) investing activities associated with noncurrent assets held for sale, including cash balance	**(361,691)**	2,071	(648)
Total cash provided by (used in) investing activities	**(4,998,801)**	2,013,214	(2,696,595)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short and long-term debt	**3,584,424**	870,000	2,547,480
Payment of short and long-term debt	**(1,017,342)**	(3,302,844)	(3,319,899)
Increase (decrease) in:			
Deposits and other noncurrent liabilities	**614,393**	740,350	445,874
Minority interest in consolidated subsidiaries	**(645,617)**	–	340,144
Proceeds from capital stock subscriptions	**35,515**	798	6,762
Dividends paid to minority	**(225,977)**	(174,220)	(7,954)
Dividends paid to equity holders of Ayala Land, Inc.	**(1,841,355)**	(3,235,916)	(645,693)
Net cash provided by (used in) financing activities before cash items associated with noncurrent assets held for sale	**504,041**	(5,101,832)	(633,286)
Net cash used in financing activities associated with noncurrent assets held for sale	**(187,120)**	(271,572)	(170,982)
Total cash provided by (used in) financing activities	**316,921**	(5,373,404)	(804,268)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,397,874**	(199,542)	1,505,267
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**6,160,645**	6,360,187	4,854,920
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱7,558,519**	P6,160,645	₱6,360,187

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 principal place of business is at Tower One, Ayala Triangle, Ayala Avenue, Makati City. The Company's parent is Ayala Corporation (AC).

The Company and Subsidiaries (the Group) 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 Group is also involved in hotel operations.

The consolidated financial statements of Ayala Land, Inc. and Subsidiaries as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006 were authorized for issue by the Audit Committee on February 5, 2007 and by the Board of Directors (BOD) on February 13, 2007.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost basis, except for financial assets at fair value through profit and loss (FVPL) and available-for-sale financial assets (AFS) that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso and all values are rounded to the nearest thousand (P000) except when otherwise indicated. The Group's functional currency is Philippine Peso.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

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

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

The consolidated financial statements represent the consolidation of the financial statements of the Company and the following subsidiaries:

	Effective Percentages of Ownership	
	2006	2005
Real Estate:		
Amorsedia Development Corporation and subsidiaries	100%	100%
OLC Development Corporation	100	100
Ayala Greenfield Development Corporation (AGDC)	50	50
Ayala Land International Sales, Inc.	100	100
Ayala Land Sales, Inc.	100	100
Buendia Landholdings, Inc.	100	100
Community Innovations, Inc.	100	100
Crimson Field Enterprises, Inc.	100	100
Avida Land Corporation (formerly Laguna Properties Holdings, Inc.) and subsidiaries	100	100
Regent Time International, Limited (Regent)	100	100
Red Creek Properties, Inc.	100	100
Laguna Technopark, Inc.	75	61
Aurora Properties Incorporated	70	70
Vesta Property Holdings, Inc.	70	70
Station Square East Commercial Corporation (SSECC)	69	69
Serendra, Inc.	67	67
Ceci Realty, Inc.	60	65
CMPI Holdings, Inc.	60	60
ALI-CII Development Corporation (ALI-CII)	50	50
Roxas Land Corporation (RLC)	50	50
Construction:		
Makati Development Corporation	100	100
Hotels:		
Ayala Hotels, Inc. (AHI) and subsidiaries	50	50
Enjay Hotels, Inc.	100	100
Cebu Insular Hotel Company, Inc.	63	63
Makati Property Ventures, Inc.	60	60

(Forward)

	Effective Percentages of Ownership	
	2006	2005
Property Management:		
Ayala Property Management Corporation	100	100
Ayala Theatres Management, Inc. and subsidiaries	100	100
Entertainment:		
Five Star Cinema, Inc.	100	100
Leisure and Allied Industries Philippines, Inc. (LAI)	50	50
Others:		
ALInet.com, Inc. (ALInet)	100	100
Food Court Company, Inc.	100	100
Northbeacon Commercial Corporation (formerly Alabang Theatres Management Corporation)	100	–

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

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except as follows:

Amendments to PFRSs and Philippine Interpretations effective in 2006
The Group has adopted the following amendments to PFRS and Philippine Interpretation during the period.

- Philippine Accounting Standards (PAS) 19 Amendment–Employee Benefits
- PAS 21 Amendment–The Effects of Changes in Foreign Exchange Rates
- PAS 39 Amendments–Financial Instruments: Recognition and Measurement
- Philippine Interpretation IFRIC–4, Determining whether an Arrangement contains a Lease
- Philippine Interpretation Q&A 2006-1–PAS 18 Appendix, paragraph 9-Revenue Recognition for Sales of Property Units under Pre-completion Contracts

Philippine Interpretations early adopted
- Philippine Interpretation IFRIC–8 *Scope of PFRS 2*
- Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives.*

The principal effects of these changes are as follows:

PAS 19, Employee Benefits
Amendment for actuarial gains and losses, group plans and disclosures. As of January 1, 2006, the Group adopted the amendments to PAS 19. As a result, additional disclosures on the financial statements are made, starting in 2006, to provide information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost (see Note 19). This change has no recognition nor measurement impact, as the Group chose not to apply the new option offered to recognize actuarial gains and losses outside of the consolidated statements of income.

PAS 21, The Effects of Changes in Foreign Exchange Rates
Amendment for net investment in a foreign operation. As of January 1, 2006, the Group adopted the amendments to PAS 21. This amendment states that all exchange differences arising from a monetary item that forms part of the company's net investment in foreign operations are recognized in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change has no impact on the Group's financial statements.

PAS 39, Financial Instruments: Recognition and Measurement
Amendment for financial guarantee contracts. This amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*. This amendment did not have an effect on the consolidated financial statements.

Amendment for cash flow hedge accounting of forecast intragroup transactions. This amended PAS 39 to permit the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the statement of income. As the Group currently has no such transactions, the amendment did not have an effect on the consolidated financial statements.

Amendment for the fair value option. This amended PAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the statement of income. This amendment has no significant impact on the Group's consolidated financial statements.

Philippine Interpretation *IFRIC-4, Determining Whether an Arrangement contains a Lease*
This Interpretation provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This Interpretation has no impact on the consolidated financial statements of the Group.

Philippine Interpretation Q&A 2006-1–*PAS 18, Appendix, paragraph 9-Revenue Recognition for Sales of Property Units under Pre-completion Contracts*, states that the law in different countries may determine the point in time at which the entity transfers the significant risks and rewards of ownership and that the examples in the Appendix need to be read in the context of the laws relating to the sale of goods in the country in which the transaction takes place. In the Philippines, equitable interest may vest in the buyer before a condominium building is complete and before legal title passes since the concept of equitable interest is recognized in Presidential Decree 957, known as the *Condominium and Subdivision Buyers' Protective Decree*. Although the sale of property units under pre-completion contracts is not within the scope of PAS 11, *Construction Contracts*, the method of determining the stage of completion and revenue recognition as provided in that Standard may be referred to for guidance in determining revenue as the acts are performed.

The adoption of this Interpretation was accounted for retrospectively and resulted in the decrease in total assets and liabilities amounting to ₱5,609.4 million as of December 31, 2005, as receivables are now recognized only to the extent of the recognized revenue which is equivalent to the stage of completion of the project. Any excess of collections over the recognized receivables are included in the "Accounts and other payables" account in the liabilities section of the consolidated balance sheets. Previously, receivables are recognized in full and the corresponding unfulfilled obligation is credited to liabilities.

Philippine Interpretation *IFRIC–8, Scope PFRS 2*
This Interpretation becomes effective for financial years beginning on or after May 1, 2006. It requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the Interpretation has no impact on the consolidated financial statements of the Group.

Philippine Interpretation *IFRIC–9 Reassessment of Embedded Derivatives*
This Interpretation becomes effective for financial years beginning on or after June 1, 2006. It establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Group assessed that adoption of this Interpretation has no impact on the consolidated financial statements.

Future Changes in Accounting Policies
The Group has not applied the following PFRS and Philippine Interpretations which are not yet effective for the year ended December 31, 2006:

PFRS 7, Financial Instruments: Disclosures, and the complementary amendment to PAS 1, Presentation of Financial Statements: Capital Disclosures (effective for annual periods beginning on or after January 1, 2007)
PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in

PAS 32, *Financial Instruments: Disclosure and Presentation.* It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing the impact of PFRS 7 and the amendment to PAS 1 and expects that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by PFRS 7 and the amendment to PAS 1. The Group will apply PFRS 7 and the amendment to PAS 1 in 2007.

PFRS 8, Operating Segments (effective for annual periods beginning on or after January 1, 2009)
This PFRS adopts a management approach to reporting segment information. PFRS 8, will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Group will apply PFRS 8 in 2009 and expects that the adoption of this standard would not significantly modify the Group's segment reporting disclosures.

Philippine Interpretation IFRIC–10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 11, 2006)
This Interpretation prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. This Interpretation has no significant impact to the financial statements of the Group.

Philippine Interpretation IFRIC–11, *Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007)*
This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Group does not expect this interpretation to have a significant impact on its financial statements.

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

Financial Instruments
The Group availed of the exemption under PFRS 1 and as allowed by the Philippine Securities and Exchange Commission, applied Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, starting from January 1, 2005. The cumulative effect of adopting PAS 39 was charged to the January 1, 2005 retained earnings. The policies on financial instruments effective January 1, 2005 follows:

Date of recognition
The Group recognizes a financial asset or a financial liability in the balance sheets when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments
All financial assets are initially recognized at fair value. Except for securities at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: securities at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value
The fair value for financial instruments traded in active markets at the consolidated balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Day 1 profit
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statements of income under "Interest, fees, investment and other income" account. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial assets at FVPL
Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the statement of income under "Interest, fees, investment and other income" account or "Interest and other charges" account. Included in this classification is "Short-term investments" account in the consolidated balance sheets.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met:
- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The financial instrument contains an embedded derivative that would need to be separately recorded.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in interest income in the consolidated statements of income. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the consolidated statements of income under "Interest and other charges" account. The effects of restatement on foreign currency denominated HTM investments are recognized in the consolidated statements of income. As of December 31, 2006 and 2005, the Group had no HTM investments.

Loans and Receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial assets at FVPL. This accounting policy relates to the consolidated balance sheet caption "Accounts and Notes Receivable".

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the interest income in the consolidated statements of income. The losses arising from impairment of such loans and receivables are recognized in the consolidated statements of income under "Interest and other charges" account.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as designated as FVPL, HTM, or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS investments include equity investments.

After initial measurement, AFS investments are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded from reported earnings and are reported as "Unrealized Loss on Available-for-sale Financial Assets" in the consolidated statements of changes in equity.

When the security is disposed of, the cumulative gain or loss previously recognized in consolidated changes in equity is recognized in the consolidated statements of income under "Interest, fees, investment and other income" account or "Interest and other charges" account. Where the Group holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized in the statements of income when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statements of income under "Interest and other charges" account.

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

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

Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized or impaired, as well as through the amortization process.

Deposits and Retention Payable
Deposits and retention payable are measured initially at fair value. After initial recognition, deposits and retention payable are subsequently measured at amortized cost using effective interest method.

For deposits, the difference between the cash received and its fair value is deferred (included in the "Deferred Credits" in the balance sheets) and amortized using the straight-line method.

Derecognition of Financial Assets and Liabilities

Financial Asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

a. the right to receive cash flows from the asset have expired;
b. the Group retains the right to receive cash flows from the asset, but has assumed as obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
c. the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of income under "Interest, fees, investment and other income" account.

Impairment of Financial Assets

The Group assesses at each consolidated balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statements of income under "Interest and other charges" account. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

AFS Investments
For AFS investments, the Group assesses at each consolidated balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income – is removed from the consolidated statements of changes in equity and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income. Increases in fair value after impairment are recognized directly in the consolidated statements of changes in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of Interest income in the consolidated statements of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheets.

Real Estate Inventories
Real estate inventories are carried at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. Cost includes those costs incurred for development and improvement of the properties, including capitalized borrowing costs.

Noncurrent Assets Held for Sale
The Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The related results of operations and cash flows of the disposal group that qualified as discontinued operation are separated from the results of those that would be recovered principally through continuing use, and prior years' consolidated statements of income and cash flows are re-presented. Results of operations and cashflows of the disposal group that qualified as discontinued operation are presented in the statements of income and cashflows as items associated with noncurrent assets held for sale.

Land and Improvements
Land and improvements consist of properties for future development and are carried at the lower of cost or NRV. Cost includes those costs incurred for development and improvement of the properties.

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

Under the equity method, the investments in the investee companies are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in the net assets of the investee companies. The consolidated statements of income reflect the share of the results of the operations of the investee companies. Profit and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies. If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company exceeds the cost of the business combination, the excess shall be recognized immediately in the statements of income.

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

The reporting dates of the investee companies and the Group are identical and the investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investment Properties
Investment properties consist of properties that are held to earn rentals, and that is not occupied by the companies in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

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

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

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

Property and Equipment

Property and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows: buildings and improvements - 20 to 40 years; machinery and construction equipment - 5 years; furniture, fixtures and equipment - 3 to 10 years; transportation equipment - 3 to 5 years; and, hotel property and equipment - 5 to 50 years. Hotel property and equipment includes the following type of assets and their corresponding estimated useful lives:

Hotel buildings and improvements	30-50 years
Land improvements	30 years
Leasehold improvements	5-20 years
Furniture, furnishing and equipment	5 years
Machinery and equipment	5 years
Transportation equipment	5 years

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

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

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

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

The following criteria are also applied in assessing impairment of specific assets:

Investments in associates and jointly controlled entities
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the investee company and the carrying cost and recognizes the amount in the consolidated statements of income.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each consolidated balance sheet date and adjusted to reflect the current best estimate.

Revenue and Cost Recognition
Real estate revenue and cost from completed projects is accounted for using the full accrual method. The percentage of completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included in the "Accounts and other payables" account in the liabilities section of the consolidated balance sheets.

Revenue from construction contracts included in the "Real Estate" account in the consolidated statements of income 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.

Rent income from investment properties is recognized in the consolidated statements of income either on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Revenue from hotel operations of a subsidiary are recognized when services are rendered.

Revenue from banquets and other special events are recognized when the events take place.

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

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

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

Share-based Payments
The Company has equity-settled, share-based compensation plans with its employees.

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes model, further details of which are given in Note 21.

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

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

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

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

Pre-PFRS 2 Options
For options granted before November 7, 2002 that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 20).

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

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

Actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development costs (included in "Real Estate Inventories", "Investment Properties" and "Property and Equipment" accounts in the consolidated balance sheets). Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on applicable weighted average borrowing rate.

Deferred Income Taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and NOLCO can be utilized.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures.

The carrying amount of deferred tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the consolidated balance sheet date.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Foreign Currency Transactions
Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially 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 consolidated balance sheet dates. Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the year.

Operating Leases
Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments are recognized on a straight-line basis over the lease term. Variable rent is recognized as an income based on the terms of the lease contract.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income for the year attributable to common stockholders by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 24.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

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

3. Significant Accounting Judgments and Estimates

The preparation of the accompanying financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Judgments

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

Operating Lease Commitments - Group as Lessor

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

Distinction Between Investment Properties and Owner-occupied properties

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

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

Impairment of AFS equity investments

The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 27).

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

Revenue and cost recognition
The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Group's revenue from real estate and construction contracts recognized based on the percentage of completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project.

Estimating allowance for doubtful accounts
The Group maintains allowance for doubtful accounts based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables, carrying balance and the computed present value. The collective assessment would require the Group to group its receivables based on the credit risk characteristics (industry, customer type, customer location, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. See Note 5 for the related balances.

Evaluation of asset impairment
The Group reviews land and improvements, investments in associates and jointly controlled entities, property and equipment and investment properties for impairment of value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, plans in the real estate projects, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the net selling price and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect land and improvements, investments in associates and jointly controlled entities, available-for-sale financial assets, investment properties, property and equipment, deferred tax assets and other noncurrent assets. See Notes 8, 9 and 10 for the related balances.

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

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

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Group. See Note 21 for the related balances.

Estimating pension obligation and other retirement benefits
The determination of the Group's obligation and cost for pension and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 19 and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations. See Note 19 for the related balances.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the statements of condition cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation (see Note 23).

4. Cash and Cash Equivalents

This account consists of:

	2006	2005
	(In Thousands)	
Cash on hand and in banks	₱946,541	₱1,286,569
Cash equivalents	6,611,978	4,874,076
	₱7,558,519	₱6,160,645

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are short-term investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

5. Accounts and Notes Receivable

Accounts and notes receivable are summarized as follows:

	2006	2005 (As Restated)
	(In Thousands)	
Trade	₱7,816,369	₱8,412,943
Related parties (see Note 18)	1,438,317	1,034,064
Advances	728,822	694,899
Advances to contractors	659,842	501,568
Accrued receivable	103,447	75,866
Others	2,030,856	1,191,137
	12,777,653	11,910,477
Less allowance for doubtful accounts	107,777	114,768
	12,669,876	11,795,709
Less noncurrent portion	2,025,352	5,362,692
	₱10,644,524	₱6,433,017

The sales contract receivables, included under trade receivables, are collectible in monthly installments over a period of one to ten years and bear annual interest rates ranging from 10.25% to 16% computed on the diminishing balance of the principal.

6. Real Estate Inventories

This account consists of:

	2006	2005
	(In Thousands)	
Subdivision land for sale		
At cost	₱3,798,338	₱3,265,179
At NRV	867,126	867,126
Condominium, residential and commercial units for sale - at cost	3,070,123	2,622,120
	₱7,735,587	₱6,754,425

7. Other Current Assets

This account consists of:

	2006	2005
	(In Thousands)	
Value-added input tax	₱452,966	₱411,177
Prepaid expenses	430,579	435,518
Others	527,489	495,546
	₱1,411,034	₱1,342,241

8. Investments in Associates and Jointly Controlled Entities

	2006	2005
	(In Thousands)	
Acquisition cost	₱7,082,008	₱5,334,929
Accumulated equity in net earnings:		
Balance at beginning of year	1,477,287	1,272,758
Equity in net earnings during the year	306,233	227,267
Disposal of equity investment	(1,532)	71,537
Dividends received during the year	(72,779)	(94,275)
Balance at end of year	1,709,209	1,477,287
	₱8,791,217	₱6,812,216

The Group's equity in the net assets of associates and joint ventures and the related percentages of ownership are shown below.

	Percentages of Ownership		Carrying Amounts	
	2006	2005	2006	2005
			(In Thousands)	
Emerging City Holdings, Inc. (ECHI)*	50%	50%	₱3,088,248	₱2,649,921
Cebu Holdings, Inc. (CHI) and subsidiaries	47	47	1,724,036	1,671,605
ARCH Capital Management Co. Ltd. (ARCH Capital)*	22	–	1,296,750	–
North Triangle Depot Commercial Corporation (NTDCC)	49	49	1,044,047	1,044,047
Berkshires Holdings, Inc. (BHI)*	50	50	957,161	939,618
Alabang Commercial Corporation (ACC)*	50	50	490,502	431,349
ALI Property Partners Holdings Corporation (APPHC)*	60	–	129,771	–
Lagoon Development Corporation	30	30	60,702	74,141
MyAyala.com, Inc.	50	50	–	1,535
			₱8,791,217	₱6,812,216

**Joint venture companies*

The Group's investments accounted for under joint venture amounted to ₱5,962.4 million and ₱4,020.9 million as of December 31, 2006 and 2005, respectively.

The fair value of investment in an associate (CHI) for which there is published price quotation amounted to ₱2,903.5 million and ₱998.1 million as of December 31, 2006 and 2005, respectively.

Investment in ECHI and BHI

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 Bonifacio Land Corp. (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 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.

Investment in NTDCC
In 2004, the Company acquired additional 30.89% interest in NTDCC in exchange for the Company's interest in two companies valued at ₱320.1 million and cash amounting to ₱280.0 million. The Company infused additional cash to NTDCC amounting to ₱112.0 million for an additional 1.85% equity interest in the latter.

NTDCC was granted development rights by MRT Development Co. to construct and operate a shopping center under certain terms and conditions until the end of a 50-year lease term renewable for another 25 years. NTDCC officially started the construction of the shopping center in 2005.

Investment in APPHC
In 2006, the Company signed an agreement with MLT Investments Ltd. (MIL) and Filipinas Investments Ltd. (FIL) to jointly develop a BPO office building in Dela Rosa Street and to purchase the existing PeopleSupport Building.

APPHC, the newly formed joint-venture company, is 60% owned by the Company. The remaining 40% interest is split evenly between MIL and FIL. APPHC is jointly controlled by the Company, MIL, and FIL.

The Company has contributed a total capital of ₱124.7 million.

Investment in ARCH Capital
In 2006, the Company and AC entered into a Shareholders' Agreement with ARCH Capital and Great ARCH Co. Limited, wherein the Company and AC will invest as much as US$75.0 million in a private equity fund that will explore property markets in Asia, including Japan and Philippines.

The AC investment will be made through Ayala International Pte. Ltd. (AIPL), a 100 percent-owned subsidiary of AC, which has a strong record of experience in direct property investments in Asia and the United States. The Company and AIPL will both have interests in the fund management company, ARCH Capital, which will raise third party capital and pursue investments for the Fund. The total amount of investment to ARCH Capital amounted to ₱1,296.8 million.

9. Investment Properties

The movements in this account are:

	2006	2005
	(In Thousands)	
Cost		
January 1	₱16,836,444	₱15,426,007
Additions	534,367	744,319
Transfers	649,594	925,809
Disposals	(746,130)	(259,691)
December 31	17,274,275	16,836,444
Accumulated Depreciation, Amortization and Impairment Losses		
January 1	3,627,732	3,115,630
Depreciation and amortization	677,191	519,465
Disposals	(63,410)	(7,363)
December 31	4,241,513	3,627,732
Net Book Value	₱13,032,762	₱13,208,712

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

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

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

The aggregate fair value of the Group's investment properties amounted to ₱122.0 billion and ₱121.8 billion as of December 31, 2006 and 2005, respectively.

Consolidated rental income from investment properties amounted to ₱4.5 billion in 2006, ₱4.2 billion in 2005 and ₱3.5 billion in 2004. Consolidated direct operating expenses arising from the investment properties amounted to ₱2.1 billion in 2006, ₱2.0 billion in 2005 and ₱1.4 billion in 2004.

10. Property and Equipment

This account consists of (in thousands):

2006

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Construction in Progress	2006 Total
Cost							
January 1	₱668,755	₱1,353,495	₱755,101	₱301,464	₱4,824,337	₱740,863	₱8,644,015
Additions	2,166	619,537	76,605	68,354	264,260	707,201	1,738,123
Disposals/Write-off	(246,159)	(41,288)	(9,030)	(40,043)	(31,218)	–	(367,738)
Transfers	–	–	–	–	(2,355,170)	(649,594)	(3,004,764)
December 31	424,762	1,931,744	822,676	329,775	2,702,209	798,470	7,009,636
Accumulated Depreciation and Amortization							
January 1	231,313	683,811	617,576	187,613	1,850,516	–	3,570,829
Depreciation and amortization	11,439	138,419	113,247	50,051	177,105	–	490,261
Disposals	(4,842)	(40,575)	(6,290)	(23,312)	(25,453)	–	(100,472)
Transfers	–	–	–	–	(676,017)	–	(676,017)
December 31	237,910	781,655	724,533	214,352	1,326,151	–	3,284,601
Net Book Value	₱186,852	₱1,150,089	₱98,143	₱115,423	₱1,376,058	₱798,470	₱3,725,035

In 2006, property and equipment of MPVI amounting to ₱1,679.2 million were reclassed from hotel property and equipment to noncurrent assets held for sale (see Note 17).

2005

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

Consolidated depreciation and amortization of property and equipment (included under various consolidated statements of income accounts) amounted to ₱490.3 million in 2006, ₱489.5 million in 2005 and ₱472.6 million in 2004.

11. Accounts and Other Payables

This account consists of:

	2006	2005 (As Restated)
	(In Thousands)	
Accounts payable	**₱7,540,155**	₱7,898,305
Accrued expenses	**2,942,934**	2,238,142
Taxes payable	**1,239,069**	715,670
Dividends payable	**328,540**	338,085
Retentions payable	**75,985**	12,669
	₱12,126,683	₱11,202,871

12. Short-term and Long-term Debt

The short-term debt of ₱1,556.0 million in 2006 and ₱1,427.0 million in 2005 represents unsecured peso-denominated bank loans of the Company's subsidiaries with interest rates ranging from 6.1% to 7.6% p.a. in 2006 and 7.5% to 8.5% p.a. in 2005.

Long-term debt consists of:

	2006	2005
	(In Thousands)	
Parent Company:		
Bonds		
Due 2007	**₱3,000,000**	₱3,000,000
Due 2008	**2,000,000**	2,000,000
Due 2009	**42,960**	–
Bank loans	–	166,667
Fixed rate corporate notes (FXCNs)	**3,580,000**	950,000
	8,622,960	6,116,667
Subsidiaries:		
Bank loans		
Philippine peso	**2,658,451**	2,724,956
Foreign currency (see Note 17)	–	454,211
	2,658,451	3,179,167
	11,281,411	9,295,834
Less current portion (see Note 17)	**3,563,593**	811,697
	₱7,717,818	₱8,484,137

The Company

Philippine Peso 5-Year Bonds due 2007

The Company issued in 2002 ₱3.0 billion bonds due 2007 with interest at 200 bps over benchmark 91-day T-Bills based on secondary market bids (MART 1).

Philippine Peso 5-Year Bonds due 2008

In 2003, the Company issued ₱2.0 billion bonds due 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 MART 1 and is re-priced quarterly.

The Philippine Rating Services Corporation (PhilRatings) assigned a PRS Aaa rating on the bonds due 2007 and 2008 indicating that the issues have the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS Aaa is the highest credit rating possible on PhilRatings' rating scales for long-term issuances.

Philippine Peso Homestarter Bonds due 2009

The Company launched in March 2006 its Homestarter Bonds of up to ₱169.2 million with fixed interest rate of 5% p.a.. The Homestarter Bonds are being issued monthly in a series for a period of thirty-six (36) months with final maturity in March 2009. On maturity date, the principal amount of the bond is redeemable with the accrued interest. Should the bondholder decide to purchase an Ayala Land property, he is entitled to an additional 10% of the aggregate face value of the bond as bonus credit which together with the principal and accrued interest can be applied as downpayment. As of end 2006, outstanding Homestarter Bonds amounted to ₱42.96 million.

Philippine Peso 5-, 7- and 10-Year FXCNs due 2011, 2013 and 2016

In 2006, the Company issued ₱3.0 billion FXCNs consisting of 5-, 7- and 10-year notes issued to various financial institutions and will mature on various dates up to 2016. The FXCNs bear fixed interest rates ranging from 7.25% to 7.75% p.a. depending on the term of the notes.

Philippine Peso 10-Year FXCNs due 2012

The Company also has an outstanding ₱580.0 million 10-year FXCNs with fixed interest rate of 14.875% p.a. issued in 2002 and due 2012. The Company may redeem all (but not part only) of the FXCNs on the 7th anniversary. The Company paid FXCNs that were due in 2005, 2007 and 2009.

Philippine Peso 5-Year Term Loan due 2006

The Company's unsecured long-term bank loan matured in October 2006. In 2005, the Company prepaid a total of ₱1.35 billion in long-term bank loans.

Subsidiaries

The subsidiaries' loans will mature on various dates up to 2011 with floating interest rates at 150 bps to 250 bps spread over benchmark 91-day T-Bills and fixed interest rates of 8.25% to 12% p.a. Certain subsidiaries' loans are secured by mortgages on real estate properties, hotel properties and equipment and leasehold rights with a total carrying value of ₱3.6 billion and ₱3.5 billion as of 2006 and 2005, respectively.

The Company pledged its investment in shares of stock of SSECC with a carrying value of ₱1.5 billion and ₱2.1 billion as of 2006 and 2005, respectively, as collateral to secure the latter's bank loans.

The loan agreements contain some or all of the following restrictions: material changes in nature of business; maintenance of required financial ratios; payment of dividends and additional loans maturing beyond a year which will result in a violation of certain financial ratios; merger or consolidation where the Company/subsidiary is not the surviving corporation; guaranties, investments or advances; encumbrance for borrowed money; and sale of substantially all of assets. These restrictions and requirements were complied with by the Group.

Interest capitalized amounted to ₱186.5 million in 2006 and ₱297.0 million in 2005. The average capitalization rate is 8.19% and 13.94% in 2006 and 2005, respectively.

13. Deposits and Other Noncurrent Liabilities

Deposits and other noncurrent liabilities consist of:

	2006	2005
	(In Thousands)	
Deposits	**₱2,286,010**	₱2,259,909
Retentions payable	**715,475**	535,681
Other liabilities	**780,796**	671,291
	₱3,782,281	₱3,466,881

14. Equity

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

	2006	2005	2004
Authorized	**12,000,000**	12,000,000	12,000,000
Issued	**10,809,675**	10,794,539	10,774,189
Subscribed	**34,587**	1,116	1,181
Treasury	**(24)**	(24)	(24)
Outstanding	**10,844,238**	10,795,631	10,775,346

No transfer of stock or interest which will reduce the ownership of Filipino citizens to less than the required percentage of the capital stock as provided by existing laws shall be allowed or permitted to be recorded in the books of the Company.

The BOD approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱0.17 per share in 2006 and ₱0.30 per share in 2005.

Retained earnings of ₱6.0 billion are appropriated for future expansion. Retained earnings also include undistributed net earnings amounting to ₱5,612.4 million, ₱5,411.4 million and ₱5,061.2 million as of December 31, 2006, 2005 and 2004, respectively, representing accumulated equity in the net earnings of subsidiaries, associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the investees.

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

15. Costs, Expenses and Other Income

Gain on disposal of investments included in interest, fees, investment and other income amounted to ₱758.6 million in 2006, ₱3,047.6 million in 2005 and ₱168.3 million in 2004.

Manpower costs included in consolidated statements of income are as follows:

	2006	2005	2004
		(In Thousands)	
Included in:			
Cost of:			
Real estate	₱596,866	₱488,337	₱457,213
Hotel operations	237,833	232,131	291,446
General and administrative expenses	1,512,769	1,237,720	1,201,631
	₱2,347,468	₱1,958,188	₱1,950,290

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

	2006	2005	2004
		(In Thousands)	
Included in:			
Cost of:			
Real estate	₱844,976	₱711,555	₱565,915
Hotel operations	74,659	65,945	66,247
General and administrative expenses	147,645	140,375	201,809
	₱1,067,280	₱917,875	₱833,971

Hotel operations expenses consists of:

	2006	2005	2004
		(In Thousands)	
Food and beverage	₱206,866	₱204,201	₱218,370
Rooms	104,525	90,469	87,418
Property operations, maintenance and energy costs	84,203	83,593	75,041
Depreciation and amortization	74,659	65,945	66,247
Telephone and other department costs	16,781	18,752	19,150
Entertainment, amusement and recreation	5,150	2,461	2,763
Others	229,340	244,231	283,939
	₱721,524	₱709,652	₱752,928

General and administrative expenses included in the consolidated financial statements are as follows:

	2006	2005	2004
		(In Thousands)	
Manpower cost (see Notes 18, 19 and 21)	₱1,512,769	₱1,237,720	₱1,201,631
Depreciation and amortization	147,645	140,375	201,809
Professional fees	113,428	102,827	141,276
Utilities	98,216	78,645	74,290
Transportation and travel	93,364	93,494	110,173
Advertising	86,753	63,084	114,850
Entertainment, amusement and recreation	74,039	59,206	47,843
Supplies	38,481	33,252	27,400
Others	441,359	508,632	94,647
	₱2,606,054	₱2,317,235	₱2,013,919

Interest and other charges consist of:

	2006	2005	2004
		(In Thousands)	
Provisions and write-offs	₱230,947	₱2,174,130	₱–
Interest expense on:			
Short-term debt	102,187	137,469	248,071
Long-term debt	692,902	643,077	596,740
Others	18,139	138,013	8,758
Others	49,623	219,904	410,215
	₱1,093,798	₱3,312,593	₱1,263,784

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

16. Income Taxes

The components of deferred taxes as of December 31, 2006 and 2005 are as follows:

Net Deferred Tax Assets:

	2006	2005
	(In Thousands)	
Deferred tax assets on:		
Allowance for probable losses	₱660,985	₱618,538
Unrealized gain, deposits and accruals for various expenses on real estate transactions	248,256	311,150
Retirement benefits	187,983	198,446
Outstanding share-based payments	104,679	110,458
NOLCO	34,759	29,174
MCIT	1,946	9,461
Others	230,886	172,021
	1,469,494	1,449,248
Deferred tax liabilities on:		
Capitalized customs duties, interest and other expenses	(686,616)	(681,999)
Unrealized foreign exchange gain	–	(145)
	(686,616)	(682,144)
Net deferred tax assets	₱782,878	₱767,104

Net Deferred Tax Liabilities:

	2006	2005
	(In Thousands)	
Deferred tax assets on:		
Unrealized gain, deposits and accruals for various expenses on real estate transactions	₱58,070	₱75,273
NOLCO	47,967	7,260
Retirement benefits	6,416	6,416
Allowance for probable losses	4,977	8,718
MCIT	1,904	1,904
Others	–	31
	119,334	99,602
Deferred tax liabilities on:		
Capitalized customs duties, interest and other expenses	(290,728)	(135,367)
Excess of financial realized gross profit over taxable realized gross profit	(244,112)	(237,202)
	(534,840)	(372,569)
Net deferred tax liabilities	(₱415,506)	(₱272,967)

Certain subsidiaries of the Company have NOLCO amounting to ₱737.4 million and ₱808.9 million as of December 31, 2006 and 2005, respectively, which were not recognized. Further, a subsidiary also has deductible temporary differences arising from unrealized gain on real estate sales amounting to ₱4.8 million and ₱143.3 million as of December 31, 2006 and 2005, respectively, which were also not recognized. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The subsidiaries will recognize a previously unrecognized deferred tax assets to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As of December 31, 2006, carryover NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities are as follows:

NOLCO:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
2003	₱71,897	₱71,897	₱–	2006
2004	536,322	–	536,322	2007
2005	304,867	–	304,867	2008
2006	333,493	–	333,493	2009
	₱1,246,579	₱71,897	₱1,174,682	

MCIT:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
2003	₱3,726	₱3,726	₱–	2006
2004	5,023	2,906	2,117	2007
2005	9,886	3,985	5,901	2008
2006	1,363	–	1,363	2009
	₱19,998	₱10,617	₱9,381	

At December 31, 2006 and 2005, deferred income tax liabilities have not been recognized on the undistributed earnings of certain subsidiaries, associate or joint venture since such amounts are not taxable.

There are no income tax consequences attaching the payment of dividends by the Company and its subsidiaries to the shareholders of the Company.

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

	2006	2005	2004
Statutory income tax rate	35.00%	32.50%	32.00%
Tax effect of:			
Interest income and capital gains taxed at lower rates	(6.44)	(15.64)	(2.70)
Income subjected to lower income tax rates (see Note 24)	(1.91)	(0.68)	(1.00)
Equity in net earnings of investees	(1.81)	(1.60)	(2.25)
Effect of change in statutory income tax rate	–	(1.99)	–
Others - net	3.47	0.07	3.67
Effective income tax rate	28.31%	12.66%	29.72%

Republic Act (RA) No. 9337

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

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

17. Noncurrent Assets Held for Sale

Ayala Hotels, Inc., together with Ocmador Philippines B. V., agreed to sell Makati Property Ventures, Inc. (MPVI), to DBS Trustee Ltd. (Trustee of Ascott Residence Trust) on or about March 22, 2007 (Closing date).

The results of MPVI for the year are presented below:

	2006	2005	2004
		(In Thousands)	
Revenue from hotel operations	₱733,261	₱673,147	₱664,894
Interest, fees and other investment income	12,871	12,177	10,984
	746,132	685,324	675,878
Hotel cost and expenses	339,457	304,054	297,527
Depreciation	102,446	102,673	99,379
General administrative expenses	23,475	42,661	67,641
Interest and other financing charges	39,527	47,283	63,881
Provision for income tax	85,969	57,974	46,888
	590,874	554,645	575,316
Income associated with assets held for sale	₱155,258	₱130,679	₱100,562

The major classes of assets and liabilities (in thousands) of MPVI classified as held for sale as of December 31, 2006 are as follows:

ASSETS	
Cash	₱324,362
Accounts and notes receivable	44,382
Inventories	4,407
Prepaid items and other current assets	5,446
Hotel property and equipment	1,679,153
Deferred tax assets	22,672
Other assets	3,895
Assets classified as held for sale	₱2,084,317
LIABILITIES	
Accounts payable and accrued expenses	₱145,269
Income tax payable	45,167
Current portion of long-term debt	139,821
Long-term debt	138,843
Liabilities directly attributable to assets held for sale	₱469,100

Long-term debt comprise a fixed rate $5.7 million bank loan having an effective rate of 8.55% repayable in full on September 15, 2008.

EPS on income associated with noncurrent assets held for sale attributable to equity holders of the Company:

	2006	2005	2004
Income associated with noncurrent assets held for sale	₱155,258	₱130,679	₱100,562
Less: Income associated with noncurrent assets held for sale attributable to minority interests	108,681	91,475	70,393
	46,577	39,204	30,169
Weighted average number of common shares for basic EPS	10,824,162	10,788,029	10,766,243
Dilutive shares arising from stock options	45,707	32,625	26,299
Adjusted weighted average number of common shares for diluted EPS	10,869,869	10,820,654	10,792,542
Basic EPS	₱0.004	₱0.004	₱0.003
Diluted EPS	₱0.004	₱0.004	₱0.003

18. Related Party Transactions

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

As of December 31, 2006, the effects of the foregoing are shown under the appropriate accounts in the consolidated financial statements as follows:

	2006	2005	2004
		(In Thousands)	
Revenue			
Associates and jointly controlled entities	₱426,005	₱212,323	₱284,258
Other related parties	38,245	203,500	10,124
	₱464,250	₱415,823	₱294,382

	2006	2005
Receivable from Related Parties	(In Thousands)	
Parent Company	₱16,744	₱5,590
Associates and jointly controlled entities	1,378,758	823,754
Other related parties	42,815	204,720
	₱1,438,317	₱1,034,064

	2006	2005
Payable to Related Parties	(In Thousands)	
Parent Company	₱19,767	₱3,534
Associates and jointly controlled entities	28,934	3,069
Other related parties	7,750	9,884
	₱56,451	₱16,487

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

Compensation of key management personnel by benefit type follows:

	2006	2005	2004
		(In Thousands)	
Short-term employee benefits	₱113,427	₱94,132	₱85,231
Share-based payments (see Note 21)	85,963	31,577	30,016
Post-employment benefits	17,017	29,609	36,042
	₱216,407	₱155,318	₱151,289

19. Retirement Plan

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

Actuarial valuations are made at least every one to three years. The Group's annual contributions to their respective plans consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

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

	2006	2005	2004
		(In Thousands)	
Current service cost	₱129,798	₱170,744	₱168,676
Interest cost on benefit obligation	82,231	61,143	62,228
Expected return on plan assets	(53,356)	(7,175)	(8,328)
Net actuarial losses	9,775	(1,134)	(260)
Past service cost	–	2,706	–
Total pension expense	₱168,448	₱226,284	₱222,316

	2006	2005	2004
		(In Thousands)	
Actual return on plan assets	₱50,045	₱11,025	₱7,833

The funded status and amounts recognized in the consolidated balance sheets for the pension plan as of December 31, 2006 and December 31, 2005 are as follows:

	2006	2005	2004
		(In Thousands)	
Benefit obligations	₱1,594,049	₱1,288,209	₱1,012,108
Plan assets	(1,179,369)	(1,080,505)	(530,250)
	414,680	207,704	481,858
Unrecognized net actuarial losses	(322,752)	(122,099)	(7,802)
Liability recognized in the consolidated balance sheets	₱91,928	₱85,605	₱474,056

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

	2006	2005	2004
		(In Thousands)	
Balance at January 1	₱1,288,209	₱1,012,108	₱1,042,965
Interest cost	82,231	61,143	62,228
Current service cost	129,798	170,744	168,676
Past service cost - vested benefits	–	2,706	–
Benefits paid	(111,454)	(75,277)	(269,242)
Actuarial losses	205,265	116,785	7,481
Balance at December 31	₱1,594,049	₱1,288,209	₱1,012,108

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

	2006	2005	2004
		(In Thousands)	
Balance at January 1	₱1,080,505	₱530,250	₱480,868
Expected return	53,356	7,175	8,328
Contributions	160,273	614,507	310,791
Benefits paid	(111,454)	(75,277)	(269,242)
Actuarial losses	(3,311)	3,850	(495)
Balance at December 31	₱1,179,369	₱1,080,505	₱530,250

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

	2006	2005	2004
Investments in government instruments	55.53%	66.93%	64.59%
Investments in equity securities	32.74	30.09	19.49
Others	11.73	2.98	15.92

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

The assumptions used to determine pension benefits for the Group for the years ended December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
Discount rate	7%	11%	11%
Salary increase rate	5 to 10	5 to 10	5 to 10
Expected rate of return on plan assets	7 to 10	7 to 10	7 to 10

Amounts for the current and the previous periods are as follows:

	2006	2005	2004
		(In Thousands)	
Defined benefit obligation	₱1,594,049	₱1,288,209	₱1,012,108
Plan assets	(1,179,369)	(1,080,505)	(530,250)
Deficit	₱414,680	₱207,704	₱481,858
Experience adjustments on plan liabilities	₱21,294		
Experience adjustments on plan assets	3,311		

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

	2006	2005	2004
		(In Thousands)	
Balance at January 1	₱1,288,209	₱1,012,108	₱1,042,965
Interest cost	82,231	61,143	62,228
Current service cost	129,798	170,744	168,676
Past service cost - vested benefits	–	2,706	–
Benefits paid	(111,454)	(75,277)	(269,242)
Actuarial losses	205,265	116,785	7,481
Balance at December 31	₱1,594,049	₱1,288,209	₱1,012,108

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

	2006	2005	2004
		(In Thousands)	
Balance at January 1	₱1,080,505	₱530,250	₱480,868
Expected return	53,356	7,175	8,328
Contributions	160,273	614,507	310,791
Benefits paid	(111,454)	(75,277)	(269,242)
Actuarial losses	(3,311)	3,850	(495)
Balance at December 31	₱1,179,369	₱1,080,505	₱530,250

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

	2006	2005	2004
Investments in government instruments	55.53%	66.93%	64.59%
Investments in equity securities	32.74	30.09	19.49
Others	11.73	2.98	15.92

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

The assumptions used to determine pension benefits for the Group for the years ended December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
Discount rate	7%	11%	11%
Salary increase rate	5 to 10	5 to 10	5 to 10
Expected rate of return on plan assets	7 to 10	7 to 10	7 to 10

Amounts for the current and the previous periods are as follows:

	2006	2005	2004
		(In Thousands)	
Defined benefit obligation	₱1,594,049	₱1,288,209	₱1,012,108
Plan assets	(1,179,369)	(1,080,505)	(530,250)
Deficit	₱414,680	₱207,704	₱481,858
Experience adjustments on plan liabilities	₱21,294		
Experience adjustments on plan assets	3,311		

20. Earnings Per Share

The following tables present information necessary to compute EPS (in thousands except EPS):

EPS on net income attributable to equity holders of the Company:

	2006	2005	2004
Net income	₱3,865,602	₱3,616,673	₱2,986,119
Weighted average number of common shares for basic EPS	10,824,162	10,788,029	10,766,243
Dilutive shares arising from stock options	45,707	32,625	26,299
Adjusted weighted average number of common shares for diluted EPS	10,869,869	10,820,654	10,792,542
Basic EPS	₱0.36	₱0.34	₱0.28
Diluted EPS	₱0.36	₱0.33	₱0.28

EPS on income before income associated with noncurrent assets held for sale attributable to equity holders of the Company:

	2006	2005	2004
Income before income associated with noncurrent assets held for sale	₱4,078,594	₱3,854,752	₱2,845,325
Less: Income before income associated with noncurrent assets held for sale associated to minority interests	259,569	277,283	(110,625)
	3,819,025	3,577,469	2,955,950
Weighted average number of common shares for basic EPS	10,824,162	10,788,029	10,766,243
Dilutive shares arising from stock options	45,707	32,625	26,299
Adjusted weighted average number of common shares for diluted EPS	10,869,869	10,820,654	10,792,542
Basic EPS	₱0.35	₱0.33	₱0.27
Diluted EPS	₱0.35	₱0.33	₱0.27

21. Stock Option Plans

The Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 2.5% of the Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

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

ESOP

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

Pre-PFRS 2 Options

	2006	Weighted average exercise price	2005	Weighted average exercise price
At January 1	38,628,537	₱4.84	77,076,591	₱4.78
Exercised	(12,713,540)	4.74	(38,448,054)	4.83
At December 31	25,914,997	₱4.89	38,628,537	₱4.84

PFRS 2 Options

	2006	Weighted average exercise price	2005	Weighted average exercise price
At January 1	34,080,099	₱4.84	37,924,187	₱4.78
Granted	–	–	3,215,300	6.75
Exercised	(10,730,201)	4.74	(5,968,211)	4.83
Cancelled	–	–	(1,091,177)	4.58
At December 31	23,349,898	₱4.89	34,080,099	₱4.84

The options exercised had a weighted average exercise price of ₱4.74 or ₱111.1 million in 2006 and ₱4.83 or ₱214.4 million in 2005. The average fair market value of the shares at the exercise date was ₱11.84 or about ₱277.6 million in 2006 and ₱8.93 or about P396.6 million in 2005.

The fair value of stock options granted is estimated as at the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The fair value of stock options granted under ESOP at June 30, 2005, grant date, and the assumptions used to determine the fair value of the stock options are as follows:

Weighted average share price	₱8.36
Exercise price	₱6.75
Expected volatility	46.3%
Option life	10 years
Dividend yield	3.21%
Interest rate	12.6%

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

ESOWN

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

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

Movements in the number of options outstanding under ESOWN are as follows:

	2006	Weighted average exercise price	2005	Weighted average exercise price
At January 1	3,094,213	₱7.03	–	₱–
Granted	21,820,977	10.35	21,011,405	7.03
Exercised	(16,624,516)	7.03	(17,917,192)	7.03
At December 31	8,290,674	₱9.11	3,094,213	7.03

For the unsubscribed shares, the employee still has the option to subscribe within seven years. The fair value of stock options granted is estimated on the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options are as follows:

	Grant Dates	
	June 5, 2006	November 16, 2005
Weighted average share price	**₱12.83**	₱8.36
Exercise price	**₱10.35**	₱7.03
Expected volatility	**46.03%**	46.32%
Dividend yield	**1.56%**	0.77%
Interest rate	**10.55%**	11.30%

Total expense recognized in 2006, 2005 and 2004 in the consolidated statements of income arising from share-based payments amounted to ₱150.1 million, ₱68.4 million and ₱62.3 million, respectively.

22. Available-for-sale Financial Assets

This account consists of investments in:

	2006	2005
Shares of stock		
Unquoted	₱132,936	₱178,337
Quoted	281,897	264,154
	₱414,833	₱442,491

23. Financial Assets and Liabilities

The methods and assumptions used by the Company in estimating the fair value of the financial instruments are:

Cash and cash equivalents and receivables - Carrying amounts approximate fair values due to the relatively short-term maturities of these investments.

Short-term investments - These are investments in government securities. Fair value is based on quoted prices.

Noncurrent accounts and notes receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rate used ranged from 5.0% to 6.7%.

AFS quoted equity securities - Fair values are based on quoted prices published in markets.

AFS unquoted equity securities - Carrying amounts (cost less allowance for impairment losses) approximate fair value due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Liabilities - The fair value of unquoted instruments are estimated using the discounted cash flow methodology using the Company's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rate used ranged from 5.0% to 6.7%. The fair values of accounts and other payables and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2006 and 2005:

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Current Financial Assets				
Cash and cash equivalents	₱7,558,519	₱7,558,519	₱6,160,645	₱6,160,645
Short-term investments	1,951,090	1,951,090	595,393	595,393
Accounts and notes receivables	10,644,524	10,644,524	6,433,017	6,433,017
Total current financial assets	20,154,133	20,154,133	13,189,055	13,189,055
Noncurrent Financial Assets				
Available-for-sale investments	414,833	414,833	442,491	442,491
Accounts and notes receivables	2,025,352	2,712,258	5,362,692	6,038,339
Total noncurrent financial assets	2,440,185	3,127,091	5,805,183	6,480,830
Current Financial Liabilities				
Accounts and other payables	12,126,683	12,126,683	11,202,871	11,202,871
Short-term debt	1,556,000	1,556,000	1,427,000	1,427,000
Current portion of long-term debt	3,563,593	3,563,593	811,697	811,697
Total current financial liabilities	17,246,276	17,246,276	13,441,568	13,441,568
Noncurrent Financial Liabilities				
Long-term debt	7,717,818	8,549,132	8,484,137	8,744,599
Deposits and other noncurrent liabilities	3,782,281	3,776,605	3,466,881	3,239,120
Total noncurrent financial liabilities	₱11,500,099	₱12,325,737	₱11,951,018	₱11,983,719

Financial Risk Management and Objectives

The Group's principal financial instruments comprise of AFS investments, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as trade receivables and payables, and cash and cash equivalents which arise directly from its operations.

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

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

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

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

Liquidity Risk

The Group actively manages its liquidity position so as to ensure that all operating, investing and financing needs are met. In mitigating liquidity risk, management measures and forecasts its cash commitments, matches debt maturities with the assets being financed, maintains a diversity of funding sources with its unhampered access to bank financing and the capital markets, develops viable funding alternatives through its sale of receivables, non-core assets and adoption of joint development agreements for property acquisitions and developments, and holds a sufficient level of cash reserves and marketable securities.

Through scenario analysis and contingency planning, the Group also assesses its ability to withstand both temporary and longer-term disruptions relative to its capacity to finance its activities and commitments in a timely manner and at reasonable cost, and ensures the availability of ample unused credit facilities as back-up liquidity.

Credit Risk

The Group's credit risks are primarily attributable to financial assets, installment receivables and rental receivables. To manage credit risks, we maintain defined credit policies and monitor on a continuous basis our exposure to credit risks. Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

Financial assets are comprised of cash and cash equivalents, and short-term investments. The Group adheres to fixed limits and guidelines in its dealings with counterparty banks and its investment in financial instruments. Bank limits are established on the basis of an internal rating system that principally covers the areas of liquidity, capital adequacy and financial stability. The rating system likewise makes use of available international credit ratings. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations.

In respect of installment receivables from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. Customer payments are facilitated through various collection modes including the use of post dated checks and auto-debit arrangements. Exposure to bad debts is not significant and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. For existing tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

Interest Rate Risk

The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group manages its interest rate risk by leveraging on its premier credit rating and maintaining a debt portfolio mix of both fixed and floating interest rates. The portfolio mix is a function of historical, current trend and outlook of interest rates, volatility of short-term interest rates, the steepness of the yield curve, and degree of variability of cash flows.

As of year-end 2006, the Company's ratio of fixed to floating rate debt stood at 47:53.

The terms of the bank loans, corporate notes and bonds together with its corresponding nominal amounts and carrying values (in thousands) are shown in the following table:

2006

Currency	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Parent							
Peso	Variable at 2.00% over 91-day MartI	3 months	₱3,000,000	₱3,000,000	-	-	₱3,000,000
Peso	Variable at 1.25% over 91-day MartI	3 months	1,000,000	-	1,000,000	-	1,000,000
Peso	Fixed at 7.25% to 7.75%	5, 7 and 10 years	3,000,000	-	1,830,000	1,170,000	3,000,000
Peso	Fixed at 10.75%	5 years	1,000,000	-	1,000,000	-	1,000,000
Peso	Fixed at 14.88%	10 years	580,000	-	-	580,000	580,000
Peso	Fixed at 5%	3 years	42,960	-	42,960	-	42,960
Subsidiaries							
Peso	Variable at 1.50% to 2.50% over 91-day T-Bill or 91-day MartI	3 months	1,352,333	388,493	956,972	-	1,345,465
Peso	Fixed at 8.25% to 12%	4 to 8 years	1,319,608	175,100	1,137,886	-	1,312,986
Total Long-term Debt			₱11,294,901	₱3,563,593	₱5,967,818	₱1,750,000	₱11,281,411

2005

Currency	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Parent							
Peso	Variable at 2.00% over 91-day Mart1	3 months	P3,000,000	-	P3,000,000	-	P3,000,000
Peso	Variable at 1.25% over 91-day Mart1	3 months	1,000,000	-	1,000,000	-	1,000,000
Peso	Variable at 1.5% over 91-day T-bill	3 months	166,667	166,667	-	-	166,667
Peso	Fixed at 10.75%	5 years	1,000,000	-	1,000,000	-	1,000,000
Peso	Fixed at 14.88%	10 years	580,000	-	-	580,000	580,000
Peso	Fixed at 14.50%	7 years	370,000	-	370,000	-	370,000
Subsidiaries							
Peso	Variable at 1.50% to 2.50% over 91-day T-Bill or 91-day Mart1	3 months	1,600,667	348,332	1,088,237	145,624	1,582,193
Peso	Fixed at 10.11% to 12.00%	4 to 8 years	1,144,468	144,860	780,728	218,880	1,144,468
USD	Fixed at 8.55%	10 years	454,211	151,838	300,668	-	452,506
Total Long-term Debt			P9,316,013	P811,697	P7,539,633	P944,504	P9,295,834

Foreign Currency Risk

Financial assets and credit facilities of the Group are mainly denominated in Philippine Peso. Any foreign exchange holdings are matched with foreign currency requirements to fund equity commitments and new projects. As such, the Group's foreign currency risk is minimal.

The following table shows our consolidated foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2006 and 2005:

	In Thousands			
	2006		2005	
	US Dollar	Php Equivalent	US Dollar	Php Equivalent
Financial Assets				
Current	$15,771	₱770,882	$11,431	₱642,744
Noncurrent	–	–	800	42,450
Total	15,771	770,882	12,231	685,194
Financial Liabilities				
Current	2,852	139,821	4,122	219,617
Noncurrent	2,879	141,154	7,354	390,430
Total	5,731	280,975	11,476	610,047
Net foreign currency denominated assets	$10,040	₱489,907	$755	₱75,147

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱49.132 to US$1.00 and ₱53.062 to US$1.00, the Philippine peso-U.S. dollar exchange rates as at December 31, 2006 and 2005, respectively.

24. Segment Information

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

Core business:

- Shopping centers - development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; management and operation of malls which are co-owned with partners
- Corporate business - development and lease or sale of office buildings; sale of industrial lots and lease of factory building
- Residential developments - sale of high-end and upper middle-income residential lots and units, affordable housing units and lots, and leisure community developments; lease of residential developments under joint venture
- Strategic landbank management - acquisition, development and sale of large-scale, mixed-use, masterplanned communities; sale of override units or Ayala Land's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center

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

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

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

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

Business segments

The following tables regarding business segments present assets and liabilities as of December 31, 2006 and 2005 and revenue and profit information for each of the three years in the period ended December 31, 2006 (in millions).

2006

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin*	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱3,973	₱1,329	₱13,965	₱707	₱168	₱3,450	₱-	₱-	₱23,592
Intersegments sales	446	–	60	–	–	2,911	–	(3,417)	–
Equity in net earnings of investees	85	5		118	98	–	–	–	306
Total revenue	4,504	1,334	14,025	825	266	6,361	–	(3,417)	23,898
Operating expenses	1,988	861	11,636	449	172	5,530	1,339	(3,200)	18,775
Operating profit	2,516	473	2,389	376	94	831	(1,339)	(217)	5,123
Interest income									435
Interest expense									(813)
Other income									1,225
Other expenses									(281)
Provision for income tax									(1,610)
Net income before income associated with noncurrent assets held for sale									4,079
Income associated with noncurrent assets held for sale, net of tax (previously included in Support Businesses segment)									155
Net income									4,234
Net income attributable to:									
Equity holders of Ayala Land, Inc.									3,866
Minority interests									368
									₱4,234

(Forward)

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin*	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Other Information									
Segment assets	₱14,707	₱9,091	₱42,954	₱9,101	₱1,459	₱8,824	₱9,499	(₱27,065)	₱68,600
Investment in associates and jointly controlled entities	1,595	130	–	4,045	1,724	–	1,297	–	8,791
Deferred tax assets									805
Total assets									78,196
Segment liabilities	4,881	806	18,976	1,031	147	3,503	10,223	(8,971)	30,596
Deferred tax liabilities									416
Total liabilities									31,012
Segment additions to property and equipment and investment properties	1,311	112	50	–	1	381	417	–	2,272
Depreciation and amortization	649	131	39	4	1	174	69	–	1067
Non-cash expenses other than depreciation and amortization	₱–	₱–	₱118	₱–	₱–	₱–	₱113	₱–	₱231

2005

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin*	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱3,557	₱632	₱9,654	₱499	₱183	₱2,667	₱–	₱–	₱17,192
Intersegments sales	342	–	118	–		3,036	–	(3,496)	–
Equity in net earnings of investees	75	–	2	100	52	–	(2)		227
Total revenue	3,974	632	9,774	599	235	5,703	(2)	(3,496)	17,419
Operating expenses	1,962	422	7,922	354	178	4,879	1,206	(3,274)	13,649
Operating profit	2,012	210	1,852	245	57	824	(1,208)	(222)	3,770
Interest income									662
Interest expense									(918)
Other income									3,294
Other expenses									(2,394)
Provision for income tax									(559)
Net income before income associated with noncurrent assets held for sale									3,855
Income associated with noncurrent assets held for sale, net of tax (previously included in Support Businesses segment)									131
Net income									3,986
Net income attributable to:									
Equity holders of Ayala Land, Inc.									3,617
Minority interests									369
									₱3,986
Other Information									
Segment assets	₱13,382	₱10,702	₱41,979	₱8,772	₱1,383	₱7,504	₱7,258	(₱26,839)	₱64,231
Investment in associates and jointly controlled entities	1,550	–	–	3,559	1,703	–	–	–	6,812
Deferred tax assets									767
Total assets									71,810
Segment liabilities	4,806	888	20,496	2,387	82	4,462	8,421	(15,544)	26,198
Deferred tax liabilities									273
Total liabilities									26,471
Segment additions to property and equipment and investment properties	1,574	326	8	–	–	170	80	–	1,920
Depreciation and amortization	547	80	59	–	2	168	62	–	918
Non-cash expenses other than depreciation and amortization	₱–	₱182	₱1,523	₱–	₱–	₱–	₱469	₱	₱2,174

2004

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin*	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱2,941	₱657	₱8,764	₱680	₱165	₱2,502	₱–	₱–	₱15,709
Intersegment sales	332	–	3	–	–	2,920	–	(3,255)	–
Equity in net earnings of investees	67	–	–	145	35	–	6	–	253
Total revenue	3,340	657	8,767	825	200	5,422	6	(3,255)	15,962
Operating expenses	1,394	420	7,286	46	164	4,848	1,042	(3,104)	12,096
Operating profit	1,946	237	1,481	779	36	574	(1,036)	(151)	3,866
Interest income									659
Interest expense									(854)
Other income									787
Other expenses									(410)
Provision for income tax									(1,203)
Net income before income associated with noncurrent assets held for sale									2,845
Income associated with noncurrent assets held for sale, net of tax (previously included in Support Businesses segment)									101
Net income									2,946
Net income attributable to:									
Equity holders of Ayala Land, Inc.									2,986
Minority interests									(40)
									₱2,946

**Vismin consists of shopping centers and residential development.*

25. 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.

26. Leases

The Group entered into lease agreements with third parties covering real estate properties. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

27. Long-term Commitments and Contingencies

The Company has an existing contract with the Bases Conversion Development Authority (BCDA) to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, the Company transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity.

As part of the bid requirement, the Company procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, the Company obtained surety bonds to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement. The surety bonds are secured by a mortgage on a property of certain subsidiary with a carrying value of ₱48.6 million in 2004.

On April 15, 2003, the Company entered into a Joint Development Agreement (JDA) with BCDA for development of another lot inside Fort Bonifacio with a gross area of 11.6 hectares for residential purposes. Pursuant to the agreement, BCDA shall contribute all its title and interest to the lot and the Company in turn shall provide the necessary cash and expertise to undertake and complete the implementation of the residential development. The Company commits to invest sufficient capital to complete the residential development.

The Company procured a surety bond with a face value of ₱122.9 million issued by an insurance company in favor and for the benefit of BCDA as beneficiary. The surety bond shall be continuing in nature and shall secure the obligation of the Company to pay BCDA annual minimum revenue share for each of the first 8 selling periods of the residential project.

In 2002, the Company agreed to underwrite the subscription to North Triangle Depot Commercial Corporation (NTDCC) additional shares amounting to ₱1.4 billion over a 4-year equity schedule up to 2007 in exchange for a 5% underwriting fee (net of a 1.5% rebate to existing shareholders who subscribed).

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments. No provisions were made during the year.

28. Subsequent Events

On February 1, 2007, the BOD approved the increase in authorized capital stock from 12 billion shares to 20 billion shares. The BOD also approved the declaration of 20 percent stock dividends which is equivalent to 2.17 billion shares based on 10.84 billion shares as of December 31, 2006.

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, 2007

(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, 2007**

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, 2007

Title of each class	Number of shares issued and outstanding
Common shares	**10,861,990,4812**

Amount of Debt Outstanding
P12.75 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 [ ]

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PART I – FINANCIAL STATEMENTS

Item 1. Financial Statements

Ayala Land, Inc.
Consolidated Balance Sheets
As of March 31, 2007 and December 31, 2006
(in million pesos)

	March 2007 Unaudited	December 2006 Audited
ASSETS		
Current Assets		
Cash, cash equivalents and short-term investments	11,142	9,510
Accounts and notes receivable - net	9,075	10,644
Real estate inventories	7,632	7,736
Other current assets	2,084	1,411
Total Current Assets	29,933	29,301
Noncurrent assets held for sale	-	2,084
	29,933	31,385
Noncurrent Assets		
Non-current accounts and notes receivable	3,272	2,025
Land and improvements	17,035	16,875
Investments in associates and jointly controlled entities - net	9,405	8,791
Available-for-sale financial assets	414	415
Invesment properties - net	12,774	13,033
Property and equipment - net	3,850	3,725
Deferred tax assets - net	798	783
Other noncurrent assets	1,191	1,164
Total Noncurrent Assets	48,739	46,811
	78,672	**78,196**
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables	11,619	12,127
Short-term debt	1,697	1,556
Income tax payable	286	147
Current portion of long-term debt	3,656	3,563
Other current liabilities	359	443
Total Current Liabilities	17,617	17,836
Liabilities directly associated with noncurrent assets held for sale	-	469
	17,617	18,305
Noncurrent Liabilities		
Long-term debt - net of current portion	7,400	7,718
Pension liabilities	92	92
Deferred tax liabilities - net	414	415
Deposits, deferred credits and other noncurrent liabilities	4,950	4,482
Total Noncurrent Liabilities	12,856	12,707
Total Liabilities	30,473	31,012
Equity		
Equity Attributable to Equity Holders of Ayala Land, Inc.		
Paid-up Capital	14,597	14,581
Stock Options Outstanding	106	108
Unrealized Loss on Available-for-sale Financial Assets	(64)	(64)
Retained Earnings	27,262	25,973
Treasury Stock	(1)	(1)
	41,900	40,597
Minority interests	6,299	6,587
	48,199	47,184
	78,672	**78,196**

Ayala Land, Inc.
Consolidated Statements of Income
For the Three Months Ended March 31, 2007 and March 31, 2006
(in million pesos)

	Jan.-Mar. 2007 Unaudited	Jan.-Mar. 2006 Unaudited
REVENUE		
Real estate	4,912	4,256
Hotel operations	367	484
Equity in net earnings of investees	233	56
Interest, fees, investment and other income	939	660
	6,451	5,456
COSTS AND EXPENSES		
Real estate	3,270	2,699
Hotel operations	222	311
General and administrative expenses	526	461
Interest and other charges	279	220
	4,297	3,691
INCOME BEFORE INCOME TAX	2,154	1,765
PROVISION FOR INCOME TAX	467	485
NET INCOME	1,687	1,280
Net Income Attributable to :		
Equity holders of Ayala Land, Inc.	**1,288**	**1,175**
Minority interests	399	105
	1,687	1,280
Earnings per Share		
Basic *	0.12	0.11
Diluted **	0.12	0.11

** Based on 10,851,863,487 and 10,801,483,283 weighted average number of shares as of March 31, 2007 and March 31, 2006, respectively*

*** Based on 10,884,616,211 and 10,841,603,893 weighted average number of shares as of March 31, 2007 and March 31, 2006, respectively*

Ayala Land, Inc.
Consolidated Statement of Changes in Stockholders' Equity
For the Three Months Ended March 31, 2007 and March 31, 2006
(in million pesos)

	Jan.-Mar. 2007 Unaudited	Jan.-Mar. 2006 Unaudited
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.		
CAPITAL STOCK		
Issued		
Balance at beginning of year	10,810	10,795
Issuance of shares	1	0
Stock options exercised	18	6
Balance at end of year	10,829	10,801
Subscribed		
Balance at beginning of year	34	1
Issuance of shares	(1)	0
Stock options exercised	0	0
Balance at end of year	33	1
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of year	3,863	3,592
Stock options exercised	6	21
Balance at end of year	3,869	3,613
SUBSCRIPTIONS RECEIVABLE		
Balance at beginning of year	(127)	(3)
Subscriptions	(16)	0
Collections	9	1
Balance at end of year	(134)	(2)
TOTAL PAID-UP CAPITAL	14,597	14,413
STOCK OPTIONS		
Balance at beginning of year	108	120
Cost of stock options	7	28
Stock options exercised	(9)	(28)
Balance at end of year	106	120
TREASURY STOCK	(1)	(1)
RETAINED EARNINGS		
Appropriated for future expansion	6,000	6,000
Unappropriated:		
Balance at beginning of year	19,974	17,951
Cash dividends	0	0
Net income	1,288	1,175
Balance at end of year	21,262	19,126
	27,262	25,126
UNREALIZED LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	(64)	(8)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.	41,900	39,650
MINORITY INTERESTS		
Balance at beginning of year	6,587	6,892
Net income	399	105
Decrease in minority interests	(682)	(242)
Loss on redemption of prefered shares	(5)	0
Dividends paid to minority interests	0	(16)
Balance at end of year	6,299	6,740
	48,199	**46,390**
Total income and expense recognized for the year		
Net income attributable to:		
Equity holders of Ayala Land, Inc.	1,288	1,175
Minority interests	399	105
	1,687	1,280
Net unrealized gain recognized in equity:		
Equity holders of Ayala Land, Inc.	-	-
Minority interests	-	-
	-	-
	1,687	1,280

Ayala Land, Inc.
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2007 and March 31, 2006
(in million pesos)

	Jan.-Mar. 2007 Unaudited	Jan.-Mar. 2006 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	2,154	1,765
Adjustments for:		
Depreciation and amortization	264	278
Interest and other charges - net of amount capitalized	254	221
Gain on sale of investments	(667)	(483)
Equity in net earnings of investees	(233)	56
Interest and other income	(137)	(87)
Operating income before changes in working capital	1,635	1,750
Decrease (increase) in :		
Accounts and notes receivable - trade	430	(277)
Real estate inventories	104	(431)
Other current assets	(673)	(539)
Increase (decrease) in :		
Accounts and other payables	(660)	1,572
Pension liabilities	-	(59)
Other current liabilities	(83)	(65)
Cash generated from operations	753	1,951
Interest received	117	94
Income tax paid	(251)	(609)
Interest paid - net of amount capitalized	(322)	(220)
Net cash provided by (used in) operating activities	297	1,216
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Sale of investments	1,637	615
Disposals of (additions to):		
Land and improvements	(160)	630
Investments	883	(25)
Property and equipment	(279)	(262)
Decrease (increase) in:		
Noncurrent accounts and notes receivable - non trade	(87)	(945)
Other assets	(43)	(180)
Net cash provided by (used in) investing activities	1,951	(167)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (parment of) short-term loans payable	305	(164)
Proceeds from (parment of) long-term loans payable	(389)	(553)
Increase (decrease) in :		
Deposits and other noncurrent liabilities	466	840
Minority interest in consolidated subsidiaries	(682)	(242)
Proceeds from capital stock subscriptions	14	38
Loss on redemption of preferred shares	(5)	-
Dividends paid to minority	-	(16)
Dividends paid to equity holders of Ayala Land, Inc.	(325)	(338)
Net cash provided by (used in) financing activities	(616)	(435)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,632	614
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,510	6,756
CASH AND CASH EQUIVALENTS AT END OF PERIOD	11,142	7,370

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

1. The consolidated financial statements of ALI and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the Philippines, as set forth in Philippine Financial Reporting Standards (PFRSs). Accounting principles/policies and methods of computation applied for the three months ended March 31, 2007 are the same as those applied in the preceding calendar year.

   There was no new accounting standard adopted in the first three months of 2007 but the Company will adopt the following standards and amendments within the year:

   - PFRS 7, *Financial Instruments: Disclosures*, which introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative information about exposure to risks arising from financial instruments, including minimal disclosures about credit risk, liquidity risk, and market risk.

   - PAS 1, *Presentation of Financial Statements*, requires the Group to make new disclosures to enable the users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

   - IFRIC 8, *Scope of PFRS 2*, which requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

   - IFRIC 9, *Reassessment of Embedded Derivatives*, requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as derivative on the basis of the condition that existed at the later of the date it first became a party to the contract and the date of reassessment is required.

   - IFRIC 10, *Interim Financial Reporting and Impairment*, which requires nonreversal of impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

   The Group believes that these interpretations will not have a significant impact on the consolidated financial statements of the Group when the interpretations are adopted in 2007.

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 International Sales, Inc.	100
Ayala Land Sales, Inc.	100
Buendia Landholdings, Inc.	100
Community Innovations, Inc.	100
Crimson Field Enterprises, Inc.	100
Avida Land Corp. and subsidiaries (Avida)	100
Regent Time International, Limited	100
Northbeacon Commercial Corporation	100
Red Creek Properties, Inc.	100
Laguna Technopark , Inc.	75
Aurora Properties, Inc. (API)	70
Vesta Property Holdings, Inc.	70
Station Square East Commercial Corporation (SSECC)	69
Serendra, Inc.	67
Ceci Realty, Inc.	60
CMPI Holdings, Inc.	60
ALI-CII Development Corporation	50
Roxas Land Corporation	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 (LAI)	50
Others:	
ALInet.com, Inc.	100
Food Court Company, Inc.	100

3. Receivables / Payables

<u>Aging of Receivables</u> (as of March 31, 2007; in Million Pesos)

	Up to 6 mos.	Over 6 mos. to One Year	Over One Year	Past Due	Total
Trade Receivables	3,721	1,423	2,672	248	8,064
Non-Trade Receivables	3,190	494	600	0	4,284
Total	6,911	1,917	3,272	248	12,348

Aging of Payables (as of March 31, 2007; in Million Pesos)

	Up to 6 mos.	Over 6 mos. to One Year	Over One Year	Past Due	Total
Trade Payables	4,654	1,201	812	0	6,667
Non-Trade Payables	2,949	3,459	4,643	0	11,051
Total	7,603	4,660	5,455	0	17,718

4. Short-Term and Long-Term Debt

Short-Term Debt (as of March 31, 2007; in Million Pesos)

Borrower	Amount
AGDC	213
API	44
Avida	750
LAI	240
SSECC	450
Total	1,697

Long-Term Debt (as of March 31, 2007; in Million Pesos / US$)

	Current		Non-Current		Total	
Borrower	Peso	US$	Peso	US$	Peso	US$
ALI *	3,000		5,635		8,635	
AGDC	26		-		26	
Avida	125		-		125	
CIHC	45		33		78	
EHI	-		260		260	
LAI	200		-		200	
SSECC	261		1,472		1,733	
Total	3,656	-	7,400	-	11,056	-

* *Including bonds and FXCNs*

Issuances, Repurchases and Repayments of Debt and Equity Securities

Issuances of Debt and Equity Securities / New Financing through Loans – January – March 2007 (in Million Pesos)

Borrower	Amount	Nature
ALI	13	issuance of bonds
AGDC	113	renewal of short-term loans
API	44	renewal of short-term loan
Avida	1,694	renewal of short-term loans and new short-term loans
EHI	40	new long-term loans
LAI	505	renewal of short-term loans and new short-term loans
SSECC	1,230	renewal of short-term loans and new short-term loans
Total	3,639	

Repayments of Debt and Equity Securities –
January – March 2007 (in Million Pesos)

Borrower	Amount	Nature
ALI	1	retirement of bonds
AGDC	193	payment of matured short-term loans
API	44	payment of matured short-term loan
Avida	1,729	payment of matured short-term loans and amortization on long-term loans
CIHCI	12	amortization on long-term loans
LAI	465	payment of matured short-term loans
MPVI	275	principal payment
SSECC	1,254	payment of matured short-term loans and amortization on long-term loans
Total	3,973	

5. Commercial Paper Issuances and Outstanding Balance
(for the quarter ended March 31, 2007)

None.

6. Accounts and Other Payables

The accounts and other payables as of March 31, 2007 is broken down as follows:

	(million)
Accounts payable	P 6,859
Accrued expenses	3,199
Taxes payable	1,116
Dividends payable	413
Retentions payable	32
Total	P 11,619

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

Income Statement items – 1Q 2007 versus 1Q 2006

15% increase in real estate revenues
Primarily due to higher revenues from residential developments, particularly from high-end and upper middle-income projects, as well as higher construction and property management revenues.

24% decline in hotel operations revenues
Mainly due to the sale of Oakwood Premier Ayala Center.

316% increase in equity in net earnings of investees
Largely due to higher income from ALI's corporate vehicles for its investment in Bonifacio Global City, as well as improved performance of Cebu Holdings Inc. and Lagoon Development Corp.

42% increase in interest, fees, investment and other income
Primarily due to the gain on sale of shares in Makati Property Ventures, Inc. (Oakwood), higher interest income and higher marketing and management fees.

21% increase in real estate costs and expenses
Mainly due to higher real estate revenues.

29% decline in hotel operations costs and expenses
Largely due to the sale Oakwood Premier Ayala Center.

14% increase in general and administrative expenses
Primarily due to higher payroll costs given salary increases following the CBA implementation, as well as manpower increase.

27% increase in interest and other charges
Principally due to higher bank loans.

280% increase in net income attributable to minority interests
Largely due to higher income of Ayala Hotels, Inc. following the sale of Oakwood, as well as higher income of Serendra, Inc., Ayala Greenfield Development Corporation and ALI-CII Development Corporation.

<u>Balance Sheet items</u> – March 31, 2007 versus End-2006

17% increase in cash, cash equivalents and short-term investments
Mainly due to the proceeds from the sale of MPVI shares (Oakwood).

15% decline in accounts and notes receivable (current portion)
Primarily due to improved collection given lower customer payment defaults.

48% increase in other current assets
Mainly due to higher prepaid expenses such as business tax and annual RPT payments.

100% decline in noncurrent assets held for sale
Primarily due to sale of Oakwood.

62% increase in non-current accounts and notes receivable
Largely due to additional sales at new and existing projects.

7% increase in investments in associates and jointly controlled entities
Mainly due to higher investment in North Triangle Depot Commercial Corporation (TriNoma), and increase in earnings of Cebu Holdings, Inc. and of ALI's corporate vehicles for its investment in Bonifacio Global City.

9% increase in short-term debt
Largely due to short-term loan availments by Avida Land, partly offset by loan payments made by Ayala Greenfield Development Corporation.

95% increase in income tax payable
Primarily due to the 1Q2007 corporate income tax, in addition to the corporate income tax in 4Q2006 which was subsequently paid in April 2007.

19% decrease in other current liabilities
Mainly due to decline in buyers' deposits at The Residences at Greenbelt given higher percentage of completion.

100% decline in liabilities directly associated with noncurrent assets held for sale
Primarily due to sale of Oakwood.

10% increase in deposits, deferred credits and other noncurrent liabilities
Mainly due to increase in buyers' deposits for new residential projects.

5% increase in retained earnings
Largely due to income generated in 1Q2007.

8. Segment information

YTD-March 2007	Strategic Landbank Mgt.	Residential Development	Shopping Centers	Corporate Business	Vismin	Support Businesses	Corporate	Total	Intersegment Adjustments	Consolidated
(in million pesos)										
Revenues										
Sales to external customers	82	2,937	978	232	23	1,026	0	5,278	0	5,278
Intersegment sales	0	33	96	0	0	905	0	1,034	(1,034)	0
Equity in net earnings of investees	167	0	13	0	53	0	0	233	0	233
Total revenue	249	2,970	1,087	232	76	1,931	0	6,545	(1,034)	5,511
Operating expenses	59	2,408	512	149	31	1,682	179	5,020	(1,002)	4,018
Operating profit	190	562	575	83	45	249	(179)	1,525	(32)	1,493
Interest income										173
Interest expense										(279)
Other income										767
Provision for income tax										(467)
Net income										1,687
Net income attributable to:										
Equity holders of Ayala Land, Inc.										1,288
Minority interests										399
										1,687
Other information										
Segment assets	10,611	47,813	19,451	9,732	1,659	9,694	(7,110)	91,850	(24,082)	67,768
Investment in associates and jointly controlled entities	4,234	0	1,968	130	1,777	0	1,296	9,405	0	9,405
Deferred tax assets	1	13	5	6	0	82	1,392	1,499	0	1,499
Total assets	14,846	47,826	21,424	9,868	3,436	9,776	(4,422)	102,754	(24,082)	78,672
Segment liabilities	1,490	11,185	5,005	531	101	3,856	12,511	34,679	(5,321)	29,358
Deferred tax liabilities	0	427	0	0	0	6	682	1,115	0	1,115
Total liabilities	1,490	11,612	5,005	531	101	3,862	13,193	35,794	(5,321)	30,473
Segment additions to property and equipment and investment properties	24	38	36	221	0	73	(60)	332	0	332
Depreciation and amortization	3	11	162	24	0	48	16	264	0	264

YTD-March 2006	Strategic Landbank Mgt.	Residential Development	Shopping Centers	Corporate Business	Vismin	Support Businesses	Corporate	Total	Intersegment Adjustments	Consolidated
(in million pesos)										
Revenues										
Sales to external customers	24	2,397	956	298	47	1,017	0	4,739	0	4,739
Intersegment sales	47	48	70	0	0	778	0	943	(943)	0
Equity in net earnings of investees	2	0	19	0	35	0	0	56	0	56
Total revenue	73	2,445	1,045	298	82	1,795	0	5,738	(943)	4,795
Operating expenses	39	1,938	463	161	43	1,483	251	4,378	(907)	3,471
Operating profit	34	507	582	137	39	312	(251)	1,360	(36)	1,324
Interest income										105
Interest expense										(220)
Other income										556
Provision for income tax										(485)
Net income										1,280
Net income attributable to:										
Equity holders of Ayala Land, Inc.										1,175
Minority interests										105
										1,280
Other information										
Segment assets	8,966	43,854	16,962	9,861	1,688	8,220	3,214	92,765	(21,822)	70,943
Investment in associates and jointly controlled entities	3,643	0	1,559	0	1,706	0	0	6,908	0	6,908
Deferred tax assets	0	54	3	6	0	116	639	818	0	818
Total assets	12,609	43,908	18,524	9,867	3,394	8,336	3,853	100,491	(21,822)	78,669
Segment liabilities	2,081	15,427	4,152	670	193	3,128	9,825	35,476	0	35,476
Deferred tax liabilities	0	283	0	0	0	7	0	290	0	290
Total liabilities	2,081	15,710	4,152	670	193	3,135	9,825	35,766	0	35,766
Segment additions to property and equipment and investment properties	332	147	729	(1,089)	0	176	(1,083)	(788)	0	(788)
Depreciation and amortization	0	59	547	80	2	271	62	1,021	0	1,021

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

Results of Operations for the Three Months Ended March 31, 2007

Ayala Land's consolidated revenues in the first quarter of 2007 totaled Php 6.45 billion, 18% higher than the Php 5.46 billion posted in the same period last year.

Operating revenues grew by 11% to Php 5.28 billion as growth across all residential brands more than offset the decline in hotel revenues due to the sale of Oakwood Premier Ayala Center and lower corporate business revenues due to the full sell-out of Laguna Technopark and the sale of the PeopleSupport building late last year.

Complementing operating revenue growth were higher equity earnings from the company's investment in Bonifacio Global City due to strong lot sales. The Php 667 million gain on sale of shares in Makati Property Ventures in 1Q07, which is higher than the Php 506 million gain on sale of shares in Bridgebury Corporation in 1Q06, likewise contributed to the 18% growth in consolidated revenues.

Net operating income (NOI) margin per product held steady. However, overall NOI margin slightly dropped due to the shift in revenue mix given higher contribution of residential development. The change in revenue recognition policy, as well as the losses booked from the sale of One Roxas Triangle units, also pulled down the overall NOI margin. Meanwhile, overhead costs grew at par with topline growth.

Ayala Land ended the first quarter with a net income of Php 1.29 billion, 10% higher than the Php 1.17 billion posted last year. Excluding one-off items such as the after tax gains from the MPVI (Php 299 million in 1Q2007) and Bridgebury (Php 426 million in 1Q2006) transactions, net income for 1Q2007 would have been 32% higher year-on-year.

"During the first quarter, Ayala Land made significant strides in laying down the foundations for future growth. We have stepped up priming activities in our strategic landholdings and are on track with our lineup of residential project launches. Expansion of our shopping center and office rental portfolio is likewise proceeding at a steady pace. These and other investments we will be making for the rest of the 2007 put the company in a strong growth trajectory." said Ayala Land President and Chief Executive Officer Jaime I. Ayala.

Business Segments

Residential Development accounted for the biggest share of total revenues at 46% or Php 2.9 billion. This was followed by the Support Businesses at 16% or Php 1.0 billion. Shopping Centers contributed 15% or Php 978 million while Corporate Business generated Php 4% or Php 232 million. Strategic Landbank Management accounted for Php 82 million or 1%, followed by Visayas-Mindanao with Php 24 million or less than 1%. Interest and Other Income accounted for the balance of 18%.

Residential Development

Revenues of the Residential Development business reached Php 2.9 billion during the first three months of 2007, 25% more than the Php 2.3 billion reported during the same period in 2006.

Ayala Land Premier (ALP) and Community Innovations, Inc. (CII) reported double-digit growths.

ALP projects generated Php 1.5 billion in revenues, 29% more than in 1Q06. High-end units contributed Php 1.0 billion (+29% y-o-y), with 110 of the 158 booked units coming from the three towers of The Residences at Greenbelt. High-end lots, mostly coming from Ayala Westgrove Heights and Ayala Greenfield Estates, added Php 447 million (+26% y-o-y), as the launch of a new phase at Ayala Westgrove Heights with 110 units boosted take-up. Leisure project Anvaya Cove, still at an early stage of development, generated Php 78 million, up from only Php 49 million in 2006. The opening of the Pawikan Beach Bar & Grill (beach club) in April has perked up interest in the project.

CII's revenues increased 35% y-o-y to Php 850 million. A total of 166 units were booked during the period, 11% more than last year, with Two Serendra accounting for 71 units and The Columns at Legazpi Village for 53 units. The 128- unit Celadon Park high rise condominium in San Lazaro, launched in December 2006, accounted for 12 units. However, since there was no construction accomplishment as of end-March, this project did not contribute to revenues yet.

Avida reported revenues of Php 556 million, only 4% more than 1Q06's Php 534 million. Booked units dropped 12% y-o-y to 456 units. The minimal growth in revenues and drop in booked units can be traced to delayed bookings as a result of the change in revenue recognition policy implemented in 2Q06. Units taken-up during the period reached 560 units, 9% more than the 516 units taken-up in 1Q06. In response to healthy demand for affordable condominiums within Metro Manila, 752 units were put on the market with the launch of third towers in San Lazaro and New Manila. The fifth tower in Sucat, consisting of 264 units, was launched in April.

NOI for Residential Development grew 22% y-o-y in 1Q07 to Php 746 million. This was despite the slight decline of NOI margin to 25% from 26% due to losses booked from the sale of two units at One Roxas Triangle as well as the impact of the change in revenue recognition policy on Avida. Going forward, One Roxas Triangle should have minimal effect on earnings as only two of the 182 units remain unsold. This year's residential NOI margin would have been an improvement from 22% last year if 1Q06 is recasted using the new revenue recognition policy. Residential Development contributed 42% of total NOI.

Meanwhile, take-up of all residential projects (including partners' shares) reached 1,273 units, 9% more than in 1Q06. Sales value of these units amounted to Php 5.4 billion, 31% higher than 1Q06 level as more expensive units were sold.

Of 24 new projects and phases representing 6,800 units (excluding the three projects under Visayas-Mindanao) targeted for launch in 2007, five of these projects and phases , consisting of 1,136 units were launched in the first quarter.

Shopping Centers

ALI's Shopping Centers generated revenues of Php 978 million during the first three months of 2007. Average occupancy rate was at 91% even with the growth in gross leasable area (GLA) to 760,000 from 740,000 square meters at end-March 2006. Additional space was added by Shops at Serendra and Bonifacio High Street. Average rent stood at Php 1,004 per square meter per month, 6% higher than 1Q06.

NOI margin for Shopping Centers was maintained at 60%, with NOI posted at Php 587 million. This business line accounted for 33% of total NOI.

Construction of the 195,000-sqm TriNoma mall is almost complete with soft opening scheduled on May 16. As of end-March, 94% of the 72,000 square meters building leasable area (excluding area to be occupied by anchor tenant Landmark) was leased-out/committed. Phase 1 or 13,500 square meters of Greenbelt 5 is targeted to open within the fourth quarter, with an additional 19,500 square meters coming on stream in 3Q08. Site development for the mall in Angeles, Pampanga started in March and is expected to open in 1Q09.

Corporate Business

Corporate Business revenues for 1Q07 were 22% lower than in 1Q06 at Php 232 million. This was due to the absence of revenues from PeopleSupport Center (sold to the joint venture with Goldman Sachs and GMAC in 4Q06) as well as lot sales in Laguna Technopark (sold 1.5 hectares in 1Q06).

There was a one percentage point drop in the average occupancy rate for traditional office buildings to 98% as Avida relocated its offices in Makati Stock Exchange Building, bringing down MSE's occupancy rate to 92% from 100% in 1Q06. The decline in the average rent for traditional office buildings was a carry over of leases renewed at then prevailing market rates in late 2005. New lease renewals are at much higher rental rates.

During the quarter, the company sold a floor at Ayala Life-FGU Makati at Php 75,000 per square meter, higher that the Php 73,000 per square meter price for another floor sold in 1Q06.

NOI margin declined to 42% from 50%, largely due to the depreciation expense for Convergys starting 1Q07. Corporate Business' NOI of Php 97 million accounted for 5% of total.

Corporate Business has a number of projects lined up to increase office GLA to 500,000 square meters by 2010 from close to 102,000 square meters as of end-2006. In January, construction commenced on the 47,000 square meter Dela Rosa E-Services tower, targeted for completion by 4Q08. In March, work started on the first two of the ten BPO buildings at the UP North Science and Technology Park, targeted for completion by year-end, with a GLA of 27,000 square meters.

Other projects expected to start construction within the year are the BPO component of Glorietta 5 (16,000 square meters), the first of 10 buildings at the Canlubang with a total GLA of 86,000 square meters and the first of the two BPO buildings in San Lazaro with a total GLA of about 42,000 square meters.

Strategic Landbank Management

Revenues of Strategic Landbank Management Group (SLMG) increased 10% y-o-y to Php 82 million from the booking of override units and construction completion at The Columns at Ayala Avenue and Legazpi Village, Avida Towers Sucat, Sta. Catalina Village, Villa Sta. Cecilia and Sampaguita Village.

However, NOI dropped to Php 27 million from Php 35 million primarily due to the lower contribution from higher-margin The Columns at Ayala Avenue (construction completed). A total of 40 units were booked in 1Q07 versus 13 in 1Q06. SLMG's NOI during the three-month period contributed 2% to total NOI.

SLMG is implementing the masterplans for the Company's three main land parcels, Makati, Canlubang and Bonifacio Global City, to drive value. The initial phase of the Ayala Center masterplan involving the construction of a new carpark building to replace Park Square 2 (where the luxury hotel complex of Kingdom Hotel Investments will be located) and Glorietta 5 have started. Meanwhile, construction of key infrastructure (spine road and access roads to residential projects) is ongoing in Canlubang, while work on the Visitors' Center and nature park/lake development will commence in 3Q07.

The build-up of Bonifacio Global City (BGC) continues. The retail projects continue to draw traffic with the formal launch of Bonifacio High Street in March, while turnover of residential units at One Serendra started in April. Fort Bonifacio Development Corporation (FBDC) turned over the HSBC building early this year, while a Memorandum of Understanding was signed in April between ALI, FBDC and the Philippine Stock Exchange for the development of an office building within BGC.

Including Ayala Land's Php 155 million equity earnings from its investments in Bonifacio Global City, accounted for under Equity in Net Earnings of Investees, Interest, Fees, Investment and Other Income, SLMG revenues contributed 4% to consolidated revenues.

Visayas-Mindanao

Visayas-Mindanao's revenues declined by half to Php 24 million in 1Q07 from Php 47 million during the same period last year as the number of booked units dropped to 6 from 43 a year ago. Take-up at Plantazionne Verdana Homes was high at 35 lots, but booking was delayed for the third phase that was launched in January. NOI contribution was minimal at Php 2 million, representing less than 1% of total NOI.

During the year, high-end residential subdivision projects will be launched in Cagayan de Oro and Iloilo, areas where ALI currently does not have existing projects. Revenues from these projects should boost Visayas-Mindanao's earnings in the coming years.

With the company's Php 53 million equity earnings from Cebu Holdings, Inc., Vis-Min revenues accounted for 1% of consolidated revenues.

Support Businesses

The Support Businesses, namely hotels, construction and property management generated revenues of Php 1.0 billion during the first three months of the year, equivalent to the same amount posted in 1Q06. This was despite the double-digit growths posted by construction and property management as the sale of Oakwood resulted to a 24% drop in hotel revenues. NOI from Support Businesses amounted to Php 328 million or 18% of total NOI.

Hotels' revenues settled at Php 367 million, down 24% from Php 484 million in 1Q06. Average occupancy rate was also lower at 81% compared to 87% in 1Q06. The decline in revenues and occupancy rate was due to the sale of Oakwood Premier Ayala Center. Meanwhile, average room rate slightly increased to Php 4,287 in 1Q07 from Php 4,266 in the same period last year given higher rates at Hotel InterContinental Manila following the completion of its refurbishment in 4Q06. Hotel NOI margin improved to 40% from 36%, although NOI declined by 16% y-o-y to Php 145 million following the decline in revenues.

Makati Development Corporation reported revenues of Php 1.3 billion (+19% y-o-y) from construction activities. However, NOI margin was lower at 8% from 12% last year as 1Q06 included additional income from projects that were substantially completed during that time and had cost savings. Net of inter-segment eliminations, construction revenues grew by 26% y-o-y to Php 398 million but NOI dropped 15% to Php 72 million due to higher revenues from FBDC projects that carry lower margins versus other third party contracts.

Meanwhile, Ayala Property Management Corporation's revenues increased by 27% y-o-y to Php 217 million in 1Q07 with the contribution from Citibank and other contracts finalized after 1Q06. NOI margins dropped three percentage points to 13% as training costs were incurred in connection with the organizational build-up for new projects. Net of inter-segment eliminations, property management revenues reached Php 179 million (+27% y-o-y) while NOI settled at Php 88 million (+16% y-o-y).

Equity in Net Earnings of Investees, Interest, Fees, Investment and Other Income

Equity in Net Earnings from Investees grew to Php 233 million in 1Q07 from only Php 56 million in 1Q06. The growth is attributed to the jump in earnings from FBDC and Cebu Holdings, Inc. (CHI).

FBDC's contribution rose to Php 155 million from less than Php 2 million as 11 lots with an area of 25,540 square meters were sold at Bonifacio Global City, compared to three lots with an area of 2,948 square meters during the same period last year. The lot selling prices reflect the value appreciation driven by high activity levels in this emerging business district. Meanwhile, CHI's revenues grew by 89% to Php 488 million during the first quarter of the year with eight lots booked at Asiatown IT Park (versus one in 1Q06) and twice the number of residential lots booked at Amara (eight versus four in 1Q06). Rental rates at Ayala Center Cebu rose by 9% y-o-y, also contributing to higher revenues. As a result, Net Income settled at Php 112 million from Php 74 million during the same period last year.

Interest, Fees, Investment and Other Income for the first quarter of 2007 reached Php 939 million, 42% more than 1Q06's Php 660 million. In 2007, Php 667 million was generated from the sale of Oakwood while the balance came mainly from marketing fees for FBDC projects and project development management fees for TriNoma. Meantime, 2006 included proceeds from the sale of Bridgebury amounting to Php 506 million.

Expenses

For January to March 2007, total expenses amounted to Php 4.3 billion, 16% more than the Php 3.7 billion in 1Q06. Cost of real estate accounted for the bulk at Php 3.3 billion, 21% more than last year. The growth in real estate costs was faster than the 15% growth in real estate revenues given the bigger share of residential projects to 46% of total revenues in 1Q07 from only 43% during the same period in 2006.

Expenses for hotel operations dropped 29% y-o-y to Php 222 million as 1Q07 figures no longer included Oakwood. General and Administrative Expenses (GAE) rose by 14% y-o-y to Php 526 million, a slightly lower pace than the 15% increase in real estate revenues. Interest and other charges increased to Php 279 million from Php 220 million as end-March 2007. Borrowings stood at Php 12.8 billion versus Php 10.0 billion as of end-March 2006.

Project and Capital Expenditures

During the first quarter of 2007, ALI spent Php 3.1 billion for project and capital expenditures, 15% more than the Php 2.7 billion spent during the same period in 2006. The bulk or 63% was spent on Residential Development projects. Shopping Centers accounted for 28% of total with construction work in full swing at TriNoma and Greenbelt 5. Corporate Business hardly spent for any capex in 1Q07 but should reach its Php 1 billion budget by year-end with the construction of the Dela Rosa E-Services Tower and the first two buildings of the UP North Science and Technology Park (broke ground in March). The Php 3.1 billion capex for 1Q07 represents 19% of the full year budget of Php 16.2 billion.

Financial Condition

ALI's balance sheet continues to remain healthy with Current Ratio at 1.70:1. Cash and Equivalents stood at Php 11.1 billion, Php 1.6 billion more than the end-2006 level mainly due to proceeds from Oakwood sale. Meanwhile, Total Borrowings declined by Php 363 million from December 2006 to to Php 12.8 billion, translating to a Debt-to-Equity Ratio of 0.30:1 and a Net Debt-to-Equity Ratio of 0.04:1.

PART II - OTHER INFORMATION

Item 3. 1Q 2007 Developments

A. New project or investments in another line of business or corporation	None.	
B. Composition of Board of Directors (as of March 31, 2007)	Fernando Zobel de Ayala	Chairman
	Jaime Augusto Zobel de Ayala II	Vice Chairman
	Jaime I. Ayala	President & CEO
	Mercedita S. Nolledo	Corp. Secretary
	Delfin L. Lazaro	Director
	Leandro Y. Locsin, Jr.	Director
	Aurelio R. Montinola III	Director
	Corazon dela Paz	Director
	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

20% stock dividend
Declaration date: February 1, 2007
Record date: May 22, 2007
Payment date: June 18, 2007

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

ALI has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Option Plan (ESOWN) covering 2.5% of the company's authorized capital stock.

In 2005, the company introduced a revised ESOWN granted to qualified officers.

As of March 31, 2007, stock options outstanding* are as follows:

ESOP	44,495,010 shares
ESOWN	33,296,676 shares
	77,791,686 shares

** outstanding shares pertain to shares subscribed by officers and employees which are not yet fully paid and not yet issued*

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

Item 4. Other Notes to 1Q 2007 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	None.
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	None.
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. Other material events or transactions during the interim period	- Ayala Land increased its authorized capital stock from 12,000,000,000 to 20,000,000,000 - Ayala Land partnered with Kingdom Hotel Investments for the development of a hotel complex in Ayala Center - Ayala Land signed terms of agreement with Manila Jockey Club for a BPO office project in the former San Lazaro racetrack

Q. Existence of material contingencies during the interim period; 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 2007, Ayala Land's consolidated budget for project and capital expenditures amount to P16.2 billion. About 55% is earmarked for residential developments, 24% for shopping centers, and the balance for corporate business, strategic landbank management, Visayas-Mindanao, support businesses, and corporate capex. 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.

For the first three months of 2007, consolidated project and capital expenditures amounted to P3.1 billion, about 19% of the P16.2 billion budget for the whole year. About 63% was spent for residential projects, 28% for shopping centers, and the balance for Visayas-Mindanao, strategic landbank management, corporate business, support businesses, and corporate capex.

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

None.

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-March 2007	*End-December 2006*
Current ratio [1]	1.70:1	1.64:1
Debt-to-equity ratio [2]	0.30:1	0.32:1
Net debt-to-equity ratio [3]	0.04:1	0.09:1
	1Q 2007	*1Q 2006*
Return on assets [4]	1.6%	1.6%
Return on equity [5]	3.1%	3.0%

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

<u>**SIGNATURE**</u>

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 and Chief Finance Officer

Date: May 9, 2007