PSE Number: E-5000
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)

December 31, 2006

(Year Ending)

Annual Report - SEC Form 17-A

(Form Type)

(Amendments – if applicable)

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2006

2. SEC Identification Number 152747   3. BIR Identification No. 050-000-153-790

4. Exact name of the 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 principal office: c/o 29/F, Tower One, Ayala Triangle, Ayala Avenue, Makati City   Postal code: 1226

8. Issuer's telephone number: (632) 848-5313

9. Former name, former address, former fiscal year: not applicable

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

    As of December 31, 2006:

Title of each class	Number of shares of common stock outstanding
Common shares	10,844,237,636 (net of 24,280 Treasury shares)

    Amount of debt outstanding: P13.1 billion

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

    Name of Stock Exchange: Philippine Stock Exchange
    Class of securities listed: Common stocks

    10,809,720,008 Common shares have been listed with the Philippine Stock Exchange as of December 31, 2006, excluding the 34,541,708 shares which have been approved for listing for the ESOWN plan of the Company.

12. Check whether the issuer:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 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 preceeding 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 [ ]

13. Aggregate market value of the voting stock held by non-affiliates:

    P73 billion (as of end-2006); P81 billion (as of end-March 2007)

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEEDING FIVE YEARS

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

    Yes [ ]   No [ ]   **Not applicable**

DOCUMENTS INCORPORATED BY REFERENCE

15. Briefly describe documents incorporated by reference and identify the part of the SEC Form 17-A into which the document is incorporated:

    2006 Audited Consolidated Financial Statements (incorporated as reference for Items 5, 7, 10 & 12 of SEC Form 17-A)

TABLE OF CONTENTS

PART I - BUSINESS

Item 1. Business

Background

Ayala Land, Inc. was organized in 1988 when Ayala Corporation decided to spin off its real estate division into an independent subsidiary to enhance management focus on its real estate business. ALI went public in July 1991 when its Class "B" Common shares were listed both in the Manila and Makati Stock Exchanges (the predecessors of the Philippine Stock Exchange - PSE). On September 12, 1997, the Securities and Exchange Commission (SEC) approved the declassification of the Company's common class "A" and common class "B" shares into common shares.

Products / Business Lines

Ayala Land is the largest and most diversified real estate company in the Philippines. It has organized its operations into several core businesses and support businesses.

Core Businesses

- Strategic Landbank Management - acquisition, development and sale of large, 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;

- Residential Development - sale of high-end residential lots and units (including leisure community developments), middle-income residential lots and units, and affordable housing units and lots; lease of residential units; marketing of residential developments;

- Shopping Centers - development of commercial centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these commercial centers; management and operations 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 buildings;

- Geographic Businesses:
  Visayas-Mindanao – development, sale and lease of the Company and subsidiaries' product offerings in key cities in the Visayas and Mindanao regions
  Ayala International – investment in an Asian real estate private equity fund and a fund management company

Support Businesses

- Construction – land development and construction of ALI and third-party projects

- Hotels – development and management of hotels; lease of land to hotel tenants

- Property management – facilities management of ALI and third-party projects

- Waterworks operations – operation of water and sewage treatment facilities in some ALI projects

In addition to above business lines, Ayala Land also derives other income from its investment activities and sale of non-core assets.

Products / Business Lines (with 10% or more contribution to 2006 consolidated revenues):

Residential development (high-end lots and units, leisure, upper mid-income housing, affordable housing)	54%
Shopping centers	15%

<u>Distribution Methods of Products</u>
The Company's residential products are distributed to a wide range of clients through various sales groups.

Ayala Land (parent company) has its own in-house sales team. In addition, it has a wholly-owned subsidiary, Ayala Land Sales, Inc., which employs commission-based sales people. ALI also formed Ayala Land International Sales, Inc. (ALISI) to tap the overseas Filipino market. ALISI has established representative offices abroad, particularly in key cities with high concentration of overseas Filipino workers. In addition, it also developed broker-tie-ups in other countries.

Separate sales groups have also been formed for certain subsidiaries which cater to different market segments such as Avida Land Corp. (affordable housing) and Community Innovations, Inc. (upper middle-income housing). To complement these sales groups, Ayala Land and its subsidiaries also tap external brokers.

<u>Development of the business of the registrant and its key operating subsidiaries/affiliates during the past three years</u>

Ayala Land, Inc. - parent company (incorporated in 1988), pursued major land development projects, residential and office condominium development and shopping center operations. Its ongoing land development projects include Tamarind Cove, Sonera, Ayala Westgrove Heights, Plantazionne Verdana Homes and Ayala Northpoint. Residential condominium and townhouse projects undertaken in the past three years included The Residences at Greenbelt (Laguna Tower, San Lorenzo Tower, and Manila Tower), One Legazpi Park, Ferndale Homes and Montgomery Place. Shopping center operations at Ayala Center continued while the further redevelopment of Greenbelt was pursued. In addition to traditional office buildings, ALI completed three build-to-suit office buildings for BPO firms. The company also introduced in 2005 its first leisure community project, Anvaya Cove.

Strategic landbank management

Aurora Properties, Inc. (incorporated in 1992) and Vesta Property Holdings, Inc. (incorporated in 1993) are 70% owned by Ayala Land while *Ceci Realty, Inc. (incorporated in 1974)* is 60% owned. These companies, joint ventures with the Yulo Family, finalized plans for the development of nearly 1,700 hectares of land in Canlubang, Laguna.

Emerging City Holdings, Inc. and *Berkshires Holdings, Inc.* (incorporated in 2003), both 50% owned, serve as ALI's corporate vehicles in the acquisition of a controlling stake in Bonifacio Land Corp. / Fort Bonifacio Development Corp. through Columbus Holdings, Inc. in 2003. FBDC continued to sell commercial lots and condominium units at the Bonifacio Global City while it leased out retail spaces.

Regent Time International Limited (incorporated in 2003), 100% owned by ALI, also owns a stake at Bonifacio Land Corp. / Fort Bonifacio Development Corp.

Residential development

Community Innovations, Inc. (incorporated in 2002), 100% owned by ALI, offers various residential products to the upper middle-income market. CII's projects over the past three years include Verdana Homes Mamplasan, The Columns at Ayala Avenue, The Columns at Legazpi Village and Celadon Residences.

Avida Land Corp. (incorporated in 1990), a wholly-owned subsidiary, continued to develop affordable housing projects which offer house-and lot packages and residential lots. Avida also ventured into the development and sale of farm/hacienda/commercial lots. Project launches in the past three years included Avida Towers Sucat, Avida Towers New Manila, Avida Towers San Lazaro, Avida Residences San Fernando, Avida Residences Sta. Cecilia, and Riego de Dios Village.

Serendra, Inc. (incorporated in 1994), 28%-owned by ALI and 39%-owned by Community Innovations, is engaged in residential development. In 2004, it launched Serendra, a residential complex at the Bonifacio Global City in Taguig.

Ayala Greenfield Development Corporation (incorporated in 1997), 50-50% owned by ALI and Greenfield Development Corporation, started development of Ayala Greenfield Estates in Calamba, Laguna in 1999. Over the past three years, AGDC continued to develop and sell lots in this high-end residential subdivision.

Roxas Land Corp. (incorporated in 1996), 50% owned, continued to sell One Roxas Triangle. The project was started in 1996 and was completed in September 2001.

Ayala Land Sales, Inc. (incorporated in 2002), wholly-owned, continued to sell ALI's residential projects. ALSI employs commission-based brokers.

Ayala Land International Sales, Inc. (incorporated in 2005), wholly-owned, was formed to tap the overseas Filipino market. It also sells ALI's various residential projects.

<u>*Shopping centers*</u>

Northbeacon Commercial Corporation – formerly Alabang Theatres Management Corporation (incorporated in 1970), is ALI's wholly-owned vehicle for its mall project in Pampanga which commenced development in March 2007.

Station Square East Commercial Corporation (incorporated in 1989), 69% owned subsidiary of ALI, broke ground in 2002 for Market! Market!, a 150,000-sqm mall along C-5 Road in Taguig. It opened Phase 1A of the mall in 2004 and Phase 1B in 2005.

Alabang Commercial Corp. (incorporated in 1978), 50% owned by ALI, continued to manage and operate the Alabang Town Center.

North Triangle Depot Commercial Corp. (incorporated in 2001), 49% owned by ALI, commenced development of TriNoma (formerly referred to as North Triangle Commercial Center), a 195,000-sqm mall which is being constructed at the main depot of MRT-3 in Quezon City. TriNoma broke ground in June 2005 and will partially open in May 2007.

ALI-CII Development Corporation (incorporated in 1997), a 50-50% joint venture with Concepcion Industries, continued to operate Metro Point, a mid-market mall at the corner of EDSA and Taft Avenue. The project was completed in the fourth quarter of 2001 and is now being leased.

Lagoon Development Corporation (incorporated in 1996), 30% owned by ALI, is a joint venture company with Extraordinary Development Corporation. It continued to operate Pavilion Mall which is located in Biñan, Laguna.

Ayala Theaters Management, Inc. (incorporated in 1984), 100% owned, continued to manage and operate theaters at the Ayala Center in Makati.

Five Star Cinema, Inc. (incorporated in 2000), also wholly-owned, continued to manage and operate theaters at the Alabang Town Center.

Food Court Company, Inc. (incorporated in 1997), a 100% owned subsidiary of ALI, continued to manage and operate a high-end, trend-setting foodcourt known as Food Choices at the Glorietta 4. Similar projects were also established at the Alabang Town Center expansion area and Ayala Center Cebu.

Leisure and Allied Industries Phils., Inc. (incorporated in 1997), a 50-50% joint venture of ALI with Australian company, LAI Asia Pte. Ltd., continued to operate family entertainment centers called TimeZone in various Ayala malls, as well as other malls.

Corporate business

Laguna Technopark, Inc. (incorporated in 1990), 75% owned, continued to sell industrial lots to local and foreign company locators. It also leases a ready-built factory within the Laguna Technopark.

ALI Property Partners Holdings Corp. (incorporated in 2006), is the Company's 60%-owned vehicle for its partnership with MLT Investments (Goldman Sachs) and Filipinas Investments (Capmark Asia). ALI has an effective stake of 36% in the joint venture company, ALI Property Partners Corp., which will handle various BPO projects and investments.

Visayas-Mindanao

Cebu Holdings, Inc. (incorporated in 1988), 47% owned by ALI, continued to manage and operate the Ayala Center Cebu and sell condominium units and lots within the Cebu Business Park. The company also launched Amara, a high-end seaside residential subdivision, and continued to sell club shares at City Sports Club Cebu. Through *Cebu Property Ventures Development Corporation*, CHI also continued to sell lots at the Asiatown IT Park.

International

First Longfield Investments Limited (incorporated in 2006) is wholly owned by ALI. Through Green Horizons Holdings Limited, it has a 22% stake in Arch Capital Management Co. Ltd, the fund management company established to handle the US$250 million Asian private real estate equity fund which is co-sponsored by ALI with Ayala Corporation.

Construction

Makati Development Corporation (incorporated in 1974), 100% owned by ALI, continued to engage in engineering, design and construction of horizontal and low-rise vertical developments. It continued to service site development requirements of Ayala-related projects while it provided services to third-parties in both private and public sectors.

Property management

Ayala Property Management Corp. (incorporated in 1957), wholly-owned by ALI, continued to manage properties of ALI and its subsidiaries. It also provided its services to third-party clients.

Hotels

Ayala Hotels, Inc. (incorporated in 1991), 50% owned, continued to operate Hotel InterContinental Manila, Cebu City Marriott Hotel and Oakwood Premier Ayala Center. In November 2006, AHI sold its 60% stake in Oakwood to Ascott Residences.

Bankruptcy, Receivership or Similar Proceedings
None for any of the subsidiaries and affiliates above.

Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (not ordinary) over the past three years

In 2005, the Company continued its asset rationalization program which resulted in the sale of installment receivables and divestment of some non-core assets, including its stake in AIVI.

The sale of ALI's AIVI preferred shares reflects the intention of the company to refocus its strategic thrust to its main line of business.

Various diversification/ new product lines introduced by the company during the last three years

Leisure community project
In 2005, ALI launched its first leisure community project, Anvaya Cove. This 320-hectare development is located in Morong, Bataan and offers residential lots, villas and beach club shares.

BPO office buildings
ALI ventured into the development of build-to-suit office buildings catering to business process outsourcing firms and call centers. PeopleSupport Center broke ground in March 2004 and was completed in April 2005. Convergys started construction in July 2004 and was completed in October 2005 while InfoNXX Building was constructed from July to November 2005. In October 2006, ALI signed a Contract of Lease with the University of the Philippines for a 38-hectare BPO campus project which broke ground in March 2007. In December 2006, ALI formed a joint venture with Goldman Sachs and Capmark Asia. The joint venture company bought PeopleSupport Building from ALI and it broke ground on the Dela Rosa BPO Building in January 2007.

Competition

ALI is the only full-line real estate developer in the Philippines with a major presence in almost all sectors of the industry. ALI believes that, at present, there is no other single property company that has a significant presence in all sectors of the property market. ALI has different competitors in each of its principal business lines.

With respect to its mall business, ALI's main competitor is SM Prime. In terms of asset size, ALI is bigger compared to SM Prime but the latter's focus on mall operations gives SM Prime some edge over ALI in this line of business. Nevertheless, ALI is able to effectively compete for tenants primarily based on its ability to attract customers -- which generally depends on the quality and location of its shopping centers, mix of tenants, reputation as a developer, rental rates and other charges.

For office rental properties, ALI sees competition in smaller developers such as Kuok Properties (developer of Enterprise Building), RLC (developer of Robinsons Summit Center) and non-traditional developers such as the AIG Group (developer of Philam Towers) and RCBC (developer of RCBC towers). For BPO office buildings, ALI competes with the likes of Megaworld. ALI is able to effectively compete for tenants primarily based upon the quality and location of its buildings, reputation as a building owner, quality of support services provided by its property manager, rental and other charges.

With respect to residential lot and condominium sales, ALI competes with smaller developers such as Megaworld and Fil-Estate Land. ALI is able to effectively compete for purchasers primarily on the basis of reputation, price, reliability, and the quality and location of the community in which the relevant site is located.

For the middle-income/affordable housing business, ALI sees the likes of Megaworld, Filinvest Land and Empire East as key competitors. Community Innovations and Avida are able to effectively compete for buyers based on quality and location of the project and availability of attractive in-house financing terms.

<u>Suppliers</u>
The Company has a broad base of suppliers, both local and foreign.

<u>Customers</u>
Ayala Land has a broad market base including local and foreign individual and institutional clients.

<u>Transactions with related parties</u>
Please refer to Item 12 of this report ("Certain Relationships and Related Transactions).

<u>Licenses</u>

Phenix Building System
A joint venture agreement between Maison Individuelles, S.A. (MISA) of France and Avida Land was organized in June 1998 and subsequently registered with the SEC as Laguna Phenix Structures Corporation (LPSC) in July 1999.

LPSC, a 50%-50% joint venture, is primarily engaged in the business of manufacturing, installation, erection and construction, marketing and promotion, and wholesaling of buildings, houses and other structures and accessories using the "Phenix" technology (for which a patent has been registered and issued in the Philippines under RP Patent No. 29862).

Both MISA and Avida Land assigned their respective license rights to LPSC since the latter's incorporation.

Tex Building System
By virtue of the license rights granted in 1996, Avida Land operates the manufacturing of pre-cast concrete panels and columns/other components using the TEX Building System with RP Patent No. 30327.

The on-site battery casting system and the plant facilities were procured from TEX Holdings PLC, a limited company organized and exiting under the laws of England.

Government approvals/regulations
The Company secures various government approvals such as the ECC, development permits, license to sell, etc. as part of the normal course of its business.

Employees

Ayala Land - parent company has a total workforce of 494 employees (1,961 including operating subsidiaries' manpower – both consolidated and equitized companies) as of December 31, 2006. The Company expects to more or less maintain its number of employees in the next 12 months.

ALI and Ayala Land Inc. Employee's Union successfully renewed its Collective Bargaining Agreement (CBA) in December 2004 for a period of 2 years up to end-2006. In 1Q2007, ALI successfully renewed its CBA for a period of 3 years up to end-2009. ALI management had generally not encountered difficulties with its labor force, and no strikes had been staged in the past.

The breakdown of the 494 ALI - parent company employees according to type is as follows:

Corporate Sales & Marketing Services Group	8
Project Development Group	224
Support Group	262
Total	494

In addition to the basic salary and 13th month pay, other supplemental benefits provided by ALI to its employees include: mid-year bonus, performance bonus, monthly commodities allowance, medical allowance, dental benefits, various loan facilities and stock option plan among others.

Risks

Ayala Land is subject to significant competition in each of its principal businesses. Ayala Land competes with other developers and developments to attract purchasers of land and condominiums, retail and office tenants, and customers for the retail outlets, restaurants and hotels in its commercial centers.

However, Ayala Land believes that, at present, there is no single property company that has a significant presence in all sectors of the property market.

High-End, Middle-Income and Affordable Residential Developments

With respect to high-end land and condominium sales, Ayala Land competes for purchasers primarily on the basis of reputation, reliability, price and the quality and location of the community in which the relevant site is located. For the middle-income and affordable housing markets, Ayala Land competes for buyers based on quality of projects, affordability of units, and availability of in-house financing. Ayala Land is also actively tapping the growing OFW market.

Office Space, Retail and Land Rental

For its office rental properties, Ayala Land competes for tenants primarily based upon the quality and location of the relevant building, the reputation of the building's owner, the quality of support services provided by the property manager, and rental and other charges. The Company is addressing the growing demand from BPOs and call centers through its build-to-suit office buildings.

With respect to its retail properties, Ayala Land competes for tenants primarily based upon the ability of the relevant retail center to attract customers - which generally depends on the quality and location of, and mix of tenants in, the relevant retail center and the reputation of the owner of the retail center- and rental and other charges. The market for shopping centers has become especially competitive and the number of competing properties is growing. Some competing shopping centers are located within relatively close proximity of each of Ayala Land's commercial centers.

Industrial Property Business

The industrial property business is affected by an oversupply which limits industrial expansion. The entry of China into the World Trade Organization in 2003 poses strong competition for foreign direct investment. Overall, the industrial property segment is not likely to show significant demand improvement in the near term.

Hotel Operations

The local hotel sector experienced growth in occupancy, rental rates and revenues per available room. The Company's hotels, known for their premium value and service, performed strongly in each of their respective markets. Any slowdown in tourism could potentially limit growth of the Company's hotels.

Construction

Ayala Land's construction business is benefiting from the improved performance of the construction industry, particularly from an uptick in development activities mostly from the residential and retail sectors. Any slowdown in the construction business could potentially cap growth of the Company's construction arm.

Other risks that the company may be exposed to are the following:

- Changes in Philippine and international interest rates
- Changes in the value of the Peso
- Changes in construction material and labor costs, power rates and other costs
- Changes in laws and regulations that apply to the Philippine real estate industry
- Changes in the country's political and economic conditions

To mitigate the above mentioned risks, Ayala Land shall continue to adopt appropriate risk management tools as well as conservative financial and operational controls and policies to manage the various business risks it faces.

Working Capital

Ayala Land finances its working capital requirements through a combination of internally-generated cash, pre-selling, joint ventures and joint development agreements, borrowings and proceeds from the sale of non-core assets and installment receivables.

Domestic and Export Sales

Amounts of revenue, profitability, and identifiable assets attributable to domestic and foreign operations for 2006, 2005 and 2004 follow: (in P 000)

	2006	2005*	2004*
Consolidated revenues			
Domestic	25,558,842	21,375,369	17,408,375
Foreign	-	-	-
Net operating income			
Domestic	7,422,165	5,859,939	5,626,860
Foreign	-	-	-
Net income			
(Attributable to equity holders of ALI)			
Domestic	3,865,602	3,616,673	2,986,119
Foreign	-	-	-
Total assets			
Domestic	78,196,361	71,810,222	68,170,124
Foreign	-	-	-

** Restated to conform with new PAS/FPRS*

Item 2. Properties

Landbank / Properties with mortgage or lien

The following table provides summary information on ALI's landbank as of December 31, 2006. Properties are wholly-owned and free of lien unless noted.

Location	*Hectares*	*% of Total*
Makati [1]	54	1.24%
Taguig [2]	60	1.38%
Alabang [3]	18	0.42%
Quezon City [4]	52	1.20%
Parañaque/ Manila / Pasay [5]	3	0.07%
Las Piñas	130	2.99%
Metro Manila	***317***	***7.30%***
Laguna [6]	2,283	52.57%
Cavite [7]	329	7.58%
Batangas [8]	99	2.28%
Rizal [9]	46	1.06%
Quezon [10]	71	1.63%
Calabarzon	***2,828***	***65.12%***
Bulacan [11]	121	2.79%
Pampanga [12]	23	0.53%
Naga	25	0.58%
Cabanatuan/ Baguio	62	1.43%
Bataan [13]	297	6.84%
Other Luzon Area	***528***	***12.16%***
Bacolod [14]	201	4.63%
Iloilo	21	0.48%
Cebu [15]	192	4.42%
Davao	60	1.38%
Cagayan De Oro [16]	196	4.51%
Visayas/Mindanao	***670***	***15.43%***
TOTAL	***4,343***	***100.00%***

[1] Makati includes sites of Mandarin Hotel (1.6 has.) and Peninsula Hotel (2.0 has.) which are 50% owned through Ayala Hotels, Inc., site of Dela Rosa BPO building (0.3 ha.) which is 36% effectively owned, and remaining area at Roxas Triangle (0.3 ha.) which is 50% owned; 1.37 has. of which is mortgaged to Bank of the Philippine Islands in compliance with Bangko Sentral ng Pilipinas ruling on directors, officers, stockholders and related interests (DOSRI); 0.16 has. mortgaged with GSIS to secure surety bonds in favor of Bases Conversion Development Authority; 1.75 has. subject of a leasehold rights to secure Makati Property Venture, Inc.'s loan with Deutsche Investitions-Und Entwicklungsgesellschaft MBH.

[2] Taguig includes 9.8-ha. site of Market! Market! under lease arrangement with Bases Conversion Development Authority; 10-ha. site of Serendra which is 67% effectively owned by ALI and under joint development agreement with Bases Conversion Development Authority; 40 has. in Bonifacio Global City, 20.5% effectively owned through FBDC.

For Market! Market!, the lease agreement with the BCDA covers a period of 25 years (renewable for another 25 years) and involves an upfront cash payment of P700M and annual lease payments with fixed and variable components.

For Serendra, the joint development agreement with BCDA involves an upfront cash payment of P700M plus a guaranteed revenue stream totaling P1.1B over an 8-year period.

[3] Alabang pertains to the 17.6-ha. Alabang Town Center which is 50% owned through Alabang Commercial Corp., 3.7 has. of which is subject of a Mortgage Trust Indenture as security for ACC's Standby Letter of Credit with RCBC, term loans with Security Bank and Land Bank of the Philippines.

[4] Quezon City includes 38 has. under lease arrangement with University of the Philippines (UP) and the 13-ha. site of TriNoma which is under lease arrangement with the Department of Transportation and Communication (DOTC). Tri Noma is 49% owned by ALI

The lease agreement with UP covers a period of 25 years while the lease contract with the DOTC covers a period of 50 years until 2047.

[5] Parañaque/Manila/Pasay includes 2 has. (under development) which are under joint venture with Manila Jockey Club, Inc. and 0.3-ha. site of Metro Point which is 50% owned through ALI-CII Development Corp.

[6] Laguna includes 1,315 has. which are 70% owned through Aurora Properties, Inc. and Vesta Holdings, Inc.; also includes 376 has. which are 60% owned through Ceci Realty, Inc.; 101 has. which are under a 50-50% joint venture with Greenfield Development Corp.; 34 has. in Laguna Technopark, Inc. which is 75% owned by Ayala Land; and 3-ha. site of Pavilion Mall (30% owned by ALI) which is under 27-year lease arrangement with Extra Ordinary Group, with an option to renew every 5 years thereafter (lease payment is based on a certain percentage of gross income). 6.92 has. are mortgaged to Land Bank of the Philippines as a security for term loan of Avida Land; 11.5 has. are subject of a mortgage trust indenture securing Jexim loans of Avida Land with China Banking Corporation and Banco De Oro Universal Bank; 42.3 has. are subject of an mortgage trust indenture securing Ayala Greenfield Development Corporation's International Exchange Bank loan.

[7] Cavite includes various properties where Avida has the following effective stakes: 61 has. (90%), 22 has. (79%), and 1.8 has. (75%).

[8] Batangas includes 9.5 has. in Lipa which is 80% owened and 8.2 has., also in Lipa, which is 60% owned.

[9] Rizal includes a 40-hectare Antipolo property which is 60% effectively owned.

[10] Quezon includes a 5.63 has. of property which is mortgaged with Land Bank of the Philippines as a security for term loan of Avida Land.

[11] Bulacan includes 103 hectares which are 60% effectively owned.

[12] Pampanga includes 13 hectares which are 80% effectively owned.

[13] Bataan property (297 has.) pertains to the site of Anvaya Cove which is under joint development agreement with SUDECO.

[14] Bacolod includes 100 has. which are 80% effectively owned.

[15] Cebu includes about 13 has. in Cebu Business Park (including Ayala Center Cebu) which is 47% owned through Cebu Holdings, Inc.; 0.62-ha. hotel site owned by Ayala Hotels, Inc. and Cebu Holdings, Inc.; 9 has. in Asiatown IT Park which is owned by Cebu Property Ventures and Development Corporation which in turn is 76% owned by CHI; and remaining 26 has. in Amara project, (66% owned by CHI) which is under joint venture with Coastal Highpoint Ventures, Inc. A 9.46-ha. Property (within the Cebu Business Park) which houses the Ayala Center Cebu is subject of a mortgage trust indenture securing term loan with Bank of the Philippine Islands; 0.62 has. is subject of a mortgage trust indenture securing Cebu Insular Hotel Company Inc.'s term loan with Deutsche Investitions- und Entwicklungsgesellschaft MBH.

[16] Cagayan de Oro includes 180 has. which are 65% effectively owned.

Rental Properties

The Company's key properties for lease include shopping centers and office buildings. It also leases land, carparks and some residential units. In the year 2006, rental revenues from these properties accounted for P4.74 billion or 19% of Ayala Land's consolidated revenues. Lease terms vary depending on the type of property and tenant.

Property Acquisitions

With 4,343 hectares in its landbank as of end-2006, Ayala Land believes that it has sufficient properties for development in next 25 years.

There is currently no major acquisition being contemplated by Ayala Land but it is open to acquiring properties which it deems strategic. ALI's preferred mode of acquisition, going forward, would be through joint ventures with landowners. Meanwhile, ALI continues to assess its landholdings to identify properties which no longer fit its overall business strategy and hence, can be disposed of.

Item 3. Legal Proceedings

As of end-2006, Ayala Land is not involved in any litigation it considers material. However, certain individuals and entities have claimed an interest in Ayala Land's properties located in Las Piñas, Metro Manila, which are adjacent to its development in Ayala Southvale. The controversy involves approximately 130 hectares (remaining area) owned by Ayala Land in Las Piñas.

Prior to purchasing the aforesaid properties, Ayala Land conducted an investigation of the titles to the properties and had no notice of any title or claim that was superior to the titles purchased by Ayala Land. Ayala Land traced its titles to their original certificates of title and Ayala Land believes that it has established its superior ownership position over said parcels of land. Ayala Land has assessed these adverse claims and believes that its titles are in general superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning in October 1993, Ayala Land filed petitions in local regional trial courts of Makati and Las Piñas for quieting of title to nullify the purported titles or claims of these adverse claimants. A number of these cases are at various stages of trial and appeal. Some of these cases have been finally decided by the Supreme Court in Ayala Land's favor. These include decisions affirming the title of Ayala Land to approximately 21 hectares of these properties, which have been developed and offered for sale to the public as Sonera, Ayala Southvale.

Ayala Land does not intend to develop and sell the rest of the Las Piñas properties until litigation is resolved.

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

Item 4. Submission of Matters to a Vote of Security Holders

Except for the matters taken up during the Annual Meeting of Stockholders, there was no other matter submitted to a vote of security holders during the period covered by this report.

PART II – SECURITIES OF THE REGISTRANT

Item 5. Market for Issuer's Common Equity and Related Stockholders Matters

Market Information

Ayala Land common shares are listed with the Philippine Stock Exchange.

	Stock Prices (in Php/share)					
	High		Low		Close	
	2006	2005	2006	2005	2006	2005
First Quarter	11.75	10.00	9.80	7.20	11.25	8.30
Second Quarter	15.00	8.80	10.25	7.20	11.50	7.80
Third Quarter	15.25	8.60	11.50	6.80	14.25	8.00
Fourth Quarter	15.50	10.00	13.50	7.90	15.25	9.90

The market capitalization of ALI as of end-2006, based on the closing price of P15.25/share, was approximately P165.4 billion.

As of end-March 2007, ALI's market capitalization stood at P179 billion based on the P16.50/share closing price.

Stockholders

There are approximately 12,199 holders of common equity security of the Company as of December 31, 2006 (based on number of accounts registered with the Stock Transfer Agent). The following are the top 20 holders of the common equity securities of the Company:

	Stockholder Name	No. of Common Shares	Percentage (of Common Shares)
1.	Ayala Corporation	6,263,341,262	57.76%
2.	PCD Nominee Corp. (Non-Filipino)	3,540,418,633	32.65%
3.	PCD Nominee Corp. (Filipino)	688,326,871	6.35%
4.	Social Security System	18,873,388	0.17%
5.	ESOWN Account 2006	16,624,516	0.15%
6.	ESOWN Account 2005	16,530,549	0.15%
7.	The Insular Life Assurance Company Ltd.	14,189,877	0.13%
8.	Jose Luis Gerardo Yulo	11,518,715	0.11%
9.	BPI T/A #14016732	10,103,870	0.09%
10.	Elvira L. Yulo	6,020,000	0.06%
11.	BPI T/A #14016724	4,940,340	0.04%
12.	Estrellita B. Yulo	4,777,353	0.04%
13.	Xavier P. Loinaz	4,684,659	0.04%
14.	Maria Alexandra Q. Caniza	3,775,855	0.03%
15.	Pan Malayan Management and Investment Corp.	3,335,624	0.03%
16.	Ma. Angela Y. La O'	3,107,184	0.03%
17.	The Insular Life Assurance Co., Ltd.	3,081,800	0.03%
18.	Lucio W. Yan	2,903,226	0.03%
19.	Telengtan Brothers & Sons, Inc.	2,900,000	0.03%
20.	BPI T/A #14016759	2,651,905	0.02%

Dividends

STOCK DIVIDEND (Per Share)			
PERCENT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
20%	April 15, 1998	May 7, 1998	June 19, 1998
20%	April 26, 2000	May 16, 2000	June 26, 2000

CASH DIVIDEND (Per Share)			
PESO AMOUNT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
0.03	December 7, 2004	December 28, 2004	January 25, 2005
0.10	February 14, 2005	March 14, 2005	March 30, 2005
0.17	August 11, 2005	September 9, 2005	October 3, 2005
0.03	November 16, 2005	December 16, 2005	January 6, 2006
0.03	May 2, 2006	June 1, 2006	June 27, 2006
0.11	November 15, 2006	December 5, 2006	December 19, 2006
0.03	November 15, 2006	December 14, 2006	January 4, 2007

Dividend policy

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors.

Special cash dividends are declared depending on the availability of cash, taking into account the Company’s project and capital expenditures and the progress of its ongoing asset rationalization program.

Cash dividends are subject to approval by the Company's Board of Directors but no stockholder approval is required. Property dividends which may come in the form of additional shares of stock are subject to approval by both the Company's Board of Directors and the Company's stockholders. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and PSE.

Other than the restrictions imposed by the Corporation Code of the Philippines, there is no other restriction that limits the Company’s ability to pay dividends on common equity.

Recent Sale of Unregistered Securities

No new securities have been issued for the past three years except for 44.4 million and 14.1 million shares issued in 2005 and 2006, respectively, representing exercise of stock options by the Company’s executives. The aforesaid issuance of shares was covered by the Commission’s approval of the Company’s Stock Option Plan on July 1991 and subsequently on March 2006.

Stock Options

There was a total of 15.5 million shares issued in 2006 representing exercise of stock options by the Company's executives/qualified officers. The aforesaid issuance of shares was covered by the Commission's approval of the Company's Stock Option Plan on July 1991.

Please refer to Note 21 ("Stock Option Plans") of the Notes to Consolidated Financial Statements of the 2006 Audited Financial Statements which is incorporated herein in the accompanying Index to Exhibits.

PART III – FINANCIAL INFORMATION

Item 6. Management's Discussion and Analysis or Plan of Operation

<u>Review of 2006 Operations versus 2005</u>

Results of Operations

Ayala Land's consolidated revenues in 2006 hit a new high of Php 25.5 billion, 20% higher than the previous year's Php 21.4 billion, notwithstanding the absence of extraordinary gains generated from the sale of the company's MRT investment in 2005. Operating revenues, excluding interest and other investment income, totaled Php 23.6 billion and grew at an even higher rate of 37%. Heightened activity across all business lines drove operating revenues, with residential development and leasing businesses contributing the bulk.

With controlled operating costs, net operating income (NOI) margins on a per business line basis held steady. Overall NOI margin, however, was slightly lower due to the shift in revenue mix given the faster growth in residential development compared to the higher-margin leasing business. Meanwhile, total overhead costs declined, as the moderate increase in general and administrative expenses of 12%, was more than offset by the significant decrease in interest and other charges, given last year's provisions for decline in value of assets intended to be sold or written off. As a result, income before tax grew by 29% to Php 5.7 billion in 2006, even with lower investment income from sale of shares.

Income growth, however, was tempered by the 188% increase in tax provision to Php 1.6 billion, following the 3-percentage point increase in corporate income tax rate and higher operating income subjected to the 35% income tax rate versus the capital gain from the sale of shares in 2005 that was taxed at a lower rate.

Ayala Land ended 2006 with a net income of Php 3.9 billion, 7% higher than the Php 3.6 billion registered in 2005. Netting out extraordinary items (i.e. after tax gain from the MRT transaction and provisions), net income for 2006 would have been 27% higher than the previous year's Php 3.2 billion.

"The year 2006 proved to be a successful year for Ayala Land as it benefited from positive economic developments which ushered in improved buyer confidence. The company also continued to capitalize on the significant growth in the OFW and BPO markets which buoyed demand for residential and commercial real estate products. Through deliberate expansion of product offerings, diversification into new growth areas, and venture into strategic investments, the company, backed by its strong financials, is in an even better position to tap the opportunities arising from favorable structural changes that drive growth in the property sector." said Ayala Land President and Chief Executive Officer Jaime I. Ayala.

Business Segments

The Residential Development business accounted for the bulk of revenues at Php 14.0 billion or 55% of total revenues. This was followed by Shopping Centers at Php 4.0 billion or 15% of total and Corporate Business at Php 1.3 billion or 5% of total. Strategic Landbank Management contributed 3% or Php 707 billion, while Visayas-Mindano generated Php 168 million or 1%.

Collectively, the Support Businesses, comprised of Hotels, Construction and Property Management, reported revenues of Php 3.4 billion or 13% of total revenues. Equity in Net Earnings of Investees, Interest, Fees, Investment and Other Income accounted for the balance of 8% or Php 2.0 billion.

Residential Development

There was a 47% year-on-year (y-o-y) growth in Residential Development revenues to Php 14.0 billion as high double digit growth rates were reported by Ayala Land Premier and Community Innovations, Inc.

Revenues of Ayala Land Premier (ALP) reached Php 8.5 billion, 65% more than the previous year. Revenues booked from the sale of 430 condominium units reached Php 5.3 billion, more than double 2005's Php 2.6 billion, while the sale of 456 lots generated Php 2.7 billion in revenues. Lots booked included 216 lots in Ayala Westgrove Heights and 135 lots in Ayala Greenfield Estates.

ALI's first leisure community project, Anvaya Cove, contributed Php 593 million in revenues. This is a 242% increase from last year's revenues as an additional 402 beach club shares, 57 lots and 7 villas were booked.

The bulk of ALP's condominium sales was accounted for by The Residences at Greenbelt at 224 units. At the end of the year, 72% of the 1,003-unit, three tower project, had been taken-up. One Serendra in Bonifacio Global City booked sales of 152 units while One Roxas Triangle sold 22 units.

Community Innovations reported revenues of Php 3.7 billion, 71% higher than 2005's Php 2.2 billion. A total of 785 units were booked, 37% higher y-o-y, mainly coming from high-rise projects. The Columns at Ayala Avenue and its Legazpi Village sequel accounted for 74 and 302 units, respectively, while Two Serendra contributed 163 units.

Meanwhile, Avida Land's revenues amounted to Php 1.8 billion. This translates to an 18% decline from last year's revenues mainly due to the standardization of the revenue recognition policy in 2Q06. This also affected the number of units booked which stood at 1,033, a 33% decline from 2005. Without the change, revenues would have grown 11% y-o-y to Php 2.4 billion while booked units would have reached 1,632 representing a 6% growth. Affordable condominiums accounted for the bulk of booked units at 792.

NOI of Residential Development settled at Php 3.1 billion in 2006, 30% more than last year and accounted for 41% of total NOI. There was a sight decline in NOI margins to 22% from 25%, largely due to losses booked from the sale of One Roxas Triangle units in 2Q06.

Over 7,000 units from new projects and additional phases of existing projects will be added to inventory in 2007. This is over 50% more than the 4,600 units of additional inventory brought into the market in 2006. Some of the new residential projects will be in new locations north of Metro Manila, as well as in the 1,700 hectare Canlubang landbank.

Shopping Centers

Shopping Centers reported a 12% rise in revenues to Php 4.0 billion in 2006. This is attributed to the higher occupancy rate across all malls which averaged at 92% from 91% in 2005, as well as higher average rent and the increase in gross leasable area (GLA) from 754,000 square meters to 760,000 square meters. The increase in GLA is mainly from the 6,400-square meter Shops at Serendra which soft opened in July. Its occupancy rate averaged at 31% in 2006 and at the end of the year, spaces were nearly fully leased/committed.

There was a slight improvement in NOI margin to 62% from 60%, resulting in a 16% growth in NOI to Php 2.4 billion. This accounted for 33% of total NOI.

In 2007, an additional 195,000 square meters of GLA will come on stream from the opening of TriNoma in Quezon City in May. About 13,000 square meters of Greenbelt 5 will also be operational later in the year. Construction will start soon on the 70,000-square meter mall in Pampanga.

Corporate Business

Revenues from Corporate Business reached Php1.3 billion in 2006, a 111% growth y-o-y. The high growth was due to the sale of 1,407 square meters at Ayala Life-FGU, full year contribution of the three BPO buildings (started 3Q05) and the 8 percentage point rise in 6750's occupancy rate to 98%. On the average, ALI's traditional office buildings enjoyed an occupancy rate of 98%, an improvement from 2005's 93%.

Consequently, NOI margin improved to 40% from 38% with NOI settling at Php 528 million, compared to Php 240 million in 2005. This represents 7% of total NOI.

In December, the company announced the sale of the PeopleSupport BPO building to a partnership between ALI, MLT Investments (Goldman Sachs) and Filipinas Investments (Capmark). ALI's effective economic interest in the partnership is 36%. This partnership provides a new platform to raise capital that will help accelerate growth of ALI's BPO portfolio. Very recently, the partnership broke ground for a 47,000-square meter office building along Dela Rosa Street in Makati.

Further tapping the growing BPO market, ALI will start development on two BPO campus projects within 2007. Additional 28,000 sqms of GLA will be added by the first two buildings in the 38-hectare UP Science and Technology Park project as they get completed in 4Q2008. In addition, the company will launch its 20-hectare BPO campus project in Canlubang within the second half of the year.

Strategic Landbank Management

Strategic Landbank Management's revenues are generated mainly from override units from The Columns at Ayala Avenue and Legazpi Village, as well as Avida Towers Sucat, Avida Residences Catalina and Sampaguita Village. Additional bookings only reached 96 units from 176 in 2005, but additional revenues from construction accomplishment of previous bookings boosted revenues. Revenues amounted to Php 707 million in 2006, 46% higher than the previous year.

Bonifacio High Street, a 40-meter wide, 500-meter long retail/office promenade in the City Center of Bonifacio Global City soft opened in November 2006, with the grand launch scheduled for March 2007. At the end of 2006, 86% of the 14,000-square meter retail component was committed while 100% of the 6,400 square meters of office space have been reserved.

NOI of Strategic Landbank Management stood at Php 325 million in 2006, 94% more than the year-ago figure as NOI margin accelerated to 46% from 35% during the same period. Contribution amounted to 4% of total NOI.

During the latter part of 2007, there will be an integrated launch of the Canlubang project which will include residential, office and retail components. Moreover, the masterplan of Ayala Center is currently being reviewed and plans for redevelopment should be ready within the year.

Visayas-Mindanao

The revenue contribution of Visayas-Mindanao amounted to Php 168 million or 1% of total revenues. With the 8% decline in revenues and the drop in NOI margin to 7% from 11% y-o-y, NOI was lower at Php 12 million from Php 21 million in 2005.

A total of 136 units were booked in Ayala Northpoint and Plantazionne Verdana Homes in Talisay, Negros Occidental, lower than the 148 units booked in the previous year. Revenue adjustments at Ayala Heights Cebu pulled down Visayas-Mindanao's revenues and NOI margin.

In 2007, ALI will launch residential projects in new areas in Western Visayas and Northern Mindanao, which should enhance revenues going forward.

Support Business

The Hotels, Construction and Property Management businesses generated revenues, net of inter-company eliminations, of Php 3.4 billion, a 20% growth y-o-y. Of this amount, the Hotels generated Php 1.1 billion, improving by 3% from previous year. The minimal increase in Hotel revenues is attributed to the partial closure of Hotel InterContinental Manila as refurbishment work was done from April to November. As a result, the hotel's average occupancy rate in 2006 dropped to 61% from 76% in the previous year. However, the hotel has been close to being fully occupied since its re-launch in November.

On the other hand, Cebu City Marriott Hotel continued to enjoy higher-than-average occupancy rates at 81% (versus the Cebu average of 61%). Revenue per available room (REVPAR) is also above industry average at Php 2,532. Oakwood Premier Ayala Center also registered above-average occupancy rates at 91% (versus the Makati CBD average of 77%) and REVPAR at Php 5,100. The Hotels, excluding Oakwood whose operating results are shown as a separate item in the income statement, contributed Php 370 million to ALI's NOI.

Makati Development Corporation (MDC), ALI's wholly-owned construction arm, reported revenues of Php 1.4 billion (net of inter-company eliminations), representing a 37% growth over the previous year's revenues. As of end-2006, MDC had an outstanding orderbook worth Php 8.9 billion from 25 projects. About 38% of the outstanding contracts were for third parties. The construction business contributed Php 349 million to ALI's NOI.

Ayala Property Management Corporation (APMC), a 100%-owned subsidiary, reported revenues of Php 604 million (net of inter-company eliminations) for 2006, 24% more than the previous year's level. The additional revenues came from new management contracts obtained during the year including three buildings and 36 branches of Citibank, and seven carparks at Bonifacio Global City. APMC's NOI amounted to Php 229 million, a 37% growth y-o-y.

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

In 2006, Interest, Fees, Investment and Other Income declined 58% from the 2005 level of Php 4.0 billion to Php 1.7 billion, as the former included the Php 2.6 billion gain (before tax) from the MRT-3 transaction.

Equity in net earnings from Investees amounted to Php 306 million, 35% more than the amount earned in 2005, primarily due to higher equity earnings from Cebu Holdings, Inc. and Alabang Commercial Corporation, as well as recognition of goodwill arising from additional investment in Boniacio Land Corporation.

Cebu Holdings reported a 51% y-o-y increase in revenues to Php 1.0 billion in 2006 with the full year contribution of the highly successful seaside residential project, Amara, coming in, as well as the sale of two lots at Cebu Business Park and the remaining two units at Park Tower. Net Income grew 76% y-o-y to Php 207 million.

Expenses

Total Expenses for 2006 reached Php 19.9 billion, 17% more than 2005's Php 17 billion. Direct Costs and Operating Expenses for the real estate and hotels business reached Php 16.2 billion, representing a 43% increase from the previous year's Php 11.3 billion. The faster growth in direct costs versus the 37% growth in corresponding revenues was due to the larger share of the Residential Development business to total revenues at 55% from 44% last year. Moreover, losses from the sale of One Roxas Triangle units were also booked in 2006.

General and Administrative Expenses amounted to Php 2.6 billion in 2006, 12% higher y-o-y mainly due to higher payroll and employee benefits given additional hiring to support expansion. Interest and other charges totaled Php 1.1 billion, 67% lower than previous year's Php 3.3 billion, as the latter included significant provisions for the decline in value of assets intended to be sold or written off. Additionally, interest expense declined in 2006 as the company's average cost of debt declined to 9.0% from 9.7% in 2005.

Project and Capital Expenditures

For 2006, ALI spent Php 13.7 billion for project and capital expenditures, double the Php 6.8 billion spent in the previous year. About half or Php 6.8 billion was used for Residential Development projects while Shopping Centers accounted for 30% or Php 4.1 billion. Around 10% or Php 1.3 billion was used for ALI's international investment which is being undertaken jointly with Ayala Corporation. This investment will allow ALI to leverage on its expertise and capture growth opportunities in Asia.

Financial Condition

Net cash provided by operating activities amounted to Php 6.1 billion in 2006, with Php 1.9 billion generated from the sale of installment contracts receivables. As a result of better operating results, ALI was able to pay cash dividends of Php 1.8 billion during the year, representing Php 0.06 per share in regular dividends and Php 0.11 per share in special dividends.

The company's balance sheet remained strong with Current Ratio at 1.64:1. Cash and Equivalents (including short term investments) was at Php 9.5 billion, 41% higher than the end-2005 level of Php 6.8 billion, with the increase attributed to additional cash from operations and the issuance of Php 3.0 billion Fixed Rate Corporate Notes (FXCN) in September, at a blended cost of 7.4%. As a result of the FXCN, total borrowings increased by 22% to Php 13.1 billion from Php 10.7 billion in December 2005, and Debt-to-Equity Ratio slightly increased to 0.32:1 from the previous year's 0.28:1. Nonetheless, Net Debt-to-Equity improved to 0.09:1 from 0.10:1 with Cash and Equivalents increasing faster than total borrowings.

Key Financial Performance Indicators

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

	End-2006	*End-2005*
Current ratio [1]	1.64:1	1.55:1
Debt-to-equity ratio [2]	0.32:1	0.28:1
Net debt-to-equity ratio [3]	0.09:1	0.10:1
	FY 20006	*FY 20005*
Return on assets [4]	5.2%	4.9%
Return on equity [5]	9.8%	9.4%

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

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

There are no 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.

There were no disagreements with accountants on accounting and financial disclosure.

Material changes (+/- 5% or more) in the financial statements

<u>Income Statement items</u> – 2006 versus 2005

40% increase in real estate revenues
Primarily due to higher revenues from residential developments, shopping centers, office rentals and sales, as well as support businesses.

35% increase in equity in net earnings of investees
Mainly due to higher earnings of Cebu Holdings, Inc. and Alabang Commercial Corporation, as well as recognition of goodwill arising from the additional investment in Bonifacio Land Corporation.

58% decline in interest, fees, investment and other income
Largely due to the gain on sale of Astoria Investment Ventures, Inc. (AIVI) preferred shares in 2005.

45% increase in real estate costs and expenses
Mainly due to higher real estate revenues.

12% increase in general and administrative expenses
Primarily due to higher payroll costs given additional hiring to support expansion.

67% decrease in interest and other charges
Principally due to the provisions for decline in value of assets intended to be sold and write-off of deferred charges in 2005.

188% increase in provision for income tax
Mainly due to capital gains in AIVI transaction subjected to final tax at lower rate in 2005 and higher corporate income tax rate in 2006.

19% increase in income associated with non-current assets held for sale
Primarily due to higher earnings of Makati Property Ventures, Inc. (MPVI), owner of Oakwood Premier Ayala Center. Ayala Hotels executed a purchase agreement to sell MPVI to Ascott and the sale will be consummated on March 2007.

Balance Sheet items – End-2006 versus End-2005

23% increase in cash and cash equivalent
Mainly due to issuance of FXCNs and increased collections from customers.

228% increase in short-term investments
Mainly due to higher investment of ALI (parent company) in government securities.

65% increase in accounts and notes receivable
Primarily due to receivables from Mercator Securities for the sale of Bridgebury Realty Corporation shares, as well as additional sales at new and existing projects, and higher corporate withholding tax in 2006.

15% increase in real estate inventories
Primarily due to construction accomplishment at residential building projects and continued development of residential subdivision projects.

5% increase in other current assets
Mainly due to advances on land and higher input VAT.

100% increase in noncurrent assets held for sale
Represents total assets of MPVI classified as noncurrent assets held for sale.

62% decline in non-current accounts and notes receivable
Largely due to Avida's bulk sale of receivables and offsetting of estimated liability against receivable.

29% increase in investments in associates and jointly controlled entities
Mainly due to ALI's investment in an Asian private equity real estate fund and fund management company.

6% decrease in available-for-sale financial assets
Primarily due to decline in value of APMC's PLDT shares and various clubshares owned by the company.

27% decline in property and equipment
Mainly due to reclass to nocurrent assets held for sale.

9% decline in other noncurrent assets
Largely due to liquidation of advances made to a landowner.

8% increase in accounts and other payables
Primarily due to higher payables to contractors and suppliers for various projects and higher VAT and expanded withholding tax payable.

9% increase in short-term debt
Largely due to short-term loan availments by Station Square East Commercial Corporation and Ayala Greenfield Development Corporation.

31% increase in income tax payable
Mainly due to increase in corporate income tax rate to 35%, and higher income that is subject to corporate income tax.

339% increase in current portion of long-term debt
Primarily due to the reclassification of the P3.0B bonds maturing in April 2007.

143% increase in other current liabilities
Largely due to higher buyer deposits for various residential projects.

100% increase in liabilities directly associated with noncurrent assets held for sale
Mainly represents MPVI's liabilities classified as liabilities directly associated with noncurrent assets held for sale.

9% decline in long-term debt (net of current portion)
Largely due to payment of long-term loans and the reclassification of P3.0B bonds to current portion, partially offset by the P3.0B issuance of long-term FXCNs.

7% decline in pension liabilities
Mainly due to higher 2005 base following set up in ALI (parent company) and subsidiaries of transitional liability representing benefit obligation and funding of retirement fund deficiency.

52% increase in deferred tax liabilities
Largely due to shift in revenue recognition to percentage of completion resulting to higher tax liability on prior years' installment sales previously booked based on collection.

9% increase in deposits and noncurrent liabilities
Mainly due to higher retention payable.

64% increase in deferred credits
Largely due to higher deferred interest income and marketing fees.

10% decline in stock options outstanding
Primarily due to additional options exercised.

754% decrease in unrealized gain on available-for-sale financial assets
Primarily due to decline in value of APMC's PLDT shares and various clubshares owned by the company.

8% increase in retained earnings
Mainly due to income generated in 2006.

21% decline in minority interest – net of interest attributable to noncurrent assets held for sale
Largely due to reclassification of MPVI to noncurrent assets held for sale in 2006.

100% increase in minority interest attributable to noncurrent assets held for sale
Mainly represents the partner's stake at MPVI.

Review of 2005 Operations versus 2004 (Not restated)

Results of Operations

Ayala Land delivered strong results in 2005, amidst the challenges faced by the real estate industry. Consolidated revenues of P22.06 billion were 22% higher than the P18.08 billion registered in 2004, due to improved performance across most business lines.

"Our record performance in 2005 reflects concerted efforts to strengthen the fundamentals of our businesses and more actively manage our portfolio. We are confident that these continuing initiatives will ensure sustained, profitable growth for the Company over the long haul," announced Jaime I. Ayala, President and Chief Executive Officer.

Revenue growth resulted from the steady expansion of the shopping center portfolio and sustained momentum of residential sales. Revenues from these two businesses increased by 22% and 10% and accounted for 16% and 43% of total, respectively.

Proceeds from the sale of the Company's interest in preferred redeemable shares of Astoria Investment Ventures, Inc. (AIVI), the holding company for its investment in MRT Holdings, Inc., amounted to P3.53 billion and further boosted revenues.

Net income amounted to P3.62 billion, 21% higher than the previous year, due to higher revenues and the P2.28 billion net gain from the AIVI transaction, offset by provisions and write-offs of P1.82 billion. It will be noted that the 2004 net income has been restated to P2.99 billion (from P3.01 billion) in order to reflect the impact of adjustments related to the adoption in 2005 of certain Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS).

Excluding the AIVI transaction and provisions and write-offs, net income from regular operations amounted to P3.16 billion, a growth of 12%. With the net gain from the AIVI transaction, but before provisions and write-offs, net income registered at P5.44 billion, 82% higher than comparable 2004 net income.

Revenues

The Company's five core business lines, consisting of shopping centers, corporate business, residential developments, Visayas-Mindanao, and the newly-created Strategic Landbank Management, contributed P14.31 billion in revenues or 65% of total. Revenues from support businesses, consisting of construction, hotels, property management and waterworks, amounted to P3.55 billion, accounting for 16% of total. The remaining balance of P4.20 billion represents interest and investment income, equity in net earnings and other income, the bulk of which are proceeds from the divestment of non-core assets.

Residential Developments

Revenues from residential developments grew by 10% to P9.48 billion and contributed 43% to total revenues. Revenues were derived from sales and financing income of four residential operating units, as well as management and marketing fees from projects covered by joint development agreements.

Of the P9.48 billion, more than half of residential revenues were generated by Ayala Land Premier, which caters to the traditional high-end customers. Sales from middle-income market are also on the rise. Revenues from the sale of upper mid-income housing products of Community Innovations and affordable housing units of Avida Land grew by 75% and 12%, respectively.

Booked sales totaled 3,525 units, 20% higher than the previous year sales of 2,941 units. The increase largely consists of the sale of lots and club shares of 320-hectare Anvaya Cove in Bataan, the initial project of the Leisure group.

High-end residentials. A total of P5.00 billion was generated from the sale of lots and units by newly-formed Ayala Land Premier which caters to high-end customers. Booked sales consist of 480 residential lots, mostly from Ayala Westgrove Heights, Ayala Greenfield Estates and Sonera, and 359 residential units, mostly from The Residences at Greenbelt (San Lorenzo Tower) and Serendra District 1.

As construction progresses, the two condominium projects in Makati and Bonifacio Global City continue to experience good take-up. As of year-end, 73% of total 486 units at Serendra District 1 had been taken up. With respect to the Residences at Greenbelt, Laguna Tower's 249 units had a 94% take-up while 54% of the 383 units at San Lorenzo Tower launched in May were taken up.

Leisure. Anvaya Cove, Ayala Land's first high-end seaside residential community in Bataan, was well received by the market. Six months after launch in July 2005, the project had a take up rate of 111 or 47% of 237 residential lots and 558 or 23% of 2,450 club shares which were offered in two tranches. The second tranche of club shares was put on the market with a 6% price increase in August, two months after initial offering in July.

Despite brisk sales, revenues amounted to only P173 million due to minimal construction accomplishment.

Development and sales activities are proceeding as planned. In January 2006, 17 villa units priced at P20 million to P25 million were offered for sale.

Upper-mid income housing. Community Innovations' (CII) revenue contribution of P2.15 billion grew by 75% from the previous year. The rapid rise in revenues from P508 million in its first nine months of operation in 2002 attest to its successful penetration of the upper mid-income market.

Bookings of CII decreased to 575 units from 637 in 2004 given the timing of project launches towards the end of the year. The bulk of booked units were from Serendra District 2 and The Columns at Ayala Avenue, which were almost sold out at year-end.

Despite the 10% decline in bookings, revenue growth was strong due to construction accomplishments at Serendra and The Columns at Ayala Avenue, and accelerated revenue recognition following the sale of CII's installment receivables.

In November, The Columns at Legazpi Village, consisting of 390 units, was soft launched, followed by the launch in December of Celadon Residences, consisting of 114 townhouse units, at the site of the former San Lazaro racetrack in Manila. By year-end, 25 units at The Columns at Legazpi Village and 35 units at Celadon Residences were taken up.

Affordable housing. Revenue contribution of Avida Land Corporation, the new corporate name for Laguna Properties Holdings, Inc., increased to P2.15 billion or 12% from P1.93 billion in 2004 as a result of construction accomplishments at Avida Towers in Sucat and New Manila.

Sales volume amounted to 1,538 booked units, with affordable lots, house-and-lot packages and condominium units accounting for about 80% of total.

Bookings of affordable condominium units more than doubled to 560 from the previous year's 222 units, reflecting the continued success of its high-density, affordable residential product. Three towers launched during the year, namely Avida Towers Sucat- Tower 3, Avida Towers New Manila-Tower 2 and Avida Towers San Lazaro, consisting of 1,052 units, enjoyed brisk sales.

Indicative of strong market interest is the 33% take-up rate for the 390-unit Avida Towers San Lazaro one month after launch in December. This tower is part of the Company's mixed-use development in San Lazaro which includes the Celadon Residences of CII also launched at the same time.

Shopping Centers

Revenues from shopping centers, mostly from land and building rentals, amounted to P3.53 billion, an increase of 22%, and contributed 16% of total revenues. The robust growth in revenues can be attributed to the full year operations of Market! Market! Phase 1A and SM Expansion coupled with improved merchant sales, particularly from replacement tenants at Ayala Center. A 5%-12% percent increase in basic rent also contributed to revenue growth.

Although same-store sales were almost flat, total retail sales from all malls were up 10% as a result of year-round efforts to enhance each property's value propositions to shoppers and merchants. Occupancy levels continued to rise across all malls and retail areas and averaged at 91%. Market! Market!, including newly-opened Phase 1B, was already 65% occupied, with 81% of leasable area leased/committed as of end-2005.

During the year, Ayala Land steadily increased its shopping center portfolio. Phase 1B of Market! Market, consisting of nearly 34,000 sqms, soft opened in October. The retail areas at PeopleSupport Center and Convergys, totaling around 2,300 sqms, also opened and were fully let by December.

Construction of North Triangle Commercial Center, with its leasable area of nearly 200,000 sqms, would expand current retail portfolio by 26%. Given strong merchant interest, lease out is on schedule. An anchor tenant, Landmark Department Store, has already been engaged. The shopping center is expected to be operational in the second half 2007.

Corporate Business

In 2005, revenues from corporate business amounted to P632 million or 3% of total revenues. This represents a 5% decline from the previous year's level because of the absence of any office space sale compared to sale of 1,773 sqms at Ayala Life-FGU Makati in 2004.

The decline in revenues was partly offset by the start of operations of PeopleSupport Center and Convergys, which added 36,000 sqms to the Company's office rental portfolio, and the sale of 6.25 hectares at Laguna Technopark compared to 3.7 hectares sold in 2004.

Occupancy of ALI's traditional office buildings, namely Tower One, 6750, MSE, Ayala Life-FGU Makati, and Ayala Life-FGU Alabang, averaged at 93% during the year. Average occupancy level improved to 98% towards year-end following closure of deals with replacement tenants.

Strategic Landbank Management

A newly created business line formalized to actively manage the Company's landbank, the Strategic Landbank Management Group generated revenues of P485 million, consisting of its share of sales at The Columns at Ayala Avenue and Avida projects. This new group contributed 2% to consolidated revenues.

Compared to 2004, revenues declined by 32% owing to the absence of a Makati lot sale in 2005. Revenue decline was, however, partly offset by additional construction accomplishment at The Columns at Ayala Avenue and Avida Towers Sucat where ALI has override units.

During the year, significant progress was made in developing a long-term vision for the Company's key properties and identifying initiatives to catalyze their development. A masterplan review process was initiated for certain strategic parcels in Makati such as Ayala Center and the Ayala Triangle. Also during the year, a redesign of the masterplan for Fort Bonifacio's City Center core was undertaken. South of Metro Manila, the Canlubang properties likewise underwent a masterplanning review process aimed at developing the area into a complete and integrated township.

Visayas-Mindanao

Projects in the Visayas and Mindanao areas, primarily Plantazionne Verdana Homes and Ayala Northpoint in Bacolod, contributed P183 million or 1% to consolidated revenues. This grew by 16% year-on-year on account of higher unit bookings at Plantazionne.

Support Businesses

Ayala Land's support businesses, consisting of construction, property management, waterworks and hotels, collectively generated revenues of P3.55 billion or 16% of total and grew by 6%. Each of these businesses is a source of competitive advantage.

Construction. Growth of service revenues was driven by Makati Development Corporation (MDC) revenues of P1.06 billion, 7% higher than 2004 revenues, net of inter-segment eliminations. Higher revenues from infrastructure projects, equipment rentals and concrete products accounted for MDC's strong performance.

Before inter-segment eliminations, MDC revenues totaled P3.67 billion, up 5%. Net income likewise increased and amounted to P268 million.

Property Management. Revenues of Ayala Property Management Corporation (APMC), net of inter-segment eliminations, grew by 6% to P486 million due to new facilities management contracts with third parties, notably for the NAIA Terminals 2 & 3 and International School Manila.

Prior to inter-segment eliminations, total APMC revenues of P717 million increased by 3%.

Waterworks. Operation of water facilities at Company-developed projects Ayala Alabang Village and Laguna Technopark amounted to P270 million, up 10% year-on-year,

Hotels. The Company's properties, namely Hotel InterContinental, Cebu Marriott and Oakwood Premier Ayala Center, benefited from increased visitor arrivals and investor interest, such as BPO companies, in terms of occupancy and room rates.

Total revenues of P1.74 billion were up 5% due to higher room rates and revenues per available room across all Company-owned properties. Average occupancy rate was up at 82%, with Oakwood and Marriott outperforming their respective markets in terms of occupancy, room rates and revenues per available room.

Interest and Other Income

Interest and other income amounted to P4.20 billion, a significant increase from P1.71 billion in 2004 largely because of the P2.28 billion gain from sale of AIVI shares. Of the P4.20 billion, equity in net earnings contributed P221 million, up by 6% as a result of the improved performance of Alabang Commercial Corporation and Cebu Holdings, Inc.

Expenses

Total costs and expenses grew to P18.08 billion, up 19%, compared to P15.14 billion in 2004. Of the P18.08 billion, interest and other charges accounted for P3.36 billion, up from P1.33 billion, mainly due to provisions and write-offs.

General and administrative expenses, which amounted to 13% of real estate and hotel revenues, grew by 13% given increased payroll costs due to CBA adjustments and subsidiaries' expansion, and higher stock option availments.

Net Operating Income (NOI) and NOI Margins

Net operating income amounted to P6.12 billion, with residential developments and shopping centers as key contributors. Residential developments contributed P2.35 billion or 38% of total NOI. Shopping centers generated P2.11 billion or 34% of total.

Overall NOI margin fell slightly to 34% from 36% due to Market! Market! which pulled down shopping center margins and the rental commencement at BPO buildings. The absence of a Makati land sale in 2005 also pulled margin lower.

Project and Capital Expenditures

2005 consolidated project and capital expenditures amounted to P6.8 billion, or 50% of the P13.6 billion budgeted for the year. Residential developments accounted for 75% of the disbursements while 17% was spent for shopping centers. About 6% was used for office building projects of the corporate business group. The balance was spent for projects of the Visayas-Mindanao and strategic landbank management groups and for support businesses.

Actual 2005 consolidated expenditures was below budget due to the timing of closing of negotiations for acquisition and subsequent development of properties.

For 2006, the Company's consolidated project and capital expenditures budget amounts to P16.1 billion, more than double 2005 actual expenditures.

Financial Condition

Due to improved operating results, the Company ended the year with a strong balance sheet, a solid platform for future growth.

Liquidity was enhanced by cash inflows from operations and sale of non-core assets and receivables. In 2005, the Company sold a total of P1.1 billion installment receivables. Total interest-bearing debt was reduced by 20% to P10.7 billion, bringing debt-to-equity and net debt-to-equity ratios down to 0.28:1and 0.10:1, respectively. While prepaying debt, the Company managed to pay out a total of P3.2 billion in regular and cash dividends, representing a 108% pay-out. By year-end, cash reserves amounted to P6.8 billion.

Key Financial Performance Indicators

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

	End-2005	*End-2004*
Current ratio [1]	1.56:1	1.82:1
Debt-to-equity ratio [2]	0.28:1	0.35:1
Net debt-to-equity ratio [3]	0.10:1	0.19:1
	FY 20005	*FY 20004*
Return on assets [4]	4.7%	4.2%
Return on equity [5]	9.4%	8.1%

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

Material changes (+/- 5% or more) in the financial statements

<u>Income Statement items</u> – 2005 versus 2004

10% increase in real estate revenues
Principally due to higher revenues from shopping centers, residential developments and support businesses such as construction, property management and waterworks.

5% increase in hotel operations revenues
Mainly due to higher room rates across all Company-owned hotels/serviced apartments and improved average occupancy rate.

145% increase in equity in net earnings of investees, interest, fees, investment and other income
Primarily due to the gain on sale of Astoria Investment Ventures, Inc. (AIVI) preferred shares and swap of Oxbury Realty Corporation shares; and higher equity earnings due to improved performance of Cebu Holdings, Inc. and Alabang Commercial Corporation.

14% increase in real estate costs and expenses
Mainly due to higher real estate revenues and increased depreciation and direct operating expenses given Market! Market! opening.

13% increase in general and administrative expenses
Primarily due to higher payroll costs given the CBA adjustments and subsidiaries' expansion; and higher stock option availments.

153% increase in interest and other charges
Principally due to provisions for decline in value of assets intended to be sold and write-off of deferred charges.

51% decline in provision for income tax
Mainly due to capital gains in AIVI and Oxbury transaction subjected to final tax at lower rate.

1,017% increase in net income attributable to minority interest
Largely due to increased income of Ayala Hotels, Inc., Laguna Technopark, Inc., and lower loss of Roxas Land Corporation (given the one-time project cost adjustment at One Roxas Triangle in 2004).

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

6% increase in cash and cash equivalents
Mainly due to proceeds from the sale of AIVI preferred shares, partly offset by payment of debt and special cash dividends.

12% decline in accounts and notes receivable
Mainly due to sale of receivables of about P1.1 billion.

19% increase in real estate inventories
Primarily due to reclass of a Makati property to inventories.

27% increase in other current assets
Mainly due to higher creditable withholding taxes.

26% increase in non-current accounts and notes receivable
Largely due to increase in installment sales at various projects.

10% decline in land and improvements
Primarily due to reclass of a Makati lot to real estate inventories.

70% decline in available-for-sale financial assets
Mainly due to sale of AIVI preferred shares and fair value losses on some club share investments.

7% increase in investment properties
Largely due to investments in new office and shopping center projects.

9% decline in property and equipment
Mainly due to write-off of some capitalized costs.

218% increase in deferred tax assets
Mainly due to the deferred tax assets related to provisions made.

95% increase in other non-current assets
Mainly due to deposit made for Manila Jockey Club's 6.5-hectare property in Manila.

37% increase in accounts and other payables
Primarily due to higher payables to contractors for various projects.

26% decrease in short-term debt
Largely due to payment of short-term loans and STCPs.

32% decline in income tax payable
Mainly due to lower income that is subject to 32%/35% corporate income tax.

27% decrease in current portion of long-term debt
Largely due to prepayment of FXCN and other long-term loans.

27% increase in current portion of estimated liability for land and property development
Primarily due to new sales at existing and new projects.

55% increase in current portion of unrealized gain on real estate sales
Primarily due to new sales at existing and new projects.

6% decline in other current liabilities
Mainly due to lower deposits in 2005.

18% decline in long-term debt (net of current portion)
Largely due to prepayment of FXCN and other long-term loans.

77% decline in pension liabilities
Mainly due to high 2004 base following set up in subsidiaries of transitional liability representing benefit obligation and funding of retirement fund deficiency at parent company level.

13% increase in deferred tax liabilities
Primarily due to deferred tax liabilities booked by a new subsidiary.

23% increase in non-current liabilities and deposits
Largely due to higher deposits from shopping center and office tenants and residential buyers.

27% decline in non-current portion of unrealized gain on real estate sales
Primarily due to reclass to current portion of unrealized gain on real estate sales.

<u>Liquidity and Capital Resources – 2006</u>

The Company sourced its capital requirements through a combination of internally generated cash, pre-selling, joint ventures, bank borrowings, and sale of receivables and non-core assets. Ayala Land's fundamentals remained unchanged and its balance sheet continued to reflect strength and stability.

Cashflow from existing operations and borrowings were used for ALI's (consolidated) project and capital expenditures aggregating P13.6 billion. Ending cash level (including short-term investments) stood at P9.5 billion while current ratio was at 1.64:1.

Guided by prudent financing strategies, ALI kept its borrowings at low levels, placing bank debt-to-equity ratio at a low level of 0.32:1. Total borrowings registered at P13.1 billion, the bulk of which is long-term and peso-denominated.

Factors which may have material impact in Company's operations

Economic factors

The economic situation in the Philippines significantly affects the performance of the Company's businesses. For certain business lines, more particularly the residential products, the Company is sensitive to changes in domestic interest and inflation rates. Higher interest rates tend to discourage potential buyers of residential units as mortgages become unaffordable to them. An inflationary environment will adversely affect the Company, as well as the real estate industry, by increases in costs such as land acquisition, labor and materials. Although the Company may pass on the additional costs to buyers, there is no assurance that this will not significantly affect the Company's sales.

Competition (Please refer to "Competition" section in Item 1.)

Project & Capital Expenditures (consolidated)

The Company's consolidated project & capital expenditures for 2006 amounted to P13.6 billion, broken down as follows:

Shopping centers	30%
Corporate business	2%
Residential developments	50%
Strategic landbank management	2%
Visayas-Mindanao	2%
Support businesses	3%
International	10%
Corporate initiatives	1%
	100%

For 2007, the Company budgeted P16.2 billion* for consolidated project and capital expenditures, broken down as follows:

Shopping centers	24%
Corporate business	6%
Residential developments	55%
Strategic landbank management	5%
Visayas-Mindanao	6%
Support businesses	2%
Corporate initiatives	2%
	100%

** Project and capital expenditures will be funded from existing cash and cash from operations, pre-selling, additional borrowings and proceeds from the sale of non-core assets and installment receivables.*

Item 7. Financial Statements

The 2006 consolidated financial statements of the Company are incorporated herein in the accompanying Index to Exhibits.

Foreign Exchange Gains/Losses

Net foreign exchange gain arising from foreign exchange transactions amounted to P14.4 million for the year ended December 31, 2006.

Interest and Other Charges

Interest and other charges in 2006 amounted to P1,094 million, breakdown of which is provided in Note 15 of the 2006 consolidated financial statements which is incorporated herein in the accompanying Index to Exhibits.

Receivables

The advances totaling to P729 million as of December 31, 2006 is broken down as follows:

	(million)
Non trade receivable	P 610
Notes receivable (advances/loans to officers/employees)	76
Others	43
Total	P 729

Details of Other Receivables amounting to P2,031 million as of December 31, 2006 follow:

	(million)
Creditable withholding tax	P 735
Current miscellaneous receivable - others	1,167
Noncurrent miscellaneous receivable - others	129
Total	P 2,031

Accounts and Other Payables

Accounts and Other Payables as of end-2006 amounted to P12,127 million, breakdown of which is provided in Note 11 of the 2006 consolidated financial statements.

General and Administrative Expenses

General and Administrative expenses in 2006 amounted to P2,606 million, breakdown of which is provided in Note 15 of the 2006 consolidated financial statements.

Item 8. Information on Independent Accountant and Other Related Matters

Independent Public Accountants

In 2006, the principal accountants and external auditors of the Company is the accounting firm of SyCip, Gorres, Velayo & Company (SGV & Co.).

Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor of the Company, and Ms. Jessie D. Cabaluna has been the Partner In-charge for less than five years since 2002.

External Audit Fees and Services

Audit and Audit-Related Fees

Ayala Land and its subsidiaries paid its external auditors the following fees in the past two years: *(in P million; with VAT)*

	Audit & Audit-related Fees	Tax Fees	Other Fees
2006	7.2*	-	-
2005	6.9*	-	1.5**

** Pertains to audit fees; no fees for other assurance and related services*
*** Pertains to fees for business process reviews and seminars conducted*

Tax Fees

Tax consultancy services are secured from entities other than the appointed external auditor.

Under paragraph D.3.1 of the ALI Audit Committee Charter, the ALI Audit Committee recommends to the Board and stockholders the appointment of the external auditor and the fixing of audit fees. The Board and stockholders approve the Audit Committee's recommendation.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On January 1, 2006, the Ayala Land Group adopted the following amended PFRS and International Financial Reporting Interpretations Committee (IFRIC) and Philippine Interpretations Committee (PIC) Interpretations:

- PAS 19, *Employee Benefits*, which requires additional disclosures about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for each of these years in the period ended December 31, 2006 but has not had a recognition or measurement impact, as the Group chose not to apply the new option offered to recognize actuarial gains and losses outside of the consolidated income statement.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates,* which requires all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation be 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 had no significant impact in the Group's consolidated financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement:*
  Amendment for financial guarantee contracts (issued August 2005) - 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*. The amendment did not have an effect on the financial statements.

  Amendment for hedges of forecast intragroup transactions (issued April 2005) - amended PAS 39 to permit the foreign currency risk of a highly probable intragroup 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 consolidated statements 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 (issued June 2005) - 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 income statement. The Group had not previously used this option, hence the amendment did not have an effect on the financial statements.

- PIC Q&A 2006-1, *PAS 18, Appendix, paragraph 9-Revenue Recognition for Sales of Property Units under Pre-completion Contracts*, which 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. Previously, receivables are recognized in full and the corresponding unfulfilled obligation is credited to liabilities.

Financial Reporting Standards and Amendments Effective Subsequent to 2006

The Group will adopt the following standards and amendments that have been approved in 2006 on their effectivity dates:

- 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.

  The revised disclosures provided by these standards and amendments will be included in the Group's consolidated financial statements when the standards and amendments are adopted in 2007.

- 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. Additional disclosures provided by this standard will be included in the Group's consolidated financial statements when the standard is adopted in 2007.

The Company has engaged the services of SyCip Gorres Velayo & Co. during the two most recent fiscal years. There were no disagreements with the SGV & Co. on any matter of accounting and financial disclosure.

PART IV – MANAGEMENT AND CERTAIN SECURITY HOLDERS

Item 9. Directors and Executive Officers of the Registrant * (As of Dec. 31, 2006)

Write-ups below include positions currently held by the directors and executive officers, as well as positions held during the past five years.

<u>Board of Directors</u> **

Fernando Zobel de Ayala
Jaime Augusto Zobel de Ayala II
Jaime I. Ayala
Corazon S. Dela Paz ***
Ramon R. del Rosario, Jr.***
Delfin L. Lazaro
Leandro Y. Locsin, Jr.***
Aurelio R. Montinola III
Mercedita S. Nolledo

Fernando Zobel de Ayala, 46, Filipino, has served as Chairman of the Board of Directors of ALI since 1999. He is also the President and Chief Operating Officer of Ayala Corporation. His other significant positions include: Chairman of Manila Water Company, Inc., AC International Finance Ltd., Ayala International Pte. Ltd., Ayala Hotels, Inc., Alabang Commercial Corp., and Anvaya Cove Beach and Nature Club, Inc.; Co-Vice Chairman and Trustee of Ayala Foundation, Inc.; Director of the Bank of the Philippine Islands, Globe Telecom, Inc., Integrated Micro-electronics Inc., and Habitat for Humanity International. He graduated with B.A. Liberal Arts at Harvard College in 1982.

Jaime Augusto Zobel de Ayala II, 47, Filipino, has served as Director and member of the Executive Committee of ALI since 1988. He also serves as the Chairman and Chief Executive Officer of Ayala Corporation. He is also Chairman of the Board of Directors of Globe Telecom, Inc., Bank of the Philippine Islands and Integrated Micro-electronics, Inc. He is also a member of various international and local business and socio-civic organizations including the JP Morgan International Council, Mitsubishi Corporation International Advisory Committee, Toshiba International Advisory Group, Harvard University Asia Center Advisory Committee, Board of Trustees of the Asian Institute of Management and a national council member of the World Wildlife Fund (US). He was a TOYM (Ten Outstanding Young Men) Philippine Awardee in 1999. He graduated with B.A. in Economics (Cum Laude) at Harvard College in 1981 and took his MBA (with Distinction) at the Harvard Graduate School of Business Administration in 1987.

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

** *Term of Office of the Members of the Board of Directors commence on the date of their election as Directors for a period of one year or until successors are elected or duly qualified.*

*** *Independent directors*

Jaime I. Ayala, 44, Filipino, became President of Ayala Land, Inc. on July 1, 2004. He joined ALI in January 2004 as Executive Vice President and member of the Management Committee. Concurrently, he is Senior Managing Director of Ayala Corporation. His other significant positions include: Chairman of the Board of Directors and President of Makati Property Ventures, Inc.; Chairman of the Board of Directors of Ayala Property Management Corp., Cebu Holdings, Inc., Cebu Insular Hotel Co., Inc., Cebu Property Ventures & Dev't. Corp., Community Innovations, Inc., Laguna Properties Holdings, Inc., Laguna Technopark, Inc., Makati Development Corp., and Station Square East Commercial Corp; Member of the Board of Directors and President of Aurora Properties, Inc, Ayala Hotels, Inc., Ceci Realty Inc., Enjay Hotels, Inc., Roxas Land Corp., Vesta Property Holdings, Inc. and Anvaya Cove Beach and Nature Club, Inc.; Member of the Board of Directors of Alabang Commercial Corp., Ayala Greenfield Development Corp., Ayala Infrastructure Ventures, Inc., Ayala Land Sales, Inc., Berkshire Holdings, Inc., Bonifacio Arts Foundation, Inc., Bonifacio Land Corp., Emerging City Holdings, Inc., Fort Bonifacio Development Corp., myAyala.com, Inc., Ayala Center Association and Makati Parking Authority. Prior to joining ALI, he spent 19 years with McKinsey & Company in the US, Mexico, Tokyo and Hong Kong. At McKinsey, he was a Director (senior partner) and played a number of global and regional leadership roles, including that of President of McKinsey's Manila office. He earned his M.B.A. from Harvard School, graduating with honors in 1988. He completed his undergraduate work in 1984 at Princeton University, where he graduated Magna Cum Laude in Economics, with a minor in Engineering.

Corazon S. de la Paz, 65, Filipino, has served as an Independent Director of ALI since April 2006. She is the President and Chief Executive Officer of Social Security System and Vice-Chairman of the Social Security Commission since August 2001. She is also the President of the Swiss – based International Social Security Association, the first non-European to occupy this position. Her other significant affiliations include : Member of the Board of ASEAN Social Security Association, Philippine Social Security Association, Philippine Health Insurance Corporation, San Miguel Corporation, Philippine Long Distance Telephone Company, Ionics Circuits, Inc., Equitable-PCIBank, Equitable Card Network, Inc., PCI Capital Corporation, PCI Leasing & Finance, Inc., Republic Glass Holdings, Philex Mining Corp., Philex Gold and Meralco Foundation, Inc.; President of the Management Association of the Philippines, Financial Executives Institute of the Philippines, Philippine Institute of Certified Public Accountants, Cornell Club of the Philippines and the Philippine Fulbright Scholars Association. She was the Chairman and Senior Partner of Joaquin Cunanan & Co. (PricewaterhouseCoopers, Philippines) from 1981 to 2001 and served in the Price Waterhouse World Board from 1992 to 1995. She received a Fulbright Achievement Award for Business Administration in 1988 and was one of The Outstanding Women in the Nation's Service Awardee for Management in 1983. She has a Masters in Business Administration degree from Cornell University, as a Fulbrighter and a University of the East scholar. She studied Business Administration at the University of the East, graduating magna cum laude. She placed first in the 1960 Philippine board examination for certified public accountants.

Ramon R. del Rosario, Jr., 62, Filipino, has served as an Independent Director of ALI since 1994. He is President and Chief Executive Officer of Philippine Investment Management (PHINMA), Inc., President of Bacnotan Consolidated Industries, Inc. and Microtel

Development Corp., Chairman and CEO of AB Capital and Investment Corporation, Chairman of United Pulp and Paper Co., Inc., Microtel Inns and Suites (Pilipinas), Inc., Paramount Building Management and Services Corp., Stock Transfer Services, Inc., Investor Relations Global, Inc., Araullo University and Cagayan de Oro College, Director of Trans-Asia Oil & Energy Development Corporation, Phinma Property Holdings Corp., Roxas Holdings, Inc., Holcim (Phils.), Inc., PSi Technologies, Inc, PSi Technologies Holdings, Inc., Union Galvasteel Corp., Bacnotan Industrial Park Corp., Bacnotan Steel Industries, Inc., Walden AB Ayala Management Co., Inc. and Walden AB Ayala Ventures Co., Inc. He served as the Philippines' Secretary of Finance in 1992-1993. He graduated with degrees in BSC-Accounting and AB-Social Sciences (Magna cum Laude) at De La Salle College, Manila in 1967 and earned his Masters in Business Administration at Harvard Business School in 1969.

Delfin L. Lazaro, 61, Filipino, has served as member of the Board of Directors of ALI since 1996. He is also the Chief Finance Officer and a member of the Management Committee of Ayala Corporation; Director and Chairman of the Executive Committee of Globe Telecom, Inc.; Director of Integrated Micro-electronic, Inc., Manila Water Co., Inc. and Ayala Automotive Holdings Corp. Formerly, Mr. Lazaro was the President and CEO of Benguet Corporation and Secretary of the Department of Energy of the Philippine government. He was named Management Man of the Year 1999 by the Management Association of the Philippines for his contribution to the conceptualization and implementation of the Philippine Energy Development Plan and to the passage of the law creating the Department of Energy. He was also cited for stabilizing the power situation that helped the country achieve successively high growth levels up to the Asian crisis in 1997. He graduated with BS Metallurgical Engineering at University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

Leandro Y. Locsin, Jr., 45, Filipino, has served as an Independent Director of ALI since 1994. He also serves as Administrator and Design Consultant of Leandro V. Locsin Partners Architects; Senior Vice President of C-J Yulo & Sons and Canlubang Sugar Estate. He is the Founding Chairman/Director of The Beacon School and is a Director of World Wildlife Fund, Phils., De La Salle University – Canlubang, The Asian Cultural Council Philippines, E-Media Inc., and Museo Pambata ng Maynila. He is Chairman of Vesta Property Holdings, Inc., and a member of the Ayala Museum Board of Advisers. He graduated with Bachelor of Arts, Double Major in Architecture and Eastern Art History at Wesleyan University in Connecticut in 1984, and earned his Master of Architecture degree at the Harvard University Graduate School of Design in 1989.

Aurelio R. Montinola, III, 55, Filipino, has served as member of the Board of Directors of ALI since February 2005. He is the President and CEO of Bank of the Philippine Islands. His other affiliations, among others, include: Vice Chairman of the Board of Directors of Republic Cement Corporation; Vice Chairman of the Board of Trustees of Far Eastern University; Chairman of East Asia Educational Foundation, Inc.; Chairman of the Board of Directors of Amon Trading Corporation; Board of Advisers of MasterCard Incorporated; Director of Manila Water Company; Director of the Bankers Association of the Philippines; President of BPI Foundation, Inc.; Director of Makati Business Club; and Member of Management Association of the Philippines. He graduated with BS Management

Engineering at Ateneo de Manila University in 1973 and received his MBA at Harvard Business School in 1977.

Mercedita S. Nolledo, 65, Filipino, has served as Director and Corporate Secretary of ALI since 1994. She also serves as Board member, Senior Managing Director and Corporate Secretary of Ayala Corporation and General Counsel of the Ayala Group of Companies. Her other significant positions include: Director of Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings Corp., Bank of the Philippine Islands and Anvaya Cove Beach and Nature Club, Inc.; Corporate Secretary and Member of the Board of Trustees of Ayala Foundation, Inc.; Director and Treasurer of Phil. Tuberculosis Society, Inc. She had her education at University of the Philippines and graduated Magna Cum Laude and Class Valedictorian in Bachelor of Science in Business Administration and Cum Laude and Class Valedictorian in Bachelor of Laws.

Resignation of Directors

To date, no director has resigned or declined to stand for re-election for the Board of Directors due to any disagreement with the Corporation relative to the Corporation's operations, policies and practices.

Management Committee Members / Key Officers

Jaime I. Ayala *	President
Mercedita S. Nolledo*	Corporate Secretary
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 & Chief Finance Officer
Jose Rene D. Almendras **	Vice President
Dinna G. Bayangos	Vice President
Bernard Vincent O. Dy	Vice President
Raul M. Irlanda	Vice President
Augusto D. Bengzon	Vice President & Treasurer

* *Members of the Board*
** *Transferred to Ayala Corporation and seconded to Manila Water, effective January 1, 2007*

Miriam O. Katigbak, 52, Filipino, is Executive Vice-President, member of the Management Committee. Until 2006, she was head of the Ayala Malls Group of Ayala Land, Inc. (ALI). She is now assigned to Strategic Landbank Management Group, handling signature projects. Her other significant positions include: Director and President of Alabang Commercial Corp., ALI-CII Development Corp., North Triangle Depot Commercial Corp., Station Square

East Commercial Corp., Studio Ventures Inc.; Director of Cebu Holdings, Inc.; Director of MRT Development Corp. and MZM Retail Holdings Corp.; Chairman of Five-Star Cinema, Inc., Ayala Theaters Management Inc., and NorthBeacon Commercial Corp.; Chairman and President of South Innovative Theatres Management, Inc.; Vice-Chairman of Lagoon Development Corporation. She graduated with Bachelor of Science in Education, Major in Mathematics, at St. Scholastica's College. She took the Management Development Program at Asian Institute of Management in 1993 and at University of Michigan in 1997.

Vincent Y. Tan, 56, Filipino, is Executive Vice-President, member of the Management Committee and Head of the Planning Group and Strategic Landbank Management Group of ALI. His other positions include: Chairman and President of Bonifacio Cable One Corp., Bonifacio Construction Management Corp., Bonifacio Global City Estate Services Corp., Bonifacio Transport Corporation, Bonifacio Trees & Greens Corporation, Capital Consortium, Inc., Crescent West Development Corporation, North Bonifacio Development Corporation; Chairman of the Board of Laguna Technopark, Inc., CMPI Holdings, Inc. and CMPI Land, Inc., Bonifacio Estate Services Corp., Fort Bonifacio Development Foundation, Inc.; President of ALInet.com, Inc.; and Member of the Board of Directors of Ayala Greenfield Development Corporation, Community Innovations, Inc., Station Square East Commercial Corporation, Aurora Properties, Inc., Vesta Property Holdings, Inc., myAyala.com, Inc., Metro Rail Transit Corporation, Metro Rail Transit Dev. Corp., Metro Rail Transit Holdings II, Inc., MRT Holdings, Inc., North Triangle Development Corporation, Berkshires Holdings, Inc., Bonifacio Land Corp., Columbus Holdings, Inc., Emerging City Holdings, Inc., Fort Bonifacio Development Corporation and Anvaya Cove Beach and Nature Club, Inc.; Treasurer of Bonifacio Art Foundation. He graduated with a degree of B.S. Management Engineering (Cum Laude) at the Ateneo de Manila University in 1971 and earned his M.B.A. (Concentration in Management Science and Finance) at the University of Chicago in 1973.

Ma. Victoria E. Añonuevo, 56, Filipino, is Senior Vice-President and Member of the Management Committee of ALI. She also serves as Head of the Corporate Business Group and the Leisure & Lifestyle Communities Group of ALI, President of Laguna Technopark, Inc., Chief Operating Officer of Ayala Hotels, Inc., President of Enjay Hotels, President of Cebu Insular Hotel Co., Inc., Director of Makati Property Ventures, Inc., President of Anvaya Cove Beach and Nature Club, Inc. and Governor of Makati Commercial Estate Association, Inc. She graduated with a degree of Bachelor of Science in Business Administration, Major in Marketing (Cum Laude) at the University of the Philippines in 1971 and had her Masters in Business Administration at the University of the Philippines in 1975. She was sent by Ayala Land, Inc. as a scholar to the Program for Management Development, Harvard Business School, 1997 in Boston, Massachusetts, USA.

Angela de Villa-Lacson, 60, Filipino, joined ALI in July 1999. She is Senior Vice President & Management Committee member of Ayala Land, Inc. (ALI). Until October 15, 2006, she was Group Head of the Integrated ALI High-End SBUs: Land & Community Development Group, Residential Business Group & Sales & Marketing Group. She was appointed Group Head of ALI's Innovation & Design Group, effective October 16, 2006. Her other significant positions include: Director & President of Ayala Land Sales, Inc. and Serendra, Inc.;

Director & General Manager of Roxas Land Corporation; Director of Avida Land Corporation, Ayala Property Management Corporation, Aurora Properties, Inc., Community Innovations, Inc., Ceci Realty, Inc., Makati Development Corporation, and Vesta Property Holdings, Inc. Prior to joining ALI, she was Vice President and Marketing Director of San Miguel Brewery Philippines and San Miguel Brewery International (1998-1999), Marketing Director of the San Miguel Food Group (1996-1997), VP and Division Head of J. Walter Thompson (1995). Before this, she was connected with Unilever Philippines, UK and Italy. She graduated with a degree of Bachelor of Liberal Arts, Major in Mathematics and English Literature (Magna Cum Laude) at the Assumption College.

Rex Ma. A. Mendoza, 44, Filipino, is Senior Vice-President and head of Corporate Sales and Marketing Group. He is a member of the Management Committee of Ayala Land, Inc. Concurrently, he is the *Chairman* of Ayala Land International Sales, Inc.; President of Ayala Land Sales, Inc.; Chairman and President of Rampver, Inc.; Marketing and Training Consultant for IMPACT and Mindbroker, Inc.; and Professor of De La Salle University, Graduate School of Business. Prior to joining Ayala Land, Inc., he was Executive Vice President and head of Sales, Marketing and Training in the Philippine American Life & General Insurance Company; Vice Chairman and CEO of Philam Asset Manangement; Vice Chairman and CEO of Philam Financials; Director of Philam Insurance Co., Security Philam, Philam Call Center and Philam Foundation. He graduated with a degree of Bachelor of Science in Business Administration, major in Marketing and Finance at the University of the Philippines, Diliman, Q.C., and took his Masters in Business Management, with distinction at the Asian Institute of Management.

John Philip S. Orbeta, 45, Filipino, is Senior Vice President and Head of Human Resources. He is a member of the Management Committee of Ayala Land, Inc. Concurrently, he is a Managing Director and Head of Strategic Human Resources and Organization Development of Ayala Corporation and Chairman of the Ayala Group Human Resources Council. Prior to joining the Ayala group, he spent 19 years at Watson Wyatt Worldwide (NYSE:WW), global management consulting firm where he was the Vice President and Global Practice Director for the firm's Human Capital Group, overseeing the firm's practices in executive compensation, strategic rewards, data services and organization effectiveness around the world. He was also a member of Watson Wyatt's Board of Directors. He received his undergraduate degree in Economics from the Ateneo de Manila University where he also attended graduate studies in Industrial Psychology. He has also completed a Leadership Development Program at the Harvard Business School.

Emilio J. Tumbocon, 50, Filipino, is Senior Vice-President, member of the Management Committee and Head. Until 2006, he headed the Construction Group of ALI and concurrently, served as President of Makati Development Corporation, a wholly owned construction subsidiary of ALI. Currently, he heads the Property Management Group of ALI. He is the Immediate Past President of the Philippine Constructors Association, Inc. (PCA), a Trustee of the Construction Safety Foundation, Inc. and a Director of the Anvaya Cove Beach and Nature Club, Inc. He graduated at the University of the Philippines with a degree of Bachelor of Science in Civil Engineering (C.E. ’79) and graduated in Masters in Business Administration (MBA ’85) at the same university. He also took the Construction

Executive Program (CEPS '87) at Stanford University, Palo Alto, California, U.S.A., the Senior Business Executive Program (SBEP "91) at the University of Asia and the Pacific, and The Executive Program (TEP '97) at Darden Graduate School of Business Administration, University of Virginia, Charlottesville, Virginia, U.S.A.

Jaime E. Ysmael, 46, Filipino, is Senior Vice President, Chief Finance Officer and member of the Management Committee of Ayala Land, Inc. Concurrently, he is Managing Director of Ayala Corporation His other significant positions include: Director and President of First Communities Realty, Inc.; Director and Vice President of Ayala Westgrove Heights Homeowner's Association, Inc.; Director and Treasurer of Alinet.com, Ayala Hotels, Inc., Ayala Land International Sales, Inc., Ayala Land Sales, Inc., Community Innovations, Inc., Enjay Hotels, Inc., Laguna Technopark, Inc., Makati Property Ventures, Inc., and Serendra, Inc.; Director of Alabang Commercial Corp., Allysonia International, Inc., Aurora Properties, Inc., Batangas Asset Corporation, Ceby Insular Hotel Company, Inc., Ceci Realty, Inc., CMPI Holdings, Inc., CMPI Land, Inc., Crans Montana Property Holdings Corporation, Gammon Philippines, Inc., Laguna Phenix Structures Corp., Makati Theatres, Inc., MG Construction Holdings Ltd., North Triangle Depot Commercial Corp., Piedmont Property Ventures, Inc., Station Square East Commercial Corp., Stonehaven Land, Inc., Streamwood Properties, Inc., Tower One & Exchange Plaza Condominium Corporation, Vesta Property Holdings, Inc., and Anvaya Cove Beach and Nature Club, Inc.; and Chief Finance Officer of Roxas Land Corp. He graduated Summa Cum Laude at the University of the East with a degree of Bachelor of Science in Business Administration, Major in Accounting. He holds an M.B.A. degree (Major in Finance) at The Wharton School and an M.A. degree in International Studies at the School of Arts and Sciences of the University of Pennsylvania under The Joseph H. Lauder Institute of Management and International Studies.

Jose Rene D. Almendras, 46, Filipino, was head of Corporate Initiatives Group, Vice-President assigned to the Visayas-Mindanao group and a member of the Management Committee of ALI until end-2006. His other significant positions included: President and Director of Cebu Holdings, Inc., Director of City Sports Club Cebu, Cebu Insular Hotel, Inc., Laguna Properties Holdings, Inc., Anvaya Cove Beach and Nature Club, Inc., JDA Agro-Industrial Development Corp., and Trustee of the Ramon Aboitiz Foundation, Inc. He also serves as Board member Cebu Property Ventures and Development Corp. and Avida Land Corp. Prior to joining ALI, he served as President and CEO of City Savings Bank and First Vice President of Aboitiz Equity Ventures. Effective January 1, 2007, he was transferred to Ayala Corporation and seconded to Manila Water Co., Inc. He graduated Business Management at Ateneo de Manila University and finished the Strategic Business Economic Program at the University of Asia and the Pacific.

Dinna G. Bayangos, 42 Filipino, is Vice President and member of the Management Committee of ALI effective January 1, 2005. She is also the President of Ayala Land International Sales, Inc. and Head of International Business Group. Her other significant positions include: Director of Community Innovations, Inc., Makati Development Corp. and Cebu Holdings, Inc. Before she became President of Ayala Land International Sales, Inc. she was the President of Avida Land Corp. (formerly Laguna Properties Holdings, Inc.) and its subsidiary, Avida Sales Corp. She graduated with a degree of A.B. Major in Economics and B.S.C. Major in Management of Financial Institutions (Cum Laude) at De La Salle

University and took her Masteral in Business Management at the Asian Institute of Management and an Advanced Management Program at Wharton School of Business.

Bernard Vincent O. Dy, 43, American, is Vice President & member of the Management Committee of Ayala Land, Inc. since 2005. Currently, he is the Head of the Residential Business Group of ALI. His other significant positions include: Director of Fort Bonifacio Development Group and Director of Lagoon Development Corporation. He graduated with a degree of Bachelor of Science in Business Administration from the University of Notre Dame and took up his MBA and Masters in International Relations at the University of Chicago.

Raul M. Irlanda, CFM, 51, Filipino, is Vice-President, member of the Management Committee and Bidding Committee of Ayala Land Inc. Until end-2006, he headed the Property Management Group of ALI and concurrently served as President and board member of Ayala Property Management Corporation. Currently, he heads the Construction Group of ALI. He is also a Director of Anvaya Cove Beach and Nature Club, Inc. In addition, he serves as Governor of Ayala Center Association, Group Head of Ayala Security Force, Director and Vice-President of Tower One Condominium Corporation, and Board Adviser of the College of Technology Management at University of Makati. He graduated with a degree of Bachelor of Science in Management/Finance from San Sebastian College and obtained his Master of Business Administration major in Financial Management from De La Salle University. He also completed in 2005 the Executive Development Program at the Aresty Institute of Executive Education at Wharton, University of Pennsylvania.

Augusto D. Bengzon, 43, Filipino, joined ALI in December 2004 as Vice President and Treasurer of ALI. His other significant positions include: Treasurer of Laguna Properties Holdings, Inc., Makati Development Corp., Aurora Properties, Inc., Vesta Properties Holdings, Inc., and CECI Realty, Inc. Prior to joining ALI, he was Vice President and Credit Officer in Global Relationship Banking at Citibank N.A. where he spent sixteen years in various line management roles covering Treasury, Portfolio Management, Structuring, Debt Syndication and Relationship Management. He received his Bachelor of Science degree in Business Management from the Ateneo de Manila University and is a graduate of the Philippine Trust Institute. He was granted a full scholarship by the Asian Institute of Management where he received his Masters in Business Management degree.

Significant Employees

The Corporation considers its entire work force as significant employees. Everyone is expected to work together as a team to achieve the Corporation's goals and objectives.

Family Relationships

Fernando Zobel de Ayala, Chairman of the Board of Directors, and Jaime Augusto Zobel de Ayala II, Vice Chairman, are brothers. Jaime I. Ayala, President and CEO, is not related to the Chairman and Vice Chairman.

Involvement in Certain Legal Proceedings (over the past 5 years)

None of the Directors or Executive Officers is involved in any material pending legal proceedings in any court or administrative agency of the government.

a. None of them has been involved in any bankruptcy petition.

b. None of them has been convicted by final judgment in a criminal proceeding or being subject to a pending criminal proceeding, both domestic and foreign.

c. None of them has been subject to any order, judgment or decree of any court of competent jurisdiction (domestic or foreign) permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities.

d. None of them has been found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation.

Item 10. Executive Compensation

Directors and Executive Officers

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."

During the Annual Stockholders' Meeting held on April 2, 2003, the stockholders ratified the resolution fixing the remuneration of non-executive directors at P1,000,000.00 consisting of the following components:

Retainer Fee:	P500,000.00
Per diem per Board meeting attended:	P100,000.00

In addition, a non-executive director is entitled to a per diem of P20,000.00 per board committee meeting actually attended.

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.

Officers. 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 P188.36 million in 2005 and P199.21 million in 2006. The projected total annual compensation for the current year is P124.57 million.

Total compensation paid to all senior personnel from Manager and up amounted to P529.42 million in 2005 and P582.10 million in 2006. The projected total annual compensation for the current year is P435.26 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	P93.14 M	P95.22 M
	Actual 2006	P103.60 M	P95.61 M
	Projected 2007	P113.96 M	P10.61 M***
All other officers**** as a group unnamed	Actual 2005	P327.24 M	P202.18 M
	Actual 2006	P368.07 M	P214.03 M
	Projected 2007	P 404.88 M	P30.38 M***

** Compensation reported by Ayala Corporation*
*** 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).

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.

Each executive officer executed an employment contract with the Company for an indefinite period (the terms and conditions of which are in accordance with existing laws) and is entitled to receive retirement benefits in accordance with the terms and conditions of the Company's BIR-registered Employees' Retirement Fund. There is no plan or arrangement by which the Executive Officers will receive from the Company any form of compensation in case of a change-in-control of the Company or change in the officers' responsibilities following such change-in-control.

Options Outstanding

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*

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

For other details on Stock Options, please refer to Note 21 ("Stock Option Plans") of the Notes to Consolidated Financial Statements of the 2006 Audited Financial Statements which is incorporated herein in the accompanying Index to Exhibits.

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management

(a) Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of December 31, 2006

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	6,263,341,262	57.76%
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	3,540,418,633	32.65%
Common	PCD Nominee Corporation (Filipino)[3] G/F MSE Bldg. Ayala Ave., Makati City	Hongkong and Shanghai Banking Corporation (HSBC) and Standard Chartered Bank (SCB)[4]	Filipino	688,326,871	6.35%

(b) Security Ownership of Directors and Management (Executive Officers) as of December 31, 2006

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Directors				
Common	Fernando Zobel de Ayala	559,400 (direct & indirect)	Filipino	0.00516%
Common	Jaime Augusto Zobel de Ayala II	10,000 (direct)	Filipino	0.00009%
Common	Jaime I. Ayala	3,194,883 (direct & indirect)	Filipino	0.02946%
Common	Mercedita S. Nolledo	208,346 (direct & indirect)	Filipino	0.00192%
Common	Corazon S. dela Paz	1,001 (direct & indirect)	Filipino	0.00001%
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.	1,422,885 (direct)	Filipino	0.01312%
Common	Aurelio R. Montinola III	2,982 (direct & indirect)	Filipino	0.00003%
CEO and Most Highly Compensated Executive Officers				
Common	Jaime I. Ayala	3,194,883 (direct & indirect)	Filipino	0.02946%
Common	Miriam O. Katigbak	1,171,582 (direct & indirect)	Filipino	0.01080%
Common	Vincent Y. Tan	5,976,738 (direct & indirect)	Filipino	0.05511%
Common	Ma. Victoria E. Añonuevo	1,667,730 (direct & indirect)	Filipino	0.01538%
Common	Angela DV. Lacson	1,741,164 (direct & indirect)	Filipino	0.01606%
Common	Rex Ma. A. Mendoza	1,004,259 (direct & indirect)	Filipino	0.00926%
Common	John Philip S. Orbeta	718,454 (direct)	Filipino	0.00662%

[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 2,409,681,210 and 737,272,195 shares beneficially owned by HSBC and SCB, respectively, form part of the 4,228,745,504 shares registered in the name of PCD Non-Filipino and Filipino. The clients of HSBC and SCB have the power to decide how their shares are to be voted.

Common	Emilio J. Tumbocon	2,268,656 (direct)	Filipino	0.02092%
Common	Jaime E. Ysmael	1,519,601 (direct & indirect)	Filipino	0.01401%
Common	Jose Rene D. Almendras	881,030 (direct)	Filipino	0.00812%
Common	Dinna G. Bayangos	1,352,625 (direct)	Filipino	0.01247%
Common	Bernard Vincent O. Dy	742,150 (direct)	American	0.00684%
Common	Raul M. Irlanda	184,404 (direct & indirect)	Filipino	0.00170%
Other Executive Officers				
Common	Augusto D. Bengzon	0	Filipino	n/a
Common	Arturo G. Corpuz	704,028 (direct)	Filipino	0.00649%
Common	Ma. Corazon G. Dizon	583,676 (direct)	Filipino	0.00538%
Common	Anna Margarita B. Dy	395,710 (direct)	Filipino	0.00365%
Common	Joseph V. Mendoza	1,548,698 (direct & indirect)	Filipino	0.01428%
Common	Francis O. Monera	424,410 (direct)	Filipino	0.00391%
Common	Ma. Teresa S. Palma	645,901 direct & indirect)	Filipino	0.00596%
Common	Juanito P. Rosales	338,019 (direct)	Filipino	0.00312%
Common	Eliezer C. Tanlapco	0	Filipino	n/a
Common	Rowena M. Tomeldan	1,183,983 (direct & indirect)	Filipino	0.01092%
All Directors and Officers as a group		**30,452,317**		**0.28082%**

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

(c) Voting Trust Holders of 5% or more

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

(d) Changes in Control

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

Item 12. Certain Relationships and Related Transactions

Related Party Transactions

The Company, in its regular course of trade or business, enters into transactions with principal stockholders, subsidiaries, affiliates and other related parties principally consisting of advances and reimbursement of expenses, purchase and sale of land and other assets, construction contracts, and development, management, underwriting, marketing, and administrative service agreements. Sales and purchases of goods and services to and from related parties are made at normal market prices. In addition, the Company obtains borrowings from an affiliated commercial bank.

No transaction was undertaken or to be undertaken by the Company in which any Director or Executive Officer, nominee for election as Director, or any member of their immediate family was or to be involved or had or will have a direct or indirect material interest.

No single Director or Executive Officer, nominee for election as Director, or any member of their immediate family owns or holds more than 10% of the Company's voting shares.

The revenue from transactions with associates and other related parties amounting to P464 million in 2006 consisted of the following:

		(million)
Management Fees	(Mainly from Fort Bonifacio Devt. Corp.)	P 132
Interest Income	(Mainly from Bonifacio Land Corp.)	70
Construction	(Mainly from Fort Bonifacio Devt. Corp.)	258
Others		4
Total		P 464

There were no transactions with promoters in the past five years.

Please refer to Note 18 ("Related Party transactions") of the Notes to Consolidated Financial Statements of the 2006 Audited Financial Statements which is incorporated herein in the accompanying Index to Exhibits.

Parent Company / Major Holders

As of December 31, 2006, Ayala Corporation holds or owns 57.76% of the total issued and outstanding capital stock of the Company, while PCD Nominee Corporation (Non-Filipino) holds or owns 32.65% and PCD Nominee Corporation (Filipino) holds 6.35%.

Ayala Corporation's principal parent company, Mermac, Inc. does not hold or own any share in the Company.

HSBC and SCB are participants of PCD. The 2,409,681,210 and 737,272,195 shares beneficially owned by HSBC and SCB, respectively, form part of the 4,228,745,504 shares registered in the name of PCD Non-Filipino and Filipino. The clients of HSBC and SCB have the power to decide how their shares are to be voted.

PART V – CORPORATE GOVERNANCE

Item 13. Compliance with leading practice on Corporate Governance

The evaluation system which was established to measure or determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance consists of a Customer Satisfaction Survey which is filled up by the various functional groups indicating the compliance rating of certain institutional units and their activities. The evaluation process also includes a Board Performance Assessment which is accomplished by the Board of Directors indicating the compliance ratings. The above are submitted to the Compliance Officer who issues the required certificate of compliance with the Company's Corporate Governance Manual to the Securities and Exchange Commission.

To ensure good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the company, as well as the mechanism for monitoring and evaluating Management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

There were no deviations from the Company's Manual of Corporate Governance. The Company has adopted in the Manual of Corporate Governance the leading practices and principles of good corporate governance, and full compliance therewith has been made since the adoption of the Manual.

The Company is taking further steps to enhance adherence to principles and practices of good corporate governance.

PART VI – EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits - See accompanying Index to Exhibits

The following exhibit is incorporated by reference in this report:

2006 Consolidated Financial Statements

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

(b) Reports on SEC Form 17-C

The following current reports have been reported by Ayala Land during the year 2006 through official disclosure letters dated:

January 10, 2006
Ayala Land's affordable housing subsidiary Laguna Properties Holdings, Inc. (LPHI) received approval from the Securities and Exchange Commission to change its name to *Avida Land Corp.*.

February 13, 2006
ALI submitted its unaudited financial results for the year ended December 31, 2005.

May 2, 2006
ALI Board of Directors approved the declaration of a P0.03/share regular cash dividend for the first semester of 2006.

August 17, 2006
Ayala Corporation and ALI have committed to sponsor and invest up to US$50 million and up to US$25 million, respectively, in an Asian real estate private equity fund. The two companies will also participate in the fund management company that will raise third-party capital and pursue profitable investments for the fund.

September 22, 2006
ALI issued P3 billion Fixed Rate Corporate Notes (FXCN).

October 27, 2006
ALI signed a 25-year Contract of Lease with the University of the Philippines for the latter's 38-hectare property located along Commonwealth Avenue in Quezon City. ALI will develop the UP North Science and Technology Park, a fully integrated IT and IT-Enabled Services community.

November 15, 2006
ALI Board of Directors approved the declaration of a P0.03/share regular cash dividend for the second semester of 2006 and a P0.11/share special cash dividend.

November 22, 2006
ALI finalized the acquisition of additional shares in Bonifacio Land Corporation (BLC) at Php 136.93/share or Php 336.4 million from minority stockholders, resulting in an increase in its effective stake in BLC from 32.42% to 37.23%. The acquisition effectively increased ALI's stake in Fort Bonifacio Development Corporation (FBDC) from 17.83% to 20.48%.

November 23, 2006
Ayala Hotels, Inc., a 50%-owned subsidiary of ALI, together with Ocmador Philippines B.V, sold their combined equity interest of 100% in Makati Property Ventures, Inc., the owner of Oakwood Premier Ayala Center, to Ascott Residence Trust for a total consideration of P2.7 billion.

December 20, 2006
ALI announced the transfer of Mr. Jose Rene D. Almendras, Member of the Management Committee of ALI, to Ayala Corporation (seconded to Manila Water Company) effective January 1, 2007.

December 20, 2006
ALI, together with MLT Investments Ltd. (Goldman Sachs) and Filipinas Investments Ltd. (Capmark Asia), signed an Investors'Agreement to jointly develop a BPO office building in Dela Rosa Street and to purchase the PeopleSupport Building in Makati.

(c) Reports under SEC Form 17-C, as amended (during the last 6 months)

None.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in Makati City on MAR 3 0 2007.

By:

Jaime I. Ayala
President / Chief Executive Officer

Mercedita S. Nolledo
Corporate Secretary

Jaime E. Ysmael
Chief Finance Officer

Leovigildo D. Abot
Principal Accounting Officer

SUBSCRIBED AND SWORN to before me this MAR 3 0 2007 affiants exhibiting to me their Community Tax Certificates, as follows:

Names	C.T. Cert. No.	Date of Issue	Place of Issue
Jaime I. Ayala	17659545	January 23, 2007	Makati City
Mercedita S. Nolledo	17700203	February 15, 2007	Makati City
Jaime E. Ysmael	15137074	January 19, 2007	Makati City
Leovigildo D. Abot	17657998	January 20, 2007	Makati City

MARIA ANGELI L. FERRER
Notary Public for Makati City
Appt. # M-304 until 12-31-07, Roll # 38976
PTR # 0300577; 01/05/07; Makati City
IBP LRN 02744; 01/01/02; Reg. Occ
Notary Public

Doc. No. 366;
Page No. 73;
Book No. XVI;
Series of 2007.

AYALA LAND, INC.

INDEX TO EXHIBITS
Form 17-A – Item 7

No.		
(3)	Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession	n.a.
(5)	Instruments Defining the Rights of Security Holders, Including Indentures	n.a.
(8)	Voting Trust Agreement	n.a.
(9)	Material Contracts	n.a.
(10)	2006 Consolidated Financial Statements: Ayala Land, Inc. and Subsidiaries (with notarized Statement of Management Responsibility)	Attached
	2006 Financial Statements of "significant" subsidiaries/affiliates which are not consolidated	n.a.
(13)	Letter re: Change in Certifying Accountant	n.a.
(16)	Report Furnished to Security Holders	n.a.
(18)	Subsidiaries of the Registrant	61
(19)	Published Report Regarding Matters Submitted to Vote of Security Holders	n.a.
(20)	Consent of Experts and Independent Counsel	n.a.
(21)	Power of Attorney	n.a.
(29)	Additional Exhibits	n.a.

----

n.a. Not applicable or require no answer.

AYALA LAND, INC. - SUBSIDIARIES AND AFFILIATES
(As of December 31, 2006)

	Ownership (%)	
	By ALI	By the Subsidiary/Affiliate
CORE BUSINESSES		
Strategic Landbank Management		
Aurora Properties, Inc.	70.0	
Vesta Property Holdings, Inc.	70.0	
Ceci Realty, Inc.	60.0	
Emerging City Holdings, Inc.	50.0	
Columbus Holdings, Inc.		70.0
Bonifacio Land Corporation*	4.3	50.4
Fort Bonifacio Development Corp.**		55.0
Berkshires Holdings, Inc.	50.0	
Columbus Holdings, Inc.		30.0
Bonifacio Land Corporation*	4.3	50.4
Fort Bonifacio Development Corp.**		55.0
Regent Time International Limited	100.0	
Bonifacio Land Corporation*	4.3	3.9
Streamwood Property, Inc.	100.0	
Piedmont Property Ventures, Inc.	100.0	
Stonehaven Land, Inc.	100.0	
Buendia Landholdings, Inc.	100.0	
Red Creek Properties, Inc.	100.0	
Crimson Field Enterprises, Inc.	100.0	
Crans Montana Property Holdings Corp.	100.0	
Amorsedia Development Corporation	100.0	
HLC Development Corporation		100.0
Residential Development		
Avida Land Corporation	100.0	
Buklod Bahayan Realty and Development Corp.		100.0
First Communities Realty, Inc.		100.0
Avida Sales Corp.		100.0
Community Innovations, Inc.	100.0	
Serendra, Inc.	28.1	38.9
Roxas Land Corporation	50.0	
Amorsedia Development Corporation	100.0	
OLC Development Corporation		100.0
Ayala Greenfield Development Corp.		50.0
Ayala Land Sales, Inc.	100.0	
Ayala Land International Sales, Inc.	100.0	

	Ownership (%)	
	By ALI	By the Subsidiary/Affiliate
Shopping Centers		
Northbeacon Commercial Corporation	100.0	
Station Square East Commercial Corporation	69.0	
ALI-CII Development Corporation	50.0	
Alabang Commercial Corporation	50.0	
North Triangle Depot Commercial Corporation	49.0	
Lagoon Development Corporation	30.0	
Ayala Theatres Management, Inc.	100.0	
South Innovative Theatre Management, Inc.		100.0
Five Star Cinema, Inc.	100.0	
Food Court Company, Inc.	100.0	
Leisure and Allied Industries Phils., Inc.	50.0	
Corporate Business		
Laguna Technopark, Inc.	75.0	
ALI Property Partners Holdings Corp.	60.0	
ALI Property Partners Corp.		60.0
One Dela Rosa Property Development Inc.		100.0
First Gateway Real Estate Corp.		100.0
Visayas-Mindanao		
Cebu Holdings, Inc.	47.2	
Cebu Property Ventures & Development Corp.	8.0	76.0
Cebu Leisure Company, Inc.		100.0
CBP Theatre Management Inc.		100.0
Cebu Insular Hotel Company, Inc.		37.1
International		
First Longfield Investments Limited	100.0	
Green Horizons Holdings Limited		100.0
Arch Capital Management Co. Ltd.		22.0
SUPPORT BUSINESSES		
Construction		
Makati Development Corporation	100.0	
MG Construction Ventures Holdings, Inc.		66.0
Property Mangement		
Ayala Property Management Corporation	100.0	
Hotels		
Ayala Hotels, Inc.	50.0	
Enjay Hotels, Inc.		100.0
Cebu Insular Hotel Company, Inc.		62.9
Makati Property Ventures, Inc.***		60.0

	Ownership (%)	
	By ALI	By the Subsidiary/Affiliate
OTHERS		
Astoria Investment Ventures, Inc.****	100.0	
ALInet.com, Inc.	100.0	
MyAyala.com, Inc.		50.0
CMPI Holdings, Inc.	60.0	
CMPI Land, Inc.		60.0

** ALI's effective ownership in Bonifacio Land Corporation is 37.2%*
*** ALI's effective ownership in Fort Bonifacio Development Corporation is 20.5%*
**** Sold AHI's stake in November 2006; closing of transaction targeted in March 2007*
***** Pertains to common shares*

AYALA LAND, INC.

INDEX TO SUPPLEMENTARY SCHEDULES
Form 17-A, Item 7

SGV & Co

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

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

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

Independent Auditors' Report
On Supplementary Schedules

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Ayala Land, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated February 13, 2007. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities Regulation Code Rules 68 and 68.1 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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
SCHEDULE A - MARKETABLE SECURITIES
(Current Marketable Equity Securities and Other Short-Term Cash Investments)

NAME OF ISSUING ENTITY & ASSOCIATION OF EACH ISSUE	NUMBER OF SHARE OF PRINCIPAL AMOUNT	AMOUNT IN THE BALANCE SHEET	VALUED BASED ON MARKET QUOTATION AT BALANCE SHEED DATE	INCOME RECEIVED & ACCRUED
Short term Investment				
BPI				
Treasury Bills		7,795,519		378,007
Special Savings Account		2,292,122,961		171,072,643
Commercial Paper		0		0
Repurchased Bills		0		(0)
Time Deposits		948,124,536		20,044,462
Others		16,167,728		13,373,553
Others Banks				
Treasury Bills		0		0
Special Savings Account		2,395,408,874		185,523,717
Commercial Paper		0		0
Repurchased Bills		0		0
Time Deposits		388,321,295		37,500,523
Others		273,865,308		7,066,949
		6,321,806,220		**434,959,853**

AYALA LAND, INC. AND SUBSIDIARIES
SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE ACCOUNTS RECEIVABLE		ENDING BALANCE NOTES RECEIVABLE		
NAME	NOTES RECEIVABLE	ACCOUNTS RECEIVABLE	NOTES RECEIVABLE	ACCOUNTS RECEIVABLE	NOTES RECEIVABLE	ACCOUNTS RECEIVABLE	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT	TOTALS
Employees	158,835,312	23,303,263	223,024,033	395,798,851	184,278,905	140,592,084	12,227,861	266,282,169	51,583,953	145,596,488	475,690,470
Total	**158,835,312**	**23,303,263**	**223,024,033**	**395,798,851**	**184,278,905**	**140,592,084**	**12,227,861**	**266,282,169**	**51,583,953**	**145,596,488**	**475,690,470**

Note:
The company keeps the information on the name and designation of the debtors and other details of the notes receivables confidential. There is no risk of loss on these advances as these are collateralized.

AYALA LAND, INC. AND SUBSIDIARIES
SCHEDULE C - NONCURRENT MARKETABLE EQUITY SECURITIES, OTHER LONG-TERM INVESTMENTS IN STOCK, AND OTHER INVESTMENTS

NAME OF COMPANY	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE			Dividends
	Number of Shares	Amount in Pesos	Equity in Earnings (Losses) of Investees for the period	Others (Cost & equity adj.)	Distribution of Earnings by Investees	Others Cost & equity adj.	Number of Shares	% of Effective Ownership	Amount in Pesos	Received/accrued fr Investments Not Accounted for by the Equity Method
Alinet.Com										
MyAyala.Com	25,000,000	1,534,934				1,534,934	0		0	
Ayala Land Inc.,										
Cebu Holdings Inc	907,350,948	1,531,625,676	97,798,085		45,367,539		907,350,948	47%	1,584,056,222	
Lagoon Development Corp.	442,500	74,141,215	2,062,712	5,875,385	3,600,000	17,777,115	442,500	30%	60,702,197	
Alabang Comm. Corp.	158,504	431,348,654	82,964,267			23,811,015	158,504	50%	490,501,906	
Cebu Property Ventures Dev't Corp.	73,341,995	139,979,756					73,341,995		139,979,756	
North Triangle Depot Comm. Corp		1,044,047,407						16%	1,044,047,407	
Bonifacio Land Corp.		457,444,601	50,926,408	346,430,437					854,801,446	
Emerging City Holdings Inc.		2,192,476,005	40,970,649						2,233,446,654	
Berkshires Holdings Inc.		939,618,051	17,542,484						957,160,535	
Arch Capital				1,296,750,000					1,296,750,000	
Appco				129,770,522					129,770,522	
		6,812,216,299							**8,791,216,644**	

AYALA LAND, INC. AND SUBSIDIARIES
SCHEDULE D - INDEBTEDNESS OF UNCONSOLIDATED SUBSIDIARIES AND RELATED PARTIES

NAME OF RELATED PARTIES	BALANCE AT BEGINNING OF PERIOD	BALANCE AT END OF PERIOD
NOT APPLICABLE		

AYALA LAND, INC. AND SUBSIDIARIES
SCHEDULE E - OTHER ASSETS

DESCRIPTION	BEGINNING BALANCE	ADDITIONS AT COST	CHARGED TO COSTS & EXPENSES	CHARGED TO OTHER ACCTS.	OTHER CHANGES ADDITIONS/ (DEDUCTIONS)	ENDING BALANCE
Deferred charges	26,834,161				4,341,221	31,175,383
Sundry receivables and deposits	498,616,006				(175,205,137)	323,410,869
Others	754,462,552				55,370,421	809,832,973
	1,279,912,720	**0**	**0**	**0**	**(115,493,495)**	**1,164,419,225**

AYALA LAND, INC. AND SUBSIDIARIES
SCHEDULE F - LONG-TERM DEBT

TITLE OF ISSUE & TYPE OF OBLIGATION	AMOUNT AUTHORIZED BY INDENTURE	CURRENT PORTION OF LONG-TERM DEBT	LONG-TERM DEBT (NET OF CURRENT PORTION)	Interest Rate	Amount & No. of Periodic Installment		Maturity Date
Ayala Land, Inc.							
Bonds *(Various bondholders)*	3,000,000,000	3,000,000,000	-	MART1+2.00%	3,000,000,000	bullet payment at maturity	Apr 18 & 25, 2007
Bonds *(Various bondholders)*	1,000,000,000	-	1,000,000,000	MART1+1.25%	1,000,000,000	bullet payment at maturity	Nov. 28, 2008
Bonds *(Various bondholders)*	1,000,000,000	-	1,000,000,000	10.75%	1,000,000,000	bullet payment at maturity	Nov. 28, 2008
FXCNs *(Various noteholders)*	580,000,000	-	580,000,000	14.88%	580,000,000	bullet payment at maturity	Feb. 20, 2012
Bonds *(Various bondholders)*	42,960,000	-	42,960,000	5.00%	42,960,000	bullet payment at maturity	Mar. 16, 2009
FXCNs *(Various noteholders)*	1,830,000,000	-	1,830,000,000	7.25%	1,830,000,000	bullet payment at maturity	Sept. 22, 2011
FXCNs *(Various noteholders)*	250,000,000	-	250,000,000	7.38%	250,000,000	bullet payment at maturity	Sept. 23, 2013
FXCNs *(Various noteholders)*	920,000,000	-	920,000,000	7.75%	920,000,000	bullet payment at maturity	Sept. 23, 2016
Subsidiaries							
Bank Loan *(BDO and China Bank)*	500,000,000	76,923,077	76,923,077	11.93%	153,846,154	26 quarterly payments	Oct. 26, 2008
Bank Loan *(Land Bank)*	500,000,000	166,666,667	-	91dTBill+1.50%	41,666,667	12 quarterly payments	Oct. 18, 2007
Bank Loan *(iBank)*	155,000,000	51,666,667	-	91dTBill+2.50%	25,833,333	6 semi-annual payments	Jul. 30, 2007
Bank Loan *(BPI Family Bank)*	53,571,429	7,936,508	21,825,397	12.00%	1,984,127	27 quarterly payments	Aug., 29, 2010
Bank Loan *(BPI)*	50,000,000	13,333,333	-	91dTBill+1.75%	3,333,333	15 quarterly payments	Nov. 29, 2007
Bank Loan *(BPI)*	100,000,000	26,666,667	20,000,000	MART1+1.75%	6,666,667	15 quarterly payments	Sept. 16, 2008
Bank Loan *(PNB)*	150,000,000	-	100,000,000	MART1+1.50%	12,500,000	12 quarterly payments	Jul. 31, 2011
	150,000,000	-	120,000,000	9.95%	12,500,000	12 quarterly payments	
Bank Loan *(Security Bank)*	200,000,000	-	200,000,000	8.67%	10,000,000	4 quarterly payments	Sept. 19, 2011
					15,000,000	4 quarterly payments	
					25,000,000	4 quarterly payments	
Bank Loan *(Security Bank, Banco de Oro, China Bank, iBank and Land Bank)*	2,000,000,000	130,160,000	836,971,566	MART1+1.50%	18,000,000	4 quarterly payments	Jun. 19, 2009
					27,000,000	4 quarterly payments	
					36,000,000	2 quarterly payments	
					45,000,000	4 quarterly payments	
					63,000,000	1 quarter payment	
					405,000,000	balloon payt at maturity	
					4,160,000	15 quarterly payments	Sept. 21, 2011
					137,600,000	balloon payt at maturity	
		84,000,000	428,562,504	10.11%	12,000,000	4 quarterly payments	Jun. 19, 2009
					18,000,000	4 quarterly payments	
					24,000,000	2 quarterly payments	
					30,000,000	4 quarterly payments	
					42,000,000	1 quarter payment	
					270,000,000	balloon payt at maturity	
		6,240,000	290,575,839	10.69%	6,240,000	15 quarterly payments	Sept. 21, 2011
					206,400,000	balloon payt at maturity	
TOTAL		**3,563,592,918**	**7,717,818,383**				

AYALA LAND, INC. AND SUBSIDIARIES
SCHEDULE G - INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED COMPANIES)

NAME OF AFFILIATE	BALANCE AT BEGINNING OF PERIOD	BALANCE AT END OF PERIOD
NOT APPLICABLE		

AYALA LAND, INC. AND SUBSIDIARIES
SCHEDULE H - GUARANTEES OF SECURITIES OF OTHER ISSUERS

NAME OF ISSUING ENTITY OF SECURITIES GUARANTEED BY THE COMPANY FOR W/C THIS STATEMENT IS FILED	TITLE OF ISSUE OF EACH CLASS OF SECURITIES GUARANTEED	TOTAL AMOUNT GUARANTEED & OUTSTANDING	AMOUNT OWNED BY PERSON FOR W/C STATEMENT IS FILED	NAME OF GUARANTEE
NOT APPLICABLE				

AYALA LAND, INC. AND SUBSIDIARIES
SCHEDULE I - CAPITAL STOCK

Title of Issue	No. of Shares Authorized	No. of Shares Issued & Outstanding		No. of Shares Reserved for Options Warrants, Conversion & Other Rights	No. of Shares Held by Related Parties		No. of Shares Held by Directors, Officers and Employees*
Common Stock	12,000,000,000	Issued	10,809,674,845	300,000,000	AC	6,263,341,262	30,452,317
		Subscribed	34,586,872	*(2.5% of authorized)*			
		Total	10,844,261,717				
		Less: Treasury Shares	24,081				
		Issued & Outstanding	10,844,237,636				

** The security ownership of Directors and Management is limited to shares owned by the Directors, Management Committee Members, and other officers with the rank of VP or higher. Shareholdings of other officers and employees can not be ascertained as the Company does not monitor all trading transactions of all employees.*

AYALA LAND, INC. AND SUBSIDIARIES
SCHEDULE J. - PROPERTY, PLANT AND EQUIPMENT

CLASSIFICATION	BEGINNING BALANCE	ADDITIONS AT COST	RETIREMENTS	OTHER CHARGES- ADDITIONS (DEDUCTIONS)	ENDING BALANCE
Land and Improvements	31,177,784				31,177,784
Building Imrpovement	388,973,981	2,166,102	240,158,257		150,981,826
Machinery and Equipment	1,353,589,307	450,774,059	41,287,809		1,763,075,557
Transportation	301,464,915	68,354,609	40,043,265		329,776,259
Officer Furnitures & Fixtures	219,147,743	76,605,000	9,030,000		286,722,743
Leasehold Improvements	248,602,931		6,000,743		242,602,188
Computer Equipments	506,013,666	160,093,211			666,106,877
Others	29,844,229	8,669,019			38,513,248
Hotel Property & Equipment	4,824,336,976	264,260,000	31,217,560	(2,355,170,000)	2,702,209,416
Construction in Progress	740,863,156	707,201,000		(649,594,000)	798,470,156
	8,644,014,688	**1,738,123,000**	**367,737,634**	**(3,004,764,000)**	**7,009,636,054**

AYALA LAND, INC. AND SUBSIDIARIES
SCHEDULE K.- ACCUMULATED DEPRECIATION

DESCRIPTION	BEGINNING BALANCE	ADDITIONS CHARGED TO COSTS & EXPENSES	RETIREMENTS	OTHER CHARGES-ADDITIONS (DEDUCTIONS)	ENDING BALANCE
Land and Improvements	19,125,582	883,113			20,008,695
Building Imrpovement	105,996,884	10,555,887	4,841,200		111,711,571
Machinery and Equipment	683,810,865	138,419,000	40,575,000		781,654,865
Trasnportation	187,612,875	50,051,000	23,312,000		214,351,875
Officer Furnitures & Fixtures	155,879,629	20,234,994	2,581,828		173,532,795
Leasehold Improvements	106,190,694				106,190,694
Computer Equipments	440,185,212	85,790,404	3,697,081		522,278,535
Others	21,511,910	7,221,602	11,091		28,722,421
Hotel Property & Equipment	1,850,515,811	177,105,000	25,452,820	(676,017,000)	1,326,150,991
	3,570,829,462	**490,261,000**	**100,471,020**	**(676,017,000)**	**3,284,602,442**

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 Y. GUEVARA
Notary Public-Until 31 Dec. 2007
PTR No. 0300658J 05 Jan. 2007
Issued at Makati City
TIN: 132-783-308

COVER SHEET

1 5 2 7 4 7

SEC Registration Number

AYALA LAND, INC. AND SUBSIDIARIES

(Company's Full Name)

Tower One, Ayala Triangle, Ayala Avenue, Makati City

(Business Address: No. Street City/Town/Province)

Leovigildo D. Abot

(Contact Person)

848-5772

(Company Telephone Number)

1 2 3 1

Month *Day*

(Fiscal Year)

A A F S

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SGVMC109274

AYALA LAND, INC. AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2006 and 2005
and Years Ended December 31, 2006, 2005 and 2004

and

Independent Auditors' Report

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

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

BOA/PRC Reg. No. 0001
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	**₱10,794,539**	₱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, ₱0.30 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)**	₱–	₱–
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
	₱47,183,913	₱45,339,178	₱44,795,115
Total income and expense recognized for the year			
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
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)	(₱2,092,970)
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**	₱6,160,645	₱6,360,187

See accompanying 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 (₱000) 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.

<u>Short-term and Long-term Debts</u>
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.

<u>Deposits and Retention Payable</u>
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.

<u>Derecognition of Financial Assets and Liabilities</u>

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.

<u>Impairment of Financial Assets</u>

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, excluding 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.(**	₱0.(	₱0.(
Diluted EPS	**₱0.(**	₱0.(	₱0.(

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**		

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	**₱0.3**	₱0.3	₱0.2
Diluted EPS	**₱0.3**	₱0.3	₱0.2

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 ₱396.6 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 Mart1	3 months	₱3,000,000	₱3,000,000	-	-	₱3,000,000
Peso	Variable at 1.25% over 91-day Mart1	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 Mart1	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	₱3,000,000	-	₱3,000,000	-	₱3,000,000
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			₱9,316,013	₱811,697	₱7,539,633	₱944,504	₱9,295,834

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/received 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	₱1,489	₱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

<u>2005</u>

	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	₱10,792	₱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	(15,344)	26,198
Deferred tax liabilities									273
Total liabilities									**26,471**
Segment additions to property and equipment and investment properties	1,324	326	8	–	–	176	86	–	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
Intersegments 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.