₱5,000,000,000.00 Fixed Rate Bonds due 2012
Issue Price: 100% Face Value
Coupon Rate: 6.825% p.a.

Ayala Corporation is offering Bonds due 2012 (the "Bonds") with an aggregate principal amount of ₱5,000,000,000.00 (the "Offer"). In the event of an oversubscription, and following consultation with the Joint Lead Underwriter and Bookrunner, the Issuer reserves the right to increase the Offer size up to ₱8,000,000,000.00, subject to the registration requirements of the Philippine Securities and Exchange Commission ("SEC") (the "Oversubscription Option").

The Bonds shall have a term of five (5) years and one (1) day from the Issue Date, with a fixed interest rate equivalent to 6.825% p.a. Interest on the Bonds shall be payable quarterly in arrears on February 22, May 22, August 22 and November 22 of each year (each of which is a "Coupon Payment Date") commencing on February 22, 2008 or the subsequent Business Day without adjustment if such Coupon Payment Date is not a Business Day. The last coupon payment date shall fall on the Maturity Date (as defined below) while the Bonds are outstanding (see "*Description of the Bonds" – "Coupon*").

The Bonds will be redeemed at par (or 100% of face value) on November 22, 2012 (the "Maturity Date") or as otherwise set out in "*Description of the Bonds*" – "*Redemption and Purchase*" and "*Payment in the Event of Default*" sections of this Prospectus.

The Bonds shall constitute the direct, unconditional, unsubordinated, and unsecured obligations of Ayala and shall at all times rank *pari passu* and rateably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of Ayala, other than obligations preferred by law. The Bonds will effectively be subordinated in right of payment to all of Ayala's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

The Bonds have been rated Aaa by the Philippine Rating Services Corporation ("PhilRatings") as of 24 October 2007. The rating denotes the smallest degree of investment risk where interest payments are protected by a large or by an exceptionally stable margin and principal is secured. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the rating agency concerned.

The Bonds shall be offered to the public at face value through the Issue Manager and the Joint Lead Underwriter and Bookrunner named below with the Philippine Depository and Trust Corporation ("PDTC") as the Registrar of the Bonds. It is intended that upon issuance, the Bonds will be lodged with the PDTC. On the Issue Date, the Bonds will be issued in scripless form and in denominations of ₱50,000.00 each, as a minimum, and in multiples of ₱50,000.00 thereafter. The Bonds will be eligible for trading under the Scripless Book entry System of the PDTC. Transfers of the Bonds should be coursed through a PDTC Participant in the PDTC system. (See "*Description of the Bonds*" – "*Form, Trading and Denomination*")

Ayala intends to cause the listing of the Bonds on a securities exchange licensed with the SEC and has initiated discussions with the Philippine Dealing and Exchange Corp ("PDEx") for this purpose. However, there can be no assurance that such a listing will actually be achieved either before or after the Issue Date or whether such a listing will materially affect the liquidity of the Bond on the secondary market. Such a listing would be subject to the Company's execution of a listing agreement with PDEx that may require the Company to make certain disclosures, undertakings and payments on an ongoing basis. There can also be no assurance that such a listing will be approved, and if obtained, whether such approval will be in effect until the Maturity Date.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SEC.

The date of this Prospectus is November 8, 2007

Issue Manager
BPI CAPITAL CORPORATION

Joint Lead Underwriters and Bookrunners
BPI CAPITAL CORPORATION
BDO CAPITAL & INVESTMENT CORPORATION
FIRST METRO INVESTMENT CORPORATION
ING BANK, N.V., MANILA BRANCH
LAND BANK OF THE PHILIPPINES
STANDARD CHARTERED BANK

If the Oversubscription Option will not be exercised, Ayala expects to raise gross proceeds amounting to ₱5,000,000,000.00. The net proceeds are estimated to be ₱4,947,161,875.00, after deducting expenses relating to the issuance of the Bonds. Proceeds of the Offer will be used by Ayala to refinance peso and USD denominated obligations which have been paid in 2007 and for general working capital without allocation and with no particular order of priority (see "*Use of Proceeds*"). The Joint Lead Underwriters/Bookrunners will receive a fee of 0.40%, gross up for gross receipts tax, on the underwritten principal amount of the Bonds issued. Such fee shall be inclusive of underwriting, and participation commissions. (see "*Plan of Distribution*" – "*Fees and Commission*")

The Securities and Exchange Commission of the Philippines has issued an Order of Effectivity and a Certificate of Permit to Offer Securities For Sale with respect to the Offer. The issuance of such Order of Effectivity is permissive only and does not constitute a recommendation or endorsement of the Bonds to be offered for sale.

Unless otherwise stated, the information contained in this Prospectus relating to Ayala and its operations has been supplied by Ayala, which hereby accepts full responsibility for the accuracy of the same, and confirms, having made all reasonable inquiries, that to the best of its knowledge and belief, there are no other material facts, the omission of which would make any statement in this Prospectus misleading in any material respect. As to the other information which are made on the basis of, or in connection with, information, data or analyses which were either provided to Ayala by its advisers and consultants or otherwise available in the market and from any public source, Ayala confirms that it has made all reasonable inquiries in respect of the same and have used or adopted such information, data or analyses in good faith. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstance, create any implication that the information contained herein is correct as of any time subsequent to the date hereof. The Joint Lead Underwriters/Bookrunners confirm that it has exerted reasonable efforts to verify the information contained herein but do not make any representation, express or implied, as to the accuracy or completeness of the materials contained herein.

No dealer, salesperson or other person has been authorized by Ayala or the Joint Lead Underwriters / Bookrunners to issue any advertisement or to give any information or make any representation in connection with the Offer or sale of the Bonds other than those contained in this Prospectus and, if issued, given or made, such advertisement, information or representation must not be relied upon as having been authorized by Ayala or the Joint Lead Underwriters/Bookrunners.

The contents of this Prospectus are not to be considered as legal, business, or tax advice. The Joint Lead Underwriters/Bookrunners do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information in this Prospectus. Each person receiving this Prospectus acknowledges that such person has not relied on the Joint Lead Underwriters / Bookrunners or any other person in his investigation of the accuracy of such information or his investment decision.

Each person contemplating an investment in the Bonds must make his own investigation and analysis of the creditworthiness of Ayala and his own determination of the suitability of any such investment. Investing in the Bonds involves certain risks. For a discussion of certain factors to be considered in respect of an investment in the Bonds, see the section entitled "*Risk Factors*".

Ayala is organized under the laws of the Philippines. Its principal office is at the 33rd Floor Tower One and Exchange Plaza, Ayala Avenue corner Paseo de Roxas, Ayala Triangle, Makati City, with telephone number (632) 848-5643.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT.

AYALA CORPORATION

By: ____________________

Fernando Zobel de Ayala
President and Chief Operating Officer

	Joint Lead Underwriters and Bookrunner and subject to the SEC's registration requirements.
PAS	Philippine Accounting Standards
Paying Agent	BPI Stock Transfer Agency
PDTC	Philippine Depository and Trust Corporation.
Pesos or ₱	Philippine pesos, lawful currency of the Republic of the Philippines
PFRS	Philippine Financial Reporting Standards
PSE	Philippine Stock Exchange
Registrar	Philippine Depository and Trust Corporation
SEC	Securities and Exchange Commission
Trustee	Land Bank of the Philippines – Trust Banking Group

SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this Prospectus.

THE COMPANY

Ayala Corporation ("Ayala") was incorporated in the Philippines on January 23, 1968 as a limited liability corporation having a renewable term of 50 years. It is organized as a holding company holding equity interests in the Ayala group (the "Group"), one of the most significant business groups in the Philippines. Ayala's business activities are divided into four key areas of activity: (a) real estate and hotels, (b) financial services, (c) telecommunications and (d) a portfolio of other investments held under an internal development division called AC Capital ("AC Capital").

Ayala's real estate and hotels business is primarily conducted through its subsidiary, Ayala Land, Inc. ("Ayala Land"), a diversified real estate company in the Philippines. Its involvement in financial services and insurance businesses is done through an affiliate, the Bank of the Philippine Islands ("BPI"), which, together with its subsidiaries (together, the "BPI Group"), form a universal banking group in the Philippines. Ayala's telecommunications business is carried out through an affiliate, Globe Telecom, Inc. ("Globe"), one of the leading telecommunications companies in the Philippines. Under AC Capital are Ayala's investments in water distribution, electronics manufacturing, automotive dealerships, joint ventures in international real estate assets, information technology-related ventures and various non-core assets and investments through a variety of subsidiary and affiliated companies.

Ayala became a publicly listed corporation in 1976 when it listed its common shares with the then Makati Stock Exchange. As of June 30, 2007, Ayala had a market capitalization of ₱225.6 billion. In addition, certain members of the Ayala group, namely Ayala Land, BPI, Globe, Manila Water Company, Inc. ("Manila Water"), Cebu Holdings, Inc. ("CHI"), and Cebu Property Ventures Development Corporation ("CPVDC") are likewise publicly listed corporations. Some of Ayala's subsidiaries and affiliates have extensive holdings in the equity of other subsidiaries and affiliates.

Members of the Zobel de Ayala family, individually and through their control of Mermac, Inc., a private holding company incorporated in the Philippines (which held 50.9% of Ayala as of June 30, 2007), are the dominant shareholders of, and effectively control, Ayala. Ayala's other current principal shareholders are Mitsubishi Corporation ("Mitsubishi") (which held 10.6% of Ayala as of June 30, 2007) and Shoemart, Inc. (which held 3.2% of Ayala as of June 30, 2007).

FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2007, Ayala's unaudited consolidated revenues were at ₱41.0 billion, and its unaudited consolidated net income was at ₱11.5 billion.

As at June 30, 2007, Ayala's unaudited consolidated total assets were valued at ₱190.2 billion and its unaudited shareholders' equity was ₱86.0 billion.

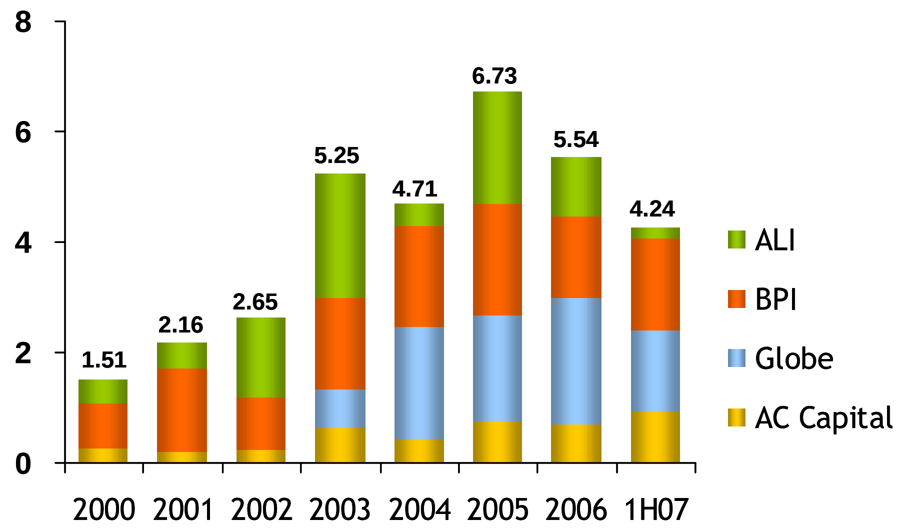
Consolidated net income of ₱11.5 billion was driven by a combination of factors:

- Fundamental operating performance of major business units remained strong and kept equity earnings stable year-on-year at ₱6.4 billion. The table below shows the net income of Ayala's business units for the period ended June 30, 2007 vs. the same period of the prior year. Among the listed companies, BPI posted the highest growth rate of 24%, driven by the expansion of its net interest and non-interest income. Ayala Land's net income was 12% higher year-on-year despite the impact of non-recurring items which pushed total revenues 4% lower year-on-year to ₱12.3 billion. The net income of Manila Water Company, Inc. ("MWC") declined 9% due to the expiration of its income tax holiday, although pre-tax income was up 30% on account of its record billed volume and non-revenue water levels.

- During the period, earnings were enhanced by capital gains from the sale of Ayala's shares in Ayala Land, BPI and Globe. Ayala generated a total of ₱7.0 billion in capital gains from these transactions.
- Financing expense at the parent level, inclusive of preferred dividends, reached ₱1.7 billion from January to June 2007, 19% lower than the ₱2.1 billion in the same period in 2006. The continued decline in financing expense is reflective of Ayala's continuous efforts to prepay and/or refinance higher-cost debt to take advantage of the low interest rate environment.

Ayala continued to receive dividends with dividend flows reaching ₱4.2 billion in the first half of 2007 (see chart below).

Dividend Flows (in billion pesos)



Net Income of Subsidiaries and Affiliates (₱ millions)			
	First-half 2007	First-half 2006	Change
Ayala Land	2,126	1,896	+12%
BPI	5,715	4,592	+24%
Globe	6,425	5,759	+12%
AC Capital			
Manila Water	1,118	1,234	-9%
IMI	639	996	-36%
Ayala Automotive	166	134	+24%
Ayala International	332	125	+166%

STRATEGY

Ayala seeks to ensure that the Group maintains its commitment to its business activities in the Philippines and to explore possible international initiatives on a selective and opportunistic basis. Ayala intends to build on its leadership position in the Group's existing core businesses in real estate, financial services and telecommunications, and actively manage its portfolio of other investments and assets under AC Capital with a view toward maximum value creation and realization. Ayala expects its real estate, financial services and telecommunications businesses to remain its principal sources of dividend income, but contributions from its water distribution, electronics manufacturing and auto dealership operations are increasing. Ayala is presented from time to time with opportunities to invest in new business areas and will continue to consider such opportunities to the extent that such business would contribute to the overall strategic objectives of the Group.

FUTURE PLANS AND PROSPECTS

Ayala is confident that its financial prospects remain sound and are expected to strengthen further in the coming years as the broad Philippine economy gathers momentum. Ayala’s earnings are expected to continue on an upward trend, driven by the cyclical upturn in the property and banking sectors, the continued albeit less robust growth of the telecommunications sector, as well as the growing contributions from the total earnings derived from the AC Capital portfolio. Improved earnings prospects are particularly expected from Ayala Land and BPI, especially as these are well-positioned industry leaders and are expected to benefit from sectoral growth in their industries.

Ayala is committed to reducing its gearing and strengthening its balance sheet further over the medium term. Dividend flows to the Company have increased significantly over the last few years and this is a trend that is expected to be sustained as the operating cash flow at the subsidiary and affiliate level continues to improve. The increase in dividend flows to Ayala, in addition to any additional liquidity arising from possible capital reallocation and value realization in Ayala’s investment portfolio, is expected to facilitate Ayala’s deleveraging efforts moving forward.

As a holding company, Ayala is also committed to explore new investment opportunities that will be the source of company growth in future investment cycles.

SUMMARY FINANCIAL INFORMATION

The following tables set forth financial and operating information on Ayala. Prospective purchasers of the Bonds should read the summary financial data below together with the financial statements, including the notes thereto, presented as an Annex and the "Management's Discussion and Analysis of Financial Condition and Results of Operation" section of this Prospectus. The summary financial data for the two years ended December 31, 2006 and December 31, 2005 are derived from Ayala's audited financial statements, including the notes thereto, which are found elsewhere in this Prospectus.

The following table summarizes the financial highlights of Ayala's consolidated financial performance:

Consolidated Income Statement Data in ₱ millions	**(Unaudited) As of June 30**		**(Audited) As of December 31**	
	2007	**2006**	**2006**	**2005***
Income Statement Data				
Total revenues	41,007	35,716	70,166	50,543
Net income	12,792	8,404	14,468	10,090
Net income attributable to				
Equity holders of the parent	11,491	7,310	12,177	8,198
Minority interest	1,301	1,094	2,291	1,892

Consolidated Balance Sheet Data in ₱ millions	**(Unaudited) As of June 30**	**(Audited) As of December 31**	
	2007	**2006**	**2005**
Balance Sheet Data			
Assets			
Total current assets	62,359	58,012	46,508
Non-current accounts and notes receivable	3,891	2,520	5,631
Land and improvements – net	16,189	16,175	16,604
Investments in associates, joint ventures and others	69,514	68,569	63,808
Investments in bonds and other securities	5,189	3,462	2,073
Investment in real properties – net	16,347	16,795	17,012
Property, plant and equipment – net	9,097	9,057	9,917
Other non-current assets	7,631	7,742	6,293
Total assets	**190,217**	**182,332**	**167846**
Liabilities			
Total current liabilities	33,154	32,407	29,940
Long-term debt - net of current portion	33,739	38,518	46,507
Cumulative redeemable preferred shares – net of current portion	2,500	2,500	2,500
Other non-current liabilities	7,817	7,073	6,116
Minority interest	26,991	24,699	21,589
Equity attributable to equity holders of the parent	86,016	77,135	61,194
Total liabilities and equity	**190,217**	**182,332**	**167,846**

** Restated in 2006 to effect new accounting standards.*

CAPITALIZATION

The following table sets forth Ayala's audited consolidated cash position, short-term and long-term debt and capitalization as at December 31, 2006. This table should be read in conjunction with the notes thereto located elsewhere in this Prospectus.

(in ₱ millions)	Audited As of December 31, 2006
Short-term debt	
Banks and other financial institutions………………………………..	2,504
Current portion of long-term debt ………………………………….	9,360
Total short-term debt…………………………………………………..	11,864
Long-term debt	
Syndicated term loan…………………………………………………..	1,250
Banks and other financial institutions………………………………..	17,108
Bonds due 2007………………………………………………………..	3,000
Bonds due 2008………………………………………………………..	2,000
Bonds due 2009………………………………………………………..	7,043
Fixed-rate corporate notes………………………………………….	10,770
8.125% guaranteed notes……………………………………………..	6,707
Less: Current portion…………………………………………………..	9,360
Total long-term debt ………………………………………………….	38,518
Cumulative redeemable preferred shares……………………….	2,500
Minority interest in consolidated subsidiaries………………….	24,699
Stockholders' equity	
Capital stock — ₱50 par value	
Common Shares	
Authorized — 380,000,000 shares	
Issued and subscribed — 344,854,000 shares………………….	17,243
Preferred Stock-B	
Authorized – 58,000 shares	
Issued and subscribed 58,000 shares	5,800
Additional paid-in-capital ……………………………………………	335
Cumulative translation adjustments ………………………………….	(298)
Subscriptions receivable…………………………………………….	(240)
Retained earnings …………………………………………………….	51,659
Share - based payments…………………………………………….	558
Net unrealized gain on available for sale financial assets………..	2,078
Cost of shares in treasury…………………………………………..	-
Equity attributable to equity holders of the parent……………..	77,135

THE OFFER

Issue Size

Five billion pesos (₱5,000,000,000.00) subject to an Oversubscription Option.

Issue Price

At par (or 100% of face value). The interest rate of the Bonds are discussed under the heading *"Coupon"* below, in this Summary and in the *"Description of the Bonds"* section of this prospectus.

Offering

The Bonds shall be offered to the public by Ayala through the Joint Lead Underwriters and Bookrunners as described in this Prospectus (see *"Plan of Distribution").*

Offer Period

The Offer shall commence at 1:00 pm on November 12, 2007 and end at 3:00 pm on November 16, 2007.

Issue Date

The Bonds are expected to be issued on November 21, 2007.

Maturity Date

Unless earlier redeemed, the Bonds shall be redeemed by Ayala on November 22, 2012.

Coupon

Coupon Rate

The Bonds shall bear interest at a fixed rate of 6.825% p.a. (the "Coupon Rate") accruing from Issue Date until the Maturity Date or when the Bonds are otherwise redeemed in accordance with the Trust Indenture (see *"Description of the Bonds").* The Coupon Rate was determined by negotiation between Ayala and the Joint Lead Underwriters and Bookrunners.

USE OF PROCEEDS

If the Oversubscription Option will not be exercised, the net proceeds from the Offer are estimated to be ₱4,947,161,875.00 after deducting expenses relating to the issuance of the Bonds. Proceeds of the Offer will be used by Ayala to refinance peso and USD denominated obligations which have been prepaid in 2007 and for general working capital, without any allocation and with no particular order of priority. This is discussed in more detail in the discussion in the *"Use of Proceeds"* section of this Prospectus.

RISKS OF INVESTING

Prospective investors in the Offer should consider the current and immediate political and economic factors in the Philippines as a principal risk for investing. Political instability and threats to the local and regional currencies may also influence the operation, growth, and profitability of Ayala and its operating companies. Other risks of prime and equal importance are the following: (a) the structure of Ayala as a holding company whose revenues and distributable earnings are largely dependent on the operations of its subsidiaries and affiliates and on the dividend declarations of these companies; (b) the highly capital intensive nature of some of Ayala 's principal subsidiaries (property development, telecommunications, and water utilities) requiring a considerable level of capital investments to keep market position and sustain growth; (c) the competitive business environment of Ayala's operating subsidiaries and affiliates; (d) the distinct industry risks associated with Ayala's operations in four key areas; (e) the likely effects of government regulations on Ayala's businesses in real estate, banking, telecommunications, and water utilities which operate in a highly regulated environment; (f) the general political and economic situation of the country; (g) the volatility of foreign currency rates in the Philippines; and, (h) the liquidity of this Issue prior to maturity. (See "*Risk Factors*")

DESCRIPTION OF THE BONDS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and Shareholders of Ayala, the information contained in this Prospectus, the Trust Indenture, Underwriting Agreement, and other agreements relevant to the Offer.

The issue of up to ₱8,000,000,000.00 aggregate principal amount of 6.825% p.a. fixed rate bonds (the "Bonds") was authorized by a resolution of the Board of Directors of Ayala Corporation (the "Issuer") dated October 22, 2007. The Bonds shall be constituted by a Trust Indenture Agreement (the "Trust Indenture") to be executed on November 12, 2007 between the Issuer and Land Bank of the Philippines – Trust Banking Group (the "Trustee" which expression shall wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Indenture). The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Indenture. A paying agency and registry agreement shall be executed on November 12, 2007 (the "Paying Agency and Registry Agreement") in relation to the Bonds between the Issuer and the Bank of the Philippine Islands as paying agent (the "Paying Agent"), and Philippine Depository and Trust Corporation as registrar (the "Registrar") and the Issuer respectively. The Bonds will be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of fifty thousand pesos (₱50,000.00) and integral multiples thereof. The Bonds will mature on November 22, 2012, unless earlier redeemed by the Issuer pursuant to the terms thereof and subject to the provisions on redemption and payment below.

Copies of the Trust Indenture, the Paying Agency and Registry Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The holders of the Bonds (the "Bondholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Indenture and are deemed to have notice of those provisions of the Paying Agency and Registry Agreement applicable to them.

FORM, DENOMINATION AND TITLE

Form and Denomination

The Bonds are in scripless form, and will be issued and traded, in denominations of ₱50,000 each, as a minimum, and in multiples of ₱50,000 thereafter.

Title

Legal title to the Bonds will be shown in the register of Bondholders (the "Register of Bondholders") maintained by the Registrar. A notice confirming the principal amount of the Bonds purchased by each applicant in the Offering will be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Bonds will pass by recording of the transfer from the transferor to the transferee in the electronic Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any cost arising from such transfers, including but not limited to documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

BOND RATING

The Bonds have been rated “Aaa” by PhilRatings. The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the Bonds are outstanding. After Issue Date, the Trustee will monitor the compliance of the Bonds with the regular annual reviews.

TRANSFER OF BONDS

Register of Bondholders

The Issuer will cause the Register of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. As required by Circular No. 428-04 issued by the *Bangko Sentral ng Pilipinas (“BSP”),* the Registrar shall send each Bondholder a written statement of registry holdings at least every quarter (at the cost of the Issuer) and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar’s system (at the cost of the relevant Bondholder). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder.

Transfers; Tax Status

During the period from the Issue Date, until and including ten (10) days prior to the first Coupon Payment Date, (the “Unrestricted Period”) bondholders may transfer their Bonds at anytime, regardless of tax status of the transferor *vis-a-vis* the transferee. After the Unrestricted Period, Bondholders may transfer their Bonds at anytime to transferees of similar tax status only. Transfers between Bondholders of different tax status *(i.e.* tax exempt transferor to tax liable transferee or vice versa) shall only be allowed and recorded by the Registrar on any Coupon Payment Date. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under *“Payment of Additional Amounts; Taxation”,* below, within three (3) days from the settlement date for such transfer.

RANKING

The Bonds constitute direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Issuer and will rank pan passu and rateably without any preference or priority amongst themselves and at least pan passu with all other present and future unsecured and unsubordinated obligations of the Issuer, other than obligations preferred by the law.

COUPON

Coupon Payment Dates

Each Bond bears coupon on its principal amount from and including Issue Date at the rate of 6.825% per annum, payable quarterly in arrears on February 22, May 22, August 22 and November 22 in each year (each of which, for purposes of this clause is a “Coupon Payment Date”) commencing on February 22, 2008 or the subsequent Business Day without adjustment if such Coupon Payment Date is not a Business Day. The last Coupon Payment Date shall fall on the Maturity Date.

Coupon Accrual

Each Bond will cease to bear coupon from and including the Maturity Date, as defined in the discussion on *“Final Redemption”,* below, unless, upon due presentation, payment of the principal in respect of the Bond then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see *"Penalty Interest'),* below, will apply.

Determination of Rate of Coupon

The coupon shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days. For purposes of clarity, the coupon payable on the first Coupon Payment Date shall be calculated for a period of 91 days on the basis of a 360-day year.

REDEMPTION AND PURCHASE

Final Redemption

Unless previously purchased and cancelled, the Bonds will be redeemed at par or one hundred percent (100%) of face value on November 22, 2012 (the "Maturity Date"). However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Business Day if the Maturity Date is not a Business Day.

Redemption for Taxation Reasons

If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, on any Coupon Payment Date (having given not more than 60 nor less than 30 days' notice to the Trustee) at par plus accrued coupon.

Optional Redemption

Prior to final maturity, the Issuer may redeem in whole and not a part only of the relevant outstanding Bonds on the twelfth (12th) and sixteenth (16th) Coupon Payment Dates (the "Optional Redemption Dates").

The Issuer shall give not less than thirty (30) or more than sixty (60) days prior written notice of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Bonds at the Coupon Payment Date stated in such notice (the "Early Redemption Date").

The Bonds shall be redeemed by payment of the Issue Price in cash plus all accrued and unpaid interest based on the Coupon Rate, plus an early redemption penalty (except in case of Change of Law (see *"Change in Law or Circumstance"*, below) based on the Issue Price in accordance with the following schedule:

Optional Redemption Date	Prepayment Penalty
Twelfth (12$^{th)}$ Coupon Payment Date...................	0.75%
Sixteenth (16th) Coupon Payment Date...............	0.50%

Change in Law or Circumstance

The following events shall be considered as changes in law or circumstances ("Change of Law") as it refers to the obligations of the Issuer and to the rights and interests of the Bondholders under the Trust Indenture and the Bonds:

(a) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Indenture or the Bonds shall be modified in a manner which, in the reasonable opinion of the Trustee, will materially and adversely affect the ability of the Issuer to comply with such obligations, or shall be withdrawn or withheld;

(b) Any provision of the Trust Indenture or any of the related documents is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Indenture or any of the related documents in whole or in part, or any law is introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Indenture or any other related documents; and

(c) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.

Payments

The principal of, coupon on, and all other amounts payable on the Bonds will be payable to the Bondholders through checks issued by the Paying Agent and, at the option of the Bondholder, either: (a) made available for pick-up by such Bondholder or its duly authorized representative at the office of the Paying Agent at 16th Floor BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City; or (b) delivered via registered mail, at the Bondholder's risk, to the addresses of the Bondholders appearing in the Register of Bondholders. Bondholders claiming checks from the Paying Agent will be required to present proof of identification documents and or Bondholder representatives will be required to present written authority from the relevant Bondholder, in form and substance acceptable to the Paying Agent. The principal of, and coupon on, the Bonds will be payable in Philippine Pesos. The Issuer will ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for the purposes of the Bonds and the Issuer may terminate the appointment of the Paying Agent, subject as provided in the Paying Agency and Registry Agreement. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Paying Agent, the Issuer shall appoint the Makati City office of such other leading bank in the Philippines to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

Payment of Additional Amounts; Taxation

Interest income and the prepayment penalty on the Bonds are subject to a final withholding tax at rates of between 20% and 35% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such final withholding tax and as otherwise provided, all payments of principal and interest to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the same shall be for the account of the Issuer. *Provided, however,* that the Issuer shall not be liable for:

(a) the applicable final withholding tax applicable on interest earned on the Bonds prescribed under the National Internal Revenue Code of 1997, as amended and its implementing rules and regulations as may be in effect from time to time, (the "Tax Code"). An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance: (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue confirming the exemption or preferential rate; (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines, *provided further*, that all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;

(b) Gross Receipts Tax under Section 121 of the Tax Code;

(c) taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and

(d) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act (R.A.) No. 9337. Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

NEGATIVE PLEDGE

For as long as any of the Bonds remain outstanding, the Issuer covenants that the Issuer shall not, without the prior written consent of the Bondholders holding more than fifty percent (50%) of the principal amount of the Bonds then outstanding (the "Majority Bondholders"), permit any indebtedness for borrowed money to be secured by or to benefit from Security in favor of any creditor or class of creditors without providing the Bondholders with the same kind or class of Security, the benefit of which is extended equally and ratably among them to secure the Bonds; *provided however that,* this restriction shall not prohibit:

(a) Any Security over any asset to secure: (i) payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;

(b) Any Security constituted for any obligation or credit facility incurred for the purpose of pursuing any infrastructure project or investment therein, whether such infrastructure project is undertaken by the Issuer itself, by its Affiliates, and/or by the Issuer or its Affiliates with third parties, and whether the same is carried on separately from or integrated with any of the Issuer's real estate development, or any Security constituted by the Issuer on its right to receive income or revenues (whether in the form of dividends or otherwise) from infrastructure projects or related investments therein;

(c) Any Security created for the purpose of paying current Taxes, assessments or other governmental charges which are not delinquent or remain payable without any penalty; or the validity of which is contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof and adequate reserves having been provided for the payment thereof;

(d) Any Security to secure, in the normal course of the business of the Issuer or its Affiliates: (i) statutory or regulatory obligations; (ii) surety or appeal bonds; (iii) bonds for release of attachment, stay of execution or injunction; or (iv) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;

(e) Any Security: (i) imposed by law, such as carrier's, warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business and not material in amount; (ii) arising out of pledge or deposits under the workmen's compensation laws, unemployment insurance, old age pensions or other social security or retirement benefits or similar legislation; and (iii) arising out of set-off provisions in the normal course of its financing arrangements; provided that the Bondholders hereunder shall also have to the extent permitted by applicable Law, and upon notice to the Issuer, a similar right of set- off;

(f) Any Security in favor of banks, insurance companies, other financial institutions and Philippine government agencies, departments, authorities, corporations or other juridical entities, which secure a preferential financing obtained by the Issuer under a governmental program, and which cover assets of the Issuer which have an aggregate appraised value, determined in accordance with generally accepted appraisal principles and practices consistently applied not exceeding Eight Billion Philippine Pesos (₱ 8,000,000,000.00);

(g) Any Security existing on the date of the Trust Indenture which is disclosed in writing by the Issuer to the Trustee prior to the execution of the Trust Indenture;

(h) Any Security established in favor of insurance companies and other financial institutions in compliance with the applicable requirements of the Office of the Insurance Commission on admitted assets or the requirements of the BSP on loans and financial accommodations extended to directors, officers, stockholders and related interest (DOSRI);

(i) Any Security to be constituted on the assets of the Issuer after the date of the Trust Indenture which is disclosed in writing by the Issuer to the Trustee prior to the execution of the Trust Indenture or any Security for an aggregate loan accommodation not exceeding the equivalent of ten percent (10%) of the market value of the consolidated assets of the Issuer as reflected in the latest appraisal report submitted by an independent and reputable appraiser;

(j) Any Security constituted over the investment of the Issuer in any of its Affiliates, to guarantee or secure the obligations of said Affiliates;

(k) Any Security constituted for the purpose of guaranteeing an Affiliate's obligation in connection with any contract or agreement (other than for borrowed money);

(l) Any title transfer or retention of title arrangement entered into by the Issuer in the normal course of its trading activities on the counterparty's standard or usual terms; or

(m) Any Security created over (i) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency ("foreign currency") other than Philippine Pesos; or (ii) financial instruments denominated in a foreign currency owned by the Issuer, in each case solely for the purpose of securing loan facilities denominated in Philippine Pesos granted to the Issuer in an aggregate equivalent principal amount not exceeding the amount of the deposit or the face amount (or value) of that financial instrument. (each a “Permitted Lien,” and together “Permitted Liens”); or

(n) Any Security created over cash deposits or marketable investment securities in favor of a bank or financial institution to secure any borrowed money in connection with a treasury transaction, provided that the aggregate amount of security does not at any time exceed US$30,000,000 or its equivalent. For this purpose, a “treasury transaction” means any currency, commodity, or interest rate purchase, cap or collar agreement, forward rate agreement, future or option contract, swap or other similar agreement, in relation to the Issuer’s treasury management.

EVENTS OF DEFAULT

The Issuer shall be considered in default under the Bonds and the Trust Indenture in case any of the following events (each an “Event of Default”) shall occur and is continuing:

(a) *Payment Default*

The Issuer fails to pay when due and payable any amount which the Issuer is obliged to pay to the Bondholders under the Trust Indenture and the Bonds.

(b) *Representation/Warranty Default*

Any representation and warranty of the Issuer hereof or any certificate or opinion submitted pursuant hereto proves to have been untrue, incorrect or misleading in any material respect as and when made and the circumstances which cause such representation or warranty to be incorrect or misleading continue for not less than fourteen (14) days (or such longer period as the Majority Bondholders shall approve) after receipt of written notice from the Bondholders to that effect.

(c) *Other Default*

The Issuer fails to perform or violates any other provisions of the Trust Indenture and the Bonds, and such failure or violation is not remediable or, if remediable, continues to be unremedied after the applicable grace period, or in the absence of such grace period, after thirty (30) days from the date of occurrence of the said violation with respect to the covenant to maintain the prescribed financial ratios, (particularly a maximum debt to equity ratio of 3.0 : 1.0; and a minimum current ratio of 0.5 : 1.0); provided that the Events of Default constituting a payment default or closure default shall not be remediable.

(d) *Cross Default*

The Issuer violates any term or condition of any contract executed by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money which constitutes an event of default under said contract, or in general, violation of any, law or regulation which violation, if remediable, is not remedied by the Issuer within ten (10) Business Days from receipt of notice by the Trustee to the Issuer, or which violation is otherwise not contested by the Issuer, and the effect of such violation results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; and which violation will, further, in the reasonable opinion of the Trustee, adversely and materially affect the performance by the Issuer of its obligations under the Trust Indenture and the Bonds. *Provided, however,* that no event of default will occur under this paragraph unless the aggregate amount of indebtedness in respect of which one or more of the events above mentioned has/have occurred equals or exceeds US$10 Million ($10,000,000.00) or its Peso equivalent.

(e) *Expropriation Default*

The Republic of the Philippines or any competent authority thereof takes any action to suspend the whole or the substantial portion of the operations of the Issuer and to condemn, seize, nationalize or appropriate (either with or without compensation) the Issuer or any material portion of its properties or assets, unless such act, deed or proceedings are contested in good faith by the Issuer.

(f) *Insolvency Default*

There is an act of Bankruptcy *vis-a-vis* the Issuer and the relevant proceedings, to the extent not initiated by the Issuer, shall not have been reversed or stayed within a period of sixty (60) days or such longer period as the Issuer satisfies the Bondholders is appropriate under the circumstances.

(g) *Judgment Default*

Any final judgment, decree or arbitral award for the sum of money, damages or for a fine or penalty in excess of Five Hundred Million Pesos (₱500,000,000.00) or its equivalent in any other currency is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree or award is due under the applicable law or agreement.

(h) *Writ and Similar Process Default*

Any judgment, writ, warrant of attachment, injunction, stay order, execution or similar process shall be issued or levied against any material part of the Issuer’s assets, business or operations and such judgment, writ, warrant or similar process shall not be released, vacated or fully bonded within thirty calendar (30) days after its issue or levy.

(i) *Closure Default*

The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days except in the case of strikes or lockouts or when necessary to prevent business losses or when due to fortuitous events or force *majeure.*

(j) *Material Adverse Change*

There occurs any event or circumstance which, in the reasonable opinion of the Majority Bondholders, would result in a material adverse change or have a material adverse effect on:

(i) the business, operations, financial condition or business prospects of the Issuer taken as a whole;
(ii) the ability of the Issuer to perform any of its obligations under the Trust Indenture and the Bonds; or
(iii) the validity, legality or enforceability of the Trust Indenture or the Bonds.

CONSEQUENCES OF DEFAULT

(a) If any one or more of the Events of Default shall have occurred and be continuing, the Trustee upon the written direction of the Majority Bondholders, by notice in writing delivered to the Issuer, or if by the Majority Bondholders, by notice in writing delivered to the Issuer and the Trustee, may declare all amounts due, including the principal of the Bonds, all accrued coupon and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable, anything contained in the Trust Indenture or in the Bonds to the contrary notwithstanding.

(b) This provision, however, is subject to the condition that, except in the case of a Writ and Similar Process Default (which is specified as such in the *"Description of the Bonds'),* the Majority Bondholders, by written notice to the Issuer and the Trustee may, during the prescribed curing period, if any, rescind and annul such declaration made by the Trustee pursuant to a consequence of default (see *"Consequences of Default"),* and the consequences of such declaration, upon such terms, conditions and agreement, if any, as they may determine; provided that, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

(c) At any time after any Event of Default shall have occurred, the Trustee may:

i. by notice in writing to the Issuer, the Paying Agent and the Registrar, require the Paying Agent and the Registrar to:

(aa) act thereafter as agents of the Bondholders represented by the Trustee on the terms provided in the Paying Agency and Registry Agreement (with consequential amendments as necessary and save that the Trustee's liability under any provisions thereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Paying Agent and the Registrar shall be limited to amounts for the time being held by the Trustee on the trusts of the Trust Indenture in relation to the Bonds and available to the Trustee for such purpose) and thereafter to hold all sums, documents and records held by them in respect of the Bonds on behalf of the Trustee; and/or

(bb) deliver up all evidence of the Bonds and all sums, documents and records held by them in respect of the Bonds to the Trustee or as the Trustee shall direct in such notice; provided, that, such notice shall be deemed not to apply to any document or record which the Paying Agent or Registrar is not obliged to release by any law or regulation; and

ii. by notice in writing to the Issuer require the Issuer to make all subsequent payments in respect of the Bonds to the order of the Trustee and-- with effect from the issue of any such notice until such notice is withdrawn-- proviso (aa) above and the Issuer's positive covenant to pay principal and coupon on the Bonds, more particularly set forth in Section 4.1(a) of the Trust Indenture, shall cease to have effect.

In case any amount payable by the Issuer under the Bonds, whether for principal, coupon or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, coupon and other amounts, pay Penalty Interest on the defaulted amount(s) from the time the amount falls due until it is fully paid.

(d) If any one or more of the events enumerated as a Change of Law in the discussion on *"Change in Law or Circumstance"* above, shall occur and be continuing for a period of fifteen (1 5) Business Days with respect to the events contemplated in (i) or (ii) of Condition 5(d), above and for a period of thirty (30) Business Days with respect to the events contemplated in (iii) of the discussion on *"Change in Law or Circumstance",* above, the Majority Bondholders, by notice in writing delivered to the Issuer through the Trustee, after the lapse of the said fifteen (15) or thirty (30) Business Day period, may declare the principal of the Bonds, including all accrued coupon and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable without any pre-payment penalty under as an optional redemption (see *"Optional Redemption"),* anything in the Trust Indenture or in the Bonds contained to the contrary notwithstanding, subject to the notice requirements under the discussion on *"Notice of*

Default", below. Provided that such notice shall not be deemed either caused by a default under the discussion on *"Events of Default",* above; or a notice of default under the discussion on *"Notice of Default",* below.

Notice of Default

The Trustee shall, within five (5) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it via publication in a newspaper of general circulation in Metro Manila for two (2) consecutive days as soon as practicable, indicating in the published notice that an Event of Default has occurred, unless the same shall have been cured before the giving of such notice.

Penalty Interest

Upon the occurrence and during the continuance of any Event of Default, the Issuer shall pay interest on all amounts then due under and owing to the Bondholder under the Trust Indenture and the Bonds, including but not limited to the unpaid principal amount and any coupon thereon, at a rate equal at all times to six percent (6%) *per annum* above, and in addition to, the Coupon Rate, computed on the actual number of days from and including the date on which the said amount/s became due until full payment thereof on a year of 360 days.

Payment in the Event of Default

The Issuer covenants that upon the occurrence of any Event of Default, the Issuer will pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with coupon at the rate borne by the Bonds on the overdue principal and with Penalty Interest as described above, and in addition thereto, the Issuer will pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

Upon the occurrence of an Event of Default under as discussed in *"Events of Default",* above, Bondholders shall have the right, but not the obligation, to require the Issuer to redeem the Bonds in full, by payment of the amounts stated above, plus the principal amount, by delivery of the relevant evidence of the bonds to the Trustee.

Application of Payments

Any money collected or delivered to the Paying Agent as a Consequence of Default, and any other funds held by it, subject to any other provision of the Trust Indenture and the Paying Agency and Registry Agreement relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows: *first,* to the payment to the Trustee, the Paying Agent and the Registrar, of the costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without negligence or bad faith; *second,* to the payment of the interest in default, in the order of the maturity of such coupon with Penalty Interest; *third,* to the payment of the whole amount then due and unpaid upon the Bonds for principal, and interest; and *fourth,* the remainder, if any shall be paid to the Issuer, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Prescription

Claims in respect of principal and coupon or other sums payable hereunder will be prescribed unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

Remedies

All remedies conferred by the Trust Indenture to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Indenture, subject to the discussion below on *"Ability to File Suit".*

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Indenture to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Indenture to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in its own name; (iii) the Trustee for sixty (60) days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Indenture to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may on behalf of the Bondholders waive any past default except the events of default defined as a payment default, breach of representation or warranty default, expropriation default, insolvency default, or closure default, and its consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

MEETINGS OF THE BONDHOLDERS

A meeting of the Bondholders may be called at any time and from time to time for the purpose of taking any actions authorized to be taken by or on behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Indenture or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty- five percent (25.0%) of the aggregate outstanding principal amount of Bonds may direct the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than fifteen (15) days nor later than forty five (45) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

Failure of the Trustee to Call a Meeting

In case at any time the Issuer, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty-five percent (25.0%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting within twenty (20) days after receipt of such request, then the Issuer or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

Quorum

The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

Procedure for Meetings

(i) The Trustee shall preside at all the meetings of the Bondholders unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

(ii) Any meeting of the Bondholders duly called may be adjourned from time to time for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

Voting Requirement

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Indenture. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Issuer as if the votes were unanimous.

Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

Evidence Supporting the Action of the Bondholders

Wherever in the Trust Indenture it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests, the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

NOTICES TO THE BONDHOLDERS

Notices to Bondholders shall be sent to their mailing address as set forth in the Register of Bondholders when required to be made through registered mail, surface mail or personal delivery. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; (iv) personal delivery to the address of record in the Register of Bondholders or (v) disclosure through the Online Disclosure System of the Philippine Stock Exchange. The Trustee shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on date of publication; (iv) on date of delivery, by personal delivery; or (v) on the date that the disclosure is uploaded on the website of the Philippine Stock Exchange.

A notice to the Trustee is notice to the Bondholders. The publication in a newspaper of general circulation in the Philippines of a press release or news item about a communication or disclosure made by the Issuer to the Securities and Exchange Commission or the Philippine Stock Exchange on a matter relating to the Bonds shall be deemed a notice to the Bondholders of said matter on the date of the first publication.

GOVERNING LAW

The Bond Agreements are governed by and are construed in accordance with Philippine law.

CERTAIN DEFINED TERMS

The following sets forth the respective definitions of certain terms used in this Description of the Bonds as such terms are defined in the Trust Indenture. Except as otherwise provided and where context indicates otherwise, defined terms in this Description of the Bonds have the meanings ascribed to them in the Trust Indenture.

(a) **Affiliate** means any corporation, directly or indirectly controlled by the Issuer, whether by way of ownership of at least twenty percent (20%) of the total issued and outstanding capital stock of such corporation, or the right to elect at least twenty percent (20%) of the number of directors in such corporation, or the right to control the operation and management of such corporation by reason of contract or authority granted by said corporation to the Issuer.

(b) **Bankruptcy** means, with respect to a Person, (a) that such Person has (i) made an assignment for the benefit of creditors; (ii) filed a voluntary petition in bankruptcy; (iii) been adjudged bankrupt, or insolvent; or had entered against such Person an order of relief in any bankruptcy or insolvency proceeding; (iv) filed a petition or an answer seeking for such Person any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation or filed an answer or other pleading admitting or failing to contest the material allegations of a petition filed against such Person in any proceeding of such nature; or (v) sought, consented to, or acquiesced in the appointment of a trustee, receiver or liquidator of such Person or of all or any substantial part of such Person's properties; (b) 60 days have elapsed after the commencement of any proceeding against such Person seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation and such proceeding has not been dismissed; or (c) 60 days have elapsed since the appointment without such Person's consent or acquiescence of a trustee, receiver or liquidator of such Person or of all or any substantial part of such Person's properties and such appointment has not been vacated or stayed or the appointment is not vacated within 60 days after the expiration of such stay.

(c) **Majority Bondholders** means the holders of more than fifty percent (50%) in principal amount, of the Bonds then outstanding.

(d) **Security** means any mortgage, pledge, lien or encumbrance constituted on any of the Issuer's properties, for the purpose of securing its or its Affiliates' obligation.

RISK FACTORS

The price of the securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between the price and the selling price of these securities. Investors deal with a range of investments, each of which may carry a different level of risk. Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below before deciding to invest in the Bonds.

This section entitled "Risk Factors" does not purpose to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study the trading of these securities before commencing any trading activity. Investors should seek professional advice regarding any aspect of the securities such as the nature of risks involved in the trading of securities, and specifically those of high risk securities. Investors may request publicly available information on the Bonds and the Company from the Philippine SEC.

The means by which Ayala aims to address the risk factors discussed herein are principally presented in the sections of this Prospectus entitled – "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

This Prospectus contains forward-looking statements that involve risks and uncertainties. Ayala applies conservative financial and operational controls in the management of its business risks, as confirmed by PhilRatings.

Organizationally, it is the lead directors/company presidents/chief risk officers who have ultimate accountability and responsibility to ensure risk management initiatives at subsidiaries are aligned with Ayala Corporation and are responsible for submission of risk reports to ensure key risks are well-understood, assessed/measured and reported. Providing support are the internal audit units who regularly process audits and process improvements.

The Audit Committee of the Board meets regularly and performs its oversight role in managing the risks involved in the operations of Ayala

RISKS ASSOCIATED WITH THE PHILIPPINES

Ayala's businesses will be influenced by the general political and economic situation of the Philippines. Any political and/or economic instability in the future may have a negative effect on Ayala's financial condition and result of operations.

Political Considerations

The Philippines has from time to time experienced political and military instability. In 2001, former President Joseph Estrada was removed from office following a series of events which started in late 2000 involving allegations of corruption, impeachment proceedings, mass action protests and finally, the withdrawal of support by the military. Then Vice President Gloria Macapagal Arroyo was installed as President of the Philippines on January 20, 2001.

National and local elections were held on May 10, 2004, which included the election of the President and Vice President. The race for President and Vice President was closely contested between the incumbent administration standard bearers President Arroyo and Senator Noli De Castro, and the leading opposition party candidates Fernando Poe, Jr. and Senator Loren Legarda. Allegations of election-related irregularities led to several mass action protests organized by losing opposition candidates. Notwithstanding the protest rallies and several disqualification cases filed against President Arroyo (none of which prospered), on June 24, 2004 President Arroyo and Senator De Castro were proclaimed by Congress as President and Vice President, respectively.

In 2005, President Arroyo was alleged to have committed fraud in the 2004 elections based on taped conversations she supposedly had with an official of the Commission on Elections ("Comelec"). After President Arroyo admitted to speaking with a Comelec official, several cabinet members resigned from their posts and, along with opposition groups, called for her resignation. Impeachment complaints were then filed against President Arroyo, but the House of Representatives eventually voted to reject the impeachment complaints.

In February 2006, the Government thwarted an alleged coup plot involving certain military rebels and communists. Citing a supposed tactical alliance between right- and left-wing enemies of the state and a conspiracy over broad front to topple the Government, President Arroyo put the country under a state of emergency, raising furor from various sectors of society, including the Roman Catholic Church. After a week, President Arroyo lifted the state of emergency as the national security situation normalized.

Several armed groups are active in the Philippines which, from time to time, engage in various criminal activities including armed conflict with the military and Government, bombings, political assassinations, and kidnappings. These armed elements include ideologically motivated groups such as the Muslim extremist Abu Sayyaf group, and the communist New People's Army.

The Arroyo administration is pushing for changes to the Philippine Constitution which will allow, among others, a change in the form of government from presidential to parliamentary. As such, there can be no assurance that the political climate will remain stable and that current or future Governments will adopt economic policies that will result in sustained economic growth.

Economic Considerations

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant depreciation of the Philippine peso and electricity shortages. The regional Asian financial crisis in 1997 also affected the Philippine economy resulting in, among others, the depreciation of the Philippine peso, higher interest rates, slower growth and a reduction in the country's credit ratings. These affected the ability of a number of Philippine companies to meet their debt servicing obligations. While the Philippine economy registered economic growth since the Asian financial crisis, the economy faced significant challenges such as a ballooning budget deficit, volatile exchange rates and a relatively weak banking sector. Overall public sector performance also remained mixed, with the government encumbered with sizable guaranteed and non-guaranteed contingent liabilities that complicate fiscal prospects.

Despite entrenched special interests, Government managed to address certain challenges. In November 2005, a new VAT law took effect, expanding VAT coverage to previously exempt products and services; and in February 2006, the Government increased the VAT rate to 12% from 10%. These tax changes helped to raise revenue collections by around ₱162 billion in 2006.

The Government has been successful thus far in reducing its budget deficit. With tighter spending and improved revenue collection, the budget deficit in 2006 was ₱62.2 billion, lower than the ₱124.9 billion program for the year. The Government projects the budget deficit to reach ₱63.0 billion in 2007. In July 2007, it achieved a budget surplus of ₱1.6 billion and incurred a ₱39.4 billion deficit year-to-date, keeping it on track to meet its target for the year.

Real gross domestic product ("GDP") rose by 5.4% in 2006, versus the 5.1% growth registered in 2005. For the first half of 2007, GDP growth reached 7.3% due to the robust performance of the industrial and services sectors.

Fitch Ratings ("Fitch") has assigned a long-term foreign currency debt rating to the Philippines of "BB" (two notches below investment grade), while Standard & Poor's ("S&P") has assigned a "BB-" (three notches below investment grade) rating and Moody's Investors Service ("Moody's") has assigned "B1" (four notches below investment grade) rating to the Philippines. Due to the Government's implementation of tax reforms and drive to reduce its budget deficit, Fitch and S&P upgraded their ratings outlook on the Philippines from "negative" to "stable" in February 2006. Moody's on the other hand maintained its "negative" outlook, citing the need for the Government to demonstrate a sustained commitment to implement tax reforms and achieve a much improved fiscal position.

While a new VAT law is in place and the Government has achieved lower budget deficits, there is no assurance that the Government's fiscal position will continue to improve. Should economic conditions of the Philippines deteriorate, such deterioration could materially and adversely affect Ayala's financial condition and results of operations.

Foreign Exchange Rate Fluctuation

Ayala's revenues are predominantly denominated in Pesos, while certain expenses, including debt obligations, are denominated in currencies other than Pesos (principally U.S. Dollars). To fund its investments, Ayala borrows in U.S. Dollars as the international market is the most efficient way to raise funds for significant volumes. To hedge against this foreign currency exposure, Ayala utilizes short to medium term hedges to protect itself from any Peso depreciation. Furthermore, Ayala also keeps short term U.S. Dollar investments as part of its liquid assets.

During the last decade, the Philippines, from time to time, has experienced devaluations of the Peso and limited foreign exchange. From 1996 to 2004, the Peso depreciated at a rate of 10% per annum from ₱26.288 per U.S. Dollar at end-1996 to ₱56.341 at end-2004. Owing to the implementation of the new VAT law as well as strong inflows of OFW remittances, the Peso strengthened to ₱53.09 per U.S. Dollar at end-2005, and further rose to ₱49.03 per U.S. Dollar by end-2006. It closed at ₱46.24 against the U.S. Dollar at end-June 2007.

There can be no assurance that future Peso devaluations will not occur or that the availability of foreign exchange will not be limited. Recurrence of these conditions may adversely affect Ayala's financial condition and results of operations.

RISKS ASSOCIATED WITH THE COMPANY

Holding Company Structure

As a holding company, Ayala operates principally through its subsidiaries and affiliates. Claims of creditors of Ayala's subsidiaries and affiliates, including trade creditors, bank lenders and other creditors, will have priority over any claims of Ayala and holders of the Bond with respect to the assets of such subsidiaries and affiliates.

Substantially all of Ayala's cash flow is dependent on cash distributions from, or the proceeds of the realization of, its investments in subsidiaries and affiliates. The ability of Ayala's subsidiaries and affiliates to pay dividends to stockholders is subject to applicable law and restrictions contained in debt instruments of such subsidiaries and affiliates and may also be subject to deduction for taxes. In addition, the declaration of dividends by Philippine banks is subject to approval by the BSP, thereby affecting the payment of dividends from Ayala's banking affiliate, the BPI Group, to Ayala. To the extent possible, Ayala monitors and supervises the performance of its subsidiaries and affiliates to help generate or improve such cash distributions and proceeds. There is no assurance, however, that Ayala can generate sufficient cash flow from dividends or other payments to allow it meet its obligations under the Bonds. Any shortfall would have to be made up from other available sources of cash, such as a sale of investments or proceeds from other refinancing activities available to Ayala.

Ayala, its subsidiaries and affiliates have a substantial number of contractual and working arrangements with each other. While Ayala believes that all contractual arrangements between and among itself, its subsidiaries and affiliates, are entered into on an arms-length basis, there can be no assurance that any such contract is on terms as favorable as could have been obtained in a transaction with an unrelated third party. There is also no assurance that future working arrangements between related parties will not involve conflicts of interest.

Intensive Capital Requirements

A number of Ayala's principal operating companies operate in highly capital intensive industries where it is critical to be able to keep up considerable levels of capital investments in order to maintain market position and sustain growth. These industries include property development, telecommunications and water utilities. Ayala believes however that its principal operating companies will be able to meet their respective future capital expenditure requirements from their own internally generated cash flows and borrowing capacity with minimal or no additional funding support from Ayala.

Foreign Exchange Risk

Ayala incurs foreign exchange risk as part of its business as it may elect to finance its investments in foreign currency. To manage this exposure, Ayala may utilize short- to medium-term hedges. In addition, the Company maintains part of its liquid assets in short-term foreign currency denominated investments.

Competition

All of Ayala's main operating subsidiaries and affiliates operate in highly competitive industries. Changes in Philippine laws such as increased liberalization and tariff reductions may result in lowering the barriers to entry in industries where Ayala's subsidiaries and affiliates operate resulting in increased competition. No assurance can be given that increased competition in the various industry segments will not adversely affect Ayala's financial condition and results of operations.

Industry Risks

Ayala operates in four key areas: real estate and hotels, financial services, telecommunications and a portfolio of other investments which includes water utilities, electronics and information technology, as well as automotive and international operations. These areas have inherent risks, to wit:

Real Estate and Hotels

The Philippine property market has, in recent years, shown remarkable year-on-year growth in terms of the number of development projects being undertaken. The steady rise in the Philippine economy in the past several years coupled by the massive interest among Overseas Filipino Workers wanting to establish permanent or temporary residence in the Philippines is expected to support this growth. Construction is widespread not only in Metro Manila but in outlying provinces and other major cities as well. This current property boom indicates that the industry is now recovering from the effective of the Asian Financial Crisis. Any changes in demand, however, may result in a glut in the industry which may again depress prices similar to what happened in 2007.

Financial Services

The Philippine banking industry has seen a significant increase in the number of commercial banks, especially since the liberalization of operations by foreign banks. The number of commercial banks increased from approximately 30 prior to liberalization to more than 50. However, as of June 30, 2007, the number of commercial banks had declined to 38 (according to BSP Web site) as a result of mergers and closures. Competition has remained intense despite the industry consolidation.

Corporate lending remained very competitive resulting in even narrower spreads. Pockets of growth were seen in the middle corporate market segment; yields in this segment were wider but continued to be highly vulnerable to economic shocks. The modest demand for corporate loans prodded banks to venture more extensively into consumer lending. BPI, being a well-entrenched, long-term player, has an advantage in this segment, given its depth of experience in credit selection, collection and asset recovery.

Telecommunications

The Philippine telecommunications industry, particularly wireless communications, has been notably competitive as competitors have sought to increase market share by attracting new subscribers. The principal players in Philippine telecommunications are Globe, Philippine Long Distance Telephone Company ("PLDT") and its wireless subsidiary Smart Communications, Inc. ("Smart") and Digitel Communications Philippines, Inc. ("Digitel") which launched its wireless "Sun Cellular" mobile service in 2003. Other players include Bayan Telecommunications Philippines, Inc. ("Bayantel") and Express Telecommunications Company ("Extelcom"), which are both licensed to provide wireless mobile services, and Infocom Communications Network, Inc. a licensed wireless trunked radio service operator.

While wireless subscriber growth is expected to continue, it may not continue to grow at the same rate as in the past. Further reductions in rates, wider penetration into lower-usage subscriber segments, and the intensive competition may also result in declining average revenues per subscriber.

Other industry considerations include the capital-intensive nature of the business, the rapid pace of changes in telecommunications technology, and the regulated nature of the industry.

Others

Ayala's portfolio of investments includes an investment in a water utility business, MWC. MWC operates in a highly regulated environment under the terms of the Concession Agreement entered into with the Government. Among others, the operations of this business will be materially affected by MWC's ability to implement rate increases, meet capital expenditure requirements and concession fee payments (to the Government), comply with operating and performance targets specified under the Concession Agreement and the availability of adequate raw water supply.

Ayala is also involved in electronics contract manufacturing through the Integrated Microelectronics, Inc. ("IMI"), which is engaged in electronics assembly and product and engineering design. IMI's principal products comprise printed circuit board assemblies ("PCBAs"), computer peripherals and storage devices and other electronic sub-assemblies for export to various consumer and industrial applications. IMI's principal customers operate in a highly competitive global environment dominated by several large participants. Global downturns in industry demand and increasing competition from countries such as China could also materially impact IMI's operating performance moving forward.

Azalea Technology Investments, Inc. ("Azalea") is Ayala's investment vehicle in mobile and e-commerce opportunities, communications, technologies and other IT-enabled services. The industries in which Azalea's investment companies operate are emerging industries which, while offering significant growth opportunities, are also exposed to significant technology risks and competition. There can be no assurance that these investments will deliver Ayala with adequate returns.

Ayala also maintains investments in the automotive industry through its ownership of car dealerships for Honda passenger cars and Isuzu Asian utility vehicles, commercial vehicles and trucks. These operations depend largely on the market demand for commercial vehicles and passenger cars, as well as the market acceptance of new product offerings.

Recently, Ayala made investments in business process outsourcing to take advantage of the growth potential of the sector. The country's supply of skilled personnel for business process outsourcing ("BPOs") may not be sufficient to fill the sector's growing demand for labor, which can pose challenges in recruitment and employee retention, and provide pressure on training and wage cost for BPO companies.

Through Ayala International Pte Ltd. ("AIPL"), Ayala also makes overseas real estate investments, particularly within the Asia-Pacific region, and more recently, the United States. Global downturns in the property market will materially affect the ability of these investments to deliver their anticipated returns.

Government Regulation

A material part of Ayala's businesses including real estate, banking, telecommunications and water utilities operate in an environment with various degrees of Government regulation. The introduction of inconsistent or unpredictable application of, or changes in, Government regulations may from time to time materially affect the operations of Ayala's businesses.

RISKS ASSOCIATED WITH THE BONDS

Market for the Bonds

There is no active secondary market for the Bonds. Ayala cannot assure Bondholders that an active market will develop for the Bonds. Even if an active market for the Bonds developed, the Bonds could trade at prices higher or lower than the initial offering price due to prevailing interest rates, Ayala's operations, the overall market for debt securities and other factors. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Bonds.

Further, while Ayala intends to cause the listing of the Bonds on a securities exchange licensed with the SEC and has initiated discussions with the Philippine Dealing and Exchange Corp ("PDEx") for this purpose, there is no guarantee that the application will be approved or as to the timing thereof.

USE OF PROCEEDS

Ayala expects to raise gross proceeds amounting to ₱5,000,000,000.00 from the Offer. The following are the estimated expenses to be incurred in the Offering:

SEC Registration Fee	2,588,125.00
Documentary Stamp Tax	25,000,000.00
Underwriting, Legal and Agency Fees	21,250,000.00
Rating Fees	3,700,000.00
Publication Fees	100,000.00
Other related expenses	200,000.00
Total	52,838,125.00

If the Oversubscription Option is not exercised, the net proceeds from the Offering are estimated to amount to ₱4,947,161,875.00 after deducting expenses related to the issuance of the Bonds. Ayala expects to use such net proceeds to refinance peso and USD denominated obligations which have been paid in 2007 and for general working capital without allocation and with no particular order of priority.

In the event that the net proceeds of the Offer are substantially less than the amounts required for the above-mentioned purposes, the Company has internally-generated funds and sufficient access to other credit facilities, including bank lines amounting to approximately USD 200 million, which the Company may utilize to satisfy these obligations and working capital requirements. There are no material amounts of other funds necessary to accomplish the specified purpose for which the Offer is made.

The details of Ayala's peso and USD obligations are as follows:

Obligation	Original Maturity Date	Prepayment Date	Rate	Amount
Preferred Shares "A-2"	January 2009	July 2007	10.35%	₱1,500,000,000.00
Preferred Shares "A-3"	August 2009	August 2007	10.46%	₱1,000,000,000.00
Term Loan	October 2008	April 2007	10.60%	₱500,000,000.00
Term Loan	October 2008	April 2007	10.60%	₱500,000,000.00
Term Loan	October 2008	April 2007	10.60%	₱750,000,000.00
USD Syndicated Loan	October 2008	April 2007	Libor + 240 bps	USD65,600,000.00
USD Loan	May 2009	April 2007	Libor + 105 bps	USD 20,000,000.00

The Preferred Shares Series "A-2" were issued in January 2004. The Preferred Shares Series "A-3" were issued in August 2004.

The peso term loans were all raised in October 2003.

The USD Syndicated Loan was raised through Ayala's financing equity, AC International Finance Ltd. in October 2003.

DETERMINATION OF THE OFFERING PRICE

Each series of the Bonds shall be issued on a fully-paid basis and at an issue price that is at par.

PLAN OF DISTRIBUTION

Ayala plans to issue the Bonds on a lump-sum basis through designated Joint Lead Underwriters and Bookrunners.

UNDERWRITING OBLIGATIONS OF THE JOINT LEAD UNDERWRITERS AND BOOKRUNNERS

BPI Capital Corporation ("BPI Capital"), BDO Capital & Investment Corporation, First Metro Investment Corporation, ING Bank, N.V., Manila Branch, Land Bank of the Philippines, and Standard Chartered Bank, pursuant to an Underwriting and Issue Management Agreement with Ayala (the "Underwriting and Issue Management Agreement") to be executed on November 12, 2007, have agreed to act as the Joint Lead Underwriters and Bookrunners for the Offer and as such, distribute and sell the Bonds at the Issue Price, and have also committed to underwrite up to Five Billion Pesos (₱5,000,000,000.00) on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

Ayala has also granted the Joint Lead Underwriters and Bookrunners an Oversubscription Option, exercisable within the Offer Period, to purchase, on a firm basis, up to an additional Three Billion Pesos (₱3,000,000,000.00), on the same terms and conditions set forth in this Prospectus, solely to cover oversubscriptions, if any.

BPI Capital shall be the sole Issue Manager for this transaction.

The Joint Lead Underwriters and Bookrunners will receive a fee of 0.40%, grossed up for gross receipts tax, on the underwritten principal amount of the Bonds issued. Such fee shall be inclusive of underwriting, and participation commissions.

The amount of the commitments of the Joint Lead Underwriters and Bookrunners is as follows:

BPI Capital Capital	₱	1,000,000,000.00
BDO Capital & Investment Corporation		800,000,000.00
First Metro Investment Corporation		800,000,000.00
ING Bank, N.V., Manila Branch		800,000,000.00
Land Bank of the Philippines		800,000,000.00
Standard Chartered Bank		800,000,000.00
Total	**₱**	**5,000,000,000.00**

The Three Billion Pesos (₱3,000,000,000.00) Oversubscription Option, if exercised, will be divided equally among the Joint Lead Underwriters and Bookrunners.

There is no arrangement for the Joint Lead Underwriters and Bookrunners to put back to Ayala any unsold Bonds. The Underwriting and Issue Management Agreement may be terminated in certain circumstances prior to payment being made to Ayala of the net proceeds of the Bonds.

The Joint Lead Underwriters and Bookrunners are duly licensed by the SEC to engage in underwriting or distribution of the Bonds. The Joint Lead Underwriters and Bookrunners may, from time to time, engage in transactions with and perform services in the ordinary course of its business for Ayala or other members of the Ayala Group of which Ayala forms a part.

Except for BPI Capital, the Joint Lead Underwriters and Bookrunners have no direct relations with Ayala in terms of ownership by either of their respective major stockholder/s. BPI Capital is a wholly owned subsidiary of BPI, an affiliate of Ayala, which has an effective ownership of 33.6% in BPI as of June 30, 2007.

None of the Joint Lead Underwriters and Bookrunners has the right to designate or nominate a member of the Board of Ayala.

SALE AND DISTRIBUTION

(a) The distribution and sale of the Bonds shall be undertaken by the Joint Lead Underwriters and Bookrunners who shall sell and distribute the Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Joint Lead Underwriters and Bookrunners from purchasing the Bonds for their own respective accounts.

(b) The obligations of each of the Joint Lead Underwriters and Bookrunners will be several, and not joint and solidary, and nothing in the Underwriting and Issue Management Agreement shall be deemed to create a partnership or joint venture between and among any of the Joint Lead Underwriters and Bookrunners. Unless otherwise expressly provided in the Underwriting and Issue Management Agreement, the failure by any of the Joint Lead Underwriters and Bookrunners to carry out its obligations thereunder shall not relieve any other Joint Lead Underwriter and Bookrunner of its obligations thereunder, nor shall any Joint Lead Underwriter and Bookrunner be responsible for the obligations of any other Joint Lead Underwriter and Bookrunner thereunder.

DESIGNATED SHARES AND ALLOCATIONS

Each Joint Lead Underwriter and Bookrunner may take on any portion up to the full amount of the Issue, as determined by Ayala.

TERM OF APPOINTMENT

The engagements of the Joint Lead Underwriters and Bookrunners, as well as the Issue Manager shall subsist so long as the SEC Permit remains valid, unless otherwise terminated by Ayala, the Issue Manager or the Joint Lead Underwriters and Bookrunners.

MANNER OF DISTRIBUTION

The Joint Lead Underwriters and Bookrunners shall, at their discretion, determine the manner by which proposals for subscriptions to, and issuances of, Bonds shall be solicited, with the primary sale of Bonds to be effected only through the Joint Lead Underwriters and Bookrunners.

OFFER PERIOD

The Offer Period shall commence at 1:00 pm on November 12, 2007 and end at 3:00 p.m. of November 16, 2007.

APPLICATION TO PURCHASE

Applicants may purchase the Bonds during the Offer Period by submitting to the Joint Lead Underwriters and Bookrunners a properly completed Application to Purchase, together with two (2) signature cards, and the full payment of the purchase price of the Bonds in the manner provided therein. Corporate and institutional applicants must also submit, in addition to the foregoing, a copy of their SEC Certificate of Registration of Articles of Incorporation and By-Laws, Articles of Incorporation, By-Laws, and the appropriate authorization by their respective boards of directors and/or committees or bodies authorizing the purchase of the Bonds and designating the authorized signatory(ies) thereof. Individual applicants must also submit, in addition to the foregoing, a photocopy of any one of the following identification cards ("ID"): passport/driver's license/postal ID, company ID, SSS/GSIS ID and/or Senior Citizen's ID.

A corporate and institutional investor who is exempt from or is not subject to the aforesaid withholding tax shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance: (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue; (ii) a duly notarized undertaking, in the prescribed from, declaring and warranting its tax exempt status, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates and agreeing to indemnify and hold the Issuer free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities, *provided further*, that all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar.

Completed Applications to Purchase and corresponding payments must reach the Joint Lead Underwriters and Bookrunners prior to the end of the Offer Period, or such earlier date as may be specified by the Joint Lead Underwriters and Bookrunners. Acceptance by the Joint Lead Underwriters and Bookrunners of the completed Application to Purchase shall be subject to the availability of the Bonds and the acceptance by Ayala. In the event that any check payment is returned by the drawee bank for any reason whatsoever, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase is deemed revoked.

MINIMUM PURCHASE

A minimum purchase of Fifty Thousand Pesos (₱50,000.00) shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of Fifty Thousand Pesos (₱ 50,000.00).

ALLOTMENT OF THE BONDS

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed Applications to Purchase on a first-come, first-served basis, subject to Ayala's right of rejection.

REFUNDS

If any application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest to such applicant through the relevant Joint Lead Underwriter and Bookrunner from whom such application to purchase the Bonds was made.

UNCLAIMED PAYMENTS

Any payment of interest on, or the principal of the Bonds which remain unclaimed after the same shall have become due and payable, shall be held in trust by the Paying Agent for the Bondholders at the latter's risk.

CANCELLATION AND RE-ISSUANCE

Bonds, which have been redeemed, may be re-issued by Ayala under such terms and conditions as may be approved by Ayala's Board of Directors.

SECONDARY MARKET

The Joint Lead Underwriters and Bookrunners shall endeavor to establish a trading mechanism to allow for the orderly trading of the Bonds in the secondary market.

Ayala, however, intends to cause the listing of the Bonds on a securities exchange licensed with the SEC and has initiated discussions with the Philippine Dealing and Exchange Corp ("PDEx") for this purpose.

Ayala may purchase the Bonds at any time in the open market or by tender or by contract at any price, without any obligation to make pro-rata purchases of Bonds from all Bondholders.

REGISTRY OF BONDHOLDERS

The Bonds shall be issued in scripless form and will be eligible for trading under the Scripless book-entry system of the PDTC. A Master Certificate of Indebtedness representing the Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders. The Joint Lead Underwriters and Bookrunners are required to designate a PDTC Participant for the lodgement of the Bonds, on behalf of their respective Bondholders.

Legal title to the Bonds shall be shown in the Register of Holders to be maintained by the designated registrar for the Bonds. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing from time to time. Ayala will cause the Register of Bondholders to be kept at the specified office of the Registrar. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders.

EXPENSES

All out-of-pocket expenses, including but not limited to, registration with the SEC, credit rating, printing, publicity, communication and signing expenses incurred by the Issue Manager and the Joint Lead Underwriters and Bookrunners in the negotiation and execution of the transaction will be for Ayala's account irrespective of whether the transaction contemplated herein is completed. Such expenses are to be reimbursed upon presentation of a composite statement of account.

The amount of such fees and expenses of the Offering are estimated as follows:

SEC Registration Fee	₱	2,588,125.00
Documentary Stamp Tax		25,000,000.00
Underwriting, Legal and Agency Fees		21,250,000.00
Rating Fees		3,700,000.00
Publication Fees		100,000.00
Other related expenses		200,000.00
Total	**₱**	52,383,125.00

THE COMPANY

OVERVIEW

Ayala was incorporated in the Philippines on January 23, 1968 as a limited liability corporation having a renewable term of 50 years. It is organized as a holding company holding equity interests in the Group, one of the most significant business groups in the Philippines. Ayala's business activities are divided into four key areas: (a) real estate and hotels, (b) financial services, (c) telecommunications and (d) a portfolio of other investments held under an internal development division called AC Capital. AC Capital's current holdings include investments in water distribution, electronics manufacturing, automotive dealerships, international real estate investments, IT-related ventures, business process outsourcing, and various other non-core real-estate assets. Ayala's operating companies are widely recognized as among the dominant companies in their respective industry sectors. Ayala became a public corporation in 1976 and its common shares are currently listed at the Philippine Stock Exchange ("PSE"). As of June 30, 2007, Ayala had a market capitalization of ₱225.6 billion and a net worth (stockholders' equity) of ₱86.02 billion.

The following table shows AC's direct and effective ownership in its principal subsidiaries and affiliates within business sectors as of June 30, 2007:

	Direct ownership (%)	Effective ownership (%)
Real Estate and Hotels:		
Ayala Land, Inc.	53.2	53.2
Ayala Hotels, Inc.	50.0	76.6
Financial services		
Bank of the Philippine Islands	21.8	33.6
Telecommunications		
Globe Telecom, Inc.	33.4	33.4
AC Capital		
Ayala International Pte Ltd	100.0	100.0
Integrated Microelectronics, Inc.	70.4	70.4
Manila Water Company, Inc.	21.7	30.0
Azalea Technology Investments, Inc.	100.0	100.0
Ayala Automotive Holdings Corp.	100.0	100.0
Ayala Aviation Corp.	100.0	100.0

STRATEGY

Ayala seeks to ensure that the Group maintains its commitment to its business activities in the Philippines and to explore possible international initiatives on a selective and opportunistic basis. Ayala intends to build on its leadership position in the Group's existing core businesses in real estate, financial services and telecommunications, and to actively manage its portfolio of other investments and assets under AC Capital with a view toward maximum value creation and realization. Ayala expects its real estate, financial services and telecommunications businesses to remain as its principal sources of dividend income, with growing contributions from its water distribution, electronics manufacturing and automotive dealership operations. Ayala is presented from time to time with opportunities to invest in new business areas and will continue to consider such opportunities to the extent that such business would contribute to the overall strategic objectives of the Group.

INTRA-GROUP TRANSACTIONS

Ayala, its subsidiaries and certain of its affiliates have a substantial number of contractual arrangements with each other. Ayala's subsidiaries and affiliates are independent entities and accordingly Ayala's contractual arrangements with such corporations are entered into on an arm's-length basis. The Group has, in the ordinary course of its business, entered into transactions with associates, joint ventures and other related parties principally consisting mainly of advances and reimbursement of expenses, various guarantees, construction contracts and management, marketing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made at current market prices. In addition, Ayala obtains borrowings from banks and other financial institutions, including BPI, an affiliated commercial bank. Ayala's borrowings are governed by existing BSP regulations, including in particular in respect of its borrowings from BPI, regulations on loans to Directors, Officers, Stockholders and other Related Interests. Other than Ayala's borrowings from BPI, Ayala had no other transaction in which any of its Directors or Executive Officers was involved or had a direct or indirect material interest. There can be no assurance, however, that future arrangements between related parties will not involve conflicts of interest.

GEOGRAPHICAL SEGMENTS

Ayala generates foreign sales through its subsidiaries IMI, AIPL, Azalea Technology Investments, Inc. and LiveIt Solutions, Inc. For the full-year of 2006, total foreign sales amounted to ₱ 21.0 billion, out of the total ₱ 70.2 billion, from ₱ 10.6 billion in 2005. IMI accounted for 96% of total foreign sales in 2006 from 95% in 2005. The table below lists the contribution of each subsidiary to Ayala's foreign sales:

2006	USA	Europe	Japan	Others
IMI	81%	100%	100%	100%
AIPL	9%			
Azalea	7%			
LiveIt	3%			
	100%	100%	100%	100%

2005	USA	Europe	Japan	Others
IMI	72%	100%	100%	100%
AIPL	23%			
Azalea	5%			
LiveIt	0%			
	100%	100%	100%	100%

DIVIDEND POLICY

Following are the dividends declared and paid by Ayala from 2005:

Stock Dividends		
Percent	**Record date**	**Payment date**
20%	July 24, 2000	August 14, 2000
20%	April 16, 2004	May 12, 2004
20%	May 22, 2007	June 18, 2007

There were no stock dividend declarations for 2001 to 2003 and 2005 to 2006.

Cash Dividends – 2005			
Class	**Payment date**	**Rate (P)**	**Record Date**
On common shares	July 19, 2005	2.00/share	June 24,2005
	January 31, 2006	2.00/share	January 6,2006

Cash Dividends – 2006			
Class	**Payment Date**	**Rate (P)**	**Record date**
On common shares	July 28, 2006	6.00/share	July 6, 2006
	January 30, 2007	2.00/share	January 5, 2007

Cash Dividends – 2007			
Class	**Payment Date**	**Rate (P)**	**Record date**
On common shares	July 31, 2007	4.00/share	July 6, 2007

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.

Ayala's retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries, associates and joint ventures accounted for under the equity method amounting to ₽24,858.9 million, ₽18,487.9 million and ₽15,430.9 as of December 31, 2006, 2005 and 2004, respectively. These amounts are not available for dividend declaration until received in the form of dividends from the subsidiaries, associates and joint ventures. Retained earnings are further restricted for the payment of dividends to the extent of the cost of the common shares held in treasury consisting of 4,379 as of December 31, 2006 and 2005 and 216 common shares as of December 31, 2004.

STOCK PRICES

Ayala's common shares are listed at the PSE. The closing prices of Ayala's common shares for 2004, 2005, 2006 and first half 2007, adjusted for stock dividends paid in July 2007 and the reverse stock split in May 2005, are as follows:

	2007 (in ₽)		2006 (in ₽)		2005 (in ₽)		2004 (in ₽)	
	High	Low	High	Low	High	Low	High	Low
1st quarter	550.00	433.33	304.17	264.58	362.50	279.17	232.64	187.50
2nd quarter	580.00	466.67	393.75	279.17	320.83	262.50	250.00	208.33
3rd quarter	n.a.	n.a.	397.92	308.33	277.08	227.08	270.83	216.67
4th quarter	n.a.	n.a.	491.67	377.08	293.75	235.42	279.17	258.33

RECENT SALE OF SECURITIES

For the past three years, the Company issued ₽referred Shares with details as follows:

Security	Issue Date	No. of Shares	Issue Price *	Arranger
Preferred "A" Series 2	23 January 2004	300,000,000	₽ 1.5 Billion	Standard Chartered
Preferred "A" Series 3	03 August 2004	200,000,000	₽ 1.0 Billion	JP Morgan

** ₽5 / Preferred share*

An exemption from registration was claimed with the SEC under Section 10.1 (k) of the SRC, “The sale of securities by an issuer to fewer than twenty (20) persons in the Philippines during any twelve month period.”

There were a total of 42,347 shares issued from January to September 2007 and 54,504 fully-paid shares as of September 2007 representing the exercise of stock options and full payment on stock ownership subscriptions by Ayala’s executives. The aforesaid issuance of shares was covered by the SEC’s approval of Ayala’s Executive Stock Ownership Plan in December 2005.

On 15 June 2007, Ayala filed an application with the SEC relating to a request for exemption from registration requirements of an additional 6.6 million common shares representing additional allocations for the Executive Stock Ownership Plan. The application is still currently pending with the SEC.

DESCRIPTION OF PROPERTY

Ayala owns four floors of the Tower One Building located in Ayala Triangle, Ayala Avenue, Makati City. These condominium units were purchased in 1995 and are used as Ayala’s corporate headquarters. Other properties of Ayala include various provincial lots relating to its business operations totaling about 860 hectares and Metro Manila lots totaling 2.6 hectares. Other than as described above, Ayala, as a holding company does not hold significant properties apart from its investments in its subsidiaries. A discussion on the assets, prospects and challenges of each subsidiary of Ayala is set forth in the “Business” section of this Prospectus.

MATERIAL CONTRACTS

The contracts of Ayala and its subsidiaries are in the ordinary course of their respective businesses, and are on an arms’ length basis. Aside from Ayala’s (a) ₱3.0 billion and ₱4.2 billion notes issued in 2005 and (b) U.S.$20 million investment commitment in the Rohatyn Group Special Opportunity Fund Ltd (SOF) (“Rohatyn”) in April 2006, each of which has been previously disclosed to the SEC and PSE, the Company has no contract not made in the ordinary course of business which is material to the Company and is to be performed in whole or in part at or after the filing of the registration statement with the SEC in relation to the Offer, or was entered into not more than two years before such filing.

Details of the foregoing previously-disclosed contracts, which were contained in the appropriate submissions to the SEC and the PSE, are summarized as follows:

(a) ₱3.0 billion and ₱4.2 billion notes -- In 2005, Ayala issued fixed rate corporate notes with a fixed rate of 10% per annum with an aggregate face value of up to ₱3.0 billion to not more than 19 primary institutional lenders pursuant to Rule 9.9(2)(B) of the Securities Regulation Code’s implementing rules and regulations. The notes are unsecured and subject to an optional redemption by Ayala in whole of the relevant outstanding notes on any Coupon Payment Date (as defined in the notes) beginning from the third year anniversary date of the issue date.

Also in 2005, Ayala issued seven-year fixed rate corporate notes with a fixed rate of 10.375% per annum with an aggregate face value of up to ₱4.2 billion. The notes are unsecured and are subject to an optional redemption by Ayala beginning from the fourth anniversary date of the issue date.

(b) U.S.$20 million investment commitment in Rohatyn -- In April 2006, Ayala approved an investment of up to U.S.$20 million in Rohatyn. The investment manager of the fund is TRG Management LP, which is a member of the Rohatyn Group. Any such investment will be made by Azalea International Venture Partners, Ltd. (“Azalea International”), a subsidiary of Azalea. The fund’s primary objective is to generate superior risk adjusted returns and, from time to time, current income by acquiring a diversified portfolio of undervalued investments and investments with significant growth potential in emerging market regions.

MATERIAL PATENTS, TRADEMARKS, AND INTELLECTUAL PROPERTIES

Ayala has no material patent, trademark or intellectual property right to products which would be material to the Offer. Ayala's operating companies, however, may have these material intellectual property rights, but the dates and terms of their expiration or renewal is not perceived to have a material adverse effect on Ayala or the Offer.

CHANGES IN CONTROL

Ayala is not aware of the existence of any agreement that may result in a change in control of Ayala.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Ayala, in its regular course of trade or business, enters into transactions with its subsidiaries involving mainly advances. In addition, Ayala obtains borrowings from banks and other financial institutions, including an affiliated commercial bank. However, there has not been any material transaction during the last two years, or relating to the proposed transaction, to which Ayala was or is to be a party, in which any of its Directors or Executive Officers, any nominee for election as a Director or any security holder identified in this Prospectus had or is to have a direct or indirect material interest.

Neither has Ayala has entered into any arrangements or transactions with parties that fall outside the definition of "Related parties" under SFAS/IAS No. 24, but with whom it or its related parties may have a relationship that would enable it to negotiate terms that may not be available to other more independent entities.

COSTS OF ENVIRONMENTAL COMPLIANCE

In general, there have been no materially significant or extraordinary costs incurred by Ayala and its subsidiaries, taken as a whole, in respect of environmental compliance. Ayala and its subsidiaries' costs of compliance with applicable environmental laws and regulations vary from project to project depending on various factors, especially local conditions. However, none of such costs have been material in respect of their finances as a whole.

DEVELOPMENT COSTS

As a holding company, Ayala has no material development activities.

CORPORATE GOVERNANCE

Ayala has always been committed to best practices of corporate governance. It has endured for more than 170 years due in large part to the integrity it has earned, the performance it has achieved and the governance standards it has upheld these many years. The Company's corporate governance principles were formalized in its Manual of Corporate Governance (the "Manual"), which the Company adopted on September 2, 2002 and has since complied with. The Manual establishes corporate governance practices that are founded on rigorous systems and processes designed to ensure the Company's progress and stability, that an effective system of check and balance is in place and that a high standard of accountability and transparency to all stakeholders is enforced.

The Manual conforms to the SEC's requirements for manuals of corporate governance. It defines primarily the roles and responsibilities of the Board, Management and the Executive Officers. More importantly, it includes a statement of their respective liabilities in the event of non-compliance or violations of any of the provisions of the Manual. It also establishes, among others, policies on (a) independent directors, (b) Board committees, (c) conflicts of interest, (d) internal and external audit procedures and practices, (e) stockholders' rights and interests and (f) management's responsibility to communicate and inform stakeholders matters related to the Company's affairs. The principles embodied in the Manual lay the foundation for the appropriate supervision and good management of the Company to safeguard shareholders' interests and sustain the Company's long-term growth.

- 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 Board Performance Assessment which is accomplished by the Board of Directors indicating the compliance ratings. The above is 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

The Board regularly meets at least on a quarterly basis. It ensures the presence and adequacy of internal control mechanisms for good governance in accordance with the Manual. The minimum internal control mechanisms for the Board's oversight responsibility include, but are not limited to:

- Ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system;

- Reviewing conflict-of-interest situations and providing appropriate remedial measures for the same;

- Appointing a Chief Executive Officer ("CEO") with the appropriate ability, integrity and experience to fill the role, as well as defining the CEO's duties and responsibilities;

- Reviewing proposed senior management appointments;

- Ensuring the selection, appointment and retention of qualified and competent management; reviewing the Company's personnel and human resources policies, compensation plan and the management succession plan;

- Institutionalizing the internal audit function; and

- Ensuring the presence of, and regularly reviewing, the performance and quality of external audit.

THE BUSINESS

I. REAL ESTATE AND HOTELS

Ayala conducts its real estate and hotels business through its subsidiaries Ayala Land, Inc. and Ayala Hotels. Inc. (“AHI”). As of June 30, 2007, Ayala effectively owned 53.3% of Ayala Land and 76.6% of AHI.

AYALA LAND, INC.

Ayala Land, one of the largest and most diversified real estate conglomerates in the Philippines, is principally engaged in the planning, development and marketing of large-scale communities having a mix of residential, commercial and other uses. Its principal businesses include planning and development of mixed-use properties, particularly, the subdivision and sale of residential and commercial lots in planned communities and the development and leasing of retail space and land in these communities. Ayala Land also builds and sells residential condominium and office buildings, develops industrial and business parks and develops and sells middle income and affordable housing units. Ayala Land also owns hotels and movie theaters, and provides property management and construction services to government infrastructure and other projects. As of December 31, 2006, Ayala Land’s land bank comprised a total of 4,343 hectares of fully converted properties in various locations nationwide.

Ayala Land was spun-off by Ayala in 1988 to enhance management focus on its existing real estate business and to highlight the value of the assets, management and capital structure of the real estate business. Ayala Land has a market capitalization of ₱211.8 billion as of September 30, 2007 based on its shares’ closing price as of that date.

In 1991, Ayala Land shares were offered to the public in a ₱2.5 billion initial public offering (“IPO”) of primary and secondary shares, and subsequently listed on the Makati and Manila Stock Exchanges (the predecessors of the PSE). The IPO diluted Ayala’s effective interest in Ayala Land to 88.2%. Since then, there were further dilutions and sales of shares and so as of June 30, 2007, Ayala’s effective interest in Ayala Land stood at 53.3%.

Ayala Land’s subsidiaries and affiliates as of June 30, 2007 were as follows:

	Ownership (%)	
	By Ayala Land	**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 Corporation**		55.0
Berkshires Holdings, Inc.	50.0	
Columbus Holdings, Inc.		30.0

	Ownership (%)	
	By Ayala Land	By the Subsidiary / Affiliate
Strategic Landbank Management (continuation)		
Bonifacio Land Corporation*	4.3	50.4
Fort Bonifacio Development Corporation**		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 Corporation	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 Corporation		50.0
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	
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 Theaters Management, Inc.	100.0	
South Innovative Theater 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 Corporation	60.0	
ALI Property Partners Corporation		60.0
One Dela Rosa Property Development, Inc.		100.0
First Gateway Real Estate Corporation		100.0
Visayas-Mindanao		
Cebu Holdings, Inc.	47.2	
Cebu Property Ventures & Development Corp.	8.0	76.0

	Ownership (%)	
	By Ayala Land	**By the Subsidiary / Affiliate**
Visayas-Mindanao (continuation)		
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 Management		
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
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

Notes:
* *Ayala Land's effective ownership in Bonifacio Land is 37.2%*
** *Ayala Land's effective ownership in Fort Bonifacio Development Corporation is 20.5%*
*** *Sold AHI's stake in Nov-06; closing of transaction Mar-07*
**** *Pertains to common shares*

Ayala Land's strategy is to maintain and enhance its position as the leading property developer in the Philippines. It intends to continue its traditional activity of developing large-scale, mixed-used integrated communities while diversifying its revenue base. Ayala Land hopes to achieve this by: (a) increasing its rental activities, where it has locked-in growth in gross leasable area with new malls of various formats and new office projects and (b) expanding its real estate business into different markets and geographic areas with increasing presence in the middle-income and affordable housing segments, where it believes there are significant growth opportunities or where proposed developments will complement its existing real estate business. Furthermore, Ayala Land is expanding its service businesses, with external contracts accounting for an increasing share of its services income.

BUSINESS LINES

Ayala Land's projects are segregated into various business lines, based on their operations. These business lines, categorized into core businesses and support businesses, are described below.

Core Businesses

1. *Residential Developments*

   Sale of high-end and middle-income residential lots and units, affordable housing units and lots and leisure community developments; lease of residential units; marketing of residential developments

2. *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

3. *Corporate Business*

   Development and lease or sale of office buildings; management of office buildings under joint venture; sale of industrial lots and lease of factory buildings

4. *Strategic Landbank Management*

   Acquisition, development and sale of large, mixed-use, master-planned 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.

5. *Visayas-Mindanao*

   Development, sale and lease of Ayala Land's and subsidiaries' product offerings in key cities in the Visayas and Mindanao regions

Support Businesses

1. *Construction*

   Land development and construction of Ayala Land and third party projects

2. *Hotels*

   Development and management of hotels; lease of land to hotel tenants

3. *Property Management*

   Facilities management of Ayala Land and third-party projects

4. *Waterworks Operations*

   Operation of water and sewage treatment facilities in some Ayala Land projects

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

COMPETITION RISKS

Ayala Land is subject to significant competition in its businesses. Ayala Land competes with other developers and developments to attract residential buyers, shopping center tenants, office tenants and industrial lot buyers, construction clients, and hotel customers. 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.

With respect to its mall business, Ayala Land's main competitor is SM Prime. In terms of asset size, Ayala Land is bigger compared to SM Prime but the latter's focus on mall operations gives SM Prime some edge over Ayala land in this line of business. Nevertheless, Ayala Land 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 officer rental properties, Ayala Land 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, Ayala Land competes with the likes of Megaworld. Ayala Land 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, Ayala Land competes with smaller developers such as Megaworld and Fil-Estate Land. Ayala Land 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, Ayala Land 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.

Residential developments

With respect to high-end residential developments, upper mid-income and affordable housing sales, Ayala Land competes for purchasers primarily on the basis of reputation, reliability, quality and location of projects, and availability of in-house financing.

Shopping centers

For its shopping centers, Ayala Land competes for tenants primarily based upon the ability of the relevant retail center to attract customers. This, in turn, 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. Ayala Malls attract customers as they offer rewarding experiences in a sense of place that is innovative, fun and compelling. The market for shopping centers has become especially competitive and the number of competing properties is expected to grow. Some competing shopping centers are located within relatively close proximity with some of Ayala Land's commercial centers.

Corporate business

For its office rental properties, Ayala Land competes for tenants on the basis of quality and superior location, the reputation of the building's owner, the quality of support services provided by the property manager, as well as rental and other charges.

Construction

Ayala Land's construction business is benefiting from the improved performance of the construction industry, particularly from an increase in development activities mostly from the residential and retail sector. However, any slowdown in the construction business could potentially cap growth of Ayala Land's construction arm. Makati Development Corporation ("MDC") competes for clients on the basis of quality, cost and speed to market delivery.

Hotels

After a slump of several years, the local hotel sector experienced marked growth in both occupancy and rental rates. Ayala Land's hotels, known for their world-class accommodation and service, as well as premium locations, performed strongly in each of their respective markets. Any slowdown in tourism could potentially limit growth of Ayala Land's hotels.

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.

FINANCIAL HIGHLIGHTS

The following table sets forth Ayala Land's financial highlights:

Ayala Land, Inc. Financial Highlights (in ₱ millions)	**Unaudited June 30, 2007**	**Audited December 31, 2006**
Income Statement		
Revenues	12,298	25,559
Net Operating Income (NOI)	3,682	7,422
Net Income (attributable to equity holders of Ayala Land)	2,126	3,866
Balance Sheet		
Cash and Cash Equivalents	8,166	9,510
Total Assets	76,916	78,196
Total Borrowings	9,959	13,117
Stockholders' Equity	42,353	40,597
Cash Flow		
Net Cash Provided by (Used in) Operating Activities	1,404	6,080
Net Cash Provided by (Used in) Investing Activities	1,489	(4,999)
Net Cash Provided by (Used in) Financing Activities	(4,237)	317
Consolidated Project and Capital Expenditures		**FY07B**
(₱ billions)	6.89	16.16
Financial Ratios		**December 31, 2006**
Current Ratio	1.71:1	1.64:1
Debt-to-Equity Ratio	0.24:1	0.32:1
Net Debt-to-Equity Ratio	0.04:1	0.09:1
NOI Margin	34%	32%
		FY06
Return on Equity*	5.1%	9.8%
Return on Assets*	2.7%	5.2%

Note:
* *Return on average equity and average assets; 1H07 not annualized*

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2007

Ayala Land, Inc. posted a ₱ 2.1 billion net income in the first half of 2007, 12% higher than the ₱ 1.9 billion recorded in the same period last year. This was achieved despite the effect of some non-recurring items which caused total revenues to decline 4% to ₱12.3 billion from ₱12.8 billion last year.

These one-offs included the standardization of the revenue recognition policy for residential businesses last year, which accelerated the revenue bookings in 1H2006, as well as the discontinued BPO leasing revenues from the sale of the PeopleSupport Building late last year and the lower hotel revenues resulting from the sale of Makati Property Ventures, Inc. (MPVI) shares, representing the company's stake in Oakwood. The negative impact of these was partially offset by the one-time gain on the Oakwood transaction. Adjusting for the combined impact of these one-offs, total consolidated revenues would have been 3% higher year-on-year.

Enabling the company to post a 12% net income growth despite lower revenues were improved net operating income (NOI) margins across most business lines, resulting in an overall NOI margin of 34%, higher than the 31% achieved in 1H2006. Higher equity earnings from Ayala Land's corporate investment vehicles in Bonifacio Global City, as well as the improved earnings performance of affiliates CHI and Alabang Commercial Corporation ("ACC"), likewise contributed to net income growth. In addition, a reduction in the company's effective tax rate (23% in 1H2007 from 32% in the comparable period last year) driven by the lower tax rate applied to the gain on the sale of MPVI shares, helped drive profitability. Excluding the after-tax impact of one-off non-core transactions such as gain on the sale of Oakwood (and Bridgebury / Atrium last year), net income growth was even more robust at 24% higher year-on-year.

Demand for the company's projects remained strong in the first six months of 2007 and this was reflected in the healthy underlying performance indicators. On the residential segment, sales bookings for the first semester across the three brands – Ayala Land Premier, Community Innovations and Avida Land – grew in terms of volume and value by 69% and 44%, respectively on the back of new and exciting product launches. The Company's efforts to tap the attractive overseas Filipino market intensified and as a result, direct sales to overseas Filipinos reached ₱2.8 billion, representing 34% of total sales and a 15% growth year-on-year. Ayala Land likewise remained on track to increase its recurring revenues with an aggressive build-up of its leasing portfolio, both in the shopping center and office segments. Leasing operations grew steadily with average rental rates for office and shopping centers increasing by 7% and 5%, respectively.

Business Segments

Residential Development accounted for the bulk of revenues at ₱6.2 billion or 51% of total. Shopping Centers contributed ₱2.1 billion or 17%, followed by Support Businesses at ₱2.0 billion or 16%. Corporate Business added ₱395 million or 3% of total while Strategic Landbank Management provided ₱173 million or 2%. Visayas-Mindanao followed with ₱40 million or less than 1%. The balance of ₱1.4 billion or 11% was from Equity in Net Earnings, Interest and Other Income.

Residential Development

Residential Development revenues amounted to ₱ 6.2 billion for the first half of 2007, 8% lower than the ₱ 6.8 billion of 1H06. Avida Land reported a 175% surge in revenues while Ayala Land Premier (ALP) and Community Innovations ("CII") registered declines. The drop in ALP and CII's revenues is largely attributed to the impact of the standardization in revenue recognition policy implemented during the second quarter of 2006, which resulted in the acceleration of revenues for ALP and CII at ₱ 396 million and ₱ 820 million, respectively, partially offset by the deferment of Avida's revenues amounting to ₱ 586 million (net impact of ₱630 million in 1H06).

ALP's revenues stood at ₱ 3.6 billion for the first half of 2007, 12% less than the same period last year. High-end lots contributed 38% less year-on-year (y-o-y) at ₱ 822 million, as all units at Sonera were sold out (take-up at 100% as of end-2006) while sales were slower at Ayala Greenfield Estates as the new phase with 45 lots was launched only in June. Take-up for Ayala Westgrove Heights increased to 146 units during 1H07 from 112 units as two new phases with 190 lots were launched during the period. Revenues from high-end units were flat at ₱ 2.4 billion despite the 78% increase in units booked to 333 from 187 due to the low construction accomplishment at The Residences at Greenbelt (TRaG) Manila Tower of only 5%. During the period in review, 171 or 51% of the booked units were from this project. Meanwhile, revenues from leisure project Anvaya Cove reached ₱ 400 million, 24% more than last year's ₱ 322 million with higher bookings for lots (34 in 1H07 vs. 30 in 1H06), shares (246 vs. 180) and villas (7 vs. 4).

Revenues for CII were 36% lower y-o-y to ₱ 1.4 billion with booked units 4% lower at 380. The lower bookings are attributed to lower sales at The Columns at Ayala Avenue (already more than 99% sold) and The Columns at Legazpi Village. The Aston, the first of four high-rises at Two Serendra was launched in May with 21% of the 400 units taken-up as of end-June. This project did not contribute to revenues with construction completion still at 0%. In June, Marquee, CII's first project in Pampanga was launched, with 49% of the 362 units already taken-up.

Avida's revenues were 175% more than 1H06 at ₱1.2 billion. This was due to 1H07 bookings of 867 units compared to only 198 units in 1H06. Units taken up were actually flat at 1,212 versus 1,215 but units taken-up during the previous quarters whose booking were delayed because of the standardization in revenue recognition policy in 2Q06 were booked during 1H07. New projects launched during the first six months of 2007 include Avida Settings in Cavite (283 units), the fifth tower of Avida Towers Sucat (264 units) and the third towers of Avida Towers New Manila (354 units) and Avida Towers San Lazaro (392 units).

NOI for the residential business settled at ₱1.5 billion, 5% more than the previous year despite the drop in revenues. This is attributed to the three percentage point improvement in NOI margin to 25% from 22% brought about by the absence of losses from the sale of One Roxas Triangle units (₱11 million NOI in 1H07 versus a net operating loss in 1H06) and improvement in Avida's NOI margin with more revenues to cover direct operating expenses (delay in bookings previously due to change in revenue recognition policy meant less revenues/gross profit to cover direct operating expenses which remained constant).

Overall demand for residential projects remained strong with the number of units booked during the first six months of the year reaching 2,022, 69% more than the same period last year. Value of these units was 44% higher at ₱7.8 billion versus the ₱5.5 billion during the comparative period last year. Close to 3,100 units were launched during 1H07, representing 45% of the full-year target of 6,800 units.

Shopping Centers

Revenues for the first half of the year amounted to ₱2.1 billion, 9% more than the ₱1.9 billion reported during the same period last year. The higher revenues were due to the 3% increase in average occupancy rate to 95%, as well as the 5% rise in average building rental rates.

In May, operations of the 195,000 square meter TriNoma in Quezon City commenced. Currently, 95% of the 72,000 square meters building leasable area (excluding the area to be occupied by anchor tenant Landmark) is leased out/committed. Meantime, the retail component of Bonifacio High Street in Bonifacio Global City, which was launched in March, is 96% leased out/committed.

Equity in Net Earnings from equitized malls, namely, Alabang Town Center, Pavilion Mall, Bonifacio High Street and TriNoma was lower at ₱40 million from ₱43 million last year due to TriNoma's start-up costs with the mall opening in May.

The first phase of Greenbelt 5 with 13,500 square meters of gross leasable area is scheduled to open before year-end while construction at 70,000-square meter Q Shopping in Angeles, Pampanga is proceeding as planned.

Corporate Business

Corporate Business revenues were 22% lower y-o-y at ₱395 million primarily due to the sale of PeopleSupport in December 2006 and the absence of lot sales at Laguna Technopark (LTI) which was sold out in June 2006. New phases from the expansion area at LTI will be made available in the fourth quarter of the year.

The average occupancy rate of traditional office buildings was slightly lower at 98% from 99% previously with the transfer of Avida's offices from the old Makati Stock Exchange Building. This was however, offset by the 7% rise in average rent to ₱617 per square meter per month as rental rates continue to move up. A recent contract at Tower One was for a lease rate of ₱1,100 per square meter per month, higher than the ₱850 per square meter per month for deals done in 1Q07. The average rental rate for the BPO buildings also moved up to ₱441 per square meter per month from ₱408 previously.

NOI declined at a slower pace compared to revenues at 13% to ₱201 million, following NOI margin improvement to 51% from 45%, attributed to higher management fees from 36%-owned Ayala Land Property Partners Corp. (APPCo), the joint venture with MLT Investments Ltd. (Goldman Sachs) and Filipinas Investments Ltd. (Capmark Financial Group, Inc.), that is developing a number of BPO office building projects including the UP North Science and Technology Park, Dela Rosa E-Services Building and the Canlubang BPO campus.

To date, construction has started on the first two buildings at the UP North Science and Technology Park. The first building with 17,000 square meters has been fully leased out while the lease on second building with 10,000 square meters is expected to be finalized within 3Q07, in time for the target completion date by end-2007. For the Dela Rosa E-Services building, about half of the 47,000 square meter gross leasable area (GLA) is under negotiation with an anchor tenant and is expected to be finalized within the year. Groundbreaking on the Canlubang BPO Campus (10 buildings with 87,800 square meters) is scheduled within the third quarter and the first building is targeted to be completed in 2008.

Recently, Ayala Land signed a joint venture with Manila Jockey Club, Inc. for the construction of two BPO buildings with a total GLA of 42,500 square meters at the site of the former San Lazaro racetrack.

Strategic Landbank Management

Revenues of Strategic Landbank Management stood at ₱173 million during the first six months of 2007, 33% lower than the same period in 2006. This was despite booked units from overrides reaching 78, three times more that 1H06's 24 units. Booked units included 33 from The Columns at Legazpi Village where construction completion remains minimal. NOI margin was lower at 30% from 41% previously with no contribution from higher-margin The Columns at Ayala Avenue in 1H07 (already sold out).

Equity in net earnings from Ayala Land's 20% effective stake in Fort Bonifacio Development Corporation ("FBDC") amounted to ₱246 million, a turnaround from the ₱12 million loss realized in 1H06. This was due to the robust sale of lots at Bonifacio Global City (BGC) with a total area of 37,000 square meters, from only 4,000 square meters during the same period last year. Selling prices also ranged from ₱52,000 to ₱175,000 per square meter from only ₱50,000 last year.

The Company continues to prime its three strategic landholdings. Within Makati, the redevelopment of Ayala Center is ongoing with the construction of Glorietta 5 which will have office as well as retail components. Meanwhile, the hotel complex project in partnership with Kingdom Hotel Investments will start development in 4Q07. At BGC, Ayala Land signed in April a memorandum of agreement with the Philippine Stock Exchange and FBDC for the construction of a headquarter office building. In Canlubang, development is underway for a 3Q07 launch of Nuvali.

Visayas-Mindanao

Visayas-Mindanao's revenues for 1H07 amounted to ₱40 million, slightly above half of the ₱76 million reported in 1H06. The decline is due to the drop in the number of booked units from 79 to 57. Alegria Hills, Ayala Land's first residential project in Cagayan de Oro was only launched in June 2007 and did not yet contribute to revenues. As of end-June, 15% of the 95 high-end lots were taken-up.

Affiliate CHI, 47% owned by Ayala Land, posted a 44% growth in revenues to ₱692 million, with net income up by 36% to ₱155 million in 1H07. The last 8 units from the 201 units of the first two phases of Amara in Cebu were booked in the first half and a new phase is scheduled to be launched by September. At Ayala Center Cebu, the average building rent was 9% higher y-o-y, offsetting the impact on earnings of the slightly lower occupancy rate of 96% from 98%. The first phase of the mall's expansion of 5,800 square meters started operations last June 29. Meanwhile, a total of 8 lots were sold at CPVDC Asiatown IT Park in 1H07, up from only two in 1H06. As a result, equity in net earnings from CHI and CPVDC amounted to ₱86 million, 51% more than the ₱57 million they contributed during the same period last year.

Support Businesses

Ayala Land's Support Businesses, comprised of Hotels, Construction, Property Management and Waterworks generated revenues of ₱2.0bn, 13% lower than 1H06's ₱2.3 billion, largely due to the drop in hotel revenues following the sale of Oakwood Premier Ayala Center to Ascott Residence Trust in March 2007, as well as lower construction revenues.

Ayala Land's current hotel business, comprising of Hotel InterContinental Manila and Cebu City Marriott Hotel, generated revenues of ₱682 million in 1H07, 22% lower than the ₱877 million reported in 1H06 which included revenues from Oakwood. Consequently, NOI was 23% lower to ₱242 million as NOI margin was maintained at 36%. Average occupancy rate of Hotel InterContinental Manila surged to 82% from the year-ago 59% with refurbishment completed in late 2006. Revenues per Available Room (REVPAR) was also higher at ₱3,923 versus ₱2,327. Marriott's occupancy rate declined to 75% from 85% but was still higher than the Cebu average of 59%. REVPAR was also above industry at ₱2,598 versus ₱1,639.

Construction revenues, net of inter-segment eliminations, contributed ₱663 million, 13% lower y-o-y primarily due to deferred revenue recognition on Greenbelt 5 which is dependent on the mall's start of operations. Before inter-segment eliminations, MDC managed to grow its revenues by 5% to ₱2.4 billion due to newly awarded projects such as St. Luke's Hospital, Honda Cars showroom at BGC, and BPO projects such as UP and Dela Rosa Tower. Meanwhile, MDC's net income declined by 49% to P89 million given lower NOI margin due to the larger revenue contribution of Ayala Land contracts which carry lower margins compared to third-party contracts.

Property Management revenues, net of inter-segment eliminations, was 10% higher y-o-y at ₱339 million with the contribution from the Citibank and other new contracts in 1H07. However, NOI was flat at ₱151 million due to training expenses with organizational build-up in support of projected increase in facilities to be managed.

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

Equity in Net Earnings from Investees grew more than four times to ₱374 million from ₱88 million, largely due to the substantially higher contribution from Ayala Land's corporate investment vehicles in BGC, as well as higher earnings of CHI and ACC.

The contribution of FBDC reached ₱246 million from a previous loss of ₱12 million. Sales accelerated at Bonifacio Global City with a total of 37,000 square meters sold in 1H07, from only 4,000 square meters in 1H06. Selling prices were also higher at ₱52,000 to ₱175,000, translating to accommodation values of ₱9,000 to ₱12,000, compared to ₱8,000 during the first half of 2006.

Meanwhile, Equity Earnings from CHI/CPVDC were 51% higher at ₱86 million from ₱57 million, due to higher bookings and construction accomplishment at Amara as well as higher lot sales at CPVDC's Asiatown IT Park.

For the shopping business, Alabang Town Center accounted for ₱52 million, 24% more than the previous year, while Pavillion Mall's contribution was flat at ₱1 million. TriNoma, which opened in May, incurred losses of ₱13 million relating to start-up costs. The balance of Equity Earnings of ₱2 million was from ALI Property Partners Corp. (APPCo), the 36%-owned joint venture formed for the development of the BPO office building business.

Interest, Fees, investment and other income amounted to ₱1.0 billion from ₱879 million a year ago. Bulk or ₱667 million was accounted for by proceeds from the sale of MPVI shares.

Expenses

For the first six months of 2007, Total Expenses reached ₱8.9 billion, 8% lower y-o-y, largely due to the drop in Cost of Real Estate and Hotels to ₱7.2 billion from ₱8.1 billion previously as 1H07 expenses no longer included Oakwood. General and Administrative Expenses were steady at ₱1.2 billion while Interest and Other Charges were higher at ₱501 million from ₱418 million due to higher average daily balance of loans. Provision for Income Tax was 20% lower at ₱770 million with the higher income subjected to a lower tax rate (before minority interest) from the sale of the MPVI shares compared to the Bridgebury Corporation shares in 1H06.

Financial Condition

The company's balance sheet continues to be healthy with Current Ratio at 1.71:1. As of end-June 2007, Cash and Equivalents stood at ₱8.2 billion, lower than the end-2006 level of ₱9.5 billion with the payment of ₱3 billion worth of bonds in 2Q07. Total Borrowings were at ₱10.0 billion, from ₱13.1 billion as of December last year, translating to a Debt-to-Equity Ratio of 0.24:1 and Net Debt-to-Equity Ratio of 0.04:1.

DIVIDEND POLICY

Dividends declared by Ayala Land on its shares of stock 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 Ayala Land and other factors.

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

Cash dividends are subject to approval by Ayala Land'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 Ayala Land's Board of Directors and Ayala Land'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 Ayala Land's ability to pay dividends on common equity.

DESCRIPTION OF PROPERTY

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

Location	Hectares	% to Total Ayala Land landbank
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%
	317	***7.30%***
Metro Manila		
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%
	2,828	***65.12%***
Calabarzon		
Bulacan[11]	121	2.79%
Pampanga [12]	23	0.53%
Naga	25	0.58%
Cabanatuan/ Baguio	62	1.43%
Bataan [13]	297	6.84%
	528	***12.16%***
Other Luzon Area		
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 AHI, and the remaining area at Roxas Triangle (0.5 ha.) which is 50% owned; 1.37 has. of which is mortgaged to BPI in compliance with the BSP ruling on DOSRI; 0.16 has. mortgaged with the Government Service Insurance System ("GSIS") to secure surety bonds in favor of the Bases Conversion Development Authority ("BCDA"); 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 BCDA; 9-ha. site of Serendra which is under joint development agreement with BCDA; 44 has. in Taguig is 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 ₱700.0 million and annual lease payments with fixed and variable components.

For Serendra, the joint development agreement with BCDA involves an upfront cash payment of ₱700.0 million plus a guaranteed revenue stream totaling ₱1.1 billion over an 8-year period.

(3) Alabang pertains to the 17.6-ha. Alabang Town Center which is 50% owned through ACC, 3.7 has. of which is subject of a mortgage trust indenture as security for ACC's Standby Letter of Credit with Rizal Commercial Banking Corporation ("RCBC"), term loans with Security Bank Corporation and Land Bank of the Philippines (Land Bank).

(4) Quezon City includes 17 has. under lease arrangement with University of the Philippines and the 13-ha. site of Tri Noma which is under lease arrangement with the Department of Transportation and Communication. Tri Noma is 49% owned by Ayala Land. 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 65% owned through Ceci Realty, Inc.; 158 has. which are under a 50-50% joint venture with Greenfield; 9 has. in Laguna Technopark, Inc. which is 61% owned by Ayala Land; and 3-ha. site of Pavilion Mall 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 as a security for Avida's term loan; 11.6 has. are subject of a mortgage trust indenture securing Jexim loans of Avida with China Banking Corporation and Banco De Oro Universal Bank; 42.3 has. are subject of an mortgage trust indenture securing Ayala Greenfield'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% owned and 8.2 has., also in Lipa, which is 60% owned*

(9) *Rizal includes a 40-ha. Antipolo property which is 60% effectively owned*

(10) *Quezon includes a 5.63 has. of property which is mortgaged with Land Bank as a security for term loan of Avida.*

(11) *Bulacan includes 103 has. Which are 60% effectively owned*

(12) *Pampanga includes 13 has. 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 CHI; 0.62-ha. hotel site owned by AHI and CHI; 9 has. in Asiatown IT Park which is owned by CPVDC which in turn is 76% owned by CHI; and 33 has. in Amara project, (66% owned by CHI) which is under joint venture with Coastal Highpoint Ventures, Inc. An 8.84-ha. Property (within the Cebu Business Park) which houses the Ayala Center Cebu is subject of a mortgage trust indenture securing term loan with BPI; 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.*

Property Acquisitions

With 4,343 hectares in its landbank as of end-2006, Ayala Land believes that it has sufficient properties for development at least for the 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. Ayala Land's preferred mode of acquisition, going forward, would be through joint ventures with landowners. Meanwhile, Ayala Land continues to assess its landholdings to identify properties which no longer fit its overall business strategy and hence, can be disposed of.

PROJECT AND CAPITAL EXPENDITURES

For the first half of 2007, Ayala Land spent a total of ₱6.9 billion for project and capital expenditures, 38% more than the ₱5.0 billion spent in 1H06. This represents 43% of the full year 2007 budget of ₱16.2 billion.

Residential Development projects accounted for the largest share of capex at ₱3.3 billion or 48% of total. Shopping Centers used 37% or ₱2.6 billion of the amount spent while Corporate Business projects, mainly Dela Rosa E-Services Building and the UP North Science and Technology Park, utilized ₱450 million or 7% of total. Ayala Land's budgeted consolidated project and capital expenditures for 2007 are broken down as follows:

2007 Project and Capital Expenditures (Based on a budgeted amount of ₱16.2 billion)	
Shopping Centers	24%
Corporate Business	6%
Residential Developments	55%

2007 Project and Capital Expenditures (Based on a budgeted amount of ₱16.2 billion)	
Strategic Landbank Management	5%
Visayas-Mindanao	6%
Support Businesses	2%
Corporate Capex	2%
Total	**100%**

The budgeted amount for project and capital expenditures in 2007 is being funded from existing cash and cash from operations, pre-selling, additional borrowings and proceeds from the sale of non-core assets and installment receivables.

ENVIRONMENTAL COMPLIANCE

Ayala Land incurs no material costs in relation to compliance with environmental laws and regulations. Each of Ayala Land and its subsidiaries, as a matter of corporate policy, either has secured or seeks to secure all relevant and applicable Government approvals such as environmental compliance certificates or certificates of non-coverage, development permits, and licenses to sell, as part of the normal course of their business.

II. FINANCIAL SERVICES

BANK OF THE PHILIPPINE ISLANDS

Ayala is engaged in banking through its affiliate BPI. Ayala, directly and indirectly, held approximately 33.6% of BPI as of June 30, 2007. Other major shareholders of BPI as of said date are Development Bank of Singapore (“DBS”) (20.4%) and the Roman Catholic Archdiocese of Manila Group (8.6%).

As of the date of this Prospectus, BPI is the second largest commercial bank in the Philippines in terms of total assets, second overall in deposits, loans and capital. It has the biggest market share in trust banking. The bank also enjoys a significant presence in consumer lending, asset and fund management, corporate finance, securities distribution and insurance business.

BPI provides a wide range of corporate and commercial banking products and services such as credit, trade-related services, cash management services and financial advice to large- and medium-sized corporations and institutions in the Philippines. It provides traditional short- and long-term financing as well as products and services such as trade acceptances and bills of exchange for such customers.

BPI is among the leading banks in the consumer banking business in the Philippines. Its services include mortgage lending, automobile financing, deposit taking, electronic banking, remittance and foreign exchange, credit card operations and private banking. BPI has a network of 896 branches, including 207 kiosks that are typically located in shopping malls, supermarkets and transport stations. BPI is a recognized leader in electronic banking, having introduced most of the firsts in the industry, such as automated teller machines (“ATMs”), a point-of-sale debit system, kiosk banking, phone banking, Internet banking and mobile banking. BPI has 1,471 ATMs and accounts for the biggest share in the BPI ExpressNet consortium of 2,752 ATMs.

BPI manages corporate, institutional and individual trust and investment accounts and common trust funds. Total funds managed as of June 30, 2007 amounted to ₱232.0 billion.

PRINCIPAL SUBSIDIARIES

The bank’s principal subsidiaries are listed below.

1. *BPI Family Savings Bank, Inc.* serves as BPI’s primary vehicle for retail deposits, housing loans and auto finance. It has been in business since 1985. It merged with Shenton Realty Corporation in December 2004.

2. *BPI Capital Corporation* is an investment house concentrating in corporate finance and the securities distribution business. It began operations as an investment house in December 1994. It wholly owns BPI Securities Corporation, a stock brokerage company with a seat in the PSE.

3. *BPI Leasing Corporation* is a quasi-bank concentrating in lease finance. It was originally established as Makati Leasing and Finance Corporation in 1970. Its quasi-banking license was inherited from the merger with Citytrust Investment Phils., Inc. in May 1998.

4. *BPI Direct Savings Bank* is a savings bank focused on providing internet and mobile banking services to its customers. It started operating as such on February 17, 2000 upon approval of the BSP.

5. *BPI International Finance Limited, Hong Kong* is a deposit taking company in Hong Kong. It was originally established in August 1974.

6. *BPI/MS Insurance Corporation* is a non-life insurance company formed through a de facto merger of FGU Insurance Corporation and FEB Mitsui Marine Insurance Company on January 7, 2002.

7. *Ayala Life Assurance Inc.* is a life insurance company acquired by BPI through its merger with Ayala Insurance Holdings Corp. ("AIHC") in April 2000. It was originally established in 1933 as Filipinas Life Assurance Co. and has a 100% owned pre-need subsidiary called Ayala Plans.

BPI merged with Far East Bank and Trust Co., Inc. and AIHC in 2000.

In September 2005, BPI acquired 92% of the share capital of Prudential Bank, Inc. ("Prudential Bank"). BPI merged with Prudential Bank on December 29, 2005, pursuant to which approximately ten million BPI shares were issued to the 8% Prudential Bank minority shareholders.

In October 2005, the stockholders of Universal Malayan Reinsurance ("UMRe") and National Reinsurance Corporation of the Philippines ("NRCP") approved the plan of merger of UMRe and NRCP, with NRCP as the surviving entity.

Listed on the PSE since 1971, BPI had a market capitalization of P179.8 billion as of September 30, 2007.

FINANCIAL CONDITION AS OF JUNE 30, 2007

BPI's balance sheet highlights for end-June 2007 and end-2006 are shown below:

In ₱ Millions	June 2007	2006
Assets	592,635	581,970
Deposits	480,003	467,076
Loans (Net)	254,666	243,191
Capital	65,445	64,438

Total resources as of end-June 2007 reached ₱592.6 billion which is ₱10.7 billion higher than end 2006 level of ₱582.0 billion. Increase in resources was caused by deposits growth of ₱12.9 billion as demand and savings deposits grew by ₱7.9 billion (10.9%) and ₱5.1 billion (4.1%), respectively. Bills payable was also up by ₱1.6 billion or 28.3% due to additional deposit substitute transactions. Manager's checks and demand drafts outstanding increased by ₱466 million due to new manager's checks issued. These increases were partially negated by the drop in deferred credits and other liabilities of ₱4.8 billion or 22.4% due to the ₱5.1 billion payment of regular and cash dividends declared in October and November last year. Due to BSP and Other Banks also contracted by ₱502 million due to lower collection of taxes and the remittance of BSP Supervision and Examination fees. Accrued taxes, interest and other expenses declined by ₱588 million basically on payments of accrued expenses and taxes, and lower level of accrued interest on deposits.

On capital funds, the surplus account grew by ₱3.3 billion or 10.7% mainly due to the first semester's net income of ₱5.7 billion, reduced by the ₱2.4 billion regular cash dividend declared in April 2007. Reserves declined by ₱2.1 billion on account of the sell down of securities in the first semester. Translation adjustment debit balance on foreign currency denominated assets was up by ₱131 million on account of the stronger peso vis-à-vis the US dollar. Minority interest in subsidiaries was up by ₱136 million due to the higher income of the bank's subsidiaries.

On the asset side, net loans were up by ₱11.5 billion due to increased loan releases to corporate clients as well as new housing and auto loan bookings. Trading securities dropped by ₱8.1 billion due to some profit taking activities in the first semester, while the decline of ₱12.4 billion in investment securities - held-to-maturity (HTM) was partly due to the reclassification of some HTM to available-for-sale in accordance with BSP guidelines. Cash and other cash items were likewise down by ₱2.6

billion or 22% due to the lower cash requirement for the period as compared to year end. The funds released from the aforementioned assets were lent out to other banks and the BSP, hence the ₱12.0 billion increase in interbank loans receivable and securities purchased under agreements to resell; deposited with the BSP thus increasing due from BSP by ₱5.2 billion; and placed with local and foreign banks thereby resulting in a ₱3.1 billion rise in due from other banks. Net equity investments were higher by ₱1.9 billion or 204.3% due to the investment in BPI Europe, Plc in April 2007. BPI was granted authority by the Financial Services Authority (FSA) to set up a wholly owned banking subsidiary in London. Assets attributable to insurance operations improved by ₱1.4 billion or 7.1% following new policy sales, good investment portfolio and the re-investment of realized investment income. Other resources on the other hand, were down by ₱928 million due to lower sales contract receivables, account receivables, accrued interest and fees receivables and the set-up of allowance for non-credit write-offs. Bank premises, furniture, fixtures & equipment also dropped by ₱888 million mainly on account of the reclassification of certain ex-Prudential Bank assets to investment property, which in turn grew by ₱775 million.

Loan to deposit ratios for end-June 2007 and end-2006 were 53% and 54%, respectively. BPI's liquid asset portfolio consisted largely of non-risk government securities and cash/other liquid accounts to cover primary reserve requirement for deposits as well as to maintain a significant level of secondary reserves to fund any potential increase in loan demand.

RESULTS OF OPERATIONS FOR FIRST SEMESTER 2007

In ₱ Millions	**Jan-June**	
	2007	**2006**
Net Interest Income	10,248	9,562
Non-Interest Income	7,130	5,192
Impairment Losses	959	728
Interest Expense	5,792	6,584
Net Income	5,715	4,592

First semester 2007 net income stood at ₱5.7 billion, ₱1.1 billion or 24.4% ahead than last year's ₱4.6 billion. Revenues increased by ₱2.6 billion or 17.8%. This is the first time since 1998 that the bank achieved a revenue growth higher than 15%. Revenue growth came from the increments of ₱686 million in net interest income and ₱1.9 billion in other income.

The 7.2% rise in net-interest income was mainly due to a 10% expansion in average asset base. Interest income dropped by ₱106 million but interest expense recorded a bigger reduction of ₱792 million.

- Income on deposit with banks and available-for-sale securities improved by ₱359 million and ₱325 million due to increased average balances. On the other hand, income on held-to-maturity and trading securities were down by ₱433 million due to decreased balances, while income on loan and advances ended lower by ₱398 million due to lower interest yields. Correspondingly, the lower level of interest income resulted in a ₱42 million drop in GRT.

- Interest expense on deposits was lower by ₱747 million on lower peso deposits cost. Interest expense on bills payable and other borrowings likewise diminished by ₱45 million due to the lower cost of issuing deposit substitutes.

The strong performance of other income was attributed largely to the insurance subsidiaries. These subsidiaries delivered a ₱1.0 billion increase on account of higher net premiums and investment returns to include a ₱416 million gain on the sale of a property. Other operating income also contributed ₱ 640 million or 26.6% from higher profits on assets sold, rental income, and stock brokerage fees. Income from foreign exchange trading and trading securities likewise rose by ₱457 million or 34.3% on realized securities trading profits. Consequently, GRT was higher by ₱249 million or 88.3%.

Impairment losses were at ₱959 million or ₱232 million higher than last year on accelerated loan loss provisioning.

Other expenses reached ₱9.4 billion, ₱1.3 billion or 16.4% ahead of last year's ₱8.0 billion. Compensation & fringe benefits were higher by ₱475 million or 13.6% mainly due to salary increases and benefits related expenses. Occupancy and equipment-related expenses also went up by ₱143 million due to higher depreciation costs. Other operating expenses were up by ₱704 million or 29.6% coming from prior period taxes paid, higher asset acquired expenses, regulatory costs and miscellaneous expenses.

Current income tax increased by ₱154 million or 14.4% on account of higher taxable income. Deferred income tax rose by ₱269 million or 115% due to basically due to set-up related to accounts with timing differences. Minority interest was also higher by ₱63 million or 76.1% as insurance subsidiaries posted higher income.

Key Performance Indicators

The following ratios, applied on a consolidated basis, are used to assess the performance of the bank and its majority owned subsidiaries:

	June 30, 2007	**June 30, 2006**
Return on Equity (%)	17.5	15.5
Return on Assets (%)	2.0	1.8
Net Interest Margin (%)	4.2	4.5
Operating Efficiency Ratio (%)	53.9	54.5
Capital Adequacy Ratio (%)*	16.8	18.1

** Includes both credit and market risks*

Return on equity (ROE), computed as: net income divided by average equity, improved by 2.0% due to higher income over same period last year. Return on assets (ROA), net income divided by average assets, also improved from 1.8% to 2.0%. These indicated the bank's efficient utilization of its capital and resources to generate income.

Net interest margin (NIM), computed as: net interest income divided by average interest bearing assets, narrowed by 23 basis points due to the thinner spreads derived from the bank's earning assets with the softer prevailing interest rates then.

Operating efficiency ratio (cost to income), computed as: operating expenses divided by total revenues, slightly improved by a 0.6%. This ratio measures the effective use of expenses in generating income.

Capital Adequacy Ratio ("CAR"), computed as: total qualifying capital divided by total risk-weighted assets, measures the ability of the bank's capital funds to cover its various risks. CAR as of June 30, 2007 was lower by 1.3% vs. June 30, 2006 in view of higher level of risk weighted assets. BPI's CAR however is still more than BSP's minimum requirement of 10%. The high level of profitability supports the bank's strong capital position even at consistently high dividend pay-out ratio.

MATERIAL EVENTS AND UNCERTAINTIES

The Bank has nothing to report on the following:

- Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.

- Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

- Other 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 other than those mentioned above.

- Material commitments for capital expenditures.

- Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

- Events that will cause material change in the relationship between costs and revenues (such as known future increases in cost of labor or materials or price increases or inventory adjustments).

- Any significant elements of income or loss that did not arise from the registrant's continuing operations.

- Any seasonal aspects that had a material effect on the financial condition or results of operations.

CASH DIVIDENDS

Cash dividends declared and paid by BPI during the six months ended June 30, 2007 and June 30, 2006 are as follows:

Cash Dividends Declared		
	Amount Declared	**Amount Paid**
January to June 2007	₱1.90 per share	₱5.14 billion
January to June 2006	₱0.75 per share	₱2.03 billion

COMPETITION

The Philippine banking industry has seen a significant increase in the number of commercial banks, especially since the liberalization of operations by foreign banks. The number of commercial banks increased from approximately 30 prior to liberalization to more than 50. However, as of June 30, 2007, the number of commercial banks had declined to 38 (according to BSP Web site) as a result of mergers and closures. Competition has remained intense despite the industry consolidation.

Loan requirements of the corporate sector are still predominantly for working capital. Despite the relatively weak demand for loans from this sector, this sector is the main focus of foreign banks. As such, loan pricing can be very competitive, resulting in narrower margins for this sector. A number of foreign banks though as well as most domestic banks, have entered the growing consumer market where BPI is major player. BPI believes that its competitive advantages include its extensive experience in efficient management of operations such as loan origination, credit approval, collection and asset recovery activities.

III. TELECOMMUNICATIONS

GLOBE TELECOM, INC.

Ayala conducts its telecommunications business through its affiliate, Globe Telecom, Inc. ("Globe"). Globe is a leading provider of wireless communications services in the Philippines. With approximately 18.1 million wireless subscribers as of June 30, 2007, Globe accounts for approximately 38% of the total wireless subscribers in the country. Globe's shares are listed on the PSE and included in the Philippine composite index. As of September 30, 2007, Globe had a market capitalization of ₱194.2 billion.

As of June 30, 2007, Ayala owned 33.4% of Globe's outstanding common shares while Singapore Telecom International ("STI"), a wholly owned subsidiary of Singapore Telecom, owned 44.5%. Asiacom Philippines, Inc., a holding company that currently owns all of Globe's outstanding preferred shares, is 60% owned by Ayala and 40% by STI.

Wireless Business

Globe offers its wireless services including local, national long distance, international long distance, international roaming and other value-added services through three brands: *Globe Postpai*d, *Globe Prepaid* and *Touch Mobile ("T*M").

Globe Postpaid is the postpaid brand of Globe. This includes all postpaid subscription plans such as *G-Plans* and consumable *G-Flex Plan*s, *Platinum* (for the high-end market), and *GlobeSolutions* (for corporate and business needs).

Globe Prepaid and *TM* are the prepaid brands of the Globe Group. Each brand is positioned at different market segments. *Globe Prepaid* is focused on the mainstream, broad market while *TM* is focused on value-conscious, working class market. Additionally, Globe has customized services and benefits to address specific market segments, each with its own unique positioning and service offerings.

Globe also provides its subscribers with mobile payment and remittance services under the *GCash* brand. Now on its third year, this service enables subscribers to perform international and domestic remittance transactions, pay annual business registration fees, income taxes for professionals, utility bills, avail of micro-finance transactions, donate to charitable institutions, and buy Globe prepaid reloads.

To cater to a wide variety of prepaid subscribers, Globe provides various top-up facilities for its subscriber's convenience. *Globe Prepaid* and *TM* subscribers can reload airtime value or credits using various reloading channels.

Subscribers can purchase *Globe Prepaid Call and Text cards* in ₱100, ₱300 and ₱500 denominations while *TM Call and Text cards* are available in ₱50, ₱100, and ₱300 denominations. They can also utilize *Globe AutoloadMA*X, Globe's over-the-air (OTA) reload channel, which offers the most affordable and flexible load credits in ₱1 increments from ₱10 to ₱150 for *TM* subscribers, and ₱15 to ₱150 for *Globe Prepaid* subscribers. *Globe AutoLoadMAX* currently has over 561 thousand transacting retailers nationwide. Subscribers can also top up using bank channels like ATMs, credit cards, Internet banking and Bank of the Philippine Islands 24 Hour Call Center and *Express Phon*e, as well as through E-POS (electronic point-of-sale) terminals located at retail outlets and business centers.

A consumer to consumer top up facility, *Share A Load,* is also available whereby *Globe Prepaid* and *TM* subscribers can share prepaid load credits among themselves in denominations of ₱1 to ₱150 (in

₱1 increments). In addition, *Globe Postpaid* subscribers can *Share A Load* to prepaid subscribers in ₱1 to ₱150, ₱300 and ₱500 denominations. Another reloading channel available is *GCash2Loa*d, where *Globe Postpaid, Globe Prepaid* and *TM* subscribers can top-up their own or another customer's mobile phone by converting their *GCash* to prepaid load credits in increments of ₱1 from ₱10 to ₱24 and increments of ₱25 from ₱25 to ₱150. Denominations of ₱300, ₱500 and ₱1,000 are also available. Moreover, current *GCash2Load* promotions include a 10% *GCash* rebate on all *GCash2Load* transactions.

Wireline Business

Innove Communications, Inc. ("Innove"), a wholly owned subsidiary, provides wireline voice communications, private data networks and Internet services to individuals and enterprises in the Philippines under the *Globelines* and *GlobeQuest* brands.

Under the *Globelines* brand, Innove provides state-of-the-art digital communications technologies to homes and small and medium-sized enterprises through the following products and services:

Globelines is a wireline voice communications service offering that includes local, national long distance, international long distance and other value-added services, through its postpaid, prepaid and payphone lines. With the availability of postpaid or prepaid options, subscription to *Globelines* comes with standard features and value-added services such as International Direct Dial ("IDD'), National Direct Dial ("NDD"), Phone Lock, Caller ID, Call Waiting, Multi-Calling, Call Forwarding, Voice Mail, Duplex Number, Hotline and Special Numbers.

Globelines Business Connections is a bundled telephone package to help clients manage their operations and enjoy big business efficiency on a small business overhead. There are various *Globelines Connections* packages suitable for clients requiring single and/or multiple lines.

Globelines subscribers with personal computers can also surf the Internet and have their own Web-based email by using *Globelines Dial-up Internet* service. Users of this service pay only for the actual minutes used at a low flat rate of ₱0.33 per minute.

Globelines Broadband is a high speed Internet connection that keeps subscribers online all the time, getting instant access to communication, knowledge and entertainment. Application-based packages such as *Express Unlimited* and *Explore* are designed to cater to various Internet needs. *Globelines Broadband* subscribers may also activate their VoIP account and use *Globelines Broadband VoIP* softphone service to call overseas for a special rate of US$0.05/minute.

Globelines Worldpass Prepaid is the first prepaid internet card in the market that allows the user to access the internet with total mobility, flexibility and convenience. The user may choose his access point - via dial-up using any landline, mobile access via WiFi from any WiZ hotspots, or broadband connection via Globelines Broadband kiosks. It is a pay per use internet access which comes in denominations of ₱20, ₱50, and ₱100 which expires 15 days after first use. *Worldpass* Prepaid vouchers can be purchased at any Globelines Payments and Services (GPS) Centers, Globe business centers, and other retail outlets.

Globelines Worldpass Postpaid is also available for subscribers who wish to access the internet anytime and anywhere through Wi-Fi, Broadband or Dial-up using just one account. Subscribers can use a laptop, PC, PDA or mobile phone and surf wirelessly at any *WiZ Hotspo*t, dial-up to the internet using any landline in the country or connect via Broadband using a *Globelines Broadband* account. Subscribers can even access their accounts when they travel to international destinations through connectivity with *iPas*s. All these are possible with just one username and password. Postpaid plans are available with a consumable monthly service fee of ₱250 (VAT included).

Globe1 is a one-card for all communications needs. This PIN-based prepaid card service allows customers to make local, domestic and international calls using *Globelines* landline (postpaid and prepaid), *Globelines Payphon*e, *Globe* and *T*M. This versatile and convenient product is offered in denominations of ₱100 and ₱300 and is available in Globe's GPS Centers, Globe business centers and prepaid card dealers.

Under the *GlobeQUEST* brand, the company offers end-to-end solutions for corporate clients based on value-priced, high-speed data services over a nationwide broadband network. This includes domestic and international data services, wholesale and corporate internet access data center services and segment-specific solutions customized to the needs of vertical industries. Some of the products and services offered are as follows:

GlobeQUEST Broadband Internet offers clients a complete range of Internet services that operate at broadband speeds using Globe's Internet backbone which, at more than 2 Gbps and growing, is one of the largest in the Philippines. Some of the services currently being offered are:

- Digital Subscriber Line (DSL) – This service lets subscribers access the Web at ultra-high speed connection for both downloads and uploads using Globe's DSL access network and growing Internet backbone. Various access packages are available to ensure the service is cost-efficient and fits different corporate needs and budgets.

- Internet Direct – This offers guaranteed service levels delivered over leased line facilities and is especially offered to those corporate clients running mission-critical applications.

- Broadband Internet Zone (BIZ) – This is *GlobeQuest's* broadband-to-the-room Internet service which provides secure, reliable and convenient high-speed broadband Internet access to transient business travelers and/or tenants of high-density buildings such as hotels, condominiums and other multi-tenant establishments. This service also utilizes wireless Internet access in convenient public locations and hotspots to provide mobile workers with Internet connectivity outside their offices.

- GIX Burstable – This bandwidth on-demand service offers wholesale Internet access with a payment scheme that is based on average use only. Customers are allowed to start with a minimum subscription of 5 Mbps burstable to 45 Mbps depending on the actual growth of their internet traffic. Primarily used by wholesale customers and large enterprises, this service provides the pricing flexibility that supports the ever-changing business requirements of these companies.

- Freeway IP – This service is *GlobeQuest's* managed international private leased circuit to the USA. To ensure cost-efficiency for businesses, Globe's package allows customers to pay a fixed monthly charge regardless of actual usage and increase bandwidth when needed.

- Universal Access services – These are subscription plans available for corporate users, which enables WiFi and dial up access through a single user account.

GlobeQuest WIZ (Wireless Internet Zone) is Innove's brand for its WiFi (Wireless Fidelity)-enabled network providing broadband access on 802.11b/g-enabled strategic locations called "hotspots" such as airports, hotels, coffee shops and business lounges. It covers more than 577 locations to date, including "hotzones" in major malls in Metro Manila, Cebu & Davao, the Mactan and Davao international airports and ship terminals in the Visayas.

WIZ can also be accessed by customers and subscribers of Innove's WorldPass, *Globe* through *Wiz On* service, *GlobeQUES*T-owned Universal Access and DSL corporate customers, as well as subscribers on international roaming service through the company's partners, *GoRemote, iPass, T-Systems* among others. This service is available both on prepaid and postpaid plans to cater to customers' various needs and budgets.

GlobeQUEST Private Networks offers a variety of dedicated communications services that allow customers to run various data applications, access LANs or corporate intranets and extranets with integrated voice services on high speed, efficient and reliable connections. These include domestic and international leased lines, frame relay, IPVPN, and remote access services. International data services are offered in partnership with global network service providers.

GlobeQUEST DataCentres optimizes the security of mission-critical information and applications through secure data centers operated and supported by a team of IT experts. *GlobeQUEST* has six commercially available data centers, namely: MK1 (Valero Data Center), MK2 (Pasong Tamo), MD1 (Sheridan), MD2 (Pioneer), Cebu and Laguna DataCentres. These offer complementary services to *GlobeQUEST* network services, ensuring that corporate customers are given end-to-end capabilities and solutions.

GlobeQUEST Corporate Voice provides a full suite of telephony services, from basic direct lines to ISDN services, 1-800 numbers, IDD and NDD access as well as managed voice solutions that enable companies to access advanced telecommunications technology, such as managed IP communications. With the advent of VOIP technology, *GlobeQUEST* is introducing new functionalities on their Corporate Voice portfolio which will drive the voice business.

GlobeQUEST BroadBand Access is a network access solution that provides customers ultra-high speed fiber optic network connectivity, over a fully redundant and diverse DWDM-based fiber backbone. This service is designed for wholesale and corporate customers with huge bandwidth requirements, mission-critical applications and rapidly growing needs, and who demand uninterrupted access for their business operations. This service offering ranges from high speed leased lines to Ethernet services and even Escon or fibre channel connections for disaster-recovery service connectivity. Today, these services are heavily used by service providers, call centers and BPO (Business Process Outsourcing) companies as well as banking and manufacturing institutions.

GlobeQUEST offers customers with superior dial-up services such as:

- Dedicated Dial-up (DDU) – This service enables multiple users to connect to the internet using only one phone line, as well as maintain a static IP address for better accessibility.

- E-Business in a box – This provides start up companies with a complete set of solutions to establish and maintain web presence for their businesses.

- Wholesale and Corporate Remote Access Servers (RAS) – This provides companies the ability to give its mobile/remote workers, as well as customers, access to the Local Area Network (LAN) and Internet through a private and secure dial-up access without investing in and maintaining costly network infrastructure.

KEY PERFORMANCE INDICATORS

Globe acknowledges the importance of its shareholders and is dedicated to optimize profitability and efficiently manage the use of capital resources with a view to increasing shareholder value.

It constantly reviews and monitors its activities and key performance indicators to measure success in implementing operating and financial strategies, plans and programs. Some of Globe's key performance indicators are set out below. Except for net income, these key performance indicators are not measurements in accordance with Philippine Financial Reporting Standards ("PFRS") and should not be considered as an alternative to any measure of performance which are in accordance with PFRS.

Gross Average Revenue Per Unit (Gross ARPU)

Gross ARPU measures the average monthly gross revenue generated for each subscriber. This is computed by dividing recurring gross service revenues for a business segment for the period by the average number of the segment's subscribers and then dividing the quotient by the number of months in the period.

Net Average Revenue Per Unit (Net ARPU)

Net ARPU measures the average monthly net revenue generated for each subscriber. This is computed by dividing recurring net service revenues of the segment for the period (net of discounts and interconnection charges to external carriers and content provider revenue share) by the average number of the segment's subscribers and then dividing the quotient by the number of months in the period.

Subscriber Acquisition Cost (SAC)

SAC is computed by totaling marketing costs (including commissions and handset/SIM subsidies or the difference between non-service revenues and cost of sales) related to the acquisition programs for the segment for the period divided by the gross incremental subscribers.

Average Monthly Churn Rate

The average monthly churn rate is computed by dividing total disconnections (net of reconnections) for the segment by the average number of the segment's subscribers, and then divided by the number of months in the period. This is a measure of the average number of customers who leave/switch/change to another type of service or to another service provider and is usually stated as a percentage.

EBITDA

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) is calculated as net service revenues less subsidy[1], operating expenses and other income and expenses excluding any property and equipment-related gains and losses and financing costs. This measure provides useful information regarding a company's ability to generate cash flows, incur and service debt, finance capital expenditures and working capital changes. As the company's method of calculating EBITDA may differ from other companies, it may not be comparable to similarly titled measures presented by other companies.

EBITDA Margin

EBITDA margin is calculated as EBITDA divided by total net service revenues. Total net service revenue is equal to total net operating revenue less non-service revenue. This is useful in measuring the extent to which subsidies, operating expenses (excluding property and equipment-related gains and losses and financing costs) and other income and expenses, use up revenue.

EBIT

EBIT is defined as earnings before interest, property and equipment-related gains and losses and income taxes. This measure is calculated by deducting depreciation and amortization from EBITDA. Globe Group's method of calculating EBIT may differ from other companies, hence, may not be comparable to similar measures presented by other companies.

Net Income

As presented in the unaudited condensed consolidated financial statements for the periods ended 30 June 2007 and 2006, net income provides an indication of how well the company performed after all costs of the business have been factored in.

FINANCIAL HIGHLIGHTS FOR JANUARY TO JUNE 2007

KEY DRIVERS in ₱ millions	Six Months Ended June 30 (Unaudited)		
	2007	2006	YoY % Change
Profit & Loss Data			
Net Operating Revenues	**33,009**	**29,984**	**10%**
Service Revenues	31,621	28,447	11%
Non-Service Revenues[1]	1,388	1,537	-10%
Costs and Expenses	**12,067**	**11,040**	**9%**
Cost of Sales	1,995	2,318	-14%
Operating Expenses	10,072	8,722	15%
EBITDA	**20,942**	**18,944**	**11%**
EBITDA Margin	**66%**	**67%**	
Depreciation and Amortization	8,385	8,001	5%
EBIT	**12,557**	**10,943**	**15%**
Financing	(3,267)	(2,972)	10%
Interest Income	315	435	-28%
Others - net	119	(34)	-450%
Provision for Income Tax	**(3,299)**	**(2,613)**	**26%**
Net Income	**6,425**	**5,759**	**12%**
Core Net Income[2]	**7,378**	**6,144**	**20%**

[1]Non-service revenues are reported net of discounts on phonekits and SIM (Subscriber Identification Module) packs. The cost related to the sale of handsets and SIM packs are shown under cost of sales. The difference between non-service revenues and cost of sales is referred to as subsidy.
[2]Core net income is NIAT before Forex/MTM gain (loss) and charges related to the early redemption of the Group's 2012 Senior Notes recognized in the first quarter of 2007.

Globe posted net income after tax of ₱6.4 billion for the first half, 12% higher year-on-year on the back of 11% growth in consolidated service revenues partly offset by increases in operating expenses and provisions for income tax. Taking out the impact of the bond redemption costs and forex/MTM gains or losses, core net earnings of ₱7.4 billion grew at a higher rate of 20% from last year's ₱6.1 billion.

Consolidated EBITDA and EBIT for the year increased by 11% and 15% year-on-year, closing at ₱20.9 billion and ₱12.6 billion, respectively. EBITDA margins stood at a healthy 66% of service revenues, while EBIT margins were at 40%. Marketing and subsidy, as a percentage of net service revenues remained at the 8% level due to calibrated spending on advertising, promotions and acquisition efforts.

Wireless service revenues expanded by 12% year-on-year despite continued pressure on ARPUs. Overall wireless revenue grew mainly driven by the sustained popularity of unlimited ("Short Message Service") SMS and bucket voice offers, as well as higher prepaid top-up levels with the introduction of lower AMAX denominations. The continued strong revenue performance of the data segment is largely attributable to the strong uptake of regular SMS and subscriptions to unlimited SMS offers. On the other hand, wireline service revenues continued to register modest growth of 3%, despite the adverse impact of the strong peso, boosted by higher broadband revenues following significant improvements in total broadband subscriber base.

Total capital expenditures for the first half of 2007 amounted to ₱5.8 billion or 13% higher than last year's ₱5.2 billion as Globe deepened its geographic coverage to 95.3% and increased its population reach to 98.5%. By the end of June 2007, 2G cell sites reached 6,046, a 10% increase from last year's 5,500 cell sites.

The company generated free cash flow of ₱11.6 billion, despite higher capex spending, during the first half of 2007 compared to last year's ₱12.7 billion.

Wireless Business

The wireless business accounted for 90% of the Globe Group's net service revenues in the first half of 2007, growing by 12% to ₱28,313 million from ₱25,228 million in 2006. The 2nd quarter and this 1st semester represents the wireless business' strongest performance to date. Both voice and data segments posted growth, increasing 2% and 27% year-on-year, respectively.

Wireless Voice

During the period, the wireless voice segment accounted for 54% of total wireless net service revenues. Its year-on-year growth of 2% to ₱15,171 million was due to a larger subscriber base and higher voice usage resulting from the strong uptake of bucket voice offers under Globe's *"Super Sulit Offers"* and TM's *Todo Tawag*". The *Super Sulit Offers* include the *₱10 for a 3-minute call* and the *10 centavos kada Segundo* (per-second call charging) for Globe-to-Globe call rates while the *Todo Tawag* promotions consist of the *"Todo Tawag 15/15"* for 15 minute TM-to-TM calls at only ₱15 and the *10 centavos kada Segundo* TM-to-TM call rate.

For heavy IDD users, Globe continues to provide competitive IDD call rates to its Bridge Mobile Alliance partners in Hong Kong, Malaysia, Singapore and Taiwan and other popular calling destinations such as the US, Canada, Hawaii, Saudi Arabia and Japan under Globe's Tipid IDD kada-Segundo and Super Sulit Tipid IDD promotions. Recently, Globe introduced ₱7.50 per minute call rates to two additional Bridge Mobile Alliance partners, Optus (Australia) and SK Telecom (South Korea). Various IDD initiatives have brought about year-on-year growth of 6% and 18% in total outbound and inbound international traffic volumes, respectively.

To further drive revenues in the voice segment, Globe launched another innovative service which enables Globe and TM subscribers to send voice messages. Under Globe Voice Message and TM Boses Text services, subscribers can record a voice message with maximum duration of 30 seconds for only 10 centavos per second and send this as a voice text message.

Wireless Data

Wireless data continue to register strong growth during the period mainly driven by higher subscriptions of unlimited SMS offers and increased regular SMS usage from an expanded subscriber base. As a result, data revenues' share to total wireless revenues significantly increased from 41% in 2006 to 46% for the first half of 2007.

Similar to the first quarter of 2007, Globe continues to gain good traction on its improved unlimited text promotions which offer several variants of the intra-network unlimited SMS service. These variants are customized to suit different subscriber profiles and budgets: UNLITXT ALL DAY(all day unlimited texting at ₱20/day, ₱40/2days and ₱80/5days), UNLITXT DAYSHIFT (day shift unlimited texting from 8 AM to 4:59 PM at ₱15/day and ₱30/2days), UNLITXT NIGHTSHIFT (night-shift unlimited texting from 10 PM to 7:59 AM at ₱10/day and ₱20/2days), TXTPLUS (unlimited intra-network texting plus reduced-rate of ₱0.75 per SMS to other networks at ₱25/day and ₱50/2days), TXTPLUSCL (unlimited daytime texting plus free two 3-minute intra-network voice calls at ₱20/day), SULITXT (100 Globe-to-Globe text for ₱15 and 75 TM-to-TM text for ₱10), and TM TXTAWAG (unlimited off-peak texting plus free one 5-minute TM-to-TM voice calls at ₱15/day and ₱30/2days).

On the international SMS front, Globe's current arrangement with Singtel enables Globe and TM subscribers to send an international SMS message to Singtel subscribers for only ₱1, or equivalent to the cost of a local text message. Also, the current IDD offer of five international SMS messages for only ₱50 (compared to the regular rate of ₱15 per international SMS) has been extended due to good uptake for these services.

To further boost revenues in the data segment, Globe introduced other innovative services such as Micro Asenso! text facility (in partnership with Microfinance Program Committee) which enables subscribers to access information, via SMS, on micro finance institutions in the Philippines via SMS for only ₱2.50 per message. Globe has also recently partnered with Yahoo! to provide easy and convenient access to various Yahoo! services, including Yahoo!'s informative OneSearch engine and a suite of applications under Yahoo! Go 2.0. Globe subscribers can now download Yahoo! Go 2.0 free of charge from the myGlobe WAP site. In addition, Globe subscribers can now browse the internet at the current promotional rate of only ₱0.075/kb (compared to the regular rate of ₱0.15/kb) when they use the Yahoo! Go application.

Globe's subscriber base continued to post significant gains during the first half, growing 30% year-on-year to reach 18.1 million subscribers. Gross and net subscriber additions continue to be strong compared to last year. Total gross subscriber additions for the first half reached 6.9 million, up 30% year-on-year, while second quarter additions of 3.7 million was 12% higher than last quarter's 3.3 million. Meanwhile, net subscriber additions remain strong at 2.5 million on the back of lower year-on-year churn rates. First semester net additions are already at 76% of full year's level.

Wireline Business

Globe and Innove have adopted a customer-centric approach to allow for the development of products better suited to the specific needs and business requirements of its customers. Dedicated business units have been created and organized within the company to focus on the wireless and wireline needs of specific market segments and customers – be they residential subscribers, wholesalers and other large corporate clients, or smaller scale industries. The Enterprise Business Group (EBG) is one such business unit, created in response to corporate clients' preferences for integrated mobile and wireline communications solutions. Complete with its own dedicated technical and customer relationship teams, EBG now offers a full suite of managed IP telephony services which include the provision of IP PBX, inbound and outbound trunks, direct lines, international toll free service and other ancillary equipment and applications.

Overall, the wireline business registered growth despite the continued appreciation of the peso on the back of continued growth of the broadband segment. For the first half of 2007, the business posted a 3% gain in net service revenues from last year, reporting revenues of ₱3,308 million compared to last year's ₱3,219 million.

Wireline Voice

As of 30 June 2007, Innove increased its total wireline voice subscribers by 9% to 389,506 from 356,441 in 2006. The subscriber mix is 64% postpaid and 36% prepaid, with the business to residential mix at 19:81 in the first half of 2007.

Our wireline voice service revenues increased by 4% from last year's ₱2,172 million to ₱2,257 million due to an expanded subscriber base. Gross and net ARPUs continued to decline on a year-on-year basis, mainly resulting from lower voice maintenance revenues due to a shift in voice traffic to mobile, subscriber conversions to bundled broadband packages that include free voice services and decreased IDD revenues owing to the stronger peso.

Globe's broadband business continues to show robust growth, with broadband subscriber base expanding by 195% year-on-year and 29% quarter-on-quarter to reach 89,299 by the end of the second quarter of 2007 as a result of aggressive acquisition promotions during the first half of the year.

Wireline Data

Wireline data business registered service revenues of ₱1,051 million, in line with 2006 level as a result of lower monthly recurring revenues from its international lease lines and corporate internet services but offset by higher revenues from the domestic lease line segment on the back of an expanded domestic circuit base. Additionally, the appreciation of the peso during the current year accounted for lower revenues from foreign-currency linked subscriber billings.

Following the launch of *GlobeQUEST ICON* or IP-Converged Optical Network in 2006, Innove's new MPLS (Multi Protocol Label Switching) data network pioneered the first Virtual Private Line Service (VPLS) in the Philippines. The VPLS allows the service to be extended to other countries through Globe's regional partnerships with Singapore Telecom and Hutchison Global Corporation and is now available to serve Hong Kong, Singapore, Vietnam, Korea, Taiwan and the USA among other destinations. VPLS is a multipoint transparent LAN service using familiar Ethernet interfaces to connect multiple office locations. This allows the experience of being in one local area network and differentiates Innove's network by expanding its capabilities resulting in large network deals with government agencies, BPO companies and multinational corporations.

Additionally, *GlobeQUEST's VPN Express* offering has been expanded to include wireless access methods such as GPRS and EDGE, in addition to the fixed line version utilizing DSL technology. Enterprise customers with several branches, retail outlets or off-site operations or machines like ATMs, can use this service to connect to their headquarters using a secure broadband connection in a cost-effective way. This currently serves retail stores, banks and gas stations to name a few enterprise applications. During the first semester of the year, Innove completed the full service portfolio of its managed *VPN Express* service. The service uses both fixed DSL and wireless 2G/3G with HSDPA technologies to provide broadband connections for banks and companies with sizeable point-of-sale networks.

Other Globe Group Revenues

International Long Distance Services

On a consolidated basis, ILD revenues from the wireless and wireline services decreased by 1% to ₱7,346 million during the first half of 2007 compared to last year's ₱7,393 million due to lower payment rates on inbound international calls coupled with the impact from the continued appreciation of the peso. However, total ILD minutes continued to trend upwards driven by an 18% growth in inbound minutes and a 6% improvement in outbound minutes on a year-on-year basis.

Both Globe and Innove offer ILD services which cover international calls between the Philippines and over 200 countries. This service generates revenues from both inbound and outbound international call traffic with pricing based on agreed international termination rates for inbound traffic revenues and NTC-approved ILD rates for outbound traffic revenues.

As part of Globe's commitment to serve overseas Filipino communities better and to address the needs of specific segments such as the heavy IDD users among wireless subscribers, Globe launched various IDD promos since the second half of 2005. Following its *IDD CelebRATE!* series of offerings in 2005, Globe re-launched various promos in 2006 under the umbrella banner *Globe Super Sulit Offers.* Globe continues to provide a discounted IDD rate of ₱7.50 per minute (equivalent to that of a local rate) for calls to selected countries such as US and Canada (off-peak hours only), and other Bridge Mobile Alliance partners such as Taiwan Mobile, HK CSL, Singtel, and Maxis Malaysia. During the second quarter of 2007, Globe extended the ₱7.50 per minute discounted IDD rate for calls to subscribers of Optus (Australia) and SK Telekom (Korea). Globe likewise maintained its competitive IDD rates of US$0.30 per minute to countries with large OFW groups such as Japan and Saudi Arabia.

To spur usage of its IDD services in the first quarter of the year, Globe offered a ₱24 rate for 3 minute calls to the US and Canada anytime of the day for its subscribers. Globe also improved on its prepaid *G-ROAM* service by lowering the roaming subscribers' daily maintaining balance from ₱100 to ₱50. The *₱24 for 3 minute call* rate promotion ended last 18 May 2007 while the *G-ROAM* ₱50 daily maintaining balance was extended to 15 October 2007.

Globe's per second charging remains a unique offering to this date. It continues to offer the IDD per second charging, at Philippine peso rates, to selected countries such as US, Canada, China, Malaysia, Hong Kong, Singapore, Thailand, South Korea, Taiwan, Australia, United Kingdom, Kuwait and Equatorial Guinea, as well as the per-second rate of US$.0067 to other countries.

Through its alliance with *Bridge Mobile* partners, Globe was also able to launch co-branded SIMs with Singtel, Hong Kong CSL, Taiwan Mobile and Maxis Malaysia to provide OFWs the opportunity to avail of discounted call and SMS rates when connecting with their families in the Philippines. Globe also launched variations of its *Kababayan* phone cards that offer discounted IDD call rates to OFWs in Japan and Hong Kong.

On the wireline front, *Globelines* continues to offer its *Lowest IDD rates* promotion via its *Globe1* card. *Globe1* card users continue to enjoy ₱2.50 per minute (USA, Canada, Australia, Hong Kong and Singapore), ₱4.50 per minute (China, Malaysia, Taiwan, South Korea and Thailand) and US$0.40 to other destinations from *Globelines* postpaid, prepaid lines and payphones nationwide.

To ensure that the company fully benefits from the increased ILD volume, it continues to actively monitor International Simple Resale (ISR) operations passing through its networks. An ISR operation, a bypass and block service considered illegal in the Philippines, is a method of terminating inbound international calls without passing through the International Gateway Facility. If ISR operations are unchecked, Globe will not be able to realize the full inbound international revenue and instead earn only normal domestic termination charges for local or NDD calls or access charges from other carriers, which are lower than international termination rates.

To reduce ISR activities, Globe initiated increased detection and blocking procedures including closer coordination of detected ISR lines with other industry players. The Company also implemented arrangements with international carriers to reduce arbitrage opportunities for ISR operators. The Company further tightened its fraud and risk evaluation process for corporate and individual accounts and is implementing legal, commercial and technical solutions to the ISR concern, such as the immediate termination of SIMs detected as being used for ISR operations and the suspension of *AutoLoad* Max retailers identified as having significant loading transactions to ISR SIMs. The Company also regularly coordinates with the NTC and other government agencies in addressing this concern.

Interconnection

Domestically, the Globe group pays interconnection charges to other carriers for calls originating from its network terminating to other carriers' networks, and hauling charges for calls that pass through Globe's network terminating in another network.

Internationally, the Globe group also incurs payouts for outbound international calls which are based on a negotiated price per minute.

The interconnection expenses paid as a percentage of gross service revenues for the period registered at 14% for the first half of 2007 from 19% for the same period in 2006.

The Globe group also collects termination fees from local carriers whose calls terminate in Globe Group's network. Domestic calls terminating to wireless networks are charged a termination rate of ₱4.00 per minute while calls terminating to wireline voice networks are charged a termination rate of ₱3.00 per minute.

DIVIDEND POLICY

Dividends declared by Globe 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 Globe's earnings, cash flow and financial condition, as well as other factors. Cash dividends are subject to approval by Globe'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 Globe's Board of Directors and stockholders. The following are the cash dividends declared and paid by the company over the past two years.

Cash Dividends Declared – 2005 to 2007		
Amount (₱)	**Record Date**	**Payment Date**
20.00	February 18, 2005	March 15, 2005
20.00	August 19, 2005	September 14, 2005
20.00	February 21, 2006	March 15, 2006
30.00	August 17, 2006	September 12, 2006
33.00	February 19, 2007	March 15, 2007
33.00	August 29, 2007	September 14, 2007

RISK MANAGEMENT

To mitigate foreign exchange risk, the Globe group enters into short-term foreign currency forwards and long-term foreign currency swap contracts. Short-term forward contracts are used to manage foreign exchange exposure related to foreign currency-denominated monetary assets and liabilities. For certain long-term foreign currency denominated loans, Globe enters into long term foreign currency and interest rate swap contracts to manage foreign exchange and interest rate exposures.

As of 30 June 2007, the company had US$47 million in notional amount of outstanding foreign currency swap agreements and US$160 million in short-term forward contracts, some of which have option features.

Interest rate swaps are used to manage interest rate risk in a cost-efficient manner. As of 30 June 2007, the company had US$43 million in notional amount of US$ swaps under which it effectively swapped some of its floating US$ denominated loans into fixed rate, with semi-annual payment intervals up to January 2011. The company also has US$5 million in notional amount of US$ swaps under which the company receives a fixed rate of 9.75% and pays a floating rate based on LIBOR, subject to a cap. The performance of the swap is linked to the 10-year and 30-year US$ Constant Maturity Swap Rates. The company also has a fixed to floating interest rate swap contract with a notional amount of ₱1 billion, in which it effectively swapped a fixed rate Philippine peso denominated bond into floating rate with quarterly payment intervals up to February 2009 and float to fixed interest rate swap contracts with a notional amount of ₱1 billion which converts the floating rate back to fixed rate.

The Globe group also has embedded forwards and options in certain financial and non-financial contracts with total notional amount of US$26 million.

Gains (losses) on derivative instruments represent the net mark-to-market (MTM) gains (losses) on derivative instruments. As of 30 June 2007, the MTM value of outstanding derivatives of the Globe group amounted to (US$12.8 million) while losses on derivative instruments arising from changes in MTM reflected in the consolidated income statements amounted to ₱743 million, which includes the losses on the bond option value prior to the bond call date amounting to ₱454 million.

On the other hand, the Globe group also has foreign currency-linked revenues (which includes billed in foreign currency and settled in foreign currency, and billed in pesos at rates linked to a foreign currency tariff and settled in pesos) and expenses which serve as natural hedges against foreign exchange exposure. Consolidated foreign currency-linked revenues were at 25% and 30% of total net revenues for the periods ended 30 June 2007 and 2006, respectively. For the first half of 2007, foreign currency-linked revenues comprised 24% of net wireless revenues and 34% of net wireline revenues. In contrast, foreign-currency linked expenses were at 13% and 10% (as a percentage of total operating expenses) for the periods ended 30 June 2007 and 2006, respectively.

RECENT DEVELOPMENTS

On 6 August 2007, Globe and Innove unveiled its new brand identity to reinforce its commitment to serve its customers better, strengthen consumer recall and serve as a unifying symbol for the Globe Group's products and services. The new Globe brand is symbolized by the *"Globe Lif*e" logo and an encompassing commitment to offer ease and relevance to customers. The logo illustrates the wealth of products and services offered by the Globe group which surround a hand, symbolizing the company's customers, to whom it is focused on providing customer satisfaction.

IV. AC CAPITAL

Ayala holds a portfolio of other investments – which include operations in water distribution, electronics and information technology, automotive dealership and international businesses – under an internal development division called AC Capital.

WATER DISTRIBUTION

MANILA WATER COMPANY, INC.

Ayala engages in water distribution and the provision of sewerage services in the East Zone of Metro Manila through Manila Water, a company in which Ayala owns 30.2% as of June 30, 2007. The other major shareholders of Manila Water are United Utilities B.V. ("United Utilities") (11.7%), Mitsubishi (7.8%), International Finance Corporation ("IFC") (7.3%), and BPI Capital (3.3%). The rest of Manila Water's shares are owned by the public and the Manila Water employees through an employee stock ownership program.

In February 1997, Manila Water was awarded a 25-year concession from the Metropolitan Waterworks and Sewerage System ("MWSS") to provide water and sewerage services to the East Zone (described below) of Metro Manila. On August 1, 1997 (the "Commencement Date"), Manila Water assumed MWSS' operations in the East Zone.

Pursuant to a shareholders' agreement and service agreements with Manila Water, Manila Water's main shareholders have taken on active roles in certain aspects of the operations of MWC. Ayala has undertaken to provide Manila Water with management services with respect to business, regulatory affairs, administrative, financial, human resources and capital works, including project management and procurement and assistance in regulatory affairs. United Utilities, a water utility operator in the United Kingdom, has agreed to provide technical support, including secondment of personnel, in connection with the operation and maintenance of the system. Each of these shareholders participates in the management of Manila Water through representation in the board of directors.

Manila Water's strategy is to improve the overall operational efficiency of its business, which thus results in an increase in its profitability. To facilitate this, Manila Water has divided its service area into separately managed territories, each with the goal of improving customer service, increasing the volume of billed water, controlling and reducing non-revenue water and increasing the size and quality of its customer base.

On March 18, 2005, Manila Water successfully completed an IPO of 550 million of its common shares and listed them in the PSE. The net proceeds to Manila Water of its IPO were ₱3.4 billion. Some of Manila Water's shareholders, including Ayala, also completed a simultaneous secondary offering of some of their Manila Water common shares. As of September 30, 2007, Manila Water had a market capitalization of ₱28.2 billion.

CONCESSION AREA - EAST ZONE

MWSS divided Metro Manila and certain surrounding areas into the East and West Zones. The East Zone, serviced by Manila Water, is composed of 23 cities and municipalities in Metro Manila and the Province of Rizal. With an estimated number of residents at approximately 5.3 million, the East Zone accounted for about 40% of the total population of the MWSS area as of December 2006.

Concession Agreement

Under the terms of the agreement with MWSS to manage and operate the East Zone service area (the "Concession Agreement"), Manila Water has the right to bill and collect for water and sewerage services supplied in the East Zone. In return, Manila Water is responsible for the management, operation, repair and refurbishment of the MWSS facilities in its service area, in accordance with specific operating and performance targets and the payment of stipulated MWSS concession fees.

The Concession Agreement provides for MWSS to retain ownership of the existing physical assets, while Manila Water has the right to manage, operate, repair and refurbish and to certain extent, decommission such assets. Manila Water will have title to all new fixed assets it adds to the MWSS system during the concession until the concession expires, at which point, title and interest to such additional assets revert to MWSS.

The Concession Agreement required an initial capitalization of ₱1.0 billion and an additional ₱1.0 billion at the end of the first year of the concession. These capital contributions were made by Manila Water's shareholders in proportion to their interests. Manila Water is required to post an annually renewable performance bond in favor of MWSS to secure Manila Water's performance of its service obligations. The bond value is initially US$70.0 million, declining to US$60.0 million in 2008, and US$50.0 million from 2018 to 2022.

Operations and Performance

Under the Concession Agreement, Manila Water is required to extend the existing water supply and sewerage systems in order to meet coverage targets, which are set out as percentages of the population in the service area receiving water supply and the percentage of the connected population receiving sewerage services. Manila Water is also required to provide sewerage and sanitation services.

Manila Water must also comply with regulatory standards for its supplied water and wastewater. Since the Commencement Date, Manila Water has improved its rate of compliance with water quality standards. Manila Water has also achieved significant reductions in non-revenue water (“NRW”) by service pipe replacements and reducing illegal connection.

Tariff Structure and Rate Regulation

Different water tariff schedules apply to different categories of customers. In addition to water tariffs, customers pay an environmental charge equal to 10% of their water bill and a flat meter maintenance service charge. Customers who receive sewerage services also pay a sewerage charge equal to 50% of their water bill. Manila Water also charges a currency exchange rate adjustment, which is fixed at ₱1.00 per cubic meter.

Revisions to the structure and levels of tariffs are governed by the Concession Agreement. The basic tariffs are adjusted annually to account for inflation (as measured by the Philippine Consumer Price Index [“CPI”]) and to account for certain events beyond the control of Manila Water (extraordinary price adjustments to cover such factors as foreign currency losses). Every five years, a “rate-rebasing” exercise is conducted with the regulators to ensure that Manila Water earns a target rate of return on its capital equal to the appropriate discount rate over the 25-year term of the concession. Tariff adjustments are subject to the approval of the MWSS Regulatory Office.

In November 2001 MWSS approved an amendment to the Concession Agreement which now allow both concessionaires to recover through tariff adjustments their past foreign exchange losses and at the same time adopt a foreign currency differential adjustment (“FCDA”) for foreign exchange losses or gains incurred in 2002 and onwards. The FCDA is evaluated quarterly, the latest of which was implemented on July 1, 2007. In January 2003, the first of the tariff rate rebasing, which are scheduled every five years, was completed. Manila Water was granted a weighted all-in tariff rate of ₱17.00 per cubic meter, which was implemented in two stages in 2003 and 2005.

Concession Fee

Manila Water must pay an annual concession fee to MWSS, covering certain debt service costs and at the same time provide local support funding for MWSS projects on-going as of turnover date. It was also mandated to share in the operating costs of MWSS's Administrative and Regulatory Offices through the annual regulatory fee set initially at ₱100.00 million and adjusted annually by CPI. The amount of the concession fee paid from 1997 to 2006 totaled ₱4.1 billion. In addition, Manila Water had to pay a commencement fee of US$5.0 million at the Commencement Date.

FINANCIAL HIGHLIGHTS

The company ended the first semester with water sales reaching a record 1,054 million liters per day (“mld”), 13% or 121 mld higher than June 2006. Initiatives to address commercial losses, coupled with efficient network management, came into fruition as non-revenue water improved to 25.4%, a 4%-pt reduction versus June 2006.

January to June 2007 operating revenues was at ₱3.5 billion, up by 18% year-on-year. The revenue increase versus last year was brought about by the combined effect of tariff adjustments (CPI) and 13% growth in water sales. EBITDA of ₱2.3 billion further grew, with margins at 61%, 27% higher than last year’s ₱1.8 billion. Net income amounted to ₱1.1 billion, 9% lower than ₱1.2 billion posted in the same period last year after providing ₱485 million for income tax payments because of the expiration of its income tax holiday in 2006.

Total assets remained solid at ₱23.2 billion, down 4% from December 2006 level as a result of the decrease in cash reserves. This decrease was as result of prepayment of loans from the cash which was originally intended for the bid for the West Zone. Accounting for the growth in property, plant and equipment are ₱1.4 billion worth of transmission and distribution lines and leasehold improvements.

The company’s current and debt-equity ratios registered at 1:1 and 43:57 respectively.

The company’s top five Key Performance Indicators are discussed below:

Billed Volume and Collection

Billed volume as of end-June registered at 1,054 mld, better than the same period last year by 121 mld. Billed volume growth was driven by improved network efficiency and the completion of various pipelaying projects at the expansion areas. Collection efficiency averaged 99%, still above regulatory target by 4%.

Total Connections

Total connections refer to the number of household connections and the number of water service connections. For the first semester, the company posted around 953,000 households. This brings the total number of water service connections to 625,000, an increase of 43,000 connections from December 2006 level.

Non-Revenue Water

Non-revenue water is measured by liters per connection per day and as a percentage of water production volume. Supply management and other NRW-reduction initiatives such as network simplification, Tubig Para Sa Barangay Projects, comprehensive leak repairs, and intensified pipe and meter replacement projects continued to pay off as NRW further dropped to 25.4% as of end-June, 4% points better than June 2006.

WATER QUALITY IN DISTRIBUTION

Water quality in distribution is measured by the percentage of its compliance with the Philippine National Standard for Drinking Water limits on total coliforms. Water quality compliance on total coliforms was maintained from the previous years' level at 100% as against the 95% target set by the Department of Health. The company continues to conduct weekly residual chlorine tests, monthly bacteriological examinations and frequent regular inspection of water and sanitation facilities to ensure that these East Zone residents have continuous access to clean water.

SANITATION

Sanitation is measured by the number of septic tanks emptied. As part of the scheduled desludging program, 162,000 households were served by septic tank emptying to date.

DIVIDEND POLICY

Under Manila Water's cash dividend policy, common shares shall be entitled to annual cash dividends equivalent to 30% of the prior year's net income, payable semi-annually in March and September. The company's Board of Directors may change the cash dividend policy at any time. MWC's Board of Directors is authorized to declare cash dividends. A cash dividend declaration does not require any further approval from the stockholders. A stock dividend declaration requires the further approval of stockholders representing not less than two-thirds of Manila Water's outstanding capital stock.

RESEARCH AND DEVELOPMENT ACTIVITIES

Manila Water's various projects required a capital expenditure outlay of ₱4.8 billion in 2006 and were mainly geared towards pipe-laying to increase the company's coverage area and pipe replacements to reduce system losses and improve water availability.

With focus on growing and continuously providing quality service to the East Zone, Manila Water plans to invest at least ₱30 billion in the next five years for further network extension and improvements, expand wastewater coverage and develop new water sources.

ELECTRONICS AND INFORMATION TECHNOLOGY

Ayala is involved in electronics and information technology through IMI, and Azalea Technology. As of June 30, 2007, IMI's major shareholders were Ayala (70.34%), and Resins Inc. (17.59%). Azalea, which is wholly owned by Ayala, was established in January 2000 to be a holding company for Ayala's technology related investments.

INTEGRATED MICROELECTRONICS, INC.

IMI is an electronics manufacturing services ("EMS") provider to some of the world's largest Original Equipment Manufacturers ("OEMs"). IMI serves customers mainly in the industrial, storage, automotive, telecom and consumer electronics end-markets with potential for medical. IMI's service offerings include design services, product development, prototyping, component assembly, hard and optical disk drive sub-assembly, printed circuit board (PCB) assembly, plastic injection, metal stamping, box-build, supply chain management, and after-sales service. For the six months ended June 30, 2006, 48% of its production was exported to Japan while the U.S.A. and Europe accounted for 23% and 17%, respectively. IMI's main strategy going forward is to develop more value-added capabilities to enable it to provide a complete EMS solution to its clients.

IMI has a 100% stake in Eazix Inc., which is engaged in electronic product and component design.

On January 29, 2005, IMI entered into an Asset Purchase Agreement with Saturn Electronics and Engineering, Inc. ("Tustin") and Saturn Electronics Philippines, Inc. ("Saturn") for the purchase of certain assets and contracts, and the assumption of certain liabilities of Tustin and Saturn. Included in the assets purchased are the design team, patents and leased facility in Tustin, California; manufacturing team and facility in Cebu; and, client support and procurement team in Singapore.

On December 6, 2005, IMI acquired Speedy-Tech Electronics Ltd ("Speedy-Tech"), a Singapore-based EMS and power electronics company with facilities in Singapore, China and the Philippines. Speedy-Tech became a wholly owned subsidiary of IMI and its shares were delisted from the Singapore Stock Exchange.

IMI also acquired Michael Hansson Consulting Inc., a Philippine-based engineering-oriented systems integrator, in the third quarter of 2006. This allows IMI to provide high-end test, measurement and control solutions to local electronics and semiconductor companies.

IMI posted US$199 million in sales revenues and US$13 million in net income after tax for the first semester of 2007.

PRODUCTS AND MANUFACTURING

IMI's principal products are PCBAs and electronic sub-assemblies for a variety of storage, communications, consumer, automotive and industrial electronic applications, contracted either on a dedicated (consignment) or merchant (full-turnkey) basis. Its main customers include Panasonic, IIDA, Epson, Philips, Hitachi, Isahaya and Toshiba, among others.

IMI's consignment contracts, which comprise approximately 39% of IMI's total revenues (for the six months ended June 30, 2007), are manufactured on captive assembly line arrangement. These lines are dedicated to a specific customer with facilities designed and operated in close co-ordination with the customer. Raw materials, equipment and the required technology are supplied by the customer while IMI provides the facilities, manpower and production management expertise corresponding to the requirements of each customer. The balance of IMI's turnover was produced on a turnkey basis. In providing total turnkey solutions for its customers, IMI works closely with them in the design stage, leverages its own material sourcing and logistics capabilities and then manufactures and packages the products using IMI's own equipment and technology.

Speedy-Tech has a well-diversified base of customers spread over a wide spectrum of industries such as the IT, industrial equipment, medical devices, telecommunications and consumer electronics sectors covering the U.S.A., Europe and the Asia-Pacific region. Speedy-Tech counts amongst its customers established global electronics players such as Canon, Dentsply, EBM-Papst, Emerson Network Power, Fiberxon, Guest, Hewlett Packard, Huawei Technologies, LG Electronics, NEC, Nippon Antenna, Printronix, Shimadzu and Videojet Technologies.

The IMI group has maintained a commitment to providing quality products and services. IMI continued to maintain its 9001:2000 Quality Management Systems certification. IMI also achieved another quality milestone when it received the ISO/TS 16949 certification, an international quality system standard for automotive industries. Moreover, IMI has embraced the Six Sigma management philosophy, a management tool that encompasses a broad array of best practices and knowledge on how to improve processes in order to achieve operational excellent results and financial gains to the company. IMI continues its transformation programs that include the Six Sigma business process innovation program. In addition, IMI's quality circles continue to win top honors in the Quality and Productivity Improvement Circle (QPIC) Regional and National Competitions.

Similarly, Speedy-Tech has a strong commitment to quality. Its quality assurance system is regularly audited by its customers and certification authorities for ISO, QS and BABT.

IMI companies including Speedy-Tech have received numerous awards from its customers in recognition of its relentless pursuit for performance excellence

FACILITIES

IMI has a total of 75,015 square meters of manufacturing space located in the Laguna Technopark, in the Laguna International Industrial Park and in Mactan Export Processing Zone, Cebu. Within these spaces, IMI runs surface-mount technology ("SMT") lines for the assembly of PCBAs as well as a variety of back-end testing equipment. Through its investment in Eazix Inc., IMI maintains dedicated design facilities in Alabang. Due to its acquisition of Satrun, another design facility is located in Tustin, California. Speedy-Tech has six production facilities: one in Singapore, one in the Philippines and four in China. The total manufacturing space of the six is 64,400 square meters.

COMPETITION RISK

IMI operates in a highly competitive global environment dominated by several very large participants (with sales in excess of U.S.$1.0 billion). Foreign EMS providers that offer lower manufacturing cost pose as risk to IMI's competitive position since its customers could shift to them. In response to this risk, IMI leverages its global manufacturing as well as designs footprints. Also, IMI maintains the high quality of its products in order to give the best price-value proposition to its customer. The group believes that by continuously improving its value-added services, asset efficiency, and the quality of its manufacturing processes, and combining this with a productive labor force, IMI can successfully compete on its chosen target segments.

RESEARCH AND DEVELOPMENT ACTIVITIES

IMI's research and development activities are carried out in EAZIX and in Speedy-Tech. IMI designs and develops complete products and subsystems to assist original equipment manufacturers in product realization. IMI's design and development capabilities encompass short-range wireless technologies, embedded systems, and power electronics. It engineers work in close coordination with customers during the early stages of product development to ensure a seamless transition from design conceptualization to volume manufacturing. In addition, IMI USA (acquired from Tustin) is home to IMI's advanced manufacturing technology R&D activities, with focus on areas including flip chip, substrate and interconnect technologies.

ENVIRONMENTAL COMPLIANCE

IMI complies with ISO 14001, international standard for Environment Management Systems as certified by SGS since year 2000. Moreover, IMI has converted some of its SMT lines to RoHS (Restriction on Hazardous Substances) compliant lines. This environmental compliance enables IMI to qualify as a contract manufacturer for various OEMs.

AUTOMOTIVE

Ayala engages in the automotive business through its minority investments in assembly companies and through its network of Honda and Isuzu dealerships.

AYALA AUTOMOTIVE HOLDINGS CORPORATION

Ayala, through Ayala Automotive Holdings Corp. (“AAHC”), has eight Honda dealerships and five Isuzu dealerships nationwide.

For the first six months of 2007, total industry sales reached 54,256 units, posting a 17% growth from previous year. The improvement in sales resulted from the launch of new models, aggressive financing promos, and intensive advertising campaigns. Commercial vehicles, with 24% growth from 2006, comprised 65% of the market. On the other hand, passenger cars, with a 6% improvement from 2006, accounted for 35% of the market. AAHC sold a total of 5,817 units for the first half of 2007 which accounted for 11% of the total industry sales. Given this year’s performance, AAHC realized net income of ₱166 million from dealership operations, which was 24% above the prior year’s ₱134 million income.

Through its strong dealership network, AAHC will continue to pursue quality leadership and service excellence, affirming its commitment to total customer satisfaction.

Research and Development Activities

Amounts spent by AAHC on development costs for its dealership operation are not material.

Environmental Compliance

Amounts spent by AAHC on compliance with environmental laws are not material.

Customer Satisfaction Risk

The operations of AAHC’s subsidiaries create risk of customers being dissatisfied with faulty or non-performing products or services. If not properly managed, this can adversely affect the company’s reputation which may result in decline in revenues and loss of market share. In response to this risk, AAHC has launched and enhanced several customer-focused programs that promote quality and service excellence. Regular and constant customer surveys/studies are conducted in assessing the effectiveness of these projects and identifying customer concerns and rising customer expectations. AAHC remains committed to its pursuit of total customer satisfaction to ensure its long-term growth.

HONDA CARS PHILIPPINES INC.

Honda Cars Philippines, Inc. (“Honda Cars”) is a joint venture between Ayala (12.9%), Honda Motors Co., Ltd. (74.2%) and RCBC (12.9%). Honda Cars assembles and manufactures Honda automobiles for the Philippine market in Laguna Technopark.

Sales of Honda Cars were at 8,179 units as of June 2007. The new Civic accounted for 46% of Honda Cars sales. Honda Cars continued to rank second among passenger car manufacturers and captured 34% of the market. Ayala’s Honda dealership network increased its overall leadership position from 51% to 54% share of total Honda sales. Its flagship dealer, Honda Cars Makati continues to be the best-selling dealer nationwide.

For the period ended June 30, 2007, Honda Cars’ net income was ₱167.4 million.

ISUZU PHILIPPINES CORPORATION

Ayala has a 15% share in Isuzu Philippines Corporation (“Isuzu Philippines”), a joint venture with

Isuzu Motors Ltd. (35%), Mitsubishi (35%) and RCBC (15%) to produce Asian Utility Vehicles ("AUV"), pick-up trucks, small and medium-sized trucks and buses. Isuzu Philippines commenced production of commercial vehicles in June 1996. Isuzu Philippines' sales of 4,489 commercial vehicle units represented a 13% growth in unit sales for the first six months of 2007. This allowed Isuzu to maintain its number 3 rank in the commercial vehicle segment with a 13% market share.

For the period ended June 30, 2007, Isuzu Philippines' net income was ₱167.6 million.

The Isuzu Philippines dealerships of Ayala collectively accounted for 31% of total Isuzu Philippines' sales, leading all other Isuzu Philippines dealers.

BUSINESS PROCESS OUTSOURCING

LiveIt Solutions Inc. ("LiveIt") was incorporated in June 2006 as Ayala's holding company for its investments in the BPO sector. Another BPO company, HRMall Inc., was also incorporated in June 30, 2006.

LIVEIT SOLUTIONS, INC.

LiveIt's objective is to create a portfolio of high-growth and differentiated BPO companies, through acquisition or investment in existing US, Philippine or India BPO companies. Target companies are those that provide complex services, have well-established customer relationships in global markets, and have the potential for add-on acquisitions.

As of June 2007, LiveIt has made cumulative investments of over ₱4.6 billion, or approximately US$91.3 million in three companies: eTelecare Global Solutions Inc. ("eTelecare"), Integreon Managed Solutions Inc. ("Integreon"), and Affinity Express Inc. ("AE").

eTelecare focuses on providing complex voice-based services such as technical support, financial advisory, warranty support, customer retention and marketing surveys and research for the US market. Integreon is a Los Angeles-headquartered company that is a leading provider of high-value and complex BPO solutions in the areas of knowledge, document content and graphics, business administration and discovery support services. LiveIt's invested an additional US$11 million in Integreon to fund the acquisition of CBF Group, a US-based company that exclusively provides enterprise services to law firms. AE is a Chicago-based company, which is a leading provider of graphics and design services. The Philippine subsidiaries of Integreon and AE were incorporated in March 2007 and April 2007, respectively. Integreon's PEZA accreditation application was approved in July 2007 while AE is still in the process of obtaining the PEZA accreditation.

HR MALL, INC.

HRMall is a human resource BPO wholly owned by Ayala. It started operations in July 2006 initially servicing the payroll and timekeeping requirements of Globe Telecom and its subsidiaries at all levels of the organization. This is the company's first step in being the primary shared services center for human resources across the Ayala group. HRMall will be delivering its services using a new platform to Globe and Ayala Land within 2007.

INTERNATIONAL

Ayala's international operations are conducted primarily through its wholly owned subsidiary, AIPL.

AYALA INTERNATIONAL PTE LTD

AIPL's initiatives in the last two years are to nurture and expand existing partnerships and to seek new ones continue to gather momentum resulting in a deal pipeline that is yielding new investment opportunities in different property sectors in both Asia and the United States.

AIPL's net income for first half 2007 was US$76.9 million, nearly thrice that of the same period of the previous year due to the US$7 million gain on sale of its 23.3% stake in Hermill, the company that owns the Forum office and retail building along Orchard Road in Singapore.

AIPL's joint venture with the Narai group of Thailand, Nayara, has fully sold and completed the construction of its first residential condominium project in Bangkok in 2006. In a move to expand the partnership, Nayara has acquired two properties in Bangkok for residential condominium development.

AIPL's U.S. business started completing the investment cycle on earlier investments with the sale of three joint venture projects since 2005. AIPL continued its diversification into rental properties with the acquisition, together with a partner, of student-targeted apartments and properties for development into shopping centers. AIPL currently has apartment leasing inventory of over 1,200 units. These present value-add opportunities in a firming apartment market. AIPL's total investment in these apartment projects amounted to US$4.4 million. In 2006, 3 projects in the US were launched: single family homes in Nevada, active senior family homes in Utah and residential condominium project in Kansas.

AIPL will continue to focus in US, Hong Kong and Thailand property markets not only as a direct property investor but also as a conduit for investors in a principal-sponsored club investment and/or fund management mode. In August 2006, AIPL committed to sponsor and invest US$50 million in ARCH Asia Property Fund, a private equity fund which will focus on real estate investments in the Asian region, particularly in China, India, and Thailand. AIPL also invested in ARCH Capital Management, the fund management company that will actively pursue investments for said private equity fund.

The market value of AIPL's current portfolio as of June 30, 2007 is about US$110 million with assets focused mainly in China (51%), the US (29%), Thailand (8%), and the rest of Asia (i.e. Indonesia, Malaysia - 5%). Out of the current portfolio of US$ 110 million, 50% are in direct investments, while the other half is through fund investments.

AIPL intends to continue to expand and diversify from residential development into other property segments, specifically shopping centers, apartments, and mixed-use properties.

EMPLOYEES AND LABOR RELATIONS

As of December 31, 2006, Ayala had 116 employees. All regular non-managerial employees are covered by a new Collective Bargaining Agreement which took effect on January 1, 2007 with a term that lasts until December 31, 2009. Ayala has not experienced any strikes by its employees and there is no known threat of a strike.

For the near term, Ayala intends to maintain its current headcount. Of Ayala's 116 employees, 72 are managers, and 44 make up the support staff. Ayala does not have supplemental benefits or incentive arrangements with its employees.

LEGAL PROCEEDINGS

Except as disclosed herein, there are no material pending legal proceedings to which Ayala is a party or of which any of its material properties are subject.

AYALA LAND, INC.

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.

GLOBE TELECOM, INC.

Globe Telecom and Innove are contingently liable for various claims arising in the ordinary conduct of business and certain tax assessments which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and legal counsel, the eventual liability under these claims, if any, will not have a material or adverse effect on the Globe Group's financial position and results of operations.

Globe is an intervenor in and Innove is a party to a civil case by virtue of which Globe and Innove, together with other cellular operators, sought and obtained a preliminary injunction against the implementation of NTC Memorandum Circular No. 13-6-2000 from the RTC of Quezon City. NTC MC 13-6-2000 prescribed new billing requirements for cellular service providers. The NTC appealed the issuance of the injunction to the Court of Appeals ("CA"). On 25 October 2001, the CA ordered the dismissal of the case before the RTC for lack of jurisdiction, but without prejudice to the wireless companies' seeking relief before the NTC, which the CA claims had jurisdiction over the matter. On 22 February 2002, a Petition for Review was filed with the Supreme Court ("SC") to annul and reverse the decision of the CA. The SC, on 2 September 2003, overturned the CA's earlier dismissal of the petitions filed by SMART and Globe. In its 13-page decision, the SC said that the Quezon City trial court could hear and decide the case, contrary to NTC's argument. The SC has also since denied the NTC's motion for reconsideration. Globe is currently awaiting resumption of the proceedings before the RTC of Quezon City.

On May 22, 2006, Innove received a copy of the Complaint of Subic Telecom Company ("Subictel"), Inc., a subsidiary of PLDT, seeking an injunction to stop the Subic Bay Metropolitan Authority and Innove from taking any actions to implement the Certificate of Public Convenience and Necessity granted by SBMA to Innove. Subictel claimed that the grant of a CPCN allowing Innove to offer certain telecommunications services within the Subic Bay Freeport Zone would violate the Joint Venture Agreement (“JVA”) between PLDT and SBMA. Innove has since filed its Opposition to the Prayer for Injunction with Motion to Dismiss, citing that SBMA is not entitled to an injunction on the basis of the grounds it has cited in the complaint, that an injunction in this case would be contrary to public policy, and that the complaint is forum-shopping since Subictel had already previously objected to the grant of the CPCN in the proceedings before the regulatory body. SBMA also filed its Opposition pointing out, among others, that Subictel is not a proper party in this case since Subictel is not a party to the JVA. The court granted Innove’s Motion to Dismiss and Subictel has filed a Motion for Reconsideration. The Motion for Reconsideration was subsequently denied and Subictel has appealed to the Court of Appeals. The appeal is pending.

On July 4, 2006, Smart Communications, Inc. (“Smart”) filed a letter-complaint with the National Telecommunications Commission (“NTC”) against the 500 free text promotion offered by Innove on its Speak and Surf product. The promotion allows Speak and Surf subscribers to send 500 free text messages to Globe and Touch Mobile subscribers. Smart complained that this promotion was predatory and discriminatory. On July 17 the NTC issued a Show-Cause order requiring Globe to explain its position on this matter. On July 25, 2006, Globe filed its answer. In its answer, Globe explained that Innove actually pays Globe the regular termination rate of ₽0.35 per text message, and that the cost of the “free” texts are sufficiently covered by the monthly service charge of ₽995 paid by Speak n’ Surf subscribers. In this light, the offer is neither discriminatory nor predatory. In its answer, Globe also extended an invitation to Smart and other networks to join the promotional offer. Globe is currently awaiting the disposition of the NTC on this matter.

MANILA WATER CO., INC.

The Company is not involved in any litigation it deems material.

MWCI became aware that certain individuals, claiming to represent consumer groups, filed a complaint with the Office of the Ombudsman against certain individual regulators from Metropolitan Waterworks and Sewerage System (“MWSS”), and MWCI’s President and members of the Board, alleging that the respondents conspired to defraud the consuming public, charge water rates over and beyond what is allowable by law and entered into agreements grossly disadvantageous to the government, such acts constituting the crimes of graft and plunder. MWCI understands that, in the complaint, the complainants allege that MWCI is a public utility and is therefore subject to the 12% return on rate base limit for public utilities. From the limited information available to MWCI, MWCI believes that the claims in the complaints are without merit. MWCI has not been given any formal notice to respond to or comment on such complaints. In addition, one of the six individuals that commenced the proceedings with the Office of the Ombudsman filed a complaint against MWCI with the Regional Trial Court (“RTC”), National Capital Judicial Region, on February 28, 2005. The complaint asks the RTC to issue an order permanently enjoining and restraining MWCI from charging more than 12% of its return on rate base. The RTC has dismissed the case.

A criminal complaint was also filed with the Office of the Ombudsman against members of the MWSS Board of Trustees and Regulatory Office and the presidents of MWCI and Maynilad Water Services, Inc. (“Maynilad”), for a violation of Republic Act No. 3019 and for ‘conduct prejudicial to the best interests of the service. The complaint arose from the water rate increases which became effective on January 1, 2005. MWCI believes that the Ombudsman will most likely dismiss the complaint.

In June 2006, the Freedom from Debt Coalition petitioned the Supreme Court to annul the ruling of the MWSS Board of Trustees that MWCI and Maynilad are not public utilities but agents and contractors of MWSS. While MWCI is not impleaded as a respondent, certain contingent, adverse, financial and regulatory consequences might result from a ruling granting the petition. The Company believes that it is not a public utility but an agent and contractor of the MWSS, which remains as the public utility, a position supported by Section 2.1 of the Concession Agreement, MWSS Board Resolution dated July 30, 2004, National Water Resources Board (“NWRB”) Resolution dated June

17, 2005, and a Memorandum from the Office of the Government Corporate Counsel dated June 1, 2005.

IMI, AAHC and BPI are not involved in any material pending legal proceedings.

OWNERSHIP

SHAREHOLDERS

Members of the Zobel de Ayala family, individually and through their control of Mermac, Inc., a private holding company incorporated in the Philippines, are the majority shareholders of and effectively control Ayala. Mermac, Inc. held 50.9% of Ayala as of September 30, 2007. Members of the Zobel de Ayala family have been involved in Ayala's business since its establishment in 1834. As of September 30, 2007, Ayala's other principal shareholders were Mitsubishi Corporation (10.6%) and Shoemart, Inc. (3.2%).

Ayala's 20 largest common shareholders as of September 30, 2007 were as follows:

	Name of Shareholder	No of shares	%	Nationality
1	Mermac, Inc.	210,895,275	50.95%	Filipino
2	PCD Nominee Corporation (Non-Filipino)	116,299,266	28.10%	Foreign
3	Mitsubishi Corporation	43,803,848	10.58%	Japanese
4	PCD Nominee Corporation (Filipino)	17,092,485	4.13%	Filipino
5	Shoemart, Inc.	13,356,674	3.23%	Filipino
6	Henry Sy, Sr.	1,080,530	0.26%	Filipino
7	AC ESOP/ESOWN Account – 2006	691,953	0.17%	Filipino
8	AC ESOP/ESOWN Account – 2005	629,108	0.15%	Filipino
9	Philippine Remnants Co., Inc.	571,560	0.14%	American
10	BPI TA 14105123 FAO Consuelo Zobel Alger Foundation	316,381	0.08%	Filipino
11	Cygnet Development Corporation	306,763	0.07%	Filipino
12	Mitsubishi Logistics	250,356	0.06%	Japanese
13	Antonio O. Olbes	195,993	0.05%	Filipino
14	Eduardo O. Olbes	163,328	0.04%	Filipino
15	Ariston Estrada, Jr.	161,040	0.04%	Filipino
16	AC ESOP/ESOWN Account	138,816	0.03%	Filipino
17	Tiu, Andre Jon	109,442	0.03%	Filipino
18	Telengtan Brothers & Sons, Inc.	95,040	0.02%	Filipino
19	Lucio Yan	88,887	0.02%	Filipino
20	Xavier Loinaz	87,476	0.02%	Filipino

* *Mermac, Inc. and Mitsubishi Corporation are not members of a group as defined in the Securities Regulation Code's implementing rules and regulations.*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following table summarizes the financial highlights of Ayala's consolidated financial performance:

Consolidated Income Statement Data in ₱ millions	(Unaudited) As of June 30		(Audited) As of December 31	
	2007	2006	2006	2005*
Income Statement Data				
Total revenues	41,007	35,716	70,166	50,543
Net income	12,792	8,404	14,468	10,090
Net income attributable to				
Equity holders of the parent	11,491	7,310	12,177	8,198
Minority interest	1,301	1,094	2,291	1,892

Consolidated Balance Sheet Data in ₱ millions	(Unaudited) As of June 30	(Audited) As of December 31	
	2007	2006	2005
Balance Sheet Data			
Assets			
Total current assets	62,359	58,012	46,508
Non-current accounts and notes receivable	3,891	2,520	5,631
Land and improvements – net	16,189	16,175	16,604
Investments in associates, joint ventures and others	69,514	68,569	63,808
Investments in bonds and other securities	5,189	3,462	2,073
Investment in real properties – net	16,347	16,795	17,012
Property, plant and equipment – net	9,097	9,057	9,917
Other non-current assets	7,631	7,742	6,293
Total assets	**190,217**	**182,332**	**167846**
Liabilities			
Total current liabilities	33,154	32,407	29,940
Long-term debt - net of current portion	33,739	38,518	46,507
Cumulative redeemable preferred shares – net of current portion	2,500	2,500	2,500
Other non-current liabilities	7,817	7,073	6,116
Minority interest	26,991	24,699	21,589
Equity attributable to equity holders of the parent	86,016	77,135	61,194
Total liabilities and equity	**190,217**	**182,332**	**167,846**

** Restated in 2006 to effect new accounting standards.*

KEY PERFORMANCE INDICATORS OF AYALA AND SUBSIDIARIES AND AFFILIATES

(in ₱ millions)

Ayala Corporation (Consolidated)

	June 30, 2007	June 30, 2006	Dec 31, 2006	Dec 31, 2005
Revenues	41,007	35,716	70,166	50,543
Net Income	11,491	7,310	12,177	8,198
Total Assets	190,217	177,533	182,332	167,846
Total Debt	47,082	53,930	52,881	60,377
Stockholder's Equity	86,016	66,312	77,136	61,194
Current Ratio	1.88 x	1.43 x	1.70 x	1.55 x
Debt-to-Equity Ratio	0.55 x	0.81 x	0.69 x	0.99 x

- Current ratio is the ratio between current assets or near-cash items, such as cash, accounts receivable and inventories, among others, and current or short-term liabilities, which include accounts payable, short-term debt and income tax, etc. and which are payable within one year. Thus, at end-2006, Ayala's current ratio of 1.79x implies that for every unit of short-term liability, there corresponds over a unit and a half of near-cash assets. At end-2005 Ayala had 1.55 units of current assets for every current liability.

- Debt-to-equity ratio of 0.69x as at end-2006 means that Ayala's amount of total debt was equivalent to sixty-nine percent (69%) of the amount of shareholders' funds.

Ayala Land, Inc.

₱ millions	December 31, 2006	December 31, 2005
Revenues	25,559	21,375
Net Income	3,866	3,617
Total Assets	78,196	71,810
Total Debt	13,116	10,723
Stockholder's Equity	40,597	38,448
Current Ratio	1.64	1.55
Debt-to-Equity Ratio	0.32	0.28

** As restated*

- Each unit of short-term liability of Ayala Land corresponds to 1.64 units of its near-cash assets at end-2006.
- Debt-to-equity ratio of 0.32 means that debt was only 32% of Ayala Land's stockholders' equity.

Bank of the Philippine Islands

₱ millions	December 31, 2006	December 31, 2005
Interest Income	33,754	30,537
Net Income	9,040	8,383
Total Resources	581,970	529,285
Total Liabilities	516,483	469,217
Capital Funds	581,970	60,068

Globe Telecom, Inc.

₱ millions	December 31, 2006	December 31, 2005
Net Operating Revenues	59,949	58,748
Net Income	11,755	10,315
Total Assets	124,580	125,102
Total Debt	39,207	49,693
Stockholder's Equity	56,948	51,619
Current Ratio	0.94	0.90
Debt-to-Equity Ratio	0.69	0.96

- Globe's short-term liabilities are almost equivalent to near-cash assets, with a current ratio of 0.94:1 at end-2006.
- Globe's debt level dropped from 0.96:1 at end-2005 to 0.69:1 at end-2006.

FOR SIX MONTHS ENDED JUNE 30, 2007

Ayala's consolidated net income in the first half of 2007 reached P11.5 billion, 57% higher than earnings in the first half of 2006. Despite the impact of some exceptional items, the fundamental operating performance of its major business units remained strong and kept equity earnings stable year-on-year at P6.4 billion. This combined with value realization initiatives and significantly lower financing expense drove overall earnings higher.

Ayala President and Chief Operating Officer, Fernando Zobel de Ayala said, "we are pleased to see the underlying strength of our key businesses. We continue to see strong demand across most of our businesses with our telecom and banking units in particular achieving record revenue growth in the second quarter. Clearly this is reflective of the positive trends we have been seeing in the broader economy as we continue to see healthy domestic consumption underpinning the growth in the consumer and services sector."

Property unit Ayala Land, Inc., which accounts for 18% of the group's equity earnings, posted a 12% net income growth to P2.1 billion. Demand for Ayala Land's projects remained strong across most business lines. Overall demand for residential projects continued to grow with unit bookings up 69% versus the same period last year. Revenues from shopping centers were up 9% driven by higher average occupancy rate and higher average rent. Net operating income margins also improved for the Company's major business lines. Ayala Land's earnings would actually have grown by a more robust rate of 24% year-on-year, excluding the after-tax impact of gains from the sale of Oakwood this year and the Atrium last year.

Banking unit Bank of the Philippine Islands (BPI) turned in a 24% increase in net income to P5.7 billion for the first semester. Total revenues were up 18% driven by higher net interest and non-interest income. Net interest income grew by 7% despite lower net interest margins, due to a 10% improvement in its average asset base. Non-interest income grew by 37% with the strong earnings of the bank's insurance subsidiaries, higher income from asset sales, rental income, and foreign exchange and securities trading gains. The bank maintains its leadership in the trust business with over P230 billion in assets managed. Loan growth was more robust at 11%, the fastest organically driven growth recorded in the past seven years and ahead of industry's 6.1%. Lending growth was noted in all sectors but SME/middle market showed the strongest at 13%, while mortgage loans in the consumer sector were the highest with an 18% improvement. With the sale of an additional P3.6 billion worth of NPLs, BPI's NPL fell further to 4.2% from 6.1% a year ago and is lower than the industry's 5.3% (as of May-07).

Its telecom business, Globe Telecom, recorded historical high revenues and core net income in the second quarter. Overall, wireless service revenues expanded by 12% in the first semester mainly driven by the sustained popularity of unlimited SMS and bucket voice offers, as well as higher prepaid top-up levels. Wireless subscribers now total over 18 million, 30% higher versus June 2006 levels. Its wireline business continued to register modest growth with revenues up 3% driven by the continued growth of the broadband segment following significant improvements in its broadband subscriber base. Consolidated EBITDA and EBIT increased by 11% and 15% year-on-year, to P20.9 billion and P12.6 billion, respectively. EBITDA margins stood at a healthy 66%, while EBIT margins were at 40% from 38% last year. This puts Globe's net income after tax as of the first half of the year at P6.4 billion, 12% higher year-on-year. Excluding the impact of the bond redemption costs and foreign exchange mark-to-market gains or losses in the first quarter of this year, core net earnings of P7.4 billion for the first half grew faster at 20% from last year's P6.1 billion.

MWC posted an 18% growth in operating revenues in the first half of the year to P3.5 billion. This was attributed to higher billed volumes, which reached a record high of 1.05 billion liters per day, a 13% increase year-on-year. This was an offshoot of its expansion programs which enabled the Company to add 61,000 new household connections during the first six months, bringing total households served to 953,000. With consistent improvements in operating efficiency, non-revenue water (NRW) dropped further to 25% as of end June, four percentage points lower than the previous year's level. While pre-tax income rose by 30%, the expiration of the Company's income tax holiday in 2006 pushed net income 9% lower to P1.1 billion for the first half of the year.

Its electronics business, Integrated Microelectronics, Inc. posted a 4% growth in revenues to US$199 million but higher general and administrative expenses related to its integration projects resulted in a 30% decline in net income during the period. IMI remains competitive in the global market notwithstanding the recent appreciation of the peso given its strong customer relationships and proven capability to deliver quality products and services to its global customers. It recently expanded its manufacturing capacity with a 12,500 square-foot facility in Shenzhen, which is its fifth plant in China.

Proceeds from Ayala's value realization initiatives and healthy dividend flows from subsidiaries put the parent's cash level at P20 billion by the end of the first half, giving the Company flexibility to further reduce debt and financing expenses. Net debt as of the end of the first semester was at P13 billion with net debt to equity at 0.15 to 1 from 0.29 to 1 at the start of the year. The Company continued to aggressively pre-pay debt and refinance existing obligations to take advantage of the low interest rate environment. Year-to-date July it has pre-paid around P7 billion in outstanding loans and lowered financing cost.

Ayala Chairman and CEO, Jaime Augusto Zobel de Ayala noted, "the group's financial position is at its strongest in the past decade and we are pursuing our efforts to expand the group's growth platform in new sectors. We continue to nurture our initial investments in the BPO space and continue to explore other industries that are beginning to open up and presenting opportunities for broader private sector participation."

FOR TWELVE MONTHS ENDED DECEMBER 31, 2006

It was another record year for Ayala Corporation as net income reached an all-time high of P12.2 billion, 49% higher than 2005 net income of P8.2 billion. This was a result of the strong earnings of the operating units, lower interest expense, and gains from share sales. At the holding Company level, equity earnings excluding dilution gains booked in 2005 grew by 12% to P12.3 billion as all key businesses posted significant earnings growth. Earnings were further enhanced by capital gains of P4.7 billion from the sale of shares in Ayala Land, BPI, and Globe. This monetization initiative is in line with the Company's strategy to realize values from existing investments and reallocate resources into new high growth businesses as well as further reduce debt. Net debt at the holding Company level by year-end was significantly lower at US$462 million.

On a consolidated basis, sales and services rose by 54% to P53.4 billion. The substantial increase is attributed to Ayala Land's increased sales of land and condominium units during the year as demand remained brisk for residential projects across all market segments. Its revenues from its commercial center operations likewise contributed to the strong revenue growth as the year saw higher basic rent, the full operation of Phase 1B of Market! Market!, and higher occupancy rates. The electronics business also contributed to pushing consolidated revenues higher as IMI's revenues more than doubled during the year, reflecting the impact of the acquisition of Speedy Tech as well as organic growth. The auto dealerships likewise contributed to revenue growth with Ayala Auto's sales up 24% year-on-year.

Equity in net earnings of associates and joint ventures was relatively flat in 2006 at P8.3 billion as 2005 included dilution gains from the initial public offering of MWC in March 2005. This primarily reflects Ayala's share in the net earnings of BPI, Globe, and MWC. All three businesses posted record net income in 2006, with BPI's up 8% to P9.0 billion, Globe up 14% to P11.8 billion, and MWC's by 19% to P2.4 billion.

Interest fees, rental, investment and other income grew by 11% to P8.5 billion largely due to gains from the sale of shares of Ayala Land, BPI, and Globe. Ayala monetized some of these shares in view of new investments it is currently making in the business process outsourcing sector as well as an investment in a private equity real estate fund which has development projects lined up overseas. The sale of these shares allowed us to realize values from these long-time investments and also gave us the flexibility to pay out, for the first time in a decade, special cash dividends to shareholders.

Consolidated cost of sales and services increased by 56% to P40.9 billion and moved much in line with revenue growth. General and administrative expenses increased by 28% to P7.7 billion as a result of higher payroll costs due to additional hiring to support the expansion initiatives at IMI and Ayala Land.

Consolidated interest and other charges declined by 28% to P5.4 billion. This was a result of a combination of lower debt at the parent level as well as Ayala Land's asset write-offs in 2005. Consolidated cash and cash equivalents increased slightly to P23.1 billion as of year-end 2006 from P24.0 billion at the beginning of the year. The increase was mainly due to higher cash levels at the parent level given the strong cash dividend flows upstreamed by the operating units and various fund raising initiatives. Total cash dividends received from subsidiaries reached P5.5 billion.

By year-end 2006, net debt at the parent Company level declined to US$462 million from US$563 million at the beginning of the year. A portion of our debt was paid in 2006 through the issuance of P5.8 billion in Series B preferred shares which now forms part of our stockholders' equity. While the preferred B shares do not have a fixed redemption period, Ayala has the option to redeem these shares after five years. This has caused the Company's debt mix to move substantially in favor of the peso with 69% of the debt in local currency and 31% in US dollars. The current level of net debt puts the net debt-to-equity ratio down to 0.29 to 1 from 0.49 to 1 at the beginning of the year.

At the consolidated level, total debt also declined by 12% to P52.9 billion from P60.4 billion with consolidated net debt to equity at 0.39 to 1. Total stockholders' equity at year-end reached P77.1 billion up 26% from the previous year.

In the Philippine Stock Exchange, the Company's stock price closed at a year-high of P590.00 per share, buoyed by the Company's positive fundamentals and the market's generally robust performance. The strong peso, steady inflation, interest rates at all-time lows, sustained economic growth and well contained budget deficit have all contributed to sustaining the market's bullish momentum. The generally upbeat mood throughout the year pushed the Philippine Composite Index (Phisix) to close 42% higher year-on-year at 2,982.54.

Ayala's listed operating units performed well. Ayala Land closed the year with a 54% increase in its share price to P15.25. BPI rose 40% to P63.50 at year-end. Globe advanced 68% to P1,235.00 and MWC gained 52% to close at P9.40.

Ayala Corporation's market capitalization at the end of the year reached P203.45 billion, the third highest among locally listed issues. Collectively, the market cap of the five listed Ayala companies accounted for 29% of the Phisix's total market capitalization. The 87% increase in Ayala's share price from its yearend 2005 level and the higher full-year dividend yield of around 2% resulted in an estimated total return to shareholders of 89% from end-2005.

FOR TWELVE MONTHS ENDED DECEMBER 31, 2005

INCOME STATEMENT

2005 was a banner year for Ayala as consolidated net income reached a record of ₱8.2 billion, a 11.5% growth from 2004 net income of ₱7.4 billion. This was largely the result of the collective strong performance of Ayala's key operating subsidiaries which resulted in a 10% growth of its equity earnings as well as gains from share sales. In 2005, a total of ₱1.1 billion in capital gains were realized at the holding company level from the sale of shares in MWC and ALI. Dilution gains were likewise realized primarily from the MWC IPO, the merger of Ayala's electronics subsidiary with Speedy Tech, and BPI's acquisition of Prudential Bank. Excluding gains, 2005 net income would be 21% higher than recurring net income in 2004.

On a consolidated basis, sales and services grew 15% to ₱35.3 billion. This primarily captures the robust revenues of the Company's property subsidiary combined with higher sales from IMI. The successful launch of new residential development projects, higher leasing revenues from shopping centers, office buildings and hotels as well as higher construction revenues boosted topline growth. This was further pushed by higher sales volumes of IMI as volume orders from existing businesses and incremental contribution from the operations of newly acquired companies pushed IMI's revenues by 63% year-on-year.

Ayala's equity in net earnings of associates and joint ventures increased by 8% to ₱8.2 billion, reflecting its higher share in net earnings from operating subsidiaries. BPI posted a record net income for the year of ₱8.4 billion, pushing Ayala's equity earnings from the banking subsidiary higher by 24%. MWC also posted a historic high income of ₱2.0 billion, increasing Ayala's equity earnings from this subsidiary by 70%. The latter includes dilution gains from MWC's IPO in March 2005. Growth in equity earnings however was partly capped by lower equity earnings from Ayala's telecom subsidiary Globe. Globe registered lower earnings during the year as a result of higher network and marketing related expenses exacerbated by a higher provision for taxes following the expiration of its income tax holiday. Ayala remains confident of Globe's profitability and growth potential moving forward as it continues to strengthen its competitive position with an expanded network coverage, a range of innovative value add services, better cost management and as it uses new technology to tap into new revenue streams. Globe has achieved a positive momentum and ended 2005 on a strong note as it posted a historic high income in the fourth quarter.

Consolidated interest, rental and other investment income increased by 30% to ₱6.7 billion due mainly to ALI's gains from the sale of its stake in the MRT-3 project in the first quarter of the year.

Consolidated cost of sales and services increased by 20% to ₱26.9 billion along with the increase in sales volume and also due to the shift of some IMI customers from consignment to turnkey arrangement which includes material costs. General and administrative expenses increased by 12% to ₱5.9 billion mainly due to higher payroll costs given the expansion moves of some of the Company's subsidiaries. Consolidated interest and other charges likewise increased by 12% to ₱7.5 billion largely as a result of asset write-offs by the real estate group. Interest expense, however, was lower as consolidated debt declined.

BALANCE SHEET

The Group's overall financial position continued to improve. In 2005, consolidated gross debt decreased by 19% to ₱60.4 billion while debt at the parent level was reduced further to ₱44.9 billion from ₱60.6 billion at the beginning of the year. This resulted in a drop in parent level financing cost by 17% as debt mix also continued to move in favor of peso-denominated loans. At year-end, debt mix at the holding company level was at 61% Peso and 39% U.S. Dollars as Ayala took advantage of opportunities to shift its dollar-denominated borrowings to peso when appropriate. Following its landmark offer of ₱7.0 billion peso bonds in 2004, Ayala issued in 2005 two Peso fixed rate notes - a five-year ₱3.0 billion peso note and another seven-year ₱4.2-billion peso note - in line with this strategy.

Ayala's consolidated cash and cash equivalents decreased by 30% as of year-end to ₱24.6 billion as loans of about ₱20.7 billion were paid down mainly at the parent level. Cash at the parent level also decreased to ₱15.0 billion or roughly U.S.$283 million. This, however, was partly offset by higher cash dividends received from subsidiaries. Cash dividends received from subsidiaries reached its highest in 2005 to ₱6.7 billion.

Consolidated net debt-to-equity improved further to 0.58 to 1 from 0.74 to 1 while net debt-to-equity at the parent level likewise improved to 0.49 to 1 from 0.68 to 1. Total stockholders' equity at year end reached ₱61.3 billion, up 15% from the previous year.

FOR TWELVE MONTHS ENDED DECEMBER 31, 2004
(Not restated to conform to Philippine Financial Reporting Standards)

INCOME STATEMENT

In 2004, Ayala earned a net income of ₱7.1 billion, 130% higher than 2003. The strong performance was driven by the robust growth of key operating subsidiaries and affiliates and was further enhanced by a ₱2.6 billion gain from the sale of the company's 5% stake in Globe.

Consolidated revenues grew 17% to ₱43.7 billion due to higher sales of subsidiaries, particularly ALI and IMI. ALI revenues rose 23% during the year driven by increased sales of residential units across nearly all segments and higher rental income from retail and office building operations. IMI revenues increased 21% with the sustained high demand from its key customers. AAHC however registered a decline in revenues of 23% as the domestic auto industry continued to face challenges from the new excise tax scheme, which negatively impacted demand for AUVs.

Consolidated costs and expenses were well managed, pushing aggregate gross margin two percentage points higher. IMI substantially improved profitability with improved efficiencies and better utilization of overhead. While ALI's gross margin contracted slightly as a result of the shift in product mix to lower margin products, AAHC gross margin remained stable. The three subsidiaries combined accounted for about 74% of consolidated revenues.

Equity in net earnings of associates and other investment income contributed substantially to earnings and was 1.5 times higher than last year. The increase was underpinned by a 21% growth in equity earnings from Globe, BPI and MWC, and capital gains from the Company's sale of Globe shares as well as real properties by AIPL. Of the total equity earnings generated for the year, Globe contributed 41%, while ALI and BPI each contributed 19% and 18%, respectively. The balance of 22% was accounted for by companies under AC Capital.

Consolidated general and administrative expenses increased by 16% due mainly to additional expenses related to the expansion of ALI subsidiaries such as Ayala Land Sales, CII and Serendra. Provisions for retirement fund contributions also accounted for the increase in general and administrative expenses. Consolidated interest and other financing charges meanwhile increased mildly by 3% with a higher loan balance at the parent level as the company pre-funded debt maturing in early 2005 (see Balance Sheet).

BALANCE SHEET

Ayala ended 2004 with consolidated assets of ₽167.9 billion, 14% higher than 2003. Current assets amounted to ₽53.2 billion, maintaining a healthy current ratio of 1.86:1. Total cash and cash equivalents increased 95% to ₽34.9 billion, with most of the increase accounted for at the parent level following proceeds from new loans availed to refinance existing debt. In 2004, Ayala Corporation issued a ₽7.0 billion five-year bond, the biggest offer by a corporate issuer in the Philippine capital markets, as part of its efforts to shift dollar denominated loans to peso. The bond was rated triple A by Philratings and was priced tightly at 12.677% p.a., relative to the five-year market benchmark. As of year end, debt mix at the parent level improved substantially to 58% U.S. Dollars and 42% Peso from 73% U.S. Dollars and 27% Peso at the end of the previous year. In addition, higher dividends received from subsidiaries also boosted cash levels. The increase in consolidated cash was also aided in part by proceeds from the sale of ALI's stake in Pilipinas Makro, office units at Ayala Life FGU as well as AIPL's proceeds from the sale of Grosvenor Place.

Consolidated gross debt increased to ₽68.0 billion mainly as a result of refinancing efforts at the parent level. About 80% of consolidated debt is held at the parent level, up from ₽45.0 billion or 75% of consolidated debt in 2003. Consolidated net debt however declined to ₽33.0 billion from ₽42.0 billion the previous year as ALI reduced its debt. Ayala's consolidated net debt-to-equity ratio improved to 0.57 to 1 during the year from 0.78 to 1. Ayala's stockholders' equity stood at ₽59.0 billion at year-end 2004, 9.3% higher than the previous year.

Causes for any material changes
(Increase or decrease of 5% or more in the financial statements)

Balance Sheet items
(2006 Vs 2005)

Accounts and notes receivable **–** *54% increase from P11,308mln to P17,470mln*

Largely due to receivables from the sale of shares, increased sales at new and existing projects and higher corporate withholding tax by the real estate group, advances by the international group to finance new investments and increased sales by the electronics, information technology and business process outsourcing services and automotive groups. As a percentage to total assets, accounts and notes receivable increased from 7% as of December 31, 2005 to 10% as of December 31, 2006.

Inventories **–** *9% increase from P8,999mln to P9,804mln*

Attributable to the real estate group's construction accomplishment at residential building projects and continued development of residential subdivision projects. Inventories remained at 5% of the total assets as of December 31, 2006 and December 31, 2005.

Other current assets **–** *81% increase from P2,190mln to P3,961mln*

Due to advances on land, increase in marketable securities and higher input VAT by the real estate group, inclusion of accounts of a new subsidiary under the electronics, information technology and business process outsourcing services group and additional investments in marketable securities by the international group. Other current assets increased to 2% of the total assets as of December 31, 2006 from 1% as of December 31, 2005.

Noncurrent assets held for sale – 100% increase to P3,658mln

Represents total assets of Makati Property Ventures Inc., a member of the real estate group and investment in Hermill Investment Pte. Ltd. of the international group classified as noncurrent assets held for sale.

Noncurrent account and notes receivable – 55% decrease from P5,631mln to P2,520mln

Mainly due to sale of receivables by one of the companies of the real estate group. As a percentage to total assets, noncurrent account and notes receivable slightly decreased from 3% as of December 31, 2005 to 1% as of December 31, 2006.

Investments in associates and joint ventures – 7% increase from P63,808mln to P68,569mln

Investments in associates joint ventures and others includes the Company's and its subsidiaries' investments in various affiliates which are being accounted for under the equity method. These affiliates are Bank of the Philippine Islands, Globe Telecom and MWC Corporation, among others. The increase is largely due to the 2006 equity in earnings from affiliates and additional equity infusion by subsidiaries in an Asian private equity real estate fund and fund management Company. This account is 38% of the total assets as of December 31, 2005 and December 31, 2006.

Investment in bonds and other securities – 67% increase from P2,073mln to P3,462mln

Primarily due to new investments made in 2006 by the electronics, information technology and business process outsourcing services group and revaluation of investments partly offset by the sale of securities at the Parent Company level. As a percentage to total assets, this account is 2% and 1% as of December 31, 2006 and December 31, 2005, respectively.

Property, plant and equipment – 9% decrease from P9,918mln to P9,057mln

Reclassification by the real estate group to Noncurrent assets held for sale partly offset by the inclusion of assets of the newly acquired subsidiaries under the electronics, information technology and business process outsourcing services group. This account is 6% and 5% of the total assets as of December 31, 2005 and December 31, 2006, respectively.

Pension assets – 14% decrease from P236mln to P203mln

Lower pension assets of the electronics, information technology and business process outsourcing services group. This account remained at 0.1% of the total assets as of December 31, 2006 and December 31, 2005.

Intangible Assets– 55% increase from P2,996mln to P4,129mln4,631mln

Largely due to the acquisition of a new subsidiary partly offset by the amortization of intangible assets by the electronics, information technology and business process outsourcing services group. As a percentage to total assets, this account is 3% as of December 31, 2006 and 2% as of December 31, 2005.

Other noncurrent assets – 8% decrease from P1,947mln to P1,785mln

Due to liquidation of advances made by the real estate group to a landowner and lower deferred charges by the Parent Company. As a percentage to total assets, this account remained at 1% as of December 31, 2005 and December 31, 2006.

Accounts payable and accrued expenses –6% increase from P17,311mln to P18,326mln

Primarily due to higher payables to contractors and suppliers and higher VAT and expanded withholding tax payable by the real estate group, inclusion of payables of the newly acquired companies of the electronics, information technology and business process outsourcing services group and the Parent Company's higher dividends payable partly offset by lower interest payable due to lower loan balance.

As of December 31, 2006 and December 31, 2005, this account is at 23% and 20% of the total liabilities, respectively.

Short-term debt – 59% decrease from P6,154mln to P2,504mln

Largely due to payment of short-term debt by the electronics, information technology and business process outsourcing services group used to finance acquisition of new companies in 2005. As of December 31, 2006 and December 31, 2005, this account is at 3% and 7% of the total liabilities, respectively.

Income-tax payable – 8% increase from P273mln to P296mln

Due to higher income subject to income tax.

Current portion of long-term debt – 214% increase from P2,985mln to P9,360mln

Reclassification of the real estate group's P3bln bonds which will mature in April 2007, as well as reclassification of the Parent Company's and the electronics, information technology and business process outsourcing services group's current maturing loans. As a percentage to total liabilities, current portion of long-term debt is 12% and 4% as of December 31, 2006 and December 31, 2005, respectively.

Cumulative redeemable preferred shares (current portion) – 100% decrease from P2,230mln

Redemption of the P2,230mln redeemable preferred shares in 2006 by the Parent Company. As a percentage to total liabilities, the cumulative redeemable preferred shares is 3% as of December 31, 2005.

Other current liabilities – 47% increase from P986mln to P1,453mln

Largely due to higher buyer deposits from various residential projects by the real estate group and revaluation of advances by the Parent Company. This is 2% and 1% of the total liabilities as of December 31, 2006 and December 31, 2005, respectively.

Liabilities Directly Associated with Noncurrent Assets Held for Sale– 100% increase to P469mln

Represents total liabilities of Makati Property Ventures Inc., a member of the real estate group classified as noncurrent assets held for sale.

Long-term debt – 17% decrease from P46,507mln to P38,518mln

Mainly due to payment of loans and reclassification to current portion. As a percentage to total liabilities, long-term debt is at 48% and 55% as of December 31, 2006 and December 31, 2005, respectively.

Deferred tax liabilities **–** *42% increase from P312mln to P444mln*

Higher tax liability from prior years' installment sales of the real estate group due to shift in revenue recognition from percentage of collection to percentage of completion. As a percentage to total liabilities this account is 0.6% as of December 31, 2006 and 0.4% as of December 31, 2005.

Pension and other benefits – 12% increase from P434mln to P488mln

Mainly due to the Parent Company's increase in retirement fund contribution. As a percentage to total liabilities, pension and other benefits slightly increased from 0.5% as of December 31, 2005 to 0.6% as of December 31, 2006.

Other noncurrent liabilities **–** *14% increase from P5,370mln to P6,141mln*

Higher retention payable and deferred interest income by the real estate group. As a percentage to total liabilities, this account is at 8% as of December 31, 2006 and 6% as of December 31, 2005.

Paid-up-Capital **–** *36% increase from P16,960mln to P23,138mln*

Due mainly to the issuance of P5.8bln preferred shares in 2006.

Share-based payments **–** *15% decrease from P656mln to P558mln*

Mainly due to additional stock options exercised.

Cumulative translation adjustment **–** *151% decrease from P587mln to (P298mln)*

Mainly due to forex rate changes.

Net unrealized gain on available-for-sale investments 335% increase from P478mln to P2,079mln

Largely to increase in value of various investments of an affiliate bank and the electronics, information technology and business process outsourcing services group.

Minority interest **–** *14% increase from P21,590mln to P24,699mln*

Largely due to share of minority holders in the 2006 net income and increased share due to sale of shares by the equity holders of Ayala Corporation.

Income Statement items
(YTD December 2006 Vs YTD December 2005)

Sales and services **–** *54% increase from P34,638mln to P53,394mln*

Higher revenues from residential developments, shopping centers, office rentals and support businesses of the real estate group, contributions from the operations of newly acquired companies by the electronics, information technology and business process outsourcing services group and higher sales volume by the automotive group.

Sales and services contributed 76% and 69% of the total revenue in 2006 and in 2005, respectively.

Equity in net earnings of associates and joint ventures – 0.6% increase from P8,202mln to P8,253mln

Largely due to higher share in net earnings from various affiliates such as Bank of the Philippine Islands, Globe Telecom and Ayala Land Inc.'s affiliates such as Alabang Commercial Corporation and Cebu Holdings, Inc., partly offset by the absence of dilution gain arising from MWC Corporation's initial public offering in 2005.

In 2006, this account is 12% of the total revenue lower than the 16% in 2005.

Interest fees, rental investment and other income – 11% increase from P7,702mln to P8,519mln

Largely due to capital gains from sale of shares in 2006. This account is 12% of the total income in 2006, lower than the 15% in 2005.

Cost of sales and services – 56% increase from P26,170mln to P40,857mln

Relative to higher sales. This account is 76% of total costs and expenses in 2006 compared to 66% in 2005.

General and administrative expenses –28% increase from P6,011mln to P7,708mln

Due to higher payroll and benefits costs and expansion of some subsidiaries. This amount is 14% of total costs and expenses in 2006, lower than the 15% in 2005.

Interest and other charges – 28% decrease from P7,563mln to P5,411mln

Due to provisions for decline in value of assets intended to be sold and write-off of deferred charges of the real estate group in 2005 and lower interest payables due to lower debt levels in 2006 at the parent Company level. This account is 10% of total costs and expenses in 2006 and significantly lower than the 19% in 2005.

Provision for income tax – 124% increase from P839mln to P1,877mln

Lower final tax rate in 2005 on capital gains in AIVI transaction coupled with higher corporate income tax rate in 2006.

Balance Sheet items
(2005 Vs 2004)

Cash and cash equivalents – 30% decrease from ₱34.94 billion to ₱24.61 billion

Due to payment of loans, disbursements by some subsidiaries for new investments, redemption of preferred shares partly offset by proceeds from sale of shares of stocks, cash dividends received net of dividends paid. As a percentage to total assets, cash and cash equivalents decreased from 20% to 14% as of December 31, 2004 and December 31, 2005, respectively.

Accounts and notes receivable – 12% increase from ₱12.56 billion to ₱14.03 billion

Receivables of newly acquired companies by the electronics and information technology group partly offset by the sale of receivables by the real estate group. As a percentage to total assets, accounts and notes receivable slightly increased from 7% as of December 31, 2004 to 8% as of December 31, 2005.

Inventories **–** *39% increase from ₱6.48 billion to ₱9.0 billion*

Primarily due to the higher direct materials inventory level as a result of increased production orders of the electronics and information technology group and reclassification of a real estate property in Makati City to inventories by the real estate group. Inventories were 5% and 4% of the total assets as of December 31, 2005 and December 31, 2004, respectively.

Non-current account and notes receivable – 23% increase from ₱6.93 billion to ₱8.52 billion

Largely due to increase in installment sales by the real estate group. As a percentage to total assets, non-current account and notes receivable slightly increased from 4% as of December 31, 2004 to 5% as of December 31, 2005.

Land and improvements – 10% decrease from ₱17.99 billion to ₱16.16 billion

Due to reclassification of a Makati City property to inventories. This account was 9% and 10% of the total assets as of December 31, 2005 and December 31, 2004, respectively.

Investments in associates and joint ventures – 3% increase from ₱60.43 billion to ₱62.08 billion

Investments in associates joint ventures and others includes the Company's and its subsidiaries' investments in various affiliates which are being accounted for under the equity method. Among these affiliates are BPI, Globe and MWC, among others.

The increase is largely due to the 2005 equity in earnings from affiliates which was partly offset by the decrease in shareholdings in some affiliates. This account is 36% of the total assets as of December 31, 2005 and 35% as of December 31, 2004.

Investment in bonds and other securities – 6% decrease from ₱2.58 billion to ₱2.44 billion

Due to sale of Astoria Investment Ventures, Inc. preferred shares and fair value losses on some club share investments by the real estate group. This account was 1% and 2% of the total assets as of December 31, 2005 and December 31, 2004, respectively.

Investments in properties – net –5% increase from ₱17.44 billion to ₱18.31 billion

Largely due to investments in new office and shopping center projects. This account was 11% and 10% of the total assets as of December 31, 2005 and December 31, 2004, respectively.

Property, plant and equipment – 21% increase from ₱8.00 billion to ₱9.69 billion

Acquisition of new machineries and equipment and inclusion of assets of the newly acquired companies by the electronics and information technology group. This account was 6% and 5% of the total assets as of December 31, 2005 and December 31, 2004, respectively.

Deferred tax assets – 59% increase from ₱829 million to ₱1.32 billion

Due to deferred tax assets related to provisions made. As a percentage to total assets, this account was 0.8% as of December 31, 2005 and 0.5% as of December 31, 2004.

Pension assets – 103% increase from ₱117 million to ₱236 million

Higher pension assets of the electronics and information technology group. This account remained at 0.1% of the total assets as of December 31, 2005 and December 31, 2004.

Goodwill – 1,107% increase from ₱297million to ₱3.58 billion

Largely due the Asset Purchase Agreement entered into by the electronics and information technology group. As a percentage to total assets, this account was 2% as of December 31, 2005 and 0.2% as of December 31, 2004.

Other noncurrent assets – 27% increase from ₱1.44 billion to ₱1.83 billion

Due to deposit made for Manila Jockey Club's 6.5-hectare property. As a percentage to total assets, this account was 1% and 0.8% as of December 31, 2005 and as of December 31, 2004, respectively.

Accounts payable and accrued expenses – 45% increase from ₱9.51 billion to ₱13.81 billion

Primarily due to higher materials payable, increased accruals and inclusion of payables of the newly acquired companies of the electronics and information technology group and increase in contractors payable of the real estate group. As of December 31, 2005 and December 31, 2004, this account was at 15% and 10% of the total liabilities, respectively.

Short-term debt – 183% increase from ₱2.17 billion to ₱6.15 billion

Short-term borrowings by the electronics and information technology group used to finance acquisition of new companies, partly offset by the repayment of loans by the real estate group. As of December 31, 2005 and December 31, 2004, this account was at 7% and 2% of the total liabilities, respectively.

Current portion of long-term debt – 77% decrease from ₱13.18 billion to ₱2.99 billion

Mainly due to payment of loans. As a percentage to total liabilities, current portion of long-term was 3% and 13% as of December 31, 2005 and December 31, 2004, respectively.

Estimated liability for land and property development (current portion) – 27% increase from ₱3.04 billion to ₱3.88 billion

Due to new sales at existing and new projects. This account was 4% and 3% of the total liabilities as of December 31, 2005 and December 31, 2004, respectively.

Cumulative redeemable preferred shares (current portion) – 76% increase from ₱1.27 billion to ₱2.23 billion

Current maturing redeemable preferred shares in 2005. In 2004, preferred shares amounting to ₱1.270 billion were redeemed. As a percentage to total liabilities, the cumulative redeemable preferred shares were 2% and 1% as of December 31, 2005 and December 31, 2004, respectively.

Unrealized gain on real estate sales (current portion) – 55% increase from ₱720.0 million to ₱1.11 billion

Due to new sales at existing and new real estate projects. As a percentage to total liabilities, unrealized gain on real estate sales was 1% and 0.7% as of December 31, 2005 and December 31, 2004, respectively.

Other current liabilities – 56% increase from ₱339.0 million to ₱529.0 million

Other current liabilities of the newly acquired companies by the electronics and information technology group. As a percentage to total liabilities, other current liabilities were 0.6% and 0.3% as of December 31, 2005 and December 31, 2004, respectively.

Long-term debt – 12% decrease from ₱52.91 billion to ₱46.51 billion

Mainly due to payment of loans. As a percentage to total liabilities, long-term debt was at 51% and 54% as of December 31, 2005 and December 31, 2004, respectively.

Cumulative redeemable preferred shares (noncurrent portion) – 47% decrease from ₱4.73 billion to ₱2.5 billion

Reclassification of redeemable preferred shares to current. As a percentage to total liabilities, cumulative redeemable preferred shares were 3% and 5% as of December 31, 2005 and December 31, 2004, respectively.

Unrealized gain on real estate sales (non-current portion) – 27% decrease from ₱2.37 billion to ₱1.73 billion

Due to reclassification to current portion of unrealized gain on real estate sales. As a percentage to total liabilities, unrealized gain on real estate sales remained at 2% as of December 31, 2005 and December 31, 2004.

Deferred tax liabilities – 21% decrease from ₱396 million to ₱312 million

Reversal of tax provision in 2005. As a percentage to total liabilities this account was 0.3% as of December 31, 2005 and 0.4% as of December 31, 2004.

Pension and other benefits – 56% decrease from ₱1.04 billion to ₱458 million

Mainly due to high 2004 base following set up of transitional liability representing benefit obligation and funding of fund deficiency. As a percentage to total liabilities, pension and other benefits decreased from 1% as of December 31, 2004 to 0.5% as of December 31, 2005.

Other noncurrent liabilities – 25% increase from ₱4.56 billion to ₱5.72 billion

Increase in tenants' and buyers' deposits. As a percentage to total liabilities, this account remained at 6% as of December 31, 2005 and 5% as of December 31, 2004.

Cumulative translation adjustment – 41% decrease from ₱1.16 billion to ₱688.0 million

Mainly due to foreign exchange rate changes.

Share-based payments – 65% increase from ₱397.0 million to ₱656.0 million

Mainly due to amortization of stock options granted.

Net unrealized gain on available-for-sale investments - from nil to ₱478.0 million

Relative to the adoption of PAS 39 – Financial Instruments: Recognition and Measurement starting January 1, 2005.

Minority interest – 10% increase from ₱19.57 billion to ₱21.46 billion

Largely due to the share of minority holders in 2005 net income

Income Statement items
(YTD December 2005 Vs YTD December 2004)

Sales and services – 15% increase from ₱30.64 billion to ₱35.31 billion

Successful launching of new real estate projects, higher leasing revenues from shopping centers, office buildings and hotels, higher construction revenues for the real estate group and higher sales volume of existing businesses and contributions from the operations of newly acquired companies by the electronics and information technology group.

Sales and services contributed 69% of the total income in 2005 and in 2004.

Equity in net earnings of associates and joint ventures – 8% increase from ₱7.62 billion to ₱8.20 billion

Largely due to higher share in net earnings from various affiliates such as BPI, MWC and ALI's affiliates such as ACC and CHI.

In 2005, this account is 16% of the total income slightly lower than the 17% in 2004.

Interest, rental and other investment income – 30% increase from ₱5.11 billion to ₱6.65 billion

Due to gain on sale and exchange of shares of stocks, dilution gain from subsidiaries and higher interest income in 2005.

Cost of sales and services – 20% increase from ₱22.46 billion to ₱26.89 billion

Mainly due to increase in sales volume and increasing turnkey business of the electronics and information technology group.

General and administrative expenses – 12% increase from ₱5.24 billion to ₱5.86 billion

Due to higher payroll and benefits costs and expansion of some subsidiaries.

Interest and other charges – 12% increase from ₱6.66 billion to ₱7.49 billion

Due to provisions for decline in value of assets intended to be sold and write-off of deferred charges of the real estate group.

Provision for income tax – 38% decrease from ₱1.44 billion to ₱897 million

Lower income subject to 32% corporate income tax.

MANAGEMENT

BOARD OF DIRECTORS

Ayala's Board has seven members, all of whom are elected by Ayala's common stockholders at the stockholders' annual meeting. The Directors hold office for one year and until their successors are elected and qualified in accordance with Ayala's By-Laws.

The Board regularly meets at least on a quarterly basis. It ensures the presence and adequacy of internal control mechanisms for good governance in accordance with the Company's Manual of Corporate Governance. The minimum internal control mechanisms for the Board's oversight responsibility include, but are not limited to:

(a) Ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system;

(b) Reviewing conflict-of-interest situations and providing appropriate remedial measures for the same;

(c) Appointing a CEO with the appropriate ability, integrity and experience to fill the role, as well as defining the CEO's duties and responsibilities;

(d) Reviewing proposed senior management appointments;

(e) Ensuring the selection, appointment and retention of qualified and competent management; reviewing the Company's personnel and human resources policies, compensation plan and the management succession plan;

(f) Institutionalizing the internal audit function; and

(g) Ensuring the presence of, and regularly reviewing, the performance and quality of external audit.

As of March 30, 2007, the composition of the Board was as follows:

Board of Directors	
Jaime Augusto Zobel de Ayala	Chairman and Chief Executive Officer
Fernando Zobel de Ayala	President and Chief Operating Officer
Mercedita S. Nolledo	Director and Corporate Secretary
Meneleo J. Carlos, Jr.	Independent Director
Toshifumi Inami	Director
Delfin L. Lazaro	Director
Xavier P. Loinaz	Director

***Jaime Augusto Zobel de Ayala**,* Filipino, 47, has served as Director of Ayala Corporation since 1987. He also holds the following positions: Chairman and CEO of Ayala Corporation; Chairman of the Board of Directors of Globe Telecom, Inc., Bank of the Philippine Islands and Integrated Micro-electronics, Inc.; and Director of Ayala Land, 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.

***Fernando Zobel de Ayala**,* Filipino, 46, has served as Director of Ayala Corporation since 1994. He also holds the following positions: President and Chief Operating Officer of Ayala Corporation; Chairman of Ayala Land, Inc., 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.

***Aristón Estrada, Jr.**,* Filipino, 66, has served as director of Ayala Corporation since 1983 and was the Adviser to the Chairman of Ayala Corporation. He was formerly a director of AC International Finance Ltd., Ayala DBS Holdings, Inc. and of the Bank of the Philippine Islands for 19 years from 1983 to 2002. He stepped down from the Board of Ayala Corporation effective 31 December 2006. He graduated from the De La Salle University with a degree in A.B. Humanities (Summa Cum Laude) in 1960 and B.S.C. Major in Accounting in 1962 (Summa Cum Laude). He placed First in the Board Examinations for CPAs in 1962.

***Meneleo J. Carlos, Jr.**,* Filipino, 77, serves as the Independent Director of Ayala Corporation since September 2002. He is the Chairman of Ayala Corporation's Audit and Compensation Committees and a member of the Nomination Committee. He is the Chairman and President of RI Chemical Corporation; President of Resins, Inc., Riverbanks Development Corporation; Chairman of Maja Development Corporation, AVC Chemical Corporation, Philippine Iron Construction & Marine Works, Inc. (PICMW) and Vacphil Rubber Corporation; and Director of Philippine Aerosol Container Corp. (PACC) and Cagayan Electric Power & Light Company (CEPALCO). He graduated with a B.Chemical Engineering degree and a Certificate of Advanced Studies at Cornell University, Ithaca, New York City in 1952.

Toshifumi Inami, Japanese, 55, has served as Director of Ayala Corporation since June 2006. He is currently the General Manager of Mitsubishi Corporation - Manila Branch. He is the Chairman and Director of International Elevator & Equipment, Inc. and a Director in the following companies: Isuzu Philippines Corp., MD Distripark Manila, Inc., MD Laguna Corporation, Imasen Philippines Manufacturing Corp., Kansai Paint Philippines, Kawashima Textile Mfg. Phils. Inc., Trans World Agro-Products Corporation, Kepco Ilijan Corporation, Mirant Diamond Holdings Corporation, UniCharm Philippines Inc. and Robinsons Convenience Stores, Inc. Mr. Inami had a degree in Mechanical Engineering from Keio University.

Delfin L. Lazaro, Filipino, 60, has served as a Consultant and a member of the Management Committee of Ayala Corporation (Ayala Group) since 1996. He was elected to the Board of Ayala on 01 January 2007. He also holds the following positions: Director and Chairman of the Executive Committee of Globe Telecom, Inc.; Director of Ayala Land, Inc., Integrated Micro-electronics, 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.

Xavier P. Loinaz, Filipino, 63, has served as director of Ayala Corporation since April 2006. He was a member of the Management Committee of Ayala Corporation (Ayala Group) from 1989 to 2004. He was formerly the President of Bank of the Philippine Islands (BPI) from 1982 to 2004. Other positions held are: Director of BPI, BPI Capital Corporation, BPI Direct Savings Bank, Inc., BPI/MS Insurance Corporation, BPI Family Savings Bank, Inc. and Chairman of the Board of Directors of Ayala Life Assurance, Inc.; and Member of the Board of Trustees of BPI Foundation, Inc. He graduated with AB Economics at Ateneo de Manila University in 1963 and took his MBA-Finance at Wharton School, University of Pennsylvania in 1965.

Mercedita S. Nolledo*,* Filipino, 65, has served as Director of Ayala Corporation since 2004 and is also a 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.

EXECUTIVE OFFICERS

Ayala's various business interests are managed by the following members of senior management:

Management Committee Members/Key Officers		
*	Jaime Augusto Zobel de Ayala	Chairman & Chief Executive Officer
*	Fernando Zobel de Ayala	President & Chief Operating Officer
*	Aristón Estrada, Jr.	Adviser to the Chairman
*	Delfin L. Lazaro	Chief Finance Officer (until 31 December 2006)
*	Mercedita S. Nolledo	Senior Managing Director & Corporate Secretary
**	Gerardo C. Ablaza, Jr.	Senior Managing Director
**	Antonino T. Aquino	Senior Managing Director
**	Jaime I. Ayala	Senior Managing Director
**	Charles H. Cosgrove	Senior Managing Director
**	Rufino Luis T. Manotok	Senior Managing Director, Corporate Information Officer & Chief Finance Officer (effective 01 January 2007)
**	Aurelio R. Montinola III	
**	Arthur R. Tan	Senior Managing Director
**	Victoria P. Garchitorena	Managing Director
**	Renato O. Marzan	Managing Director, Assistant Corporate Secretary & Compliance Officer
	Ramon G. Opulencia	Managing Director & Treasurer
**	John Philip S. Orbeta	Managing Director

**Member of the Board of Directors*
***Management Committee Member*

Gerardo C. Ablaza, Jr., Filipino, 53, has served as a member of the Management Committee of Ayala Corporation (Ayala Group) since 1998. He also holds the following positions: Senior Managing Director of Ayala Corporation and President and CEO of Globe Telecom, Inc. He was previously Vice President and Country Business Manager for the Philippines and Guam of Citibank, N.A. for its Global Consumer Banking business. Prior to this position he was Vice President of Citibank, N.A. Singapore for Consumer Banking. Attendant to his last position in Citibank, N.A., Mr. Ablaza was the bank's representative to the Board of Directors of CityTrust Banking Corporation and its various subsidiaries. He graduated Summa Cum Laude at De La Salle University in 1974 with a degree in AB Major in Mathematics (Honors Program).

Antonino T. Aquino, Filipino, 59, has served as a member of the Management Committee of Ayala Corporation (Ayala Group) since August 1998. He also holds the following positions: Managing Director of Ayala Corporation and President of Manila Water Company, Inc. He also served as President of Ayala Property Management Corporation, was a Senior Vice President of Ayala Land, Inc. and a Business Unit Manager in IBM Philippines, Inc. He graduated with Bachelor of Science Major in Management at Ateneo de Manila University in 1968 and has completed academic units for the Masteral Degree in Business Management at the Ateneo Graduate School of Business in 1975.

Jaime I. Ayala, Filipino, 44, has served as a member of the Management Committee of Ayala Corporation (Ayala Group) since 2004. He also holds the following positions: Senior Managing Director of Ayala Corporation and President and CEO of Ayala Land, Inc. 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. and Vesta Property Holdings, 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 Ayala Land, 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.

Charles H. Cosgrove, American, 51, has served as a member of the Management Committee of Ayala Corporation (Ayala Group) since 1998. He is also a Managing Director of Ayala Corporation and President of Ayala International Pte Ltd. Prior to joining Ayala Corporation, he was a Managing Director of Singapore Telecom International Pte Ltd. He graduated from Stanford University with an AB in 1977. He obtained a JD from Georgetown University School of Law in 1980.

Rufino Luis T. Manotok, Filipino, 56, has served as a member of the Management Committee of Ayala Corporation (Ayala Group) since 1999. He also holds the following positions: Senior Managing Director, Corporate Information Officer and Chief Finance Officer of Ayala Corporation; President and Chairman of the Board of Directors of Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., and Honda Cars Cebu, Inc.; Director of Ayala Aviation Corporation, BPI Family Savings Bank, Inc., and Michigan Holdings, Inc. He graduated with Bachelor of Arts in Economics at Ateneo de Manila University in 1971 and had his Masters Degree in Business Management at Asian Institute of Management in 1973. He also took the Advance Management Program at Harvard Business School in 1994.

Aurelio R. Montinola III, Filipino, 55, has served as member of the Management Committee of Ayala Corporation (Ayala Group) since 2005. He also holds the following positions: President and CEO of Bank of the Philippine Islands; 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.

Arthur R. Tan, Filipino, 47, has served as a member of the Management Committee of Ayala

Corporation (Ayala Group) since 2001. He holds the position of Senior Managing Director of Ayala Corporation. He is also the President and CEO of Integrated Micro-electronics Inc. (IMI), Chairman and President of EAZIX Inc. and President & CEO of Speedy-Tech Electronics Ltd. Prior to joining Ayala Corporation, he was a Managing Director of American Microsystems, Inc. (Asia Pacific Region/Japan). He graduated with a degree of BS in Electronics and Communication Engineering at the Mapua Institute of Technology in 1982. He has taken post graduate classes in MSEE from the University of Idaho and business courses from Harvard University.

Victoria P. Garchitorena, Filipino, 62, has served as Managing Director of Stakeholder Relations of Ayala Corporation since 1996. Concurrently she is President of Ayala Foundation, Inc. and President of Ayala Foundation USA. She served as Head, Presidential Management Staff, Secretary to the Cabinet and Senior Consultant on Poverty Alleviation and Good Governance to the President of the Philippines. She was Founding Chair, League of Corporate Foundations and Philippine Council on NGO Certification, Board Member of the Council on Foundations (USA). Currently, she is Senior Adviser of the Asia Pacific Council Against Corruption – World Bank and Chair of the International Center for Innovation, Transparency, and Excellence in Governance

Renato O. Marzan, Filipino, 58, has served as the Assistant Corporate Secretary of Ayala Corporation since 1982. He also holds the following positions: Managing Director and Compliance Officer of Ayala Corporation; Director and Corporate Secretary of Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc. and Michigan Holdings, Inc.; Corporate Secretary of Globe Telecom, Inc., Avida Land, Corp. (formerly Laguna Properties Holdings, Inc.), Ayala Systems Technology, Inc., Azalea Technology Investment, Inc., Ayala Hotels, Inc., Laguna Technopark, Inc., Integrated Micro-electronics, Inc., Community Innovations, Inc., and Roxas Land Corporation; and Assistant Corporate Secretary of Ayala Corporation, Ayala Land, Inc. and Ayala Foundation, Inc. He had his education at San Beda College with a degree in Bachelor of Arts in Philosophy (Magna Cum Laude) in 1969 and Bachelor of Laws (Cum Laude) in 1973.

Ramon G. Opulencia, Filipino, 50, has served as Treasurer of Ayala Corporation since September 2005. Previously, he served as Senior Assistant Treasurer since November 1992. He is also a Managing Director of Ayala Corporation. He is currently a member of the Board of Directors and the Audit Committee of BPI Family Savings Bank, Inc. Prior to joining Ayala Corporation, he was a Senior Manager of Bank of the Philippine Islands' Treasury Group. He graduated with a BS in Mechanical Engineering at the De La Salle University in 1978 and took his Master in Business Management at the Asian Institute of Management graduating *(with Distinction)* in 1983. He completed the Advanced Management Program at the Harvard Business School in May 2005.

John Philip S. Orbeta, Filipino, 45, has served as Managing Director and Head of Strategic Human Resources and Organization Development of Ayala Corporation since May 2005. Concurrently, he is also a Senior Vice President and Head of the Human Resources Group of Ayala Land, Inc. and Chairman of the Ayala Group Human Resources Council. Prior to joining Ayala Corporation, 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 completed a Leadership Development Program at the Harvard Business School.

Solomon M. Hermosura, Filipino, 45, has served as Managing Director of Ayala Corporation since 1996. He also holds the following positions: Director of Pameka Holdings, Inc., Water Capital Works, Inc. and West Zone Water Service, Inc.; Director and Corporate Secretary of Philwater Holdings Company, Inc. and Northern Waterworks and Rivers of Cebu, Inc.; Corporate Secretary of Manila Water Company, Inc.; and Assistant Corporate Secretary of Ayala DBS Holdings, Inc. He earned his

Bachelor of Laws degree from San Beda College in 1986 and the placed third in the 1986 Bar Examination.

Ricardo Nicanor N. Jacinto, Filipino, 46, has served as Managing Director of Ayala Corporation since 2000. He also holds the following positions: Director of Ayala Automotive Holdings Corporation, Ayala Hotels, Inc., Globalstride Holdings, Ltd., Technopark Land, Inc., PFC Properties, Inc., PFN Holdings Corp., Ayala Aviation Corp., Michigan Holdings, Inc., Integreon Holdings, Integreon Philippines, Integreon India, and LiveIt Philippines; Director and President of Globalstride Marketing Corporation; and President of Nicanor P. Jacinto, Jr. Foundation. He earned his Masteral in Business Administration at Harvard University in 1986.

Rufino F. Melo III, Filipino, 54, has served as Managing Director of Ayala Corporation since 2006. He is also a Director of Darong Agricultural Corp. and Pameka Holdings, Inc. Previously, he served as Associate Director of Ayala Corporation from 1998 to 2005. Prior to joining Ayala Corporation, he was the Group Financial Comptroller of Jardine Davies, Inc. He graduated with a BSBA in Accounting at the University of the East in 1975.

Luis Juan B. Oreta, Filipino, 51, has served as Managing Director of Ayala Corporation since 2002. He is also a Director of Technopark Land, Inc. and Michigan Holdings, Inc. He graduated with a BS in Business Economics at the University of the Philippines in 1977 and took his Master in Business Administration at Rutgers University in 1982.

SIGNIFICANT EMPLOYEES

No single person or employee is expected to make a significant contribution to the business since Ayala considers the collective efforts of all its employees as instrumental to the success of Ayala's performance.

FAMILY RELATIONSHIP

Ayala's Chairman Emeritus, Jaime Zobel de Ayala, is the father of Jaime Augusto Zobel De Ayala (Chairman of the Board and CEO) and Fernando Zobel de Ayala (President and COO).

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

As of 30 September 2007, to the best of Ayala's knowledge, there has been no occurrence of any of the following events since its incorporation which are material to an evaluation of the ability or integrity of any director, person nominated to become a director, executive officer, or control person of Ayala:

(a) Any insolvency or bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the insolvency or within two years prior to that time;

(b) Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(c) Any final and executory order, judgment, or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and

(d) Any final and executory judgment by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

COMPENSATION OF DIRECTORS AND OFFICERS

Directors

Article IV, Section 21 of Ayala's By-Laws provides:

"Section 21 - The members of the Board of Directors of the Corporation who are neither officers nor consultants of the Corporation shall be entitled to a director's fee in an amount to be fixed by the stockholders at a regular or special meeting duly called for the purpose."

During the Annual Stockholders' Meeting held on April 4, 2003, the stockholders ratified the resolution fixing the remuneration of non-executive directors at ₱1,000,000.00 per year, consisting of the following components:

Retainer Fee:	₱500,000.00
Per diem per Board meeting attended:	₱100,000.00

In addition, a non-executive Director is entitled to a per diem of ₱20,000.00 per Board committee meeting actually attended.

Officers

Name and Principal Position	Year[1]	Salary	Other Variable Pay
Jaime Augusto Zobel de Ayala Chairman and CEO			
Fernando Zobel de Ayala President and COO			
Aristón Estrada, Jr. Senior Managing Director			
Delfin L. Lazaro Senior Managing Director and CFO			
Mercedita S. Nolledo Senior Managing Director and Corporate Secretary			
Rufino Luis T. Manotok Managing Director and Corporate Information Officer			
Ramon G. Opulencia Managing Director and Treasurer			
Renato O. Marzan Managing Director and Compliance Officer			
Alfredo I. Ayala Managing Director			

Name and Principal Position	Year[1]	Salary	Other Variable Pay
Victoria P. Garchitorena Managing Director Solomon M. Hermosura Managing Director Ricardo N. Jacinto Managing Director Mark Anthony N. Javier Managing Director Jose Teodoro K. Limcaoco* Managing Director Ramon F.R. Medina** Managing Director Rufino F. Melo III Managing Director John Philip S. Orbeta Managing Director Luis Juan B. Oreta Managing Director			
CEO and 16 Most Highly Compensated Executive Officers	2005	₱153.55 million	₱110.68 million
	2006	₱172.07 million	₱258.71 million
	Projected 2007	₱189.28 million	₱44.28 million

**Transferred to a subsidiary effective January 1, 2007*
***Retired December 31, 2005*

Name	Salary	Other Variable Pay
All Officers as a Group		
2005	₱231.15 million	₱256.11 million
2006	₱251.85 million	₱398.05 million
Projected 2007	₱277.04 million	₱ 64.95 million

The total annual compensation includes basic pay and other taxable income or bonuses.

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

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

Pursuant to Ayala's By-Laws, each Director has a term of office of one year from date of election or until his successor shall have been named, qualified, and elected. Each Executive Officer has an employment contract with Ayala for an indefinite period, the terms and conditions of which are in accordance with existing laws.

The executive officers are entitled to receive retirement benefits in accordance with the terms and conditions of Ayala's Bureau of Internal Revenue ("BIR")-registered employees' retirement plan. There is no plan or arrangement by which the Executive Officers will receive from Ayala any form of compensation in case of a change-in-control of Ayala or a change in the officers' responsibilities following such change-in-control.

WARRANTS AND OPTIONS OUTSTANDING: REPRICING

The Company has offered the Executive Stock Option Plan (ESOP) to the Company's officers since 1995 and the Executive Stock Ownership Plan (ESOWN) since 2005.

The ESOP Plan has a 10-year option period which vests as follows: 40% on the first anniversary, 30% on the second anniversary and the remaining 30% vests on the third anniversary. Of the above named officers, there were 42,347 common shares exercised from January to September 2007 and 363,388 common shares as options outstanding as of September 2007 under the ESOP Plans,, to wit:

Name	Shares Exercised	Options Outstanding	Date of Grant	Exercise Price	Market Price at Date of Grant
Delfin L. Lazaro			Various	Various	Various
Mercedita S. Nolledo			Various	Various	Various
Rufino Luis T. Manotok			Various	Various	Various
Ramon G. Opulencia			Various	Various	Various
Renato O. Marzan			Various	Various	Various
Solomon M. Hermosura			Various	Various	Various
Jose Teodoro K. Limcaoco**			Various	Various	Various
Rufino F. Melo III			Various	Various	Various
All above-named Officers as a group	42,347	363,388		165.93*	215.83*

**Average prices on the dates of grant*

*** Transferred to a subsidiary effective January 1, 2007*

Moreover, subscriptions on the ESOWN Plans should be paid within the 10-year period from date of grant and the holding period expires as follows: 40% on the first anniversary, 30% on the second anniversary and the remaining 30% on the third anniversary. Of the above-named officers, there were 54,504 and 469,956 common shares that were fully paid and remain outstanding, respectively, as of September 2007 under the ESOWN Plans, to wit:

Name	Fully-paid Shares	Outstanding Shares	Date of Grant	Subscription Price	Market Price at Date of Grant
Delfin L. Lazaro			Various	Various	Various
Mercedita S. Nolledo			Various	Various	Various
Rufino Luis T. Manotok			Various	Various	Various
Ramon G. Opulencia			Various	Various	Various
Renato O. Marzan			Various	Various	Various
Solomon M. Hermosura			Various	Various	Various
Jose Teodoro K. Limcaoco**			Various	Various	Various

Rufino F. Melo III			Various	Various	Various
All above-named Officers as a group	54,504	469,956		294.78*	352.50*

**Average prices on the dates of grant*

*** Transferred to a subsidiary effective January 1, 2007*

The Company has adjusted the exercise price and market price of the options awarded to the above named officers due to the stock dividend declared by the Company in May 2004 and June 2007, and the reverse stock split in May 2005.

MANAGEMENT AND CERTAIN SECURITY HOLDERS

Security Ownership of Certain Record and Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of September 30, 2007

Type 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 of the Outstanding Common Shares
Common	Mermac, Inc.[1] 35/F Tower One, Ayala Triangle, Ayala Ave., Makati City	Mermac, Inc.[2]	Filipino	210,895,275	50.95%
Common	PCD Nominee Corporation (Non-Filipino)[3] G/F MSE Bldg. Ayala Ave., Makati City	HSBC and Standard Chartered Bank (SCB)[4]	Various	116,299,266	28.10%
Common	Mitsubishi Corporation[5] 14/F L.V. Locsin Bldg. 6752 Ayala Ave., Makati City	Mitsubishi Corporation[6]	Japanese	43,803,848	10.58%

Security Ownership of Directors and Management as of September 30, 2007

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent of All Classes
Directors					
Common	Jaime Augusto Zobel de Ayala	241,461	(direct)	Filipino	0.051166%
Common	Fernando Zobel de Ayala	241,440	(direct)	Filipino	0.051162%
Common	Meneleo J. Carlos, Jr.	1	(direct)	Filipino	0.000000%
Common	Toshifumi Inami	1	(direct)	Japanese	0.000000%
Common	Delfin L. Lazaro	91,511	(direct & indirect)	Filipino	0.019392%
Common	Xavier P. Loinaz	87,928	(direct)	Filipino	0.018632%

[1] The Co-Vice Chairmen of Mermac, Inc., Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala, are the Chairman/CEO and President/COO of the Company, respectively.
[2] The Board of Directors of Mermac, Inc. has the power to decide how Mermac shares in AC are to be voted.
[3] The PCD is not related to the Company.
[4] HSBC and SCB are participants of PCD. The 69,670,230 and 28,553,877 shares beneficially owned by HSBC and SCB, respectively, form part of the 116,299,266 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.
[5] Mitsubishi Corporation is not related to the Company.
[6] The Board of Directors of Mitsubishi Corporation has the power to decide how Mitsubishi shares in AC are to be voted.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent of All Classes
Directors					
Common	Jaime Augusto Zobel de Ayala	241,461	(direct)	Filipino	0.051166%
Common	Mercedita S. Nolledo	114,090	(direct)	Filipino	0.024176%
CEO and Most Highly Compensated Executive Officers					
Common	Jaime Augusto Zobel de Ayala	241,461	(direct)	Filipino	0.051166%
Common	Fernando Zobel de Ayala	241,440	(direct)	Filipino	0.051162%
Common	Delfin L. Lazaro	91,511	(direct & indirect)	Filipino	0.019392%
Common	Mercedita S. Nolledo	114,090	(direct)	Filipino	0.024176%
Common	Rufino Luis T. Manotok	89,334	(direct & indirect)	Filipino	0.018930%
Preferred "B"		25,000	(direct)	Filipino	0.005298%
Common	Ramon G. Opulencia	63,806	(direct & indirect)	Filipino	0.013521%
Preferred "B"		15,000	(direct)	Filipino	0.003179%
Common	Renato O. Marzan	57,641	(direct)	Filipino	0.012214%
Common	Alfredo I. Ayala	0		Filipino	n/a
Common	Victoria P. Garchitorena	68,742	(direct)	Filipino	0.014567%
Common	Solomon M. Hermosura	49,252	(direct & indirect)	Filipino	0.010437%
Common	Ricardo N. Jacinto	23,859	(direct & indirect)	Filipino	0.005056%
Preferred "B"		47,982	(direct)		0.010168%
Common	Rufino F. Melo III	38,009	(direct & indirect)	Filipino	0.008054%
Common	John Philip S. Orbeta	29,743	(direct)	Filipino	0.006303%
Common	Luis Juan B. Oreta	36,558	(direct & indirect)	Filipino	0.007747%
Common	Gerardo C. Ablaza	50,256	(direct & indirect)	Filipino	0.012142%
Common	Antonino T. Aquino	29,396	(direct)	Filipino	0.007102%
All Directors and Officers as a group		**1,401,010**			**0.280000%**

None of the members of Ayala's directors and management owns 2% or more of Ayala's outstanding capital stock.

VOTING TRUST HOLDERS OF 5% OR MORE

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

MATTERS AFFECTING LIQUIDITY AND CAPITAL EXPENDITURE

As regards internal and external sources of liquidity, funding will be sourced from internally generated cash flows, and also from borrowings or available credit facilities from other local and international commercial banks, including an affiliated bank.

There is no material commitment for capital expenditures other than those performed in the ordinary course of trade or business.

There is no significant element of income not arising from continuing operations.

There have not been any seasonal aspects that had a material effect on the financial condition or results of Ayala's operations.

NAMED EXPERTS AND COUNSEL

The Company's auditor is SyCip Gorres Velayo & Co. ("SGV & Co."), independent public accountants and a member of Ernst & Young. SGV & Co. audited the Company's consolidated accounts, financial statements and schedules, subject to the qualifications noted in their report, in accordance with Philippine Financial Reporting Standards for the financial periods ended December 31, 2005 and 2006, included in this Prospectus.

In 2006, Ayala paid SGV & Co. audit and audit-related fees of approximately ₱2.75 million and other fees amounting to approximately ₱4.61 million. In 2005, Ayala paid SGV & Co. audit and audit-related fees of approximately ₱2.28 million and other fees amounting to approximately ₱2.01 million.

In 2006, Ayala was billed for services rendered by SGV & Co. for an aggregate fee of ₱4.61M for the agreed-upon procedures for the primary offer of Preferred B shares, business process review and business continuity plan development. In 2005, Ayala also engaged and paid SGV & Co. for an aggregate fee of ₱2.01M to render services relating to the Company's IFRS training, business process review and business continuity plan development.

Ayala has not secured consulting services from SGV & Co. for tax fees for the last two (2) fiscal years.

The Company's Audit Committee recommended the appointment of SGV & Co. as the Company's external auditor and its engagement for the other services described above to the Ayala Board. The Board approved the recommendation. Ayala's stockholders subsequently ratified the Board's approval.

SGV & Co. has no shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. SGV & Co. will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for the Professional Accountants in the Philippines (which is based on the International Code of Ethics for Professional Accountants developed by the International Federation of Accountants) set by the Board of Accountancy and approved by the Professional Regulation Commission.

Romulo Mabanta Buenaventura Sayoc & De Los Angeles passed upon certain Philippine legal matters in respect of the Offer for the Joint Lead Underwriters and Bookrunners.

Neither SGV & Co. nor Romulo Mabanta Buenaventura Sayoc & De Los Angeles has any direct or indirect interest in the Company arising from the Offer.

CHANGES IN, AND DISAGREEMENTS WITH, ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements with any accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, nor was there any resignation or dismissal of any accountant who was previously engaged as the principal accountant to audit Ayala's financial statements, or an independent accountant who was previously engaged to audit a significant subsidiary and on whom the principal accountant expressed reliance in its report.

The consolidated financial statements of Ayala Corporation and Subsidiaries have been prepared in conformity with accounting principles generally accepted in the Philippines using the historical cost basis except for financial assets at fair value through profit or loss, available-for-sale financial assets and derivative instruments which have been measured at fair value. Accounting principles and policies applied for the period ending June 30, 2007 are the same as those applied in the preceding calendar year.

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

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

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

- IFRIC 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 financial asset carried at cost.

The Company 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.

TAXATION

The following is a discussion of the material Philippine tax consequences of beneficial ownership of the Bonds to a holder who purchases Bonds in the initial offering. This discussion is based upon laws, regulations, rulings, income tax conventions (treaties), administrative practices and judicial decisions in effect at the date of this Prospectus. Subsequent legislative, judicial, or administrative changes or interpretations may be retroactive and could affect the tax consequences to Bondholders.

The tax treatment of a Bondholder may vary depending upon such Bondholder's particular situation, and certain Bondholders may be subject to special rules not discussed below. United States Federal, State, and other foreign (other than Philippine) tax consequences of the ownership and disposition of the Bonds are not discussed below. This summary does not purport to address all tax aspects that may be important to a Bondholder.

BONDHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A BOND, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

TAXATION

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof, a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

Interest income on the Bonds received by individuals who are Philippine residents as well as domestic and resident foreign corporations shall be subject to a final withholding tax of 20% or such rate as may be provided by law or regulation, which shall be withheld at the source. Interest income received by non-resident foreign individuals engaged in trade or business in the Philippines shall be subject to a final withholding tax of 20% while non-resident foreign individuals not engaged in trade or business in the Philippines shall be subject to a final withholding tax of 25%. Interest income received by non-resident foreign corporations shall be subject to a final withholding tax of 32%. The tax shall be for the account of the Bondholder. The foregoing rates are subject to further reduction by any applicable tax treaty.

Tax-exempt Status

Bondholders who are exempt from withholding tax on interest income or subject to a preferential withholding tax rate may claim such exemption or preferential rate by submitting the necessary documents. Said Bondholder shall submit the following requirements to the Registrar, or to the Joint Lead Underwriters and Bookrunners (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (i) certified true copy of the tax exemption certificate ruling or opinion issued by the Bureau of Internal Revenue confirming the exemption or preferential rate; (ii) a duly notarized undertaking, in prescribed form, declaring and warranting its tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificate or preferential rate entitlement and agreeing to indemnify and hold the Issuer free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits shall include evidence of the applicability of a tax treaty, consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided further, that all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption or reasonable evidence of such exemption to the Registrar.

Bondholders may sell their Bonds any time to persons of similar tax status (i.e. tax-exempt to tax-exempt, taxable to taxable); otherwise, such Bondholder may sell only on a Coupon Payment Date. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Issuer, within three (3) days from settlement date: a written notification of the sale or purchase, including the tax status of the selling or buying party, and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Issuer for any tax or change that may later on be assessed from the Issuer on account of such transfer.

VALUE-ADDED TAX

Gross income arising from the sale of the Bonds in the Philippines by Philippine-registered dealers in securities will be subject to a 12% value-added tax.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five (5) years or less	5%
Maturity period is more than five (5) years	1%

Net trading gains realized within the taxable year on the sale or disposition of the Notes shall be taxed at 7%.

Provided, however, that in case the maturity period referred above is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

DOCUMENTARY STAMP TAXES

A documentary stamp tax is imposed upon the issuance of debentures and certificates of indebtedness issued by Philippine companies, such as the Bonds, at the rate of ₱1.00 on each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided, that for debt instruments with terms of less than one (1) year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to three hundred sixty five (365) days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue will be paid by the Issuer for its own account.

TAXES ON SALE OR DISPOSITION OF THE BONDS

A Bondholder will recognize a gain or loss upon the sale or other disposition (including a redemption at maturity) of the Bonds in an amount equal to the difference between the amount realized from such disposition, and such Bondholder's basis in the Bonds. Such gain or loss is likely to be deemed a capital gain or loss assuming that the Bondholder has held the Bonds as capital assets. Generally, any gains derived from the sale or personal property (including the Bonds) effected outside in the Philippines shall be treated as having been derived from sources within the country in which such property is sold. Under current law, capital gains tax arising from the transfer of the Bonds, if any, shall be for the account of the Bondholder. Under current law, the net gains realized upon a sale of the Bonds by resident citizens are subject to income tax at graduated rates of 5% to 32%, while those realized by domestic corporations are subject to income tax of 32%.

No documentary stamp tax is due on the secondary trading of the Bonds.

ESTATE OR GIFT TAXES

The transfer of a Bond by way of succession upon the death of a Bondholder will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate of the Bondholder is over ₱200,000.

The transfer of a Bond by gift to an individual who is related to the Bondholder will generally be subject to a Philippine donor's tax at progressive rates ranging from 2% to 15% if the net gifts made by the Bondholder during the relevant calendar year exceed ₱100,000. Gifts to unrelated donees are generally subject to tax at a flat rate of 30%. An unrelated donee is a person who is not: (i) a brother, sister, (whether by whole or half blood), spouse, ancestor, and lineal descendant, or (ii) relative by consanguinity in the collateral line within the fourth degree of relationship to the Bondholder.

The foregoing applies without regard to whether the Bondholder is a non-resident. However, the Philippines will not collect estate and donor's taxes on the transfer of the Bonds by gift or succession if the deceased, at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country that provides certain reciprocal rights to citizens of the Philippines (a "Reciprocating Jurisdiction"). For these purposes, a Reciprocating Jurisdiction is a foreign country which at the time of death or donation: (i) did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (ii) allowed a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

FINANCIAL INFORMATION

The following pages set forth Ayala Corporation's audited consolidated financial statements for the years ended December 31, 2006, 2005 and 2004 and unaudited consolidated financial statements as of September 30, 2007.

SGV & Co

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Ayala Corporation
Tower One, Ayala Triangle
Ayala Avenue, Makati City

We have audited the accompanying consolidated financial statements of Ayala Corporation 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. The financial statements of the Bank of the Philippine Islands and subsidiaries, in which the Company has 33.9% interest in 2006 and 35.9% interest in 2005, were audited by other auditors whose report has been furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to the amounts included for the Bank of the Philippine Islands and subsidiaries, is based solely on the report of the other auditors. In the consolidated financial statements, the Company's investment in the Bank of the Philippine Islands and subsidiaries is stated at ₱29,860 million and ₱29,190 million as of December 31, 2006 and 2005, respectively, and the Company's equity in the net income of the Bank of the Philippine Islands and subsidiaries is stated at ₱3,300 million in 2006, ₱3,026 million in 2005 and ₱2,363 million in 2004.

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 consolidated 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 audits. 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 and the report of other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Ayala Corporation 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 21, 2007

AYALA CORPORATION 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 28)	**₱23,118,432**	₱24,010,827
Accounts and notes receivable - net (Notes 5, 27 and 28)	**17,469,560**	11,308,085
Inventories (Notes 6 and 15)	**9,803,922**	8,998,906
Other current assets (Note 7)	**3,961,315**	2,190,269
Total Current Assets	**54,353,229**	46,508,087
Noncurrent assets held for sale (Note 13)	**3,658,484**	–
	58,011,713	46,508,087
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 5 and 28)	**2,519,816**	5,631,132
Land and improvements (Note 15)	**16,174,984**	16,604,460
Investments in associates and joint ventures - net (Note 8)	**68,568,683**	63,807,710
Investment in bonds and other securities (Notes 9 and 28)	**3,462,435**	2,072,967
Investment properties - net (Notes 10 and 15)	**16,794,662**	17,011,839
Property, plant and equipment - net (Notes 11, 15 and 26)	**9,057,075**	9,917,554
Deferred tax assets - net (Note 21)	**1,123,912**	1,113,407
Pension assets (Note 23)	**202,598**	236,349
Intangible assets - net (Notes 12 and 20)	**4,630,652**	2,996,221
Other noncurrent assets	**1,785,374**	1,946,541
Total Noncurrent Assets	**124,320,191**	121,338,180
Total Assets	**₱182,331,904**	₱167,846,267

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 14, 27 and 28)	**₱18,325,716**	₱17,311,245
Short-term debt (Notes 15 and 28)	**2,504,007**	6,154,405
Income tax payable	**295,846**	273,218
Current portion of:		
Long-term debt (Notes 15 and 28)	**9,359,594**	2,985,240
Cumulative redeemable preferred shares (Notes 17 and 28)	**–**	2,230,000
Other current liabilities	**1,453,013**	985,626
Total Current Liabilities	**31,938,176**	29,939,734
Liabilities directly associated with noncurrent assets held for sale (Note 13)	**469,100**	–
	32,407,276	29,939,734

(Forward)

	December 31	
	2006	2005 (As Restated - Note 2)
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 15 and 28)	**₱38,517,839**	₱46,507,287
Cumulative redeemable preferred shares - net of current portion (Notes 17 and 28)	**2,500,000**	2,500,000
Deferred tax liabilities - net (Note 21)	**443,736**	311,891
Pension liabilities (Note 23)	**487,726**	433,584
Other noncurrent liabilities (Note 16)	**6,141,065**	5,370,385
Total Noncurrent Liabilities	**48,090,366**	55,123,147
Total Liabilities	**80,497,642**	85,062,881
Equity		
Equity attributable to equity holders of Ayala Corporation		
Paid-up capital (Note 18)	**23,137,948**	16,959,696
Share-based payments (Note 24)	**558,416**	655,754
Cumulative translation adjustment	**(298,310)**	587,350
Retained earnings (Note 18)	**51,659,261**	42,513,384
Net unrealized gain on available-for-sale financial assets	**2,078,522**	477,839
Treasury stock (Note 18)	**(310)**	(310)
	77,135,527	61,193,713
Minority interests		
Minority interests - net of interest attributable to noncurrent assets held for sale	**23,568,083**	21,589,673
Minority interests attributable to noncurrent assets held for sale	**1,130,652**	–
	24,698,735	21,589,673
Total Equity	**101,834,262**	82,783,386
Total Liabilities and Equity	**₱182,331,904**	₱167,846,267

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION 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			
Sales and services (Notes 10 and 27)	**₱53,394,230**	₱34,638,421	₱29,973,488
Equity in net income of associates and joint ventures (Note 8)	**8,252,898**	8,202,301	7,622,735
Interest, fees, rental, investment and other income (Note 26)	**8,518,867**	7,702,113	6,126,765
	70,165,995	50,542,835	43,722,988
COSTS AND EXPENSES			
Costs of sales and services (Notes 10, 19 and 27)	**40,857,337**	26,170,055	22,157,410
General and administrative (Notes 19, 23, 24 and 27)	**7,708,161**	6,011,324	5,071,417
Interest and other charges (Notes 6, 15 and 19)	**5,410,971**	7,562,733	6,594,835
	53,976,469	39,744,112	33,823,662
INCOME BEFORE INCOME TAX	**16,189,526**	10,798,723	9,899,326
PROVISION FOR INCOME TAX (Note 21)			
Current	**1,764,984**	1,696,400	1,183,233
Deferred	**112,175**	(857,122)	211,249
	1,877,159	839,278	1,394,482
INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE	**14,312,367**	9,959,445	8,504,844
INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE - net of tax (Note 13)	**155,258**	130,679	100,562
NET INCOME	**₱14,467,625**	₱10,090,124	₱8,605,406
Net Income Attributable to:			
Equity holders of Ayala Corporation	**₱12,176,771**	₱8,198,004	₱7,353,022
Minority interests	**2,290,854**	1,892,120	1,252,384
	₱14,467,625	₱10,090,124	₱8,605,406
EARNINGS PER SHARE (Note 22)			
Basic			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Corporation	**₱34.44**	₱23.76	₱21.35
Net income attributable to equity holders of Ayala Corporation	**34.58**	23.87	21.44
Diluted			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Corporation	**34.28**	23.66	21.25
Net income attributable to equity holders of Ayala Corporation	**34.41**	23.78	21.33

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Paid-up Capital (Note 18)	Share-based Payments (Note 24)	Cumulative Translation Adjustments (Note 18)	Retained Earnings (Note 18)	Net Unrealized Gain on Available-for-Sale Financial Assets (Note 18)	Treasury Stock (Note 18)	Minority Interests	Total Equity
	For the year ended December 31, 2006							
At January 1, 2006	₱16,959,696	₱655,754	₱587,350	₱42,513,384	₱477,839	(₱310)	₱21,589,673	₱82,783,386
Adjustments to foreign currency translation	–	–	(885,660)	–	–	–	(146,104)	(1,031,764)
Changes in fair value of available-for-sale financial assets	–	–	–	–	2,487,563	–	(24,199)	2,463,364
Transferred to profit and loss	–	–	–	–	(886,880)	–	–	(886,880)
Net income recognized directly in equity	–	–	(885,660)	–	1,600,683	–	(170,303)	544,720
Net income for the year	–	–	–	12,176,771	–	–	2,290,854	14,467,625
Total income for the year	–	–	(885,660)	12,176,771	1,600,683	–	2,120,551	15,012,345
Issuance of shares	6,084,791	(227,101)	–	–	–	–	–	5,857,690
Collections of subscriptions receivable	93,461	–	–	–	–	–	–	93,461
Cost of share-based payments of Ayala Corporation	–	137,427	–	–	–	–	–	137,427
Cost of share-based payments of investees	–	(7,664)	–	–	–	–	–	(7,664)
Cash dividends	–	–	–	(3,030,894)	–	–	–	(3,030,894)
Increase in minority interests	–	–	–	–	–	–	1,879,066	1,879,066
Dividends paid to minority interests	–	–	–	–	–	–	(890,555)	(890,555)
At December 31, 2006	**₱23,137,948**	**₱558,416**	**(₱298,310)**	**₱51,659,261**	**₱2,078,522**	**(₱310)**	**₱24,698,735**	**₱101,834,262**

	Paid-up Capital (Note 18)	Share-based Payments (Note 24)	Cumulative Translation Adjustments (Note 18)	Retained Earnings (Note 18)	Net Unrealized Gain on Available-for-Sale Financial Assets (Note 18)	Treasury Stock (Note 18)	Minority Interests	Total Equity
	For the year ended December 31, 2005							
At January 1, 2005	₱16,896,319	₱397,252	₱1,160,982	₱34,665,187	₱–	(₱102)	₱19,573,768	₱72,693,406
Effect of adoption of Philippine Accounting Standards No. 39 (Note 2)	–	–	–	1,026,230	361,207	–	(59,054)	1,328,383
Adjustments to foreign currency translation	–	–	(573,632)	–	–	–	(67,674)	(641,306)
Changes in fair value of available-for-sale financial assets	–	–	–	–	138,684	–	28,740	167,424
Transferred to profit and loss	–	–	–	–	(22,052)	–	–	(22,052)
Net loss recognized directly in equity	–	–	(573,632)	–	116,632	–	(38,934)	(495,934)
Net income for the year	–	–	–	8,198,004	–	–	1,892,120	10,090,124
Total income for the year	–	–	(573,632)	8,198,004	116,632	–	1,853,186	9,594,190
Issuance of shares	95,815	(38,177)	–	–	–	–	–	57,638
Additions to subscriptions receivable	(32,438)	–	–	–	–	–	–	(32,438)
Cost of share-based payments of Ayala Corporation	–	142,950	–	–	–	–	–	142,950
Cost of share-based payments of investees	–	153,729	–	–	–	–	–	153,729
Acquisition of treasury stock	–	–	–	–	–	(208)	–	(208)
Cash dividends	–	–	–	(1,376,037)	–	–	–	(1,376,037)
Increase in minority interests	–	–	–	–	–	–	1,551,707	1,551,707
Dividends paid to minority interests	–	–	–	–	–	–	(1,329,934)	(1,329,934)
At December 31, 2005	₱16,959,696	₱655,754	₱587,350	₱42,513,384	₱477,839	(₱310)	₱21,589,673	₱82,783,386

	Paid-up Capital (Note 18)	Share-based Payments (Note 24)	Cumulative Translation Adjustments (Note 18)	Retained Earnings (Note 18)	Net Unrealized Gain on Available-for-Sale Financial Assets (Note 18)	Treasury Stock (Note 18)	Minority Interests	Total Equity
			For the year ended December 31, 2004					
At January 1, 2004	₱13,977,594	₱219,350	₱1,639,688	₱31,370,176	₱–	(₱86)	₱17,773,236	₱64,979,958
Adjustments to foreign currency translation	–	–	(478,706)	–	–	–	–	(478,706)
Net loss directly recognized in equity	–	–	(478,706)	–	–	–	–	(478,706)
Net income for the year, as restated	–	–	–	7,353,022	–	–	1,252,384	8,605,406
Total income for the year	–	–	(478,706)	7,353,022	–	–	1,252,384	8,126,700
Issuance of shares	50,922	(50,874)	–	–	–	–	–	48
Collections of subscriptions receivable	10,049	–	–	–	–	–	–	10,049
Acquisition of treasury stock	–	–	–	–	–	(16)	–	(16)
Cash dividends	–	–	–	(1,200,257)	–	–	–	(1,200,257)
Stock dividends	2,857,754	–	–	(2,857,754)	–	–	–	–
Cost of share-based payments of Ayala Corporation	–	135,568	–	–	–	–	–	135,568
Cost of share-based payments of investees	–	93,208	–	–	–	–	–	93,208
Increase in minority interests	–	–	–	–	–	–	850,568	850,568
Dividends paid to minority interests	–	–	–	–	–	–	(302,420)	(302,420)
At December 31, 2004	₱16,896,319	₱397,252	₱1,160,982	₱34,665,187	₱–	(₱102)	₱19,573,768	₱72,693,406

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2006	2005 (As Re-presented)	2004 (As Re-presented)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱16,189,526**	₱10,798,723	₱9,899,326
Adjustments for:			
Interest expense - net of amount capitalized	**4,964,846**	5,032,559	5,034,923
Depreciation and amortization (Note 19)	**2,590,358**	1,714,677	1,547,993
Cost of share-based payments	**285,431**	413,815	257,429
Amortization of discount on long-term debt - net (Note 19)	**59,205**	134,571	86,873
Swap costs (Note 19)	**–**	176,303	970,227
Equity in net income of associates and joint ventures	**(8,252,898)**	(8,202,301)	(7,622,735)
Gain on sale of assets	**(5,796,711)**	(3,971,188)	(2,988,461)
Interest income	**(1,520,858)**	(1,753,654)	(1,513,719)
Other investment income	**(285,227)**	(596,676)	(265,632)
Operating income before changes in working capital	**8,233,672**	3,746,829	5,406,224
Decrease (increase) in:			
Accounts and notes receivable	**(3,171,691)**	(3,504,204)	(2,718,959)
Inventories	**(251,543)**	747,372	1,224,942
Other current assets	**(1,777,903)**	(581,725)	173,849
Increase (decrease) in:			
Accounts payable and accrued expenses	**1,704,663**	5,168,530	2,014,500
Other current liabilities	**403,413**	(346,614)	(258,175)
Net pension liabilities	**89,130**	(723,008)	388,511
Cash generated from operations	**5,229,741**	4,507,180	6,230,892
Interest received	**1,510,885**	1,797,536	1,441,778
Interest paid	**(5,386,829)**	(4,343,896)	(6,906,143)
Income tax paid	**(1,742,356)**	(1,649,142)	(1,053,490)
Net cash provided by (used in) operating activities before cash items associated with noncurrent assets held for sale	**(388,559)**	311,678	(286,963)
Net cash provided by operating activities associated with noncurrent assets held for sale	**291,672**	241,186	225,067
Total cash provided by (used in) operating activities	**(96,887)**	552,864	(61,896)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale of investments	**5,493,837**	7,909,107	9,885,088
Disposal of property and equipment	**313,755**	527,540	216,887
Additions to:			
Investments	**(5,950,008)**	(2,898,110)	(5,608,358)
Property, plant and equipment (Note 11)	**(3,450,654)**	(1,853,821)	(1,071,999)
Dividends received from associates and joint ventures	**4,248,500**	4,499,186	4,470,072
Acquisitions through business combinations by a subsidiary - net of cash acquired (Note 20)	**(1,841,889)**	(5,632,984)	–
Decrease (increase) in other noncurrent assets	**(10,076)**	(661,629)	71,728
Cash balance of deconsolidated subsidiaries	**(81)**	–	(112,335)
Net cash provided by (used in) investing activities before cash items associated with noncurrent assets held for sale	**(1,196,616)**	1,889,289	7,851,083
Net cash provided by (used in) investing activities associated with noncurrent assets held for sale, including cash balance	**(361,691)**	2,071	(648)
Net cash provided by (used in) investing activities	**(1,558,307)**	1,891,360	7,850,435

(Forward)

	Years Ended December 31		
	2006	2005 (As Re-presented)	2004 (As Re-presented)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term and long-term debt	**₱11,532,591**	₱12,556,123	₱20,830,325
Issuance of preferred shares	**5,800,000**	–	2,500,000
Issuance of common shares	**57,690**	–	98,299
Proceeds from collection of (additions to) subscriptions receivable	**93,461**	(32,438)	10,049
Payment of short-term and long-term debt	**(15,346,903)**	(25,497,578)	(12,222,412)
Dividends paid	**(3,781,584)**	(2,423,750)	(1,245,478)
Redemption of preferred shares (Note 17)	**(2,230,000)**	(1,270,000)	(2,515,016)
Increase in:			
Other noncurrent liabilities	**589,672**	398,984	1,505,176
Minority interests in consolidated subsidiaries	**4,234,992**	3,171,745	441,606
Net cash provided by (used in) financing activities before cash items associated with noncurrent assets held for sale	**949,919**	(13,096,914)	9,402,549
Net cash used in financing activities associated with noncurrent assets held for sale	**(187,120)**	(271,572)	(170,982)
Net cash provided by (used in) financing activities	**762,799**	(13,368,486)	9,231,567
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(892,395)**	(10,924,262)	17,020,106
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**24,010,827**	34,935,089	17,914,983
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 4 and 28)	**₱23,118,432**	₱24,010,827	₱34,935,089

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Ayala Corporation (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 is the holding company of the Ayala Group (the Group), with principal business interests in real estate and hotels, financial services and bancassurance, telecommunications, electronics, information technology and business process outsourcing services, utilities, automotives, international and others.

The consolidated balance sheets of Ayala Corporation and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2006, and the summary of significant accounting policies and other explanatory notes were authorized for issue by the Audit Committee on February 12, 2007 and by the Executive Committee of the Board of Directors (BOD) on February 21, 2007.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets and derivative financial instruments, 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 pesos (₱000) except when otherwise indicated.

Statement of Compliance
The consolidated financial statements of Ayala Corporation and Subsidiaries have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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 Interpretations 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 consolidated 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 23). 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 statement 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 Group's net investment in a foreign operation 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 significant impact on the consolidated 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 has no significant impact 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 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 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.

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 payable and accrued expenses" account in the liabilities section of the consolidated balance sheet. Previously, receivables are recognized in full and the corresponding unfulfilled obligation is credited to liabilities.

The adoption of the interpretation did not impact the consolidated statement of income.

Philippine Interpretation IFRIC - 8, *Scope of 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.

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 Securities and Exchange Commission (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 loss 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. The Group does not expect this interpretation to have a significant impact on the consolidated financial statements.

- 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 the consolidated financial statements.

- Philippine Interpretation IFRIC - 12, *Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008).* This Interpretation establishes the accounting to be applied for certain infrastructure that is constructed, acquired or provided by the grantor for the purposes of meeting the concession.

IFRIC 12 prescribed the accounting for the rights which the Operator receives from the Grantor using either:

- Financial asset model wherein the Operator shall recognize a financial asset to the extent that it has an unconditional contractual right to receive cash from the Grantor. The Operator has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Operator;
- Intangible asset model wherein the Operator shall recognize an intangible asset to the extent that it receives a right to charge the users (not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service);
- Mixed model if the Operator is paid by the users, but the Grantor guarantees a certain minimum amount to be paid to the Operator, the Financial Asset Model is used to the extent of such amount.

The Group does not expect this Interpretation to have a significant impact on the consolidated financial statements.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and the following wholly and majority-owned domestic and foreign subsidiaries:

	Effective Percentages of Ownership	
	2006	2005
Real Estate and Hotels:		
Ayala Land, Inc. (ALI) and subsidiaries	**57.8**	61.9
Ayala Hotels, Inc. (AHI) and subsidiaries	**78.9**	81.0
Electronics, Information Technology and Business Process Outsourcing Services:		
Azalea Technology Investments, Inc. and subsidiaries	**100.0**	100.0
LiveIt Solutions, Inc. and subsidiaries (LiveIt)	**100.0**	–
HRMall, Inc.	**100.0**	–
Technopark Land, Inc.	**78.8**	78.8
Integrated Microelectronics, Inc. (IMI) and subsidiaries	**70.4***	74.4
Automotive:		
Ayala Automotive Holdings Corporation (AAHC) and subsidiaries	**100.0**	100.0
International and Others:		
Ayala International Pte. Ltd. (AIPL) (incorporated in Singapore) and subsidiaries	**100.0**	100.0
AC International Finance Limited (ACIFL) (Cayman Island Company) and subsidiary	**100.0**	100.0

(Forward)

	Effective Percentages of Ownership	
	2006	2005
AYC Finance Ltd.	**100.0**	–
Michigan Holdings, Inc. (MHI) and subsidiary	**100.0**	100.0
Ayala Aviation Corporation	**100.0**	100.0
Darong Agricultural and Development Corporation	**100.0**	100.0
PFC Properties, Inc. and subsidiary	**99.9**	99.9
PFN Holdings Corporation	**–**	99.9

** a subsidiary of ACIFL in 2006, see below*

On October 16, 2006, the Company entered into a Deed of Assignment with AYC Holdings, Ltd., a wholly owned subsidiary of ACIFL, where the Company assigned its 832,343,700 shares in IMI (with original acquisition cost of ₱520.6 million representing approximately 74.4% of IMI's total outstanding stock) in exchange for 104,112 shares of AYC Holdings (with par value of US$100 per share). Further, the Company entered into a Deed of Assignment with ACIFL where the Company assigned its 104,112 shares in AYC Holdings, Ltd. (at a transfer value of US$10.4 million) in exchange for 10,411,200 additional shares of ACIFL with a par value of US$1 per share.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances, including intercompany profits and unrealized profits and losses, are eliminated in consolidation.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interests.

Any excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognized as goodwill.

Any excess of the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognized in the statement of income on the date of acquisition.

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 changes in equity and within equity in the consolidated balance sheets, separately from the Company’s equity.

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 acquisition and which 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 SEC, applied 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 consolidated balance sheet 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 and financial liabilities are recognized initially at fair value. Except for securities at FVPL, the initial measurement of financial assets includes transaction costs.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to stockholders' equity net of any related income tax benefits. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are further classified into the following categories: Financial asset at FVPL, loans and receivables, held-to-maturity (HTM), and AFS financial assets. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its investment 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 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.

Investments in unquoted equity securities are carried at cost net of impairment.

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 statement of income under "interest, fees, rental, 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 statement 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 consolidated statement of income under "Interest, fees, rental, investment and other income" account or "Interest and other charges" account.

Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as 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: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (ii) 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 strategy; or (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

The Group's financial assets at FVPL pertain to short-term investments included under the "Other current assets" account in the consolidated balance sheet.

HTM investments
HTM investments are nonderivative financial assets with fixed or determinable payments and fixed maturities that the Group 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. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. The losses arising from impairment of such investments shall be recognized in the consolidated statement of income. The effects of restatement on foreign currency denominated HTM investments are recognized in the consolidated statement of income.

The Group's HTM investments pertain to bonds included under the "Investments in bonds and other securities" account in the consolidated balance sheet.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments 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 asset at FVPL.

After initial measurement, loans and receivables are carried 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, fees, rental, investment and other income" account in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized under "General and administrative expenses" account in the consolidated statement of income.

The Group's loans and receivables are included under the "Accounts and notes receivable" account in the consolidated balance sheet. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date.

AFS financial assets
Available-for-sale financial assets are those nonderivative financial assets that are designated as such or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as "Net unrealized gain 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 the consolidated statement of changes in equity is recognized in the consolidated statement of income under the "Interest, fees, rental, investment and other income" account or "Interest and other charges" account. Interest earned on the AFS financial assets is reported as interest income using the effective interest rate. Dividends earned are recognized in the consolidated statement of income when the Group's right to receive payment is established. The losses arising from impairment of such investments are recognized under "Interest and other charges" account in the consolidated statement of income.

The Group's AFS financial assets pertain to investments in quoted and unquoted equity securities included under the "Investment in bonds and other securities" account in the consolidated balance sheet. AFS financial assets are included in current assets if expected to be realized within 12 months from balance sheet date.

Derivative Financial Instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. These derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year under "Interest, fees, rental, investment and other income" account.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at fair value through profit or loss.

In 2005, forward currency contracts with negative fair value are included under the "Other current liabilities" account in the consolidated balance sheet. The Group has no derivatives (freestanding or embedded) outstanding as of December 31, 2006.

Impairment of Financial Assets

The Group assesses at each 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 and HTM investments
For loans and receivables and HTM investments 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 an 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 estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is charged to "General and administrative expenses" account in the consolidated statement of income. 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 period, 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.

Assets carried at cost
If there is an objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS financial assets
In case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment loss, 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 statement of income – is removed from the consolidated statement of changes in equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement 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, fees, rental, investment and other income" account in the consolidated statement 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 statement of income, the impairment loss is reversed through the consolidated statement of income.

Short-term and Long-term Debt
All loans and borrowings are initially recognized at cost, being 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. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

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

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

The difference between the cash received and its fair value is deferred and amortized using the straight-line method.

Cumulative Redeemable Preferred Shares
Cumulative redeemable preferred shares that exhibit characteristics of a liability is recognized as a liability in the consolidated balance sheet. The corresponding dividends on those shares are charged as interest expense in the consolidated statement of income. Upon issuance, cumulative redeemable preferred shares are carried as a long-term liability on the amortized cost basis until extinguished on redemption.

Derecognition of Financial Assets and Liabilities

Financial Asset

A financial asset (or, where applicable a part of a group of financial assets) is derecognized where: (a) the rights to receive cash flows from the assets have expired; (b) the Group retains the right to receive cash flows from the asset, but has assumed an 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 (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred 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 the 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 or 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 statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet 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 sheet.

Inventories

Inventories are carried at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and condition are generally accounted for as follows:

Real estate inventories - cost includes those costs incurred for the development and improvement of properties, including capitalized borrowing costs.

Vehicles - purchase cost on specific identification basis.

Finished goods and work-in-process - determined on a moving average basis; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Parts and accessories, materials, supplies and others - purchase cost on a moving average basis.

NRV for real estate inventories, vehicles, finished goods and work-in-process and parts and accessories is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale, while NRV for materials, supplies and others represents the related replacement costs.

Land and Improvements

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

Investments in Associates and Joint Ventures

Investments in associates and joint ventures are accounted for under the equity method. 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, investments in associates and joint ventures are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The Group's share in the investee's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the investee's equity reserves is recognized directly in equity. Unrealized gains arising from intercompany transactions are eliminated to the extent of the Group's interest thereon. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investments.

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 reports profits, the Group resumes recognizing its share of the profits only after its share of the profits 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.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognized immediately in the consolidated statement of income any excess remaining after reassessment.

Investment Properties

Investment properties consist of properties that are held to earn rentals, and are 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 are computed using the straight-line method over the estimated useful lives of the assets, regardless of utilization. The estimated useful lives of investment 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 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 statement 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 the property for measurement or for disclosure purposes.

Property, Plant and Equipment

Property, plant 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, plant and equipment consists of 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 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, plant 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, plant and equipment commences once the property, plant and equipment are available for use and computed using the straight-line basis over the estimated useful life of the asset as follows: buildings and improvements - 3 to 40 years; machinery and equipment - 3 to 10 years; furniture, fixtures and equipment - 2 to 10 years; and transportation equipment - 3 to 5 years and hotel property and equipment - 5 to 50 years. Hotel property and equipment includes the following types 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, plant and equipment.

When property, plant and equipment are retired or otherwise disposed of, the cost and 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 or charged against current operations.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. The useful lives of intangible assets with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their useful life. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The estimated useful life of intangibles follows:

Customer relationships	5 years
Order backlog	6 months
Unpatented technology	5 years

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the consolidated statement of income when the asset is derecognized.

Impairment of Non-financial Assets
The Group assesses as at 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 calculated as the higher of the 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
assessment of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement 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 an 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 statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a 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.

Investments in associates and joint ventures
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 statement of income.

Noncurrent Assets Held for Sale
Noncurrent assets held for sale are carried at the lower of its carrying amount and fair value less costs to sell. At balance sheet date, 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 program 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 statement of income and cash flows are re-presented. Results of operations and cash flows of the disposal group that qualified as discontinued operation are presented in the consolidated statement of income and cash flows as items associated with noncurrent assets held for sale.

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 balance sheet date and adjusted to reflect the current best estimate.

Treasury Shares
Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Revenue and Cost Recognition
Revenue and cost from sales of completed projects by real estate subsidiaries is accounted for using the full accrual method. The percentage of completion method is used to recognize income from sales of projects where the subsidiaries have material obligations under the sales contracts to complete the project after the property is sold. Under this method, gain 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 payable and accrued expenses" account in the liabilities section of the consolidated balance sheet.

Revenue from construction contracts 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 statement 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 sales of electronic products and vehicles are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenue from hotel operations are recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place.

Revenue from internet operations are recognized when services are rendered and goods are delivered.

Management fees from administrative services, 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 payment is established.

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 curtailments or settlements.

The liability recognized in the consolidated balance sheet in respect of the defined benefit plans is the present value of the defined benefit obligation at the 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.

The net pension asset is the lower of the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in future periods, or the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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 or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Income Taxes
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, at the 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 benefit 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. With respect to investments in foreign subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each 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 in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

Income tax relating to items recognized directly in equity are recognized in equity and not in the consolidated statement of income.

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

Leases
Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Leases where the lessor retains substantially all the risks and benefits of 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 income based on the terms of the lease contract.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of IFRIC 4.

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 cost (included in real estate inventories, land and improvements, investment properties and property, plant and equipment). Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. The capitalization of these 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 the applicable weighted average borrowing rate.

Interest expense on loans is recognized using the effective interest rate method over the term of the loans.

Where an interest rate swap agreement is entered into as a means of reducing the effects of interest rate fluctuations on cash flows, gains or losses arising from this transaction are credited or charged to current operations.

Foreign Currency Translation/Transactions
The functional and presentation currency of Ayala Corporation and its Philippine subsidiaries (except IMI), is the Philippine Peso (₱). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated
using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of AIPL and IMI is US Dollars ($). As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their statement of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation shall be recognized in the consolidated statement of income.

The Company uses forward exchange contracts as a means of managing well-defined foreign currency risks and providing greater flexibility in managing cash flows. Forward swaps are valued based on the mark-to-market quotes from banks at each reporting date. Any premium or discount is amortized over the period of the contract and charged or credited to current operations.

Share-based Payments
The Company and its subsidiaries have 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 24.

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 instruments 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 22).

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income applicable to common stockholders by the weighted average number of common shares issued and outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the period. Diluted EPS is computed by dividing net income applicable to common stockholders by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of dilutive 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 25.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These 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 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 consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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:

Revenue Recognition
Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others:

- Buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment ; and
- Stage of completion of the project.

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 financial assets
The Group treats AFS financial assets 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 31).

Management's Use of Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the 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 Company's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Company's revenue from real estate and construction contracts are recognized based on the percentage of completion 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 at a level 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 receivable's 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 joint ventures, property, plant 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 joint ventures, investment properties, and property, plant and equipment. See Notes 8, 10 and 11 for the related balances.

Estimating useful lives of property, plant and equipment, investment properties and intangible assets.
The Group estimated the useful lives of its property, plant and equipment and investment properties and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant 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 these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives would increase depreciation expense and decrease noncurrent assets. See Notes 10 and 11 for the related balances.

Impairment of Goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amounts which is the net selling price or value in use of the cash-generating units to which the goodwill is allocated.

Deferred tax assets
The Group reviews the carrying amounts of deferred income taxes at each 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 21 for the related balances.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet 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 28 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 24 for the related balances.

Estimating pension obligation and other retirement benefits
The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 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 the actual experience or significant changes in the assumptions materially affect retirement obligations. See Note 23 for the related balances.

4. Cash and Cash Equivalents

This account consists of the following:

	2006	2005
	(In Thousands)	
Cash on hand and in banks	**₱3,082,502**	₱3,222,262
Cash equivalents	**20,035,930**	20,788,565
	₱23,118,432	₱24,010,827

Cash in banks earns interest at the prevailing 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

This account consists of the following:

	2006	2005 (As Restated)
	(In Thousands)	
Trade	**₱11,894,098**	₱11,931,935
Advances	**4,364,002**	2,053,765
Related parties (see Note 27)	**1,935,112**	1,621,711
Dividends	**1,262,538**	531,499

(Forward)

	2006	2005 (As Restated)
	(In Thousands)	
Advances to contractors	**₱675,504**	₱583,890
Notes receivable	**125,709**	119,838
Others	**174,050**	509,018
	20,431,013	17,351,656
Less allowance for doubtful accounts (see Note 27)	**441,637**	412,439
	19,989,376	16,939,217
Less noncurrent portion	**2,519,816**	5,631,132
	₱17,469,560	₱11,308,085

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. Inventories

This account consists of the following:

	2006	2005
	(In Thousands)	
Real estate inventories:		
Subdivision land for sale (see Note 15)		
At cost	**₱3,798,338**	₱3,265,179
At NRV	**867,126**	867,126
Condominium, residential and commercial units for sale - at cost (see Note 15)	**3,070,123**	2,622,120
Materials, supplies and others - at NRV (cost of ₱1,142,846 in 2006 and ₱1,787,258 in 2005)	**1,029,214**	1,728,003
Work-in-process - at cost	**482,824**	154,556
Vehicles - at cost	**256,041**	247,640
Finished goods - at NRV (cost of ₱74,949 in 2005)	**216,587**	68,442
Parts and accessories - at NRV (cost of ₱110,386 in 2006 and ₱72,560 in 2005)	**83,669**	45,840
	₱9,803,922	₱8,998,906

7. Other Current Assets

This account consists of the following:

	2006	2005
	(In Thousands)	
Short-term investments (see Note 28)	**₱2,302,694**	₱852,309
Prepaid expenses	**534,398**	486,800
Value-added input tax	**479,748**	412,311
Others	**644,475**	438,849
	₱3,961,315	₱2,190,269

Short-term investments include investment in government securities and The Rohatyn Group (TRG) Allocation LP. TRG Allocation LP's underlying asset is that of a fund that invests primarily in emerging market securities, including debt, equities and currencies. As of December 31, 2006, the investments have a fair value of ₱1,951.1 million and $7.3 million, respectively.

8. Investments in Associates and Joint Ventures

This account consists of the following:

	2006	2005
	(In Thousands)	
Acquisition cost	**₱49,424,793**	₱44,847,095
Accumulated equity in net income	**17,226,423**	18,419,504
Cumulative translation adjustments	**1,917,467**	541,111
	₱68,568,683	₱63,807,710

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

	Percentage of Ownership		**Carrying Amounts**	
	2006	2005	**2006**	2005
Domestic:			(In Millions)	
Bank of the Philippine Islands and subsidiaries (BPI)	**33.9**	35.9	**₱29,860**	₱29,190
Globe Telecom, Inc. and subsidiaries (Globe)*	**34.3**	34.6	**22,606**	20,771
Emerging City Holdings, Inc. (ECHI) *	**50.0**	50.0	**3,088**	2,649
Manila Water Company, Inc. (MWCI)*	**30.0**	30.4	**2,576**	2,157
Cebu Holdings, Inc. and subsidiaries (CHI)	**47.2**	47.2	**1,724**	1,672
North Triangle Depot Commercial Corporation (NTDCC)	**49.0**	49.0	**1,044**	1,044

(Forward)

	Percentage of Ownership		Carrying Amounts	
	2006	2005	**2006**	2005
			(In Millions)	
Domestic:				
Berkshires Holdings, Inc. (BHI) *	**50.0**	50.0	**₱957**	₱940
Philwater Holdings Company, Inc. (Philwater)*	**60.0**	60.0	**947**	925
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	**747**	698
Alabang Commercial Corporation (ACC)*	**50.0**	50.0	**491**	431
ALI Property Partners Holdings Corporation (APPHC)*	**60.0**	–	**130**	–
Foreign:				
Arch Capital Management Co. Ltd. (ARCH Capital)*	**65.0**	–	**3,271**	–
Hermill Investment Pte. Ltd.* (Singaporean company)	–	23.3	**–**	1,632
Others	**Various**	Various	**1,128**	1,699
			₱68,569	₱63,808

* *Joint venture companies*

The Group's investments accounted for under joint venture amounted to ₱34,835.3 million and ₱30,226.0 million as of December 31, 2006 and 2005, respectively.

Financial information on significant investees (amounts in millions, except earnings per share) follows:

BPI and subsidiaries	2006	2005
Total resources	**₱581,970**	₱529,285
Total liabilities	**516,483**	469,217
Minority interest	**1,048**	1,540
Net interest income	**19,960**	18,863
Other income	**10,641**	9,252
Other expenses	**17,427**	15,382
Net income attributable to:		
Equity holders of the bank	**9,040**	8,383
Minority interests	**154**	171
Earnings per share		
Basic	**3.34**	3.11
Diluted	**3.34**	3.11

Globe and subsidiaries	2006	2005
Current assets	**₱24,215**	₱22,894
Noncurrent assets	**100,365**	102,208
Total assets	**124,580**	125,102
Current liabilities	**25,758**	24,233
Noncurrent liabilities	**41,874**	49,250
Total liabilities	**67,632**	73,483
Redeemable preferred stock	**793**	793

(Forward)

Globe and subsidiaries	**2006**	2005
Net operating revenue	**₱61,110**	₱59,845
Costs and expenses	**43,650**	45,664
Net income	**11,755**	10,315
Earnings per share:		
Basic	**88.56**	76.74
Diluted	**88.32**	76.60

MWCI	**2006**	2005
Current assets	**₱7,605**	₱3,582
Noncurrent assets	**16,657**	14,347
Total assets	**24,263**	17,929
Current liabilities	**4,650**	3,308
Noncurrent liabilities	**7,738**	4,498
Total liabilities	**12,389**	7,806
Redeemable preferred stock	**200**	300
Revenue	**6,785**	5,763
Costs and expenses	**4,559**	3,823
Net income	**2,394**	2,012
Earnings per share:		
Basic	**1.05**	0.94
Diluted	**1.05**	0.93

The fair value of investment in associates for which there are published price quotations, amounted to ₱60,588.4 million and ₱45,107.5 million as of December 31, 2006 and 2005, respectively.

The following significant transactions affected the Group's investment in its investees:

Investment in BPI
In 2006, the Company received 20% stock dividends from its investment in BPI.

On September 1, 2005, BPI acquired 92% of the share capital of Prudential Bank, Inc. (Prudential) for cash consideration of ₱5,619 million. In addition, in accordance with the provisions of the plan of merger approved by the Bangko Sentral ng Pilipinas and by the SEC on December 21 and December 29, 2005, respectively, BPI issued 9.99 million of its common shares with fair value of ₱515 million to the 8% minority shareholders of Prudential.

Investment in Globe
In 2005, Globe offered to purchase one share for every fifteen shares (1:15) of its outstanding common stock from all stockholders of record as of February 10, 2005 at ₱950.00 per share. The buyback program allowed Globe to purchase up to 9,326,924 shares representing 6.67% of its outstanding common shares. Each shareholder was entitled to tender a proportionate number of shares at the 1:15 ratio for purchase by Globe upon and subject to the terms and conditions of the tender offer. The Company participated in the buyback program up to the number of shares it was allowed to tender.

The Company also holds 60% of Asiacom Philippines, Inc., which owns 158,515,021 Globe preferred shares.

Investment in MWCI

On December 23, 2004, the Company entered into an agreement with Philwater to assign and transfer its 200.0 million participating preferred shares of MWCI in exchange for 60% ownership or 200.0 million common shares of Philwater. The assignment of shares became effective on January 31, 2005 when the SEC approved the increase in the authorized capital stock of Philwater and the assignment as payment by the Company of its subscription to such increase.

On February 3, 2005, the SEC approved the amendment of the articles of incorporation of MWCI to: (a) change the par value of the participating preferred shares from ₱1.00 to ₱0.10 per share; (b) increase the number of participating preferred shares from 400.0 million to 4.0 billion; and (c) provide that the participating preferred shares shall be participating at a rate of one-tenth of dividends paid to common shares.

On March 18, 2005, MWCI launched its initial public offering in which a total of 745.3 million common shares were offered at an offer price of ₱6.50 per share. Of the total common shares offered, 244.6 million shares were from MWCI's unissued capital stock; 305.4 million shares were from MWCI's treasury stock; and 195.3 million shares were from MWCI's existing shareholders. In addition, the Company together with some of MWCI's existing shareholders granted the underwriter a 30-day option, from the listing date, to purchase up to 78.5 million common shares at the offer price, of which the underwriter exercised its option over 53.7 million common shares.

The issuance of additional MWCI common shares to the public and the secondary sale of the Company's common shares in MWCI decreased the effective ownership of the Company from 46.2% in 2004 to 30.4% in 2005.

Investment in NTDCC

In 2004, ALI acquired an additional 30.89% interest in NTDCC in exchange for ALI's interest in two companies valued at ₱320.1 million and cash amounting to ₱280.0 million. ALI infused additional cash in 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 commercial 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, ALI 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 ALI. The remaining 40% interest is split evenly between MIL and FIL. APPHC is jointly controlled by ALI, MIL, and FIL.

Investment in ARCH Capital
In 2006, the Company and ALI entered into a Shareholders' Agreement with ARCH Capital and Great ARCH Co. Limited, wherein the Company and ALI 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 Company's investment will be made through AIPL which has a strong record of experience in direct property investments in Asia and the United States. ALI (through a subsidiary) 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.

As of December 31, 2006, the private equity Fund has not been formed. The total amount of investment and deposits to ARCH Capital amounted to ₱3,271 million.

The excess of cost of investments over the Group's equity in the net assets of their investees accounted for under the equity method amounted to ₱10.9 billion and ₱11.4 billion as of December 31, 2006 and 2005, respectively.

9. Investments in Bonds and Other Securities

This account consists of investments in:

	2006	2005
	(In Thousands)	
AFS equity investments		
Quoted	**₱2,373,486**	₱1,785,924
Unquoted	**961,374**	186,207
	3,334,860	1,972,131
HTM investments		
Bonds	**127,575**	100,836
	₱3,462,435	₱2,072,967

The quoted equity investments include investments in TRG Global Opportunity Fund (GOF) and TRG Special Opportunity Fund (SOF). The GOF is a multi-strategy hedge fund which invests primarily in emerging markets securities. The SOF focuses on less liquid assets in emerging markets (Latin America, Asia, Emerging Europe, Middle East and Africa) such as distressed debt, NPLs, corporate high yield, mid and small cap stocks, real estate (debt and equity) and private equity.

The unquoted equity investments include 11% minority stake in eTelecare Global Solutions, Inc. Unquoted equity investments classified as AFS are carried at cost less any accumulated impairment losses, as their fair values cannot be reliably measured.

Effective interest rates for bonds ranged from 9.1% to 11.4% in 2006 and 8.4% to 11.4% in 2005.

10. **Investment Properties**

The movements of investment properties follow:

	2006	2005
	(In Thousands)	
Cost		
At January 1	**₱21,083,187**	₱19,664,126
Additions	**547,476**	944,799
Disposals	**(757,161)**	(575,838)
Transfers	**649,594**	1,050,100
At December 31	**21,523,096**	21,083,187
Accumulated depreciation and amortization and impairment losses		
At January 1	**4,071,348**	3,524,465
Depreciation and amortization (see Note 19)	**734,332**	557,786
Provision for (reversal of) impairment loss	**(3,584)**	10,252
Disposals	**(73,662)**	(21,155)
At December 31	**4,728,434**	4,071,348
Net book value	**₱16,794,662**	₱17,011,839

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 all improvements (such as 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 own use and benefit.

The fair value of the investment properties has been determined based on valuations performed by independent professional qualified appraisers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The aggregate fair value of the Group's investment properties amounted to ₱125.1 billion in 2006 and ₱124.4 billion in 2005.

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.

Consolidated rental income from investment properties, included in the sales and services in the consolidated statements of income amounted to ₱4.5 billion in 2006, ₱4.2 billion in 2005 and ₱4.0 billion in 2004. Direct operating expenses pertaining to rental operations, included in the cost of sales and services amounted to ₱2.1 billion in 2006, ₱2.0 billion in 2005 and ₱1.4 billion in 2004.

11. Property, Plant and Equipment

The movements of property, plant and equipment follow:

	Land, Buildings and Improvements (see Note 15)	Machinery and Equipment (see Note 26)	Hotel Property and Equipment (see Note 15)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
			As of December 31, 2006 (In Thousands)				
Cost							
At January 1	**₱2,807,882**	**₱3,653,294**	**₱4,824,337**	**₱3,532,735**	**₱824,329**	**₱854,930**	**₱16,497,507**
Additions	**185,800**	**1,297,867**	**264,260**	**415,071**	**227,115**	**1,060,541**	**3,450,654**
Addition through business combination	**–**	**–**	**–**	**1,120**	**1,353**	**–**	**2,473**
Disposals	**(247,344)**	**(105,064)**	**(31,218)**	**(18,563)**	**(115,111)**	**(4,846)**	**(522,146)**
Transfers	**688,695**	**1,481,421**	**(2,355,170)**	**(1,861,462)**	**–**	**(958,248)**	**(3,004,764)**
At December 31	**3,435,033**	**6,327,518**	**2,702,209**	**2,068,901**	**937,686**	**952,377**	**16,423,724**
Accumulated depreciation and amortization and impairment loss							
At January 1	**1,257,544**	**1,933,196**	**1,850,516**	**1,026,467**	**512,230**	**–**	**6,579,953**
Depreciation and amortization for the year	**205,222**	**917,909**	**177,105**	**257,196**	**123,989**	**–**	**1,681,421**
Disposals	**(33,287)**	**(67,219)**	**(25,453)**	**(3,146)**	**(89,603)**	**–**	**(218,708)**
Transfers	**–**	**–**	**(676,017)**	**–**	**–**	**–**	**(676,017)**
At December 31	**1,429,479**	**2,783,886**	**1,326,151**	**1,280,517**	**546,616**	**–**	**7,366,649**
Net book value	**₱2,005,554**	**₱3,543,632**	**₱1,376,058**	**₱788,384**	**₱391,070**	**₱952,377**	**₱9,057,075**

	Land, Buildings and Improvements (see Note 15)	Machinery and Equipment (see Note 26)	Hotel Property and Equipment (see Note 15)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
			As of December 31, 2005 (In Thousands)				
Cost							
At January 1	₱3,103,310	₱2,641,840	₱4,800,887	₱1,533,440	₱763,413	₱985,912	₱13,828,802
Additions	229,936	511,121	42,867	204,468	135,868	729,561	1,853,821
Addition through business combination	–	587,276	–	1,797,735	12,314	–	2,397,325
Disposals	(552,246)	(86,943)	(19,417)	(174,765)	(87,266)	(2,473)	(923,110)
Transfers	26,882	–	–	171,857	–	(858,070)	(659,331)
At December 31	2,807,882	3,653,294	4,824,337	3,532,735	824,329	854,930	16,497,507
Accumulated depreciation and amortization and impairment loss							
At January 1	1,124,621	1,509,722	1,691,273	1,054,470	450,929	–	5,831,015
Depreciation and amortization for the year	202,077	458,901	168,618	171,558	126,575	–	1,127,729
Disposals/transfers	(69,154)	(35,427)	(9,375)	(199,561)	(65,274)	–	(378,791)
At December 31	1,257,544	1,933,196	1,850,516	1,026,467	512,230	–	6,579,953
Net book value	**₱1,550,338**	**₱1,720,098**	**₱2,973,821**	**₱2,506,268**	**₱312,099**	**₱854,930**	**₱9,917,554**

Consolidated depreciation and amortization of property, plant and equipment amounted to ₱1,681.4 million in 2006, ₱1,127.7 million in 2005 and ₱988.9 million in 2004 (see Note 19).

12. Intangible Assets

The movements of intangible assets follow:

	Goodwill	Customer Relationship	Order Backlog	Unpatented Technology	Total
			As of December 31, 2006 (In Thousands)		
Cost					
At January 1	**₱2,300,742**	**₱684,861**	**₱5,309**	**₱5,309**	**₱2,996,221**
Addition through business combination (see Note 20)	**1,817,398**	**–**	**–**	**–**	**1,817,398**
Exchange differences	**–**	**(49,149)**	**(381)**	**(381)**	**(49,911)**
At December 31	**4,118,140**	**635,712**	**4,928**	**4,928**	**4,763,708**
Accumulated amortization and impairment loss					
Amortization (see note 19)	**–**	**132,354**	**5,130**	**1,026**	**138,510**
Exchange differences	**–**	**(5,212)**	**(202)**	**(40)**	**(5,454)**
At December 31	**–**	**127,142**	**4,928**	**986**	**133,056**
Net book value	**₱4,118,140**	**₱508,570**	**₱–**	**₱3,942**	**₱4,630,652**

	Goodwill	Customer Relationship	Order Backlog	Unpatented Technology	Total
			As of December 31, 2005 (In Thousands)		
Cost					
At January 1	₱72,704	₱–	₱–	₱–	₱72,704
Additions	–	684,861	5,309	5,309	695,479
Addition through business combination (see Note 20)	2,430,706	–	–	–	2,430,706
Disposals	(27,467)	–	–	–	(27,467)
Exchange differences	(175,201)	–	–	–	(175,201)
At December 31	₱2,300,742	₱684,861	₱5,309	₱5,309	₱2,996,221

13. Noncurrent Assets Held for Sale

In 2006, the Group had negotiations to sell its equity interests in Makati Property Ventures, Inc. (MVPI) and Hermill Investments Pte. Ltd. (Hermill).

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

AIPL, through its 100%-owned Ayala International Holdings Limited (AIHL), entered into a Sale and Purchase Agreement (SPA) with Hotel Properties Limited (HPL) on January 17, 2007 for the sale of its 23.3% interest in Hermill, the holding company for The Forum Shopping Mall, a 17-storey retail-cum-office development along Orchard Road in Singapore. The consideration for AIHL's 23.3% stake is Singapore Dollars (SGD) 47 million. The SPA further provides that if, within 3 years from the Completion Date of March 2007, Hermill is able to obtain approval from the Singapore government for the demolition and re-development of The Forum Shopping Mall, HPL shall pay AIHL SGD 3.5 million.

Only the MPVI transaction met the requirements for presentation as discontinued operation. The results of MPVI are presented below:

	2006	2005	2004
		(In Thousands)	
Sales and services	**₱733,261**	₱673,147	₱664,894
Interest, fees, investment and other income	**12,871**	12,177	10,984
	746,132	685,324	675,878
Cost of sales and services	**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 noncurrent assets held for sale	**₱155,258**	₱130,679	₱100,562

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

	At Carrying Amounts
	(In Thousands)
ASSETS	
Cash	₱324,362
Accounts and notes receivable - net	44,382
Inventories	4,407
Other current assets	5,446
Investment in joint venture	1,574,167
Property and equipment	1,679,153
Deferred tax assets	22,672
Other noncurrent assets	3,895
Noncurrent assets held for sale	₱3,658,484
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 associated with noncurrent 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
	(In Thousands, except EPS)		
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	**344,204**	343,381	342,966
Dilutive shares arising from stock options	**1,691**	1,390	1,681
Adjusted weighted average number of common shares for diluted EPS	**345,895**	344,771	344,647
Basic EPS	**₱0.14**	₱0.11	₱0.09
Diluted EPS	**₱0.13**	₱0.11	₱0.09

14. **Accounts Payable and Accrued Expenses**

This account consists of the following:

	2006	2005 (As Restated)
	(In Thousands)	
Accounts payable and accrued expenses	**₱16,404,495**	₱15,247,799
Dividends payable	**964,931**	821,921
Interest payable	**824,086**	1,044,113
Related parties (see Note 27)	**132,204**	197,412
	₱18,325,716	₱17,311,245

15. **Short-term and Long-term Debt**

Short-term debt consists of:

	2006	2005
	(In Thousands)	
Foreign currency debt - with interest rates ranging from 4.1% to 6.4% per annum in 2006 and 1.2% to 8.3% per annum in 2005	**₱815,787**	₱4,707,155
Philippine peso debt - with interest rates ranging from 6.1% to 7.8% per annum in 2006 and 6.8% to 8.5% per annum in 2005	**1,688,220**	1,447,250
	₱2,504,007	₱6,154,405

In 2005, IMI obtained an US$80.0 million syndicated bridge loan facility from a foreign bank to finance the acquisition of the shares of Speedy-tech Electronics Ltd. (STEL). The loan is due within one year, with an interest rate per annum equal to the aggregate of 1.25% plus US$ LIBOR, extendable by another year subject to the agreement between IMI and the foreign bank. IMI paid the loan when it matured in 2006.

The Philippine peso debt consists mainly of ALI and its subsidiaries' bank loans of ₱1,556.0 million in 2006 and ₱1,427.0 million in 2005. These are unsecured peso-denominated short-term borrowings with interest rates ranging from 6.1% to 7.6% per annum in 2006 and 7.5% to 8.5% per annum in 2005.

Long-term debt consists of:

	2006	2005
	(In Thousands)	
Company:		
Bank loans - with interest rates ranging from 5.3% to 11.0% per annum in 2006 and 5.7% to 11.0% per annum in 2005 and varying maturity dates up to 2013	**₱6,294,697**	₱6,054,167
Syndicated term loans with interest rates ranging from 10.6% to 12.0% per annum and varying maturity dates up to 2008	**1,250,000**	2,350,000
Fixed Rate Corporate Notes (FXCNs) with interest rates ranging from 10.0% to 10.4% per annum and varying maturity dates up to 2012	**7,190,000**	7,200,000
Bonds, due 2009	**7,000,000**	7,000,000
	21,734,697	22,604,167
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 5.9% to 12.8% per annum in 2006 and 6.4% to 6.6% per annum in 2005	**8,154,932**	8,841,961
Philippine peso - with interest rates ranging from 7.8% to 12.0% per annum in 2006 and 7.7% to 15.0% per annum in 2005	**2,658,451**	2,905,288
Bonds		
Due 2007	**3,000,000**	3,000,000
Due 2008	**2,000,000**	2,000,000
Due 2009	**42,960**	–
FXCNs	**3,580,000**	950,000
Other US dollar-denominated obligations:		
8.125% Guaranteed Euro Notes	**6,706,393**	9,191,111
	26,142,736	26,888,360
	47,877,433	49,492,527
Less current portion	**9,359,594**	2,985,240
	₱38,517,839	₱46,507,287

Parent Company
While the Company's long-term loans are generally unsecured, due to certain regulatory constraints in the local banking system regarding loans to directors, officers, stockholders and related interest, some of the Company's credit facilities with a local bank are secured by shares of stock of a consolidated subsidiary with carrying value of ₱2,794.2 million in 2006 and ₱5,501.8 million in 2005 in accordance with strict local central bank regulations.

All credit facilities of the Company outside of this local bank are unsecured, and their respective credit agreements provide for this exception. The Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions. The Company also uses swaps and forward contracts as a way of minimizing the costs and risk of financing (see Note 28).

As of December 31, 2006, the Company has undrawn borrowing facilities from local banks amounting to ₱5.0 billion.

In 2005, the Company issued FXCNs consisting of 5- and 7-year notes to various financial institutions with fixed interest rates ranging from 10.0% to 10.4% per annum.

In 2004, the Company issued 12.677% Fixed Rate Bonds with an aggregate principal amount of ₱7.0 billion to mature in 2009. Prior to maturity, the Company may redeem outstanding bonds on any coupon payment date beginning in 2007. The bonds have been rated "PRS Aaa" by Philippine Ratings Services Corporation (PhilRatings).

Subsidiaries
<u>Foreign Currency Debt</u>
As of December 31, 2006, the Company, through a wholly owned subsidiary, has undrawn credit facility amounting to US$150.0 million.

In 2006, the Company, through a wholly owned subsidiary, extended for 3 years a loan with a foreign bank, with the Company as guarantor, for US$20 million at a rate of 105 bps over 1-, 3- or 6-month US$ LIBOR at the Company's option.

In 2004, the Company, through a wholly owned subsidiary, entered into a 5-year loan with a local bank, with the Company as guarantor, for US$46 million at a rate per annum equal to LIBOR plus applicable margin ranging from 0.90% to 1.98%, payable in six unequal semi-annual installments. The loan was prepaid in 2006.

In 2003, the Company, through a wholly owned subsidiary, entered into 5-year loan with a commercial bank, with the Company as guarantor, for up to US$120 million at a rate of 240 points over the 1-, 3- or 6-month LIBOR at the Company's option, drawable in various tranches over a period of 12 months.

<u>Philippine Peso Debt</u>
In 2006, ALI launched its Homestarter Bonds of up to ₱169.2 million with fixed interest rate of 5% per annum. 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, ₱42.96 million of these bonds were outstanding.

In 2006, ALI 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% per annum depending on the term of the notes.

In 2003, ALI issued ₱2.0 billion bonds due in 2008 with fixed and floating rate tranches. The fixed-rate bonds carry a coupon of 10.75% per annum 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 are re-priced quarterly. These bonds have been rated "PRS Aaa" by Philratings.

In 2003, the Company through a wholly owned subsidiary issued an 8.125% Guaranteed Euro Notes, due 2008, amounting to US$200 million at 99.496% of its face value.

In 2002, ALI issued ₱3.0 billion bonds due in 2007, with interest at 200 bps over benchmark 91-day T-Bills based on secondary market bids (MART 1). These bonds have been rated "PRS Aaa" by Philratings.

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

In 2002, ALI issued 10-year FXCNs with fixed interest rate of 14.875% per annum due 2012. ALI may redeem all (but not part only) of the FXCNs on the 7th anniversary. ALI paid FXCNs that were due in 2005, 2007 and 2009. As of end 2006, ₱580.0 million of these bonds are outstanding.

ALI 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% per annum. These borrowings are secured by mortgages on real estate properties, hotel property and equipment and leasehold rights with a total carrying value of ₱3.6 billion and ₱3.5 billion in 2006 and 2005, respectively. ALI pledged its investment in shares of stock of Station Square East Commercial Corporation (SSECC), ALI's subsidiary, with a carrying value of ₱1.5 billion and ₱2.1 billion as of December 31, 2006 and 2005, respectively, as collateral to secure the latter's bank loans.

The loan agreements on long-term debt of the Company and certain subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investments and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Group.

Interest capitalized by subsidiaries, 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.

16. Other Noncurrent Liabilities

This account consists of the following:

	2006	2005
	(In Thousands)	
Deposits and deferred credits	**₱3,809,082**	₱3,393,363
Retentions payable	**794,810**	540,342
Other liabilities	**1,537,173**	1,436,680
	₱6,141,065	₱5,370,385

17. Cumulative Redeemable Preferred Shares

The details as to the number of preferred shares of the Company follow:

	No. of Shares			
	Authorized		**Issued and Outstanding**	
	2006	2005	**2006**	2005
	(In Thousands)			
Preferred				
A	**900,000**	4,000,000	**500,000**	900,000
AA	**300,000**	1,000,000	**–**	46,000
B	**–**	2,000,000	**–**	–
	1,200,000	7,000,000	**500,000**	946,000

The preferred shares are nonvoting, nonparticipating, cumulative and redeemable. Such shares enjoy preference in case of liquidation but are excluded from the preemptive rights in the issuance of preferred and common shares. The preferred shares are identical in all respects, except that:

a. Preferred AA are redeemable on the fifth year from issue date while the Preferred A shares are redeemable at such time as may be determined by the BOD.
b. In 2005, the Preferred B shares were convertible into common shares at any time, six months after issue date, at a premium to be determined and fixed by the BOD and redeemable on the fifth year from issue date.

On February 10, 2006, the BOD approved the reclassification of the unissued preferred shares and redeemed preferred shares of the Company into 58 million new class of Preferred B shares with a par value of ₱100 per share or an aggregate par value of ₱5,800 million. The new preferred shares, to be known as Preferred B shares, have the following features: (a) optional redemption by the Company; (b) issue value, dividend rate and declaration thereof to be determined by the BOD; (c) cumulative in payment of current dividends as well as any unpaid back dividends and non-participating in any other further dividends; (d) non-convertible into common shares; (e) preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation of the Company and in the payment of the dividend at the rate specified at the time of issuance; (f) non-voting except in those cases specifically provided by law; (g) no pre-emptive rights to any issue of shares, common or preferred; and, (h) reissuable when fully redeemed (see Note 18).

In 2004, the Company issued the equivalent of ₱1,500 million and ₱1,000 million Preferred A shares at an amount of ₱5 per share with a dividend rate of 10.4% and 10.5% per annum, respectively. These Preferred A shares will be redeemed at 100% of issue price at the end of the 5th year from issue date.

In 2003, the Company issued the equivalent of ₱2,000 million Preferred A shares at an amount of ₱5 per share. These Preferred A shares bear dividends at the rate of 10.6% per annum and were redeemed in February 2006 at the end of three years from issue date.

In 2001, the Company issued an equivalent of ₱1,745 million and ₱1,000 million Preferred AA shares, respectively, at an amount of ₱5 per share. These Preferred AA issues bear dividends at a rate of the average 91-day T-Bill Rate payable quarterly and redeemable at the issue price. These preferred shares were redeemed in 2004 and 2006.

18. **Equity**

The details of the Company's common and equity preferred shares follow:

	Common shares			**Preferred B shares**		
	2006	2005	2004	**2006**	2005	2004
	(In Thousands, except par value)					
Authorized shares	**380,000**	380,000	19,000,000	**58,000**	–	–
Par value per share	**₱50**	₱50	₱1	**₱100**	–	–
Issued and subscribed shares	**344,854**	343,493	17,161,904	**58,000**	–	–

In July 2006, the Company filed a primary offer in the Philippines of its Preferred B shares at an offer price of ₱100 per share to be listed and traded on the Philippine Stock Exchange. The Preferred B shares are cumulative, nonvoting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with dividend rate of 9.4578% per annum. The Preferred B shares may be redeemed at the option of the Company starting in the fifth year.

The common shares may be owned or subscribed by or transferred to any person, partnership, association or corporation regardless of nationality, provided that at anytime at least 60% of the outstanding capital stock shall be owned by citizens of the Philippines or by partnerships, associations or corporations 60% of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

The details of the Company's paid-up capital follow:

	Preferred Stock - B	**Common Stock**	**Subscribed**	**Additional Paid-in Capital**	**Subscriptions Receivable**	**Total Paid-up Capital**
			(In Thousands)			
As of January 1, 2006	**₱–**	**₱17,137,083**	**₱37,544**	**₱118,643**	**(₱333,574)**	**₱16,959,696**
Exercise of ESOP/ESOWN	–	**29,881**	**38,210**	**216,700**	**93,461**	**378,252**
Issuance of shares	**5,800,000**	–	–	–	–	**5,800,000**
As of December 31, 2006	**₱5,800,000**	**₱17,166,964**	**₱75,754**	**₱335,343**	**(₱240,113)**	**₱23,137,948**

	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-up Capital
			(In Thousands)		
As of January 1, 2005	₱17,124,360	₱37,544	₱35,551	(₱301,136)	₱16,896,319
Exercise of ESOP/ESOWN	12,723	–	83,092	(32,438)	63,377
As of December 31, 2005	₱17,137,083	₱37,544	₱118,643	(₱333,574)	₱16,959,696

	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-up Capital
			(In Thousands)		
As of January 1, 2004	₱14,249,537	₱39,242	₱–	(₱311,185)	₱13,977,594
Exercise of ESOP	15,323	–	35,551	–	50,874
Issuance of shares	1,746	(1,698)	–	10,049	10,097
Declaration of 20% stock dividends	2,857,754	–	–	–	2,857,754
As of December 31, 2004	₱17,124,360	₱37,544	₱35,551	(₱301,136)	₱16,896,319

The movements in the Company's outstanding common shares follow:

	2006	2005	2004
		(In Thousands)	
At January 1	**343,488**	343,238	285,776
Exercise of options	**1,362**	254	307
Stock dividends	**–**	–	57,155
Treasury stock	**–**	(4)	–
	344,850	343,488	343,238

On December 7, 2006, the BOD approved the increase of the authorized common capital stock from ₱19.0 billion divided into 380,000,000 shares to ₱30.0 billion divided into 600,000,000 shares with a par value of ₱50 per share. The BOD likewise approved the declaration of a 20% stock dividend to all common stockholders to be issued from the increased authorized capital stock. As of February 21, 2007, the said increase and stock dividends are still subject to ratification of the stockholders and the approval of the SEC.

On December 9, 2004, the Company's BOD approved a reverse stock split of one share for every 50 shares held. This was approved by the stockholders on April 7, 2005 and subsequently by the SEC on May 20, 2005.

In 2004, the Company declared a 20% stock dividend out of retained earnings amounting to ₱2,857.8 million. Fractional shares were consolidated into whole shares and redeemed by the Company as treasury stock at a price based on the market value of the shares as of record date.

Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries, associates and joint ventures accounted for under the equity method amounting to ₱24,858.9 million, ₱18,487.9 million and ₱15,430.9 million as of December 31, 2006, 2005 and 2004, respectively. These amounts are not available for dividend declaration until received in the form of dividends from the subsidiaries, associates and joint ventures.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the common shares held in treasury consisting of 4,379 as of December 31, 2006 and 2005 and 216 common shares as of December 31, 2004.

Dividends consist of the following:

	2006	2005	2004
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	**₱2,756,618**	₱1,376,037	₱1,200,257
Cash dividends per share	**₱8.00**	₱4.00	₱3.50
Stock dividends	–	–	20%
Proposed for approval at annual stockholders' meeting	**20% stock dividend**	–	2,857,754
Dividends to equity preferred shares			
Declared during the year	**274,276**	–	–

Net unrealized gain on financial assets includes fair value changes on AFS investments.

Cumulative translation adjustments are used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the Group's share of the associates' equity reserve on fluctuation in value of investments.

19. Costs and Expenses

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

	2006	2005	2004
		(In Thousands)	
Included in:			
Cost of sales and services	**₱1,960,042**	₱1,243,495	₱1,159,737
General and administrative expenses	**630,316**	471,182	388,256
	₱2,590,358	₱1,714,677	₱1,547,993

Personnel costs included in the consolidated statements of income are as follows:

	2006	2005	2004
		(In Thousands)	
Included in:			
Cost of sales and services	**₱834,699**	₱720,468	₱748,659
General and administrative expenses	**3,848,299**	3,041,488	2,535,255
	₱4,682,998	₱3,761,956	₱3,283,914

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

	2006	2005	2004
		(In Thousands)	
Personnel costs (see Notes 23, 24 and 27)	**₱3,848,299**	₱3,041,488	₱2,535,255
Depreciation and amortization	**630,316**	471,182	388,256
Professional fees	**574,881**	375,825	411,014
Taxes and licenses	**349,229**	240,930	302,337
Transportation and travel	**347,977**	246,878	224,608
Rental and utilities	**253,519**	157,090	138,593
Representation	**188,911**	123,474	155,604
Advertising and promotions	**158,455**	129,398	199,495
Postal and communication	**126,733**	93,234	88,838
Donations and contributions	**106,969**	99,927	62,921
Repairs and maintenance	**81,239**	79,487	74,322
Provision for doubtful accounts	**81,196**	101,418	23,321
Others	**960,437**	850,993	466,853
	₱7,708,161	₱6,011,324	₱5,071,417

Interest and other charges consist of:

	2006	2005	2004
		(In Thousands)	
Interest expense on:			
Long-term debt	**₱4,160,169**	₱3,630,831	₱3,695,803
Short-term debt	**512,997**	845,377	745,679
Dividends on preferred shares	**291,681**	556,351	593,441
Amortization of discount on long-term debt - net of accretion of premium	**59,205**	134,571	86,873
Provision for decline/writedown of assets (see Note 6)	**–**	1,915,740	–
Swap costs	**–**	176,303	970,227
Others	**386,919**	303,560	502,812
	₱5,410,971	₱7,562,733	₱6,594,835

Foreign exchange differences recognized in profit or loss amounted to ₱72.4 million in 2006 and ₱291.1 million in 2005. Reversal of impairment losses and impairment losses amounted to ₱3.6 million in 2006 and ₱10.3 million in 2005, respectively.

20. **Business Combination**

PFRS 3 provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows; (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting had been completed from the acquisition date.

2006 Acquisitions
On October 7, 2006, Conoda, Inc., a subsdiary of LiveIt, entered into an Agreement and Plan of Merger with Integreon Managed Solutions, Inc. (Integreon) for the purchase of all Integreon shares. The amount of $18.0 million was put in Integreon.

On December 15, 2006, Next Life, Inc., a subsidiary of LiveIt, entered into an Agreement and Plan of Merger with Affinity, Inc. (Affinity) for the purchase of all Affinity shares for a total consideration of $28.0 million.

The purchase price allocation has been prepared on a preliminary basis, and reasonable changes are expected as additional information becomes available. The following is a summary of the provisional fair values of the assets acquired and liabilities assumed as of the date of the acquisition:

	Fair Value Recognized on Acquisition
	(In Thousands)
Cash and cash equivalents	₱83,719
Trade and other receivables	202,485
Other current assets	5,189
Property, plant and equipment - net	222,380
Intangible asset	95,239
Other noncurrent assets	692
	609,704
Accounts payable and accrued expenses	181,028
Other current liabilities	152,104
Other noncurrent liabilities	71,065
	404,197

(Forward)

	Fair Value Recognized on Acquisition
	(In Thousands)
Net assets	₱205,507
Minority interests	(24,522)
Goodwill arising on acquisition (see Note 12)	1,742,256
Total consideration, satisfied by cash	₱1,923,241

Cash flow on acquisition follows:

Net cash acquired with the subsidiary	₱83,719
Cash paid	1,923,241
Net cash outflow	₱1,839,522

From the date of acquisition, Integreon has contributed ₱188.2 million loss to the net income of the Group. If the contribution had taken place at the beginning of the year, the net income for the Group would have decreased by ₱169.9 million loss and revenue would have increased by ₱522.5 million. No income was recorded from Affinity since the business combination was completed in December 2006.

2005 Acquisitions

On January 29, 2005, IMI Group entered into an Asset Purchase Agreement (APA) with Saturn Electronics and Engineering (Tustin), Inc. (Saturn Tustin) and Saturn Electronics Philippines, Inc. (Saturn Philippines) for the purchase of certain assets and existing service contracts with prevailing customers, and the assumption of certain liabilities of Saturn Tustin and Saturn Philippines for a total consideration of $8.0 million. Saturn Tustin is a United States-based global provider of value-added electronics manufacturing services (EMS) and original design manufacturing (ODM) services to equipment manufacturers and their suppliers. Saturn Tustin owns all of the outstanding capital stock of Saturn Philippines. The fair values of the identifiable assets and liabilities of Tustin and Saturn as at the date of purchase follow:

	Saturn Tustin	Saturn Philippines	Total
Accounts receivable	$111,124	$3,155,188	$3,266,312
Inventories	–	1,659,219	1,659,219
Other current assets	13,099	70,231	83,330
Refundable deposits	41,912	102,914	144,826
Property, plant and equipment - net	1,061,478	2,617,191	3,678,669
Accounts payable	(83,559)	(1,774,837)	(1,858,396)
Net assets	$1,144,054	$5,829,906	6,973,960
Acquisition cost, net of cash acquired			7,630,570
Goodwill			$656,610

Assets and liabilities acquired and assumed, including service contracts, by IMI from Tustin were transferred to IMI USA, Inc. (a wholly owned subsidiary of IMI). The bill of sale dated February 10, 2005 was executed and delivered by Tustin to IMI USA, Inc., wherein pursuant to the APA, Saturn Tustin has agreed to sell, transfer, convey, assign, and deliver the assets to IMI or to its subsidiary designated by IMI.

On December 12, 2005, IMI Singapore and STEL entered into a merger agreement by way of a scheme arrangement. Under the scheme arrangement, all the issued shares of STEL will be transferred to IMI Singapore. In consideration for such transfer, IMI Group will allot, issue and/or pay, as the case may be either one of the following: (1) 1.3249 new IMI shares for each share held by such entitled shareholder of STEL; (2) SGD0.5350 (US$0.3165 at the time of purchase) in cash for each share held by such entitled shareholder; or (3) a combination of new IMI shares and cash consideration in such proportion as elected by such entitled shareholder.

The scheme price was arrived at after negotiations between IMI Group and STEL on an arm's-length basis, taking into consideration, among other things, the historical market price of the shares as well as the financial performance of STEL and the assessment of STEL's future prospects.

STEL has an authorized share capital of 500,000,000 ordinary shares, and issued and outstanding 376,200,000 shares with a par value of SGD0.0500 (US$0.2898) each. Out of the total outstanding shares of STEL, 46,443,747 shares were purchased by IMI Group through share swap. All the shares of STEL have been delisted and withdrawn from the Singapore Exchange Securities Trading Limited at the time of the purchase. The total acquisition cost of STEL amounted to $119,118,935 consisting of $104,419,154 in cash and 61,533,299 IMI shares worth $14,699,781.

The estimated fair values of the identifiable assets and liabilities of STEL as at the date of purchase follow:

Accounts and other receivables	$39,675,221
Inventories	24,090,992
Investments	13,041
Property, plant and equipment	38,197,302
Total assets acquired	101,976,556
Accounts payable	(41,723,857)
Notes payable	(3,974,019)
Other liabilities	(2,824,440)
Deferred tax liability	(639,874)
Long-term debt	(549,039)
Total liabilities acquired	(49,711,229)
Estimated fair values of net assets acquired	52,265,327
Acquisition cost, net of cash acquired	113,030,535
Provisional value of goodwill	60,765,208
Increase in fair value of machines and equipment	(3,300,956)
Increase in fair value of intangible assets	(13,100,000)
Effect of change in functional currency	763,772
Adjusted goodwill at the time of acquisition	$45,128,024

No income for 2005 was recorded from STEL since the business combination was completed only in December 2005. If the combination had taken place at the beginning of the reporting year, revenue from continuing operations would have been $359.1 million, and net income of IMI Group would have been $38.0 million, before any adjustments for interest and other expenses related to the acquisition.

IMI Group has appointed an independent third party for the fair valuation of selected machinery and equipment in relation to the business combination. Based on the asset valuation report dated November 24, 2006, the result of the fair valuation of selected machinery and equipment are as follows:

Fair values of selected machines and equipment	$24,935,956
Recorded book values at the time of acquisition	21,635,000
Increase in the recorded book values	$3,300,956

IMI Group also engaged an independent third party to identify and value the intangibles which were part of the business combination. Based on the report of the independent third party, the fair value of the intangible assets acquired from STEL as at December 12, 2005 are as follows:

Intangible Assets	Fair Value
Customer Relationships	$12,900,000
Order Backlog	100,000
Unpatented Technology	100,000
	$13,100,000

The aggregate Goodwill recognized from these acquisitions amounted to $0.4 million in 2006 and $45.8 million in 2005. The total cash outflows on these acquisitions, net of cash received, aggregated to $0.5 million in 2006 and $106.0 million in 2005.

21. **Income Taxes**

The components of the Group's 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	**₱687,949**	₱645,552
Unrealized gain, deposits and accruals for various expenses on real estate transactions	**518,619**	603,251
Retirement benefits	**192,177**	201,419
Share-based payments	**174,679**	110,458
NOLCO	**51,242**	29,174
MCIT	**17,780**	26,221
Others	**168,082**	179,476
	1,810,528	1,795,551
Deferred tax liabilities on:		
Capitalized customs duties, interest and other expenses	**(686,616)**	(681,999)
Others	**–**	(145)
	(686,616)	(682,144)
Net deferred tax assets	**₱1,123,912**	₱1,113,407

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
Others	**25,835**	17,069
	131,872	99,602
Deferred tax liabilities on:		
Excess of financial realized gross profit over taxable realized gross profit	**244,113**	237,202
Capitalized customs duties, interest and other expenses	**290,728**	101,311
Others	**40,767**	72,980
	575,608	411,493
Net deferred tax liabilities	**(₱443,736)**	(₱311,891)

The Group has NOLCO amounting to ₱8.8 billion and ₱7.8 billion in 2006 and 2005, respectively, which were not recognized. Further, deferred tax assets from the excess MCIT over regular corporate income tax amounting to ₱28.8 million in 2006 and ₱40.0 million in 2005 and from unrealized gain on real estate sales amounting to ₱4.8 million and ₱143.3 million as of December 31, 2006 and 2005, respectively, 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 Group will recognize a previously unrecognized deferred tax asset to the extent that it becomes probable that future taxable income will allow the deferred tax asset to be recovered.

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

Year incurred	Expiry date	NOLCO	MCIT
		(In Thousands)	
2004	2007	₱2,971,437	₱17,440
2005	2008	3,120,245	16,620
2006	2009	3,004,989	15,449
		₱9,096,671	₱49,509

At December 31, 2006 and 2005, deferred tax liabilities have not been recognized on the undistributed earnings and cumulative translation adjustment of foreign subsidiaries, associates and joint ventures since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of such temporary difference in the foreseeable future. Such undistributed earnings and cumulative translation adjustment amounted to ₱1,417.2 million and ₱1,361.0 million as of December 31, 2006 and 2005, respectively.

There are no income tax consequences attaching to the payment of dividends by the domestic subsidiaries, associates and joint ventures to the Company.

Republic Act (RA) No. 9337
RA No. 9337 was recently enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. 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 value added tax (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
- Provided thresholds and limitations on the amounts of VAT credits that can be claimed.

Provision for income tax consists of:

	2006	2005	2004
		(In Thousands)	
Current	**₱1,764,984**	₱1,696,400	₱1,183,233
Deferred	**112,175**	(857,122)	211,249
	₱1,877,159	₱839,278	₱1,394,482

The 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:			
Nontaxable equity in net earnings of associates and joint ventures	**(17.84)**	(24.69)	(24.64)
Gain on sale of shares and capital gains tax	**(13.98)**	(14.41)	(7.37)
Income under income tax holiday	**0.16**	(4.23)	(0.04)
Effect of change in statutory tax rate	**–**	(1.04)	–
Interest income subjected to final tax at lower rates	**(1.15)**	(0.64)	(0.39)
Others	**9.40**	20.28	14.51
Effective income tax rate	**11.59%**	7.77%	14.07%

22. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders to the Company:

	2006	2005	2004
	(In Thousands, except EPS)		
Net income	**₱12,176,771**	₱8,198,004	₱7,353,022
Less dividends on preferred stock	**274,276**	–	–
	11,902,495	8,198,004	7,353,022
Weighted average number of common shares	**344,204**	343,381	342,966
Dilutive shares arising from stock options	**1,691**	1,390	1,681
Adjusted weighted average number of common shares for diluted EPS	**345,895**	344,771	344,647
Basic EPS	**₱34.58**	₱23.87	₱21.44
Diluted EPS	**₱34.41**	₱23.78	₱21.33

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

	2006	2005	2004
	(In Thousands, except EPS)		
Income before income associated with noncurrent assets held for sale	**₱14,312,367**	₱9,959,445	₱8,504,844
Less: Income before income associated with noncurrent assets held for sale associated to minority interests	**2,182,173**	1,800,645	1,181,991
Less: Dividends on preferred stock	**274,276**	–	–
	11,855,918	8,158,800	7,322,853
Weighted average number of common shares for basic EPS	**344,204**	343,381	342,966
Dilutive shares arising from stock options	**1,691**	1,390	1,681
Adjusted weighted average number of common shares for diluted EPS	**345,895**	344,771	344,647
Basic EPS	**₱34.44**	₱23.76	₱21.35
Diluted EPS	**₱34.28**	₱23.66	₱21.25

Weighted average number of common shares outstanding and EPS for 2004 has been restated to reflect the 50-to-1 reverse stock split in 2005 (see Note 18).

23. Retirement Plan

The Company and certain subsidiaries have their respective funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on defined formula with minimum lump-sum guarantee of 1.5 months' effective salary per year of service. The consolidated retirement costs charged to operations amounted to
₱319.5 million in 2006, ₱447.2 million in 2005 and ₱463.3 million in 2004.

Based on the latest actuarial valuation reports of the Company and certain subsidiaries, the aggregate actuarial present value of pension benefits amounted to ₱4,013 million. The aggregate fair value of their respective plan assets amounted to ₱3,267 million. The principal actuarial assumptions used to determine the pension benefits with respect to the discount rate, salary increases and return on plan assets were based on historical and projected normal rates. The Company's and certain subsidiaries' annual contributions to their respective plans consist 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 Personnel costs under "General and administrative expenses") in the consolidated statements of income are as follows:

	2006	2005	2004
		(In Thousands)	
Current service cost	**₱239,923**	₱356,998	₱339,229
Interest cost on benefit obligation	**240,125**	180,617	173,930
Expected return on plan assets	**(163,718)**	(84,858)	(50,409)
Net actuarial loss (gain)	**4,362**	(8,264)	521
Past service cost	**1,466**	2,706	–
Effect of ceiling limit	**(2,642)**	–	–
Total retirement expense	**₱319,516**	₱447,199	₱463,271
Actual return on plan assets	**₱295,694**	₱110,636	₱57,723

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

	2006	2005
	(In Thousands)	
Benefit obligation	**(₱778,671)**	(₱415,254)
Plan assets	**782,711**	707,506
	4,040	292,252
Unrecognized net actuarial losses (gains)	**198,614**	(55,903)
Effect of ceiling limit	**(56)**	–
Asset recognized in the consolidated balance sheets	**₱202,598**	₱236,349

The funded status and amounts recognized in the consolidated balance sheets for the pension plan liabilities of the Company and subsidiaries in a net pension liability position as of December 31, 2006 and 2005 are as follows:

	2006	2005
	(In Thousands)	
Benefit obligation	**(₱3,233,979)**	(₱2,610,811)
Plan assets	**2,484,639**	2,202,530
	(749,340)	(408,281)
Unrecognized net actuarial losses (gains)	**261,614**	(25,303)
Liabilities recognized in the consolidated balance sheets	**(₱487,726)**	(₱433,584)

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

	2006	2005
	(In Thousands)	
Balance at January 1	**₱3,026,065**	₱2,458,164
Interest cost on benefit obligation	**240,125**	180,617
Current service cost	**239,923**	356,998
Benefits paid	**(170,833)**	(99,154)
Actuarial losses on obligations	**675,904**	126,734
Past service cost	**1,466**	2,706
Balance at December 31	**₱4,012,650**	₱3,026,065

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

	2006	2005
	(In Thousands)	
Balance at January 1	**₱2,910,036**	₱1,775,607
Expected return	**163,718**	84,858
Contributions by employer	**234,321**	1,122,947
Benefits paid	**(170,833)**	(99,154)
Actuarial gains on plan assets	**130,108**	25,778
Balance at December 31	**₱3,267,350**	₱2,910,036

The assumptions used to determine pension benefits for the Group are as follows:

	2006	2005
Discount rate	**7.0 to 11.9%**	11.0 to 14.5%
Salary increase rate	**5.0 to 10.0%**	6.0 to 10.0%
Expected rate of return on plan assets	**7.0 to 10.0%**	3.3 to 10.0%

The allocation of the fair value of plan assets of the Group follows:

	2006	2005
Investments in debt securities	**61%**	70%
Investments in equity securities	**35%**	25%
Others	**4%**	5%

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

	2006	2005	2004
		(In Thousands)	
Defined benefit obligation	**(₱4,012,650)**	(₱3,026,065)	(₱2,458,164)
Plan assets	**3,267,350**	2,910,036	1,775,607
Deficit	**(745,300)**	(116,029)	(682,557)
Experience adjustment on plan liabilities	**41,750**		
Experience adjustment on plan assets	**131,786**		

The Company expects to contribute ₱50.0 million to its defined benefit pension plan in 2007.

As of December 31, 2006 and 2005, the plan assets include shares of stock of the Company with total fair value of ₱764.6 million and ₱438.2 million, respectively.

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

24. Share-based Payments

The Company has stock option plans for the granting of nontransferable options to key officers (Executive Stock Option Plan - ESOP) whereby they are granted an option to purchase a fixed number of shares of stock at a stated price during a specified period.

Under the ESOP, the qualified officers and employees may exercise in whole or in part their vested option in accordance with the vesting percentage and vesting schedule stated in the plan. These options are settled in equity once exercised. Also, to exercise their vested option, the officers and employees are required to continue employment with the Company during the 10-year option period. The Company granted stock options yearly from 2001 to 2005.

A summary of the Company's stock option activity and related information for the years ended December 31, 2006, 2005 and 2004 (as adjusted for the 2005 reverse stock split) follows:

	2006		2005		2004	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, at beginning of year	**3,785,816**	**₱202.56**	4,400,110	₱203.90	3,534,225	₱241.31
Granted	–	–	31,530	295.00	1,141,499	220.00
Exercised	**(1,251,908)**	**(197.35)**	(645,819)	(212.14)	(916,610)	(213.00)
Cancelled	–	–	(5)	–	(44,044)	(220.86)
Adjustment due to 20% stock dividends (see Note 18)	–	–	–	–	685,040	–
Outstanding, at end of year	**2,533,908**	**₱205.13**	3,785,816	₱202.56	4,400,110	₱203.90

The options have a contractual term of 10 years. As of December 31, 2006 and 2005, the weighted average remaining contractual life of options outstanding is 6.3 years and 7.2 years, respectively, and the range of exercise prices amounted from ₱154.50 to ₱295.00.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model. The fair values of stock options granted under ESOP at each grant date and the assumptions used to determine the fair value of the stock options are as follows:

	June 30, 2005	June 10, 2004
Weighted average share price	₱327.50	₱244.00
Exercise price	₱295.00	₱220.00
Expected volatility	46.78%	46.71%
Option life	10 years	10 years
Expected dividends	1.27%	1.43%
Risk-free interest rate	12.03%	12.75%

The Company also has Employee Stock Ownership Plan (ESOWN) granted to qualified officers and employees wherein grantees may subscribe in whole or in part to the shares awarded to them based on the 10% discounted market price as offer price set at grant date. The qualified employees shall pay for the shares subscribed through installments over a maximum period of ten years. The shares of stock have a holding period of one to three years and the employees must remain with the Company or its subsidiaries over such period. The plan also does not allow sale or assignment of shares during the holding period. Shares granted under the ESOWN follows:

	2006	2005
Granted	**772,227**	752,510
Subscribed	**767,955**	708,346
Exercise price	**₱320.00**	₱269.55

Subscriptions receivable from the stock option plans covering the Company's shares are presented under equity.

Total expense arising from share-based payments recognized by the Group in the consolidated statements of income amounted to ₱285.4 million in 2006, ₱413.8 million in 2005 and ₱257.4 million in 2004.

25. Segment Information

Business segment information is reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources among operating segments. Accordingly, the primary segment reporting format is business segment. Secondary information is reported geographically.

The industry segments where the Group operates are as follows:

- Real estate and hotels - planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of upper middle-income and affordable housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

- Financial services - universal banking operations, including savings and time deposits in local and foreign currencies; commercial, consumer, mortgage and agribusiness loans; leasing; payment services, including card products, fund transfers, international trade settlement and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; fully integrated bancassurance operations, including life, non-life, pre-need and reinsurance services; internet banking; on-line stock trading; corporate finance and consulting services; foreign exchange and securities dealing; and safety deposit facilities.

- Telecommunications - provider of digital wireless communications services, wireline voice and wireline data communication services, and interexchange carrier services.

- Electronics, information technology and business process outsourcing services - manufacturing and other related services for electronic products and components; venture capital for technology businesses; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; and technology infrastructure sales and technology services; and onshore- and offshore- business process outsourcing services.

- Water utilities - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery services and sewerage services in the East Zone Service Area.

- Automotive - manufacture and sale of passenger cars and commercial vehicles.

- International - investments in overseas property companies and projects.

- Others - air-charter services, food, agri-business and others.

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

Business Segments

The following tables present information regarding the Group's business segments.

	Depreciation and Amortization		**Investment Properties and Property and Equipment Additions**	
	2006	2005	**2006**	2005
		(In Millions)		
Parent Company/Financial services/ Telecommunications/Water utilities	**₱92**	₱203	**₱68**	₱109
Real Estate and Hotels	**1,402**	930	**2,263**	1,923
Electronics, Information Technology and Business Process Outsourcing Services	**1,013**	477	**1,523**	2,922
International	**4**	2	**3**	180
Automotive and Others	**79**	103	**144**	62
	₱2,590	₱1,715	**₱4,001**	₱5,196

	Investments in Associates and Joint Ventures		Segment Assets		Segment Liabilities	
	2006	2005	**2006**	2005	**2006**	2005
			(In Millions)			
Parent Company/Financial services/ Telecommunications/Water utilities	**₱55,598**	₱53,035	**₱72,762**	₱72,763	**₱40,386**	₱49,732
Real Estate and Hotels	**8,791**	6,812	**79,477**	72,754	**30,410**	25,973
Electronics, Information Technology and Business Process Outsourcing Services	**200**	188	**19,590**	14,100	**8,180**	8,212
International	**3,614**	3,408	**7,375**	5,364	**471**	388
Automotive and Others	**366**	365	**2,004**	1,752	**607**	446
Deferred Tax Assets/Liabilities	**–**	–	**1,124**	1,113	**444**	312
	₱68,569	₱63,808	**₱182,332**	₱167,846	**₱80,498**	₱85,063

	Revenue		
	2006	2005	2004
		(In Millions)	
Parent Company/Financial services/ Telecommunications/Water utilities	**₱13,742**	₱10,301	₱10,808
Real Estate and Hotels	**25,808**	21,369	17,590
Electronics, Information Technology and Business Process Outsourcing Services	**20,953**	10,437	739
International	**439**	462	6,539
Automotive and Others	**9,224**	7,974	8,047
	₱70,166	₱50,543	₱43,723

	Equity in Net Income of Associates and Joint Ventures			Noncash Expenses Other Than Depreciation and Amortization		
	2006	2005	2004	**2006**	2005	2004
			(In Millions)			
Parent Company/Financial services/ Telecommunications/Water utilities*	**₱7,930**	₱8,043	₱7,702	**₱311**	₱384	₱–
Real Estate and Hotels	**291**	176	176	**236**	2,184	–
Electronics, Information Technology and Business Process Outsourcing Services	**(25)**	(62)	(329)	**72**	154	23
International	**48**	45	74	**–**	19	–
Automotive and Others	**9**	–	–	**–**	1	1
	₱8,253	₱8,202	₱7,623	**₱619**	₱2,742	₱24

* Equity in net income of financial services, telecommunications and water utilities amounted to ₱3,300 million, ₱4,109 million, and ₱588 million in 2006, respectively; ₱3,026 million, ₱3,616 and ₱1,438 million in 2005, respectively; and ₱2,363 million, ₱4,404 million and ₱858 million in 2004, respectively.

	Income before income associated with noncurrent assets held for sale			Net Income		
	2006	2005	2004	**2006**	2005	2004
			(In Millions)			
Parent Company/Financial services/ Telecommunications/Water utilities	**₱8,044**	₱4,093	₱3,836	**₱8,044**	₱4,093	₱3,836
Real Estate and Hotels**	**4,129**	4,056	2,880	**4,285**	4,187	2,981
Electronics, Information Technology and Business Process Outsourcing Services	**1,697**	1,104	1,275	**1,667**	1,067	1,222
International	**220**	228	323	**250**	265	375
Automotive and Others	**222**	478	191	**222**	478	191
	₱14,312	₱9,959	₱8,505	**₱14,468**	₱10,090	₱8,605

** Operations associated with noncurrent assets held for sale belong to Real Estate and Hotels segment.

Summarized financial information of BPI, Globe and MWCI are presented in Note 8.

Geographical Segments

	Revenue		Segment Assets		Investment Properties and Property and Equipment Additions	
	2006	2005	**2006**	2005	**2006**	2005
			(In Millions)			
Philippines	**₱49,122**	₱39,945	**₱160,795**	₱152,685	**₱3,229**	₱2,926
USA	**4,801**	2,040	**9,088**	2,431	**272**	277
Europe	**3,150**	536	**–**	–	**–**	–
Japan	**10,649**	7,933	**–**	–	**–**	–
Others (Mostly Asia)	**2,444**	89	**12,449**	12,730	**500**	1,993
	₱70,166	₱50,543	**₱182,332**	₱167,846	**₱4,001**	₱5,196

26. Leases

Finance leases - as lessee

Foreign subsidiaries conduct a portion of their operations from leased facilities, which include office equipment. These leases are classified as finance leases and expire over the next 5 years. The average discount rate implicit in the lease is 8.5% per annum in 2005 and 2004. Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments are as follows:

	2006		2005	
	Minimum payments	**Present values of payments**	Minimum payments	Present values of payments
		(In Thousands)		
Within one year	**₱6,054**	**₱6,021**	₱6,305	₱6,269
After one year but not more than five years	**2,207**	**2,183**	8,254	8,201
Total minimum lease payments	**8,261**	**8,204**	14,559	14,470
Less amounts representing finance charges	**708**	**–**	1,974	–
Present value of minimum lease payments	**₱7,553**	**₱8,204**	₱12,585	₱14,470

Operating lease commitments - as lessee

Future minimum rentals payable under non-cancellable operating leases of lessee subsidiaries are as follows:

	2006	2005
	(In Thousands)	
Within one year	**₱105,956**	₱110,556
After one year but not more than five years	**523,576**	549,653
More than five years	**1,516,421**	1,830,166
	₱2,145,953	₱2,490,375

Operating leases - as lessor

Certain subsidiaries have 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. Related Party Transactions

The Group, in their regular conduct of business, have entered into transactions with associates, joint ventures and other related parties principally consisting of advances and reimbursement of expenses, purchase and sale of real estate properties, various guarantees, 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.

2006

	Income	Costs and Expenses	Amounts Owed by Related Parties	Amounts Owed to Related Parties
		(In Thousands)		
Associates and Joint Ventures	**₱619,858**	**₱6,374,376**	**₱1,391,917**	**₱47,187**
Key management personnel	**–**	**767,588**	**254,288**	**–**
Other related parties	**12,567**	**61,956**	**1,551,445**	**85,017**
	₱632,425	**₱7,203,920**	**₱3,197,650**	**₱132,204**

2005

	Income	Costs and Expenses	Amounts Owed by Related Parties	Amounts Owed to Related Parties
		(In Thousands)		
Associates and Joint Ventures	₱575,676	₱3,980,618	₱774,680	₱55,174
Key management personnel	–	583,174	212,444	–
Other related parties	205,863	147,800	1,166,086	142,238
	₱781,539	₱4,711,592	₱2,153,210	₱197,412

2004

	Income	Costs and Expenses	Amounts Owed by Related Parties	Amounts Owed to Related Parties
		(In Thousands)		
Associates and Joint Ventures	₱470,394	₱6,138,034	₱734,423	₱90,062
Key management personnel	–	507,519	258,518	–
Other related parties	96,086	16,150	379,354	226,795
	₱566,480	₱6,661,703	₱1,372,295	₱316,857

Amounts owed by related parties include promissory notes issued by Bonifacio Land Corporation (BLC), which were assigned by Metro Pacific Corporation (MPC) to ALI and Evergreen Holdings Inc. (EHI) and the advances subsequently made by ALI to Fort Bonifacio Development Corporation (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.

Allowance for doubtful accounts to related parties amounted to ₱111.4 million and ₱3.1 million as of December 31, 2006 and 2005, respectively. Provision for doubtful accounts amounted to ₱110.9 million in 2006, ₱3.1 million in 2005 and ₱219.0 million in 2004.

Compensation of key management personnel by benefit type follows:

	2006	2005	2004
		(In Thousands)	
Short-term employee benefits	**₱500,413**	₱327,584	₱281,480
Share-based payments (see Note 24)	**182,877**	148,033	112,051
Post-employment benefits	**84,298**	107,557	113,988
	₱767,588	₱583,174	₱507,519

There are no agreements between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

28. Financial Instruments

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of financial assets at FVPL, AFS financial assets, HTM 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 cash and cash equivalents, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The main purpose of the Group's financial instruments is to fund its operational and capital expenditures. The main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, liquidity risk and credit risk. The Group also enters into derivative transactions, the purpose of which is to manage the currency and interest rate risk arising from its financial instruments.

The Group's risk management policies are summarized below:

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Company's and its subsidiaries' long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

Foreign Exchange Risk

The Group's foreign exchange risk results primarily from movements of the Philippine Peso (PHP) against the United States Dollar (USD). As of December 31, 2005, 31% of debt of the Group was denominated in foreign currency. The Company enters into foreign currency forwards and foreign currency swap contracts in order to hedge its USD obligations.

Liquidity Risk
The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues both on-shore and off-shore.

Credit Risk
The Group's holding of cash and short-term investments exposes the Group to credit risk of the counterparty. Credit risk management involves dealing only with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. Given the Group's diverse base of counterparties, it is not exposed to large contractions of credit risk.

Hedging Objectives and Policies
The Group uses a combination of natural hedges and derivative hedging to manage its foreign exchange exposure and interest rate exposure.

Financial Assets and Liabilities

Fair Value of Financial Instruments
The table below presents a comparison by category of carrying amounts and estimated fair values of all of the Group's financial instruments:

	Carrying Value		**Fair Value**	
	2006	2005	**2006**	2005
	(In Thousands)			
Current Financial Assets				
Cash and cash equivalents	**₱23,118,432**	₱24,010,827	**₱23,118,432**	₱24,010,827
Accounts and notes receivable	**17,469,560**	11,308,085	**17,469,560**	11,308,085
Short-term investments (included in other current assets)	**2,302,694**	852,309	**2,302,694**	852,309
Total current financial assets	**42,890,686**	36,171,221	**42,890,686**	36,171,221
Noncurrent Financial Assets				
Accounts and notes receivable	**2,519,816**	5,631,132	**2,982,209**	6,260,109
Investment in AFS financial assets (included in investment in bonds and other securities)	**3,334,860**	1,972,131	**3,334,860**	1,972,131
HTM investments (included in investment in bonds and other securities)	**127,575**	100,836	**140,995**	110,183
Total noncurrent financial assets	**5,982,251**	7,704,099	**6,458,064**	8,342,423
Current Financial Liabilities				
Accounts payable and accrued expenses	**18,325,716**	17,311,245	**18,325,716**	17,311,245
Forward currency contracts (included in other current liabilities)	**–**	38,877	**–**	38,877
Short-term debt	**2,504,007**	6,154,405	**2,504,007**	6,154,405
Other Current Liabilities	**165,113**	40,781	**165,113**	40,781
Current portion of:				
Long-term debt	**9,359,594**	2,985,240	**9,359,594**	2,985,240
Cumulative redeemable preferred shares	**–**	2,230,000	**–**	2,230,000
Total current financial liabilities	**30,354,430**	28,760,548	**30,354,430**	28,760,548

(Forward)

	Carrying Value		Fair Value	
	2006	2005	**2006**	2005
	(In Thousands)			
Noncurrent Financial Liabilities				
Deposits and retentions payable (included under other noncurrent liabilities)	**₱3,904,494**	₱3,508,308	**₱3,898,818**	₱3,280,546
Long-term debt	**38,517,839**	46,507,287	**42,613,956**	49,436,012
Cumulative redeemable preferred shares	**2,500,000**	2,500,000	**2,790,743**	2,421,167
Total noncurrent financial liabilities	**₱44,922,333**	₱52,515,595	**₱49,303,517**	₱55,137,725

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents, accounts and notes receivable, accounts payable and accrued expenses - Carrying amounts approximate fair values due to the relative short-term maturities of these investments and liabilities.

Short-term investments - These include are investments in government securities and TRG fund (see Note 7). Fair value is based on quoted prices and hypothetical valuation using cash flows and views in the market, respectively. Changes in market perception and to underlying cash flows will materially change these estimates.

Noncurrent accounts and notes receivable - 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 shares - Fair values are based on quoted prices published in markets.

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

HTM investments - The fair value of bonds is based on quoted market prices.

Liabilities - The fair value of unquoted instruments are estimated using the discounted cash flow methodology using the 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 cumulative redeemable preferred shares, deposits and retentions payable, and other fixed rate interest-bearing loans are based on the discounted value of future cash flows using the applicable rates for similar types of loans. The discount rates used range from 6.4% to 9.7% (for PHP loans) and 4.4% to 4.9% (for USD loans).

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

The fair value of forward currency contracts is based on counterparty valuation except for forward transactions with a nonbank counterparty where valuation was calculated by reference to currency forward exchange rates for contracts with similar maturity profiles.

Foreign exchange and interest rate risks

The foreign currency-denominated assets and liabilities expressed in US dollars and their peso equivalents as of December 31, 2006 and 2005 are as follows:

	2006		2005	
	(In Thousands)			
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets:				
Current	**$298,923**	**₱14,669,394**	$434,534	₱23,060,500
Noncurrent	**87,851**	**4,308,601**	218,836	12,415,506
	386,774	**18,977,995**	653,370	35,476,006
Liabilities:				
Current	**153,856**	**7,562,225**	184,215	9,779,087
Noncurrent	**229,446**	**11,270,099**	320,151	16,987,935
	383,302	**18,832,324**	504,366	26,767,022
Net foreign currency - denominated assets	**$3,472**	**₱145,671**	$149,004	₱8,708,984

The Company has outstanding short-term forward buy US dollar, sell Philippine peso exchange contracts with aggregate notional amount of US$21.2 million as of December 31, 2005, and a weighted average forward rate of ₱55.30 to US$1.

The Company has no outstanding swaps as of December 31, 2006.

Interest rate risks
The following table shows information about the Group's financial instruments that are exposed to interest rate risk and presented by maturity profile. The table also sets out information about the Group's derivative instruments as of December 31, 2006 and 2005 that were entered into to manage interest and foreign exchange risks (in thousands).

2006

	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total (In USD)	Total (In PHP)	Fair Value
Liabilities:									
Long-Term Debt									
Fixed Rate									
US$ Notes	$–	$136,740	$–	$–	$–	$–	$136,740	₱6,706,393	₱7,053,696
Interest rate		8.13%							
Philippine peso	₱1,185,100	₱2,999,820	₱7,472,856	₱3,140,912	₱2,147,258	₱5,930,000		22,875,946	26,624,760
Interest rate	8.25% - 12.00%	10.60% - 10.75%	5.00% - 12.68%	8.25% - 12.00%	7.25% - 12.00%	7.25% - 14.88%			
Floating Rate									
US$ Notes	$86,102	$11,003	$28,000	$8,000	$48,000	$–	$181,105	8,154,932	8,154,932
Interest rate	3-6 month Libor + 0.80%; Libor +2.40%; 15.00% per annum, fixed for 3 years with annual repricing thereafter	3-6 month Libor + 0.80%; 15.00% per annum, fixed for 3 years with annual repricing thereafter	3-6 month Libor + 0.80%; Libor + (1.05% - 2.40%)	3-6 month Libor + 0.80%	3-6 month Libor + (0.77% - 0.80%)				
Philippine peso	₱4,550,349	₱1,886,829	₱1,492,708	₱51,223	₱240,303	₱1,918,750		10,140,162	10,140,162
Interest rate	3 month Mart 1 + (0.50% - 2.50%)	3 month Mart 1 + (0.50% - 2.50%)	3 month Mart 1 + (0.50% - 2.50%)	3 month Mart 1 + (0.50% - 2.50%)	3 month Mart 1 + (0.50% - 2.50%)	3 month Mart 1 + (0.50% - 2.50%)			
								₱47,877,433	₱51,973,550

2005

	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total (In USD)	Total (In PHP)	Fair Value
Liabilities:									
Long-Term Debt									
Fixed Rate									
US$ Notes	$2,828	$2,860	$176,055	$–	$–	$–	$181,743	₱9,643,617	₱10,622,006
Interest rate	8.55%	8.55%	8.125% - 8.55%						
Philippine peso	₱152,591	₱2,282,858	₱2,987,783	₱723,711	₱40,236	₱14,948,399		21,135,578	23,085,914
Interest rate	10.11% - 12.00%	10.11% - 12.00%	10.11% - 12.00%	10.11% - 14.5%	10.38% - 12.00%	10.00% - 14.88%			
Floating Rate									
US$ Notes	$17,897	$25,897	$114,312	$–	$–	$–	$158,106	8,389,456	8,389,456
Interest rate	*; Libor + 2.40% margin; 3 month swap offer rate + 1.25%	*; Libor + 2.40% margin; 3 month swap offer rate + 1.25%	*; Libor + 2.40% margin; 3 month swap offer rate + 1.25%						
Philippine peso	₱1,726,159	₱4,975,285	₱1,876,325	₱902,434	₱698,049	₱145,624		10,323,876	10,323,876
Interest rate	91 day T-bill + (0.50% - 2.5%); 3 month Mart 1 + (1.00% - 1.90%); 15.00% per annum, fixed for 3 years with annual repricing thereafter	91 day T-bill + (1.50% - 2.5%); 3 month Mart 1 + (1.00.00% - 2.00%); 15.00% per annum, fixed for 3 years with annual repricing thereafter	3 month Mart 1 + (1.25% - 1.75%); 15.00% per annum, fixed for 3 years with annual repricing thereafter	3 month Mart 1 + 1.50%	3 month Mart 1 + 1.50%	3 month Mart 1 + 1.50%			
								₱49,492,527	₱52,421,252

* Libor plus applicable margin

1. From Agreement date up to February 28, 2005 - 0.90%
2. 1.98% p.a. thereafter; provided that, if on an interest setting date after February 28, 2005,
   a. the consolidated net debt of the Guarantor falls below US$400 million, then the applicable margin will be reduced to 1.90% p.a. or,
   b. if the consolidated net debt of the Guarantor falls below US$300 million, then the applicable margin will be reduced to 1.80% p.a.

Freestanding Derivatives
The Company uses currency forward contracts and long-term foreign currency swap to manage foreign currency risks arising from foreign-currency denominated obligations. These derivative instruments provide economic hedges under the Company's policies but are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated statements of income.

- Forwards
  The Company uses derivative financial instruments, particularly forward currency contracts to hedge its risks associated with foreign currency fluctuations. As of December 31, 2005, the Company has outstanding forward currency contracts aggregating to US$21.2 million with mark-to-market loss recognized in the statements of income amounting to ₱38.9 million.

- Cross-Currency Swap
  The Company also entered into foreign currency swap agreements with certain banks and related parties, under which it swaps the principal of US$ 30.0 million USD-denominated loans into PHP. The swaps matured in January and May 2005 with a net realized gain amounting to ₱215.4 million.

- Interest Rate Swaps
  The Company guaranteed a US$200.0 million fixed-to-floating interest rate swap with rate collar of ACIFL which matured on January 17, 2005 with a net realized gain of ₱61.4 million.

As of December 31, 2006, the Company has no outstanding derivative contracts.

Fair Value Changes on Derivatives
The net movements in fair value changes of the Company's derivative instruments (included in "Other current liabilities" account) in 2005 are as follows (amounts in thousands):

	Gain (Loss)
Balance at beginning of year	₱173,308
Net changes in fair value of derivatives	
not designated as accounting hedges	(156,875)
	16,433
Fair value of settled instruments	(55,310)
Balance at end of year	(₱38,877)

29. **Registration with the Philippine Export Zone Authority (PEZA)**

Some activities of certain subsidiaries are registered with the PEZA. Under the registration, these subsidiaries are entitled to certain tax and nontax incentives, which include, but are not limited to, income tax holiday (ITH) and duty-free importation of inventories and capital equipment. Upon the expiration of the ITH, the subsidiaries will be liable for payment of a five percent (5%) tax on gross income earned from sources within the PEZA economic zone in lieu of payment of national and local taxes.

30. Note to Consolidated Statements of Cash Flows

Noncash investing activities are as follows:

	2006	2005	2004
		(In Thousands)	
Property/liquidating dividend	**₱16,573**	₱–	₱–
Acquisitions through issuance of shares of stock of a subsidiary	**–**	776,985	–
Land received in settlement of trade accounts receivable	**–**	–	4,442

31. Commitments and Contingencies

ALI 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 revenue. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, its subsidiary, in exchange for equity.

As part of the bid requirement, ALI 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, ALI 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 a certain subsidiary with a carrying value of ₱48.6 million in 2004.

On April 15, 2003, ALI 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 ALI in turn shall provide the necessary cash and expertise to undertake and complete the implementation of the residential development. ALI commits to invest sufficient capital to complete the residential development.

ALI 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 ALI to pay BCDA annual minimum revenue share for each of the first 8 selling periods of the residential project.

In 2002, ALI agreed to underwrite the subscription to 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 Company and certain subsidiaries are contingently liable for lawsuits or claims filed by third parties 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 consolidated financial statements. The information usually required by PAS 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.

SEC No.
File No. ______

AYALA CORPORATION

(Company's Full Name)

Tower One, Ayala Triangle
Ayala Avenue, Makati City

(Company's Address)

848-56-43

(Telephone Number)

June 30, 2007

(Quarter Ending)
(Month & Day)

SEC Form 17- Q Quarterly Report

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: **June 30, 2007**

2. SEC Identification No.: **34218**

3. BIR Tax Identification No. **000-153-610-000**

4. Exact name of the registrant as specified in its charter: **AYALA CORPORATION**

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: **34th Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City** Postal Code: **1226**

8. Registrant's telephone number: (**632) 848-5643**

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:

Title of each class	Number of shares outstanding
Preferred A *	500,000,000
Preferred B	58,000,000
Common	413,969,400

*Classified as liabilities in compliance with PAS 32, *Financial Instruments: Disclosures and Presentation*

Amount of debt outstanding as of June 30, 2007: **P47,082,844K** including P2,500,000K redeemable preferred shares.

11. Are any of these securities listed on the Philippine Stock Exchange? Yes [**x**] No [ ]

12. Check whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports): Yes [**x**] No [ ]

    (b) has been subject to such filing requirements for the past 90 days: Yes [**x**] No [ ]

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PART I – FINANCIAL INFORMATION
Item I – Financial Statements

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of June 30, 2007 and December 31, 2006
(Amounts in Thousands)

	Unaudited June 30, 2007	Audited December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	**32,389,919**	23,118,432
Accounts and notes receivable - net (Note 3)	**17,694,287**	17,469,560
Inventories (Note 4)	**9,260,779**	9,803,922
Other current assets	**3,014,331**	3,961,315
Total Current Assets	**62,359,316**	54,353,229
Noncurrent assets held for sale	**-**	3,658,484
	62,359,316	58,011,713
Noncurrent Assets		
Noncurrent accounts and notes receivable	**3,891,045**	2,519,816
Land and improvements - net	**16,188,799**	16,174,984
Investments in associates and joint ventures - net	**69,513,446**	68,568,683
Investments in bonds and other securities (Note 5)	**5,188,998**	3,462,435
Investment properties - net	**16,347,291**	16,794,662
Property, plant and equipment - net	**9,096,354**	9,057,075
Deferred tax assets - net	**1,149,271**	1,123,912
Pension assets	**187,521**	202,598
Intangible assets - net	**4,205,661**	4,630,652
Other noncurrent assets	**2,088,941**	1,785,374
Total Noncurrent Assets	**127,857,327**	124,320,191
Total Assets	**190,216,643**	182,331,904
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 6)	**19,195,689**	18,325,716
Short-term debt (Note 7)	**2,716,235**	2,504,007
Income tax payable	**341,167**	295,846
Current portion of long-term debt	**8,127,373**	9,359,594
Other current liabilities (Note 8)	**2,773,623**	1,453,013
Total Current Liabilities	**33,154,087**	31,938,176
Liabilities directly associated with noncurrent assets held for sale	**-**	469,100
	33,154,087	32,407,276
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 7)	**33,739,236**	38,517,839
Cumulative redeemable preferred shares-net of current portion	**2,500,000**	2,500,000
Deferred tax liabilities	**319,708**	443,736
Pension liabilities	**485,914**	487,726
Other noncurrent liabilities (Note 8)	**7,010,886**	6,141,065
Total Noncurrent Liabilities	**44,055,744**	48,090,366
Total Liabilities	**77,209,831**	80,497,642
Equity		
Equity attributable to equity holders of the parent		
Paid-up capital (Note 9)	**26,613,687**	23,137,948
Cumulative translation adjustment	**(1,329,628)**	(298,310)
Share-based payments	**575,845**	558,416
Unrealized gain on available -for-sale-investments	**2,387,537**	2,078,522
Retained earnings	**57,768,835**	51,659,261
Treasury stock	**(310)**	(310)
	86,015,966	77,135,527
Minority Interest	**26,990,846**	24,698,735
Total Equity	**113,006,812**	101,834,262
Total Liabilities and Equity	**190,216,643**	182,331,904

See accompanying Notes to Condensed Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
For the Three Months and Six Months Ended June 30, 2007 and June 30, 2006
(In Thousand Pesos)

	2007		2006	
	April to June	Jan. to June	April to June	Jan. to June
INCOME				
Sales and Services	**13,805,030**	**27,074,612**	**14,906,385**	**26,251,487**
Equity in net earnings of associates and joint ventures	**2,531,639**	**4,871,262**	**1,703,689**	**4,128,432**
Interest, fees, rental, investment and other income	**4,269,487**	**9,061,359**	**3,306,858**	**5,335,804**
	20,606,156	**41,007,233**	**19,916,932**	**35,715,723**
COSTS AND EXPENSES				
Cost of sales and services	**10,592,759**	**20,711,311**	**11,550,254**	**20,070,167**
General and administrative	**2,191,590**	**4,196,009**	**1,920,708**	**3,516,014**
Interest and other charges	**1,062,880**	**2,269,754**	**1,253,566**	**2,617,611**
Provision for income tax	**387,776**	**1,037,979**	**568,793**	**1,107,793**
	14,235,005	**28,215,053**	**15,293,321**	**27,311,585**
NET INCOME	**6,371,151**	**12,792,180**	**4,623,611**	**8,404,138**
ATTRIBUTABLE TO:				
Equity holders of the parent	**5,848,896**	**11,491,080**	**4,170,602**	**7,310,119**
Minority interest	**522,255**	**1,301,100**	**453,009**	**1,094,019**
	6,371,151	**12,792,180**	**4,623,611**	**8,404,138**
EARNINGS PER SHARE (Note 10)				
Basic		27.10		17.73
Diluted		26.97		17.64

See accompanying Notes to Condensed Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Periods Ended June 30, 2007 and 2006

(Amounts in thousands)

	Paid-up Capital (Note 16)	Share-based Payments	Cumulative Translation Adjusments	Retained Earnings	Net Unrealized gain on Available for Sale-Financial Assets	Treasury Stock	Minority Interests	Total Equity
As of December 31, 2006	23,137,948	558,416	(298,310)	51,659,261	2,078,522	(310)	24,698,735	101,834,262
Exercise of ESOP/ESOWN	24,372	-	-	-	-	-	-	24,372
Adjustments to foreign currency translation	-	-	(1,031,318)	-	-	-	-	(1,031,318)
Changes in fair value of available-for-sale investments	-	-	-	-	309,015	-	-	309,015
Increase in share-based payments	-	17,429	-	-	-	-	-	17,429
Increase in minority interests	-	-	-	-	-	-	991,011	991,011
Net income for the period	-	-	-	11,491,080	-	-	1,301,100	12,792,180
Dividends on common shares	-	-	-	(1,930,139)	-	-	-	(1,930,139)
Declaration of 20% stock dividends	3,451,367	-	-	(3,451,367)	-	-	-	-
Balances of June 30, 2007	**26,613,687**	**575,845**	**(1,329,628)**	**57,768,835**	**2,387,537**	**(310)**	**26,990,846**	**113,006,812**
As of December 31, 2005	16,959,696	655,754	687,724	42,513,384	477,839	(310)	21,455,330	82,749,417
Adjustments to foreign currency translation	-	-	151,975	-	-	-	-	151,975
Changes in fair value of available-for-sale investments	-	-	-	-	(534,416)	-	-	(534,416)
Increase in share-based payments	-	51,535	-	-	-	-	-	51,535
Adjustments during the period	106,071	-	-	-	-	-	-	106,071
Net income for the period	-	-	-	7,310,119	-	-	1,094,019	8,404,138
Dividends on common shares	-	-	-	(2,066,917)	-	-	-	(2,066,917)
Increase in minority interest	-	-	-	-	-		974,965	974,965
Balances of June 30, 2006	**17,065,767**	**707,289**	**839,699**	**47,756,586**	**(56,577)**	**(310)**	**23,524,314**	**89,836,768**

AYALA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Periods Ended June 30, 2007 and 2006
(In Thousand Pesos)

	June 30, 2007	**June 30, 2006**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	13,830,159	9,511,931
Adjustments for:		
Interest expense - net of amount capitalized	2,431,851	2,731,487
Depreciation and amortization	1,237,239	891,168
Cost of share-based payments	22,635	49,774
Amortization of discount on long-term debt - net	34,412	0
Equity in net earnings of associates and joint ventures	(4,871,262)	(4,128,432)
Other investment income	50,406	(680,476)
Gain on sale of assets	(8,044,997)	(4,584,097)
Interest income	(899,051)	(687,902)
Operating income before changes in working capital	3,791,391	3,103,453
Decrease (increase) in:		
Accounts and notes receivable	(1,161,240)	(2,764,397)
Inventories	539,072	(1,697,861)
Net pension assets	13,265	(49,904)
Other current assets	946,984	(717,334)
Increase (decrease) in:		
Accounts payable and accrued expenses	35,310	1,824,870
Other current liabilities	1,320,610	120,709
Cash generated from operations	5,485,391	(180,464)
Interest received	922,659	691,711
Interest paid	(2,563,351)	(2,916,485)
Income tax paid	(992,658)	(1,112,562)
Total cash provided by (used in) operating activities	2,852,041	(3,517,800)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Sale of investments	11,637,432	7,115,981
Disposal of property and equipment	14,496	17,073
Additions to:		
Investments	(9,483,814)	(2,827,907)
Property, plant and equipment	(1,086,741)	(2,178,043)
Dividends received from associates and joint ventures	3,200,307	2,469,705
Decrease (increase) in other noncurrent assets	3,699,794	69,079
Net cash provided by (used in) investing activities	7,981,473	4,665,888
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term and long-term debt	6,660,307	703,807
Issuance of Common shares	3,475,739	0
Proceeds from collection of (additions to) subscription receivable	-	106,071
Payment of short and long-term debt	(12,124,203)	(3,233,907)
Dividends paid	(1,281,119)	(1,246,816)
Redemption of preferred shares	0	(2,230,000)
Increase (decrease) in:		
Other noncurrent liabilities	400,721	437,314
Minority interest in consolidated subsidiaries	1,306,528	1,534,805
Net cash provided by (used in) financing activities	(1,562,027)	(3,928,726)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,271,487	(2,780,638)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	23,118,432	24,606,220
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**32,389,919**	**21,825,582**

AYALA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines using the historical cost basis except for financial assets at fair value through profit or loss, available-for-sale financial assets and derivative instruments which have been measured at fair value. Accounting principles and policies applied for the period ending June 30, 2007 are the same as those applied in the preceding calendar year.

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

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

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

- IFRIC 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.

Basis of Consolidation

The consolidated financial statements included the financial statements of Ayala Corporation and the following wholly and majority owned domestic and foreign subsidiaries:

	Effective % Ownership
Real Estate and Hotels:	
Ayala Land, Inc. (ALI) and subsidiaries	53.2
Ayala Hotels, Inc. (AHI) and subsidiaries	76.6
Electronics and Information Technology:	
Azalea Technology Inv. Inc. and subsidiaries	100.0
Integrated Microelectronics, Inc. (IMI) and subsidiaries	70.4
Automotive:	
Ayala Automotive Holdings Corporation (AAHC)	100.0
International and Others:	
Ayala International Pte. LTD (AIPL) and subsidiaries	100.0
AC International Finance Limited (ACIFL)	100.0
Michigan Holdings, Inc. (MHI)	100.0
Ayala Aviation Corporation	100.0
Darong Agricultural and Development Corporation	100.0
PFC Properties, Inc.	99.9

Investments in associates and joint ventures are accounted for under the equity method of accounting. Major associates and joint ventures and corresponding effective percentages of ownership as of June 30, 2007 are as follows:

	Effective % Ownership
Bank of the Philippine Islands (BPI) and subsidiaries	33.6
Globe Telecom, Inc. (GLOBE) and subsidiary	33.4
Cebu Holdings, Inc. (CHI) and subsidiaries	47.2
Manila Water Company, Inc. (MWCI)	30.0
Asiacom Philippines, Inc. (Asiacom)	60.0
Philwater Holdings Company, Inc. (Philwater)	60.0
Alabang Commercial Corporation (ACC)	50.0
Emerging City Holdings, Inc. (ECHI)	50.0
Berkshires Holdings, Inc. (BHI)	50.0
BLC (through Regent Time International, Limited)	4.0

2. **Cash and Cash Equivalents consist of the following** (in Thousand Pesos):

	June 2007	December 2006
Cash on hand and in banks	4,620,829	3,082,502
Cash equivalents	27,769,090	20,035,930
	32,389,919	23,118,432

3. **Accounts and Notes Receivable** (in Thousand Pesos):

	June 2007	December 2006
Trade	13,238,304	11,894,098
Advances and others	4,943,163	4,538,052
Related parties	2,309,457	1,935,112
Advances to contractors	776,975	675,504
Notes receivable	217,970	125,709
Dividends	598,947	1,262,538
	22,084,816	20,431,013
Less allowance for doubtful accounts	499,484	441,637
	21,585,332	19,989,376
Less noncurrent portion	3,891,045	2,519,816
	17,694,287	17,469,560

4. **Inventories** (in Thousand Pesos):

	June 2007	December 2006
Real estate inventories:		
Subdivision for sale	4,741,102	4,665,464
Condominium and commercial units for sale	2,422,487	3,070,123
Materials, supplies and others - at NRV (cost of P1,289,044 in 2007 and P1,142,846 in 2006)	1,191,664	1,029,214
Vehicles (at cost)	324,421	256,041
Work in process (at cost)	296,895	482,824
Finished Goods (at cost)	193,250	216,587
Parts and accessories - at NRV (cost of P117,680 in 2007 and P110,386 in 2006	90,960	83,669
	9,260,779	9,803,922

5. **Investments in Bonds and Other Securities** (in Thousand Pesos):

	June 2007	December 2006
Shares of Stocks	5,119,884	3,334,860
Bonds	69,114	127,575
	5,188,998	3,462,435

6. **Accounts Payable and Accrued Expenses** (in Thousand Pesos):

	June 2007	December 2006
Accounts payable and accrued expenses	16,049,466	16,404,495
Interest payable	720,010	824,086
Related parties	229,837	132,204
Dividends payable	2,196,376	964,931
	19,195,689	18,325,716

Accounts payable and accrued expenses pertain to taxes payable, payable to contractors, retention payables, trade payables and accrual of various expenses incurred.

7. **Short-term Debt and Long-term Debt consist of** (in Thousand Pesos):

	June 2007	December 2006
Short-term debt:		
Foreign Currency with various interest rates	505,120	815,787
Philippine Peso with various interest rates	2,211,115	1,688,220
	2,716,235	2,504,007
Long-term debt:		
Company:		
Bank loans with various interest rates	10,064,394	6,294,697
Syndicated term loan with interest rates ranging from 10.6% to 12.0% and varying maturity dates up to 2008	0	1,250,000
Fixed Rate Corporate Notes (FXCNs)	7,190,000	7,190,000
Bonds, due 2009	7,000,000	7,000,000
	24,254,394	21,734,697
Subsidiaries		
Loans fr banks & other financial institutions:		
Foreign currency with various interest rates	3,524,151	8,154,932
Philippine Peso with various interest rates	2,328,803	2,658,451
Bonds due 2007	0	3,000,000
Bonds due 2008	2,000,000	2,000,000
Bonds due 2009	65,450	42,960
Fixed Rate Corporate Notes	3,580,000	3,580,000
Other US dollar denominated obligations:		
8.125% Guaranteed Medium Term Notes	6,113,811	6,706,393
	17,612,215	26,142,736
	41,866,609	47,877,433
Less current portion	8,127,373	9,359,594
	33,739,236	38,517,839

8. **Other Current/Noncurrent Liabilities**

Other Liabilities consists of deposits from commercial center tenants and sale of condominium/subdivision lots and long-term retention payables. A detailed breakdown is unavailable since the Company's consolidation process is based only on the various group companies' financial statements and not on their trial balances. Obtaining said details would involve an unreasonable effort and/or expense since the accounts' changes since the end of the most recent calendar year are not significant.

9. **Details of the Company's paid-up capital follow (**in Thousand Pesos**):**

	Preferred B	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-up Capital
As of December 31, 2006	5,800,000	17,166,964	75,754	335,343	(240,113)	23,137,948
Declaration of 20% stock dividends		3,451,367				3,451,367
Exercise of ESOP/ESOWN	-	4,578	-	-	19,794	24,372
As of June 30, 2007	5,800,000	20,622,909	75,754	335,343	(220,319)	26,613,687
As of December 31, 2005	-	17,137,083	37,544	118,643	(333,574)	16,959,696
Adjustment during the period	-	11,699	38,210	206,330	(150,168)	106,071
As of June 30, 2006	-	17,148,782	75,754	324,973	(483,742)	17,065,767

10. The following table presents information necessary to calculate EPS:

	Jun-07	Jun-06
	(In thousands except EPS figures)	
Net income applicable to common	11,491,080	7,310,119
Less Dividends on Preferred stocks	(274,276)	-
Net Income Applicable to Common	11,216,804	7,310,119
Weighted average number of common shares	413,938	412,276
Dilutive shares arising from stock options	1,987	2,038
Adjusted wieghted average number of common shares for diluted EPS	415,925	414,314
Basic EPS	27.10	17.73
Diluted EPS	26.97	17.64

11. Summarized income statement information:

Except for the BPI, Globe, and Manila Water, no other unconsolidated subsidiaries and 50% or less owned persons accounted for by the equity method passed the 10% tests for inclusion as cited by Part II (e)(1) and Part I (b)(14).

Below is BPI's income statement information (in Million Pesos Except EPS Figures):

	June 30, 2007	December 31, 2006
Interest Income	16,040	33,754
Other Income	7,130	10,641
Total Revenues	23,170	44,395
Operating expenses	9,367	17,427
Interest expense	5,792	13,794
Impairment losses	959	1,524
Provision for Income Tax	1,191	2,456
Total Expenses	17,309	35,201
Net Income for the period	5,860	9,194
Attributable to:		
Equity holders of BPI	5,715	9,040
Minority Interest	145	154
	5,860	9,194
EPS:	2.11	3.34

Based on 2,704,400K common shares as of June 30, 2007 and December 31, 2006.

Below is BPI's balance sheet information (in Million Pesos):

	June 30, 2007	December 31, 2006
Total Resources	592,635	581,970
Total Liabilities	526,006	516,484
Capital Funds for Equity Holders	65,445	64,438
Minority Interest	1,185	1,048
Total Capital Funds	592,635	581,970

Below is Globe's income statement information (in Million Pesos Except EPS Figures):

	June 30, 2007	December 31, 2006
Net Operating Revenues	33,009	59,949
Other Income	486	1,154
Total Revenues	33,495	61,103
Operating Expenses	9,840	18,081
Depreciation and amortization	8,385	17,137
Cost of sales	1,995	4,619
Financing costs	3,267	3,272
Impairment losses and others	284	535
Provision for Income Tax	3,299	5,704
Total Expenses	27,070	49,348
Net Income	6,425	11,755
EPS:		
Basic	48.44	88.56
Diluted	48.20	88.32

As of June 30, 2007
Basic based on 132,115K common shares
Diluted based on 133,305K common shares

As of Dec. 31, 2006
Basic based on 131,998K common shares
Diluted based on 133,099K common shares

Below is Globe's balance sheet information (in Million Pesos):

	June 30, 2007	December 31, 2006
Total Current Assets	22,864	24,215
Non-current Assets	98,436	100,365
Total Assets	121,300	124,580
Current Liabilities	26,510	25,758
Non-current Liabilities	35,505	41,874
Stockholders' Equity	59,284	56,948
Total Liabilities & Stockholders' Equity	121,300	124,580

Below is Manila Water's income statement information (in Million Pesos Except EPS Figures):

	June 30, 2007	December 31, 2006
Operating Revenues	3,472	6,090
Interest and Other Income	157	694
Total Revenues	3,629	6,785
Operating Expenses	1,364	3,424
Depreciation and amortization	663	1,135
Provision for income tax	485	168
	2,511	4,391
Net Income	1,118	2,394
EPS:		
Basic	0.53	1.05
Diluted	0.53	1.05

As of June 30, 2007
Basic based on 2,013,360K common shares
Diluted based on 2,013,360K common shares

As of December 31, 2006
Basic based on 2,005,009K common shares
Diluted based on 2,006,653K common shares

Below is Manila Water's balance sheet information (in Million Pesos):

	June 30, 2007	December 31, 2006
Total Current Assets	4,906	7,605
Total Non-current Assets	18,281	16,657
Total Assets	23,186	24,263
Current Liabilities	4,868	4,650
Non-current Liabilities	5,673	7,738
Stockholders' Equity	12,645	11,874
Total Liabilities & Stockholders' Equity	23,186	24,263

12. SFAS 31, Segment Reporting, requires that a public business enterprise report financial and descriptive information about its reportable segments.

The following tables present revenue and net income information regarding business segments for the periods ended June 30, 2007 and 2006 and total assets and total liabilities for the business segments as of June 30, 2007 and December 31, 2006 (in Thousand Pesos):

	Revenue		Net Income	
	Jun-07	**Jun-06**	**Jun-07**	**Jun-06**
Parent Company/Financial Services/ Telecommunications/Water Utilities	12,157,890	7,817,169	9,612,929	4,810,425
Real Estate and Hotels	12,378,587	12,886,451	1,516,339	1,240,210
Electronics, Information Technology and Business Process Outsourcing Services	10,722,302	10,492,728	189,291	1,025,971
International	221,371	232,041	9,517	124,880
Automotive and Others	5,527,083	4,287,334	163,004	108,633
	41,007,233	**35,715,723**	**11,491,080**	**7,310,119**

	Total Assets		Total Liabilities	
	Jun-07	**Dec-06**	**Jun-07**	**Dec-06**
Parent Company/Financial Services/ Telecommunications/Water Utilities	79,322,386	72,636,470	39,197,403	40,448,823
Real Estate and Hotels	78,206,193	79,601,751	28,684,111	30,411,414
Electronics, Information Technology and Business Process Outsourcing Services	21,610,742	19,589,880	7,713,342	8,115,403
International	7,473,365	7,374,849	385,137	471,347
Automotive and Others	2,468,213	2,005,042	910,130	606,919
Deferred Tax Assets/Liabilities	1,135,744	1,123,912	319,708	443,736
	190,216,643	**182,331,904**	**77,209,831**	**80,497,642**

13. Detailed schedules have been omitted for purposes of preparing these interim financial statements as allowed by SRC Rule 68.

Item II - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Ayala's consolidated net income in the first half of 2007 reached P11.5 billion, 57% higher than earnings in the first half of 2006. Despite the impact of some exceptional items, the fundamental operating performance of its major business units remained strong and kept equity earnings stable year-on-year at P6.4 billion. This combined with value realization initiatives and significantly lower financing expense drove overall earnings higher.

Ayala President and Chief Operating Officer, Fernando Zobel de Ayala said, "we are pleased to see the underlying strength of our key businesses. We continue to see strong demand across most of our businesses with our telecom and banking units in particular achieving record revenue growth in the second quarter. Clearly this is reflective of the positive trends we have been seeing in the broader economy as we continue to see healthy domestic consumption underpinning the growth in the consumer and services sector."

Property unit Ayala Land, Inc., which accounts for 18% of the group's equity earnings, posted a 12% net income growth to P2.1 billion. Demand for Ayala Land's projects remained strong across most business lines. Overall demand for residential projects continued to grow with unit bookings up 69% versus the same period last year. Revenues from shopping centers were up 9% driven by higher average occupancy rate and higher average rent. Net operating income margins also improved for the company's major business lines. Ayala Land's earnings would actually have grown by a more robust rate of 24% year-on-year, excluding the after-tax impact of gains from the sale of Oakwood this year and the Atrium last year.

Banking unit Bank of the Philippine Islands (BPI) turned in a 24% increase in net income to P5.7 billion for the first semester. Total revenues were up 18% driven by higher net interest and non-interest income. Net interest income grew by 7% despite lower net interest margins, due to a 10% improvement in its average asset base. Non-interest income grew by 37% with the strong earnings of the bank's insurance subsidiaries, higher income from asset sales, rental income, and foreign exchange and securities trading gains. The bank maintains its leadership in the trust business with over P230 billion in assets managed. Loan growth was more robust at 11%, the fastest organically driven growth recorded in the past seven years and ahead of industry's 6.1%. Lending growth was noted in all sectors but SME/middle market showed the strongest at 13%, while mortgage loans in the consumer sector were the highest with an 18% improvement. With the sale of an additional P3.6 billion worth of NPLs, BPI's NPL fell further to 4.2% from 6.1% a year ago and is lower than the industry's 5.3% (as of May-07).

Its telecom business, Globe Telecom, recorded historical high revenues and core net income in the second quarter. Overall, wireless service revenues expanded by 12% in the first semester mainly driven by the sustained popularity of unlimited SMS and bucket voice offers, as well as higher prepaid top-up levels. Wireless subscribers now total over 18 million, 30% higher versus June 2006 levels. Its wireline business continued to register modest growth with revenues up 3% driven by the continued growth of the broadband segment following significant improvements in its broadband subscriber base. Consolidated EBITDA and EBIT increased by 11% and 15% year-on-year, to P20.9 billion and P12.6 billion, respectively. EBITDA margins stood at a healthy 66%, while EBIT margins were at 40% from 38% last year. This puts Globe's net income after tax as of the first half of the year at P6.4 billion, 12% higher year-on-year. Excluding the impact of the bond redemption costs and foreign exchange mark-to-market gains or losses in the first quarter of this year, core net earnings of P7.4 billion for the first half grew faster at 20% from last year's P6.1 billion.

Manila Water posted an 18% growth in operating revenues in the first half of the year to P3.5 billion. This was attributed to higher billed volumes, which reached a record high of 1.05 billion liters per day, a 13% increase year-on-year.

This was an offshoot of its expansion programs which enabled the company to add 61,000 new household connections during the first six months, bringing total households served to 953,000. With consistent improvements in operating efficiency, non-revenue water (NRW) dropped further to 25% as of end June, four percentage points lower than the previous year's level. While pre-tax income rose by 30%, the expiration of the company's income tax holiday in 2006 pushed net income 9% lower to P1.1 billion for the first half of the year.

Its electronics business, Integrated Microelectronics, Inc. posted a 4% growth in revenues to US$199 million but higher general and administrative expenses related to its integration projects resulted in a 30% decline in net income during the period. IMI remains competitive in the global market notwithstanding the recent appreciation of the peso given its strong customer relationships and proven capability to deliver quality products and services to its global customers. It recently expanded its manufacturing capacity with a 12,500 square-foot facility in Shenzhen, which is its fifth plant in China.

Proceeds from Ayala's value realization initiatives and healthy dividend flows from subsidiaries put the parent's cash level at P20 billion by the end of the first half, giving the company flexibility to further reduce debt and financing expenses. Net debt as of the end of the first semester was at P13 billion with net debt to equity at 0.15 to 1 from 0.29 to 1 at the start of the year. The company continued to aggressively pre-pay debt and refinance existing obligations to take advantage of the low interest rate environment. Year-to-date July it has pre-paid around P7 billion in outstanding loans and lowered financing cost.

Ayala Chairman and CEO, Jaime Augusto Zobel de Ayala noted, "the group's financial position is at its strongest in the past decade and we are pursuing our efforts to expand the group's growth platform in new sectors. We continue to nurture our initial investments in the BPO space and continue to explore other industries that are beginning to open up and presenting opportunities for broader private sector participation."

Key Performance indicators:

For the balance sheet items (current ratio and debt to equity ratios), the company aims to maintain for its current ratio not to be lower than 0.5:1 and for its debt to equity ratio not to exceed 3:1. The company and its subsidiaries' ratios are considered better than these levels as a result of prudent debt management policies.

The key performance indicators (consolidated figures) that the Company monitors are the following:

	YTD June 30, 2007	YTD June 30, 2006
Revenue	41,007 million	35,716 million
Net income	11,491 million	7,310 million
Basic earnings per share 1/	27.10	21.28
	As of June 30, 2007	As of December 31, 2006
Current Ratio 2/	1.88	1.70
Debt-to-Equity Ratio 3/	0.55	0.69

1/ Net income applicable to common shareholders / weighted average number of common shares
2/ Current assets / current liabilities
3/ Short-term debt, current & non-current long-term debt, current & non-current cumulative redeemable preferred shares / equity attributable to equity holders of the parent

2.1 Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. The following conditions shall be indicated: whether or not the registrant is having or anticipates having within the next twelve (12) months any cash flow or liquidity problems; whether or not the registrant is in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments; whether or not a significant amount of the registrant's trade payables have not been paid within the stated trade terms.

The company does not expect any liquidity problems and is not in default of any financial obligations.

2.2 Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation:

None

2.3 All 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

2.4 Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.

For year 2007, Ayala Land's consolidated budget for project and capital expenditures amount to P16.2 billion. About 55% is earmarked for residential developments, 24% for shopping centers, and the balance for corporate business, strategic landbank management, Visayas-Mindanao, support businesses, and corporate capex. This will be financed through a combination of internally-generated funds, borrowings, pre-selling and with proceeds from sale of receivables and non-core assets.

For the first six months of 2007, consolidated project and capital expenditures amounted to P6.9 billion, about 43% of the P16.2 billion budget for the whole year. About 48% was spent for residential projects, 37% for shopping centers, and the balance for Visayas-Mindanao, strategic landbank management, corporate business, support businesses, and corporate capex.

2.5 Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described.

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.

2.5 Any significant elements of income or loss that did not arise from the registrant's continuing operations.

None

2.7 Causes for any material changes (Increase or decrease of 5% or more in the financial statements)

Balance Sheet items
<u>(June 30, 2007 Vs December 31, 2006)</u>

<u>Cash and cash equivalents – 40% increase from P23,118mln to P32,390mln</u>
Due to proceeds from sale of shares of stocks, cash dividends received, increased collections partly offset by net loans paid and payment to suppliers. As a percentage to total assets, cash and cash equivalents increased from 13% to 17% as of December 31, 2006 and June 30, 2007, respectively.

<u>Inventories – 6% decrease from P P9,804mln to P9,261mln</u>
Primarily due to sale of units at existing residential projects by the real estate group. As a percentage to total assets, inventories remained at 5% as of December 31, 2006 and June 30, 2007.

<u>Other current assets – 24% decrease from P3,961mln to P3,014mln</u>
Sale of marketable securities partly offset by higher prepaid expenses by the real estate group. Other current assets remained constant at 2% of the total assets as of December 31, 2006 and June 30, 2007.

<u>Noncurrent assets held for sale – 100% decrease from P3,658mln to P-0-</u>
2006 noncurrent assets held for sale includes investments of the real estate and international groups sold in 2007. This account is 2% of the total assets as of December 31, 2006.

<u>Noncurrent accounts and notes receivable – 54% increase from P2,520mln to P3,891mln</u>
Due to availment of longer payment terms and additional sales at new and existing projects by the real estate group. Noncurrent accounts and notes receivable slightly increased from 1% of the total assets as of December 31, 2006 to 2% as of June 30, 2007.

<u>Investments in associates and joint ventures – 1% increase from P68,569,mln to P69,513mln</u>
Investments in associates joint ventures and others includes the Company's and its subsidiaries' investments in various affiliates which are being accounted for under the equity method. These affiliates are Bank of the Philippine Islands, Globe Telecom and Manila Water Corporation, among others.

The increase is largely due to the 2007 equity share in earnings of affiliates and higher investment by the real estate subsidiary in North Triangle (Trinoma). This account slightly decreased from 38% of the total assets as of December 31, 2006 to 37% as of June 30, 2007.

<u>Investment in bonds and other securities – 50% increase from P3,462mln to P5,189mln</u>
New investments and marked to market investments of the electronics, information technology, business process outsourcing services group. This account is 2% and 3% of the total assets as of December 31, 2006 and June 30, 2007, respectively.

<u>Pension assets – 7% decrease from P203mln to P188mln</u>
Decrease in pension assets of the electronics, information technology, business process outsourcing services group. This account remained at .1% total assets as of December 31, 2006 and June 30, 2007.

<u>Intangible assets – 9% decrease from P4,631mln to P4,206mln</u>
Due to lower peso exchange rate and amortization in 2007. As a percentage to total assets, this account slightly decreased from 3% as of December 31, 2006 to 2% as of June 30, 2007.

<u>Other noncurrent assets –17% increase from P1,785mln to P2,089mln</u>
Advances and pre-operating expenses for future projects by the real estate group and deposit for various facilities by the electronics, information technology, business process outsourcing services group. As a percentage to total assets, this account remained at 1% as of December 31, 2006 and June 30, 2007.

Accounts payable and accrued expenses – 5% increase from P18,326mln to P19,196mln
Dividends payable partly offset by lower interest payable and accrual of expenses by the parent company and additional purchases on account by the electronics, information technology and business process outsourcing services group. As of December 31, 2006 and June 30, 2007, this account is at 23% and 25% of the total liabilities, respectively.

Income tax payable –15% increase from P296mln to P 341mln
Due to higher income subjected to income tax by the international group. As of December 31, 2006 and June 30, 2007, this account remained at .4% of the total liabilities.

Short-term debt –8% increase from P2,504mln to P 2,716mln
Largely due to loans availed by the real estate group partly offset by loan payments by the international and electronics, information technology and business process outsourcing services group. As of December 31, 2006 and June 30, 2007, this account is at 3% and 4% of the total liabilities, respectively.

Current portion of long-term debt – 13% decrease from P9,360mln to P8,127mln
Payment of P3bln bonds by the real estate group and loan repayment by the parent company partly offset by the reclassification of current maturing loans from long-term debt to current portion. As a percentage to total liabilities, current portion of long-term debt is at 12% and 11% as of December 31, 2006 and June 30, 2007, respectively.

Other current liabilities – 91% increase from P1,453mln to P2,774mln
Mainly due to higher buyers' deposits by the real estate group. As a percentage to total liabilities, current portion of long-term debt increased from 2% as of December 31, 2006 to 4% as of June 30, 2007.

Liabilities directly associated with noncurrent assets held for sale – 100% decrease from P469mln to P-0-
Due to sale of assets previously booked as held for sale. As a percentage to total liabilities, this account is at 1% as of December 31, 2006.

Long-term debt – 12% decrease from P38,518mln to P33,739mln
Mainly due to the reclassification of current maturing loans to current portion of long-term debt. As a percentage to total liabilities, long-term debt is at 48% and 44% as of December 31, 2006 and June 30, 2007, respectively.

Deferred tax liabilities – 28% decrease from P444mln to P320mln
Due to the tax effect of collection of receivables on projects which have yet to be completed by the real estate group. As a percentage to total liabilities, deferred tax liabilities is at 0.55% and 0.41% as of December 31, 2006 and June 30, 2007, respectively.

Other noncurrent liabilities – 14% increase from P6,141mln to P7,011mln
Mainly due to increase in buyers' deposits and tenants' deposits of the real estate group. This account is at 8% and 9% of the total liabilities as of December 31, 2006 and June 30, 2007.

Paid-up capital – 15% increase from P23,138mln to P26,614mln
Due to 20% stock dividend.

Cumulative translation adjustment **–** *346% decrease from (P298mln) to (P1,330mln)*
Mainly due to forex rate changes.

Net unrealized gain on available-for-sale investments – 15% increase from P2,079mln to P2,388mln
Due to revaluation of investments in securities.

Minority interest – 9% increase from P24,699mln to P26,991mln
Largely due to share of minority holders in 2007 net income and increased share due to reduced shareholdings by the equity holders of the parent.

Income Statement items
(YTD June 2007 Vs YTD June 2006)

Sales and services **–** *3% increase from P26,251mln to P27,075mln*
Higher unit sales by the automotive group, higher sales volume of existing businesses and contributions from the operations of newly acquired companies by the electronics and information technology group partly offset by lower revenue from the real estate group primarily due to change in revenue recognition policy, deferred recognition of construction revenue, absence of industrial lot sales in 2007 and sale of People Support building in 4th quarter 2006.

Sales and services contributed 66% of the total revenue in 2007 and 75% in 2006.

Equity in net earnings of associates and joint ventures – 18% increase from P4,128mln to P4,871mln
Higher earnings of the parent company's and real estate group's associates.

This account is 9% and 12% of the total revenue in 2006 and in 2007, respectively.

Interest, rental and other investment income – 70% increase from P5,336mln to P9,061mln
Largely due to capital gains from sale of shares.

This account is 17% and 22% of the total revenue in 2006 and in 2007, respectively.

Cost of sales and services – 3% increase from P20,070mln to P20,711mln
Relative to higher sales.

Cost of sales and services is 76% and 73% of the total costs and expenses for the period ending June 30, 2006 and June 30, 2007, respectively.

General and administrative expenses – 19% increase from P3,516mln to P4,196mln
Largely due to the GAE of the new subsidiary and higher manpower costs, depreciation and amortization expenses of the electronics, information technology and business process outsourcing services group.

This account is 13% and 15% of the total costs and expenses for the period ending June 30, 2006 and 2007, respectively.

Interest and other charges – 13% decrease from P2,618mln to P2,270mln
Lower interest payables due to lower loan levels in 2007.

Provision for income tax – 6% decrease from P1,108mln to P1,038mln
Lower income in 2007 subject to income tax.

2.8 Any seasonal aspects that had a material effect on the financial condition or results of operations.

Ayala Corporation being a holding company has no seasonal aspects that will have any material effect on its financial condition or operational results. However, Ayala Land'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. Ayala Land'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.

PART II – OTHER INFORMATION

1. Ayala Corporation's holding company for investments in the Business Process Outsourcing (BPO) sector, LiveIT acquired 100% of Affinity Express, Inc., a Delaware incorporated company, in partnership with Affinity Express's existing management team.

   LiveIT made an additional investment of $11 million in Integreon Managed Solutions, Inc.

2. Mr. Renato O. Marzan, duly appointed, qualified and incumbent compliance officer of Ayala Corporation executed a certification on compliance of the corporation to the Corporate Governance Manual.

3. Ayala International Holdings Limited (AIHL), a 100% owned subsidiary of Ayala International Pte. Ltd, which in turn is a 100% owned subsidiary of Ayala Corporation entered into a sale and purchase agreement with Hotel Properties Limited (HPL) for the sale of its 23.3% interest in Hermill Investments Pte. Ltd. (Hermill).

4. Ayala Corporation reported Net Income of P12.2B for the year 2006, 49% higher than 2005.

5. At the regular meeting of the Board of Directors of Ayala Corporation on 15 March 2007, the Board approved the declaration and payment from the unappropriated retained earnings as of December 31, 2006 of the quarterly cash dividends of 9.4578% per annum to all shareholders of the Corporation's outstanding Preferred Class B shares with record date of 3 April 2007 and payable on 23 April 2007.

6. At the Annual Stockholders' meeting of the Company held on 30 March 2007, the stockholders approved the following:

   - Election of the following Directors for the ensuing year:
     Jaime Augusto Zobel de Ayala II
     Fernando Zobel de Ayala
     Mercedita S. Nolledo
     Delfin Lazaro
     Xavier P. Loinaz
     Toshifumi Inami
     Meneleo J. Carlos, Jr. - elected as the independent director

   - Ratification of the increase in Authorized Capital Stock from Twenty Six Billion (P26,000,000,000.00) to Thirty Seven Billion (P37,000,000,000.00) and the amendment of Article Seventh of the Corporation's Amended Articles of Incorporation.

   - Ratification of the declaration of the 20% stock dividend to all stockholders.

   - Ratification of the Merger into Ayala Corporation of its 99.85% owned subsidiary, PFC Properties, Inc.

   - Appoinment of Sycip, Gorres, Velayo & Co. as the external auditors of the Company for the ensuing year.

   The new Board approved the following appointments:

   a. Board committees and memberships:
      - Executive Committee
        Jaime Augusto Zobel de Ayala II – Chairman
        Fernando Zobel de Ayala – Member
        Toshifumi Inami – Member

- Audit Committee
  Meneleo J. Carlos, Jr. – Chairman
  Xavier P. Loinaz – Member
  Toshifumi Inami – Member

- Nomination Committee
  Jaime Augusto Zobel de Ayala II – Chairman
  Fernando Zobel de Ayala – Member
  Meneleo J. Carlos, Jr. – Member

- Compensation Committee
  Meneleo J. Carlos, Jr. – Chairman
  Delfin Lazaro – Member
  Toshifumi Inami – Member

b. Other Corporate Officers AyalaGroup/ManCom Members:

Jaime Augusto Zobel de Ayala II - Chairman of the Board & CEO
Fernando Zobel de Ayala - Vice Chairman of the Board, President & Chief Operating Officer

Ariston Estrada, Jr.	- Senior Managing Director, Mancom Member
Mercedita S. Nolledo	- Senior Managing Director & Corporate Secretary, Mancom Member
Delfin L. Lazaro	- Senior Managing Director, Mancom Member
Gerardo C. Ablaza, Jr.	- Senior Managing Director, Mancom Member
Antonino T. Aquino	- Senior Managing Director, Mancom Member
Jaime I. Ayala	- Senior Managing Director, Mancom Member
Rufino Luis T. Manotok	- Senior Managing Director, CFO, Chief Information Officer, Mancom Member
Arthur R. Tan	- Senior Managing Director, Mancom Member
Charles H. Cosgrove	- Managing Director, Mancom Member
Aurelio R. Montinola	- Mancom Member
Ramon G. Opulencia	- Managing Director & Treasurer
Renato O. Marzan	- Managing Director, General Counsel, & Compliance Officer
John Philip S. Orbeta	- Managing Director, Head of SHROD

7. The Securities and Exchange Commission (SEC) approved on 30 April 2007, the Company's application for an increase in capital stock from P26 Billion to P37 Billion and the corresponding Amendment of the Articles of Incorporation, and the payment of the 20% stock dividend to all stockholders of record as of 22 May 2007, payable on 18 June 2007.

8. Ayala Corporation's net income up 80% in first quarter of 2007. The strong operating performance of its major business units coupled with capital gains from share sales drove the company's earnings to P5.6 billion in the first quarter of the year, 80% higher than the same period last year and the highest ever recorded in a quarter.

9. The Board of Directors of Ayala Corporation, at its meeting on 14 June 2007 approved the following:

   a. The declaration and payment from the unappropriated retained earnings of the Corporation as of 31 December 2006, of the quarterly cash dividends of 9.4578% per annum, to all shareholders of the Corporation's outstanding Preferred Class B shares with record date of 3 July 2007 and payable on 23 July 2007.

   b. The declaration of regular cash dividend of P2.00 per share and special cash dividend of P2.00 per share corresponding to the first semester ending 30 June 2007, to all outstanding common shares of the Corporation's capital stock as of record date 06 July 2007, payable on 31 July 2007.

SIGNATURES

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

Registrant **AYALA CORPORATION**

By:

RENATO O. MARZAN
Compliance Officer

Date: August 13, 2007

RUFINO F. MELO III
Managing Director
(Principal Accounting Officer)

Date: August 13, 2007

AYALA CORPORTION AND SUBSIDIARIES
AGING OF RECEIVABLES (Based on Unaudited Figures)
As of June 30, 2007
(In Thousand Pesos)

	Up to 6 months	Over 6 Mos. to One year	Over One Year	Past Due	TOTAL
Trade Receivables	7,745,053	2,205,243	2,609,245	385,000	12,944,541
Non-Trade Receivables	3,718,802	3,607,190	1,281,801	33,000.00	8,640,793
Total	11,463,855	5,812,433	3,891,046	418,000	21,585,334