

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)

June 30, 2006

(Quarter Ending)

SEC Form 17-Q Quarterly Report

(Form Type)

(Amendments)

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

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

1. For the quarterly period ended **June 30, 2006**
2. Commission Identification Number **152747**
3. BIR Tax Identification No. **050-000-153-790**
4. Exact name of issuer as specified in its charter: **AYALA LAND, INC.**
5. Province, Country or other jurisdiction of incorporation or organization:
Makati City, Philippines
6. Industry Classification Code: _____ (SEC Use Only)
7. Address of issuer's principal office and postal code:
c/o 29/F, Tower One, Ayala Triangle, Ayala Avenue, Makati City 1226
8. Issuer's telephone number, including area code: **(632) 848-5313**
9. Former name, former address, former fiscal year: **not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

As of June 30, 2006

<u>Title of each class</u>	<u>Number of shares issued and outstanding</u>
Common shares	10,804,097,550

Amount of Debt Outstanding
P10.3 Billion

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

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

12. Indicate by check mark whether the registrant:

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

Yes No

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

Yes No

TABLE OF CONTENTS

	<u>Page No.</u>
PART I - FINANCIAL STATEMENTS	
Item 1. Financial Statements	
• Consolidated Balance Sheets as of June 30, 2006 and December 31, 2005	1
• Consolidated Statements of Income for the Three Months and Six Months Ended June 30, 2006 and June 30, 2005	2
• Consolidated Statement of Changes in Stockholders' Equity for the Six Months Ended June 30, 2006 and June 30, 2005	3
• Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2006 and June 30, 2005	4
• Notes to Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
PART II - OTHER INFORMATION	
Item 3. 2Q 2006 Developments	18
Item 4. Other Notes to 1H 2006 Operations and Financials	19
Item 5. Performance indicators	21
Signature	22

PART I – FINANCIAL STATEMENTS

Item 1. Financial Statements



Ayala Land, Inc.
Consolidated Balance Sheets
As of June 30, 2006 and December 31, 2005
(in million pesos)

	Unaudited	Audited
	June 2006	Dec. 2005
ASSETS		
Current Assets		
Cash and cash equivalent	6,949	6,756
Accounts and notes receivable - net	9,997	9,153
Real estate inventories	7,951	6,754
Other current assets	1,856	1,342
Total Current Assets	26,753	24,005
Noncurrent Assets		
Non-current accounts and notes receivable	8,216	8,253
Land and improvements	16,991	17,578
Investments in associates and jointly controlled entities - net	7,039	6,812
Available-for-sale financial assets	485	443
Investment properties - net	13,297	13,209
Property and equipment - net	4,680	5,073
Deferred tax assets - net	800	767
Other noncurrent assets	1,514	1,280
Total Noncurrent Assets	53,022	53,415
	79,775	77,420
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables	9,130	7,891
Short-term debt	1,732	1,427
Income tax payable	195	112
Current portion of:		
Long-term debt	3,758	812
Estimated liability for land and property development	2,452	3,877
Unrealized gain on real estate sales	2,386	1,112
Other current liabilities	334	182
Total Current Liabilities	19,987	15,413
Noncurrent Liabilities		
Long-term debt - net of current portion	4,798	8,484
Pension liabilities	54	110
Deferred tax liabilities	271	273
Noncurrent liabilities and deposits	3,738	3,845
Unrealized gain on real estate sales - net of current portion	666	1,732
Estimated liability for land and property development - net of current portion	3,515	2,224
Total Noncurrent Liabilities	13,042	16,668
Total Liabilities	33,029	32,081
Equity		
Equity Attributable to Equity Holders of Ayala Land, Inc.		
Paid-up Capital	14,444	14,385
Stock Options Outstanding	112	120
Unrealized Gain/(Loss) on Available-for-sale Financial Assets	10	(8)
Retained Earnings	25,523	23,951
Treasury Stock	(1)	(1)
Minority interests	40,088	38,447
	6,658	6,892
	46,746	45,339
	79,775	77,420



Ayala Land, Inc.
Consolidated Statements of Income
For the Three Months and Six Months Ended June 30, 2006 and June 30, 2005
(in million pesos)

	2006 Unaudited		2005 Unaudited (as restated)	
	April 1 to June 30	January 1 to June 30	April 1 to June 30	January 1 to June 30
REVENUE				
Real estate	6,668	10,924	4,202	7,884
Hotel operations	393	877	420	846
Equity in net earnings of investees, interest, fees, investment and other income	251	967	230	3,027
	<u>7,312</u>	<u>12,768</u>	<u>4,852</u>	<u>11,757</u>
COSTS AND EXPENSES				
Real estate	4,885	7,584	2,543	5,064
Hotel operations	252	563	265	539
General and administrative expenses	713	1,174	536	1,097
Interest and other charges	198	418	531	2,439
Provision for income tax	480	965	225	633
	<u>6,528</u>	<u>10,704</u>	<u>4,100</u>	<u>9,772</u>
NET INCOME	<u>784</u>	<u>2,064</u>	<u>752</u>	<u>1,985</u>
Net Income(Loss) Attributable to :				
Equity holders of Ayala Land, Inc.	<u>721</u>	<u>1,896</u>	<u>667</u>	<u>1,828</u>
Minority interests	<u>63</u>	<u>168</u>	<u>85</u>	<u>157</u>
	<u>784</u>	<u>2,064</u>	<u>752</u>	<u>1,985</u>
Earnings per Share				
Basic *	0.07	0.18	0.06	0.17
Diluted **	0.07	0.18	0.06	0.17

* Based on 10,805,267,945 and 10,787,379,148 weighted average number of shares as of June 30, 2006 and June 30, 2005, respectively

** Based on 10,840,957,568 and 10,830,810,325 weighted average number of shares as of June 30, 2006 and June 30, 2005, respectively



Ayala Land, Inc.
Consolidated Statement of Changes in Stockholders' Equity
For the Six Months Ended June 30, 2006 and June 30, 2005
(in million pesos)

	2006 Unaudited Jan 1 - Jun 30	2005 Unaudited Jan 1 - Jun 30
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.		
CAPITAL STOCK		
Issued		
Balance at beginning of year	10,795	10,774
Issuance of shares	0	0
Stock options exercised	26	27
Balance at end of year	10,821	10,801
Subscribed		
Balance at beginning of year	1	1
Issuance of shares	0	0
Balance at end of year	1	1
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of year, as previously reported	3,593	3,550
Effect of change in accounting for stock options	0	0
Balance at beginning of year, as restated	3,593	3,550
Stock options exercised	149	10
Balance at end of year	3,742	3,560
SUBSCRIPTIONS RECEIVABLE		
Balance at beginning of year	(4)	(4)
Subscriptions	(118)	0
Collections	2	0
Balance at end of year	(120)	(4)
TOTAL PAID-UP CAPITAL	14,444	14,358
STOCK OPTIONS		
Balance at beginning of year	120	115
Cost of stock options	27	68
Stock options exercised	(35)	(37)
Balance at end of year	112	146
TREASURY STOCK		
	(1)	(1)
RETAINED EARNINGS		
Appropriated for future expansion	6,000	6,000
Unappropriated:		
Balance at beginning of year, as previously reported	17,951	17,686
Effect of change in accounting policies	0	0
Balance at beginning of year, as restated	17,951	17,686
Cumulative effect of change in accounting policy for financial instruments	0	0
Balance at beginning of year, as adjusted	17,951	17,686
Cash dividends	(324)	(1,078)
Net income	1,896	1,828
Balance at end of year	19,523	18,436
	25,523	24,436
UNREALIZED GAIN/(LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		
	10	0
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.	40,088	38,939
MINORITY INTERESTS		
Balance at beginning of year, as adjusted	6,892	6,675
Net income (loss)	168	157
Increase (decrease) in minority interests	(386)	(59)
Dividends paid to minority interests	(16)	(36)
Balance at end of year	6,658	6,737
	46,746	45,676



Ayala Land, Inc.
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2006 and June 30, 2005
(in million pesos)

	2006 Unaudited	2005 Unaudited
	Jan 1 - Jun 30	Jan 1 - Jun 30
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	3,029	2,619
Adjustments for:		
Depreciation and amortization	582	489
Interest expense - net of amount capitalized	474	330
Unrealized gain on available-for-sale financial assets	10	-
Prior years adjustment on retained earnings	-	(3)
Cost of share-based payments	-	(56)
Unfunded retirement obligations	-	(330)
Goodwill recognition on FBDC account	-	717
Provision for possible losses	-	1,792
Gain on sale of investments	(483)	(2,590)
Interest income	(211)	(177)
Equity in net earnings of investees	88	(105)
Operating income before changes in working capital	3,489	2,686
Decrease (increase) in :		
Accounts and notes receivable - trade	54	(722)
Real estate inventories	(1,197)	(1,316)
Other current assets	(583)	(717)
Increase (decrease) in :		
Accounts and other payables	2,802	1,465
Pension liabilities	(57)	476
Other current liabilities	152	1,279
Estimated liability for land and property development	(134)	(746)
Cash generated from operations	4,526	2,405
Interest received	193	154
Income tax paid	(977)	(720)
Interest paid - net of amount capitalized	(344)	(403)
Net cash provided by (used in) operating activities	3,398	1,436
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Sale of investments	615	3,527
Decrease (increase) in:		
Land and improvements	587	308
Investments	(1,033)	(801)
Property and equipment	274	(204)
Decrease (increase) in:		
Accounts and notes receivable - non trade	(774)	(892)
Other assets	(273)	(546)
Net cash provided by (used in) investing activities	(604)	1,392
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans payable	435	291
Payment of long-term debt	(869)	(2,206)
Increase (decrease) in :		
Noncurrent liabilities and deposits	(1,175)	1,576
Minority interest in consolidated subsidiaries	(386)	(156)
Proceeds from capital stock subscriptions	58	136
Dividends paid to minority	(16)	(36)
Dividends paid to equity holders of Ayala Land, Inc.	(648)	(1,404)
Net cash provided by (used in) financing activities	(2,601)	(1,799)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	193	1,029
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,756	6,360
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6,949	7,389

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

- The consolidated financial statements of ALI and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the Philippines, as set forth in Philippine Financial Reporting Standards (PFRSs). Accounting principles/policies and methods of computation applied for the six months ended June 30, 2006 are the same as those applied in the preceding calendar year.

There was no new accounting standard adopted in the first half of 2006 but the Company will adopt Amendments to PAS 19 (*Employee Benefits: Actuarial Gains and Losses, Group Plan and Disclosures*) within the year.

- Principles of Consolidation

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

	<u>Effective Ownership</u>
	<u>(%)</u>
<i>Real Estate:</i>	
Amorsedia Development Corporation and subsidiaries	100
OLC Development Corporation	100
Ayala Greenfield Development Corporation (AGDC)	50
Ayala Land Sales, Inc.	100
Ayala Land International Sales, Inc.	100
Buendia Landholdings, Inc.	100
Community Innovations, Inc.	100
Crans Montana Property Holdings Corp.	100
Crimson Field Enterprises, Inc.	100
Avida Land Corp. and subsidiaries (Avida)	100
Regent Time International, Limited	100
Red Creek Properties, Inc.	100
Aurora Properties, Inc. (API)	70
Vesta Property Holdings, Inc.	70
Station Square East Commercial Corporation (SSECC)	69
Serendra, Inc.	67
Ceci Realty, Inc.	62
Laguna Technopark, Inc.	61
CMPI Holdings, Inc.	60
ALI-CII Development Corporation	50
Roxas Land Corporation	50
<i>Construction:</i>	
Makati Development Corporation	100

<i>Hotels:</i>	
Ayala Hotels, Inc. and subsidiaries	50
<i>Property Management:</i>	
Ayala Property Management Corporation	100
Ayala Theatres Management, Inc. and subsidiaries	100
<i>Entertainment:</i>	
Five Star Cinema, Inc.	100
Leisure and Allied Industries Phils., Inc (LAI)	50
<i>Others:</i>	
ALInet.com, Inc.	100
Food Court Company, Inc.	100

3. Receivables / Payables

Aging of Receivables (as of June 30, 2006; in Million Pesos)

	Up to 6 mos.	Over 6 mos. to One Year	Over One Year	Past Due	Total
Trade Receivables	3,881	2,731	7,395	519	14,526
Non-Trade Receivables	2,328	538	821	0	3,687
Total	6,209	3,269	8,216	519	18,213

Aging of Payables (as of June 30, 2006; in Million Pesos)

	Up to 6 mos.	Over 6 mos. to One Year	Over One Year	Past Due	Total
Trade Payables	3,617	1,197	670	0	5,484
Non-Trade Payables	4,657	189	3,392	0	8,238
Total	8,274	1,386	4,062	0	13,722

4. Short-Term and Long-Term Debt

Short-Term Debt (as of June 30, 2006; in Million Pesos)

<u>Borrower</u>	<u>Amount</u>
AGDC	293.0
API	44.0
Avida	790.0
LAI	340.0
SSECC	265.0
Total	1,732.0

Long-Term Debt (as of June 30, 2006; in Million Pesos / US\$)

<u>Borrower</u>	<u>Current</u>		<u>Non-Current</u>		<u>Total</u>	
	<u>Peso *</u>	<u>US\$</u>	<u>Peso *</u>	<u>US\$</u>	<u>Peso *</u>	<u>US\$</u>
ALI (incl. bonds)	3,083.3		2,598.2		5,681.5	
AGDC	51.7		25.8		77.5	
Avida	243.6		198.7		442.3	
CIHC	47.9		65.8		113.7	
SSECC	180.0		1,684.0		1,864.0	
MPVI	151.3	2.8	226.0	4.3	377.3	7.1
Total	3,757.8	2.8	4,798.6	4.3	8,556.4	7.1

* *Peso equivalent of US\$ loans (when applicable)*

Issuances, Repurchases and Repayments of Debt and Equity Securities

Issuances of Debt and Equity Securities / New Financing through Loans –
January – June 2006 (in Million Pesos)

<u>Borrower</u>	<u>Amount</u>	<u>Nature</u>
ALI	18.4	issuance of bonds
AGDC	496.0	renewal of short-term loans and new short-term loan
API	58.0	renewal of short-term loans
Avida	3,085.0	renewal of short-term loans and new short-term loan
LAI	875.5	renewal of short-term loans and new short-term loans
SSECC	740.0	renewal of short-term loans and new short-term loans
Total	5,272.9	

Repayments of Debt and Equity Securities –
January – June 2006 2005 (in Million Pesos)

<u>Borrower</u>	<u>Amount</u>	<u>Nature</u>
ALI	453.5	Amortization on long-term loan, prepayment of FXCNs and retirement of bonds
AGDC	481.8	payment of matured short-term loans and amortization on long-term loans
API	58.0	payment of matured short-term loans
Avida	3,306.8	payment of matured short-term loans and amortization on long-term loans
CIHCI	24.0	amortization on long-term loans
LAI	775.5	payment of matured short-term loans
MPVI	73.2	amortization on US\$ loan
SSECC	535.0	amortization on long-term loans and payment of matured short-term loan
Total	5,707.8	

5. Commercial Paper Issuances and Outstanding Balance
(for the quarter ended June 30, 2006)

None.

6. Accounts and Other Payables

The accounts and other payables as of June 30, 2006 is broken down as follows:

	(million)
Accounts payable	P 5,583
Accrued expenses	2,457
Taxes payable	1,053
Dividends payable	3
Retentions payable	34
Total	<u>P 9,130</u>

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

Income Statement items – 1H 2006 versus 1H 2005

39% increase in real estate revenues

Primarily due to higher revenues from residential developments, office rentals and sales, as well as shopping centers.

68% decline in equity in net earnings of investees, interest, fees, investment and other income

Largely due to the gain on sale of Astoria Investment Ventures, Inc. (AIVI) preferred shares in 1Q2005.

50% increase in real estate costs and expenses

Mainly due to higher real estate revenues.

7% increase in general and administrative expenses

Primarily due to higher payroll costs.

83% 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 1H2005.

52% increase in provision for income tax

Mainly due to capital gains in AIVI transaction subjected to final tax at lower rate in 1Q2005 and higher corporate income tax rate in 1H2006.

7% increase in net income attributable to minority interests

Largely due to increased income of Serendra, Inc. and Ayala Hotels, Inc., partly off set by Roxas Land Corporation's higher loss.

Balance Sheet items – June 30, 2006 versus End-2005

9% 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.

18% increase in real estate inventories

Primarily due to construction accomplishment at residential building projects and continued development of residential subdivision projects.

38% increase in other current assets

Mainly due to advances on land, advance lease payment for Market! Market! site and higher prepaid real property tax.

9% increase in available-for-sale financial assets

Primarily due to revaluation of club shares owned by Ayala Hotels, Inc.

8% decline in property and equipment

Largely due to completion of Market! Market!

18% increase in other non-current assets

Largely due to advances and pre-operating expenses incurred for pipeline projects.

16% 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.

21% increase in short-term debt

Largely due to short-term loan availments by Station Square East Commercial Corporation and Leisure and Allied Industries Phils, Inc.

74% 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.

363% increase in current portion of long-term debt

Primarily due to reclass of the P3.0B bonds maturing on April 2007.

37% decline in current portion of estimated liability for land and property development

Primarily due to construction accomplishment at various projects.

115% increase in current portion of unrealized gain on real estate sales

Primarily due to new sales at existing and new projects.

84% increase in other current liabilities

Mainly due to higher deposits from real estate sales.

43% decline in long-term debt (net of current portion)

Largely due to payment of long-term loans and reclass of P3.0B bonds to current portion.

51% decline in pension liabilities

Mainly due to higher 2005 base following set up in subsidiaries of transitional liability representing benefit obligation and funding of retirement fund deficiency at parent company level.

62% decrease in non-current portion of unrealized gain on real estate sales

Primarily due to change in revenue recognition policy from installment sales to percentage of completion method.

58% increase in non-current portion of estimated liability for land and property development

Mainly due to new sales at existing and new projects.

7% decline in stock options outstanding

Primarily due to additional options exercised.

225% increase in unrealized gain on available-for-sale financial assets

Primarily due to revaluation of club shares owned by Ayala Hotels, Inc.

7% increase in retained earnings

Mainly due to income generated in 1H2006.

8. Segment information

YTD-June 2006

(in million pesos)

	Residential Development	Shopping Centers	Corporate Business	Landbank	Vismin	Services	Corporate	Total	Consolidation adjustment	TOTAL
Revenues	6,863	2,175	546	250	130	3,774	711	14,449	(1,682)	12,767
Operating expenses	5,652	681	245	152	82	3,028	450	10,290	(1,546)	8,744
Earnings before interest, taxes, depreciation and amortization (EBITDA)	1,211	1,494	301	98	48	746	261	4,159	(136)	4,023
Depreciation and amortization	21	322	62	1	0	135	35	576	0	576
EBIT	1,190	1,172	239	97	48	611	226	3,583	(136)	3,447
Segment assets	48,783	19,059	9,822	12,232	3,421	8,670	(937)	101,050	(22,076)	78,974
Deferred tax assets	96	2	6	0	0	120	1,254	1,478	(677)	801
Total assets	48,879	19,061	9,828	12,232	3,421	8,790	317	102,528	(22,753)	79,775
Segment additions to property and equipment	13	227	0	0	0	139	94	473	0	473
Segment liabilities	19,367	4,201	604	1,048	212	3,407	7,907	36,746	(3,988)	32,758
Deferred tax liabilities	271	0	0	0	0	0	677	948	(677)	271
Total liabilities	19,638	4,201	604	1,048	212	3,407	8,584	37,694	(4,665)	33,029

YTD-June 2005

(in million pesos)

	Residential Development	Shopping Centers	Corporate Business	Landbank	Vismin	Services	Corporate	Total	Consolidation Adjustment	TOTAL
Revenues	4,336	1,971	289	312	102	3,971	2,856	13,837	(2,080)	11,757
Operating expenses	3,556	597	143	130	77	3,262	473	8,238	(2,022)	6,216
Earnings before interest, taxes, depreciation and amortization (EBITDA)	780	1,374	146	182	25	709	2,383	5,599	(58)	5,541
Depreciation and amortization	29	254	32	0	1	138	31	485	0	485
EBIT	751	1,120	114	182	24	570	2,352	5,114	(58)	5,056
Segment assets	39,498	16,616	9,906	12,653	3,123	8,175	9,232	99,203	(22,808)	76,395
Deferred tax assets	61	1	0	26	0	117	555	760	0	760
Total assets	39,559	16,617	9,906	12,679	3,123	8,292	9,787	99,963	(22,808)	77,155
Segment additions to property and equipment	39	141	0	0	0	33	23	236	0	236
Segment liabilities	12,387	3,889	1,682	717	254	3,446	12,224	34,599	(4,059)	30,540
Deferred tax liabilities	272	0	0	46	0	8	613	939	0	939
Total liabilities	12,659	3,889	1,682	763	254	3,454	12,837	35,538	(4,059)	31,479

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

Results of Operations for the Six Months Ended June 30, 2006

For the first half of 2006, Ayala Land, Inc. (ALI) posted revenues of Php 12.8 billion, 9% more than the Php 11.8 billion in the same period last year. The 2005 revenues included a Php 2.59 billion gain from the sale of preferred redeemable shares in Astoria Investment Ventures, Inc. (AIVI), the holding company for the investment in the MRT-3 rail project. Excluding this gain, 1H06 revenues were actually 39% higher year-on-year (yoy).

Revenues from real estate and hotel operations grew 35% yoy to Php 11.8 billion. Growth was largely fueled by the Residential Development business. "We continue to experience brisk take-up across all our residential products and are lining up projects that will offer more quality, distinctive products to the market. Revenues from these projects, as well as from the five shopping centers now under construction, will significantly impact our earnings stream in the next few years.", said ALI President and Chief Executive Officer Jaime I. Ayala.

Net Income (attributable to equity holders of ALI) for 1H06 reached Php 1.9 billion, 4% higher than the Php 1.8 billion reported during the same period last year, which included a Php 460 million net gain (after provisions and taxes) from the AIVI transaction. Stripping out the net gain from the AIVI transaction, net income effectively grew by 38% from 1H05's Php 1.37 billion.

Business Segments

Among ALI's main business lines, Residential Development continues to account for the bulk of revenues, contributing Php 6.8 billion or 53% to total. This was followed by Shopping Centers which contributed Php 1.9 billion (15%) and Corporate Business with Php 509 million or 4%. Support Businesses, comprised of Hotels, Construction, Property Management and Waterworks, reported Php 2.3 billion in revenues or 18% of total. The balance was accounted for by Strategic Landbank Management (2%), Visayas-Mindanao operations (1%) and Equity in Net Earnings, Interest & Other Income (7%).

Residential Development

The Company's Residential Development business reported revenues of Php 6.8 billion in 1H06, a 59% growth yoy. The revenue figure already reflects the net effect of the implementation of a standard revenue recognition policy across all the residential business units, which prescribes the use of the accrual or the percentage of completion method and the uniform adoption of 10% downpayment as the standard threshold to trigger booking of sales transactions.

The bulk or Php 4.1 billion was accounted for by Ayala Land Premier. Community Innovations, contributed Php 2.2 billion while Avida Land added Php 443 million. The

low contribution of Avida Land is attributable to the deferral of revenue recognition of some of its sales following the standardization of the revenue recognition policy. Its revenue contribution is expected to normalize in the coming months.

Ayala Land Premier booked 605 units in 1H06, 66% more than the 365 units booked during the same period last year. Coupled with construction accomplishment at The Residences at Greenbelt and One Serendra, revenues were 84% higher yoy. Demand for ALI's high-end projects, including horizontal developments Ayala Westgrove Heights and Ayala Greenfield Estates, continue to be strong with take-up reaching 757 units, 262 more than in 1H05. Anvaya Cove, the company's first integrated leisure project, accounted for 267 of 1H06's take-up, consisting of beach club shares, lots and villas. New phases of projects were launched including the Manila Tower of The Residences at Greenbelt in June.

Community Innovations booked 395 units or 37% more during the first six months of this year compared to the 289 units in 1H05. The majority of booked sales came from The Columns at Legazpi Village, Verdana Homes Mamlasan and Two Serendra. The Celadon Residences started contributing to revenues with construction accomplishment at 9% by end-June. Three-fourths of the 114 units have already been taken up since the project was launched in December 2005. Take-up for Community Innovations' projects reached 521 units or 30% more than the same period last year.

Only 198 units for Avida Land were booked in 1H06 despite the take-up of 1,214 units (+109% yoy) with the delay in the recognition of revenues due to the standardization of revenue recognition policy among ALI's housing subsidiaries. The three affordable condominium projects, Avida Towers in Sucat, New Manila and San Lazaro, accounted for 55% or 664 of the units taken up during the six-month period. With these projects continuing to generate strong interest, the fourth tower of Avida Towers Sucat and the second tower of Avida Towers San Lazaro were launched in April. Meantime, new phases of Avida Land's subdivision projects in Cavite, Batangas and Quezon were also launched.

The Residential Development business contributed Php 1.5 billion to Net Operating Income (NOI) in 1H06, 26% more than 1H05's Php 1.2 billion. This accounted for the bulk of NOI among all of ALI's business lines, or 40% of Php 3.7 billion total. NOI margin was 22%, lower than last year's with the higher contribution of lower-margin One and Two Serendra and the sale of twelve One Roxas Triangle units.

Shopping Centers

Growth in leasable area, coupled with improved occupancy rates across all of ALI's shopping centers, including Ayala Center (Glorietta and Greenbelt) and Market! Market!, pushed revenues to Php 1.9 billion, 11% higher yoy. Average occupancy rate was at 92% in 1H06, 2%age points higher than the 90% registered in 1H05.

Average rent across all malls was flat at Php 930 per square meter per month due to concessions given to some Market! Market! tenants. Excluding Market! Market!,

average rent increased by 4% yoy to Php 994 per square meter per month on the back of an 8-12% escalation in basic rent at Ayala Center.

The retail sections of Business Process Outsourcing (BPO) buildings PeopleSupport Center and Convergys also contributed to revenues in 1H06. Rent was at a premium in these locations, at more than Php 1,000 per square meter per month while occupancy rate was at 100%.

The 6,400-sqm retail area at One and Two Serendra in Bonifacio Global City had its soft opening in July and will have its grand launch in October. Tri Noma, which is undergoing construction at the North Triangle Depot of MRT-3 in Quezon City, continues to generate strong merchant interest and is steadily being leased out. Full blast construction of the Landmark, an anchor tenant, is also ongoing. Tri Noma has a total GLA of 195,000 sqms and is targeted to open in May 2007.

During the six-month period to June, Shopping Centers contributed Php 1.2 billion to ALI's NOI, 11% more than last year's Php 1.1 billion and accounted for 32% of total.

Corporate Business

The sale of 1,407 square meters of office space at Ayala Life-FGU Center in Makati, higher occupancy rates at ALI's traditional office buildings and the sale of the remaining 3.5 hectares at the 401-hectare Laguna Technopark pushed Corporate Business' six-month revenues 88% higher than the year-ago level to Php 509 million. This was augmented by rental revenues from ALI's three BPO buildings.

Average occupancy rate at ALI's traditional office buildings, namely, Tower One, 6750 Ayala Avenue, MSE Building, Ayala Life-FGU Makati and Ayala Life-FGU Alabang, was at 99% during 1H06, up from 90% in 1H05. The 9%age point improvement in occupancy rate was more than sufficient to offset the lower average rent caused by the renewal of some leases during the second half of 2005 at prevailing market rates.

With NOI margin practically maintained at 45%, Corporate Business reported an NOI of Php 231 million for 1H06, 84% higher yoy and accounted for 6% of total NOI.

Strategic Landbank Management

Strategic Landbank Management's revenues reached Php 259 million, slightly lower than Php 264 million reported during the same six-month period last year. Revenues are primarily from override units from The Columns at Ayala Avenue, The Columns at Legazpi Village, Avida Towers Sucat, and affordable subdivisions Sta. Catalina and Sampaguaita Village in Cavite. A total of 31 units were booked in 1H06, almost double the 16 units for 1H05.

NOI was 22% lower yoy at Php 106 million, and contributed 3% to total. The Lower NOI is attributed to costs incurred for the review of the Makati CBD masterplan.

The new masterplan for the City Center at Bonifacio Global City was launched in May. It features a grid layout, replacing the concentric road system that resulted in odd-shaped lots. At the time of the launch, 9 lots were made available for sale. Construction is ongoing for the retail promenade with a 40 meter-wide and 500 meter-long linear park. It is scheduled to open before year-end, with about 60% of the 88 available retail spaces already committed.

The masterplan for the 1,696-hectare Canlubang property is being finalized and initial developments will be launched in 2007.

Visayas-Mindanao

Revenues for 1H06 were the same as 1H05's Php 76 million as higher bookings for Plantazionne Verdana Homes (72 lots in 1H06 vs. 45 in 1H05) offset the lower bookings for Ayala Northpoint (11 vs. 16 during the same periods). Take up for these two projects were also practically unchanged at 90 lots from 87 for the same six-month periods.

However, NOI only reached Php 1 million from Php 6 million in 1H05 due to revenue adjustments at Ayala Heights Cebu.

Support Businesses

Net of inter-segment eliminations, the largest contributor to Support Businesses in 1H06 in terms of revenues is Construction at Php 925 million (+ 7% yoy), followed by Hotels at Php 877 million (+4% yoy), Property Management at Php 307 million (+14% yoy) and Waterworks at Php 157 million (+12% yoy).

NOI-wise, Hotels contributed the most at Php 315 million (+3% yoy), followed by Construction at Php 165 million (-4% yoy), Property Management at Php150 million (+29% yoy) and Waterworks at Php 52 million (+13% yoy).

Oakwood Premier Ayala Center and Cebu City Marriott Hotel continue to enjoy above-industry occupancy rates, room rates and revenues per available room. However, Hotel Intercontinental Manila reported a drop in occupancy rate to 59% in 1H06 from 77% in 1H05 as operations were disrupted when refurbishment commenced in April. Operations are expected to normalize when work is completed by October.

As a whole, the Support Businesses added Php 2.3 billion (+7% yoy) to ALI's consolidated revenues and Php 682 million (+6% yoy) to NOI. The group's NOI margin was maintained at 30%.

Equity in Net Earnings, Interest and Other Income

Equity in Net Earnings, Interest and Other Income amounted to Php 967 million for the first six months of 2006. This represents a 68% drop from the Php3.0 billion posted during the same period in 2005. The decline is attributed to the Php 2.6 billion gain from the AIVI transaction in 1H05, which was partly offset by the Php 506 million gain from the sale of Bridgebury shares in 1H06.

Equity in Net Earnings amounted to Php 87 million for the first half of the year, 17% lower than 1H05's Php 105 million. This is largely due to the decline in contribution of Fort Bonifacio Development Corporation (FBDC) as a result of lower unit sales. Main contributors to equity in net earnings were 47%-owned Cebu Holdings, Inc. and 50%-owned Alabang Commercial Corporation.

Cebu Holdings reported a 107% growth in net income to Php 114 million due to construction accomplishment on the 114 lots sold at Phase 1 of Amara, the sale of the last two remaining units at Park Tower Two, a lot at Cebu Business Park and two at Asiatown IT Park. The second phase of Amara with 87 lots was launched in July. Meanwhile, Ayala Center Cebu is currently in the midst of an expansion program which will add 13,500 square meters of GLA when completed next year.

Interest Income was 20% higher yoy at Php 296 million in 1H06 on the back of the rise in receivables from in-house financing to Php 10.3 billion as of June 2006 from Php 8.6 billion in June 2005.

Expenses

Total Costs and Expenses reached Php 10.7 billion for the period, 10% more than the Php 9.8 billion spent during 1H05. Direct costs and expenses for ALI's real estate and hotel operations were 45% higher yoy at Php 8.1 billion. The faster increase in direct costs vis-à-vis the 35% growth in real estate and hotel revenues is attributed to the higher contribution of lower-margin projects such as One and Two Serendra and the booking of 12 units at One Roxas Triangle (vs. 1 in 1H05) for the six-month period.

General and Administrative Expenses stood at Php 1.2 billion, 7% more than what was incurred in 1H05. Interest and Other Charges dropped significantly to Php 418 million from Php 2.4 billion as 1H05 included a Php 1.8 billion provision for the decline in value of assets intended to be sold.

Provision for Income tax was Php 332 million higher yoy at Php 965 million with the hike in corporate income tax to 35% this year from 32% in 2005 and the lower capital gains (subjected to final tax at a lower rate) realized this year.

Project and Capital Expenditure

For the first six months of the year, ALI's project and capital expenditures amounted to Php 5.0 billion, equivalent to 31% of the Php 16.1 billion budgeted for the whole of 2006. To date, the bulk or 66% was spent on the company's various residential developments. This was followed by Shopping Centers at 23% and Strategic Landbank Management at 7%. Visayas-Mindanao operations accounted for 2% while Corporate Business and the Support Businesses utilized 1% each.

Project and capital expenditures are expected to accelerate in the coming months given current and newly launched projects. The Php 5.0 billion spent in 1H06 is already equivalent to 74% of the Php 6.8 billion spent for the whole of 2005 and 263% more than the 1H05 figure.

Financial Condition

Overall financial condition of ALI continues to be strong. As of end-June 2006, current ratio stood at 1.34:1, slightly lower than the 1.56:1 as of end-2005. This was largely due to the increase in Accounts and Other Payables to suppliers and subcontractors to Php 9.1 billion from Php 7.9 billion given the heightened construction activity in the company's many projects.

With borrowings declining by Php 435 million to Php 10.3 billion as of June from Php 10.7 billion in December 2005, debt-to-equity ratio dropped to 0.26:1 from 0.28:1. With the sale of Php 1.2 billion worth of Avida's receivables in March, higher accounts payable and better operating results, Cash and Cash Equivalents stood at Php 6.9 billion at end-June, 3% more than the 2005 year-end level. Net debt was consequently lower at Php 3.3 billion from Php 4.0 billion, resulting to a net debt-to-equity ratio of 0.08:1 from 0.10:1.

PART II - OTHER INFORMATION

Item 3. 2Q 2006 Developments

- | | | | | | | | | |
|--|--|---|------|-------------------|-------|--------------------------|--|-------------------|
| A. New project or investments in another line of business or corporation | None. | | | | | | | |
| B. Composition of Board of Directors (as of June 30, 2006) | Fernando Zobel de Ayala
Jaime Augusto Zobel de Ayala II
Jaime I. Ayala
Mercedita S. Nolleto
Delfin L. Lazaro
Leandro Y. Locsin, Jr.
Aurelio R. Montinola III
Corazon dela Paz
Ramon R. del Rosario, Jr. | Chairman
Vice Chairman
President & CEO
Corp. Secretary
Director
Director
Director
Director
Director | | | | | | |
| C. Performance of the corporation or result/progress of operations | Please see unaudited consolidated financial statements and management's discussion on results of operations. | | | | | | | |
| D. Declaration of dividends | P0.03/share regular cash dividend for 1H2006
Declaration date: May 2, 2006
Record date: June 1, 2006
Payment date: June 27, 2006 | | | | | | | |
| E. Contracts of merger, consolidation or joint venture; contract of management, licensing, marketing, distributorship, technical assistance or similar agreements | None. | | | | | | | |
| F. Offering of rights, granting of Stock Options and corresponding plans therefore | ALI has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Option Plan (ESOWN) covering 2.5% of the company's authorized capital stock.

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

As of June 30, 2006, stock options outstanding* are as follows: <table border="0" style="margin-left: 40px;"> <tr> <td>ESOP</td> <td style="text-align: right;">57,434,589 shares</td> </tr> <tr> <td>ESOWN</td> <td style="text-align: right;"><u>18,878,492 shares</u></td> </tr> <tr> <td></td> <td style="text-align: right;">76,313,081 shares</td> </tr> </table> | | ESOP | 57,434,589 shares | ESOWN | <u>18,878,492 shares</u> | | 76,313,081 shares |
| ESOP | 57,434,589 shares | | | | | | | |
| ESOWN | <u>18,878,492 shares</u> | | | | | | | |
| | 76,313,081 shares | | | | | | | |
| | * <i>outstanding shares pertain to shares subscribed by officers and employees which are not yet fully paid and not yet issued</i> | | | | | | | |
| G. Acquisition of additional mining claims or other capital assets or patents, formula, real estate | None. | | | | | | | |

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

Item 4. Other Notes to 1H 2006 Operations and Financials

- | | |
|---|---|
| J. Nature and amount of items affecting assets, liabilities, equity, or net income that are unusual because of their nature, size, or incidents | Please see Notes to Financial Statements (Item #7). |
| K. Nature and amount of changes in estimates of amounts reported in prior periods and their material effect in the current period | Previous year's reported 1H2005 net income of P1.802 billion has been restated to P1.828 billion as a result of the adoption of new accounting standards based on the revised Philippine Accounting Standards (PAS) and new Philippine Financial Reporting Standards (PFRS) which were adopted by end-2005. |
| L. New financing through loans / Issuances, repurchases, and repayments of debt and equity securities | Please see Notes to Financial Statements (Item #4). |
| M. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period | None. |
| N. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations | None. |
| O. Changes in contingent liabilities or contingent assets since the last annual balance sheet date | None. |
| P. Other material events or transactions during the interim period | <ul style="list-style-type: none"> - Bulk sale of P1.2 billion Avida Land receivables in January - Initial issuance of Homestarter Bonds in March |

- Q. Existence of material contingencies during the interim period; events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation** None.
- R. Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period** None.
- S. Material commitments for capital expenditures, general purpose and expected sources of funds** For year 2006, Ayala Land's consolidated budget for project and capital expenditures amount to P16.1 billion. About 56% is earmarked for residential developments, 26% for shopping centers, and the balance for corporate business, strategic landbank management, Visayas-Mindanao, and support businesses. This will be financed through a combination of internally-generated funds, borrowings, pre-selling and with proceeds from sale of receivables and non-core assets.
- For the first half of 2006, consolidated project and capital expenditures amounted to P5.0 billion, about 31% of the P16.1 billion budget for the whole year. About 66% was spent for residential projects, 23% for shopping centers, another 7% for strategic landbank management, and the balance for corporate business, Visayas-Mindanao, and support businesses.
- T. Known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/ income from continuing operations** Ayala Land's performance will continue to hinge on the overall economic performance of the country. Interest rate movements may affect the performance of the real estate industry, including the Company.
- U. Significant elements of income or loss that did not arise from continuing operations** None.
- V. Causes for any material change/s from period to period in one or more line items of the financial statements** Please see Notes to Financial Statements (Item #7).
- W. Seasonal aspects that had material effect on the financial condition or results of operations** ALI's leasing portfolio generates a fairly stable stream of revenues throughout the year, with higher sales experienced in the fourth quarter from shopping centers due to holiday spending.

The Company's development operations do not show any

seasonality. Projects are launched anytime of the year depending on several factors such as completion of plans and permits and appropriate timing in terms of market conditions and strategy. Development and construction work follow target completion dates committed at the time of project launch.

X. Disclosures not made under SEC Form 17-C None.

Item 5. Performance Indicators

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

	<i>End-June 2006</i>	<i>End-December 2005</i>
Current ratio ¹	1.34:1	1.56:1
Debt-to-equity ratio ²	0.26:1	0.28:1
Net debt-to-equity ratio ³	0.08:1	0.10:1
	<i>1H 2006</i>	<i>FY 2005</i>
Return on assets ⁴	2.4%	4.7%
Return on equity ⁵	4.8%	9.4%

¹ *Current assets / current liabilities*

² *Total interest-bearing debt (inclusive of bonds) / stockholders' equity*

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

⁴ *Net income / average total assets*

⁵ *Net income / average stockholders' equity*

SIGNATURE

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

Issuer: **AYALA LAND, INC.**

By:



Jaime E. Ysmael
Senior Vice President and Chief Finance Officer

Date: August 7, 2006