AYALA CORPORATION | 2008 ANNUAL REPORT

OUR MISSION

Ayala Corporation, a holding company with a diverse business portfolio, has a legacy of pioneering the future. Founded in 1834, it has achieved its position of leadership by being values oriented, goals driven, and stakeholder focused. Anchored on values of integrity, long-term vision, empowering leadership, and with a strong commitment to national development, it fulfills its mission to ensure long-term profitability and value creation. Ayala provides career opportunities and creates synergies as it builds mutually beneficial partnerships and alliances with those who share its philosophy and values. With entrepreneurial strength, it continues to create a future that nurtures to fruition its business endeavors and its aspirations for sustainable national development.

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At A Glance

Ayala is one of the largest conglomerates in the Philippines with businesses in real estate, financial services, telecommunications, water distribution, electronics manufacturing services, automotive dealership, and business process outsourcing. Its corporate social responsibility arm, Ayala Foundation, has programs that focus on education, entrepreneurship, and the environment.

2008 HIGHLIGHTS
- Net income of ₱8.1 billion, return-on-equity of 8.8%
- Raised a total of ₱9.8 billion in fresh funds; successfully issued ₱6 billion in perpetual Preferred "A" shares despite tightening credit market
- Reduced net debt to new low of ₱8.7 billion
- Realized capital gains of ₱2.7 billion
- Doubled cash level to ₱25 billion since 2006
- Supported initiatives in the BPO sector with cumulative investments of US$200 million by year-end
- Signed Memorandum of Agreement with BPI and Globe Telecom for the creation of the country's first mobile micro-finance bank

STRATEGIC INITIATIVES
- Emphasize balance sheet strength and liquidity position across the group
- Realize values from investments when appropriate
- Reallocate resources to industries with new growth and value-creation potential
- Reinforce competitive position in existing key industries or sectors

Ayala Land is the country's largest and only full-line property developer and one of the most successful operators of prime commercial spaces in the Philippines. Its product portfolio is composed of residential, industrial, commercial and leisure development projects; shopping center, office and residential leasing; hotel operations; and construction and property management services.

2008 HIGHLIGHTS
- Posted 10% growth in consolidated net income to reach a record of ₱4.8 billion
- Recorded a 31% growth in consolidated revenues to ₱33.7 billion
- Record ₱18.9 billion spent for project and capital expenditures
- Launched 4,238 residential units
- Increased leasing portfolio by 5%
- Expanded shopping center gross leasable area to almost 1 million sqm. and more than tripled BPO office capacity
- Boosted cash position by Makati CBD lot sale, issuance of ₱4 billion 5-year retail bonds, sale of ₱1.4 billion accounts receivable

STRATEGIC INITIATIVES
- Manage liquidity to meet project commitments and invest in attractive opportunities
- Capture market share through strategic realignment of sales efforts and capitalizing on brand strength and flight to quality through the downturn
- Manage risks and contingent liabilities through more conservative approach to new project launches
- Drive costs down without hampering operations and sacrificing quality
- More efficient control and management of available cash and liquidity to reduce risk profile
- Continue priming strategic landbank areas

BPI is the Philippines' largest bank in terms of market capitalization and third largest bank in terms of asset size. It has a lead position in intermediation capacity, corporate and consumer lending, remittances and electronic banking. The bank offers peso and foreign currency deposits, corporate and consumer loans, leasing, loan syndication, securities underwriting and distribution, foreign exchange, cash management, credit cards, payments and settlements, remittances, asset management services, life and general insurance.

2008 HIGHLIGHTS

- Achieved net income of ₱6.4 billion and 10% return-on-equity
- Net loans up 17%, the second year of double-digit growth
- Obtained BSP approval to issue up to ₱15 billion of Peso-Denominated Lower Tier 2 capital; issued ₱5 billion in December
- Signed a Memorandum of Agreement with Ayala Corporation and Globe Telecom for the first mobile micro-finance bank
- Revitalized BPI brand with new logo and branch look
- Elevated to the BSP Hall of Fame as Top Commercial Bank for OFW Remittances from 2005 to 2007
- Awarded Best Local Trade Bank in the Philippines by Euromoney PLC Trade Finance Asian Awards for Excellence
- Implemented BPI I-GIVE, an environmental program in partnership with World Wildlife Fund

STRATEGIC INITIATIVES

- Increase the number of customers and improve the product holdings of existing customers
- Grow loan portfolio by 5 to 10%
- Increase market share of the credit card and insurance businesses
- Continue to improve asset quality by maintaining non-performing loans ratio below 4% and non-performing assets under 10%
- Maintain CAMELS 4 rating

Globe is one of the leading telecommunications providers in the Philippines. It is a full-service telecommunications operator providing digital wireless communication, wireline voice, data transmission, domestic and international long-distance communication services, and mobile commerce.

2008 HIGHLIGHTS

- Posted net income of ₱11.3 billion and return-on-equity of 21%
- Increased cash dividends paid by 8% to ₱125 per common share, equivalent to a 125% payout
- Grew wireless SIM base by 22% to 24.7 million
- Broadband subscribers up 84%
- Integrated Globe and TM consumer prepaid business to enable more convergent and affordable intra-network offers
- Brought the *Apple*™ iPhone 3G to the Philippine market
- Launched prepaid broadband service
- Signed a Memorandum of Agreement with Ayala Corporation and Bank of the Philippine Islands to form the country's first mobile micro-finance bank

STRATEGIC INITIATIVES

- Maximize growth of core wireless business by providing innovative, affordable, and easy-to-use products and services
- Expand broadband business using wired and wireless technologies
- Create new sources of growth through investments in areas that complement and leverage the core business
- Exercise prudence in spending to protect margins and sustain profitability
- Maximize shareholder value through effective capital management

Manila Water is the sole concessionaire for the East Zone of Metro Manila, which includes Antipolo, Makati, Mandaluyong, Marikina, Pasig, Pateros, Rodriguez, San Juan, San Mateo, Taguig, most of Quezon City and parts of Manila. Apart from water distribution, the company also manages and operates the sewerage system of the service area, and provides sanitation services, including desludging of septic tanks, to its customers in the East Zone.

2008 HIGHLIGHTS

- Record net income of ₱2.8 billion for a 19% return-on-equity
- Expanded service connections to reach an additional 47,000 new households
- Invested ₱3.8 billion in capital investments and concession fees
- Improved system losses to record low of 19.6%
- Received top awards from Corporate Governance Asia and The Asset magazine for corporate governance; ranked in Asia's Top 10 Greenest Companies by FinanceAsia; won the Best Annual Report award from the Management Association of the Philippines
- Issued first ₱4 billion retail bond rated AAA by Philratings

STRATEGIC INITIATIVES

- Sustain growth in base business
- Further improve operational efficiency and network reliability
- Increase investments to expand wastewater coverage
- Capitalize on key strengths to explore new businesses outside the current concession area
- Enhance shareholder value through a strong balance sheet

IMI is a leading electronics manufacturing services (EMS) provider that offers flexible solutions including design and product development, process and product engineering, test development, logistics, and manufacturing solutions for the computing, communications, consumer, automotive, industrial, and medical electronics segments.

2008 HIGHLIGHTS

- Posted US$441 million in revenues
- Expanded business with a leading Chinese telecommunications company
- Generated new strategic customers or customer programs
- Enhanced procurement and materials management process
- Enforced cost-cutting measures and efficiency programs
- Strengthened corporate branding

STRATEGIC INITIATIVES

- Target market leaders in high-growth industries
- Pursue conversion of consignment business to turnkey or semi-turnkey
- Enhance design and engineering and supply-chain management capabilities
- Develop strategic business activities such as evaluation of acquisition opportunities, technology development, and expansion of manufacturing footprint

Ayala Automotive is a leading vehicle dealership network of both Honda and Isuzu brands. Its products in the passenger car category include Honda City, Jazz, Civic and Accord. In the commercial vehicle segment, it has Honda CR-V, and Isuzu Crosswind, D-Max, Alterra and Isuzu trucks.

2008 HIGHLIGHTS

- Net income of ₱276 million; return-on-equity of 11%
- Honda Cars Philippines (HCPI) and Isuzu Philippines (IPC) placed third and fifth in overall automotive sales, respectively
- HCPI was second in the passenger car sector with a 25% market share
- IPC was no. 3 in the commercial vehicle segment with a 13% market share
- Ayala's Honda dealerships maintained majority share with 51% of total Honda network sales
- Ayala's Isuzu dealerships cornered 30% of Isuzu network sales

STRATEGIC INITIATIVES

- Maintain market leadership and profitability through service excellence and operating efficiencies
- Strengthen marketing and quality programs responsive to customer needs
- Expand network and operations for wider reach and better access to customers
- Pursue new business initiatives that will complement traditional products and services
- Collaborate closely with principals on the delivery of high quality products and services

Azalea is comprised of investments in information and communications technology, shared services companies, and business process outsourcing (BPO) companies held through LiveIt Investments Ltd.

2008 HIGHLIGHTS

- LiveIt, increased cumulative investments to approximately US$200 million
- LiveIt's three investee companies recorded revenue growth of 16% to US$344 million and EBITDA of US$30 million, in its second full year of operations
- LiveIt and Providence Equity Partners acquired 98.7% of eTelecare, a leading provider of customer care BPO services, through a tender offer by a 50-50 owned vehicle
- eTelecare won 11 new clients and 31 new programs, and grew its employees to 13,500 and its global sites to 14, including new facilities in Nicaragua and Texas
- Integreon, a leading Knowledge Process Outsourcing company, acquired Datum Legal Inc., a New York-based electronic data discovery company, and won 14 new customers, resulting in 36% revenue growth and significant EBITDA growth in 2008
- Affinity Express, the leading multi-shore provider of outsourced, high-volume advertising and marketing design solutions, won several large new ad production service clients, and entered the new high-growth markets of outsourced digital interactive services and corporate marketing communications services
- ASTI's services business grew by 38% and continued expansion in Japan and Europe
- HRMall commenced more projects within the Ayala group and signed up its first non-Ayala client resulting in revenue growth of 296%

STRATEGIC INITIATIVES

- Grow existing businesses organically and through follow-on acquisitions
- Realize the benefits of scale and higher utilization

AG Holdings is the holding company for the Ayala group's international property investments.

2008 HIGHLIGHTS
- ARCH Capital Asian Partners, L.P. (the Fund) closed its third investment in Thailand and its first investment in India.
- Established office in Thailand through Fidelis Holdings
- Set up an India advisory company - Bhakti Capital Advisors to support business development activities in India
- Committed $10 million to a Vietnamese private equity fund
- Completed a small retail center development in Southern California
- Acquired an infill redevelopment site in U.S. for a grocery-anchored shopping center

STRATEGIC INITIATIVES
- Continue to focus on opportunities in China, India, Thailand and Vietnam
- Capitalize on attractive opportunities in the current year and in 2010 amidst the down-cycle

Ayala Foundation Inc. is one of the country's most respected non-stock, non-profit organizations with cultural and educational programs that benefit underprivileged Filipinos. Its thrusts are in education, environment, entrepreneurship, and arts, history and culture.

2008 HIGHLIGHTS
- Convened the Civil Society Days of the Global Forum on Migration and Development, which was attended by delegates from over 60 countries
- Published the first corporate social responsibility report of Ayala Social Initiatives
- Connected 448 additional public high schools to the Internet through GILAS, bringing the total number of Internet-connected public high schools to 2,102
- Recovered as much as 1,407 tons of waste—worth an estimated ₱9.3 million—at the Makati Central Business District, through the Solid Waste Management program
- Continued to provide quality education to the 995 students in CENTEX Manila and Batangas
- Unveiled Crossroads of Civilization, a three-part exhibition of precolonial and Spanish-era artifacts at the Ayala Museum
- Staged Bravo Filipino, a festival that paid tribute to Filipino talent in music, dance, fashion, and photography; the Filipinas Heritage Library's *Himig* Collection was an important feature of this festival
- Supported the formation of 23 businesses in knowledge-based industries, under its technology business incubator
- Raised as much as US$2.3 million in the U.S., the highest amount AF USA has raised since it started
- Celebrated the 10th anniversary of the Ayala Young Leaders Congress which was attended by 400 alumni

STRATEGIC INITIATIVES
- Strengthen private and public sector partnerships locally and abroad to ensure the success and sustainability of projects
- Implement various projects with the use of information and communication technology to widen the reach of educational tools among underprivileged students and teachers
- Expand environment program to include energy efficiency, water conservation, and clean air
- Stage museum exhibitions that continue to encourage Filipinos to have a greater sense of pride in Philippine art and culture

Financial Highlights

	2008	2007 1/	2006 1/
FOR THE YEAR			
(in million pesos)			
Revenues	**79,109**	78,767	70,162
Net Income Attributable to Equity Holders	**8,109**	16,257	12,173
Cash Dividends to Common Shares	**1,989**	3,312	2,757
Cash Dividends to Equity Preferred Shares	**549**	549	274
Stock Dividends	**4,139**	3,450	-
Stock Dividends (%)	**20%**	20%	-
AT YEAR END			
(in million pesos)			
Total Assets	**220,052**	196,131	181,984
Cash and Cash Equivalents	**42,886**	36,836	20,391
Short-Term Investments	**1,009**	3,688	2,928
Total Borrowings 2/	**54,484**	50,032	52,881
Equity Attributable to Equity Holders	**97,311**	86,887	76,788
PER SHARE			
(in pesos)			
Earnings - Basic 3/	**15.22**	31.62	24.01
Earnings - Diluted 3/	**15.17**	31.47	23.89
Book Value of Common Shares 3/	**172.26**	163.08	142.95
Cash Dividends to Common Shares	**4.00**	8.00	8.00
FINANCIAL RATIOS			
Current Ratio	**2.52**	1.92	1.70
Debt-to-Equity Ratio	**0.56**	0.58	0.69

1/ Restated to reflect effect of adopting Philippine Interpretation IFRIC 12, Service Concession Arrangements
2/ Includes Cumulative Redeemable Preferred Shares amounting to P2,500 million in 2006
3/ Adjusted to include retroactive effects of the 20% stock dividends in 2008

It is hard to look back at the past year without reflecting on the global financial crisis and its severe repercussions on the global and regional economy. The losses that continue to be absorbed by troubled institutions have perpetuated the crisis of confidence that has gripped investors and consumers alike. This has resulted in the persistent tightening of credit markets globally which, in turn, has heightened liquidity and solvency risks.

While most of Asia, and the Philippines in particular, remain structurally and fundamentally sound, this sudden aversion to risk has unduly depressed asset prices. Like other markets in the world, the Philippine Stock Market ended 2008 at its lowest point in a decade as it succumbed to redemptions by local and foreign investors. As one of the more liquid large cap stocks, and viewed by most foreign funds as a proxy for the Philippines, Ayala's market capitalization suffered a 55.6% decline in its value by the close of 2008. As a result, total shareholder returns* in 2008 of -55.2% partly negated the 120.7% return delivered in the immediate past two years. While it might be of little comfort to

To my fellow shareholders,

some, it is worth pointing out that over the longer perspective of a five year time frame, total shareholder return remains positive at 47.8%.

Notwithstanding these external volatilities, Ayala's financial condition in 2008 remained strong. We achieved a net income of ₱8.1 billion and delivered a return on equity of 8.8%. The financial strategy we have pursued over the past few years has appropriately put us in a position to withstand the impact of the global financial crisis and at the same time take advantage of opportunities in this stage of the economic cycle. Looking back at Ayala's recent past, it was during uncertain times that significant investments in key industries were forged, such as our subsequent engagement in the telecommunications and water distribution industries. We find ourselves once again with an uncertain medium-term environment. The times once again call for a shoring up of balance sheets, a new focus on liquidity and a conservative posture on investments. Like all difficult periods, however, it is also a time of potential for re-investment as values decline.

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*Source: Bloomberg

We have focused on three areas in 2008. The first was a renewed emphasis on strengthening our balance sheet and liquidity positions across the group. The second was taking some first steps in resource re-allocation into industries with new growth potential. The third was a continued drive to reinforce our competitive position in our key existing industries. The latter point will be discussed at length in the President's report, so I will briefly expand on the first two. **Let me start with the balance sheet and our financial liquidity.** As early as 2007, we pushed hard to raise liquidity levels in anticipation of investment opportunities. We have doubled our cash level by the year-end to ₱24.9 billion from ₱12.5 billion a couple of years ago. We achieved this through our value realization initiatives as we took advantage of high asset prices in 2007 to monetize shares and raised cash of ₱10.3 billion. In June 2008, while opportunities to unlock value became more limited, we continued to realize values where we thought it appropriate as we continued to pursue a bias for liquidity. These divestments were supplemented by strong cash dividend flows from our operating units, which over the past two years amounted to ₱18.9 billion.

Finally, we raised close to ₱10 billion in fresh funds at the parent level in 2008 which comfortably addressed our cash flow and investment requirements in 2008, and also covered our liability commitments through 2009.

At the height of the market's uncertainty and credit tightness last November, we successfully issued ₱6 billion in Preferred "A" shares, as a follow on from our maiden preferred share issue in 2006. The offering was appropriately structured as an initial offer of ₱4 billion, with an oversubscription option of ₱2 billion. It was the first corporate offering after the global financial meltdown and was viewed by the market as a test case for successful issuances. We were encouraged by the investing public's reception not only to this issuance but also to the fund raising initiatives of our other operating units. Each of our key operating units successfully tapped the domestic capital market and we raised a combined ₱23 billion across the group. This began with the ₱4-billion 5-year fixed rate bond offer of Ayala Land, Inc. in August, Integrated Microelectronics, Inc.'s ₱1.3 billion preferred share issue in September, Manila Water's ₱4-billion 5-year fixed rate bond issue in October, our ₱6-billion perpetual preferred share issue in November, and finally, BPI's ₱5-billion 10-year fixed rate note in December. Globe Telecom also recently tapped the domestic market with a ₱3-billion bond offer in the first quarter of 2009. With our strong emphasis on liquidity, we were able to position ourselves appropriately in what we foresaw to be a period of tighter credit.

As we move into 2009, each of the operating units' liquidity, solvency, and gearing ratios are at very comfortable levels with sufficient cash to pursue their respective growth plans. Amidst the uncertainties and the height of the credit tightness in the market in the second half of 2008, we continued to work on lengthening our maturities and minimizing our cost. We pre-paid the equivalent of US$60 million in advance of future maturities and by the end of the year, our net debt at the parent level was down to ₱8.7 billion from a high of ₱36 billion five years ago with average cost down by over 200 basis points to 7.3% compared to 9.5% two years ago.

Let me now move to my second point regarding the re-allocation of resources to new growth areas. The comfortable cash position we have built allowed us to fund some new investments in 2008, which were mainly focused in the Business Process Outsourcing (BPO) sector. We continue to believe in the long-term prospects of outsourcing and the natural competitive advantage of the Philippines to capture a significant share of this robust global market.

The BPO sector in the Philippines has grown to a US$6 billion revenue generating industry in less than a decade and the country is now well-positioned to be a leading destination, next to India, for English voice-based work and other higher value-added business processing services.

With this in mind, we took the opportunity in December 2008 to increase our ownership stake in eTelecare Global Solutions Inc., one of the leading global providers of Customer Care BPO Services, through a tender offer together with a strategic partner, Providence Equity Partners. This effectively increased our ownership stake in eTelecare from 22% to 49.3%. We believe this partnership will strengthen our platform in the voice space given Providence's deep expertise in media, communications, entertainment and information services which can create synergies and complement eTelecare's existing client base and service offerings.

We also supported the follow-on acquisitions entered into by our other BPO investee company, Integreon Managed Solutions Inc., which is a leading provider of high value and complex BPO solutions in the areas of Knowledge, Document Content, and Discovery Support Services. These add-on acquisitions are expected to further strengthen its position as one of the leading global providers of Legal Process Outsourcing services.

As of year-end, we have made cumulative investments of approximately US$200 million in our investee companies under LiveIt Investments Ltd., our holding company for our BPO investments.

Despite the uncertainty in the global economic environment, we believe that these are opportune times for the BPO industry. While growth may slow in the short term, we expect it to accelerate in the medium to long term as companies find the cost advantage of outsourcing, particularly to the Philippines, to become more compelling. Beyond the BPO space, we continue to explore investment opportunities in other industries when there are value creation opportunities.

An example of this is our investment in the area of mobile banking and micro-finance where Ayala Corporation, together with Bank of the Philippine Islands (BPI), and Globe Telecom (Globe) entered into a Memorandum of Agreement to set the platform for the creation of the country's first mobile micro-finance bank.

Leveraging on the collective strengths of our two operating units, we seek to develop an array of financial products and services for the rural and lower-income sectors, using mobile technology to expand the reach and lower the cost of delivering micro-banking services. The bank builds on BPI's extensive delivery and infrastructure network and the tested *GCash* micro-payment platform developed by Globe to provide credit and financial services to low-income entrepreneurs.

We are excited by these opportunities as they continue a pattern, also visible in our telecom and water distribution businesses, where we align our business goals with broader social and economic development goals. We believe there is a compelling growth proposition in doing business at the base of the wealth pyramid that can be value enhancing both for Ayala and the lives of a much broader consumer base. By integrating the corporate social responsibility dimension into our business models, we are able to scale up our efforts in the areas of education, entrepreneurship and environment, and create a much broader and sustainable impact for a larger number of people. The sustainability initiatives we are undertaking at the conglomerate level are being outlined in greater detail in a formal sustainability report that is compliant with Global Reporting Initiative (GRI) standards which will be released in 2009.

Each of our operating units in the real estate, telecommunications, banking, water distribution, and electronics businesses, continue to expand and pursue their respective growth agendas; each having built their own financial and operational capabilities to independently pursue and fund their growth plans. As a group, we have programmed consolidated capital expenditure flows of ₱49 billion for 2009, lower than the actual capital expenditure in 2008. These investments will continue to build a base for the group's growth trajectory in the medium to long-term and are discussed more expansively in the President's report.

We expect 2009 to be a challenging year, as the full impact of the global financial crisis on the real economy continues to unfold. We remain cautiously optimistic that the Philippines will remain partly insulated from the worse effects of this economic upheaval. Our domestic market remains alive and we are hopeful that the drivers of domestic demand, like remittances, will not decline aggressively.

The Ayala group's performance has always been about the collective contribution and dedication of its management team, staff, and Board members, both past and present. We thank all of them for giving so much of themselves to ensure the continued success of Ayala, particularly in these dynamic and changing times. I appreciate as well our shareholders, business partners, external advisors and counsels for their continued support.

I do not want to end this letter to our shareholders without a final reference to our 175th anniversary. As an organization we have always set our sights on the future and have not sought to take comfort from the past. It is our ability to adjust to changing environments, in a progressive way, that marks our longevity as an institution. However, anniversaries are also important moments for self reflection. By any independent standard, 175 years is a long period of time in any company's history. There are few corporate examples globally of institutions with a similar capacity for resiliency over this swath of time. We should take heed of the values that brought us to this point—values of trust and prudence on one hand but imagination and vigor on the other, coupled with a long-term commitment to aligning ourselves to a progressive national development agenda. As we reflect on our changing roles, as an institution that now builds environmentally sound communities, rolls out advanced communication networks, creates stable financial securities, implements clean water systems and invests in both technology driven services and manufacturing entities aligned to global markets, I take some pride in being part of an Ayala that remains true to the dreams of those who have built this company before us.

I hope we can continue to count on your support as we chart our paths, with the same set of core values, well into the future.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman and Chief Executive Officer

President's Report to Shareholders

The fallout from the U.S. financial crisis which has spread globally impacted the real economy by the latter part of 2008. While the risks of a major global systemic failure have been averted by unprecedented regulatory and policy measures, the contagion effect continues to find its way across Europe, the Middle East, and Asia, including the Philippines. Massive job layoffs and weakening appetite for consumer spending globally threaten to slow demand for the country's major export commodities and impede the flow of overseas Filipino workers' remittances, which is a major driver of the country's economy.

While the Philippine economy stands fundamentally stable and resilient amidst this crisis, it is not immune to the global downturn. Domestic economic growth has slowed to 4.5% in 2008 from 7.3% in 2007, but still notably better than the average GDP growth among ASEAN-5 countries and against a contraction in some of the world's major economies. Domestic consumption remained stable driven by overseas Filipino workers' remittances which posted a 13% growth versus 2007.

Amidst these conditions, our major operating units experienced healthy top-line growth. However, Ayala's net income on a consolidated basis registered a 50% decline to ₱8.1 billion. This was due mainly to lower capital gains as opportunities for value realization were limited this year given the deterioration in asset prices and lower equity earnings partly due to non-recurring charges and expenses at the level of the operating units. Adjusting for the capital gains, consolidated net income would have declined by a much slower pace of 40%.

Rebalancing Portfolio and Realizing Values

In June 2008, we realized investment gains at the holding company level of ₱2.7 billion from the sale of our 3.8 million common shares in Globe Telecom (Globe) to our strategic partner, Singapore Telecom (SingTel). However, the capital gains we realized in 2008 were 63% lower than the ₱7.3 billion booked in 2007 as we more actively took advantage of the substantially higher asset prices prevailing at that time.

Healthy Business Volumes Across Operating Units

Each of our key operating units continued to see good business volume growth in 2008 but various one-time non-recurring charges and expenses incurred at the level of the operating units resulted in mixed net income performance. This pushed our equity in net earnings from our operating units lower versus the prior year.

Our real estate unit, Ayala Land, posted double-digit top line growth with consolidated revenues up by 31%. While demand for high-end residential projects slowed in the fourth quarter, mid-income and affordable residential projects continued to see good take-up rates. Its shopping center revenues likewise rose with mall expansion on track as well as higher lease and occupancy rates. Revenues from its headquarter and business process outsourcing (BPO) office spaces increased by 10% with higher BPO office capacity and higher average lease rates. Despite some margin contraction, Ayala Land's net income grew to an all-time high of ₱4.8 billion.

Business at Bank of the Philippine Islands (BPI) showed a healthy growth with loans up by 17% and remittance volume up by 35%. BPI's deposit base grew by 5% and assets held in trust expanded by 16%. BPI was the least affected bank stock amidst the downturn in the local equities market with no exposure to the sub-prime mortgage industry. Its capital adequacy ratio is well above the regulatory requirement at 14.2% and asset quality outperformed the industry's. Net income, however, was 36% lower at ₱6.4 billion. This was mainly due to lower securities trading income, which was anticipated in the face of volatilities in financial markets, and a substantial decline in the contribution of its insurance companies due to a non-recurring investment income in 2007. Its earnings, however, does not reflect any restatement under the revised IAS 39 which further reinforces the bank's strong fundamentals and its position as one of the most stable financial institutions in the country today.

Notwithstanding the intense competition in the market and softer consumption, Globe's service revenues were steady at ₱62.9 billion, which was near its peak in 2007. Wireless revenues were mildly lower while wireline revenues rose by 7% as a result of the ramp up in broadband. Globe's wireless subscriber base grew by 22% while broadband subscribers nearly doubled. Higher operating expenses and investments in network coverage and broadband capacity, however, capped EBITDA. EBITDA margin contracted but was still at a relatively high level of 59%. As a result, net income declined by 15% to ₱11.3 billion. Globe continues to have very healthy free cash flow with sufficient resources for its planned capital expenditure and dividend commitment. In 2008 Globe paid out ₱16.5 billion in cash dividends, representing 125% of its 2007 net income and one of the highest in the Philippine stock market.

Manila Water's net income increased by 7% to ₱2.8 billion, while revenues rose by 22% as billed volume continued to grow with the expansion in market base. Continued investments in the pipeline network have allowed Manila Water to reach even more households and increase service connections. Non-revenue water has also further improved to an all-time record low of 19.6%, which is a level comparable, if not better than regional and global standards. Manila Water continues to explore opportunities beyond its concession zone both in the Philippines and in the region. While these initiatives are not expected to contribute significantly in the near term, these lay the foundation for its future growth and expansion.

Amidst the slowdown in global demand for electronic products, our electronics manufacturing business under Integrated Microelectronics Inc. (IMI) posted a 5% revenue growth as its operations in China remained strong, offsetting the decline in our Philippine and U.S. operations. This, to some extent, validates the diversification strategy it undertook as early as 2005 with the expansion of its manufacturing footprint in China. While IMI's margins were impacted by the decline in volumes in its consignment business, its operating income remained positive at US$18 million. However, IMI registered a net loss of US$17 million because of a US$33 million non-recurring loss from currency hedging contracts. Excluding this, and provision for an employee redundancy program, IMI would have posted a net income of US$23 million.

Our automotive business continues to be the largest dealership network in the country, maintaining its top position in the Honda and Isuzu nationwide network with 51% and 30% share of Honda and Isuzu nationwide sales, respectively. Despite higher gas prices in the first half of the year, the local auto industry grew in 2008 to hit a 10-year record for industry sales. Strong preference for diesel-fed engines pushed sales of Isuzu Crosswind and D-Max but stock-outs of the Honda Jazz and City models affected Honda car sales. Notwithstanding these, Ayala Automotive delivered revenues of ₱10 billion and net income of ₱276 million.

Our international real estate investment vehicle, AG Holdings recorded a net loss of US$2.7 million excluding extraordinary loss arising from a deemed impairment on trading securities. The impairment was in line with accounting standards, given the significant decline in stock market values across Asia. However, we continue to believe in the intrinsic value of the assets held under these investments.

LiveIt Investments Ltd., our holding company for our BPO investments, grew revenues in U.S. dollar terms by 15%. However, it booked a combined net loss, of which LiveIt's share was ₱874 million due to one-time non-recurring expenses related to the eTelecare tender offer, non-cash accounting charges, and unfavorable foreign exchange forward contracts that eTelecare entered into.

Solid Liquidity And Financial Position

Despite these one-time non-recurring charges weighing on earnings of our operating units in 2008, all companies in the group maintain very strong financial positions with solid balance sheets. Each of the operating units' liquidity, solvency, and gearing ratios are at very comfortable levels with sufficient cash to pursue their respective growth plans and access to capital when necessary. Amidst the uncertainties and the height of the credit tightness in the market in the second half of 2008, the Ayala group, through each of our key operating units, successfully tapped the domestic capital market and raised a combined ₱23 billion. These helped shore up liquidity further and ensured more than sufficient resources to carry out committed business plans.

At the holding company alone, we raised ₱6 billion through a preferred share offering with coupon of 8.88% last November. We are encouraged by the investing public's reception not only to this offering but also to those of our other operating units as it reaffirmed the market's confidence in the Ayala group. It also proved our in-house capability to lead and position deals even during difficult and volatile conditions.

Outlook

While 2009 will no doubt be a challenging and uncertain period as we have yet to see the full impact of the global economic crisis on the domestic economy, we believe we have begun the new year with a position of strength. The solid market and financial condition of each of our operating units in their respective industries will allow them to ride out the downturn. More importantly, they are well-equipped to take advantage of opportunities, in time for the next wave of growth when the economic cycle turns.

I thank our Board of Directors for their guidance as well as our management team and staff for their support and hard work. Their collective efforts and commitment to a shared corporate vision and values continue to drive us to succeed even amidst challenging times. I also thank our stockholders for their unwavering trust and faith in Ayala to create value for all its stakeholders. As we celebrate our 175th anniversary in 2009, I am hopeful that together we can continue to steer the company through many more years of leadership and excellence.

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

We are encouraged by the investing public's reception not only to this offering but also to those of our other operating units as it reaffirmed the market's confidence in the Ayala group. It also proved our in-house capability to lead and position deals even during difficult and volatile conditions.

Balancing risks, exploring opportunities.

Through the cycles that characterize the industry, Ayala Land has proven many times that it has a unique ability to navigate through uncertain and difficult periods with a time-tested approach that balances uncompromising product quality, continuous innovation and a long-term vision with proven governance and sustainability principles, a prudent financial strategy and proactive risk management.

AyalaLand

Real Estate

Ayala Land Inc. (ALI) posted new highs in consolidated revenues and net income amidst market uncertainties and challenges that confronted the property sector in the latter half of 2008.

Consolidated net income reached a record ₱4.8 billion, 10% higher than the previous year, despite the margin contraction brought about by higher commodity prices in the second half of 2008. Consolidated revenues amounted to ₱33.7 billion and outpaced 2007 levels by 31% driven largely by residential and construction businesses and the sale of shares in three subsidiaries in March. Healthy equity earnings from investments in Fort Bonifacio Development Corporation and Cebu Holdings Inc., as well as a better than expected performance of Alabang Town Center and TriNoma, likewise boosted revenues.

Ayala Land saw improved operating results across its diverse business portfolio:

Residential

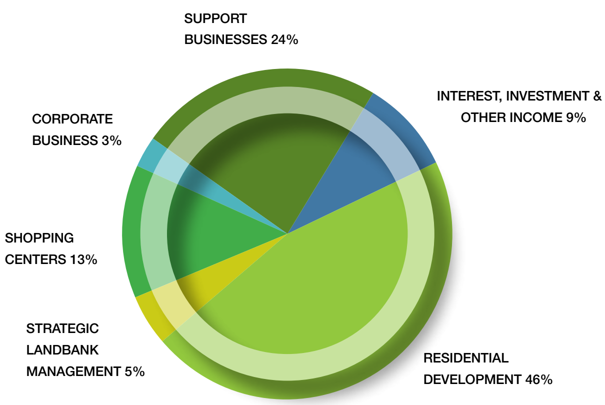
In the residential business, strong reception for new projects and increasing construction completion of ongoing developments generated revenues of ₱15.2 billion. The company strengthened its position in the affordable and upper mid-income market segments in the wake of softening demand from the high-end segment. The latter was partly affected by slowing demand from overseas Filipino (OF) buyers. OF sales in general declined by 25% and accounted for 24% of total residential revenues from 32% in 2007. Sales to traditionally strong markets in the US weakened amidst the global financial crisis, impacting appetite for high-end projects. Low- to mid-income segments, however, cornered 70% of OF sales with sales of Avida and Alveo to this market up 32% and 2%, respectively.

A total of 4,238 units were launched across the company's three brands. These included Ayala Land Premier's One Serendra East Tower, Alveo's Red Oak, the second of four towers in Two Serendra, Senta in Makati, and succeeding buildings of Avida Towers in San Lazaro, Sucat and New Manila. These complemented the sustained strong sales of NUVALI's Abrio, Treveia, and its own version of Avida Settings.

Ayala Land is targeting to launch a total of 2,000 units in 2009 from expansion phases and new developments catering to steady market demand from domestic and OF buyers.

CONSOLIDATED HIGHLIGHTS
(in million pesos except per share amounts and ratios)

	2008	2007
Total assets	100,453	82,981
Equity attributable to equity holders	49,028	45,705
Revenues	33,749	25,707
Net income attributable to equity holders	4,812	4,386
Per share		
Earnings	0.36	0.34
Book value	3.78	3.51
Ratios		
Current ratio	1.89	1.65
Debt-to-equity ratio	0.34	0.22
Return-on-equity	10.2%	10.2%
Top common shareholder		
Ayala Corporation	53.5%	53.3%



2008 REVENUES ₱33.7B

Strategic Landbank

Ayala Land continued to realize values across its strategic landbank holdings as prices have been steadily rising from priming and development.

NUVALI became a significant contributor to revenues in 2008 following its highly successful soft launch in late 2007. Significant construction completion on Abrio, Treveia and Avida Settings NUVALI, together with the sale of nine commercial lots at an average price of ₱26,800 per sqm., accounted for the bulk of the ₱1.8 billion in revenues contributed by Strategic Landbank Management. The lakeside Evoliving Center will be unveiled in 2009 together with the Visitor Center to accommodate prospective investors and customers. The first mixed-use business process outsourcing (BPO)-retail building, housing key locators and retail outfits, is likewise on-stream and will prime the area designated as NUVALI's business district.

In Bonifacio Global City (BGC), lot sales were done at an average price of ₱151,500 per sqm. in 2008, including the 3,000-sqm. future site of the Globe Telecom headquarters and the 15,120-sqm. lot of the Shangri-La Hotels group. This drove accommodation values 8% higher to ₱14,000 per sqm.

In line with the drive to divest non-core assets to lighten the balance sheet, the company sold its equity shareholdings in three wholly owned subsidiaries which owned a 5,125-sqm property located in the Makati Central Business District (MCBD). The transaction was valued at ₱902 million and generated ₱762 million in pre-tax capital gains.

Shopping Centers

Revenues from shopping centers improved by 3%, despite the decommissioning of Glorietta 2 and Park Square 2. Average lease rates rose by 4%, driven by Market!Market!, Alabang Town Center and TriNoma. Occupancy rate increased by three percentage points to an aggregate average of 92%.

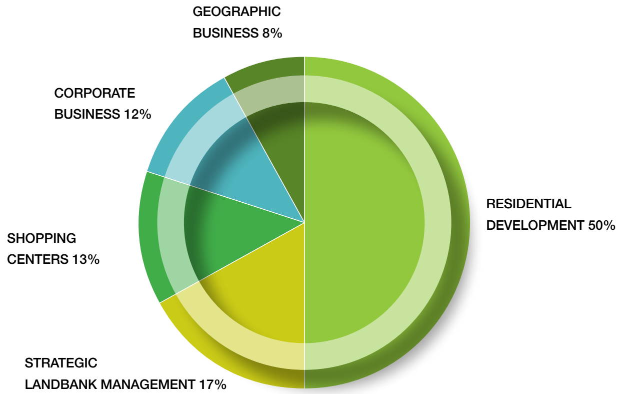
New mall spaces continue to beef up ALI's stock with Glorietta 5 contributing an additional 9,600 sqm. together with the second phase of Greenbelt 5 which adds 17,000 of prime lifestyle center space. This brings total shopping center gross leasable area (GLA) to almost one million sqm., including managed malls.

The initial phase of the Ayala Center redevelopment will commence in 2009 that will recreate retail and dining experience in the MCBD once completed. Beyond Metro Manila, Marquee Mall in Angeles City, Pampanga will open in 2009 with 38,000 sqm. of shopping center GLA to serve the fast-growing demand in Central Luzon.

Corporate Business

Steady performance from headquarter-type and BPO office segments boosted corporate leasing business' revenues by 10% in 2008. Average lease rates increased by 12% for headquarter office spaces and by 7% for BPO offices. Average occupancy rates remained high for headquarter offices at 98%, while occupancy rate for BPO buildings fell to 79% with the new available BPO space still in fit-out mode.

ALI's BPO office capacity totaled 199,500 sqm. at the close of 2008, more than triple that of 2007 as six of the ten buildings at UP-AyalaLand TechnoHub were delivered. Six more structures are expected to be completed and turned over in the next two years, including the balance of four at UP-AyalaLand TechnoHub, the e-Bloc in Cebu, and the E-Services building in BGC, together with GLA Solaris One, Vertex in San Lazaro, Manila, and Glorietta 5.



2009 PLANNED PROJECT AND CAPITAL EXPENDITURES ₱17.4B

To secure the company's future growth pipeline, ALI spent an unprecedented ₱18.9 billion in 2008 for various initiatives to fortify its market position across its diverse business platforms. It is earmarking almost the same level at ₱17.4 billion in 2009 for project and capital expenditures, largely for residential developments.

In the midst of market uncertainty, however, the company will be actively engaged in balance sheet, risk, and spend management programs to counter any possible adverse impact on the business.

The company has shored up its cash balance with a ₱4-billion bond offering and the sale of receivables, effectively raising its current ratio to 1.89:1 from 1.65:1. Judicious debt management also enabled the company to maintain a comfortable debt-to-equity ratio of 0.34:1.

While 2009 capital spending will be kept at last year's pace, Ayala Land is taking a more conservative approach to new project development, with a bias towards secured, committed, and fully covered projects with quick turnarounds and proven cash flows. The company is likewise managing stringently its expenses by capping overhead costs and containing operating expenses to generate additional savings.

Bonifacio High Street

NUVALI perspective

Navigating through turbulence.

BPI remains confident in its ability to plot a secure course that will steer the business through the turbulence facing the local and global markets. Through prudent management, BPI continues to be committed to finding unique opportunities to enhance its portfolio of services and expand its network around the world.

BANK OF THE PHILIPPINE ISLANDS

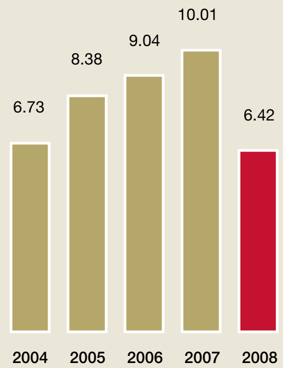
Financial Services

The Bank of the Philippine Islands (BPI) delivered growth and profitability despite the financial turmoil and global economic slowdown. The effectiveness of the bank's risk management practices was tested and proven during the year. Net income reached ₱6.4 billion, with return-on-equity at 10%. It remained the most profitable local bank among its peers even without the restatement of its financial statements to reflect back-valuing of investment securities. It was the only local bank with no exposure to any distressed foreign financial institution.

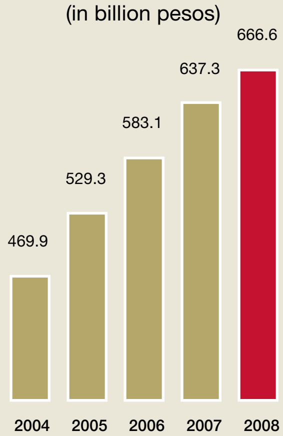
Revenues fell 8.5%, as non-interest income contracted by 24.1%. With the volatile financial markets, securities trading income fell by ₱2.8 billion following several cut-loss strategies executed during the year. The contribution of the insurance companies likewise decreased as a result of a non-recurring investment income booked in 2007. Net interest income increased by 2.7% as the ₱30.5 billion expansion in the average asset base offset the narrowing spreads. BPI set aside an additional ₱679 million in impairment losses to reach ₱1.9 billion. Operating expenses were well managed and contained at ₱18.3 billon.

Total resources increased by 4.6% to ₱666.6 billion, as deposits reached ₱540.3 billion, up 5.2% over the previous year. While the bank was adequately capitalized at ₱63.9 billion, this was augmented by a ₱5.0-billion Peso Denominated Lower Tier 2 issue in December. Total risk-adjusted capital adequacy ratio was at 14.2%. The bank's market capitalization of ₱125.0 billion remained the highest among listed banks despite a 24.9% drop in share price performance. The bank declared a cash dividend of ₱1.80 per share, equivalent to a cash yield of 4.2%.

NET INCOME
(in billion pesos)



NET ASSETS
(in billion pesos)



For the second year, net loans grew at a double-digit rate of 17% to ₱320.2 billion. Notwithstanding, the net 30-day non-performing loans ratio improved from 3.5% a year ago to 3.0%. BPI recorded buoyant loan growth for all major business segments despite the difficult business conditions. The corporate loan portfolio grew by 18.5% through term loans to power projects, financing of food companies, and reputable real estate projects in the top-tier corporate segment as well as new trading communities in the middle market and small- and medium-scale enterprise segment. Microfinance loans more than doubled in volume and yet posted a 100% repayment rate. BPI also became the first bank to launch the Sustainable Energy Program in partnership with the International Finance Corporation. The program aims to respond to the global call for support on climate change mitigation. BPI garnered awards in the trade finance business, the Best Local Trade Finance Bank from Euromoney PLC Trade Finance Asian Awards for Excellence.

Responding to the evolving needs of its corporate customers, the bank rolled out the One-Government Business Solution. This payment system incorporates Pag-IBIG and PhilHealth payments in addition to the existing Social Security System (SSS) and Bureau of Internal Revenue payments within the ExpressLink Internet platform. The introduction of such new cash management services merited various Best Cash Management Bank—Philippines awards.

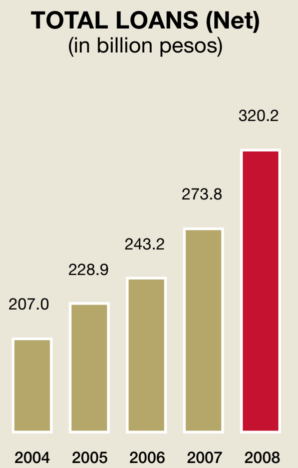
BPI Family Savings Bank's (BFSB) Build Your Dream Housing Loans generated 27.9% more new housing loans in 2008. This merited BFSB the SSS Balikat ng Bayan award. BFSB was also the first bank to offer free car insurance which contributed to the 14% growth in new

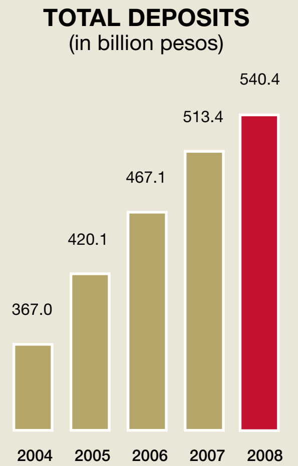
BPI branch with a refreshed brand

units financed, outpacing industry growth of 5.5%. The BPI Real Thrills enlisted over 120 new merchants. The program was further enhanced with awards and instant gifts for credit card purchases anywhere. This helped push credit card billings by 27.4% during the year.

BPI undertook a brand revitalization program with a new logo and a brighter corporate color to symbolize the bank's friendliness and dynamism. The interiors of about 100 branches were remodeled to better serve customer needs. Customers can also do financial and non-financial transactions in any branch. This was complemented by the "Expect more in life with BPI" advertising campaign underscoring the financial progress that customers can derive from BPI products. BPI Direct introduced Save-Up, an electronic-access-only savings account with free life insurance.

Automated teller machines (ATM) were equipped with Cardless Deposit and Bills Payment functionality which does not require an ATM card for these transactions. A Software and Management System was likewise installed to provide product and service updates and display ongoing marketing campaigns. A Memorandum of Agreement signed between BPI and Smart Telecommunications for the BPI Express Mobile will further boost the BPI 24/7 banking channels.





CONSOLIDATED HIGHLIGHTS
(in million pesos, except per share amounts and ratios)

	2008	2007
Total assets	666,612	637,285
Capital funds attributable to equity holders	63,872	71,131
Revenues	29,784	32,554
Net income attributable to equity holders	6,423	10,012
Per Share		
Earnings	1.98	3.09
Book value	19.39	21.57
Ratios		
Return-on-equity	10.0%	15. 3%
Net 30-day NPL ratio	3.00%	3. 53%
Top Shareholders		
Ayala Corporation	33.31%	33.31%

BPI was elevated to the first ever Hall of Fame by the Bangko Sentral ng Pilipinas for being the Top Commercial Bank for OFW Remittances for three straight years. Remittance volume grew by 35.4% to US$4.4 billion, putting BPI's market share at 27%. Bank of the Philippine Islands (Europe) Plc was allowed by the Financial Services Authority in the U.K. cross-border services in 12 Eurozone countries which have the most number of overseas Filipinos.

The performance of BPI Asset Management was anchored on the strength of its well established risk management policies. The peso bond funds consistently outperformed peers with positive returns. The team is composed of certified financial planners accredited under the International Association of Registered Financial Consultants.

BPI Capital Corporation, the bank's investment banking arm, was once again the Joint Issue Manager for the ₱70 billion Bureau of Treasury's Retail Treasury Bond. The company led the capital raising activities of Ayala Land Inc., Manila Water Company Inc., and Ayala Corporation, and arranged ₱40 billion worth of loan syndications and private placements.

Ayala Life Assurance Inc., the bank's life insurance company, launched a series of Personal Accident products and its web site www.ayalalife.com.ph on its 75th anniversary. BPI/MS Insurance Corporation, the non-life insurance vehicle, implemented the Quality Management System with the vision of becoming ISO 9001 certified.

BPI was consistently recognized with various Best Bank awards. While the bank views 2009 with caution given an anticipated economic slowdown, it will ensure that customer funds are prudently managed and safeguarded. It will keep its lending window open to support the Philippine economy but continue to exercise credit discipline as it grows its presence in the credit card and insurance businesses.

Hurdling every challenge.

Facing the odds is nothing new to Globe Telecom. After little more than a decade, the company has risen from being a pioneer in digital telecommunications to an innovative leader in its space. Today, Globe Telecom is evolving its business through pioneering initiatives in next-generation mobile services and higher-value broadband products.

Telecommunications

The Philippine telecommunications industry remained intensely competitive. Aggressive sales and pricing offers by key players were exacerbated by an economy weakened by high inflation, volatile commodity prices, and a global economic slowdown. Wireless industry growth slowed to single-digit level, compared to the robust 11% expansion the prior year, even as SIM penetration levels breached the 70% mark.

Globe Telecom Inc. responded to the challenges by: (a) putting emphasis on product affordability, accessibility, and service reliability for its mobile services; (b) increasing broadband connectivity options through wired and wireless technologies while improving service quality; and (c) creating new sources of growth in the areas of mobile and web-based content and mobile micro-financing services.

Growing the Core Business

During the year, Globe introduced new voice and SMS offerings focused on key market segments. It sustained its pioneering per-second charging for voice calls as well as its various bulk voice offers, including the *SuperSulit Tawag* promo of ₱10 for a 3-minute call and *Tawag236* which allows up to 20 minutes of all-day local intra-network voice calls for only ₱20. To increase local wireless voice usage, the company launched *Unlicalls Nyt* and *Todo Tawag Magdamag* which allow unlimited voice calls during off-peak hours for only ₱20 for Globe Prepaid and ₱15 for TM subscribers. It also introduced unlimited texting options, with its *SuperSulit* Text offers, as well as variants allowing for either unlimited daytime or nighttime texting at affordable rates and denominations.

Globe offered a differentiated set of plans for its postpaid subscribers to cater to specific customer needs. It introduced

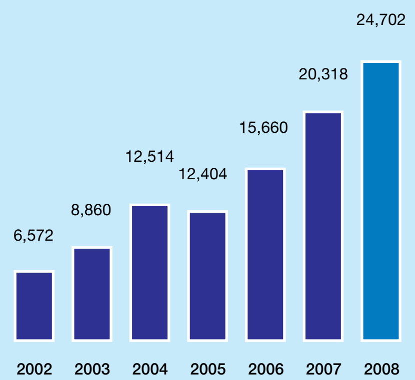
CONSOLIDATED HIGHLIGHTS
(in million pesos, except per share amounts and ratios)

	2008	2007
Total assets	119,743	116,621
Equity	50,092	55,417
Net operating revenues	64,818	65,509
Net income	11,276	13,277
Per share		
Basic earnings	84.75	100.07
Book value	372.52	412.78
Ratios		
Current ratio	0.52	0.68
Gross Debt-to-equity ratio	0.81	0.55
Return-on-equity	21%	24%
Top common shareholders		
Ayala Corporation	30.5%	33.2%
Singapore Telecom International Pte Ltd	47.3%	44.5%

Load Allowance Plans for families and small businesses, a group plan that allows up to four extension plans provided with monthly allowances of as low as ₱250. Globe also introduced postpaid *TimePlans* in ₱1,000 and ₱2,000 variants, which provide unlimited texting and low call rates for heavy off-peak users.

Globe embarked on an integrated campaign to drive usage and loyalty in the youth segment with its *Connected 24Ever* proposition that integrates mobile and Internet offers. Promos included unlimited all-day chat via *Yahoo! Messenger* and unlimited mobile updates to popular social networking web sites. This was supplemented by bundled broadband packages and trendy phone kit deals which were aggressively marketed in schools, malls, and youth-oriented events.

GLOBE WIRELESS SUBSCRIBERS
(‘000)



For the mid to upscale markets, Globe brought the *Apple*™ iPhone 3G to the Philippines in August 2008. This breakthrough device is available under both postpaid and prepaid options.

Globe enhanced its sevices for the Overseas Filipino Worker (OFW) community. It expanded its roaming services, sustained discounted call rate offers to popular OFW destinations, and aggressively promoted its first-in-market *OFW SIM* pack. The *OFW Family SIM* pack includes a pre-activated, zero-maintaining balance roaming SIM for the OFW and two SIMs for the family. Single *SIM OFW* packs have also been made available in targeted OFW destinations worldwide.

Globe also sustained its various IDD promotions including its ₱8 per minute calling rate to popular OFW destinations, *IDD Sakto Call* which allows Globe and TM subscribers to make calls abroad for only ₱0.15 per second, and *G-Webcall* which allows roaming subscribers to make affordable VoIP calls to other Globe or TM subscribers. The *TipIDD* card was also launched to allow Globe and TM subscribers to call selected countries for as low as ₱2.50 per minute.

For the mass markets, Globe completed a series of sales campaigns in the rural areas and focused on the unique value proposition of the TM brand. In May 2008, the company opened up TM’s intra-network offers to include calls and text messages between Globe and TM subscribers, enhancing value to subscribers of both brands.

The extensive line up of products and services was supported by an expansion in network coverage and sales distribution channels. By year-end, Globe had 6,446 cell sites covering 97% of the country as well as 99% of the population. Capital expenditures for 2008 totaled more than ₱20 billion, one of the highest over the past five years, to enhance Globe’s wireless networks and expand broadband capacities. With this vast infrastructure network support, Globe outperformed all other operators in network service accessibility and signal quality performance as it recorded the lowest incidence of blocked and dropped calls in a benchmarking study conducted by the National Telecommunications Commission.

Globe’s market reach further expanded with total AMAX retailers now over 670,000 by year-end, 10% more than the previous year.

These initiatives resulted in a 22% growth in the company’s total SIM base, ending the year with 24.7 million SIMs. The value brand TM led the company's brands, contributing a record 70% of full-year subscriber growth. TM SIMs comprised 43% of total SIMs by year-end, from only 37% the previous year.

Subscriber usage and activity levels were lower in 2008 with the weaker consumer environment and intense competition. The relative strength of the peso also had a negative impact on US$-linked revenues, which comprise almost 30% of the company's total service revenues. As a result, the wireless business closed the year with ₱55.6 billion in service revenues, 1% lower than 2007.

Building Momentum in Broadband

Competition in the broadband arena reached a new level with the entry of new players and the introduction of new technologies and products that captured the needs of both the fixed and fully mobile broadband users. The industry broke the one million-subscriber mark in 2008, underscoring the strong demand for affordable and reliable broadband internet services.

In 2008, Globe expedited the rollout of its broadband networks to support an intensified sales push into the consumer markets. It continued to invest in DSL (digital subscriber line) capacities in the high-density areas, while upgrading its 3G network to better support broadband services. Globe is also gearing up for the commercial launch of *WiMax* to strengthen its technology portfolio. This is a quick-to-deploy and cost-efficient platform for fast and reliable broadband connections to the home.

The company also continued to invest in the Tata Global Network-Intra-Asia (TGN-IA) international submarine fiber system as part of its efforts to provide the back-end facilities needed to meet the growing demand for international bandwidth. The TGN-IA system will expand capacity, improve network resilience, and enhance overall data and internet performance for the benefit of Globe's customers. The TGN-IA cable was introduced in the Philippines in 2008 and the entire system is expected to be in service by 2009.

These efforts pushed broadband revenues to a new high of ₱1.7 billion, 38% above previous year's level. Total broadband subscribers, inclusive of the on-the-go service *Visibility*, reached 234,411 by year-end, 84% higher versus last year.

Developing New Sources of Growth

Globe achieved another milestone in 2008 with the acquisition of the Entertainment Gateway Group (EGG), one of the leading mobile content providers in the country. With EGG's wide array of value added services, Globe sees EGG as a promising platform to provide music, information, and entertainment services to its subscribers as well as to web and mobile users in other Asia Pacific markets.

Finally, together with Ayala Corporation and the Bank of the Philippine Islands, Globe set the stage for the country's first mobile microfinance bank using its mobile commerce platform, *GCash*. Globe will invest a total of ₱140 million in the venture, equivalent to a 40% ownership stake in the entity which is expected to start in 2009.

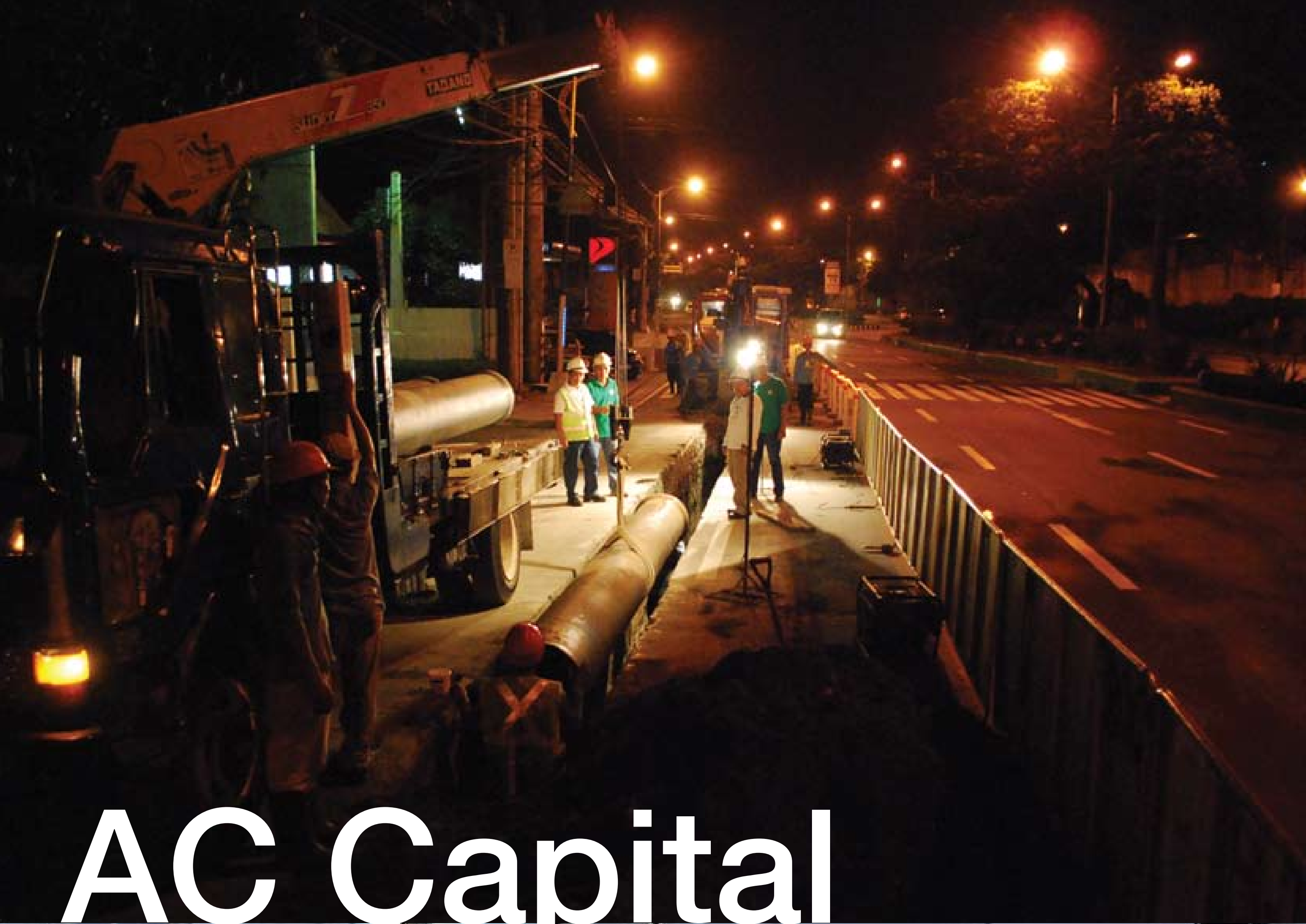
Strong Financial Position

With a softer consumer environment and intense market competition, Globe closed the year with steady consolidated service revenues of ₱62.9 billion, broadly in line with prior year's ₱63.2 billion. Consolidated EBITDA and EBIT posted respective declines of 7% and 12% year-on-year, due to flat revenue performance and higher operating expenses and subsidy. The continued upfront spend for broadband ahead of revenues also diluted consolidated EBITDA margin to 59% in 2008 against 64% the prior year. This brought net income to ₱11.3 billion, down 15% from 2007, as costs outpaced revenue growth. Globe's financial position remained strong with debt-to-equity levels still at a conservative 0.81:1. In addition to internally generated funds, external funding sources remained available to the company with uncommitted short-term lines of about US$200 million undrawn as of the end of 2008.

Notwithstanding the challenging market conditions, Globe continued to return ₱16.5 billion in regular and special cash dividends to its shareholders. This is an 8% improvement from last year's dividend and translates to a yield of 8%, which was among the highest in the Philippine stock market in 2008.

2009 Outlook

The year 2009 will be equally, if not even more, challenging. Reinforcing the company's market position in its core wireless business while improving its share in broadband will remain top priorities. Globe will continue to effectively manage and maintain its strong balance sheet particularly in light of the current tightness in financial markets to ensure its growth plans and capex commitments remain on track. Globe will continue to focus on the fundamentals and core business to continue to deliver value and generate returns for shareholders.



AC Capital


HONDA

Manila Water Company, Inc.

In 2008, Manila Water once again demonstrated effective operational performance amidst a difficult year and notwithstanding the adoption of a more stringent financial accounting standard. Along sustained earnings growth, the company ended the year in strong financial condition.

Manila Water invested ₱3.8 billion in 2008 to expand the company's market base and improve service quality. Additional pipelines were laid to increase its market base by about 47,000 households, thus increasing its customer base to more than five million people. Various water system improvement projects were carried out to address system losses. With these efforts, the company set a new non-revenue water (NRW) record of 19.6% at the end of 2008—a significant milestone for a company that is performing considerably better than many of its regional counterparts.

The expansion in market base enabled the company to increase its revenues by 21% driven largely by the growth in billed water volume. As a result of prudent cost management, earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 33%, improving EBITDA margin to more than 72%. Manila Water achieved a net income of ₱2.8 billion, 7% better than 2007 earnings, and a

FINANCIAL HIGHLIGHTS*
(in million pesos, except per share amounts and ratios)

	2008	2007
Total assets	36,368	27,942
Stockholders' equity	14,458	12,479
Revenues	8,914	7,332
Net income	2,788	2,597
Per share		
Earnings	1.13	1.06
Book value	5.96	4.95
Ratios		
Current ratio	2.03	0.93
Return-on-equity	19%	21%
Top shareholders		
Ayala Corporation	30.0%	30.0%
United Utilities Plc	11.7%	11.7%

*Post IFRIC 12

return-on-equity of 19%. Earnings per share also improved to ₱1.13 per share.

The company managed to shore up its cash position, thus ensuring its capability to pursue its aggressive capital investment program. Through improved collection and the proceeds of its ₱4 billion bond issuance as well as the various multilateral funding acquired, the company ended the year with more than ₱8.9 billion in cash reserves, mostly earmarked for its water and wastewater projects for the following year. The company was given the highest corporate rating of 'PRS Aaa' from Philratings, and received the same rating for its peso bond issue.

Manila Water is built on a well-defined roadmap with the full alignment of its business goals and its advocacies in social development and environmental protection. Along with strengthening its operational performance, the company intensified its wastewater initiatives in response to the growing global concern for environmental protection. In 2008, the company deployed around 90 vacuum tankers and completed the construction of two wastewater facilities to initiate the clean-up of major waterways in the East Zone of Metro Manila. The sewage treatment plants in Marikina and Pasig extended the company's sewer coverage to 16%, while the deployment of tankers for the sanitation drives increased households served.

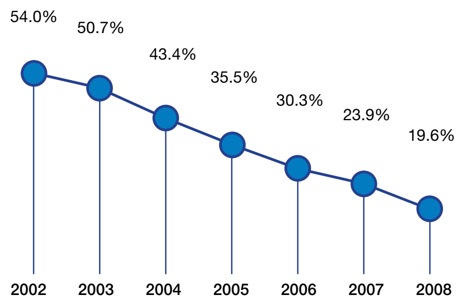
The company remained committed to its social development and sustainability programs through its flagship Tubig Para sa Barangay (TPSB) program, which now benefits 1.5 million people from various communities. The TPSB program is complemented with the Global Partnership for Output Based Aid program, a collaborative effort of Manila Water, the International Finance Corporation, and the World Bank. This program helped reduce the cost of water connections, making these more affordable and accessible for the low income communities.

Manila Water attributes its operating and financial performance to its workforce, whose diverse competencies and extensive exposure have served well in confronting challenges. This was reflected in the awards and recognition received by the company and its executives during the year. The Finance Executives Institute of the Philippines (FINEX) recognized Sherisa P. Nuesa as CFO of the year. The company was also a Corporate Governance Asia Awardee, cited for its adherence to standards as well as compliance on policies of transparency and disclosures. This was complemented with another award from The Asset magazine, which recognized Manila Water as the best in corporate governance in the Philippines for 2008.

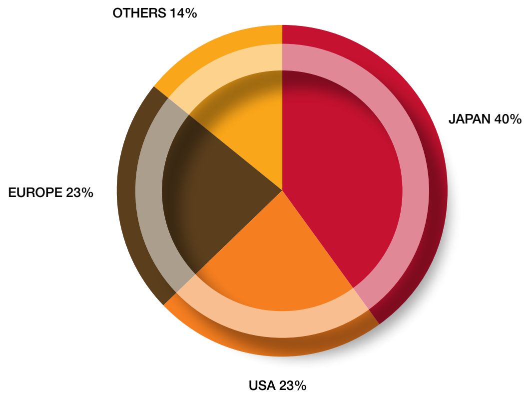
The company also received the highest recognition from the Management Association of the Philippines for its 2007 annual report. Lastly, Manila Water was one among Asia's Top 10 Greenest Companies, cited for its environmental initiatives in a survey conducted by FinanceAsia.

Manila Water's proven track record in the East Zone has demonstrated its ability to successfully operate in an Asian setting. In line with the company's growth initiatives, it is now taking advantage of opportunities in both the local and international markets. These include service contracts in Vietnam and India which were forged to realize the vision of the company in sharing its expertise in total water and environmental solutions management with a broader market.

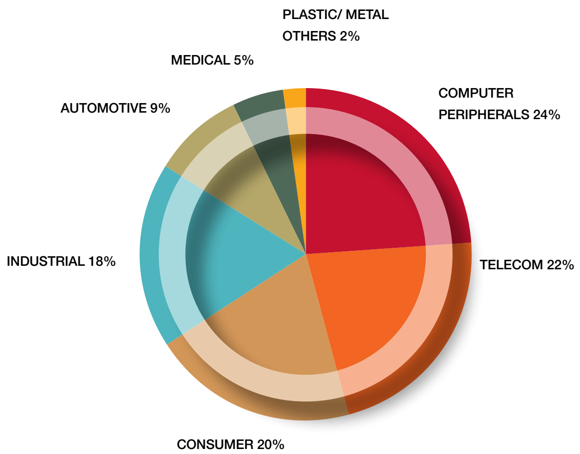
Moving forward, Manila Water will sustain growth in its base business and intensify its efforts in the environmental front. The company intends to further expand water distribution operations and increase its customer base by another million while preserving its high service quality. The company intends to attain the same level of excellence in its wastewater expansion through increased investments, and contribute significantly to environmental protection. Manila Water will build on the competence and track record it has established to explore more expansion opportunities in the future.



NON-REVENUE WATER



Revenue Breakdown
by Customer Nationality, 2008



Revenue Breakdown
by Business Segment, 2008

CONSOLIDATED HIGHLIGHTS
(in million dollars, except per share amounts and ratios)

	2008	2007
Total assets	307	306
Equity attributable to equity holders	160	159
Revenues	441	422
Net income attributable to equity holders	(17)	36
Ratios		
Current ratio	1.7	1.7
Debt-to-equity ratio	0.44	0.45
Return-on-equity	-11%	25%
Top common shareholders		
Ayala Corporation	67.7%	67.8%
Resins, Inc.	16.9%	16.9%

Integrated Microelectronics, Inc. (IMI)

The global economic crisis that affected most industries in 2008 resulted in a sharp downturn in consumer spending and layoffs by electronics manufacturing companies in the fourth quarter. The International Data Corporation estimated 2008 global EMS revenues at US$175.1 billion, a 7.7% growth from the previous year, but a slowdown from the 12.9% growth posted in 2007.

Amidst this environment, IMI's revenues reached US$441 million, 5% higher than in 2007. The expansion of business with a leading Chinese telecommunications company and the generation of 10 new customers or customer programs partly cushioned the slowdown.

The company's top customer, which belongs to the optical disk drive (ODD) industry, generated 6.7% lower revenues than the previous year. It started to decrease its volume orders by the fourth quarter of 2008 as it faced fierce competition in the super multi-drive market and lukewarm market acceptance of its next-generation ODD product.

IMI's Design and Engineering Group upgraded its automotive camera platforms and wireless sensor network designs, and introduced a new platform—a grid-connected solar inverter. The strategic procurement and materials management systems were enhanced to strengthen IMI's overall capability and readiness to compete in the turnkey business.

During the year, IMI's new corporate brand of "Flexible Expertise" was launched in plants in Singapore, China, Cebu, and Cavite, thereby reinforcing its identity both internally and externally. The Balanced Scorecard—a system of setting, tracking, and achieving key business strategies and objectives—was also introduced across all sites.

IMI's gross profit was adversely affected in the fourth quarter of 2008 by the major decreases in volumes in the consignment business and higher fixed and variable manufacturing overhead costs of its China and Singapore operations. Net income after tax reflected a loss of US$17 million largely due to the US$33 million in non-recurring losses from currency hedging contracts. Provision for an employee redundancy program was also booked during the year. Excluding these one-time charges, IMI's net income would have reached US$23 million.

Despite these near-term challenges, IMI's balance sheet remains strong giving it the necessary resources to withstand the effects of the global financial crisis. IMI shareholders fully subscribed to a ₱1.3-billion preferred share issue to support the company's expansion program. This put IMI's cash balance at US$58 million by year-end, while debt-to-equity ratio remained conservative at 0.44 to 1.

To further enhance financial safeguards, management established a more defined hedging policy for the company's currency and interest rate exposure. The board of directors also created a finance committee to oversee the implementation of an enterprise-wide risk management program and major financial policies.

As the global economic crisis continues to unfold, demand particularly in consumer electronics, is expected to remain soft in 2009. While this may pose immediate challenges, this is also mitigated by original equipment manufacturers' (OEMs) higher adoption and increased tendency to outsource manufacturing.

The long-term prospects of the electronics industry remain positive. The role of the electronics industry globally will become increasingly pervasive as people become more and more dependent on electronics to make their lives more efficient, convenient, and secure. IMI is thus constantly on the lookout to expand its business as more applications for electronics in the automotive, medical, and industrial industries emerge. There will also be an insistent demand for environment-friendly technology and renewable energy, which IMI is vigorously pursuing as well. Increasingly, Japan-based OEMs have also become more receptive to the idea of outsourcing, while China remains strategic as the world's low-cost EMS location in the foreseeable future. These present opportunities for IMI's further growth and expansion.

With this vision in mind, IMI seeks to be a US$10-billion revenue electronics solution provider by 2020. IMI has the financial strength, product lines, geographical market diversity, and manufacturing capabilities to ride out the challenges. It is equipped for an upturn when the global economy stabilizes. With the constantly shifting business environment, the company's flexible expertise in its processes and customer approach is IMI's blueprint for growth.


Work Bay
2

Jazz

Ayala Automotive Holdings Corporation

The automotive industry grew at a modest pace in 2008 with total sales reaching 124,499 units, up 6% vs. 2007. Commercial vehicles controlled 65% of the market with the strong performance of the Asian Utility Vehicles.

The industry faced much uncertainty with the volatility in oil prices and the onset of the global financial crisis. Auto sales were strong in the first semester of the year despite high pump prices, driven by increased consumer preference for vehicles with small engine displacement and diesel-fed engines. However, heightened concerns over the global financial crisis ultimately dampened demand. This resulted in a slowdown particularly evident in the last quarter of the year.

Amidst this operating environment, Honda Cars Philippines Inc. (HCPI) registered a decline of 17% in total auto sales, mainly due to stock-outs of the Jazz and City models and the impact of the market's shift to diesel-fed engines, which adversely affected sales of the CR-V. This put HCPI's share in the passenger car segment at 25% by year-end, a contraction from 32% in 2007. This is expected to improve, however, with the full-year impact of the new Jazz and the launch of the new City in the first quarter of 2009, which are expected to regain market share in the passenger car market.

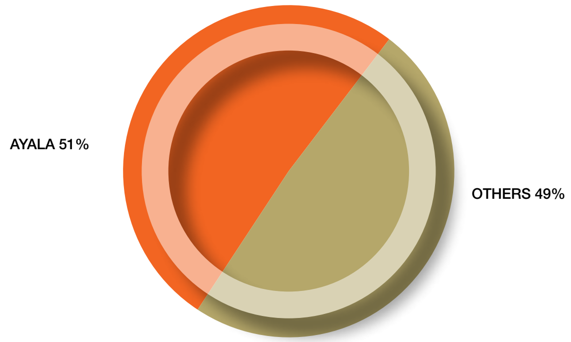
Isuzu Philippines Corporation (IPC) was the third top seller in the commercial vehicle sector. Brisk sales of the Crosswind and the D-Max continued to sustain Isuzu's sales. Thus, despite the wider range of variants offered by competitors, IPC maintained its market share of 13%.

The Ayala auto dealerships collectively maintained its position as the market leader in both Honda and Isuzu networks in 2008 with a 51% share of the total Honda network sales and a 30% share of Isuzu nationwide sales. The automotive group posted a net income of ₱276 million, 29% lower than previous year.

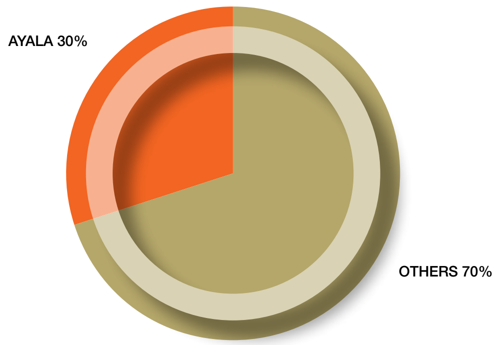
Honda Cars Alabang continued to be the top selling dealer nationwide, while Honda Cars Cebu Inc. was the leading provincial dealer. Isuzu Cebu Inc. was likewise the dominant provincial dealer. The network of the Ayala-owned dealerships expanded with the opening of its Isuzu outlets in Rizal and Bohol.

HONDA
Honda Cars Makati, Inc.
MAKATI • PASIG • ALABANG • SHAW • GLOBAL CITY
A member of the Ayala group of companies

ISUZU AUTOMOTIVE DEALERSHIP, INC.
ALABANG • CAVITE • CEBU • MANDAUE • PASIG
A member of the Ayala group of companies



Ayala Honda Dealers' Market Share



Ayala Isuzu Dealers' Market Share

The technicians of Honda Cars Makati Inc. (HCMI) and Isuzu Automotive Dealership Inc. grabbed top spots in the National Technicians Contest. HCMI's quality circle team won the gold medal in the 2008 Productivity Improvement Quality Circles National Convention.

Greater challenges and tighter competition in the automotive industry will remain in 2009. The car assembly companies are expected to expand their product offerings with competitive pricing and intensified promotional activities. The Ayala dealerships are strongly committed to working closely with HCPI and IPC in delivering products and services of the highest quality.

Azalea group

The Azalea group, comprised of Ayala's technology, business process outsourcing (BPO) and fund investments, generated a consolidated net loss of ₱1.0 billion, an improvement from last year's ₱1.6 billion loss. The loss in 2008 includes ₱200 million in non-recurring transaction costs, largely related to eTelecare, and ₱300 million in non-cash accounting charges such as amortization of intangible assets and stock option expense.

LiveIt Investments, Ltd.
LiveIt, the group's holding company in the BPO sector, increased its cumulative investments to approximately US$200 million. On a combined basis, its three investee companies recorded revenue growth of 15%, and achieved revenues of US$344 million and EBITDA of US$30 million in 2008, LiveIt's second full year of operations.

Overall, Ayala remains positive about the growth trajectory of the BPO sector. Ayala expects that, as in past recessions, outsourcing will continue to grow in the short term but at a slower pace, and then will experience accelerating growth in the medium to long term, as companies intensify their cost cutting.

eTelecare Global Solutions, Inc.
In December 2008, LiveIt and Providence Equity Partners acquired 98.7% of eTelecare, a leading global provider of customer care BPO services, through a tender offer by their 50-50 owned vehicle, EGS Acquisition Corporation. eTelecare has voluntarily delisted its American Depositary Shares from NASDAQ and announced its intention to voluntarily delist its common shares from the Philippine Stock Exchange.

In 2008, eTelecare won 11 new clients and 31 new programs and grew its employees to 13,500 and its global sites to 14, including new facilities in Nicaragua and Texas. In March 2009, it acquired The Phone House (Pty) Ltd., a 400-person South African contact center company which will provide entreé into the U.K. market.

Profitability was impacted by one-off expenses related to the company's sale and an acquisition that was not completed, and higher costs in U.S. dollar terms due to a less attractive average foreign exchange rate in 2008 versus 2007. LiveIt anticipates that eTelecare will achieve healthier operating margins in 2009 as a result of the absence of one-off expenses, the elimination of public company costs and a more favorable exchange rate. LiveIt will also increase its reported share of eTelecare's net income from 22% to almost 50%.

Integreon Managed Solutions, Inc.
Integreon, one of the leading providers of Knowledge Process Outsourcing services, such as research, analytics, document processing and legal support, acquired Datum Legal Inc., a New York-based litigation support and electronic data discovery (EDD) company in June 2008. In spite of the global economic crisis, Integreon diversified its client base across industries and won 14 new corporate, law firm and financial services customers. The acquisition and customer pipeline conversion resulted in 2008 revenue growth of 36%. Organic growth excluding Datum was 20%.

In January 2009, Integreon launched in Bristol the first U.K. onshore shared-services center for the legal sector with Osborne Clarke, a top 50 U.K. law firm, as its anchor client. Under the seven-year, £50-million agreement, Integreon will provide IT, document, research, analytics and support services to Osborne Clarke.

Intergreon is in the process of acquiring Onsite Sourcing Inc., a leading Arlington, Virginia-based global provider of electronic evidence solutions for law firms and corporations. Management believes the acquisition will provide significant synergies, and strengthen Integreon's business model as well as its ability to cross-sell EDD and offshore attorney review services.

Integreon was named as the top-ranked overall Knowledge Process Outsourcing provider for the third year in a row, and among the "50 Best Managed Outsourcing Vendors" for the second year in a row, by the 2008 Black Book of Outsourcing, the prestigious annual survey of the global outsourcing industry.

Affinity Express, Inc.
Affinity Express, the leading multi-shore provider of outsourced, high-volume advertising and marketing design solutions, won several new customers and now serves seven of the top 25 media companies, 140 newspaper and magazine publications, the leading marketing services company, and three of the largest retailers in the U.S.

Affinity Express also entered the new high-growth markets of digital interactive services and corporate marketing communications services, and strengthened its management team with the recruitment of a CEO with deep domain expertise in the graphics, pre-press and outsourcing industries. Healthy revenue growth and improving operating margins are expected in 2009 given the anticipated ramp from new accounts won in late 2008 as well as a solid pipeline.

ASTI
In spite of the deteriorating international business environment, total revenues of ASTI grew from ₱398 million to ₱404 million. Although hardware sales declined, its IT services business posted a healthy growth rate of 38%, as its software development business continued to expand overseas with new clients from Europe and Japan.

To tap into the growing IT manpower resourcing market, ASTI established Global Bridge Resources, a wholly owned subsidiary expected to become a major revenue contributor in the near future.

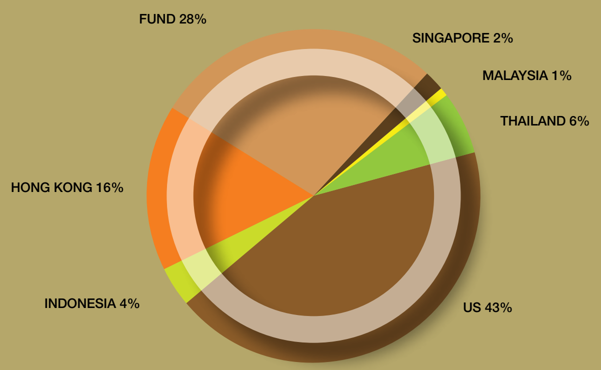
With the acquisition by National Computer Systems (a wholly owned subsidiary of Singapore Telecom) of Singapore Computer Systems (ASTI's second largest shareholder), ASTI is now backed by two major conglomerates in Ayala Corporation and Singapore Telecom.

HRMall, Inc.
In 2008, HRMall continued its mission to improve the effectiveness and productivity of its customers' HR organizations. This thrust was recognized by the People Management Association of the Philippines which awarded Ayala Corporation with the "2008 People Program of the Year" for HRMall.

HRMall commenced new implementations for several Ayala companies, of which four went live in 2008 and four are scheduled for production in 2009. In August, HRMall signed up its first non-Ayala client, a global semiconductor company. With its increased customer base, HRMall's revenues grew by 296% year-on-year.

In the second quarter of 2008, HRMall transitioned from a purely HR Shared Service Center into an HR BPO provider, targeting the Asia Pacific market. In November, HRMall opened its Singapore office as a base from which it aims to penetrate the overseas market.

Parkland Thapra-Taksin



Projects and Investments, by Geography

AG Holdings

A member of the Ayala group of companies

AG Holdings Limited

As of year-end 2008, AG Holdings had shareholders' capital of about US$130 million, comprising US$72 million in paid-up capital and US$58 million in reserves and negligible debt. Net loss in 2008 was at US$2.68 million, before extraordinary losses of US$4.4 million for provisions arising from a deemed impairment on a trading security.

ARCH Capital L.P.
ARCH Capital Asian Partners, L.P., or the Fund, closed its third investment in Thailand and its first investment in India in 2008. Both transactions are residential sector developments bringing the Fund portfolio to five investments by year-end.

Amidst the turbulent global market conditions, the Fund continued to focus on opportunities in China, India, Thailand and Vietnam while approaching investments in a cautious manner. The weak real estate market conditions in the region are providing more attractive terms of investment and improved negotiating leverage for the Fund.

The financial crisis and the rapid contraction in global economic growth present challenges. Key among these will be an assessment of the extent of the Asian economic slow-down and the timing and pacing of our investments during this down-cycle.

The availability of bank financing and our expectation for continued volatility in the foreign exchange markets will be key determinants for our Asian activities in the current environment. We anticipate a healthy pipeline of investment opportunities and relatively strong negotiating positions as the stress-induced conditions of projects and developers will present greater number of attractive opportunities in our target markets.

By the end of 2008, ARCH Capital has invested just above 20% of its funds, placing it in a strong position to capitalize on attractive opportunities in the current year and in 2010.

Fidelis Holdings

Thailand
Fidelis established its Thai office on July 2008 to provide in-depth support to its partnership with the Narai Property Group, with whom it has had a joint venture since 2004.

India
Fidelis is represented by a domestic company, Bhakti Capital Advisors, in India, with whom it entered into an advisory relationship on September 2008.

Vietnam
AG Holdings committed US$10 million to a Vietnamese private equity fund in June 2008 with focus on private equity deals and to take advantage of the stock market's weakness.

North American Markets
As the credit crisis of 2007 evolved into a recession in 2008, AG Holdings' U.S. investments were faced with new and more difficult economic and operating conditions. The recession, tight credit, increasing unemployment, and declining consumer confidence each and in combination has affected the U.S. property business. The three product segments in which AG operates exhibited varying degrees of stress imposed by the state of the economy.

The continuing difficulty in obtaining homebuyer financing severely limited sales in the company's three residential for sale projects. Job losses have mixed outcomes—with some properties holding up, while the rental rates and occupancy levels in others have been adversely affected.

One of the company's small retail center developments has been completed and another is ongoing and scheduled for completion in the first quarter of 2009. Portions of the completed projects have been sold at good prices. In 2008, the company acquired an infill redevelopment site for a grocery-anchored shopping center.

Social Commitment

In 2008 Ayala Foundation Inc. (AFI) nurtured existing partnerships and entered into new ones to ensure the success of its programs. Together with its local and international partners, it affirmed its commitment to the 3Es—education, entrepreneurship, and environment.

AF USA and its Philippine-based partner organizations mobilized close to US$2.3 million in the U.S.—the highest amount AF USA has raised since it started in 2000. Together with volunteers, AF USA conducted workshops and organized fundraising events to benefit various social causes in the Philippines, such as education, health, enterprise development, environment, and disaster relief. AF USA now has a total of 156 partner organizations.

In October AFI convened the Civil Society Days of the 2008 Global Forum on Migration and Development in Manila. Over 270 delegates, experts, and speakers from 60 countries around the world attended the civil-society conference to discuss global migration issues.

MacArthur Foundation provided a grant of US$450,000 to AFI, through AF USA, for the civil-society event. The total funds generated for the meeting amounted to about US$800,000.

The first Ayala Social Initiatives Corporate Social Responsibility Report, “Focus for Greater Reach and Impact,” was published in November. The report focused on the Ayala group’s CSR programs in 2007.

Education and Youth Development

The Gearing Up Internet Literacy and Access for Students (GILAS) consortium, of which AFI is program manager, was able to connect an additional 448 public high schools in the country to the internet. To date, 2,102 public high schools in the country now have internet access, benefiting more than two million students. The consortium aims to connect all 6,300 public high schools in the country to the World Wide Web. In addition, as many as 9,359 teachers nationwide have been trained on information and communication technology, computer maintenance, networking, and sustainability.

The public-sector fundraising campaign of GILAS yielded ₱5.9 million for Luzon, ₱150,000 for Visayas, and ₱9.8 million for Mindanao. The Ayala group accounted for ₱20 million of the total private-sector donations received by the program, while non-Ayala donations amounted to ₱12.3 million. In 2008, GILAS raised a total of ₱54.5 million in cash donations, and ₱6.1 million worth of in-kind donations from the public sector, private sector, and benefactors overseas.

Seventy-three young student leaders from all over the country were gathered together for the 2008 Ayala Young Leaders Congress (AYLC). The 10th anniversary reunion of all AYLC alumni was also held in 2008 where as many as 400 AYLC alumni attended the event.

AFI’s Center for Social Development (CSD) jump-started the implementation of Text2Teach, which aims to provide teachers and students improved access to distance learning schemes in multimedia lessons, especially in English, Math, and Science. Together with its partners in the project, CSD was able to identify the first batch of 217 schools to be given the Text2Teach technology.

The Education and Livelihood Skills Alliance (ELSA) project entered its second phase last year. Funded by the United States Agency for International Development, ELSA, through AFI-CSD, was involved in the following activities: community organizing, relationship building with schools and municipalities, resource-mobilization training, and youth-leadership training.

The Center for Excellence in Public School Education (CENTEX) continued to provide high-quality education to underprivileged grade school and high school students. In its Manila and Batangas schools, CENTEX had a student population of 995 for the school year 2008–2009.

To ensure that its graduates would have the chance to continue their high school education, CENTEX strengthened its partnerships with private high schools. As of 2008, 133 CENTEX graduates were enrolled at Santa Isabel College in Manila, 58 at St. Bridget College in Batangas, five at the University of Santo Tomas, and two in other schools. Several other graduates received scholarships from well-respected high schools.

AFI's links to the Mangyans in Mindoro, meanwhile, remained strong, as the Iraya Mangyan Development program continued to provide educational support to 66 students. The program also provided medical assistance to 3,510 patients.

The AFI-managed Buklod Bahayan Daycare Center continued to give educational assistance to the children of poor families living in Silang, Cavite. The center also encouraged volunteerism among the parents of students. Preparations are ongoing to turn over the daycare's day-to-day operations to the parent–teacher and community association in the next school year.

Environment

AFI's solid waste management program continued to promote public awareness of environmental concerns. It also introduced innovative strategies that encourage public involvement in managing solid waste.

AFI coordinated with recyclers for the Ayala Recyclables Fair (formerly called Waste Market). These fairs were held in different Ayala venues, and provided institutions and individuals a convenient way to properly dispose of their recyclable waste materials, and even the chance to earn from it.

At the Makati Central Business District, AFI was able to encourage 319 out of 372 buildings to manage their solid wastes. As a result, as much as 1,407 tons of waste—worth an estimated ₱9.3 million—were diverted to save landfill space.

The universities in Metro Manila, as well as two *barangays* in Taguig City, also actively participated in the Ayala Recyclables Fair. The universities held special fairs, collecting a total of 162 tons of recyclable materials worth ₱1.3 million.

AFI also began the process of designing other programs that will focus on clean air, clean water, and energy efficiency.

AFI implemented several community-based programs to provide support for education, arts and culture, heritage preservation, and entrepreneurial development.

Community Development and Entrepreneurship

AFI implemented several community-based programs to provide support for education, arts and culture, heritage preservation, and entrepreneurial development.

In Bohol, 159 persons from three communities were trained in entrepreneurship. To preserve Bohol's unique culture, AFI supported the restoration of the Baclayon pipe organ, which was created in 1824 but fell into disrepair in the 1940s. AFI also helped restore the Dauis Convent roof to preserve the *trompe l'oeil* paintings on the convent's ceiling.

The Ayala Technology Business Incubator (AyalaTBI) supports the formation and development of knowledge-based industries, and seeks to increase the global-competitiveness ranking of the Philippines. In 2008, AyalaTBI had a total of four facilities that could accommodate 48 technological startups. These facilities are located at the University of the Philippines Diliman campus (UP-AyalaTBI and TechnoHub-AyalaTBI), Asian Institute of Management campus (AIM-AyalaTBI), and University of the Philippines Visayas in Cebu campus (UPV Cebu-AyalaTBI).

The program hosts 23 businesses in such areas as chip design, embedded systems, software development, robotics, wireless/mobile-content application, e-learning technology, business processes, and biotechnology.

AyalaTBI was able to reach 1,000 individuals through its technology forums held in Makati, Cebu, Davao, Cagayan de Oro, Baguio, and Quezon City. In addition, AyalaTBI conducted two TechBootCamps (three-day training on technology entrepreneurship), which were attended by 200 research and development teams, and engineering and technology entrepreneurship students.

AyalaTBI also widened the reach of its Start Out of the Box starter package to help locators with human resource, payroll, benefits, accounting, bookkeeping, Internet protocol, and legal services.

Ayala Museum

The Ayala Museum launched a number of major exhibitions in 2008. In May, the museum launched Crossroads of Civilizations, a three-part exhibition of precolonial artifacts. Crossroads is composed of Gold of Ancestors, which features 1,059 gold objects dating to the 10th and 13th century; Embroidered Multiples, which showcased selections from the Leiden National Museum of Ethnology's collection of 18th–19th-century Philippine costumes and the Rina Ortiz collection; and A Millennium of Contact, which was one of the most comprehensive surveys, spanning a thousand years, of Chinese and Southeast Asian trade wares found in the Philippines.

Other major exhibitions at the museum were the homecoming show of the Philippine participants in the 22nd Asian International Art Exhibition; Simon de la Rosa Flores, which focused on the works of the first internationally recognized Filipino painter; *Kisame*: Visions of Heaven on Earth, an exhibition of photographs of ceiling paintings from Bohol's colonial churches; Juan Luna: Selections from the Bank of the Philippine Islands Collection; From Inspiration to Illusion, which presented the scenographic works of the internationally renowned Eduardo Sicangco; and Amorsolo's Women: Concealed and Revealed, which was a part of a multi-venue exhibit paying tribute to Fernando Amorsolo.

Many of these shows were accompanied by lectures or informal talks, which were conducted to let museum goers have a better appreciation and understanding of the exhibits. Meanwhile, Museum-in-a-Box continued to be brought to other parts of the country.

Filipinas Heritage Library

With its goal of becoming one of the leading Filipiniana research centers in the country, the Filipinas Heritage Library (FHL) continued with its efforts of preserving important historical and cultural documents and artifacts in digital form. FHL started digitizing over 5,000 songs that comprise its *Himig* Collection of rare and culturally significant musical records. As of December, 2,394 songs were digitized, of which 215 were cleaned and edited; several of them would be made available in a web site.

In cooperation with the Ayala group of companies, FHL staged Bravo Filipino, a festival that paid tribute to Philippine artistry and ingenuity in music, dance, fashion, and photography. Bravo Filipino was launched with a concert featuring music from the Himig Collection. Select songs from the collection were also brought to other parts of the country via pocket concerts and a traveling exhibit.

LibraryLink, the one-stop online Filipiniana resource center managed by FHL, had a total of 99 member-institutions as of December 2008. In keeping with its efforts to strengthen ties among LibraryLink's member-institutions, FHL hosted the first LibraryLink Conference last August.

In partnership with the National Book Development Board, FHL hosted several events in celebration of National Book Development Month in November. These included lectures, storytelling sessions, and the first-ever marathon reading of Jose P. Rizal's *Noli Me Tángere*, as translated by National Artist Virgilio Almario.

Governance at Ayala Corporation

Good corporate governance is the cornerstone of Ayala's sustained success over the past 174 years.

Ayala is committed to the highest level of good governance throughout the organization as well as to fostering a culture of integrity and empowering leadership.

Ayala's governance is anchored on the belief that there is a strong link between high quality governance and the creation of shareholder value and long-term growth.

BOARD STRUCTURE AND PROCESS

Key Role and Responsibilities
Ayala Corporation is led by its Board of Directors consisting of seven directors. The Board represents the Company and the shareholders and is accountable to them for creating and delivering value through effective and 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 adequacy of internal control mechanisms for good governance.

Composition
The directors are elected annually by the stockholders.

The Board represents a mix of business, finance and legal competencies, with each director capable of adding value and exercising independent judgment. Decision-making at the board level adheres to a process that fosters the independence and integrity of judgment of each director. All the directors have participated in training on corporate governance. The name and profile of each director are found in the Board of Directors section of this Annual Report.

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

The board structure provides a clear division of responsibilities between the Board and management.

Independent Directors
In carrying out their fiduciary duties, the directors must act judiciously and exercise independent judgment. Ayala Corporation also conforms to the requirement to have independent directors, as defined by law, constituting at least twenty percent (20%) of the Board. Of the seven directors, Mr. Meneleo J. Carlos, Jr., sits as the independent director. Moreover, Messrs. Toshifumi Inami and Xavier P. Loinaz are non-executive directors.

The Company complies with the rules of the Securities & Exchange Commission (SEC) on the qualifications, nomination and election of independent directors. For this purpose, the Company defines an independent director as one having no interest or relationship with the Company that may hinder his independence from the Company or Management or interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

Chairman and Chief Executive Officer

The Chairman of the Board and Chief Executive Officer (CEO) is Jaime Augusto Zobel de Ayala who assumed the position in 2006. Fernando Zobel de Ayala holds the position of President and Chief Operating Officer (COO).

The respective roles of the Chairman/CEO and the President/COO are complimentary and ensure an appropriate balance of power and increased accountability and further provide a greater capacity of the Board for independent decision making. The Chairman/CEO and the President/COO attend the annual meetings of the shareholders.

Board Performance

Board meetings are held at least once a quarter or as often as necessary. The Board has separate and independent access to the Corporate Secretary who oversees the adequate flow of information to the Board prior to meetings and serves as an adviser to the directors on their responsibilities and obligations.

Discussions during board meetings are open and independent views are given due consideration.

There was more than 80% average attendance in the five board meetings held in 2008. Of the seven directors, six directors, namely, Messrs. Jaime Augusto Zobel de Ayala, Fernando Zobel de Ayala, Meneleo J. Carlos, Jr. Xavier P. Loinaz and Toshifumi Inami and Mercedita S. Nolledo had perfect or 100% attendance. Mr. Delfin L. Lazaro attended four or 80% of the five meetings. The directors had greater than 80% average attendance in board meetings.

Board Committees

The Board has established committees to assist in exercising its authority including monitoring the performance of the business. Four committees support the Board in the performance of specific functions and to aid in good governance. The committees are the Executive Committee, the Compensation Committee, the Nomination Committee and the Audit and Risk Committee.

Executive Committee (ExCom). The ExCom, during the periods between board meetings, exercises the Board's powers and attributes except with respect to any action for which shareholders' approval is required, distribution of cash dividends, filling of vacancies in the Board or in the ExCom, amendment or repeal of By-Laws or the adoption of new By-Laws, amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable, and the exercise of powers delegated by the Board exclusively to other committees.

Compensation Committee. The Compensation Committee establishes a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration of officers and directors. It provides oversight over remuneration of senior management and other key personnel.

At three meetings in 2008, the Commitee approved: 1) the performance bonus for year 2007; 2) the salary adjustments for managers and officers for 2008; 3) the 2008 Executive Stock Ownership Plan (ESOWN) allocation; and 4) the changes to the Employee Welfare and Retirement Plan of Ayala Corporation.

Nomination Committee. The Nomination Committee's main function is to maintain a process to ensure that all nominees to the Board have all the qualifications and none of the disqualifications for directors stated in the By-Laws, the Manual of Corporate Governance of the Company and the pertinent rules of the SEC. Also, the Committee reviews the qualifications of all persons nominated to positions requiring appointment by the Board.

At two meetings in 2008, the Nomination Committee approved: 1) the final list of nominees for directors for the year 2008-2009; and 2) the appointment of Mr. John Eric T. Francia as Managing Director, effective 02 January 2009.

Audit and Risk Committee. The Audit and Risk Committee oversees Ayala Corporation's internal control, financial reporting and risk management processes on behalf of the Board of Directors.

The Committee held five meetings in 2008. During these meetings, the Committee reviewed and approved the 2007 Consolidated Audited Financial Statements of the Company as audited by the external auditors Sycip Gorres Velayo & Co. (SGV & Co.), as well as the unaudited financial statements of the Company for the 1st to the 3rd quarters of 2008. The Committee likewise approved the revised Audit and Risk Committee Charter, revised Enterprise Risk Management Policy and 2008 Internal Audit Plan. In addition, the Committee recommended the appointment of SGV & Co. as the Company's external auditors for 2008 and the proposed remuneration.

The activities of the Audit and Risk Committee are further discussed in the section on Accountability and Audit.

Committee Members. The members of each Committee are set forth in the matrix below.

	Executive Committee	Compensation Committee	Nomination Committee	Audit and Risk Committee
Jaime Augusto Zobel de Ayala	C		M	
Fernando Zobel de Ayala	M		M	
Toshifumi Inami	M	M		M
Meneleo J. Carlos, Jr.*		C	C	C
Delfin L. Lazaro		M		
Xavier P. Loinaz				M
Number of Meetings held YTD2008	6	3	2	5
C - Chairman	M Member	* Independent Director		

Director and Senior Executive Compensation
Non-executive directors are members of the Board of Directors who are not officers or consultants of the Company, and who receive remuneration consisting of a retainer fee of ₱500,000.00 and per diem of ₱100,000.00 for each board meeting attended and ₱20,000.00 per board committee meeting attended. The remuneration of non-executive directors was ratified during the 2003 annual stockholders' meeting.

None of the directors has been contracted and compensated by the Company for services other than services provided as a director.

The Company adopts a performance-based compensation scheme for its senior executives as incentive. As additional incentive to top management, the Board approved stock option plans for key officers covering 3% of the Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

The total compensation paid to non-executive directors and officers is disclosed annually in the Definitive Information Statement sent to shareholders 15 business days prior to the annual stockholders' meeting. The total annual compensation includes the basic salary and other variable pay (i.e. guaranteed bonus, performance-based incentive and exercise of Stock Option Plan).

MANAGEMENT

Management is accountable to the Board of Directors for the operations of the Company. It puts the Company's targets in concrete terms and formulates the basic strategies for achieving the targets.

Governance is not just a matter for the Board. A culture of good governance must be fostered throughout the organization. Management is equally responsible for ensuring that the mechanisms and structure are in place.

Enterprise Risk Management
In line with its corporate governance infrastructure, the Company has adopted a group-wide enterprise risk management framework in 2002. An Enterprise Risk Management Policy was approved by the Audit Committee in 2003, and was subsequently revised and approved on February 14, 2008. The policy was designed to enhance the risk management process and institutionalize a focused and disciplined approach to managing the Company's business risks.

The risk management framework encompasses the following:
1) identification and assessment of business risks,
2) development of risk management strategies,
3) assessment/design/implementation of risk management capabilities,
4) monitoring and evaluating the effectiveness of risk mitigation strategies and management performance, and
5) identification of areas and opportunities for improvement in the risk management process.

A Chief Risk Officer (CRO) is the champion of enterprise risk management at Ayala and oversees the entire risk management function. On the other hand, the Risk Management Unit provides support to the CRO and is responsible for overall continuity. Beginning 2008, under an expanded charter, the Audit and Risk Committee will provide a more focused oversight of the risk management function. A quarterly report on the risk portfolio of the Ayala group of companies and the related risk mitigation efforts and initiatives are provided to the Committee. The Company's internal auditors monitor the compliance with risk management policies to ensure that an effective control environment exists within the entire Ayala Group.

For 2008, the Company engaged the services of an outside consultant to assist the Company in the rollout of a more focused enterprise risk management framework. The rollout included a formal risk awareness session and self-assessment workshops with all the functional units of the Company. The Audit and Risk Committee has initiated the institutionalization of an enterprise risk management function across all the subsidiaries and affiliates.

ACCOUNTABILITY AND AUDIT

The Audit and Risk Committee exercises oversight of the performance of external and internal auditors. The role and responsibilities of the Committee are defined in the expanded Audit and Risk Committee Charter. The internal audit function is governed by a separate Internal Audit Charter.

Independent Public Accountants

The external auditors of the Company is the accounting firm of Sycip, Gorres, Velayo & Company (SGV & Co.). Ms. Lucy L. Chan is the Partner in-charge beginning 2007.

The Audit and Risk Committee independently reviews the integrity of the Company's financial reporting and ensures the independence of the external auditors.

The Audit and Risk Committee checks all financial reports for compliance with the internal financial management handbook and pertinent accounting standards, including regulatory requirements. It also recommends to the Board and stockholders the appointment of the external auditors and the setting of appropriate audit fees.

Over the past two years, Ayala Corporation paid or accrued the following billed fees, including VAT, to its external auditors, SGV & Co., who was engaged to audit the Company's annual financial statements.

	Audit & Audit-related Fees	Other Fees
2008	3.13 M	5.29 M
2007	2.91 M	0.39 M

In 2008, SGV & Co. billed the Company for an aggregate fee of ₱5.29M for the following services:

(i) Review of the Company's consolidated financial statements for the period ended June 30, 2008 and issuance of a comfort letter in connection with the Company's issuance of preferred shares.

(ii) Conduct of an Enterprise-Wide Risk Management study.

(iii) Conduct of a seminar on new accounting standards.

In 2007, SGV & Co. rendered PFRS Training/Seminar to the Company for an aggregate fee of ₱0.39M:

There were no tax fees paid to SGV & Co. in 2007 and 2008.

Internal Audit

The Internal Audit Unit conducts independent reviews of the Company's organizational and operational controls and risk management policies and compliance with those controls and policies to ensure that they are effective, appropriate, and complied with. The Audit Team, which is composed of Certified Public Accountants and a Certified Internal Auditor reports to the Audit and Risk Committee of the Board of Directors. Regular audits of business and support units are conducted according to an annual audit program approved by the Audit and Risk Committee. Special audits are also undertaken when and as necessary.

In 2008, the Audit and Risk Committee received, reviewed, noted and/or approved updates and/or presentations from Internal Audit and from Management on audit activities in accordance with the approved internal audit plan.

The Internal Audit function was rated "Generally Conforms" after a thorough external quality assessment review (QAR) conducted by the Institute of Internal Auditors, Inc. (USA) in May 2007. The rating, considered the highest possible score in connection with the QAR, confirms that internal audit's activities are conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. We continue to improve the Internal Audit function by utilizing a risk-based audit approach and by benchmarking against best practices in Internal Auditing.

Compliance Officer
The Compliance Officer ensures adherence to sound corporate governance principles and best practices. Until his retirement on December 31, 2008, Renato O. Marzan, who held the position of Managing Director, was the Compliance Officer. Effective January 1, 2009, Solomon M. Hermosura, a Managing Director, was appointed Compliance Officer.

The Compliance Officer identifies, monitors, and controls compliance risks; operationalizes and monitors compliance with the Manual of Corporate Governance; and issues yearly a certification on the extent of Ayala Corporation's compliance with the Manual.

In 2008, the Compliance Officer initiated a performance assessment for each member of the Board to assess the level of the Board's compliance with leading practices and principles of good corporate governance. This is a formal self-rating system that takes into account factors such as independence, experience, judgment, knowledge, time commitment and team work, and identifies clear areas for improvement.

DISCLOSURE AND TRANSPARENCY

Ayala Corporation is committed to high standards of disclosure and transparency to enable the investment community to understand the true financial condition of the Company and the quality of its corporate governance.

Ownership Structure
The Company has a transparent ownership structure. It annually discloses the top 20 holders of the common equity securities of the Company. In addition, disclosure of the security ownership of record and beneficial owners of more than 5% as well as of directors and management is made annually. This information is contained in the Definitive Information Statement sent to shareholders. It also provides the PSE a monthly foreign ownership report.

As of December 31, 2008, Mermac, Inc. held 253.1 million common shares representing 50.92% of the Company's total outstanding common shares. PCD Nominee Corporation held 158.7 million common shares or 31.94% and Mitsubishi Corporation held 52.6 million common shares or 10.58%. Out of the total 497 million outstanding common shares, 180.92 million common shares or 36.40% are beneficially owned by non-Filipinos.

There are a total of 12 million outstanding listed Preferred A shares, all of which are owned by various owners registered under the PCD Nominee Corporation, while 0.21% of the outstanding Preferred A shares are beneficially owned by foreigners.

Out of the 58 million outstanding listed Preferred B shares, 23.5 million shares or 40.45% are owned by various owners registered under the PCD Nominee Corporation and about 1.8 million shares or 3.0% are owned by foreigners.

Of the 567 million total issued and outstanding common and preferred shares of the Company, a total of 182.7 million common and preferred shares or 32.22% are owned by foreigners.

There are no cross or pyramid shareholding.

Content and Timing of Disclosures
Ayala Corporation updates the investing public with strategic, operating and financial information through adequate and timely disclosures filed with the SEC and PSE.

In addition to compliance with periodic reportorial requirements, the Company punctually discloses major and market-sensitive information such as dividend declarations, joint ventures and acquisitions, sale and disposition of significant assets, as well as other material information that may affect the decision of the investing public. In 2008, unstructured disclosures were filed involving matters such as the amendment of the Amended Articles of Incorporation on the reclassification of the Preferred Shares, result of Integrated Micro-electronics, Inc.'s currency hedging contracts, joint venture with the Mahindra Group of India, memorandum of agreement with BPI and Globe Telecom to form the country's first mobile microfinance bank, share buyback program, public offering of Preferred A shares, and new investments made in the BPO sector.

Consolidated audited financial statements for the latest financial year are submitted to the SEC by April 15, as required. The audited annual report is submitted at least 15 working days before the annual stockholders' meeting. In 2008, the audited Annual Report as contained in the Definitive Information Statement was submitted to the SEC on February 28, 2008 and the PSE on February 28, 2008, more than three weeks before the April 04, 2008 annual stockholders' meeting.

Interim (i.e., quarterly financial statements) are released between 30 to 45 days from the end of the financial period. The results are disclosed to the SEC and PSE within 24 hours from the time the Board meets to accept the results. The results are also sent to financial and stock market analysts via a live analysts' briefing where members of senior management present the results personally. These are also made available via the Internet immediately upon confirmation by the SEC of its receipt of disclosure, and made available on the Company's Web site.

Financial Reporting
The consolidated financial statements of Ayala Corporation have been prepared in compliance with Philippine Financial Reporting Standards.

The annual consolidated financial statements provide a breakdown of total assets, total liabilities and equity, revenues, costs and expenses, income before income tax, net income attributable to equity holders of Ayala Corporation and minority interests and earnings per share.

A more extensive, transparent disclosure of segment results such as assets, liabilities and revenues is provided to enable shareholders to appreciate various businesses and their impact on overall value enhancement. The following are disclosed in the note on Business Segments:

a. total revenue
b. operating profit
c. net income
d. segment assets
e. investments in associates and jointly controlled entities
f. segment liabilities
g. depreciation and amortization

A section on Geographical Segments is likewise included which breaks down the following:

a. Revenue
b. Segment Assets
c. Investment Properties

Transactions entered into with associates and other related parties are on an arm's length basis. Sales and purchases of goods and services to and from related parties are made at normal market prices. Related party transactions are discussed and quantified in the Notes to the Consolidated Financial Statements.

Information on the Company's financial instruments is accompanied by a presentation of the Company's risk management objectives and policies to allow for a better assessment of financial performance and cash flows. Significant accounting judgments and estimates are also disclosed.

DEALINGS IN SECURITIES

Ayala Corporation has adopted a uniform policy on securities transactions to reinforce and formalize existing government regulations against insider trading.

Reporting of Transactions
Ayala Corporation is compliant with the requirement for directors and principal officers to report to the SEC and the PSE, within five trading days from the disclosed action, any acquisition, disposal or change in their shareholdings in the Company.

The Company has expanded coverage of this reporting requirement to include members of the Management Committee and all the Managing Directors. All other officers are required to submit a quarterly report on their trades of Company's shares to the Compliance Officer.

Trading Blackouts
The Company has adopted a policy on insider trading. Under this policy, directors, officers and employees who are considered to have knowledge of material facts or changes in the affairs of Ayala Corporation which have not been disclosed to the public, including any information likely to affect the market price of Ayala Corporation's securities, are prohibited from buying or selling the Company's securities during trading blackout periods. The policy covers the Company's shares of stock, options to purchase stocks, bonds, and other evidence of indebtedness.

Covered persons include all members of the Board, all key officers, consultants and advisers and all other employees who are made aware of undisclosed material information, including members of the immediate families of key officers and covered persons.

During the year, notices of trading blackouts for structured disclosures were issued for a period covering ten (10) trading days before and three (3) trading days after the disclosure of quarterly and annual financial results.

Compliance with these trading blackout periods is strictly enforced. There have been no cases of violation of the Company's Policy on Insider Trading.

STAKEHOLDER RELATIONS

Ayala Corporation adheres to a high level of moral conduct and fair dealings with all its shareholders, customers, employees and business partners. The company believes this is the basis and foundation for building long-term, mutually-beneficial relationships.

Shareholder Meeting & Voting Procedures
Stockholders are informed at least fifteen (15) business days in advance of the scheduled date of their meetings. Notice of regular or special meetings contains a statement of the matters to be transacted at the meeting. The notice to stockholders also set the date, time and place of the validation of proxies which is prescribed to be no less than five business days prior to the annual stockholders' meeting.

Each outstanding common share of stock entitles the registered holder to one vote.

Shareholder and Investor Relations
The Company believes that open and transparent communications are requisite for sustained growth and building investor confidence. Our investor communications program promotes greater understanding of the Company's long-term value creation proposition.

The Company, through its Investor Relations Unit reporting directly to the Head of Strategic Planning, addresses the various information requirements of the investing public and communicates with minority shareholders through timely and full disclosures to the PSE, regular quarterly briefings, annual shareholders' meetings, one-on-one meetings, conference calls, road shows and investor conferences, Web site and emails or telephone calls.

The Company holds regular briefings and meetings with buy-side and sell-side analysts as well as financial analysts from the banking community. In 2008, four of such briefings were held, coinciding with the announcement of the 2007 year-end results, 2008 1st quarter, 1st Semester and 3rd quarter results. Access to senior management is also provided to analysts. During the year, the company also participated in three Investor Conferences where senior management was present to meet institutional investors.

The Company has updated the Investor Relations section of its Web site to include the organization structure, performance, ownership and governance of the Company. The section is updated promptly when and as disclosures to the regulatory agencies are made. Proceedings of analysts' briefings by way of presentations are immediately made available on the web.

Employee Relations
Ayala Corporation is committed to promoting the safety and welfare of its employees. It believes in inspiring its employees, developing their talents, and recognizing their needs as business partners. Strong and open lines of communication are maintained to relay the Company's concern for their welfare and safety, and deepen their understanding of the Company's value-creating proposition.

CODE OF ETHICAL BEHAVIOR

Ayala Corporation strongly believes in, and adopts as part of its basic operating principles, the primacy of the person, shared values and the empowerment of people. The Company and its employees commit to live out the following values: Integrity, Long-term Vision, Empowering Leadership, and Commitment to National Development. These values are captured in the new Code of Ethical Behavior launched in April 2006. The Code outlines the general expectations of and sets standards for employee behavior and ethical conduct. It is intended to be read in conjunction with the Company's Human Resources Manual of Personnel Policies which includes the Code of Conduct governing acceptable conduct for the orderly operation of the Company as well as for the protection of the rights, safety, and benefit of the total employee force.

Company employees are required to annually disclose any business- and family-related transactions to ensure that potential conflicts of interest are brought to the attention of Management.

Recognitions
Ayala Corporation and other companies in the Ayala group were recognized by various international institutions for its corporate governance performance in 2008. In Asiamoney's 2008 corporate governance poll, Ayala Corporation ranked 1st in the category for Best for Responsibilities for Management and The Board of Directors in the Philippines.

The Company was also awarded the People Program of the

Year award by the Personnel Management Association of the Philippines.

Ayala Corporation, Globe Telecom and Manila Water figured prominently in the Corporate Governance Asia Recognition Awards given in June 2008. Ayala Corporation was cited No. 3 among seven companies.

Lastly, in the 2008 Corporate Governance Scorecard of Publicly Listed Philippine Companies, Ayala Corporation, Ayala Land, Bank of the Philippine Islands and Globe Telecom were recognized in the Top 5 companies which have excelled in corporate governance. Manila Water landed in the Top 20. The award, which was conferred by the Institute of Corporate Directors in cooperation with the PSE and the SEC, covers the criteria and attributes that include the right of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and board responsibility.

OTHERS

Anti-Money Laundering. Ayala Corporation, not being an operating company, does not face issues of anti-money laundering. However, the Company strictly observes and is committed to complying with the provisions of the Anti-Money Laundering law.

WEB SITE

Additional information on the Company's corporate governance initiatives may be viewed at www.ayala.com.ph.

Board of Directors

JAIME ZOBEL DE AYALA
CHAIRMAN EMERITUS

JAIME AUGUSTO ZOBEL DE AYALA

Director of Ayala Corporation (since 1987). Chairman and CEO of Ayala Corporation; Chairman of Globe Telecom, Inc., Bank of the Philippine Islands, and Integrated Micro-electronics, Inc.; Vice Chairman of Ayala Land, Inc., Manila Water Company, Inc.; Co-Vice Chairman of Ayala Foundation, Inc.; Director of AG Holdings Ltd.; Member of the JP Morgan International Council, Mitsubishi Corporation International Advisory Committee, Toshiba International Advisory Group and Harvard University Asia Center Advisory Committee; Trustee of Ramon Magsaysay Awards Foundation; Member of the World Wildlife Fund Philippine Advisory Council; the International Business Council of the World Economic Forum.

MENELEO J. CARLOS, JR.

Independent Director of Ayala Corporation (since 2002). Chairman and President of RI Chemical Corporation, MC Shipping, Pigmentex, Inc., Chem Insurance Brokers, Inc., and Riverbanks Development Corporation; President of Resins, Inc. and Stella Technik Asia, Inc.; Chairman of Maja Development Corporation, AVC Chemicals Corporation, Philippine Iron Construction & Marine Works, Inc., and Vacphil Rubber Corporation; Director of Polymer Product (Philippines), Inc., Philippine Aerosol Container Corporation and Philippine Technology Development Ventures, Inc.

FERNANDO ZOBEL DE AYALA

Director of Ayala Corporation (since 1994). Vice Chairman, President and COO of Ayala Corporation; Chairman of Ayala Land, Inc., Manila Water Company, Inc., AG Holdings Ltd., Ayala Automotive Holdings Corporation, and Alabang Commercial Corporation; Co-Vice Chairman of Ayala Foundation, Inc.; Director of Bank of the Philippine Islands, Globe Telecom, Inc., Integrated Micro-electronics, Inc., Member of INSEAD, East Asia Council; World Economic Forum, Habitat for Humanity International Asia-Pacific Steering Committee. Trustee, International Council of Shopping Centers.

MERCEDITA S. NOLLEDO

Director of Ayala Corporation (since 2004). Senior Managing Director and Corporate Secretary of Ayala Corporation, and Senior Counsel of the Ayala Group of Companies. Director and Corporate Secretary of Ayala Land, Inc.; Director of Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings Corporation, and Bank of the Philippine Islands; Member of the Board of Trustees of Ayala Foundation, Inc.; and Director and Treasurer of Philippine Tuberculosis Society, Inc.

DELFIN L. LAZARO

Director of Ayala Corporation (since 2007). Chief Finance Officer since 2003 to 2006 and member of the Management Committee of Ayala Corporation since 1996. Chairman of LiveIt Investments, Ltd. and Philwater Holdings Company, Inc.; Director of Ayala Land, Inc., Globe Telecom, Inc., Integrated Micro-electronics, Inc., Manila Water Company, Inc., and Ayala Automotive Holdings Corporation

XAVIER P. LOINAZ

Director of Ayala Corporation (since 2006). Member of the Management Committee of Ayala Corporation from 1989 to 2004. President of BPI from 1982 to 2004. Chairman of Ayala Life Assurance, Inc.; Director of Bank of the Philippine Islands, BPI Family Savings Bank, Inc., BPI Capital Corporation, BPI Direct Savings Bank, Inc., BPI/MS Insurance Corporation and Globe Telecom, Inc.; and Trustee of BPI Foundation, Inc.

TOSHIFUMI INAMI

Director of Ayala Corporation (since 2006). General Manager of Mitsubishi Corporation - Manila Branch. Chairman of International Elevator & Equipment, Inc.; Chairman and President of MCPL (Philippines), Inc.; Director of The Japanese Association Manila, Inc., Isuzu Philippines Corporation, MD Distripark Manila, Inc., MD Laguna Corporation, Imasen Philippines Manufacturing Corporation, Kansai Paint Philippines, Trans World Agro-Products Corporation, Kepco Ilijan Corporation, Mirant Diamond Holdings and UniCharm Philippines Inc.; and President of Japanese Chamber of Commerce and Industry of the Philippines

Management Committee

Fernando Zobel de Ayala

Jaime Augusto Zobel de Ayala

Delfin L. Lazaro

Mercedita S. Nolledo

Gerardo C. Ablaza, Jr.

Aurelio R. Montinola III

Jaime I. Ayala

Arthur R. Tan

Rufino Luis T. Manotok

Antonino T. Aquino

Charles H. Cosgrove

Victoria P. Garchitorena

MANAGEMENT

Jaime Augusto Zobel de Ayala
Chairman and Chief Executive Officer

Fernando Zobel de Ayala
President and Chief Operating Officer

Senior Managing Directors

Gerardo C. Ablaza, Jr.
President
Globe Telecom, Inc.

Antonino T. Aquino
President
Manila Water Company, Inc.

Jaime I. Ayala
President
Ayala Land, Inc.

Charles H. Cosgrove
President
Ayala International Pte Ltd

Delfin L. Lazaro
Chief Executive Officer
AC Capital

Rufino Luis T. Manotok
Chief Finance Officer
President
Ayala Automotive Holdings Corporation

Mercedita S. Nolledo
Corporate Secretary
Senior Counsel

Arthur R. Tan
President
Integrated Microelectronics, Inc.

Managing Directors

Alfredo I. Ayala
Chief Executive Officer
LiveIt Investments, Ltd.

Victoria P. Garchitorena
President
Ayala Foundation, Inc.

Renato O. Marzan*
General Counsel
Compliance Officer

Ramon G. Opulencia
Treasurer

Jose Rene D. Almendras
Gil B. Genio
Delfin C. Gonzalez, Jr.
Ronald Luis S. Goseco, Jr.
Solomon M. Hermosura**
Ricardo Nicanor N. Jacinto
Jose Teodoro K. Limcaoco
Rufino F. Melo III
Sherisa P. Nuesa
John Philip S. Orbeta
Luis Juan B. Oreta
Virgilio C. Rivera, Jr.
Jaime E. Ysmael
Ramon M. Zialcita

Associate Directors

Gerardo B. Amisola
Wilfrido A. Atienza
Francis André B. Azurin
Ruby P. Chiong
Alexander T. Cordero
Emily C. De Lara
Rosallie A. Dimaano
Guillermo M. Luz
Romualdo L. Katigbak
Erwin P. Locsin
Monina C. Macavinta
Rafael Nestor V. Mantaring
Constantino A. Marcaida
Jenara Rosanna F. Ong
Ginaflor C. Oris
Renan R. Osero
Ma. Teresa S. Palma
Rene D. Paningbatan
Antonio J. Pineda
Ma. Angelica B. Rapadas
Alfonso Javier D. Reyes
Ma. Victoria P. Sugapong
Eliezer C. Tanlapco
Norma P. Torres
Teresita C. Villacorta
Jaime P. Villegas

**Retired December 31, 2008*
***Appointed General Counsel, Compliance Officer January 1, 2009*

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

Ayala Corporation generated consolidated revenues of ₱79.1 billion in 2008, ₱341.8 million higher compared to prior year's consolidated revenues of ₱78.8 billion. While consolidated sales and services posted healthy growth and rose by 13% to ₱64.0 billion, this was partly offset by lower equity earnings from associates and jointly controlled entities as well as lower capital gains realized during the year.

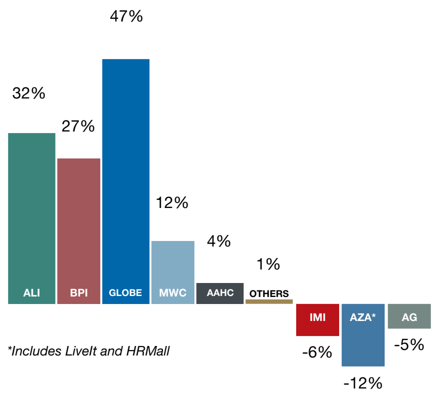
Consolidated sales and services mainly contributed 81% of Ayala's consolidated revenues. Revenues of the real estate, electronics, and business process outsourcing (BPO) businesses continued to post healthy growth during the year.

Despite the global economic crisis that continue to threaten appetite for real estate products, Ayala Land Inc. posted good top-line growth across its major business segments, with residential revenues up 18%, revenues from its shopping centers up 3%, and corporate business revenues up by 10%. Its support business in construction also posted very strong growth with the completion of several new projects. Ayala Land posted record earnings of ₱4.8 billion in 2008, 10% higher than the prior year.

The electronics business under Integrated Microelectronics Inc. (IMI) posted a 5% growth in revenues in U.S. dollar terms with half of the revenues contributed by its operations in Singapore and China which rose by 13% versus last year. This offset the 3% decline in Philippine and U.S. operations. IMI's expansion of business with a leading Chinese telecommunications company and the generation of ten new customer programs helped cushion the slowdown in the global electronics sector. IMI's operating income remained positive at US$18 million, however, a non-recurring loss from currency hedging contracts as well as a one-time provision for manpower expenses and inventory obsolescence expenses resulted in a US$17 million loss in 2008. Excluding these non-recurring items, IMI's net income would have reached US$32 million.

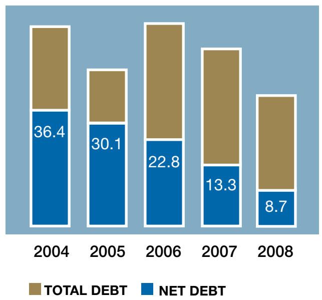
On a combined basis, the investee companies of LiveIt, Ayala's BPO investment arm, recorded revenue growth in U.S. dollar terms of 15%, and achieved revenues of US$344.1 million and EBITDA of US$30.2 million in 2008, LiveIt's second full year of operations. The BPO units further diversified their client base in 2008 with eTelecare winning 11 new clients and 31 new programs, Integreon adding 14 new customers across the corporate, legal and financial services sectors, and Affinity Express now serving over 140 publications of seven of the top 25 newspaper companies in the U.S. However, they posted a combined net loss, of which LiveIt's share was P874 million, due primarily to factors such as one-time non-recurring expenses related to the eTelecare tender offer, non-cash accounting charges, such as stock compensation expenses, the amortization of intangibles related to the acquisitions made by LiveIt's investee companies, and unfavorable foreign exchange forward contracts that eTelecare entered into. LiveIt, together with Providence Equity Partners, completed the tender offer for eTelecare's common shares and American Depositary Shares last December resulting in the acquisition of 98.7% of eTelecare's shares. Overall, the

SHARE IN EQUITY IN NET EARNINGS FROM OPERATING UNITS



*Includes LiveIt and HRMall

PARENT NET DEBT LEVEL
(in billion pesos)



company remains positive about the growth trajectory of the BPO sector. Ayala expects that, as in past recessions, outsourcing will continue to grow in the short term but at a slower pace, and then will experience accelerating growth in the medium to long term, as companies intensify their cost-cutting.

Lower equity earnings from associates and jointly controlled entities as well as lower capital gains during the year altogether capped growth of consolidated revenues. Equity earnings from associates declined by 24% to ₱7.4 billion from ₱9.8 billion due to lower net income of its telecom and banking units as well as a net loss recorded by its international real estate operations under AG Holdings.

Globe Telecom posted a 15% decline in net income in 2008 to ₱11.3 billion. While it continued to experience strong wireless subscriber growth as well as ramping up of broadband subscribers, capital investments to support the broadband technology platform and a more intensely competitive market environment impeded margin expansion. Globe Telecom's revenues, however, remained steady even amidst slowing domestic consumption. Consolidated service revenues reached ₱62.9 billion from ₱63.2 billion the prior year. Wireless revenues were flat amidst a 22% growth in its subscriber base while revenues from its wireline business increased by 7%, driven by its corporate data and broadband businesses. Globe's broadband subscriber base grew by 84% in 2008 with the highest net adds noted in the fourth quarter. Higher operating expenses capped EBITDA but EBITDA margin remained high at 59% as costs arising from broadband investments lowered margins. Wireless EBITDA margin continues to be robust at 65% while wireline EBITDA margins have been under pressure given the dynamics of the start-up broadband business. Despite lower earnings this year, Globe's free cash flow remains strong. In February 2009, Globe declared its first semi-annual cash dividend of ₱32 per share, which puts Globe among the highest in dividend yields in the Philippine Stock Exchange.

Bank of the Philippine Islands also posted lower net income which fell by 36% to ₱6.4 billion as revenues fell due to a decline in securities trading income and a decline in the contribution of the insurance company due largely to non-recurring investment income. BPI achieved good business volume growth. Loans expanded by an unprecedented 17%, driven by strong demand from corporate and retail consumers. This was the second straight year BPI posted double-digit loan growth. Despite the growth in loans, asset quality continued to improve with net 30-day non-performing loans ratio down to 3%. BPI's deposit base expanded by 5% to hit ₱540 billion by year-end, with total customer funds and assets held in trust up by 9%. The bank's remittance business also saw strong growth, up 35%, with volume reaching US$4.4 billion, significantly outpacing the industry's 15%. BPI's capital adequacy ratio of 14.2% remains well above the 10% regulatory minimum. Last December, the bank successfully issued ₱5 billion in 10-year subordinated debt eligible as Lower Tier 2 capital in anticipation of possible acquisition opportunities.

International real estate arm, AG Holdings, recorded a net loss of US$7.1 million mainly due to an extraordinary loss for provisions arising from a deemed impairment on a trading security. In addition, last year's earnings also included a gain from the sale of The Forum in Singapore.

Altogether, these offset the higher equity earnings from its water distribution business, Manila Water, which posted a 7% growth in net income to ₱2.8 billion on the back of higher water sales volume complemented by further improvements in the company's operating efficiency. Manila Water pursued an intensive capex program, spending a total of ₱3.8 billion in 2008 as it accelerated the implementation of expansion projects and invested in new systems and processes. Billed volume went up by 4% to 387 million cubic meters as Manila Water expanded its customer base by about 46,765 new household connections. In addition, the company managed to further reduce system losses by 6 percentage points to 19.6% from over 25% last year and from a high of 63% in 1997. This is the first time that Manila Water has brought its level of water losses to below 20%, which is significantly better than most of the company's regional counterparts. The company also began construction on a number of sewerage treatment plants in 2008, with the aim of bringing sewerage coverage to 30% by 2012 from the present level of 16% for the East Zone.

Lower capital gains realized during the period pushed Other Income on a consolidated basis 50% lower to ₱5.4 billion from ₱10.7 billion in 2007. Significantly higher capital gains were realized in 2007 as the company took advantage of the much higher market prices prevailing at that time to realize values from some of its investments.

Consolidated costs and expenses outpaced revenue growth and rose by 13% to ₱66.0 billion. Costs of sales and services, which accounted for 76% of consolidated costs and expenses, rose by 16% to ₱50.0 billion from ₱43.2 billion the prior year. This was broadly in step with the increase in consolidated sales and services and also a result of higher cost of sales, particularly at the electronics unit with higher cost of inventories.

General and administrative (G&A) expenses on a consolidated basis was flat relative to last year at ₱9.5 billion. Higher G&A expenses in Ayala Land was offset by lower G&A expenses at the parent company level and in the electronics unit.

Consolidated interest expense and other financing charges increased by 20% to ₱4.9 billion in 2008 from ₱4.1 billion in 2007. This was mainly due to currency-hedging related losses at IMI. Excluding this, consolidated interest and financing charges would have been 16% lower at ₱3.5 billion.

At the holding company level, however, interest and financing charges continued to decline and has consistently declined over the past few years as the company actively reduced debt levels and lowered financing cost. Average cost of debt at the parent level in 2008 has decreased by over 200 basis points to 7.3% compared to 9.5% two years ago. In 2008 the company also prepaid debt and replaced these with newly raised funds at lower cost. The parent company's net debt has declined substantially to ₱8.7 billion from a high of ₱36 billion in 2004, allowing it to maintain a very comfortable net debt to equity ratio of 0.09 to 1. Likewise, on a consolidated basis, the company is in a very comfortable financial position with consolidated net debt to equity at 0.11 to 1.

While net earnings were impacted this year by various factors both external and internal, the company maintains a healthy financial and liquidity position across the group. Debt and debt to equity ratios are at very comfortable levels, cash resources are sufficient to pursue the respective growth agenda of each of the operating units, and solvency and liquidity ratios are well within comfortable limits.

Amidst the height of the credit crisis last year, all of Ayala's business units combined were able to raise ₱23 billion in funds in the second half of last year, from August to December, effectively securing funding requirements for 2009. This began with Ayala Land's ₱4 billion five-year fixed rate bond in August, IMI's ₱1.3 billion preferred share offering to its shareholders, Manila Water's ₱4 billion five-year fixed rate bond in October, Ayala's issuance of ₱6 billion perpetual preferred shares in November and BPI's ₱5 billion tier-2 capital raising in December. Globe also recently announced that it will also be issuing ₱3 billion retail bonds in the first quarter of 2009.

No doubt 2009 will be more challenging across all fronts as the full extent of the global financial crisis unfolds. While the company maintains a generally cautious stance given the current environment, it is expected that each of the operating units will remain resilient, achieve steady top-line performance and continue to contribute positive earnings in the coming year.

REPORT OF THE AUDIT AND RISK COMMITTEE TO THE BOARD OF DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2008

The Audit and Risk Committee's roles and responsibilities are defined in the Audit and Risk Committee Charter approved by the Board of Directors. It provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to: (a) the integrity of the Company's financial statements and the financial reporting process; (b) the internal and financial reporting principles and the systems of internal controls; (c) the enterprise risk management; (d) the performance of internal audit and independent auditors; and (e) the compliance with legal and regulatory matters and other reporting standards.

In compliance with the Audit and Risk Committee Charter, we confirm that:

- An independent director chairs the Committee;

- We had four (4) regular and one (1) special meeting during the year and a meeting with all the independent directors in the Ayala Group;

- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Ayala Corporation and Subsidiaries, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, with management, internal auditors and SGV & Co., the independent auditor of Ayala Corporation. These activities were performed in the following context:

  - That management has the primary responsibility for the financial statements and the financial reporting process; and
  - That SGV & Co. is responsible for expressing an opinion on the conformity of the Ayala Corporation's audited consolidated financial statements with Philippine Financial Reporting Standards;

- We have discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and SGV & Co. We have also discussed with SGV & Co. the results of their audits and their assessment of Ayala Corporation's internal controls and the overall quality of the financial reporting process and including their management letter of comments.

- We have reviewed and approved all audit, audit-related and permitted non-audit services provided by SGV & Co. to Ayala Corporation and the related fees for such services. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence;

- We have reviewed the reports of the internal auditors ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues;

- We have reviewed and discussed certain activities that resulted in the institutionalization of a periodic review of the financial reporting structures and processes in Ayala Corporation and across the subsidiaries and affiliates. This is to ensure that regular monthly financial reports are prepared on a timely basis, and are in compliance with established international accounting standards and that all these reports are regularly reviewed by the management as well as the Executive Committee and by the Board of their respective companies involved;

- We have reviewed, approved, and endorsed the revised Audit and Risk Committee Charter, the Enterprise Risk Management Policy and framework including the oversight structure to the Board. The responsible unit has initiated a risk awareness session and risk self-assessment workshops. We have also reviewed and discussed the adequacy of Ayala Corporation's enterprise risk management process, including the major risk exposures, the related risk mitigation efforts and initiatives. This activity was reviewed in the context that management is primarily responsible for the risk management process.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit and Risk Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2008 for submission with the Securities and Exchange Commission and the Philippine Stock Exchange. We are also recommending to the Board of Directors the re-appointment of SGV & Co. as Ayala Corporation's independent auditor for 2009 based on the review of their performance and qualifications.

13 February 2009

MENELEO J. CARLOS, JR
Chairman

TOSHIFUMI INAMI
Member

XAVIER P. LOINAZ
Member

Statement of Management's Responsibility for Financial Statements

The management of Ayala Corporation is responsible for all information and representations contained in the consolidated balance sheets as at December 31, 2008 and 2007, and the consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2008, and the summary of significant accounting policies and other explanatory notes. The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

SyCip Gorres Velayo & Co., the independent auditors appointed by the Board of Directors and stockholders, has audited the consolidated financial statements of the Company and its Subsidiaries in accordance with Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the stockholders and Board of Directors dated February 23, 2009.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors and Chief Executive Officer

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

RUFINO LUIS T. MANOTOK
Chief Finance Officer

Independent Auditors' Report

The Stockholders and the Board of Directors
Ayala Corporation

We have audited the accompanying consolidated financial statements of Ayala Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, 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, 2008, 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 a 33.5% interest in 2008 and 2007, 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 ₱28,533 million and ₱30,852 million as of December 31, 2008 and 2007, respectively, and the Company's equity in the net income of the Bank of the Philippine Islands and Subsidiaries is stated at ₱2,145 million in 2008, ₱3,291 million in 2007 and ₱3,300 million in 2006.

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, 2008 and 2007, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-1
Tax Identification No. 152-884-511
PTR No. 1566415, January 5, 2009, Makati City

February 23, 2009

Consolidated Balance Sheets

(AMOUNTS IN THOUSANDS)

	December 31	
	2008	2007 (As Restated - Note 2
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 28)	**₱42,885,792**	₱36,835,549
Short-term investments (Notes 5 and 28)	**1,008,924**	3,687,606
Accounts and notes receivable - net (Notes 6, 27 and 28)	**23,284,010**	16,822,874
Inventories (Note 7)	**10,011,355**	8,842,535
Other current assets (Notes 8 and 28)	**7,090,394**	3,570,672
Total Current Assets	**84,280,475**	69,759,236
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 6 and 28)	**6,694,021**	4,010,373
Land and improvements	**15,756,894**	16,200,601
Investments in associates and jointly controlled entities - net (Note 9)	**68,140,394**	71,271,632
Investments in bonds and other securities (Notes 10 and 28)	**3,064,502**	2,492,913
Investment properties - net (Note 11)	**21,058,577**	17,416,173
Property, plant and equipment - net (Note 12)	**13,886,560**	8,492,845
Deferred tax assets - net (Note 21)	**1,132,847**	983,565
Pension assets (Note 23)	**117,388**	140,576
Intangible assets - net (Note 13)	**4,014,136**	3,275,697
Other noncurrent assets (Note 16)	**1,906,172**	2,087,249
Total Noncurrent Assets	**135,771,491**	126,371,624
Total Assets	**₱220,051,966**	₱196,130,860
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 15, 27 and 28)	**₱27,483,536**	₱22,261,167
Short-term debt (Notes 16 and 28)	**2,755,447**	2,634,148
Income tax payable	**214,697**	286,050
Current portion of long-term debt (Notes 16 and 28)	**1,478,871**	9,512,760
Other current liabilities	**1,553,530**	1,550,482
Total Current Liabilities	**33,486,081**	36,244,607
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16 and 28)	**50,250,151**	37,884,705
Deferred tax liabilities - net (Note 21)	**185,536**	155,756
Pension liabilities (Note 23)	**490,744**	531,552
Other noncurrent liabilities (Note 17)	**7,588,080**	6,817,643
Total Noncurrent Liabilities	**58,514,511**	45,389,656
Total Liabilities	**92,000,592**	81,634,263
Equity		
Equity attributable to equity holders of Ayala Corporation		
Paid-up capital (Note 18)	**37,251,714**	26,855,394
Share-based payments (Note 24)	**705,457**	603,949
Cumulative translation adjustments	**(968,778)**	(2,297,077)
Retained earnings (Note 18)	**61,604,466**	60,172,621
Net unrealized gain (loss) on available-for-sale financial assets (Note 10)	**(631,127)**	1,712,016
Parent Company preferred shares held by a subsidiary (Note 18)	**(100,000)**	–
Treasury stock (Note 18)	**(550,540)**	(159,693)
	97,311,192	86,887,210
Minority interests	**30,740,182**	27,609,387
Total Equity	**128,051,374**	114,496,597
Total Liabilities and Equity	**₱220,051,966**	₱196,130,860

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

(AMOUNTS IN THOUSANDS, EXCEPT EARNINGS PER SHARE FIGURES)

	Years Ended December 31		
	2008	2007 (As Restated - Note 2)	2006 (As Restated - Note 2)
REVENUE			
Sales and services (Notes 11 and 27)	**₱64,052,828**	₱56,578,214	₱53,394,230
Equity in net income of associates and jointly controlled entities	**7,396,180**	9,767,222	8,249,240
Interest income	**2,242,895**	1,693,045	1,520,858
Other income (Note 19)	**5,416,750**	10,728,375	6,998,009
	79,108,653	78,766,856	70,162,337
COSTS AND EXPENSES			
Costs of sales and services (Notes 7, 11, 19 and 27)	**50,014,366**	43,169,110	40,857,337
General and administrative (Notes 19, 23 and 27)	**9,485,514**	9,498,306	7,708,161
Interest expense and other financing charges (Notes 16 and 19)	**4,937,108**	4,120,160	5,024,052
Other charges (Note 19)	**1,595,422**	1,569,944	386,919
	66,032,410	58,357,520	53,976,469
INCOME BEFORE INCOME TAX	**13,076,243**	20,409,336	16,185,868
PROVISION FOR INCOME TAX (Note 21)			
Current	**2,442,789**	1,979,820	1,764,984
Deferred	**(25,234)**	(7,825)	112,175
	2,417,555	1,971,995	1,877,159
INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE	**10,658,688**	18,437,341	14,308,709
INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE - net of tax (Note 14)	**–**	624,788	155,258
NET INCOME	**₱10,658,688**	₱19,062,129	₱14,463,967
Net Income Attributable to:			
Equity holders of Ayala Corporation	**₱8,108,597**	₱16,256,601	₱12,173,113
Minority interests	**2,550,091**	2,805,528	2,290,854
	₱10,658,688	₱19,062,129	₱14,463,967
EARNINGS PER SHARE (Note 22)			
Basic			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Corporation	**₱15.22**	₱30.64	₱23.91
Net income attributable to equity holders of Ayala Corporation	**15.22**	31.62	24.01
Diluted			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Corporation	**₱15.17**	₱30.50	₱23.80
Net income attributable to equity holders of Ayala Corporation	**15.17**	31.47	23.89

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

(AMOUNTS IN THOUSANDS)

	Paid-up Capital (Note 18)	Share-based Payments (Note 24)	Cumulative Translation Adjustments	Retained Earnings (Note 18)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 10)	Parent Company Preferred Shares Held by a Subsidiary (Note 18)	Treasury Stock (Note 18)	Minority Interests	Total Equity
				For the year ended December 31, 2008					
At January 1, 2008, as previously reported	₱26,855,394	₱603,949	(₱2,297,077)	₱60,461,247	₱1,712,016	₱–	(₱159,693)	₱27,609,387	₱114,785,223
Effect of adoption of Philippine Interpretation IFRIC 12 (Note 2)	–	–	–	(288,626)	–	–	–	–	(288,626)
At January 1, 2008, as restated	26,855,394	603,949	(2,297,077)	60,172,621	1,712,016	–	(159,693)	27,609,387	114,496,597
Adjustments to foreign currency translation	–	–	1,328,299	–	–	–	–	91,757	1,420,056
Net changes on available-for-sale financial assets	–	–	–	–	(2,343,143)	–	–	92,936	(2,250,207)
Income (loss) recognized directly in equity	–	–	1,328,299	–	(2,343,143)	–	–	184,693	(830,151)
Net income for the year	–	–	–	8,108,597	–	–	–	2,550,091	10,658,688
Total income for the year	–	–	1,328,299	8,108,597	(2,343,143)	–	–	2,734,784	9,828,537
Issuance/subscription of shares	6,322,349	(20,801)	–	–	–	–	–	–	6,301,548
Additions to subscriptions receivable	(64,745)	–	–	–	–	–	–	–	(64,745)
Cost of share-based payments of Ayala Corporation	–	4,018	–	–	–	–	–	–	4,018
Cost of share-based payments of investees	–	118,291	–	–	–	–	–	27,446	145,737
Parent Company preferred shares held by a subsidiary	–	–	–	–	–	(100,000)	–	–	(100,000)
Acquisition of treasury stock	–	–	–	–	–	–	(390,847)	–	(390,847)
Cash dividends	–	–	–	(2,538,036)	–	–	–	–	(2,538,036)
Stock dividends	4,138,716	–	–	(4,138,716)	–	–	–	–	–
Increase in minority interests	–	–	–	–	–	–	–	921,157	921,157
Dividends paid to minority interests	–	–	–	–	–	–	–	(552,592)	(552,592)
At December 31, 2008	**₱37,251,714**	**₱705,457**	**(₱968,778)**	**₱61,604,466**	**(₱631,127)**	**(₱100,000)**	**(₱550,540)**	**₱30,740,182**	**₱128,051,374**

	Paid-up Capital (Note 18)	Share-based Payments (Note 24)	Cumulative Translation Adjustments	Retained Earnings (Note 18)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 10)	Treasury Stock (Note 18)	Minority Interests	Total Equity
			For the year ended December 31, 2007					
At January 1, 2007, as previously reported	₱23,137,948	₱558,416	(₱298,310)	₱51,659,261	₱2,078,522	(₱310)	₱24,698,735	₱101,834,262
Effect of adoption of Pre-need Rule 31, Pre-need Uniform Chart of Accounts by an associate (Note 9)	–	–	–	(85,010)	–	–	–	(85,010)
Effect of adoption of Philippine Interpretation IFRIC 12 (Note 2)	–	–	–	(347,669)	–	–	–	(347,669)
At January 1, 2007, as restated	23,137,948	558,416	(298,310)	51,226,582	2,078,522	(310)	24,698,735	101,401,583
Adjustments to foreign currency translation	–	–	(1,998,767)	–	–	–	(358,643)	(2,357,410)
Net changes on available-for-sale financial assets	–	–	–	–	(366,506)	–	34,900	(331,606)
Income (loss) recognized directly in equity	–	–	(1,998,767)	–	(366,506)	–	(323,743)	(2,689,016)
Net income for the year	–	–	–	16,256,601	–	–	2,805,528	19,062,129
Total income for the year	–	–	(1,998,767)	16,256,601	(366,506)	–	2,481,785	16,373,113
Issuance/subscription of shares	364,129	–	–	–	–	–	–	364,129
Additions to subscriptions receivable	(96,267)	–	–	–	–	–	–	(96,267)
Cost of share-based payments of Ayala Corporation	–	10,718	–	–	–	–	–	10,718
Cost of share-based payments of investees	–	34,815	–	–	–	–	201	35,016
Acquisition of treasury stock	–	–	–	–	–	(159,383)	–	(159,383)
Cash dividends	–	–	–	(3,860,978)	–	–	–	(3,860,978)
Stock dividends	3,449,584	–	–	(3,449,584)	–	–	–	–
Increase in minority interests	–	–	–	–	–	–	962,291	962,291
Dividends paid to minority interests	–	–	–	–	–	–	(533,625)	(533,625)
At December 31, 2007	₱26,855,394	₱603,949	(₱2,297,077)	₱60,172,621	₱1,712,016	(₱159,693)	₱27,609,387	₱114,496,597

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	Retained Earnings (Note 18)	Net Unrealized Gain on Available-for-Sale Financial Assets (Note 10)	Treasury Stock (Note 18)	Minority Interests	Total Equity
			For the year ended December 31, 2006					
At January 1, 2006, as previously reported	₱16,959,696	₱655,754	₱587,350	₱42,513,384	₱477,839	(₱310)	₱21,589,673	₱82,783,386
Effect of adoption of Philippine Interpretation IFRIC 12 (Note 2)	–	–	–	(344,011)	–	–	–	(344,011)
January 1, 2006, as restated	16,959,696	655,754	587,350	42,169,373	477,839	(310)	21,589,673	82,439,375
Adjustments to foreign currency translation	–	–	(885,660)	–	–	–	(146,104)	(1,031,764)
Net changes on available-for-sale financial assets	–	–	–	–	1,600,683	–	(24,199)	1,576,484
Income (loss) recognized directly in equity	–	–	(885,660)	–	1,600,683	–	(170,303)	544,720
Net income for the year	–	–	–	12,173,113	–	–	2,290,854	14,463,967
Total income for the year	–	–	(885,660)	12,173,113	1,600,683	–	2,120,551	15,008,687
Issuance/subscription of shares	6,084,791	(89,674)	–	–	–	–	–	5,995,117
Collections of subscriptions receivable	93,461	–	–	–	–	–	–	93,461
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)	₱51,311,592	₱2,078,522	(₱310)	₱24,698,735	₱101,486,593

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(AMOUNTS IN THOUSANDS)

	Years Ended December 31		
	2008	2007 (As Restated - Note 2)	2006 (As Restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱13,076,243**	₱20,409,336	₱16,185,868
Adjustments for:			
Interest and other financing charges - net of amount capitalized (Note 19)	**3,481,156**	4,120,160	5,024,052
Depreciation and amortization (Note 19)	**2,940,216**	2,988,879	2,590,358
Cost of share-based payments (Note 24)	**342,919**	288,050	285,431
Provision for impairment loss (Note 19)	**1,259,085**	–	–
Equity in net income of associates and jointly controlled entities	**(7,396,180)**	(9,767,222)	(8,249,240)
Gain on sale of investments (Note 19)	**(3,554,679)**	(8,844,822)	(5,796,711)
Interest income	**(2,242,895)**	(1,693,045)	(1,520,858)
Other investment income	**(264,495)**	(73,500)	(285,227)
Impairment loss on goodwill (Note 19)	**–**	662,591	–
Operating income before changes in working capital	**7,641,370**	8,090,427	8,233,673
Decrease (increase) in:			
Accounts and notes receivable	**(8,896,301)**	(2,254,055)	(3,171,691)
Inventories	**(1,248,050)**	1,981,833	(251,543)
Other current assets	**(1,197,782)**	863,696	(1,777,903)
Increase (decrease) in:			
Accounts payable and accrued expenses	**4,169,567**	4,239,429	1,704,662
Other current liabilities	**(38,164)**	97,469	403,413
Net pension liabilities	**(17,620)**	105,848	89,130
Cash generated from operations	**413,020**	13,124,647	5,229,741
Interest received	**2,183,379**	1,469,236	1,510,885
Interest paid	**(3,655,908)**	(3,837,504)	(5,386,829)
Income taxes paid	**(2,514,143)**	(1,989,616)	(1,742,356)
Net cash provided by (used in) operating activities before cash items associated with noncurrent assets held for sale	**(3,573,652)**	8,766,763	(388,559)
Net cash provided by operating activities associated with noncurrent assets held for sale	**–**	–	291,672
Total cash provided by (used in) operating activities	**(3,573,652)**	8,766,763	(96,887)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale of investments	**9,915,369**	15,152,209	9,300,943
Disposals of property and equipment	**132,196**	1,006,583	313,755
Maturities of (additions to) short-term investments	**2,678,683**	(759,678)	(2,399,978)
Additions to:			
Investments	**(9,257,780)**	(6,258,142)	(5,950,008)
Property, plant and equipment (Note 12)	**(5,965,432)**	(4,368,019)	(3,450,654)
Dividends received from associates and jointly controlled entities	**8,326,390**	8,050,049	4,248,500
Acquisitions through business combinations by subsidiaries - net of cash acquired (Note 20)	**(891,935)**	(326,030)	(1,641,092)
Decrease (increase) in other noncurrent assets	**292,557**	(631,428)	(10,076)
Cash balance of deconsolidated subsidiaries	**–**	–	(81)
Net cash provided by investing activities before cash items associated with noncurrent assets held for sale	**5,230,048**	11,865,544	411,309
Net cash provided by (used in) investing activities associated with noncurrent assets held for sale, including cash balance	**–**	624,788	(361,691)
Net cash provided by investing activities	**5,230,048**	12,490,332	49,618

(Forward)

Consolidated Statements of Cash Flows

(AMOUNTS IN THOUSANDS)

	Years Ended December 31		
	2008	2007 (As Restated - Note 2)	2006 (As Restated - Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term and long-term debt	**₱13,045,651**	₱21,742,528	₱11,532,591
Issuance of preferred shares	**5,958,307**	–	5,800,000
Issuance of common shares	**–**	209,687	57,690
Collections of (additions to) subscriptions receivable	**(64,745)**	(96,267)	93,461
Payments of short-term and long-term debt	**(12,025,905)**	(21,392,701)	(16,798,083)
Dividends paid	**(2,925,409)**	(4,255,580)	(3,781,584)
Acquisition of treasury shares (Note 18)	**(390,848)**	(159,383)	–
Redemption of preferred shares	**–**	(2,500,000)	(2,230,000)
Increase in:			
Other noncurrent liabilities	**396,915**	676,578	589,672
Minority interests in consolidated subsidiaries	**399,881**	962,291	1,879,066
Net cash provided by (used in) financing activities before cash items associated with noncurrent assets held for sale	**4,393,847**	(4,812,847)	(2,857,187)
Net cash used in financing activities associated with noncurrent assets held for sale	**–**	–	(187,120)
Net cash provided by (used in) financing activities	**4,393,847**	(4,812,847)	(3,044,307)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,050,243**	16,444,248	(3,091,576)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**36,835,549**	20,391,301	23,482,877
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱42,885,792**	₱36,835,549	₱20,391,301

See accompanying Notes to Consolidated Financial Statements.

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 address and principal place of business is Tower One, Ayala Triangle, Ayala Avenue, Makati City. The Company is a publicly listed company which is 50.92% owned by Mermac, Inc., 10.58% owned by Mitsubishi Corporation and the rest by the public.

The Company is the holding company of the Ayala Group of Companies, 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 financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 were endorsed for approval by the Audit Committee on February 13, 2009 and authorized for issue by the Executive Committee of the Board of Directors (BOD) on February 23, 2009.

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) unless otherwise indicated.

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008. The financial statements of the subsidiaries are prepared for the same reporting year as the Company.

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.

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 comprise the financial statements of the Company and the following wholly and majority-owned domestic and foreign subsidiaries:

	Effective Percentages of Ownership	
	2008	2007
Real Estate and Hotels:		
Ayala Land, Inc. (ALI) and subsidiaries (ALI Group)	**53.5***	53.2*
Ayala Hotels, Inc. (AHI) and subsidiaries	**76.8**	76.6
Electronics, Information Technology and Business Process Outsourcing Services:		
Azalea Technology Investments, Inc. and subsidiaries (Azalea Technology)	**100.0**	100.0

(Forward)

Notes to Consolidated Financial Statements

	Effective Percentages of Ownership	
	2008	2007
Azalea International Venture Partners, Limited (AIVPL) (British Virgin Islands Company) and subsidiaries	**100.0**	100.0
LiveIt Solutions, Inc. (LSI) and subsidiaries	**100.0**	100.0
Technopark Land, Inc.	**78.8**	78.8
Integrated Microelectronics, Inc. (IMI) and subsidiaries**	**67.8**	67.9
Automotive:		
Ayala Automotive Holdings Corporation (AAHC) and subsidiaries	**100.0**	100.0
International and Others:		
Bestfull Holdings Limited (incorporated in Hong Kong) and subsidiaries (BHL Group)	**100.0**	100.0
AC International Finance Limited (ACIFL) (Cayman Island Company) and subsidiary	**100.0**	100.0
AYC Finance Ltd. (Cayman Island Company)	**100.0**	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. (PPI) and subsidiary	**–**	99.9

**The Company owns 75.46% of the total common and preferred shares of ALI.*
*** A subsidiary of ACIFL through AYC Holdings, Ltd.*

On December 19, 2007, the Company entered into a Subscription Agreement with Deed of Conversion of deposits for future subscriptions with AIVPL whereby the Company converted its deposits into equity by way of subscription to common shares of stock of AIVPL at an agreed Philippine Peso equivalent amounting to ₱407.8 million. This resulted in the Company having a direct ownership of 68.71% in AIVPL with Azalea Technology's ownership interest in AIVPL reduced to 31.29 % as of December 31, 2007.

On various dates in 2008, the Company converted US$171.88 million of its deposits on future subscriptions in AIVPL into equity, increasing the Company's ownership from 68.71% to 97.78%. Consequently, Azalea Technology's ownership in AIVPL was diluted from 31.29% to 2.22%.

On May 1, 2008, AIVPL converted its US$124 million deposits on future subscription in LiveIt Investments Ltd. (LIL) giving it 99.99% ownership interest in LIL. LSI, which previously held 100% of LIL, now holds 0.01% stake in LIL. LIL carries the Group's investments in Integreon Managed Solutions Inc. (Integreon), Affinity Express Inc. and Newbridge International Investments.

On March 1, 2008, the Company entered into a Deed of Assignment with AIVPL to transfer the Company's shares of Bayantrade in exchange for AIVPL's shares of stocks.

In February 2008, PPI, which is 99.85% owned by the Company and 0.15% owned by other shareholders, was merged into the Company. This was executed via a share swap. The PPI shares held by the other shareholders, which were valued at ₱2.62 per share, were exchanged for the appropriate number of newly issued Company shares valued at ₱560.00 per share.

On November 29, 2007, the Company entered into a Deed of Assignment with AIVPL where the Company assigned its 250,000 shares in HRMall, Inc. (with original acquisition cost of ₱25.0 million representing 100% of HRMall's total outstanding stock) in exchange for 583,458 shares of AIVPL (with par value of US$1.00 per share).

On June 20, 2007, Ayala International Pte. Ltd. (AIPL) and its subsidiaries (AIPL Group) have undergone restructuring wherein intermediate Hong Kong holding companies, including AG Holdings, were formed such that BHL became the Company's holding company for the BHL Group which now includes the AIPL Group. BHL is a private limited company incorporated under Hong Kong laws.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not wholly owned and are presented separately in the consolidated statement of income and changes in equity and within the equity section in the consolidated balance sheet, separately from the Company's equity. Acquisitions of minority interest are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the nets assets acquired is recognized as goodwill.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations which became effective on January 1, 2008, and amendments to existing standards that became effective on July 1, 2008.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
- Philippine Interpretation IFRIC 14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- Amendments to Philippines Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures*

The principal effects of these changes are as follows:

Philippine Interpretation IFRIC 11, PFRS 2, *Group and Treasury Share Transactions*
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 (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) 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. Adoption of this Interpretation did not have an impact on the consolidated financial statements.

Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
This Interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This Interpretation prescribes 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, in which case the Financial Asset Model is used to the extent of such amount.

Based on Manila Water Company Inc.'s (MWCI) assessment, its service concession agreement with Metropolitan Water Works and Sewerage System (MWSS) would qualify under the Intangible asset model. The effect of the adoption of this Interpretation required MWCI to recognize the fair value of its right to charge its customers, which resulted in the following consequential effects:

a. Increase in total assets with a corresponding increase in total liabilities. The rehabilitation works performed by MWCI (previously recognized as property, plant and equipment) and the present value of the total estimated concession fee payments were recognized as intangible assets in accordance with PAS 38, *Intangible Assets*. The intangible asset is amortized using the straight-line method over the life of the concession agreement. Previously, the asset recognized under the concession agreement was amortized based on the ratio of the nominal value of total estimated concession fee payments to the remaining projected billable water volume over the remaining concession period.

b. As the related service concession obligation is now recognized, this resulted in additional finance cost to MWCI due to the accretion of the obligation. The increase in intangible assets, together with the change in amortization method described above, also resulted in an increase in amortization expense.

c. In connection with the rehabilitation works performed, MWCI also recognized revenue and costs in accordance with PAS 11, *Construction Contracts*. It measures the revenue from rehabilitation works at the fair value of the consideration received or receivable. Given that MWCI has subcontracted the rehabilitation works to outside contractors, the recognized revenue from rehabilitation works is equal to the related cost.

d. As the service concession obligations are denominated in foreign currencies these were restated to their peso equivalent using the exchange rate at balance sheet date. The related foreign currency differential adjustment under the concession agreement provided only for a reimbursement of an amount in excess of the base rate agreed during the rate rebasing exercise with MWSS. As the two amounts are not equal, the difference (between the foreign currency differentials arising from the restatement of the obligation and the reimbursable amount) affected the profit and loss. The related revenue to recover the unreimbursed portion will be recognized only upon delivery of service to customers.

The adoption of the Interpretation resulted in a decrease in MWCI's retained earnings by ₱962.2 million and ₱1,159.0 million as of January 1, 2008 and 2007, respectively. The impact on the Company is a decrease in the retained earnings and investments in associates and jointly controlled entities balances as of January 1, 2008 and 2007 by ₱288.6 million and ₱347.7 million, respectively.

Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit plan that can be recognized as an asset under PAS 19, *Employee Benefits*. Adoption of this Interpretation did not have an impact on the consolidated financial statements.

Amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures*
The Amendments to PAS 39 introduce the possibility of reclassification of securities out of the trading category in rare circumstances and reclassification to the loans and receivable category if there is intent and ability to hold the securities for the foreseeable future or to held-to-maturity if there is intent and ability to hold the securities until maturity. The amendments to PFRS 7 introduce the disclosures relating to these reclassifications. Adoption of these amendments did not have any impact on the consolidated financial statements since the Group did not avail of the reclassification allowed under these amendments.

Future Changes in Accounting Policies
The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2009

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

Amendments to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
This Standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires nonvesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a nonvesting condition that is within the control of either the entity or the counterparty is accounted for as a cancellation. However, failure to satisfy a nonvesting condition that is beyond the control of either party does not give rise to a cancellation.

PFRS 8, *Operating Segments*
PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and the Group will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party. The Group will apply PFRS 8 in 2009 and will assess the impact of this Standard on its current manner of reporting segment information.

Amendments to PAS 1, *Presentation of Financial Statements*
This Amendment introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with ‘other comprehensive income’. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Amendment also requires additional requirements in the presentation of the balance sheet and owner’s equity as well as additional disclosures to be included in the financial statements. Adoption of this Amendment will not have significant impact on the Group except for the presentation of a statement of comprehensive income and additional disclosures to be included in the consolidated financial statements.

Amendments to PAS 23, *Borrowing Costs*
The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
Amendments to PAS 27 will be effective on January 1, 2009 which has changes in respect of the holding companies’ separate financial statements including (a) the deletion of ‘cost method’, making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is any indicator of impairment.

Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) Instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity’s net assets, (b) Instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation, (c) Instruments in the subordinate class have identical features; (d) The instrument does not include any contractual obligation to pay cash or financial assets other than the holder’s right to a pro rata share of the entity’s net assets; and (e) Total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
This Interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to PFRS
In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. These are the separate transitional provisions for each standard:

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a noncontrolling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements*
  Assets and liabilities classified as held for trading are not automatically classified as current in the consolidated balance sheet.

- PAS 16, *Property, Plant and Equipment*
  This amendment replaces the term ‘net selling price’ with ‘fair value less costs to sell’, to be consistent with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Assets*.

Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 19, *Employee Benefits*
  Revises the definition of 'past service costs' to include reduction in benefits related to past services ('negative past service costs') and to exclude reduction in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

  It revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

  Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled and it deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- PAS 23, *Borrowing Costs*
  Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

- PAS 28, *Investments in Associates*
  If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

  An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*
  Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interests in Joint Ventures*
  If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*
  When discounted cash flows are used to estimate 'fair value less costs to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*
  Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.

  It deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit-of-production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  Changes in circumstances relating to derivatives, specifically derivatives designated or de-designated as hedging instruments after initial recognition are not reclassifications.

  When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.

It removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.

It requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Properties*
  It revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

- PAS 41, *Agriculture*
  It removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.

  It removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Effective in 2010

Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*
Revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and noncontrolling interests (previously referred to as 'minority interests'); even if the losses exceed the noncontrolling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with noncontrolling interests.

Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible hedged items*
Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. This amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Effective in 2012

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services, in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The adoption of this Interpretation will be accounted for retrospectively, and will result to restatement of prior period financial statements. The adoption of this Interpretation may significantly affect the determination of revenue for real estate sales and the corresponding cost, and the related trade receivables, deferred tax liabilities and retained earnings accounts. The Group is in the process of quantifying the impact of adoption of this Interpretation when it becomes effective in 2012.

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 change in value.

Notes to Consolidated Financial Statements

Financial Instruments

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. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The Group also classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. 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 financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability 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.

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 methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Day 1 profit

Where the transaction price in a non-active market is different from 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 income" or "Interest expense and other financing charges" unless it qualifies for recognition as some other type of asset. 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. Fair value gains or losses on investments held for trading, net of interest income accrued on these assets, are recognized in the consolidated statement of income under "Other income" or "Other charges". Interest earned or incurred is recorded in "Interest income" or "Interest expense and other financing charges" while dividend income is recorded when the right of payments has been established.

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 any of 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 or investment 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 government securities and other investment securities and derivatives not designated as hedges.

<u>Derivative Financial Instruments</u>
Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As of December 31, 2007, the Group's derivative assets pertain to a nondeliverable currency forward contract and structured currency options included under "Other current assets" account in the consolidated balance sheet.

Derivative financial instruments also include bifurcated embedded derivatives. 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 FVPL.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

For bifurcated embedded derivatives in financial contracts that are not designated or do not qualify as hedges, changes in the fair values of such transactions are recognized in the consolidated statement of income.

As of December 31, 2008, the Company's bifurcated embedded derivative pertains to prepayment option on its loan which is included under the "Other noncurrent assets" account in the consolidated balance sheet.

Contracts that are entered into and continue to be held for the purpose of the receipt of the raw materials in accordance with the Group's expected usage requirements are considered normal purchase agreements.

HTM investments
HTM investments are quoted 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 investments. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "Interest income" in the consolidated statement of income. 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 under "Other charges" account. HTM investments are included in current assets if expected to be realized within 12 months from balance sheet date. HTM investments that are not due in the next 12 months are presented under "Investments in bonds and other securities" account in the consolidated balance sheet.

The Group's HTM investments pertain to bonds included under "Other current assets" account in 2008 and "Investments in bonds and other securities" in 2007.

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. This accounting policy relates both to the balance sheet captions "Short-term investments" which arise primarily from unquoted debt securities, and "Accounts and notes receivable" (except for Advances to contractors).

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

Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date.

AFS financial assets
AFS investments are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if 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 (loss) on available-for-sale financial assets” (net of tax where applicable) in equity. The Group’s share in its associates’ net unrealized gain (loss) on AFS is likewise included in this account.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under “Other income” or “Other charges”. Where the Group holds more than one investment in the same security, the cost is determined using the weighted average method. Interest earned on AFS financial assets is reported as interest income using the effective interest rate. Dividends earned are recognized under “Other income” in the consolidated statement of income when the right to receive payment is established. The losses arising from impairment of such investments are recognized under “Other charges” in the consolidated statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

The Group’s AFS financial assets pertain to investments in quoted and unquoted equity securities included under “Investments in bonds and other securities” 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.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to the Group’s short-term and long-term debt, accounts payable and accrued expenses, and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

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

For deposits, the difference between the cash received and its fair value is deferred (included in the “Deferred credits” account in the consolidated balance sheet) and amortized using the straight-line method under the “Sales and services” account in the consolidated statement of income.

Derecognition of Financial Assets and Liabilities

Financial asset

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

- the rights to receive cash flows from the assets have expired;
- 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
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the 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 has 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.

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 an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of 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 the consolidated statement of income under "Provision for doubtful accounts". 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 such as customer type, payment history, 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 equity and recognized in the consolidated statement of income under “Other charges”. 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. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of “Interest income” account in the consolidated statement of income. If, in a 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.

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.

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 consolidated statement of cash flows as items associated with noncurrent assets held for sale.

Land and Improvements
Land and improvements consist of properties for future development and are carried at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale. Cost includes cost of purchase and those costs incurred for improvement of the properties.

Investments in Associates and Jointly Controlled Entities
Investments in associates and jointly controlled entities (investee companies) are accounted for under the equity method. 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.

An investment is accounted for using the equity method from the day it becomes an associate. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the investees.

Under the equity method, investments in associates and jointly controlled entities 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. 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. Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies and to the extent that for unrealized losses, there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when its investment in an investee company is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee company. When the investee company 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.

Interest in a Joint Venture
Makati Development Corporation (MDC), an ALI subsidiary, has an interest in a joint venture, whereby the venturers have a contractual arrangement that establishes joint control. MDC recognizes its interest in the joint venture using proportionate consolidation. MDC combines its share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies into line with those of MDC.

Adjustments are made in the MDC's financial statements to eliminate MDC's share of unrealized gains and losses on transactions between MDC and the joint venture. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the NRV of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

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 follow:

Land improvements	5 years
Buildings	20-40 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is 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 property, plant and equipment 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 on a straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

Buildings and improvements	3-40 years
Machinery and equipment	3-10 years
Furniture, fixtures and equipment	2-10 years
Transportation equipment	3-5 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 assets residual values, useful lives and depreciation and amortization method are reviewed periodically to ensure that the amounts, periods and method 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 lives are assessed at the individual asset level. Intangible assets with finite lives are amortized over their useful lives on a straight line basis. 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 lives of intangible assets follow:

Customer relationships	2-5 years
Order backlog	6 months
Unpatented technology	5 years
Developed software	2 years
Licenses	3 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 intangible assets and is recognized in the consolidated statement of income when the intangible asset is derecognized.

Business Combinations and Goodwill
Business combinations 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 (including previously unrecognized intangible assets) acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of the impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment based on either the Group's primary or secondary reporting format determined in accordance with PAS 14, *Segment Reporting*.

Goodwill allocated to a CGU is included in the carrying amount of the CGU being disposed when determining the gain or loss on disposal. For partial disposal of operation within the CGU, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining gain or loss on disposal and measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained, unless another method better reflects the goodwill associated with the operation disposed of.

Impairment of Nonfinancial Assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is 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.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, 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 and amortization 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 jointly controlled entities
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee company. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the investee company is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the investee company and the carrying cost and recognizes the amount in the consolidated statement of income.

Impairment of goodwill
For assessing impairment of goodwill, a test for impairment is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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 obligations 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 Stock
Own equity instruments which are reacquired and held by the Company or by other companies of the consolidated group are carried at cost and are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue and Cost Recognition
Revenue and cost from sales of completed projects by real estate subsidiaries are 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 under "Other current liabilities" 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.

Rental income under noncancellable and cancellable leases on Investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

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

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 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 business process outsourcing services are recognized when services are rendered.

Revenue from internet operations are recognized when services are rendered and goods are delivered.

Interest income is recognized as it accrues using the effective interest method.

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

Gain or loss is recognized in the consolidated statement of income if the Company disposes some of its investment in a subsidiary or associate. Gain or loss is computed as the difference between the proceeds of the disposal and its carrying amount, including the carrying amount of goodwill, if any.

Leases
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).

Group as Lessee
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 as an expense in the consolidated statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

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.

Group as Lessor
Leases where the Group does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rent is recognized as revenue in the period in which it is earned.

Notes to Consolidated Financial Statements

Commission Expense
Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included under "Cost of sales and services" in the consolidated statement of income.

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, 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 from general borrowings and the actual borrowing costs eligible for capitalization for funds borrowed specifically.

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 net pension liability recognized in the consolidated balance sheet in respect of the defined benefit pension 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 using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related pension liabilities or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

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 are 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 Tax
Current tax
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 tax
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 income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in jointly controlled entities. With respect to investments in foreign subsidiaries, associates and interests in jointly controlled entities, 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 income will be available to allow all as part of 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 income will allow all as part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the consolidated balance sheet date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

Income tax relating to items recognized directly in equity is recognized in equity.

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.

Foreign Currency Transactions
The functional and presentation currency of Ayala Corporation and its Philippine subsidiaries (except for BHL, AIVPL and 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. Nonmonetary 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. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currency of BHL, AIVPL and IMI is the US Dollar ($). 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 accounts 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 Group's share in the associates' translation adjustments are likewise included under the Cumulative Translation Adjustments account in equity.

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. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will ultimately vest. Fair value is determined by using the Black-Scholes model, further details of which are provided in Note 24 to the consolidated financial statements.

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 awards ('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.

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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).

Employee share purchase plans
The Company and some of its subsidiaries have employee share purchase plans (ESOWN) which allow the grantees to purchase the Company's and its respective subsidiaries' shares at a discounted price. The Group recognizes the difference between the market price at the time of subscription and the subscription price as stock compensation expense over the holding period. Where the subscription receivable is payable over more than one year, the subscription price is adjusted for the time value and treated as additional stock compensation expense. For the unsubscribed shares where the employees still have the option to subscribe in the future, these are accounted for as options.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income attributable to common equity holders 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 attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. The calculation of diluted earnings per share does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share.

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 to the consolidated financial statements.

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 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 consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

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

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of these properties as the Group considered among others the length of the lease term is compared with the estimated useful life of the assets.

A number of the Group's operating lease contracts are accounted for as noncancellable operating leases and the rest are cancellable. In determining whether a lease contract is cancellable or not, the Company considers among others, the significance of the penalty, including the economic consequence to the lessee.

Operating lease commitments - Group as lessee
The Group has entered into a contract with Bases Conversion Development Authority (BCDA) to develop, under a lease agreement, a mall on a 9.8-hectare lot inside Fort Bonifacio. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessor.

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 appreciations 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.

Distinction between real estate inventories and land and improvements
The Group determines whether a property will be classified as real estate inventories or land and improvements. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (Real estate inventories) or whether it will be retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (Land and improvements).

HTM investments
The classification of HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances, it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

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

Financial assets not quoted in an active market
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

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 32).

Management's Use of Estimates
The key assumptions concerning the future and other sources of estimation and 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
ALI Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. ALI Group'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 impairment losses
The Group maintains allowance for doubtful accounts based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to group its receivables based on the credit risk characteristics (customer type, payment history, 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.

As of December 31, 2008 and 2007, allowance for impairment losses amounted to ₱460.9 million and ₱442.4 million, respectively. Accounts and notes receivable, net of allowance for doubtful accounts, amounted to ₱30.0 billion and ₱20.8 billion as of December 31, 2008 and 2007, respectively (see Note 6).

Evaluation of net realizable value of inventories
Inventories are valued at the lower of cost or NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, cost of completion and costs necessary to make a sale to determine the NRV. For real estate inventories, the Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. In determining the recoverability of the inventories, management considers whether those inventories are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. In the event that NRV is lower than the cost, the decline is recognized as an expense. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. Inventories carried at cost amounted to ₱8.0 billion and ₱7.1 billion as of December 31, 2008 and 2007, respectively. Inventories carried at NRV amounted to ₱2.0 billion and ₱1.8 billion as of December 31, 2008 and 2007, respectively (see Note 7).

Evaluation of asset impairment
The Group reviews investments in associates and jointly controlled entities, investment properties, property, plant and equipment and intangible assets for impairment of value. Impairment for goodwill is assessed at least annually. 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.

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 investments in associates and jointly controlled entities, investment properties, property, plant and equipment and intangible assets.

For goodwill, this requires an estimation of the recoverable amount which is the net selling price or value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

For 2008, the Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and assumes a steady growth rate. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

In determining the amount of impaired goodwill in 2007, the Group determined the recoverable amount of the investment in a subsidiary based on the estimated net selling price of the cash generating unit to which the goodwill is allocated. The excess of the carrying amount of the investment over the estimated net selling price is allocated first to the goodwill, resulting in an impairment loss of ₱662.6 million (see Note 13).

Investments in associates and jointly controlled entities, investment properties, property, plant and equipment and intangible assets amounted to ₱107.1 billion and ₱100.4 billion as of December 31, 2008 and 2007, respectively (see Notes 9, 11, 12 and 13).

Estimating useful lives of investment properties, property, plant and equipment, and intangible assets
The Group estimated the useful lives of its investment properties, property, plant and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property, plant and equipment and intangible assets 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.

Investment properties, property, plant and equipment and intangible assets amounted to ₱39.0 billion and ₱29.2 billion as of December 31, 2008 and 2007, respectively (see Notes 11, 12 and 13).

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 income 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 income 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.

As of December 31, 2008 and 2007, the Group has net deferred tax assets amounting to ₱1,132.8 million and ₱983.6 million, respectively and net deferred tax liabilities amounting to ₱185.5 million and ₱155.8 million, respectively (see Note 21).

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.

Total expense arising from share-based payments recognized by the Group amounted to ₱342.9 million in 2008, ₱288.0 million in 2007 and ₱285.4 million in 2006.

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 to the consolidated financial statements 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 to the consolidated financial statements 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 or disclosed in the notes to the consolidated financial statements 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. Certain financial assets and liabilities were initially recorded at fair values by using the discounted cash flow method.

Notes to Consolidated Financial Statements

4. Cash and Cash Equivalents

This account consists of the following:

	2008	2007
	(In Thousands)	
Cash on hand and in banks	**₱3,772,560**	₱4,041,960
Cash equivalents	**39,113,232**	32,793,589
	₱42,885,792	₱36,835,549

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid 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 prevailing short-term rates.

5. Short-term Investments

This account consists of the following:

	2008	2007
	(In Thousands)	
Money market placements	**₱1,008,924**	₱2,287,606
Investment Management Account (IMA)	**–**	1,400,000
	₱1,008,924	₱3,687,606

Money market placements are short-term investments made for varying periods of more than three months and up to six months and earn interest at the respective short-term investment rates.

The IMA is a six-month investment made through a Directional IMA with a local bank where funds are invested in special depository accounts with the Bangko Sentral ng Pilipinas (BSP).

6. Accounts and Notes Receivable

This account consists of the following:

	2008	2007
	(In Thousands)	
Trade:		
Real estate	**₱10,565,254**	₱9,412,522
Electronics manufacturing	**3,152,168**	2,972,599
Automotive	**665,670**	779,768
Information technology and business process outsourcing (BPO)	**352,084**	362,238
International and others	**64,074**	66,943
Related parties (Note 27)	**8,441,996**	2,395,624
Advances to other companies	**2,735,712**	2,231,057
Advances to contractors and suppliers	**2,496,665**	1,394,106
Others	**1,965,297**	1,660,794
	30,438,920	21,275,651
Less allowance for doubtful accounts	**460,889**	442,404
	29,978,031	20,833,247
Less noncurrent portion	**6,694,021**	4,010,373
	₱23,284,010	₱16,822,874

The classes of trade receivables of the Group follow:

Real estate
Real estate receivables are receivables relating to residential development which pertain to receivables from the sale of high-end, upper middle-income and affordable residential lots and units and leisure community developments, construction contracts which pertain to receivables from third party construction projects, shopping centers which pertain to lease receivables of retail space, corporate business which pertain to lease receivables of office and factory buildings and receivables from the sale of office buildings and industrial lots, and management fees which pertain to facility management fees receivable.

The sales contracts receivable, included in real estate receivables, are collectible in monthly installments over a period of one to ten years and bear annual interest rates ranging from 2.5% to 18.0% computed on the diminishing balance of the principal. Titles to real estate properties are not transferred to the buyers until full payment has been made.

Electronics manufacturing
Electronics manufacturing receivables pertain to receivables arising from manufacturing and other related services for electronic products and components and collectible within 30 to 60 days from invoice date.

Automotive
Automotive receivables are receivables relating to manufacture and sale of passenger cars and commercial vehicles and are collectible within 30 to 90 days from date of sale.

Information technology and business process outsourcing
Information technology and business process outsourcing receivables arose from venture capital for technology businesses; provision of value-added content for wireless services, online 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.

International and others
International and other receivables arose from investments in overseas property companies and projects, charter services, agri-business and others.

Receivables from related parties and advances to other companies
Receivable from related parties includes notes receivable issued to related parties which are interest bearing and payable based on the terms of the notes. Advances to other companies are due and demandable.

Advances to contractors and suppliers
Advances to contractors are recouped every progress billing payment depending on the percentage of accomplishment.

Others
Other receivables include accrued interest receivable, receivable from employees and other nontrade receivables.

Movements in the allowance for doubtful accounts follow (in thousands):

	2008						
	Real Estate	**Electronics Manufacturing**	**Automotive**	**Information Technology and BPO**	**International and Others**	**Others**	**Total**
At January 1	**₱119,508**	**₱31,180**	**₱26,107**	**₱18,261**	**₱61,160**	**₱186,188**	**₱442,404**
Provisions during the year (Note 19)	**61,526**	**7,256**	**217**	**5,866**	**–**	**14,006**	**88,871**
Write-offs	**(44,305)**	**–**	**–**	**–**	**–**	**–**	**(44,305)**
Reversals	**–**	**(2,159)**	**–**	**(5,007)**	**–**	**(18,915)**	**(26,081)**
At December 31	**₱136,729**	**₱36,277**	**₱26,324**	**₱19,120**	**₱61,160**	**₱181,279**	**₱460,889**
Individually impaired	**₱82,628**	**₱36,277**	**₱217**	**₱19,120**	**₱60,134**	**₱178,218**	**₱376,594**
Collectively impaired	**54,101**	**–**	**26,107**	**–**	**1,026**	**3,061**	**84,295**
Total	**₱136,729**	**₱36,277**	**₱26,324**	**₱19,120**	**₱61,160**	**₱181,279**	**₱460,889**
Gross amount of loans and receivables individually determined to be impaired, before deducting any individually assessed impairment allowance	**₱83,124**	**₱36,277**	**₱217**	**₱19,120**	**₱60,134**	**₱225,012**	**₱423,884**

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	2007						
	Real Estate	Electronics Manufacturing	Automotive	Information Technology and BPO	International and Others	Others	Total
At January 1	₱106,976	₱20,449	₱32,925	₱14,045	₱61,142	₱206,100	₱441,637
Provisions during the year (Note 19)	36,065	31,003	–	4,216	18	56,399	127,701
Write-offs	(22,818)	(13,308)	(6,818)	–	–	(75,954)	(118,898)
Reversals	(715)	(6,964)	–	–	–	(357)	(8,036)
At December 31	₱119,508	₱31,180	₱26,107	₱18,261	₱61,160	₱186,188	₱442,404
Individually impaired	₱32,119	₱31,180	₱–	₱18,261	₱60,134	₱185,462	₱327,156
Collectively impaired	87,389	–	26,107	–	1,026	726	115,248
Total	₱119,508	₱31,180	₱26,107	₱18,261	₱61,160	₱186,188	₱442,404
Gross amount of loans and receivables individually determined to be impaired, before deducting any individually assessed impairment allowance	₱32,119	₱31,180	₱–	₱18,261	₱60,134	₱232,256	₱373,950

As of December 31, 2008 and 2007, certain real estate receivables with a nominal amount of ₱9,485.5 million and ₱5,865.7 million, respectively, were recorded initially at fair value. The fair value of the receivables was obtained by discounting future cash flows using the applicable rates of similar types of instruments. The unamortized discount amounted to ₱830.4 million and ₱768.7 million as of December 31, 2008 and 2007, respectively.

In November 2008, ALI Group entered into agreements with certain financial institutions for the sale of real estate receivables without recourse amounting to ₱1,537.0 million at an average discount rate of 6.4%. The discount on these receivables amounting to ₱103.8 million has been included under “Other charges” in the consolidated statement of income.

7. Inventories

This account consists of the following:

	2008	2007
	(In Thousands)	
Real estate inventories:		
Subdivision land for sale		
At cost	**₱3,156,622**	₱3,429,872
At NRV	**608,955**	455,100
Condominium, residential and commercial units for sale - at cost	**3,681,273**	2,341,030
Club Shares - at cost	**281,022**	57,978
Materials, supplies and others - at NRV (cost of ₱1,650,194 in 2008 and ₱1,301,195 in 2007)	**1,296,231**	1,196,332
Work-in-process - at cost	**344,240**	294,558
Vehicles - at cost	**265,478**	719,766
Finished goods - at cost	**268,958**	228,151
Parts and accessories - at NRV (cost of ₱135,296 in 2008 and ₱146,468 in 2007)	**108,576**	119,748
	₱10,011,355	₱8,842,535

Inventories recognized as cost of sales amounted to ₱40.3 billion and ₱34.4 billion in 2008 and 2007, respectively, and were included under costs of sales and services in the consolidated statement of income.

In 2008, the Group recorded provision for impairment losses on inventories amounting to ₱136.6 million (see Note 19).

8. **Other Current Assets**

This account consists of the following:

	2008	2007
	(In Thousands)	
Financial assets at FVPL	**₱2,233,201**	₱622,097
Prepaid expenses	**1,845,997**	1,116,792
Creditable withholding tax	**1,209,148**	494,628
Value-added input tax	**1,102,560**	621,653
HTM investments	**65,405**	–
Derivative assets	**–**	143,322
Others	**634,083**	572,180
	₱7,090,394	₱3,570,672

Financial assets at FVPL consist of:

	2008	2007
	(In Thousands)	
Held for trading:		
Government securities	**₱1,778,720**	₱318,018
Designated as at FVPL:		
Investment securities	**454,481**	304,079
	₱2,233,201	₱622,097

Government securities pertain to treasury bonds and treasury bills that have yields to maturity of 5.5% to 6.4% in 2008 and 5.7% in 2007, respectively. The Group recognized unrealized loss on these government securities amounting to ₱3.9 million in 2008, unrealized gain of ₱18.0 million in 2007 and unrealized gain of ₱43.8 million in 2006 (see Note 19). The Group recognized realized gain on disposals amounting to ₱1.1 million and ₱52.6 million in 2008 and 2007, respectively (see Note 19).

Investment securities pertain mostly to the Group's investment in The Rohatyn Group (TRG) Allocation LLC, which has a fair value of US$9.4 million (₱448.2 million) and US$6.6 million (₱271.5 million), as of December 31, 2008 and 2007, respectively. Unrealized gains on this investment amounted to US$2.9 million (₱119.5 million) and US$0.5 million (₱22.1 million) in 2008 and 2007, respectively (see Note 19).

Prepaid expenses mainly include prepayments for commissions, marketing fees, advertising and promotion, taxes and licenses, rentals and insurance.

Creditable withholding tax amounting to ₱473.1 million as of December 31, 2007 was reclassified from "Accounts and notes receivable - net" to "Other current assets".

The value-added input tax is applied against value-added output tax. The remaining balance is recoverable in future periods.

As of December 31, 2008, HTM investments pertain to fixed rate treasury notes that bear effective interest rate of 11.4% and will mature on February 25, 2009. In prior years, HTM investment is presented as part of "Investments in bonds and others securities" in the consolidated balance sheet (see Note 10).

As of December 31, 2007, derivative assets pertain to those of ALI and IMI. ALI has an outstanding nondeliverable forward contract with a notional amount of US$25.0 million and a forward rate of ₱44.48 with maturity date of October 30, 2008. This forward contract was preterminated in April 2008. Fair value gains amounting to ₱7.0 million was recognized in 2008 and marked-to-market gain amounting to ₱59.0 million was recognized in 2007. IMI has an outstanding structured currency option with a notional amount of US$11.1 million. Fair value gain amounting to ₱168.8 million was recognized in 2007, inclusive of ₱84.3 million mark-to-market gain.

In 2008, IMI entered into additional structured currency options for economic hedges which it unwound in the 2nd quarter of 2008 (see Note 19). The remaining outstanding structured currency options after the unwinding program have maturity dates of up to November 2008. As of December 31, 2008, IMI has no outstanding derivative assets.

Fair Value Changes on Derivatives
The net movements in fair values of the Group's freestanding derivative instruments as of December 31, 2008 and 2007 follow:

	2008	2007
	(In Thousands)	
Balance at beginning of year	**₱143,322**	₱–
Net changes in fair value of derivatives not designated as accounting hedges	**(1,448,978)**	227,841
	(1,305,656)	227,841
Fair value of settled instruments	**(1,305,656)**	84,519
Balance at end of year	**₱–**	₱143,322

The net changes in fair value of derivatives not designated as accounting hedges pertaining to free standing derivative instruments include hedging losses amounting ₱1,456.0 million in 2008 included under "Interest expense and other financing charges" and fair value gain amounting to ₱7.0 million in 2008 and ₱227.8 million in 2007 included as part of "Net marked-to-market gain" under "Other income" account in the consolidated statement of income (see Note 19).

Embedded Derivatives (see Note 16)

	2008
Balance at inception	₱84,907
Net changes in fair value of derivatives not designated as accounting hedges	(4,387)
	80,520
Fair value of settled instruments	–
Balance at end of year	₱80,520

The net changes in fair value of derivatives not designated as accounting hedges during the year pertaining to embedded derivatives were included as part of "Net marked-to-market gain" under "Other income" in the consolidated statement of income (see Note 19). As of December 31, 2008, these embedded derivatives were classified under "Other Noncurrent Assets" account.

9. Investments in Associates and Jointly Controlled Entities

This account consists of the following:

	2008	2007 (As Restated - Note 2)
	(In Thousands)	
Acquisition cost	**₱51,383,363**	₱52,185,116
Accumulated equity in earnings	**16,532,190**	17,746,625
Cumulative translation adjustments and equity reserves	**224,841**	1,339,891
	₱68,140,394	₱71,271,632

The Group's equity in the net assets of its associates and jointly controlled entities and the related percentages of ownership are shown below.

	Percentage of Ownership		Carrying Amounts	
	2008	2007	**2008**	2007 (As Restated - Note 2)
Domestic:			(In Millions)	
Bank of the Philippine Islands and subsidiaries (BPI)	**33.5****	33.5**	**₱28,533**	₱30,852
Globe Telecom, Inc. and subsidiaries (Globe)*	**30.5**	33.3	**18,000**	21,461

(Forward)

	Percentage of Ownership		Carrying Amounts	
	2008	2007	**2008**	2007 (As Restated - Note 2)
			(In Millions)	
Domestic:				
EGS Corporation*	**50.0**	–	**₱3,346**	₱–
MWCI and subsidiaries*	**29.9****	30.0**	**3,188**	2,712
Emerging City Holdings, Inc. (ECHI)*	**50.0**	50.0	**2,823**	2,485
Cebu Holdings, Inc. and subsidiaries (CHI)	**47.2**	47.2	**1,940**	1,810
North Triangle Depot Commercial Corporation (NTDCC)	**49.0**	49.0	**1,555**	1,541
Berkshires Holdings, Inc. (BHI)*	**50.0**	50.0	**1,210**	1,065
Philwater Holdings Company, Inc. (Philwater)*	**60.0**	60.0	**1,193**	1,030
Bonifacio Land Corporation (BLC)	**5.0**	5.0	**1,118**	934
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	**843**	794
Alabang Commercial Corporation (ACC)*	**50.0**	50.0	**595**	573
eTelecare Global Solutions, Inc. (eTelecare)	**–**	22.2**	**–**	2,753
ALI Property Partners Holdings Corporation (APPHC) (Note 20)	**–**	60.0*	**–**	238
Foreign:				
Arch Asian Partners L.P.	**19.2****	19.4**	**959**	894
Others	**Various**	Various	**2,837**	2,130
			₱68,140	₱71,272

** Jointly controlled entities*
*** Effective ownership interest of the Company*

The fair value of investments in listed associates and jointly controlled entities for which there are published price quotations amounted to ₱79,767.2 million and ₱140,115.2 million as of December 31, 2008 and 2007, respectively.

Financial information on significant associate and jointly controlled entities (amounts in millions, except earnings per share figures) follows:

BPI	**2008**	2007
Total resources	**₱666,612**	₱637,285
Total liabilities	**602,740**	566,154
Minority interest	**938**	1,120
Net interest income	**19,463**	18,950
Other income	**10,321**	13,604
Other expenses	**18,312**	18,311
Net income attributable to:		
Equity holders of the bank	**6,423**	10,012
Minority interests	**134**	214
Earnings per share		
Basic	**1.98**	3.09
Diluted	**1.98**	3.09

Globe	**2008**	2007
Current assets	**₱17,541**	₱18,740
Noncurrent assets	**102,202**	97,881
Total assets	**119,743**	116,621
Current liabilities	**33,728**	27,600
Noncurrent liabilities	**35,923**	33,604
Total liabilities	**69,651**	61,204
Net operating revenue	**65,964**	68,042
Costs and expenses	**48,118**	47,991
Net income	**11,276**	13,277
Earnings per share:		
Basic	**84.75**	100.07
Diluted	**84.61**	99.58

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MWCI	2008	2007 (As restated)
Current assets	**₱8,595**	₱4,122
Noncurrent assets	**27,774**	23,819
Total assets	**36,369**	27,941
Current liabilities	**4,231**	4,427
Noncurrent liabilities	**17,680**	11,036
Total liabilities	**21,911**	15,463
Revenue	**8,914**	7,332
Costs and expenses	**4,396**	3,864
Net income	**2,788**	2,597
Earnings per share:		
Basic	**1.13**	1.06
Diluted	**1.13**	1.06

The following significant transactions affected the Group's investments in its associates and jointly controlled entities:

Investment in BPI
In 2007, BPI adopted the provisions of Pre-need Rule 31, As Amended, *Accounting Standards for Pre-need Plans and Pre-need Uniform Chart of Accounts*, as required by the SEC. As provided under SEC Interpretative Bulletin No. 1, Series of 2008, the impact of the adoption did not result in a restatement of BPI's prior year financial statements. The adjustment resulting from the transition to the Amended Pre-need Rule 31 amounting to ₱253.5 million was reflected in the opening balance of retained earnings as of January 1, 2007 of BPI. The Company's share in the said adjustment amounting to ₱85.0 million is reflected as a reduction in the January 1, 2007 retained earnings.

Investment in Globe
In June 2008, the Company sold 3.8 million shares to Singapore Telecom, Inc. (SingTel) decreasing its ownership interest in Globe's common shares from 33.3% to 30.5%. The Company's gain arising from the sale of investments in Globe shares amounted to ₱2.7 billion (see Note 19). The Company also holds 60% of Asiacom Philippines, Inc., which owns 158.5 million Globe preferred shares. The Company does not exercise control over Asiacom since it is a joint venture with SingTel.

Investment in EGS Corporation and eTelecare
In 2007, LiveIt acquired additional 3.9 million eTelecare common shares at a cost of ₱1.9 billion increasing its ownership interest in eTelecare from 11.2% to 22.2% as of December 31, 2007. LiveIt accounted for its investment in eTelecare using the equity method from the date that eTelecare became an associate.

On September 19, 2008, NewBridge International Investments, Ltd. (NewBridge), a subsidiary of the Company through LIL, together with Providence Equity Partners (Providence), entered into a Definitive Agreement to acquire up to all of the outstanding shares of eTelecare common shares and American Depository Shares (ADS) for US$9.00 per share. New Bridge and Providence formed a 50-50 joint venture company, EGS Corporation to own 100% of EGS Acquisition Corp.

On December 12, 2008, EGS Acquisition Corp. acquired through a tender offer, 98.7% of the outstanding eTelecare common shares and ADS for a total consideration of US$285.3 million plus US$9.4 million in transactions costs. The 22.2% eTelecare shares owned by Newbridge were tendered and included in the purchase.

Investment in MWCI
Beginning January 1, 2008, MWCI adopted Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (see Note 2). The impact on the Company is a decrease in the retained earnings and investments in associates and jointly controlled entities balance as of January 1, 2008 and 2007 by ₱288.6 million and ₱347.7 million, respectively.

Investment in NTDCC
In 2007, a series of capital calls were made by NTDCC amounting to ₱484.8 million, increasing ALI's overall invested capital to ₱1,450.0 million or a 49.29% stake.

NTDCC was assigned development rights over certain areas of the MRT Depot in Quezon City by MRT Development Co. to construct and operate a commercial center under certain terms and conditions until the end of a 50-year development period renewable for another 25 years. NTDCC was primarily organized to own and operate the commercial center atop the MRT Depot. NTDCC officially started the construction of the shopping center, now known as TriNoma, in 2005 and became operational on May 16, 2007.

Investment in ECHI, BHI and BLC
ALI and Regent's (an ALI subsidiary) investments in BLC are accounted for using the equity method because the ALI Group has significant influence over BLC. ECHI and BHI are joint venture companies established by ALI to indirectly hold its equity interest in BLC.

On July 31, 2008, the ALI Group acquired additional 4,360,178 shares of BLC from Fort Bonifacio Development Corporation amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC. This resulted in an increase in ALI Group's effective interest in BLC from 37.23% to 41.10%.

Investment in Philwater
The Company does not exercise control over Philwater since it is a joint venture with United Utilities Pacific Holdings BV.

Investment in ARCH Fund
In 2006, the Company and ALI entered into a Shareholders' Agreement with ARCH Capital and Great ARCH Co. Limited, wherein the Company and ALI committed to invest a total of US$75.0 million in a private equity fund that will explore property markets in Asia, excluding Japan and Philippines. On the same year, an Amendment and Adherence Agreement was entered into by the same parties, together with Fine State Group Limited (Fine State) and Green Horizons Holdings Limited (Green Horizons), transferring the interests of the Company and ALI in ARCH Capital into Fine State and Green Horizons, respectively. Fine State and Green Horizons are effectively 100% owned Hong Kong based subsidiaries of the Company and ALI, respectively.

The Company (through Fine State) and ALI (through Green Horizons) both have interests in the fund management company, ARCH Capital, which is tasked to raise third party capital and pursue investments for the Fund. As of December 31, 2008 and 2007, the Company (through Fine State) and ALI (through Green Horizon) owned a combined interest in ARCH Capital of 50%.

In 2007, the private equity fund, called ARCH Asian Partners, L.P. (Fund) was established. As of December 31, 2007, the Fund achieved its final closing, resulting in a total investor commitment of US$330.0 million. As a result, a portion of the funds disbursed by the Company and ALI which were invested into the Fund has been returned in 2007, reducing the Company and ALI's overall invested capital to ₱580.3 million as of December 31, 2007. In 2008, the Fund issued a capital call where the Company and ALI's share amounted to US$3.9 million.

The Company and ALI exercise significant influence over the Fund by virtue of their interest in the general partner and in ARCH Capital. Accordingly, the Company and ALI account for their investments in the Fund using the equity method of accounting.

The excess of cost of investments over the Group's equity in the net assets of its associates and jointly controlled entities accounted for under the equity method amounted to ₱10.6 billion and ₱10.8 billion as of December 31, 2008 and 2007, respectively.

10. Investments in Bonds and Other Securities

This account consists of investments in:

	2008	2007
	(In Thousands)	
AFS equity investments		
Quoted	**₱1,449,982**	₱628,112
Unquoted	**1,614,520**	1,796,854
	3,064,502	2,424,966
HTM investments (Note 8)		
Bonds	**–**	67,947
	₱3,064,502	₱2,492,913

The unquoted 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. It also includes the Group's investments in Red River Holding in 2008. The Red River Holding is a fund that seeks to achieve a balanced and diversified portfolio of Vietnamese companies.

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Unquoted investments in shares of stock also includes unlisted preferred shares in a public utility company which the Group will continue to carry as part of the infrastructure that it provides for its real estate development projects. These are carried at cost less impairment, if any.

As of December 31, 2008 and 2007, the Net Unrealized Gain (Loss) on AFS financial assets as reflected in the equity section is broken down as follows:

	2008	2007
	(In Thousands)	
Net unrealized gain on AFS financial assets of the Company and its consolidated subsidiaries	**₱78,320**	₱834,589
Share in the net unrealized gain (loss) on AFS of associates	**(709,447)**	877,427
	(₱631,127)	₱1,712,016

The rollforward of unrealized gain (loss) on AFS financial assets of the Company and its consolidated subsidiaries follows:

	2008	2007
	(In Thousands)	
Balance at beginning of year	**₱834,589**	₱1,739,515
Changes in fair value recognized in equity	**(1,862,720)**	(882,257)
Loss (gain) removed from equity and recognized in profit and loss	**1,106,451**	(22,669)
Balance at end of year	**₱78,320**	₱834,589

11. **Investment Properties**

The movements of investment properties follow:

	2008	2007
	(In Thousands)	
Cost		
At January 1	**₱22,696,439**	₱21,523,096
Additions	**773,716**	929,835
Addition through business combination (Note 20)	**3,731,452**	–
Disposals	**(308,271)**	(906,248)
Transfers	**–**	1,149,756
At December 31	**26,893,336**	22,696,439
Accumulated depreciation and amortization and impairment losses		
At January 1	**5,280,266**	4,728,434
Depreciation and amortization (Note 19)	**730,845**	881,546
Addition through business combination (Note 20)	**73,828**	–
Disposals	**(250,180)**	(208,997)
Reversal of impairment loss	**–**	(120,717)
At December 31	**5,834,759**	5,280,266
Net book value	**₱21,058,577**	₱17,416,173

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 aggregate fair value of the Group's investment properties amounted to ₱131.91 billion in 2008 and ₱123.8 billion in 2007. The fair values of the investment properties were determined based on valuations performed by independent professional qualified appraisers.

Consolidated rental income from investment properties amounted to ₱5.9 billion in 2008, ₱5.5 billion in 2007 and ₱5.2 billion in 2006. Consolidated direct operating expenses arising from the investment properties amounted to ₱3.1 billion in 2008, ₱2.4 billion in 2007 and ₱2.1 billion in 2006.

In 2007, investment properties which were damaged during the Glorietta 2 explosion and other investment properties connected to the Ayala Center redevelopment with net book values of ₱72.0 million and ₱141.9 million, respectively, were written off by ALI (see Note 19).

12. **Property, Plant and Equipment**

The movements in property, plant and equipment follow:

	2008						
	Land, Buildings and Improvements (Note 16)	**Machinery and Equipment** (Note 26)	**Hotel Property and Equipment** (Note 16)	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Construction-in-Progress**	**Total**
				(In Thousands)			
Cost							
At January 1	₱3,407,607	₱6,675,439	₱2,693,069	₱1,985,808	₱1,040,022	₱1,354,449	₱17,156,394
Additions	376,720	1,269,742	236,064	276,505	477,798	3,328,603	5,965,432
Addition through business combination (Note 20)	227	70,046	–	23,698	1,640	1,288,753	1,384,364
Disposals	(317,916)	(235,628)	(2,001)	(59,994)	(118,428)	(4,216)	(738,183)
Transfers and others	351,257	(138,384)	–	(226,327)	8,666	–	(4,788)
At December 31	3,817,895	7,641,215	2,927,132	1,999,690	1,409,698	5,967,589	23,763,219
Accumulated depreciation and amortization and impairment loss							
At January 1	1,760,130	3,372,359	1,399,430	1,515,742	615,888	–	8,663,549
Depreciation and amortization for the year (Note 19)	325,341	938,985	102,523	260,529	205,204	–	1,832,582
Impairment loss for the year (Note 19)	36,003	–	–	37,400	–	–	73,403
Additions through business combination (Note 20)	27	65,557	–	8,632	1,439	–	75,655
Disposals	(283,376)	(187,297)	(2,001)	(44,063)	(89,250)	–	(605,987)
Transfers and others	142,426	(123,609)		(183,429)	2,069		(162,543)
At December 31	1,980,551	4,065,995	1,499,952	1,594,811	735,350	–	9,876,659
Net book value	₱1,837,344	₱3,575,220	₱1,427,180	₱404,879	₱674,348	₱5,967,589	₱13,886,560

	2007						
	Land, Buildings and Improvements (Note 16)	Machinery and Equipment (Note 26)	Hotel Property and Equipment (Note 16)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
				(In Thousands)			
Cost							
At January 1	₱3,435,033	₱6,327,518	₱2,702,209	₱2,068,901	₱937,686	₱952,377	₱16,423,724
Additions	141,277	885,535	29,511	156,172	184,712	1,904,972	3,302,179
Disposals	(190,745)	(156,141)	(38,651)	(119,797)	(81,788)	(23,802)	(610,924)
Transfers and others	22,042	(381,473)	–	(119,468)	(588)	(1,479,098)	(1,958,585)
At December 31	3,407,607	6,675,439	2,693,069	1,985,808	1,040,022	1,354,449	17,156,394
Accumulated depreciation and amortization and impairment loss							
At January 1	1,429,479	2,783,886	1,326,151	1,280,517	546,616	–	7,366,649
Depreciation and amortization for the year (Note 19)	357,986	893,756	111,231	318,620	137,584	–	1,819,177
Disposals	(27,335)	(305,283)	(37,952)	(83,395)	(68,312)	–	(522,277)
At December 31	1,760,130	3,372,359	1,399,430	1,515,742	615,888	–	8,663,549
Net book value	₱1,647,477	₱3,303,080	₱1,293,639	₱470,066	₱424,134	₱1,354,449	₱8,492,845

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱1,832.6 million in 2008, ₱1,819.2 million in 2007 and ₱1,681.4 million in 2006 (see Note 19).

In 2008, IMI recognized an impairment loss amounting to ₱73.4 million representing the carrying amount of the production assets dedicated to EPSON Imaging Devices, Panasonic Communication of the Philippines and Panac Co. Ltd., net of reimbursements received, following the pre-termination of the existing manufacturing agreements with said companies (see Note 19).

As of December 31, 2008 the Group has commitments of ₱8,897.6 million relating to the completion of the construction-in-progress projects.

13. Intangible Assets

The movements in intangible assets follow:

	2008						
	Goodwill	**Customer Relationships**	**Order Backlog**	**Unpatented Technology**	**Developed Software**	**Licenses**	**Total**
				(In Thousands)			
Cost							
At January 1	**₱3,264,238**	**₱936,354**	**₱4,128**	**₱4,128**	**₱20,312**	**₱140,946**	**₱4,370,106**
Addition through business combination (Note 20)	**492,483**	**153,680**	**–**	**–**	**–**	**–**	**646,163**
Exchange differences	**374,275**	**136,435**	**–**	**624**	**–**	**20,635**	**531,969**
At December 31	**4,130,996**	**1,226,469**	**4,128**	**4,752**	**20,312**	**161,581**	**5,548,238**
Accumulated amortization and impairment loss							
At January 1	**₱662,591**	**₱414,487**	**₱4,128**	**₱1,652**	**₱11,551**	**₱–**	**₱1,094,409**
Amortization (Note 19)	**–**	**318,766**	**–**	**826**	**8,761**	**48,436**	**376,789**
Exchange differences	**–**	**62,655**	**–**	**249**	**–**	**–**	**62,904**
At December 31	**662,591**	**795,908**	**4,128**	**2,727**	**20,312**	**48,436**	**1,534,102**
Net book value	**₱3,468,405**	**₱430,561**	**₱–**	**₱2,025**	**₱–**	**₱113,145**	**₱4,014,136**

	2007						
	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Total
				(In Thousands)			
Cost							
At January 1	₱3,493,437	₱1,035,092	₱4,928	₱4,928	₱24,526	₱–	₱4,562,911
Addition through business combination (Note 20)	317,100	–	–	–	–	–	317,100
Additions during the year	278	12,000	–	–	–	140,946	153,224
Exchange differences	(546,577)	(110,738)	(800)	(800)	(4,214)	–	(663,129)
At December 31	3,264,238	936,354	4,128	4,128	20,312	140,946	4,370,106
Accumulated amortization and impairment loss							
At January 1	–	127,142	4,928	986	–	–	133,056
Amortization (Note 19)	–	320,923	–	926	11,551	–	333,400
Impairment loss (Note 19)	662,591	–	–	–	–	–	662,591
Exchange differences	–	(33,578)	(800)	(260)	–	–	(34,638)
At December 31	662,591	414,487	4,128	1,652	11,551	–	1,094,409
Net book value	₱2,601,647	₱521,867	₱–	₱2,476	₱8,761	₱140,946	₱3,275,697

Goodwill is mainly comprised of the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by IMI and Integreon, Inc.

Impairment testing of goodwill for IMI
Goodwill acquired through business combinations have been allocated to three individual CGUs of IMI for impairment testing as follows:

	2008		2007	
	In US$	**In Php***	In US$	In Php**
		(In Thousands)		
Speedy Tech Electronics, Ltd.	**US$45,128**	**₱2,144,483**	US$45,128	₱1,862,884
Saturn	**657**	**31,221**	657	27,121
M. Hansson Consulting, Inc.	**441**	**20,956**	441	18,204
	US46,226	**₱2,196,660**	US$46,226	₱1,908,209

**Translated using the closing exchange rate at the balance sheet date (US$1:₱47.52)*
***Translated using the closing exchange rate at the balance sheet date (US$1:₱41.28)*

The recoverable amounts of the CGUs have been determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 10% and 11% in 2008 and 2007, respectively, and cash flows beyond the five-year period are extrapolated using a very conservative steady growth rate of 1% which does not exceed the compound annual growth rate for the global EMS industry.

Key assumptions used in value-in-use calculations
The calculations of value-in-use for the CGUs are most sensitive to assumptions on budgeted gross margins, growth rates and pre-tax discount rates.

Gross margins are based on the mix of business model arrangements with the customers whether semi or full turnkey. The forecasted growth rate is based on a very conservative steady growth rate which does not exceed the compound annual growth rate for global EMS industry. Discount rates reflect management's estimate of the risks specific to each CGU. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Based on the value-in-use calculations, the carrying values of the CGUs did not exceed their recoverable amounts. Therefore, IMI did not recognize any impairment loss in 2008.

With regard to the assessment of value-in-use of the three CGUs, IMI management believes that a reasonably possible change in any of the above key assumptions will not cause the carrying value of the CGU to materially exceed its recoverable amount.

Impairment testing of goodwill for Integreon, Inc.
The Goodwill of Integreon, Inc. (Integreon) arose from the acquisition of the following companies:

	2008		2007	
	In US$	**In Php***	In US$	In Php**
		(In Thousands)		
CBF Group, Inc.	**US$10,153**	**₱482,471**	US$6,556	₱270,632
Integreon Managed Solutions, Inc.	**8,770**	**416,750**	8,770	362,026
Datum Legal, Inc.	**3,678**	**174,779**	–	–
Contentscape	**370**	**17,582**	370	15,274
	US$22,971	**₱1,091,582**	US$15,696	₱647,932

**Translated using the closing exchange rate at the balance sheet date (US$1:₱47.52)*
***Translated using the closing exchange rate at the balance sheet date (US$1:₱41.28)*

Goodwill has been allocated to the Integreon CGU for purposes of impairment testing. The recoverable amount of the CGU has been determined based on value-in-use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 22% and cash flows beyond the five-year period are extrapolated using a steady growth rate of 5%.

Key assumptions used in value-in-use calculation
The calculations of value-in-use for the CGU are most sensitive to the following assumptions: revenue growth for the five-year projection period, growth rate beyond the five-year period and the pre-tax discount rate. The assumptions are based on management's estimate after considering industry outlook.

Based on the value-in-use calculation, the carrying value of the CGU did not exceed its recoverable amount. Therefore, Integreon did not recognize any impairment loss in 2008.

With regard to the assessment of value-in-use of the CGU, Integreon management believes that a reasonably possible change in any of the above key assumptions will not cause the carrying value of the CGU to materially exceed its recoverable amount.

14. **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).

AHI, together with Ocmador Philippines B. V., agreed to sell MPVI to DBS Trustee Ltd. (Trustee of Ascott Residence Trust) on March 22, 2007.

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.

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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 SGD3.5 million.

In 2007, the Group recognized a gain amounting to ₱598.7 million as a result of the consummation of the sale of MPVI and ₱26.0 million as a result of the Hermill sale (included in “Income associated with noncurrent assets held for sale” in the consolidated statement on income).

The result of MPVI for 2006 is presented below (amounts in thousands):

Sales and services	₱733,261
Interest, fees, investment and other income	12,871
	746,132
Cost of sales and services	339,457
Depreciation	102,446
General administrative expenses	23,475
Interest and other financing charges	39,527
Provision for income tax	85,969
	590,874
Income associated with noncurrent assets held for sale	₱155,258

The carrying amounts of the major classes of assets and liabilities of MPVI and Hermill classified as held for sale as of December 31, 2006 are as follows (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 comprises a fixed rate US$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 follows:

	2007	2006
	(In Thousands, except EPS figures)	
Income associated with noncurrent assets held for sale	₱624,788	₱155,258
Less: Income associated with noncurrent assets held for sale attributable to minority interests	139,982	108,681
	484,806	46,577
Weighted average number of common shares for basic EPS	496,787	495,654
Dilutive shares arising from stock options	2,374	2,435
Adjusted weighted average number of common shares for diluted EPS	499,161	498,089
Basic EPS	₱0.98	₱0.09
Diluted EPS	₱0.97	₱0.09

15. **Accounts Payable and Accrued Expenses**

This account consists of the following:

	2008	2007
	(In Thousands)	
Accounts payable	**₱15,671,340**	₱13,289,481
Accrued expenses	**6,998,095**	6,044,523
Accrued project costs	**2,022,903**	540,618
Dividends payable	**1,333,740**	1,213,727
Accrued personnel costs	**505,772**	223,887
Interest payable	**398,207**	579,886
Retentions payable	**317,945**	32,577
Related parties (Note 27)	**192,372**	297,786
Taxes payable	**43,162**	38,682
	₱27,483,536	₱22,261,167

Accounts payable and accrued expenses are noninterest-bearing and are normally settled on 15- to 60-day terms. Other payables are noninterest-bearing and are normally settled within one year.

Accrued expenses consist mainly of light and power, marketing costs, film share, professional fees, postal and communication, supplies, repairs and maintenance, transportation and travel, security, insurance, and representation.

16. **Short-term and Long-term Debt**

Short-term debt consists of:

	2008	2007
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 7.0% to 9.6% per annum in 2008 and 5.5% to 7.9% per annum in 2007	**₱1,501,000**	₱2,243,900
Foreign currency debt - with interest rates ranging from 2.5% to 6.4% per annum in 2008 and 2.7% to 6.4% per annum in 2007	**1,254,447**	390,248
	₱2,755,447	₱2,634,148

The Philippine peso debt consists mainly of ALI and its subsidiaries' bank loans of ₱1,279.5 million and ₱1,613.0 million as of December 31, 2008 and 2007, respectively. These are unsecured peso-denominated short-term borrowings with interest rates ranging from 7.0% to 8.5% per annum in 2008 and 5.5% to 7.9% per annum in 2007.

The foreign currency debt consists mainly of IMI's loans from various banks with interest rates ranging from 2.5% to 3.6% per annum in 2008 and 2.7% to 4.1% per annum in 2007.

Long-term debt consists of:

	2008	2007
	(In Thousands)	
The Company:		
Bank loans - with interest rates ranging from 6.3% to 6.6% per annum in 2008 and 4.5% to 5.3% per annum in 2007 and varying maturity dates up to 2013	**₱6,990,000**	₱7,129,091
Fixed Rate Corporate Notes (FXCNs) with interest rates ranging from 6.7% to 10.4% per annum and varying maturity dates up to 2014	**10,662,500**	10,680,000
Bonds due 2012	**6,000,000**	6,000,000
Syndicated term loan	**1,584,907**	–
	25,237,407	23,809,091

(Forward)

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	2008	2007
	(In Thousands)	
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 2.7% to 15.0% per annum in 2008 and 6.0% to 15.0% per annum in 2007	**₱10,985,557**	₱9,639,934
Philippine peso - with interest rates ranging from 9.5% to 20.0% per annum in 2008 and 5.0% to 20.0% per annum in 2007	**7,819,128**	2,866,532
Bonds:		
Due 2008	**–**	2,000,000
Due 2009	**106,930**	80,470
Due 2013	**4,000,000**	–
FXCNs	**3,580,000**	3,580,000
8.125% Guaranteed Notes	**–**	5,421,438
	26,491,615	23,588,374
	51,729,022	47,397,465
Less current portion	**1,478,871**	9,512,760
	₱50,250,151	₱37,884,705

The Company
Generally, the Company's long-term loans are 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 ₱2,844.0 million as of December 31, 2008 and ₱1,809.9 million as of December 31, 2007 in accordance with BSP 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.

In 2007, the Company issued ₱3.5 billion FXCNs consisting of 5- and 7-year notes to a local bank with fixed interest rates of 6.725% and 6.7% per annum, respectively.

In 2005, the Company issued ₱7.2 billion FXCNs consisting of 5- and 7- year notes to various institutions with fixed interest rates of 10.0% and 10.375% per annum, respectively.

In 2007, the Company issued 6.825% Fixed Rate Bonds with an aggregate principal amount of ₱6.0 billion to mature in 2012. Prior to maturity, the Company may redeem in whole the outstanding bonds on the twelfth and sixteenth coupon payment date. The bonds have been rated "PRS Aaa" by the Philippine Ratings Services Corporation (PhilRatings).

In the first quarter of 2008, the Company availed of a syndicated term loan amounting to ₱1.5 billion which bears fixed interest rate of 6.7% per annum and will mature in 2018. The embedded derivative of the loan pertaining to its prepayment option amounting ₱80.5 million was bifurcated and included as part of "Other Noncurrent Assets" account in the consolidated balance sheets. Fair value loss on the bifurcated embedded derivative option amounted to ₱4.4 million in 2008.

Subsidiaries
Foreign Currency Debt
In August 2008, the Company, through a wholly owned subsidiary, entered into a 5-year syndicated term loan with a foreign bank, with the Company as guarantor, for US$50.0 million at a rate of 52 points over the 1-, 3- or 6 month LIBOR at the Company's option. As of December 31, 2008, the outstanding balance of this loan amounted to US$25.0 million and undrawn borrowing facilities amounting to US$25.0 million.

In 2007, the Company, through a wholly owned subsidiary, entered into a 5-year syndicated loan for US$150.0 million at a rate of 71.4 basis points over the 1 month, 3 month or 6 month LIBOR at the Company's option.

In 2006, IMI obtained a US$40.0 million 5-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. IMI may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty. The interest is repriced quarterly at the rate of 3-months LIBOR plus margin of 0.80% and is payable quarterly. In 2007, IMI prepaid a portion of the loan amounting to US$10.0 million.

In 2006, IMI Singapore, a wholly owned subsidiary of IMI, obtained a US$40.0 million variable rate 5-year loan, repayable in 10 equal semi-annual installments of US$4.0 million commencing on May 29, 2007 and maturing on November 29, 2011. The interest is repriced semi-annually at the LIBOR rate plus 0.75% quoted by the bank and is payable semi-annually. As of December 31, 2008, outstanding balance amounted to US$24.0 million.

Philippine Peso Debt
The Philippine Peso loans pertain to ALI subsidiaries' loans that will mature on various dates up to 2015 with floating interest rates at 100 basis points to 150 basis points spread over benchmark 91-day PDST-R1/R2 and fixed interest rates of 6.97% to 9.72% per annum. The term loan facility of a subsidiary is secured by a Mortgage Trust Indenture over land and building with a total carrying value of ₱811.8 million and ₱612.2 million as of December 31, 2008 and 2007, respectively.

5-Year Bonds due 2008
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 10.8% 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 basis points over benchmark 91-day PDST-F and are repriced quarterly. The bonds were fully paid when it matured in November 2008.

Home Starter Bonds due 2009
ALI launched in March 2006 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 towards the purchase of an Ayala Land Premier, Alveo or Avida property. As of end of 2008 and 2007, outstanding Homestarter Bonds amounted to ₱106.9 million and ₱80.5 million, respectively.

5-Year Bonds due 2013
In 2008, ALI issued ₱4.0 billion bonds due 2013 with fixed rate equivalent to 8.75% p.a. The PhilRatings assigned a PRS Aaa rating on the bonds indicating that it has the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS Aaa is the highest credit rating possible on PhilRatings' rating scales for long-term issuances.

5-,7-and 10-year FXCNs due in 2011, 2013 and 2016
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 7.3% to 7.8% per annum depending on the term of the notes.

10-year FXCNs due 2012
ALI also has an outstanding ₱580.0 million 10-year FXCNs with fixed interest rate of 14.9% per annum issued in 2002 and due 2012. In February 2009, ALI prepaid in full such FXCNs.

Guaranteed Notes
In 2003, the Company, through a wholly owned subsidiary, issued 8.1% Guaranteed Notes, due 2008, amounting to US$200 million at 99.5% of its face value. These were fully paid in 2008.

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 as of December 31, 2008 and 2007.

Total interest paid amounted to ₱3.7 billion in 2008, ₱3.8 billion in 2007 and ₱5.4 billion in 2006.

Interest capitalized by subsidiaries amounted to ₱151.0 million in 2008 and ₱3.4 million in 2007. The average capitalization rate is 4.90% and 0.14% in 2008 and 2007, respectively.

17. Other Noncurrent Liabilities

This account consists of the following:

	2008	2007
	(In Thousands)	
Deposits and deferred credits	**₱4,880,443**	₱4,070,262
Retentions payable	**1,766,831**	1,117,079
Other liabilities	**940,806**	1,630,302
	₱7,588,080	₱6,817,643

Deposits are initially recorded at fair value, which was obtained by discounting future cash flows using the applicable rates of similar types of instruments. The difference between the cash received and its fair value is recorded as deferred credits.

18. Equity

The details of the Company's common and equity preferred shares follow:

	Common shares			**Preferred A shares**		**Preferred B shares**	
	2008	2007	2006	**2008**	2007	**2008**	2007
	(In Thousands, except par value figures)						
Authorized shares	**600,000**	600,000	380,000	**12,000**	–	**58,000**	58,000
Par value per share	**₱50**	₱50	₱50	**₱100**	–	**₱100**	₱100
Issued and subscribed shares	**498,362**	414,687	344,854	**12,000**	–	**58,000**	58,000
Treasury shares	**1,378**	324	4	**–**	–	**–**	–

Preferred shares
In February 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 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) nonconvertible 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) nonvoting 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.

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 (PSE). 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 a 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.

On January 31, 2008, the BOD approved the re-issuance and reclassification of 1.2 billion redeemed Preferred A and AA shares with a par value of ₱1.00 per share into 12.0 million new Preferred A shares with a par value of ₱100 per share with the same features as the existing Preferred B shares, except on the issue price and dividend rate and the amendment of the Company's amended Articles of Incorporation to reflect the reclassification of the redeemed Preferred shares into new Preferred A shares. On April 4, 2008, the Company's stockholders ratified the reissuance and reclassification.

On July 9, 2008, the Securities Exchange Commission (SEC) approved the amendments to the Company's Articles of Incorporation embodying the reclassification of redeemed Preferred shares.

In November 2008, the Company filed a primary offer in the Philippines of its Preferred A shares at an offer price of ₱500 per share to be listed and traded on the PSE. The Preferred A 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 a dividend rate of 8.88% per annum. The Preferred A shares may be redeemed at the option of the Company starting in the fifth year.

Common shares
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.

On April 30, 2007, the Company's application for increase in authorized common stock and stock dividends were approved by the SEC.

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:

2008

	Preferred Stock - A	Preferred Stock - B	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-up Capital
				(In Thousands)			
As of January 1, 2008	**₱–**	**₱5,800,000**	**₱20,633,667**	**₱100,685**	**₱657,422**	**(₱336,380)**	**₱26,855,394**
Exercise of ESOP/ESOWN	**–**	**–**	**–**	**44,913**	**319,151**	**(64,745)**	**299,319**
Issuance of shares	**1,200,000**	**–**	**110**	**–**	**4,758,175**	**–**	**5,958,285**
Stock dividends	**–**	**–**	**4,138,716**	**–**	**–**	**–**	**4,138,716**
As of December 31, 2008	**₱1,200,000**	**₱5,800,000**	**₱24,772,493**	**₱145,598**	**₱5,734,748**	**(₱401,125)**	**₱37,251,714**

2007

	Preferred Stock - B	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-up Capital
			(In Thousands)			
As of January 1, 2007	₱5,800,000	₱17,166,964	₱75,754	₱335,343	(₱240,113)	₱23,137,948
Exercise of ESOP/ESOWN	–	17,119	24,931	322,079	(96,267)	267,862
Stock dividend	–	3,449,584	–	–	–	3,449,584
As of December 31, 2007	₱5,800,000	₱20,633,667	₱100,685	₱657,422	(₱336,380)	₱26,855,394

2006

	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

The movements in the Company's outstanding number of common shares follow:

	2008	2007	2006
		(In Thousands)	
At January 1	**414,363**	344,850	343,488
Stock dividends	**82,774**	68,991	–
Exercise of options ESOP/ESOWN	**898**	841	1,362
Issuance of shares	**3**	–	–
Treasury stock	**(1,054)**	(319)	–
	496,984	414,363	344,850

On September 10, 2007, the BOD approved the creation of a share buyback program involving ₱2.5 billion worth of common capital stock. In 2008 and 2007, the Company acquired 1,054,422 and 319,243 common shares, respectively, at a total cost of ₱390.8 million and ₱159.4 million, respectively. As of December 31, 2008 and 2007, treasury stock amounted to ₱550.5 million and ₱159.7 million, respectively.

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In addition, ₱100.0 million Preferred A shares of the Company have been acquired by ALI. This has been accounted for as "Parent Company Preferred shares held by a subsidiary" and presented as a reduction in equity.

Retained Earnings

Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries, associates and jointly controlled entities accounted for under the equity method amounting to ₱30,308.0 million, ₱29,824.0 million and ₱24,858.9 million as of December 31, 2008, 2007 and 2006, respectively.

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

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2008 amounted ₱30,746.0 million.

Dividends consist of the following:

	2008	2007	2006
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	**₱1,989,484**	₱3,312,426	₱2,756,618
Cash dividends per share	**₱4.00**	₱8.00	₱8.00
Stock dividends	**₱4,138,716**	₱3,449,584	–
Dividends to equity preferred shares declared during the year	**₱548,552**	₱548,552	₱274,276

On January 31, 2008, the BOD approved the declaration of a 20% stock dividend to all common share holders of the Company as of a record date to be approved at the annual stockholders' meeting. On April 4, 2008, the Company's stockholders ratified the declaration of the 20% stock dividends to all stockholders.

Capital Management

The primary objective of the Company's capital management policy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2008 and 2007.

The Company is not subject to externally imposed capital requirements.

The Company monitors capital using a gearing ratio of debt to equity and net debt to equity. Debt consists of short-term and long-term debt. Net debt includes short-term and long-term debt less cash and cash equivalents and short-term investments. The Company considers as capital the equity attributable to equity holders of the Company.

	2008	2007 (As Restated)
	(In Thousands)	
Short-term debt	**₱2,755,447**	₱2,634,148
Long-term debt	**51,729,022**	47,397,465
Total debt	**54,484,469**	50,031,613
Less:		
Cash and cash equivalents	**42,885,792**	36,835,549
Short-term investments	**1,008,924**	3,687,606
Net debt	**₱10,589,753**	₱9,508,458
Equity attributable to equity holders of the Company	**₱97,311,191**	₱86,887,210
Debt to equity	**56%**	58%
Net debt to equity	**11%**	11%

19. **Other Income and Costs and Expenses**

Other income consists of:

	2008	2007	2006
		(In Thousands)	
Gain on sale of investments	**₱3,554,679**	₱8,844,822	₱5,542,090
Management and marketing fees	**626,350**	485,802	590,066
Foreign exchange gain	**181,858**	626,766	72,424
Dividend income	**148,914**	73,500	180,250
Marked-to-market gain (Note 8)	**119,229**	320,610	43,841
Others	**785,720**	376,875	569,338
	₱5,416,750	₱10,728,375	₱6,998,009

Gain on sale of investments consists mostly of gain arising from the sale of the Company's investments in listed subsidiary, associate and jointly controlled entities.

In March 2008, ALI sold its shares of stock in Streamwood Property, Inc., Piedmont Property Ventures, Inc. and Stonehaven Land, Inc. Total consideration received from the sale amounted to ₱902.0 million. Gain on sale amounted to ₱762.0 million included under "Gain on sale of investments".

In December 2007, ALI entered into a joint venture with Kingdom Hotel Investments, Inc. to develop a 7,377-square meter property along Makati Avenue corner Arnaiz Avenue (formerly Pasay Road) into a luxury hotel complex comprising a 300-room Fairmont Hotel, a 30-suite Raffles Hotel and 189 Raffles branded private residences. The total project cost is approximately US$153.0 million.

The 7,377-square meter property to be developed was conveyed by ALI to KHI-ALI Manila, Inc. (KAMI) in exchange for 37,250 common shares, 38,250 redeemable preferred shares A and 16,758 preferred shares of KAMI. On December 13, 2007, ALI sold 16,758 of its preferred shares in KAMI to Kingdom Manila B.V., which resulted in a gain of ₱1,004.0 million, reported under "Gain on sale of investments".

Other income includes income derived from ancillary services of consolidated subsidiaries.

Depreciation and amortization expense included in the consolidated statements of income follow:

	2008	2007	2006
		(In Thousands)	
Included in:			
Cost of sales and services	**₱1,821,069**	₱1,971,932	₱1,960,042
General and administrative expenses	**1,119,147**	1,016,947	630,316
	₱2,940,216	₱2,988,879	₱2,590,358

Personnel costs included in the consolidated statements of income follow:

	2008	2007	2006
		(In Thousands)	
Included in:			
Cost of sales and services	**₱4,869,732**	₱4,495,767	₱3,432,411
General and administrative expenses	**4,753,473**	4,168,554	3,959,265
	₱9,623,205	₱8,664,321	₱7,391,676

General and administrative expenses included in the consolidated statement of income are as follows:

	2008	2007	2006
		(In Thousands)	
Personnel costs (Notes 23, 24 and 27)	**₱4,753,473**	₱4,168,554	₱3,959,265
Depreciation and amortization	**1,119,147**	1,016,947	630,316
Professional fees	**616,969**	796,979	574,881
Taxes and licenses	**454,387**	530,583	349,229
Advertising and promotions	**420,620**	234,330	158,455
Transportation and travel	**338,855**	376,087	347,977
Rental and utilities	**298,472**	357,666	253,519

(Forward)

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	2008	2007	2006
		(In Thousands)	
Postal and communication	**₱157,226**	₱153,649	₱126,733
Supplies	**137,599**	161,459	111,509
Entertainment, amusement and recreation	**129,273**	141,782	188,911
Donations and contributions	**123,312**	126,541	106,969
Repairs and maintenance	**116,317**	132,257	81,239
Provision for doubtful accounts (Note 6)	**88,871**	127,701	79,783
Insurance	**73,342**	59,703	45,088
Dues and fees	**66,365**	61,033	65,381
Research and development	**48,685**	189,693	48,561
Contract labor	**39,677**	36,952	23,051
Others	**502,924**	826,390	557,294
	₱9,485,514	₱9,498,306	₱7,708,161

Interest expense and other financing charges consist of:

	2008	2007	2006
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱244,466**	₱321,891	₱512,997
Long-term debt	**3,216,017**	3,544,488	4,219,374
Hedging losses (Note 8)	**1,455,952**	–	–
Dividends on preferred shares	**–**	154,335	291,681
Others	**20,673**	99,446	–
	₱4,937,108	₱4,120,160	₱5,024,052

During the first half of 2008, IMI entered into additional structured currency options for economic hedges. The economic turn-around during the second quarter of 2008 led to a weaker peso which resulted in an unfavorable position on IMI's derivative transactions. In May 2008, the BOD of IMI approved the unwinding of four major derivative contracts and IMI incurred unwinding cost amounting to $33.36 million or ₱1.46 billion. The net changes in fair value of settled derivative instruments not designated as accounting hedges are included as part of "Interest expense and other financing charges". The fair value of settled instruments includes the unwinding cost of US$33.36 million for the year ended December 31, 2008.

Other charges consist of:

	2008	2007	2006
		(In Thousands)	
Provision for impairment losses (Notes 7, 10 and 12)	**₱1,259,085**	₱–	₱217,580
Impairment loss on goodwill (Note 13)	**–**	662,591	–
Write-offs and other charges	**–**	669,949	–
Others	**336,337**	237,404	169,339
	₱1,595,422	₱1,569,944	₱386,919

In 2007, write-offs and other charges include the write-down of investment properties damaged by the Glorietta 2 explosion and related expenses incurred, and demolition and relocation costs as part of the ALI's Ayala Center redevelopment program amounting to a total of ₱213.7 million in 2007 (See Note 11).

20. Business Combinations

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 has been completed from the acquisition date.

2008 Acquisitions

Datum Legal, Inc.

On May 30, 2008, Integreon Managed Solutions, Inc., a wholly owned subsidiary of Integreon Inc. which in turn is a subsidiary of LIL, acquired 100% of Datum Legal, Inc. (Datum).

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 US$	In Php*
	(In Thousands)	
Cash and cash equivalents	US$530	₱23,261
Trade and other receivables	2,156	94,667
Other current assets	68	2,998
Property and equipment - net	364	15,986
Other noncurrent assets	12	507
	3,130	137,419
Accounts payable and accrued expenses	1,324	58,149
Other current liabilities	450	19,780
Other noncurrent liabilities	128	5,575
	1,902	83,504
Net assets	1,228	53,915
Intangible assets arising on acquisition	3,500	153,680
Goodwill arising on acquisition	3,678	161,511
Total consideration	US$8,406	₱369,106

**Translated using the exchange rate at the transaction date (US$1:₱43.91)*

Cost of the acquisition follows:

	In US$	In Php*
	(In Thousands)	
Cash paid	US$7,289	₱320,066
Shares issued	631	27,701
Transaction costs	486	21,339
	US$8,406	₱369,106

**Translated using the exchange rate at the transaction date (US$1:₱43.91)*

Cash flow on acquisition follows:

	In US$	In Php*
	(In Thousands)	
Net cash acquired with the subsidiary	US$530	₱23,261
Cash paid	7,775	341,405
Net cash outflow	US$7,245	₱318,144

**Translated using the exchange rate at the transaction date (US$1:₱43.91)*

From the date of acquisition, Datum had contributed ₱38.9 million 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 increased by ₱111.2 million and revenue would have increased by ₱417.2 million in 2008.

ALI Property Partners Holdings Company (APPH)

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

As of December 31, 2007, APPHC, the joint-venture company, is 60% owned by ALI. APPHC owns 60% interest in its subsidiary, ALI Property Partners Corporation (APPCo.). The remaining 40% interest in both APPHC and APPCo. are split evenly between MIL and FIL. APPHC and APPCo. are jointly controlled by ALI, MIL, and FIL.

On December 8, 2008, ALI acquired from FIL its 20% ownership in APPHC and APPCo. This resulted in an increase in ALI's effective ownership interest in APPHC from 60% to 80% and APPCo. from 36% to 68%, thereby providing ALI with the ability to control the operations of APPHC and APPCo. following the acquisition. Accordingly, APPHC and APPCo.'s financial statements are consolidated on a line-by-line basis with that of the Group as of December 31, 2008.

The purchase price allocation has been prepared on a preliminary basis, and reasonable changes are expected as additional information becomes available. Following is a summary of the provisional fair values of the identifiable assets acquired and liabilities assumed of APPHC and APPCo. as of the date of acquisition, as the Group still has to finalize the fair values (amounts in thousands):

Assets:	
Cash and cash equivalents	₱227,266
Accounts and notes receivables - net	189,105
Other current assets	645,582
Investment property - net	3,657,624
Property and equipment - net	1,292,723
Other assets	30,959
	6,043,259
Liabilities:	
Accounts and accrued expenses	718,625
Deposits and other current liabilities	41,212
Loans payable	3,348,200
Deposits and other noncurrent liabilities	373,523
	4,481,560
Net assets	1,561,699
Minority interest in APPHC	632,444
	929,255
Net assets of APPHC acquired	185,851
Minority interest in APPCo. acquired	316,222
Total net assets acquired	502,073
Provisional goodwill	150,530
Acquisition cost	652,603
Cash and cash equivalents acquired with the subsidiary	227,266
Acquisition cost, net of cash acquired	₱425,337

From the date of acquisition, APPHC and APPCo's additional contribution to the Group's net income is immaterial. Had the combination taken place at the beginning of the year, the net income of the Group would have increased by ₱7.5 million and revenue from continuing operations would have increased by ₱323.0 million.

Total cost directly attributable to the business combination amounted to ₱15.6 million.

2007 Acquisitions
On February 17, 2007, Integreon Managed Solutions, Inc. (IMSI), a wholly owned subsidiary of Integreon, which in turn is a subsidiary of LIL, entered into a Stock Purchase Agreement with CBF Group, Inc. (CBF) and the sole shareholder of CBF for the purchase of all 100,000 issued and outstanding common shares of stock of CBF.

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 US$	In Php*
	(In Thousands)	
Cash and cash equivalents	US$20	₱939
Trade and other receivables	350	16,935
Other current assets	71	3,455
Property and equipment - net	581	28,122
	1,022	49,451

(Forward)

	Fair Value Recognized on Acquisition	
	In US$	In Php*
	(In Thousands)	
Accounts payable and accrued expenses	US$69	₱3,347
Other current liabilities	749	36,235
	818	39,582
Net assets	204	9,869
Goodwill arising on acquisition	6,556	317,100
Total cash consideration	US$6,760	₱326,969

**Translated using the exchange rate at the transaction date (US$1:₱48.37)*

Cash flow on acquisition follows:

	In US$	In Php*
	(In Thousands)	
Net cash acquired with the subsidiary	US$20	₱939
Cash paid	6,760	326,969
Net cash outflow	US$6,740	₱326,030

**Translated using the exchange rate at the transaction date (US$:₱48.37)*

From the date of acquisition, CBF's additional contribution to the Group's net income is immaterial. If the contribution had taken place at the beginning of the year, the net income for the Group would have decreased by ₱8.3 million and revenue would have increased by ₱268.3 million in 2007.

In 2008, IMSI paid an additional US$3.6 million representing earn-out paid to CBF's former shareholders. This was reflected as additional goodwill. In 2008, IMSI finalized its purchased price allocation and there were no significant changes to the fair values of the assets acquired and liabilities assumed of CBF.

21. Income Taxes

The components of the Group's deferred taxes as of December 31, 2008 and 2007 are as follows:

Net Deferred Tax Assets

	2008	2007
	(In Thousands)	
Deferred tax assets on:		
Allowance for probable losses	**₱796,299**	₱686,007
Unrealized gain, deposits and accruals for various expenses on real estate transactions	**446,236**	391,709
Retirement benefits	**144,850**	188,718
Share-based payments	**62,265**	47,541
NOLCO	**28,854**	19,007
MCIT	**5,214**	7,670
Others	**233,895**	386,976
	1,717,613	1,727,628
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(553,912)**	(723,404)
Others	**(30,854)**	(20,659)
	(584,766)	(744,063)
Net deferred tax assets	**₱1,132,847**	₱983,565

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Net Deferred Tax Liabilities

	2008	2007
	(In Thousands)	
Deferred tax assets on:		
Unrealized gain, deposits and accruals for various expenses on real estate transactions	**₱63,593**	₱59,756
NOLCO	**36,984**	49,026
Others	**13,347**	9,232
	113,924	118,014
Deferred tax liabilities on:		
Excess of financial realized gross profit over taxable realized gross profit	**(137,854)**	(123,808)
Capitalized interest and other expenses	**(117,271)**	(122,673)
Others	**(44,335)**	(27,289)
	(299,460)	(273,770)
Net deferred tax liabilities	**(₱185,536)**	(₱155,756)

The Group has NOLCO amounting to ₱7.2 billion and ₱8.0 billion in 2008 and 2007, respectively, which were not recognized. Further, deferred tax assets from the excess MCIT over regular corporate income tax amounting to ₱41.2 million in 2008 and ₱37.1 million in 2007 and from unrealized gain on real estate sales amounting to ₱4.8 million as of December 31, 2007, respectively, was 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, 2008, 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)	
2006	2009	₱3,004,989	₱15,449
2007	2010	2,095,519	20,248
2008	2011	2,282,936	17,482
		₱7,383,444	₱53,179

At December 31, 2008 and 2007, deferred tax liabilities have not been recognized on the undistributed earnings and cumulative translation adjustment of foreign subsidiaries, associates and jointly controlled entities 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 ₱2,051.0 million and ₱2,075.0 million as of December 31, 2008 and 2007, respectively.

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

	2008	2007 (As Restated)	2006 (As Restated)
Statutory income tax rate	**35.00%**	35.00%	35.00%
Tax effects of:			
Gain on sale of shares and capital gains tax	**(7.43)**	(17.56)	(13.98)
Nontaxable equity in net earnings of associates and jointly controlled entities	**(19.80)**	(16.70)	(17.84)
Interest income subjected to final tax at lower rates	**(2.45)**	(1.82)	(1.15)
Income under income tax holiday	**(0.22)**	(0.04)	0.16
Effect of change in tax rate	**0.90**	–	–
Others	**12.49**	10.81	9.40
Effective income tax rate	**18.49%**	9.69%	11.59%

As of December 31, 2008, the deferred tax assets and liabilities are set-up based on the 30% corporate tax rate which became effective beginning January 1, 2009 as provided under Republic Act No. 9337.

22. **Earnings Per Share**

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Company:

	2008	2007 (As Restated)	2006 (As Restated)
	(In Thousands, except EPS figures)		
Net income	**₱8,108,597**	₱16,256,601	₱12,173,113
Less dividends on preferred stock (Note 18)	**548,552**	548,552	274,276
	₱7,560,045	₱15,708,049	₱11,898,837
Weighted average number of common shares	**496,756**	496,787	495,654
Dilutive shares arising from stock options	**1,719**	2,374	2,435
Adjusted weighted average number of common shares for diluted EPS	**498,475**	499,161	498,089
Basic EPS	**₱15.22**	₱31.62	₱24.01
Diluted EPS	**₱15.17**	₱31.47	₱23.89

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

	2008	2007 (As Restated)	2006 (As Restated)
	(In Thousands, except EPS figures)		
Income before income associated with noncurrent assets held for sale	**₱10,658,688**	₱18,437,341	₱14,308,709
Less: Income before income associated with noncurrent assets held for sale associated to minority interests	**2,550,091**	2,665,546	2,182,173
Less: Dividends on preferred stock (Note 18)	**548,552**	548,552	274,276
	₱7,560,045	₱15,223,243	₱11,852,260
Weighted average number of common shares for basic EPS	**496,756**	496,787	495,654
Dilutive shares arising from stock options	**1,719**	2,374	2,435
Adjusted weighted average number of common shares for diluted EPS	**498,475**	499,161	498,089
Basic EPS	**₱15.22**	₱30.64	₱23.91
Diluted EPS	**₱15.17**	₱30.50	₱23.80

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 ₱195.6 million in 2008, ₱331.5 million in 2007 and ₱319.5 million in 2006.

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.

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The components of retirement expense in the consolidated statement of income are as follows:

	2008	2007	2006
		(In Thousands)	
Current service cost	**₱263,055**	₱260,685	₱239,923
Interest cost on benefit obligation	**215,771**	158,528	240,125
Expected return on plan assets	**(247,462)**	(167,940)	(163,718)
Curtailment gain	**(11,447)**	–	–
Net actuarial loss (gain)	**(29,573)**	(18,715)	4,362
Past service cost	**2,796**	98,539	1,466
Effect of ceiling limit	**2,504**	357	(2,642)
Total retirement expense	**₱195,644**	₱331,454	₱319,516
Actual return on plan assets	**(₱410,372)**	₱244,109	₱295,694

The funded status and amounts recognized in the consolidated balance sheet for the pension plan assets of subsidiaries in a net pension asset position as of December 31, 2008 and 2007 are as follows:

	2008	2007
	(In Thousands)	
Benefit obligation	**(₱306,808)**	(₱683,176)
Plan assets	**730,490**	817,507
	423,682	134,331
Unrecognized net actuarial losses (gains)	**(306,294)**	6,657
Unrecognized past service cost	**–**	(412)
Assets recognized in the consolidated balance sheet	**₱117,388**	₱140,576

The funded status and amounts recognized in the consolidated balance sheet for the pension plan liabilities of the Company and subsidiaries in a net pension liability position as of December 31, 2008 and 2007 are as follows:

	2008	2007
	(In Thousands)	
Benefit obligation	**(₱3,136,033)**	(₱3,025,722)
Plan assets	**2,283,634**	2,916,832
	(852,399)	(108,890)
Unrecognized net actuarial losses (gains)	**331,431**	(460,983)
Unrecognized past service cost	**30,224**	38,321
Liabilities recognized in the consolidated balance sheet	**(₱490,744)**	(₱531,552)

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

	2008	2007
	(In Thousands)	
Balance at January 1	**₱3,708,898**	₱4,012,650
Interest cost on benefit obligation	**215,771**	158,528
Current service cost	**263,055**	260,685
Benefits paid	**(342,328)**	(291,372)
Curtailments	**(34,104)**	–
Settlements	**(153,679)**	–
Actuarial gains on obligations	**(214,791)**	(569,821)
Past service cost	**19**	138,228
Balance at December 31	**₱3,442,841**	₱3,708,898

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

	2008	2007
	(In Thousands)	
Balance at January 1	**₱3,734,339**	₱3,508,563
Expected return	**247,462**	167,940
Contributions by employer	**186,164**	273,039
Benefits paid	**(342,328)**	(291,372)
Settlements	**(153,679)**	–
Actuarial gains (losses) on plan assets	**(657,834)**	76,169
Balance at December 31	**₱3,014,124**	₱3,734,339

The assumptions used to determine pension benefits for the Group are as follows:

	2008	2007
Discount rates	**7.0 to 13.4%**	7.0 to 12.0%
Salary increase rates	**4.5 to 8.0%**	5.0 to 10.0%
Expected rates of return on plan assets	**3.0 to 8.0%**	3.3 to 10.0%

The allocation of the fair value of plan assets of the Group follows:

	2008	2007
Investments in debt securities	**51.4%**	63.6%
Investments in equity securities	**25.0%**	29.0%
Others	**23.6%**	7.4%

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

	2008	2007	2006	2005	2004
			(In Thousands)		
Defined benefit obligation	**(₱3,442,841)**	(₱3,708,898)	(₱4,012,650)	(₱3,026,065)	(₱2,458,164)
Plan assets	**3,014,124**	3,734,339	3,508,563	2,910,036	1,775,607
Excess (deficit)	**(₱428,717)**	₱25,441	(₱504,087)	(₱116,029)	(₱682,557)

Experience adjustments on plan liabilities amounted to ₱566.1 million loss in 2008, ₱136.6 million gain in 2007 and ₱41.8 million loss in 2006. Experience adjustment on plan assets amounted to ₱658.5 million loss in 2008, ₱76.2 million gain in 2007 and ₱132.0 million gain in 2006.

The Company expects to contribute ₱165.2 million to its defined benefit pension plan in 2009.

As of December 31, 2008 and 2007, the plan assets include shares of stock of the Company with total fair value of ₱357.8 million and ₱614.0 million, respectively.

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

24. Stock Option Purchase Plans

The Company has stock option plans key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 3.0% of the Company's authorized capital stock. The grantees are selected based on certain criteria like outstanding performance over a defined period of time.

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

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ESOP

A summary of the Company's stock option activity and related information for the years ended December 31, 2008, 2007 and 2006 follows:

	2008		2007		2006	
	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	**2,837,102**	**₱170.30**	2,533,908	₱205.13	3,785,816	₱202.56
Exercised	**(52,499)**	**(150.99)**	(169,656)	(203.37)	(1,251,908)	(197.35)
Adjustment due to 20% stock dividends (Note 18)	**567,415**	**–**	472,850	–	–	–
Outstanding, at end of year	**3,352,018**	**₱141.18**	2,837,102	₱170.30	2,533,908	₱205.13

The options have a contractual term of 10 years. As of December 31, 2008 and 2007, the weighted average remaining contractual life of options outstanding is 4.3 years and 5.2 years, respectively, and the range of exercise prices amounted from ₱107.29 to ₱187.19.

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

ESOWN

The Company also has 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. To subscribe, the grantee must be an employee of the Company or any of its subsidiaries during the 10-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Company's Right to Repurchase.

Shares granted and subscribed under the ESOWN follows:

	2008	2007
Granted	**1,015,200**	623,335
Subscribed	**898,260**	619,912
Exercise price	**₱284.96**	₱400.00

Subscriptions receivable from the stock option plans covering the Company's shares are presented under equity.

For the unsubscribed shares, the employee still has the option to subscribe from the start of the fifth year but not later than on the start of the seventh year from date of grant. Movements in the number of options outstanding under ESOWN as of December 31, 2008 follow:

	2008		2007	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
At January 1	**61,546**	**₱237.88**	48,436	₱274.00
Granted	**116,940**	**284.96**	3,423	400.00
Adjustment due to 20% stock dividends (Note 18)	**12,309**	**–**	9,687	–
At December 31	**190,795**	**₱251.39**	61,546	₱237.88

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation. The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	May 15, 2008
Number of unsubscribed shares	116,940
Fair value of each option	₱137.45
Weighted average share price	₱316.50
Exercise price	₱284.96
Expected volatility	30.63%
Dividend yield	1.56%
Interest rate	8.23%

Total expense arising from share-based payments recognized by the Group in the consolidated statement of income amounted to ₱342.9 million in 2008, and ₱288.0 million in 2007, ₱285.4 million in 2006.

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 by 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, leisure 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 and bancassurance - 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 communication services, consumer broadband services, other wireline communication services, domestic and international long distance communication or carrier services and mobile commerce services.

- Electronics, information technology and business process outsourcing services - electronics manufacturing services provider for original equipment manufacturers in the computing, communications, consumer, automotive, industrial and medical electronics markets; venture capital for technology businesses and emerging

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markets; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; technology infrastructure hardware and software 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, 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.

The following tables regarding business segments present assets and liabilities as of December 31, 2008 and 2007 and revenue and profit information for each of the three years in the period ended December 31, 2008 (in millions).

2008

	Parent Company	Real Estate and Hotels	Electronics, Information Technology and Business Process Outsourcing Services	International	Automotive and Others	Consolidated
Revenue						
Sales to external customers	₱–	₱30,679	₱22,917	₱–	₱10,457	₱64,053
Equity in net earnings of associates and jointly controlled entities*	6,702	885	(122)	(144)	75	7,396
Interest income	1,234	855	60	93	1	2,243
Other income	3,436	1,331	265	178	207	5,417
Total revenue	11,372	33,750	23,120	127	10,740	79,109
Operating expenses	1,424	24,613	22,779	271	10,413	59,500
Operating profit	9,948	9,137	341	(144)	327	19,609
Interest expense and other financing charges	(2,236)	(1,051)	(1,618)	(8)	(24)	(4,937)
Other charges	(999)	(375)	(95)	(117)	(9)	(1,595)
Provision for income tax	(197)	(2,076)	(115)	2	(32)	(2,418)
Income before income associated with noncurrent assets held for sale	₱6,516	₱5,635	(₱1,487)	(₱267)	₱262	₱10,659
Income associated with noncurrent assets held for sale, net of tax	–	–	–	–	–	–
Net income	₱6,516	₱5,635	(1,487)	(267)	₱262	₱10,659
Net income attributable to:						
Equity holders of Ayala Corporation	₱6,516	₱2,879	(₱1,285)	(₱261)	₱259	₱8,108
Minority interests	–	2,756	(202)	(6)	3	2,551
	₱6,516	₱5,635	(1,487)	(267)	₱262	₱10,659
Other Information						
Segment assets	₱34,625	₱91,376	₱19,016	₱3,574	₱2,188	₱150,779
Investment in associates and jointly controlled entities	50,857	9,916	3,906	2,952	509	68,140
Deferred tax assets	–	1,042	55	–	36	1,133
Total assets	₱85,482	₱102,334	₱22,977	₱6,526	₱2,733	₱220,052
Segment liabilities	37,606	45,022	7,747	537	903	91,815
Deferred tax liabilities	–	162	12	6	6	186
Total liabilities	₱37,606	₱45,184	₱7,759	₱543	₱909	₱92,001
Segment additions to property, plant and equipment and investment properties	₱84	₱4,918	₱1,377	₱5	₱355	₱6,739
Depreciation and amortization	92	1,259	1,494	4	91	2,940
Non-cash expenses other than depreciation and amortization	₱1,024	₱462	₱175	₱221	₱–	₱1,882

**Equity in net earnings of financial services, telecommunications and water utilities amounted to ₱2,145 million, ₱3,667 million and ₱923 million, respectively.*

2007

	Parent Company	Real Estate and Hotels	Electronics, Information Technology and Business Process Outsourcing Services	International	Automotive and Others	Consolidated (As Restated)
Revenue						
Sales to external customers	₱–	₱22,962	₱21,655	₱–	₱11,961	₱56,578
Equity in net earnings of associates and jointly controlled entities*	8,697	804	(28)	226	68	9,767
Interest income	903	597	77	114	2	1,693
Other income	8,670	1,464	186	143	265	10,728
Total revenue	18,270	25,827	21,890	483	12,296	78,766
Operating expenses	1,819	17,970	20,798	242	11,838	52,667
Operating profit	16,451	7,857	1,092	241	458	26,099
Interest expense and other financing charges	(2,993)	(868)	(234)	(9)	(16)	(4,120)
Other charges	(2)	(874)	(685)	–	(9)	(1570)
Provision for income tax	(140)	(1,579)	(166)	(23)	(64)	(1,972)
Income before income associated with noncurrent assets held for sale	13,316	4,536	7	209	369	18,437
Income associated with noncurrent assets held for sale, net of tax	–	599	–	26	–	625
Net income	₱13,316	₱5,135	₱7	₱235	₱369	₱19,062
Net income attributable to:						
Equity holders of Ayala Corporation	₱13,318	₱2,814	(₱473)	₱230	₱367	₱16,256
Minority interests	(2)	2,321	480	5	2	2,806
	₱13,316	₱5,135	₱7	₱235	₱369	₱19,062
Other Information						
Segment assets	₱26,418	₱75,361	₱16,359	₱3,127	₱2,610	₱123,875
Investment in associates and jointly controlled entities	55,855	9,034	3,142	2,806	435	71,272
Deferred tax assets	–	929	31	–	24	984
Total assets	₱82,273	₱85,324	₱19,532	₱5,933	₱3,069	₱196,131
Segment liabilities	₱41,522	₱31,899	₱6,572	₱151	₱1,334	₱81,478
Deferred tax liabilities	–	114	26	9	7	156
Total liabilities	₱41,522	₱32,013	₱6,598	₱160	₱1,341	₱81,634
Segment additions to property, plant and equipment and investment properties	₱172	₱2,924	₱1,044	₱–	₱92	₱4,232
Depreciation and amortization	89	1,558	1,251	4	80	2,982
Non-cash expenses other than depreciation and amortization	₱291	₱267	₱688	₱–	₱–	₱1,246

**Equity in net earnings of financial services, telecommunications and water utilities amounted to ₱3,291 million, ₱4,546 million and ₱800 million, respectively.*

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2006

	Parent Company	Real Estate and Hotels	Electronics, Information Technology and Business Process Outsourcing Services	International	Automotive and Others	Consolidated (As Restated)
Revenue						
Sales to external customers	₱–	₱23,805	₱20,557	₱–	₱9,032	₱53,394
Equity in net earnings of associates and jointly controlled entities*	7,926	291	(25)	48	9	8,249
Interest income	771	659	55	31	5	1,521
Other income	5,040	1,054	337	390	177	6,998
Total revenue	13,737	25,809	20,924	469	9,223	70,162
Operating expenses	1,700	18,952	18,806	174	8,933	48,565
Operating profit	12,037	6,857	2,118	295	290	21,597
Interest expense and other financing charges	(3,895)	(813)	(286)	(21)	(9)	(5,024)
Other charges	(49)	(281)	(49)	–	(8)	(387)
Provision for income tax	(54)	(1,633)	(116)	(23)	(51)	(1,877)
Income before income associated with noncurrent assets held for sale	8,039	4,130	1,667	251	222	14,309
Income associated with noncurrent assets held for sale, net of tax	–	155	–	–	–	155
Net income	₱8,039	₱4,285	₱1,667	₱251	₱222	₱14,464
Net income attributable to:						
Equity holders of Ayala Corporation	₱8,040	₱2,466	₱1,195	₱250	₱222	₱12,173
Minority interests	(1)	1,819	472	1	–	2,291
	₱8,039	₱4,285	₱1,667	₱251	₱222	₱14,464

**Equity in net earnings of financial services, telecommunications and water utilities amounted to ₱3,300 million, ₱4,109 million and ₱585 million, respectively.*

Geographical Segments

	Revenue		Segment Assets		Investment Properties and Property and Equipment Additions	
	2008	2007 (As Restated)	**2008**	2007 (As Restated)	**2008**	2007
			(In Thousands)			
Philippines	**₱56,425,628**	₱56,931,668	**₱205,680,829**	₱179,435,176	**₱5,340,657**	₱4,156,480
Japan	**7,735,083**	9,400,556	**13,020**	5,470	**199**	1,946
USA	**6,736,608**	6,081,976	**6,048,504**	6,477,017	**919,310**	329
Europe	**4,471,487**	3,525,576	**–**	–	**–**	–
Others (Mostly Asia)	**3,739,847**	2,827,080	**8,309,613**	10,213,197	**478,982**	856,628
	₱79,108,653	₱78,766,856	**₱220,051,966**	₱196,130,860	**₱6,739,148**	₱5,015,383

Summarized financial information of BPI, Globe and MWCI are presented in Note 9 to the consolidated financial statements.

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 2008 and 2007. Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments follow:

	2008		2007	
	Minimum payments	**Present values of payments**	Minimum payments	Present values of payments
	(In Thousands)			
Within one year	**₱1,036**	**₱980**	₱2,541	₱2,359
After one year but not more than five years	**14**	**13**	483	470
Total minimum lease payments	**1,050**	**993**	3,024	2,829
Less amounts representing finance charges	**57**	**–**	195	–
Present value of minimum lease payments	**₱993**	**₱993**	₱2,829	₱2,829

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

Future minimum rentals payable under non-cancellable operating leases of lessee subsidiaries are as follows:

	2008	2007
	(In Thousands)	
Within one year	**₱154,923**	₱146,620
After one year but not more than five years	**513,202**	483,373
More than five years	**1,478,113**	1,577,925
	₱2,146,238	₱2,207,918

Operating leases - as lessor
Certain subsidiaries have lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals receivable under non-cancellable operating leases of the Group are as follows:

	2008	2007
	(In Thousands)	
Within one year	**₱1,361,126**	₱653,150
After one year but not more than five years	**3,783,681**	1,485,316
More than five years	**1,405,812**	245,132
	₱6,550,619	₱2,383,598

27. **Related Party Transactions**

The Group, in its regular conduct of business, has entered into transactions with associates, jointly controlled entities 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.

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The effects of the foregoing are shown under the appropriate accounts in the consolidated financial statements as follows:

	2008			
	Income	**Costs and Expenses**	**Amounts Owed by Related Parties**	**Amounts Owed to Related Parties**
	(In Thousands)			
Associates and joint ventures	**₱1,380,412**	**₱510,563**	**₱7,679,618**	**₱185,956**
Key management personnel	**–**	**761,060**	**220,876**	**–**
Other related parties	**4,464**	**57,699**	**541,502**	**6,416**
	₱1,384,876	**₱1,329,322**	**₱8,441,996**	**₱192,372**

	2007			
	Income	Costs and Expenses	Amounts Owed by Related Parties	Amounts Owed to Related Parties
	(In Thousands)			
Associates and joint ventures	₱1,287,340	₱2,202,909	₱1,307,627	₱286,000
Key management personnel	–	668,885	285,514	–
Other related parties	83,871	113,793	802,483	11,786
	₱1,371,211	₱2,985,587	₱2,395,624	₱297,786

	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

Amounts owed by related parties include the following:

a. 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.

b. Promissory notes and advances issued by AYC Holdings, Inc. to EGS Corp. and EGS Acquisition Corp. to fund the acquisition of eTelecare amounting to ₱4,982.0 million. The advances amounting to ₱665.3 million is payable in one year and bear interest at the rate of 12% per annum. The promissory notes amounting to ₱4,316.7 million is payable over a period of five years and bear interest at the rate of 12% to 18% per annum.

Allowance for doubtful accounts to related parties amounted to ₱111.0 million and ₱105.5 million as of December 31, 2008 and 2007, respectively. Provision for doubtful accounts amounted to ₱6.0 million in 2008, ₱1.7 million in 2007 and ₱6.5 million in 2006.

Compensation of key management personnel by benefit type follows:

	2008	2007	2006
		(In Thousands)	
Short-term employee benefits	**₱532,332**	₱449,419	₱500,413
Share-based payments (Note 24)	**184,308**	144,511	182,877
Post-employment benefits (Note 23)	**44,420**	74,955	84,298
	₱761,060	₱668,885	₱767,588

28. **Financial Instruments**

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 (in thousands):

	2008		2007	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FVPL FINANCIAL ASSETS				
Financial assets at FVPL	**₱2,233,201**	**₱2,233,201**	₱622,097	₱622,097
Derivative assets*	**80,520**	**80,520**	143,322	143,322
Total FVPL financial assets	**2,313,721**	**2,313,721**	765,419	765,419
LOANS AND RECEIVABLES				
Cash and cash equivalents	**42,885,792**	**42,885,792**	36,835,549	36,835,549
Short-term investments	**1,008,924**	**1,008,924**	3,687,606	3,687,606
Accounts and notes receivables				
Trade receivables				
Real estate	**10,428,525**	**11,118,638**	9,293,014	9,532,729
Electronics manufacturing	**3,115,891**	**3,115,891**	2,941,419	2,941,419
Automotive	**639,346**	**639,346**	753,661	753,661
Information technology and business process outsourcing	**332,964**	**332,964**	343,977	343,977
International and others	**2,914**	**2,914**	5,783	5,783
Total trade receivables	**14,519,640**	**15,209,753**	13,337,854	13,577,569
Nontrade receivables				
Advances to other companies	**2,735,712**	**2,735,712**	2,231,057	2,216,427
Receivable from related parties	**8,330,920**	**8,638,552**	2,290,117	2,290,117
Other receivables	**1,895,094**	**1,874,915**	1,580,113	1,560,288
Total nontrade receivables	**12,961,726**	**13,249,179**	6,101,287	6,066,832
Total loans and receivables	**71,376,082**	**72,353,648**	59,962,296	60,167,556
AFS FINANCIAL ASSETS				
Quoted shares of stocks	**1,499,982**	**1,499,982**	628,112	628,112
Unquoted shares of stocks	**1,614,520**	**1,614,520**	1,796,854	1,796,854
Total AFS financial assets	**3,114,502**	**3,114,502**	2,424,966	2,424,966
HTM INVESTMENTS				
Quoted debt investments	**65,405**	**68,695**	67,947	72,685
Total financial assets	**₱76,869,710**	**₱77,850,566**	₱63,220,628	₱63,430,626
OTHER FINANCIAL LIABILITIES				
Current Other Financial Liabilities				
Accounts payable and accrued expenses				
Accounts payable	**₱15,671,340**	**₱15,671,340**	₱13,289,481	₱13,289,481
Accrued expenses	**6,998,095**	**6,998,095**	6,044,523	6,044,523
Accrued project cost	**2,022,903**	**2,022,903**	540,618	540,618
Dividends payable	**1,333,740**	**1,333,740**	1,213,727	1,213,727
Accrued personnel costs	**505,772**	**505,772**	223,887	223,887
Interest payable	**398,207**	**398,207**	579,886	579,886
Retentions payable	**317,945**	**317,945**	32,577	32,577
Related parties	**192,372**	**192,372**	297,786	297,786
Short-term debt	**2,755,447**	**2,755,447**	2,634,148	2,634,148
Current portion of long-term debt	**1,478,871**	**1,477,966**	9,512,760	9,512,760
Noncurrent Other Financial Liabilities				
Other noncurrent liabilities	**7,016,372**	**7,022,465**	6,817,643	6,823,734
Long-term debt	**50,250,151**	**51,849,121**	37,884,705	42,089,076
Total other financial liabilities	**₱88,941,215**	**₱90,545,373**	₱79,071,741	₱83,282,203

*The derivative assets as of December 31, 2008 pertains to the bifurcated prepayment option on the Company's loan which is included under the "Other Noncurrent Assets" account in the consolidated balance sheet (see Note 16)

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, short-term investments and current receivables - Carrying amounts approximate fair values due to the relative short-term maturities of these investments.

Financial assets at FVPL - Fair values of investments in government securities are based on quoted prices as of balance sheet date.

Noncurrent trade and nontrade receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 6.40% to 7.70% in 2008 and 4.19% to 6.04% in 2007.

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

AFS unquoted shares - Fair value of equity funds are based on net asset value per share. For other unquoted equity shares where the fair value is not reasonably determinable due the unpredictable nature of future cash flows and the lack of suitable method of arriving at a reliable fair value, these are carried at cost.

HTM investments - The fair value of bonds is based on quoted market prices.

Liabilities - The fair values of accounts payable and accrued expenses and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

The fair value of noncurrent other financial liabilities (fixed rate and variable rate loans repriced on a semi-annual/annual basis and deposits) 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 rates used ranged from 6.60% to 7.70% in 2008 and 4.19% to 6.04% in 2007.

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. The fair value of the outstanding structured currency options was derived from the mark-to-market valuations provided by counterparty banks.

The fair value of prepayment option was determined using binomial pricing model. Valuation inputs were based on market observable rates as of value date while interest rate volatility was computed using historical rates or data.

Risk Management and Financial Instruments

General

In line with the corporate governance infrastructure of the Company, the Company have adopted a group-wide enterprise risk management framework in 2002. An Enterprise Risk Management Policy was approved by the Audit Committee in 2003, and was subsequently revised and approved on February 14, 2008. The policy was designed primarily to enhance the risk management process and institutionalize a focused and disciplined approach to managing the Company's business risks. By understanding and managing risk, the Company provides greater certainty and confidence to the stockholders, employees, and the public in general.

The risk management framework encompasses the identification and assessment of business risks, development of risk management strategies, assessment/design/implementation of risk management capabilities, monitoring and evaluating the effectiveness of risks mitigation strategies and management performance, and identification of areas and opportunities for improvement in the risk management process.

A Chief Risk Officer (CRO) is the ultimate champion of enterprise risk management at Ayala and oversees the entire risk management function. On the other hand, the Risk Management Unit provides support to the CRO and is responsible for overall continuity. Beginning 2008, under an expanded charter, the Audit and Risk Committee will provide a more focused oversight role over the risk management function. A quarterly report on the risk portfolio of the Ayala Group of Companies and the related risk mitigation efforts and initiatives are provided to the Audit and Risk Committee. The Company's internal auditors monitor the compliance with Ayala's risk management policies to ensure that an effective control environment exists within the entire Ayala Group.

For 2008, the Company engaged the services of an outside consultant to assist the Company in the roll-out of a more focused enterprise risk management framework which included a formal risk awareness session and self-assessment workshops with all the functional units of the Company. The Audit and Risk Committee has initiated the institutionalization of an enterprise risk management function across all the subsidiaries and affiliates.

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.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates as of December 31, 2008 and 2007, with all variables held constant, (through the impact on floating rate borrowings and changes in fair value of financial assets at FVPL).

December 31, 2008

	Effect on profit before tax Change in basis points	
	+100 basis points	**-100 basis points**
	(In Thousands)	
FVPL financial assets	**(₱10,295)**	**₱10,475**
Parent Company - floating rate borrowings	**(52,425)**	**52,425**
Subsidiaries - floating rate borrowings	**(130,990)**	**130,990**
	(₱193,710)	**₱193,890**

December 31, 2007

	Effect on profit before tax Change in basis points	
	+100 basis points	-100 basis points
	(In Thousands)	
FVPL financial assets	(₱9,975)	₱10,348
Parent Company - floating rate borrowings	(57,817)	57,817
Subsidiaries - floating rate borrowings	(133,316)	133,316
	(₱201,108)	₱201,481

There is no other impact on the Group's equity other than those already affecting the net income.

Notes to Consolidated Financial Statements

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with its corresponding nominal amounts and carrying values (in thousands), are shown in the following table:

2008

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱42,885,792	₱42,885,792	₱–	₱–	₱42,885,792
Short-term investments	Fixed at the date of investment or revaluation cut-off	Balance date	1,008,924	1,008,924	–	–	1,008,924
FVPL financial assets	Fixed at the date of investment or revaluation cut-off	Balance date	1,778,720	1,334,081	434,639	–	1,778,720
Accounts and notes receivable	Fixed at the date of sale	Date of sale	14,720,214	8,017,173	5,651,461	208,166	13,876,800
HTM investments	Fixed at 16.50%	6 months	65,000	65,405	–	–	65,405
Company							
Long-term debt							
Fixed							
	Fixed at 6.70%	7 years	1,492,500	7,500	30,000	1,455,000	1,492,500
	Fixed at 6.75%	10 years	1,500,000	1,667	6,667	1,491,666	1,500,000
	Fixed at 6.825%	5 years	6,000,000	–	6,000,000	–	6,000,000
	Fixed at 10.00%	5 years	3,000,000	–	3,000,000	–	3,000,000
	Fixed at 10.375%	7 years	4,170,000	10,000	4,160,000	–	4,170,000
	Fixed at 6.725%	5 years	2,000,000	–	2,000,000	–	2,000,000
Floating							
	Variable at 0.50% to 0.67% over 91-day T-bills PDST-R1 (formerly Mart1)	3 months	6,990,000	5,000	6,985,000	–	6,990,000
Subsidiaries							
Short-term debt							
	Variable ranging from 7.0% to 9.64%	Monthly	1,501,000	1,501,000	–	–	1,501,000
	Variable ranging from 2.5% to 6.4%	Monthly	1,254,447	1,254,447	–	–	1,254,447
Long-term debt							
Fixed							
	Fixed at 9.5%	1 and 2 years	33,500	33,500	–	–	33,500
	Fixed at 5.0% to 14.88%	3,5,7 and 10 years	13,855,658	204,892	9,884,047	3,762,625	13,851,564
Floating							
	Variable at 1.00% to 1.5% over 91-day PDST-F or PDST-R1	3 months	1,625,000	39,250	435,350	1,146,394	1,620,994
	Variable from 4.0% to 15.0%	3 months	10,985,557	1,177,062	9,799,115	9,380	10,985,557

2007

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱36,835,549	₱36,835,549	₱–	₱–	₱36,835,549
Short-term investments	Fixed at the date of investment or revaluation cut-off	Balance Date	3,687,606	3,687,606	–	–	3,687,606
FVPL financial assets	Fixed at the date of investment or revaluation cut-off	Balance date	622,097	622,097	–	–	622,097
Accounts and notes receivable	Fixed at the date of sale	Date of sale	9,204,200	4,887,108	3,331,790	203,569	8,422,467
HTM investments	Fixed at 16.50%	6 months	65,000	–	67,947	–	67,947
Company							
Long-term debt							
Fixed							
	Fixed at 6.70%	7 years	1,500,000	7,500	30,000	1,462,500	1,500,000
	Fixed at 6.73% to 10.00%	3 to 5 years	11,000,000	–	11,000,000	–	11,000,000
	Fixed at 10.38%	5 years	4,180,000	8,250	4,171,750	–	4,180,000
Floating							
	Variable at 0.50% to 1.50% over 91-day T-bills PDST-F (formerly Mart1)	3 months	7,129,091	1,305,758	973,485	4,849,848	7,129,091
Subsidiaries							
Short-term debt							
	Variable ranging from 3.10% to 6.40%	Monthly	390,248	390,248	–	–	390,248
	Variable ranging from 3.40% to 9.00%	Monthly	2,243,900	2,243,900	–	–	2,243,900
Long-term debt							
Fixed							
	Fixed at 8.125%	5 years	5,421,438	5,421,438	–	–	5,421,438
	Fixed at 5.0% to 14.88%	5, 7 and 10 years	6,246,759	1,167,460	3,899,624	1,175,295	6,242,379
Floating							
	Variable at 6.00% to 15.00%	3 months	9,639,934	393,214	9,246,720	–	9,639,934
	Variable at 1.00% to 1.50% over 91-day PDST-F or PDST-R1	3 months	2,288,840	1,209,140	879,412	196,071	2,284,623

Foreign Exchange Risk
The Group's foreign exchange risk results primarily from movements of the Philippine Peso (PHP) against the United States Dollar (USD). The Company may enter into foreign currency forwards and foreign currency swap contracts in order to hedge its USD obligations.

The table below summarizes the Group's exposure to foreign exchange risk as of December 31, 2008 and 2007. Included in the table are the Group's monetary assets and liabilities at carrying amounts, categorized by currency.

	2008		2007	
	USD	**Php Equivalent**	USD	Php Equivalent
	(In Thousands)			
Assets				
Cash and cash equivalents	**US$88,107**	**₱4,186,845**	US$267,120	₱11,026,714
Short term investment	**6,120**	**290,822**	–	–
Accounts and notes receivables	**107,245**	**5,096,282**	8,040	331,891
Other current assets	–	–	1,521	62,787
Other noncurrent assets	–	–	9,942	410,406
Total assets	**201,472**	**9,573,949**	286,623	11,831,798

(Forward)

	2008		2007	
	USD	**Php Equivalent**	USD	Php Equivalent
		(In Thousands)		
Liabilities				
Accounts payable and accrued expenses	**US$2,119**	**₱100,695**	US$13,802	₱569,747
Other current liabilities	**–**	**–**	2,429	100,269
Long-term debt	**175,000**	**8,316,000**	302,839	12,501,194
Other noncurrent liabilities	–	–	159	6,564
Total liabilities	**177,119**	**8,416,695**	319,229	13,177,774
Net foreign currency denominated assets (liabilities)	**US$24,353**	**₱1,157,254**	(US$32,606)	(₱1,345,976)

	2008		2007	
	SGD	**Php Equivalent**	SGD	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**SGD8,093**	**₱264,874**	SGD13,811	₱394,473
Accounts and notes receivables	**60**	**1,976**	13	375
Total assets	**8,153**	**266,850**	13,824	394,848
Liabilities				
Accounts payable and accrued expenses	**972**	**31,822**	12,764	364,567
Short-term debt	**6,955**	**227,626**	12,009	343,008
Total liabilities	**7,927**	**259,448**	24,773	707,575
Net foreign currency denominated assets (liabilities)	**SGD226**	**₱7,402**	(SGD10,949)	(₱312,727)

	2008		2007	
	HKD	**Php Equivalent**	HKD	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**HKD441**	**₱2,699**	HKD–	₱–
Accounts and notes receivables	**106,549**	**652,859**	14,360	76,219
Total assets	**106,990**	**655,558**	14,360	76,219
Liabilities				
Accounts payable and accrued expenses	**12,060**	**73,897**	–	–
Net foreign currency denominated assets	**HKD94,930**	**₱581,661**	HKD14,360	₱76,219

	2008		2007	
	RMB	**Php Equivalent**	RMB	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**RMB16,508**	**₱114,457**	RMB3,612	₱20,434
Accounts and notes receivables	**132,881**	**921,346**	109,559	619,865
Total assets	**149,389**	**1,035,803**	110,171	640,299
Liabilities				
Accounts payable and accrued expenses	**103,097**	**714,830**	64,756	366,375
Net foreign currency denominated assets	**RMB46,292**	**₱320,973**	RMB45,415	₱273,924

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (in thousands).

2008

Currency	**Increase (decrease) in Peso per foreign currency depreciation (appreciation)**	**Effect on profit before tax**
US$	₱1.00	**(₱24,353)**
	(₱1.00)	**24,353**
SGD	₱1.00	**(226)**
	(₱1.00)	**226**
HKD	₱1.00	**(94,930)**
	(₱1.00)	**94,930**
RMB	₱1.00	**(46,292)**
	(₱1.00)	**46,292**

2007

Currency	Increase (decrease) in Peso per foreign currency depreciation (appreciation)	Effect on profit before tax
US$	₱1.00	₱32,606
	(₱1.00)	(32,606)
SGD	₱1.00	10,949
	(₱1.00)	(10,949)
HKD	₱1.00	(14,360)
	(₱1.00)	14,360
RMB	₱1.00	(45,415)
	(₱1.00)	45,415

There is no other impact on the Group's equity other than those already affecting the net income.

Price risk
AFS financial assets are acquired at a certain price in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. Depending on the several factors such as interest rate movements, country's economic performance, political stability, domestic inflation rates, these prices change, reflecting how market participants view the developments.

The analysis below demonstrates the sensitivity to a reasonably possible change of market index with all other variables held constant, of the Group's equity (in thousands).

2008

Market Index	**Change in Variables**	**Effect on Equity**
PSEi	+5%	**₱38,096**
	-5%	**(38,096)**

2007

Market Index	Change in Variables	Effect on Equity
PSEi	+5%	₱6,712
	-5%	(6,712)

Notes to Consolidated Financial Statements

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.

The table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2008 and 2007 based on contractual undiscounted payments.

	2008				
	< 1 year	**1 to < 2 years**	**2 to < 3 years**	**> 3 years**	**Total**
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	**₱15,671,340**	**₱–**	**₱–**	**₱–**	**₱15,671,340**
Accrued expenses	**6,998,095**	**–**	**–**	**–**	**6,998,095**
Accrued project costs	**2,022,903**	**–**	**–**	**–**	**2,022,903**
Dividends payable	**1,333,740**	**–**	**–**	**–**	**1,333,740**
Accrued personnel costs	**505,772**	**–**	**–**	**–**	**505,772**
Interest payable	**398,207**	**–**	**–**	**–**	**398,207**
Retentions payable	**317,945**	**–**	**–**	**–**	**317,945**
Related parties	**192,372**	**–**	**–**	**–**	**192,372**
Short-term debt	**2,755,447**	**–**	**–**	**–**	**2,755,447**
Long-term debt	**1,478,871**	**5,669,616**	**8,801,387**	**35,694,241**	**51,644,115**
Other noncurrent liabilities	**–**	**2,260,063**	**745,981**	**4,010,328**	**7,016,372**
	₱31,674,692	**₱7,929,679**	**₱9,547,368**	**₱39,704,569**	**₱88,856,308**

	< 1 year	**1 to < 2 years**	**2 to < 3 years**	**> 3 years**	**Total**
Interest payable	**₱3,625,656**	**₱3,360,187**	**₱3,212,604**	**₱4,162,923**	**₱14,361,370**

	2007				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱13,289,481	₱–	₱–	₱–	₱13,289,481
Accrued expenses	6,044,523	–	–	–	6,044,523
Accrued project costs	540,618	–	–	–	540,618
Dividends payable	1,213,727	–	–	–	1,213,727
Accrued personnel costs	223,887	–	–	–	223,887
Interest payable	579,886	–	–	–	579,886
Retentions payable	32,577	–	–	–	32,577
Related parties	297,786	–	–	–	297,786
Short-term debt	2,634,148	–	–	–	2,634,148
Long-term debt	9,512,760	2,286,464	4,600,754	30,997,487	47,397,465
Other noncurrent liabilities	–	5,473,515	1,214,742	129,386	6,817,643
	₱34,369,393	₱7,759,979	₱5,815,496	₱31,126,873	₱79,071,741

	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
Interest payable	₱3,039,525	₱2,491,604	₱2,225,209	₱4,405,254	₱12,161,592

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 concentration of credit risk.

The table below shows the maximum exposure to credit risk for the components of the consolidated balance sheet. The maximum exposure is shown at gross, before the effect of mitigation through the use of master netting arrangements or collateral agreements.

	2008	2007
	(In Thousands)	
Cash and cash equivalents	**₱42,885,792**	₱36,835,549
Short-term investments	**1,008,924**	3,687,606
FVPL financial assets		
Financial assets at FVPL	**2,233,201**	622,097
Derivative assets	**80,520**	143,322
Accounts and notes receivables		
Trade		
Real estate	**10,428,525**	9,293,014
Electronics manufacturing	**3,115,891**	2,941,419
Automotive	**639,346**	753,661
Information technology and business process outsourcing	**332,964**	343,977
International and others	**2,914**	5,783
Advances to other companies	**2,735,712**	2,231,057
Related parties	**8,330,920**	2,290,117
Others	**1,895,094**	1,580,113
AFS investments		
Quoted shares of stocks	**1,499,982**	628,112
Unquoted shares of stocks	**1,614,520**	1,796,854
Held-to-maturity investments		
Bonds	**65,405**	67,947
Total credit risk exposure	**₱76,869,710**	₱63,220,628

The analysis of accounts and notes receivables that were past due but not impaired follows:

December 31, 2008

	Neither Past Due nor Impaired	**Past Due but not Impaired**							
		<30 days	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**	**Total**	**Impaired**	**Total**
				(In Thousands)					
Trade:									
Real estate	**₱8,132,446**	**₱907,944**	**₱267,659**	**₱369,772**	**₱132,440**	**₱671,869**	**₱2,349,684**	**₱83,124**	**₱10,565,254**
Electronics manufacturing	**2,942,598**	**138,169**	**16,415**	**244**	**–**	**18,465**	**173,293**	**36,277**	**3,152,168**
Automotive	**245,499**	**274,359**	**89,929**	**28,933**	**7,777**	**18,956**	**419,954**	**217**	**665,670**
Information technology and business process outsourcing	**200,326**	**64,596**	**20,296**	**31,365**	**16,381**	**–**	**132,638**	**19,120**	**352,084**
International and others	**–**	**1,542**	**1,681**	**258**	**189**	**270**	**3,940**	**60,134**	**64,074**
Advances to other companies	**1,521,357**	**249,737**	**27,017**	**383,020**	**8,563**	**546,018**	**1,214,355**	**–**	**2,735,712**
Related parties	**8,104,280**	**56,138**	**47,536**	**44,731**	**41,372**	**36,863**	**226,640**	**111,076**	**8,441,996**
Others	**1,506,297**	**38,823**	**69,285**	**72,592**	**87,538**	**76,826**	**345,064**	**113,936**	**1,965,297**
Total	**₱22,652,803**	**₱1,731,308**	**₱539,818**	**₱930,915**	**₱294,260**	**₱1,369,267**	**₱4,865,568**	**₱423,884**	**₱27,942,255**

December 31, 2007

	Neither Past Due nor Impaired	Past Due but not Impaired <30 days	30-60 days	60-90 days	90-120 days	>120 days	Total	Impaired	Total
	(In Thousands)								
Trade:									
Real estate	₱7,770,857	₱862,024	₱240,163	₱119,959	₱225,138	₱162,262	₱1,609,546	₱32,119	₱9,412,522
Electronics manufacturing	2,808,752	112,452	6,636	3,590	8,999	990	132,667	31,180	2,972,599
Automotive	529,296	112,582	75,724	34,662	14,975	12,529	250,472	–	779,768
Information technology and business process outsourcing	275,986	15,379	23,194	2,901	7,732	18,785	67,991	18,261	362,238
International and others	–	3,465	2,019	–	415	910	6,809	60,134	66,943
Advances to other companies	1,823,158	58,432	96,265	92,315	83,532	77,355	407,899	–	2,231,057
Related parties	1,954,683	49,694	36,372	36,217	35,691	177,460	335,434	105,507	2,395,624
Others	1,229,089	37,824	36,835	38,085	48,433	143,779	304,956	126,749	1,660,794
Total	₱16,391,821	₱1,251,852	₱517,208	₱327,729	₱424,915	₱594,070	₱3,115,774	₱373,950	₱19,881,545

The table below shows the credit quality of the Group's financial assets as of December 31, 2008 and 2007 (in thousands):

December 31, 2008

	Neither past due nor impaired High Grade	Medium Grade	Low Grade	Total	Past due but not impaired	Impaired	Total
Cash and cash equivalents	**₱42,885,792**	**₱–**	**₱–**	**₱42,885,792**	**₱–**	**₱–**	**₱42,885,792**
Short-term investments	**1,008,924**	**–**	**–**	**1,008,924**	**–**	**–**	**1,008,924**
FVPL financial assets							
Financial assets at FVPL	**2,233,201**	**–**	**–**	**2,233,201**	**–**	**–**	**2,233,201**
Derivative assets	**80,520**	**–**	**–**	**80,520**	**–**	**–**	**80,520**
Accounts and notes receivables							
Trade							
Real estate	**6,042,439**	**1,600,010**	**489,997**	**8,132,446**	**2,349,684**	**83,124**	**10,565,254**
Electronics manufacturing	**867,658**	**1,682,919**	**392,021**	**2,942,598**	**173,293**	**36,277**	**3,152,168**
Automotive	**192,080**	**53,419**	**–**	**245,499**	**419,954**	**217**	**665,670**
Information technology and business process outsourcing	**200,326**	**–**	**–**	**200,326**	**132,638**	**19,120**	**352,084**
International and others	**–**	**–**	**–**	**–**	**3,940**	**60,134**	**64,074**
Advances to other companies	**1,499,498**	**7,942**	**13,917**	**1,521,357**	**1,214,355**	**–**	**2,735,712**
Related parties	**7,436,850**	**667,430**	**–**	**8,104,280**	**226,640**	**111,076**	**8,441,996**
Others	**1,367,398**	**138,899**	**–**	**1,506,297**	**345,064**	**113,936**	**1,965,297**
AFS Investments							
Quoted shares of stocks	**1,499,585**	**–**	**–**	**1,499,585**	**–**	**–**	**1,499,585**
Unquoted shares of stocks	**–**	**1,564,917**	**–**	**1,564,917**	**–**	**–**	**1,564,917**
HTM Investments							
Quoted debt investments	**65,405**	**–**	**–**	**65,405**	**–**	**–**	**65,405**
	₱65,379,676	**₱5,715,536**	**₱895,935**	**₱71,991,147**	**₱4,865,568**	**₱423,884**	**₱77,280,599**

December 31, 2007

	Neither past due nor impaired						
	High Grade	Medium Grade	Low Grade	Total	Past due but not impaired	Impaired	Total
Cash and cash equivalents	₱36,835,549	₱–	₱–	₱36,835,549	₱–	₱–	₱36,835,549
Short-term investments	3,687,606	–	–	3,687,606	–	–	3,687,606
FVPL financial assets					–	–	
Financial assets at FVPL	622,097	–	–	622,097	–	–	622,097
Derivative assets	143,322	–	–	143,322	–	–	143,322
Accounts and notes receivables							
Trade							
Real estate	5,294,456	1,748,757	727,644	7,770,857	1,609,546	32,119	9,412,522
Electronics manufacturing	1,307,280	1,025,486	475,986	2,808,752	132,667	31,180	2,972,599
Information technology and business process outsourcing	–	275,986	–	275,986	67,991	18,261	362,238
Automotive	329,296	200,000	–	529,296	250,472	–	779,768
International and others	–	–	–	–	6,809	60,134	66,943
Advances to other companies	1,743,470	79,688	–	1,823,158	407,899	–	2,231,057
Related parties	1,950,857	3,826	–	1,954,683	335,434	105,507	2,395,624
Others	738,654	241,517	248,918	1,229,089	304,956	126,749	1,660,794
AFS Investments							
Quoted shares of stocks	495,538	132,574	–	628,112	–	–	628,112
Unquoted shares of stocks	–	1,796,854	–	1,796,854	–	–	1,796,854
HTM Investments							
Quoted debt investments	67,947	–	–	67,947	–	–	67,947
	₱53,216,072	₱5,504,688	₱1,452,548	₱60,173,308	₱3,115,774	₱373,950	₱63,663,032

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, short-term investments, FVPL financial assets, quoted AFS investments and HTM investments - based on the nature of the counterparty and the Group's internal rating system.

Receivables:
Real estate - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment; and low grade pertains to receivables with more than 3 defaults in payment.

Electronics manufacturing - high grade pertains to receivable with favorable credit terms and can be offered with a credit term of 15 to 45 days; medium grade pertains to receivable with normal credit terms and can be offered with a credit term of 15 to 30 days; and low grade pertains to receivables under advance payment or confirmed irrevocable Stand-by Letter of Credit and subjected to semi-annual or quarterly review for possible upgrade.

Automotive - high grade pertains to receivables from corporate accounts and medium grade for receivables from noncorporate accounts.

Available-for-sale investments - the unquoted investments are unrated.

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:

	2008	2007	2006
		(In Thousands)	
Property/liquidating dividend	**₱–**	₱–	₱16,573

31. **Interest in a Joint Venture**

MDC has a 51% interest in Makati Development Corporation - First Balfour, Inc. Joint Venture (the Joint Venture), a jointly controlled operation whose purpose is to design and build St. Luke's Medical Center (the Project) in Fort Bonifacio Global City, Taguig.

The Project was started on January 31, 2007. The Project is a world-class medical facility comprising, more or less, of a 611-bed hospital and a 378-unit medical office building, with an approximate gross floor area of 154,000 square meters, which meets international standards, and all standards and guidelines of applicable regulatory codes of the Philippines and complies with the criteria of the Environment of Care of the Joint Commission International Accreditation.

The Joint Venture expects that the Project will be completed in 30 months from Day 1 as stipulated in the contract with the Project Owner.

The Group's share in the assets, liabilities, income and expenses of the Joint Venture at December 31, 2008 and 2007 and for the years then ended, which are included in MDC's financial statements, are as follows:

	2008	2007
	(In Thousands)	
Current assets		
Cash and cash equivalents	**₱181,953**	₱639,224
Receivables	**440,569**	230,052
Due from customers for contract work	**229,596**	72,596
Inventory	**18,349**	–
Other current assets	**135,674**	145,418
Property and equipment	**16,978**	18,695
Total assets	**1,023,119**	1,105,985
Total liabilities	**802,821**	1,053,085
Revenue	**1,422,023**	376,610
Contract costs	**(1,218,026)**	(344,496)
Interest and other income	**16,516**	24,635
Income before income tax	**220,513**	56,749
Income tax expense	**(2,250)**	(3,848)
Net profit	**₱218,263**	₱52,901

Provision for income tax expense pertains to the final tax on interest income.

32. **Commitments and Contingencies**

Commitments

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 Station Square East Commercial Corporation (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, SSECC obtained standby letters of credit to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement.

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 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).

MDC, in the normal course of business, furnishes performance bonds in connection with its construction projects. These bonds shall guarantee MDC's execution and completion of the work indicated in the respective construction contracts.

On October 30, 2008, the Company entered into a Memorandum of Agreement with BPI and Globe to form a mobile microfinance bank, the purpose of which is to extend wholesale microfinance loans to microfinance institutions, offer other microfinance products and use mobile technology to deliver financial services to retail clients. The bank, which the Company, BPI and Globe will own 20%, 40% and 40%, respectively, will have an authorized capitalization of ₱500.0 million and a subscribed capitalization of ₱350.0 million.

On April 15, 2008, the Company acted as guarantor to a US$50 million transferable term loan facility between AYC, a subsidiary, as borrower and several lenders who are also the lead arrangers of the Agreement.

Repayment dates for advances made to AYC are in six month intervals from 2011 to 2013. The Company unconditionally guaranteed the due and punctual payment of advances if for any reason AYC does not make timely payment. The Company waived all rights of subrogation, contribution, and claims of prior exhaustion of remedies. The Company's obligation as guarantor will remain in full force until no sum remains to be lent by the lenders, and the lenders recover the advances.

AI North America, Inc. (AINA), a subsidiary of BHI, obtained as US$3 million letter of credit as security for the release of a loan to one of its subsidiary. As security for the letter or credit, AINA is required to maintain a US$3 million certificate of deposit with the bank. AINA, together with another individual, jointly and severally guarantees the obligation of its subsidiary.

Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *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.

As a result of the explosion which occurred on 19 October 2007 at the basement of the Makati Supermarket Building, the Philippine National Police - Multi-Agency Investigation Task Force and the Department of Interior and Local Government - Inter-Agency task Force (DILG-IATF) filed complaints with and recommended to the Department of Justice ("DOJ") the prosecution of certain officers/employees of Makati Supermarket Corporation, the owner of the building, as well as some officers/employees of Ayala Property Management Corp. (APMC), among other individuals, for criminal negligence. In a Joint Resolution dated 23 April 2008, the DOJ special panel of prosecutors ruled that there was no probable cause to prosecute the APMC officers/employees for criminal negligence. This was affirmed by the DOJ Secretary in a Resolution dated 17 November 2008. A Motion for Reconsideration was filed by the DILG-IATF to question the DOJ Secretary's Resolution which remains unresolved to date. No civil case has been filed by any of the victims of the incident.

33. Subsequent Event

In January 2009, ALI issued ₱2.38 billion FXCNs consisting of 5, 7 and 10-year notes to various primary institutional lenders and will mature on various dates up to 2019.

Corporate Social Responsibility

The Ayala group is one of the first to integrate its CSR programs into its business model under the **Ayala Social Initiatives** (ASI). Led by the Ayala CSR Council, ASI promotes social entrepreneurship by aligning the group's strategic CSR programs to the Ayala companies' operations.

Since integrating the initiatives in 2007, facts and figures prove that with focus, the Ayala companies can collectively make a significant contribution to help improve social conditions in the areas of education, entrepreneurship and environment.

Empowering Filipinos

Education remains a priority for the Ayala group. In 2008, the companies earmarked over ₱100 million to help raise the standard of education in their particular communities through infrastructure, innovative technologies, scholarships and programs for youth development.

Flagship projects in Education

Gearing Up Internet Literacy Access for Students (GILAS)	• Connected 2,102 public high schools since 2005, allowing 2.7 million students access to the Internet nationwide • Provided Internet and computer literacy training to 9,000 teachers
Education and Livelihood Skills Alliance (ELSA)	• Launched this USAID-funded project in February 2008 to organize communities, build relationships with schools and municipalities and conduct mobilization and youth leadership trainings in Mindanao • Assessed 105 parent-teacher and community associations, 7 local boards and trained 210 youth leaders in conflict areas in Mindanao
Text2Teach	• Used by about 900,000 students from 202 public elementary schools across the country in their curriculum
Center of Excellence in Public Elementary Education (CENTEX)	• Assisted 198 graduates with their high school education; the total graduates has reached 1,418 since 1998 • CENTEX Manila ranked number 1 in the National Achievement Test while CENTEX Batangas swept awards in Math, Journalism and Reading categories in various district and national competitions

Individually, the companies support various education initiatives and youth development programs in the communities they serve. BPI Foundation's Science Awards has provided incentives to 500 excellent graduates of Science and Engineering since 1989. The Foundation also engages their OFW families in training programs. Globe's Bridgecom programs are centered in the Visayas and Mindanao area in partnership with organizations like the USAID, Coca-Cola Foundation, and the Ronald McDonald House Charities. Manila Water's Lingap Eskwela program covers 174 institutions benefiting 843,634 individuals in the east zone of Metro Manila. Lingap plans to extend the program to daycare centers, private schools and other educational institutions.

The Ayala Business Club (ABC) chapters contributed to the education initiatives of the group through scholarships, recognition programs for outstanding high school leaders, and continued support for Children's Hour and GILAS. The ABC also plays a key role in establishing post-congress relations with the members of the Ayala Young Leaders Alliance. Chapters in Cebu, Davao and West Visayas have fully integrated the AYLA into their programs and activities.

Another major venture in support of education of the Ayala group is the Mind Museum scheduled to open in 2010 at the Bonifacio Global City in Taguig.

Enriching the environment

Sustainability is at the forefront of Ayala's businesses. Through advocacies in solid waste management, reforestation, clean air and safe water measures, the group ensures business operations in a sound environment.

Environmental advocacies

Solid Waste Management (SWM)	• 319 out of the 372 buildings in the Makati Business District practice SWM • Diverted 1.407 tons of waste worth ₱11 million in 2008 reaching a total of 24,000 tons estimated at ₱113 million since 2001, thereby saving 12,000 cubic meters of landfill space • Collected 11 tons of recyclable materials through the Ayala Recyclables Fair in Ayala malls and schools from July to December 2008 • Advocate SWM in schools through forums, seminars, movie feature and competitions
Environmental preservation	• Maintains about 150 hectares of reforested land which include Ayala Land developments in Laguna and Cagayan de Oro, and Manila Water's watershed where 23,550 seedlings were planted on 30.5 hectares in 2008 • Mangrove planting in Iloilo and coastal clean up in Cebu and Batangas
Clean air and water measures	• Globe's continued support to the Bantay Baterya program by properly disposing 100% of their used lead acid batteries which were turned over to Philippine Recyclers Inc. • Manila Water desludged 400,000 households and more than 700,000 households have full wastewater treatment coverage as of 2008 • Honda stepped up efforts to produce fuel-efficient and environment-friendly vehicles like the CR-V and the new Honda City, while Isuzu developed engines using Compressed Natural Gas and LPG and bought its Euro3 compliant diesel engines

The group's top level executives actively take part in efforts to safeguard the environment. Ayala Chairman Jaime Augusto Zobel and Guillermo Luz of Ayala Foundation are members of the National Advisory while Ayala Land President Jaime Ayala sits as board member of the Kabang Kalikasan ng Pilipinas (WWF Philippines).

Enhancing the future

Ayala helps enhance lives by invoking the entrepreneurial spirit in the areas it serves. Venture capitalists and local communities are given a chance to live out their ideas through micro-finance, and skills training programs. To date, the Ayala companies support more than 600,000 medium- and small-scale businesses across the country.

Entrepreneurship Initiatives

BPI Foundation Micro-finance	• Facilitated 10 micro-finance courses for 60 micro-finance institutions (MFIs) with 169 representatives across the country • Provided financial and credit literacy sessions for SMEs through Show Me, Teach Me, SME-Empowering Entrepreneurs
Ayala Foundation Ayala Technology Business Incubator (AyalaTBI)	• Three new TBIs were added to the facility network for a total of 48 office units—9 in UP, 3 in AIM, 2 in UP Cebu, and 12 in TechnoHub, a joint venture with Ayala Land) • Expanded services with 13 technology forums for 1,000 participants in Makati, Cebu, Davao, Cagayan de Oro, Baguio and UP Diliman • Organized TechBootCamps for 41 teams composed of 200 researchers, developers, and students • Developed a starter package of basic administrative software for locators called Out of the Box
Globe Telecom Bridging Communities	• Conducted 39 development trainings that benefited 1,653 barangay leaders, micro-entrepreneurs, OFW families in 156 barangays and 20 people's organizations and micro-finance institutions • Bridgecom Entrep fairs reached 5,327 entrepreneurs in General Santos and South Cotabato in Mindanao, Iloilo in the Visayas, Baguio, Benguet and Lipa in Luzon
Manila Water Kabuhayan Para sa Barangay	• Generated ₱24.17 million worth of jobs

Another major accomplishment of the Ayala CSR Council in 2008 is the publication of the first ASI report that accounts for the group's 2007 programs based on Global Reporting Initiatives (GRI) standards, a first for a Philippine conglomerate. A training workshop attended by 31 participants from the group companies was held in early 2008 in preparation for this report. The council's project in the pipeline is the Conglomerate Sustainability Report due for publication in 2009.

Ayala, through the CSR Council, plans to further study and streamline its CSR programs to achieve optimum results for the group and provide maximum support to the beneficiaries.

Ayala at 175:

A Rich Heritage, A Progressive Future

In 2009, Ayala celebrates a history that chronicles 175 years of experience as one of the oldest and most respected business houses in the country.

A conglomerate with interests in real estate, financial services, telecommunications, electronics, information technology, water infrastructure and business process outsourcing, Ayala continues to forge a legacy of innovation and success.

With a leadership that has distinguished the business house as a model for solid management, financial stability, and pioneering innovation, Ayala faces the future with the same vision, foresight and optimism it possessed 175 years ago.

ORIGINS AND OPPORTUNITIES

Ayala began in 1834 as Casa Roxas, founded by Domingo Roxas in partnership with Antonio de Ayala. It was a company that engaged in farming sugar, coffee, cotton and indigo, in manufacturing liquor, metal castings and gunpowder, and in various trading and mining concessions.

In 1851, the company, renamed Casa Ayala, gained representation on the board of Banco Español Filipino de Isabela Segunda, the very first private commercial bank in Southeast Asia, and the precursor to today's Bank of the Philippine Islands.

In 1876, Casa Ayala enlarged its ownership and leadership to become Ayala y Compañia. It was Ayala y Cia that introduced the tranvia, the first streetcar system, to Manila in the late 1880s.

Soon, with fresh ventures and opportunities, Ayala y Cia quickly established business strongholds in areas outside their usual ken. In 1910, it established Insular Life Assurance Company, the first Filipino life insurance firm. It was the precursor to the establishment, two decades later, of the Insular Life Assurance Co., which would become the country's first mutualized insurance company.

In 1929, the ownership of Hacienda San Pedro de Makati, originally acquired in 1851, was turned over to Ayala y Compañia. The property would become the springboard for one of the company's most audacious—and most visionary—business ventures. By the late 1960's, Makati would become the country's premier commercial and residential district.

Soon, other plans for other communities were swiftly put into the making. Ayala quickly developed a succession of upscale residential subdivisions in Makati—and, eventually, in strategic areas across the country.

Every move was trailblazing, every step was a first. But by this time, Ayala was already no stranger to innovation. Pioneering advances were also being made on other fronts.

The postwar years saw Ayala primarily as a real estate company. But the economic optimism of the times, combined with Ayala's own visionary approach to entrepreneurship, engendered a push toward pioneering innovations that would characterize the company's business path in the next decades.

It would not be long before the conglomerate would take steps after pioneering business on many other fronts—in insurance in 1958, with the country's first industrial life insurance company, Filipinas Life; in real estate development company in 1960, with Ayala Land; in banking with BPI in 1970; in telecommunications in 1974, with Globe Mackay Cable & Radio Corporation; and in electronics manufacturing, in 1988, with the establishment of Integrated Microelectronics Inc.

The end of the century and the turn of the millennium saw Ayala maintaining industry leadership in three core businesses—

domestic real estate, financial services and telecommunications.

Further on, Ayala would forge a new path into utilities with the Manila Water Company, after a successful bid for Manila's water and sewerage concession. Ayala would also make forays in the business process outsourcing industry, with the establishment in 2006 of LiveIT Solutions.

PASSION AND PERSPECTIVE

Ayala's innovations have not merely been on the business front. Through all its 175 years, the company has always nurtured the Filipino culture and way of life, funding, supporting, and developing programs to support schools, charities, livelihood projects and cultural programs.

1961 saw the establishment of the Filipinas Foundation, a nonprofit organization that would institutionalize and organize Ayala's support of scientific and cultural research and development. In 1990, it would be renamed the Ayala Foundation, tightening its relationship with its parent company, Ayala Corporation, and the different companies it harbored. Ayala Foundation became Ayala's platform for critical social investments enabling the companies within the Ayala group to be more responsive and responsible toward the social dimension.

Today, the scope of Ayala's social vision is decidedly greater. The Ayala Social Initiatives (ASI), convened by the Ayala Foundation, gathers all the social responsibility efforts of the different Ayala subsidiaries under one banner. Through ASI, multiple efforts from the many different Ayala companies are channeled into three critical development areas that reflect the most pressing needs of the times: education, environment and entrepreneurship. This allows concerns within the corporate agenda to reach out into the area of national development.

By actively participating in the social and cultural aspects of the industries Ayala is involved in, and by initiating corporate thinking that takes into account the larger community, Ayala has locked step with the demands of the changing times and set a powerful working example for the business community.

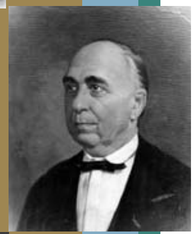
LEADERSHIP AND LEGACY

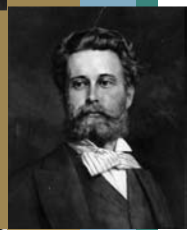
Today, Ayala consolidates the experience of the past 175 years into a powerful vision for the future, shared across all its stakeholders and passionately nurtured by a strong leadership. With solid financials and prudence in management, Ayala's strengths have proven to be more than mere spreadsheet figures. They are part of an indelible business tradition and an essential part of the Ayala character, earned over almost two centuries of business success.

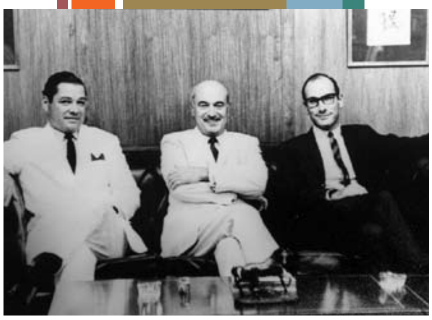
Ayala has always been seen by its stakeholders, its customers and the general public as a company driven by innovation and social responsibility. These two powerful aspects of the Ayala culture have always served as the illuminating principles, guiding the company towards a clear track record that has earned it trust and respect.

In addition, the core values that permeate its business practices have made Ayala a name of unparalleled strength—resonating beyond the boundaries of its concerns, its businesses and its home country, and reaching the international community and acquiring a multitude of meanings.

For its customers, Ayala is a name that immediately resonates with quality. For the investing public, it is an assurance of world-class governance. For employees, it is an employer of choice and a source of personal and professional pride. For its business partners, Ayala stands for integrity and long-term focus. And for thousands of Filipinos, Ayala is a brand of trustworthiness and a catalyst for entrepreneurship.





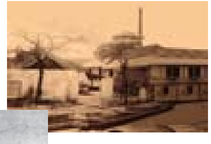
Entrepreneurs, pioneers, working professionals—generations of leaders from 1834 to the present helped build Ayala one of the biggest and most successful companies in the Philippines.

Today, Ayala is not only a symbol of good management and solid business. It also stands for legacy of strength and integrity. It is a symbol of leadership, a name devoted to the everyday citizen and the country around him, for 175 years since its beginnings, for the current times, and for the centuries ahead.

The Ayala group's colorful 175-year history is in many ways a benchmark and a reflection of the country's own commercial history. Since it first opened shop in 1834, Ayala has stood at the forefront of change in the fields of business, social development, the culture and the arts. This timeline provides insights into some of the more significant events in Ayala's long history, as well as a quick reference on the company's growth from its beginnings as Casa Roxas in 1834 to being one of the largest and most respected groups in the Philippines and Asia.

1834

Manila officially opens to world trade



Casa Roxas is established

1851

Hacienda Makati is created

Ayala ventures into banking

1910

Ayala funds Fernando Amorsolo's art education in Europe

Ayala ventures into insurance

1912

El Banco Español-Filipino is renamed Bank of the Philippine Islands

1920

Ayala begins its real estate business

1934

Ayala marks its first centenary

1937

Ayala Securities is created

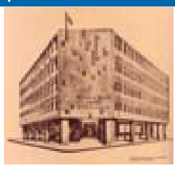
1948

Ayala Master Plan for Makati is unveiled

1949

Forbes Park opens

1974



BPI acquires People's Bank and Trust Company, the first of many mergers and acquisitions

First Ayala Museum building is inaugurated

Ayala invests in telecommunications

1975

Globe is listed in the Philippine stock exchange

1976

Ayala is listed in the Philippine stock exchange

1980

IMI begins operations

1981

Alabang Commercial Center breaks ground

1982

BPI introduces country's first ATM network

1988

Ayala Land is spun off

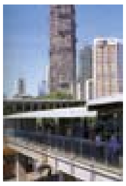
AYC Overseas Ltd. begins operations

Ayala Systems Technology Inc. is created

1997

Manila Water begins operations and launches its *Tubig Para sa Barangay* project

1998



Makati Walkway System opens

CENTEX opens in Tondo, Manila. A second school will open in Batangas

1999

First Ayala Young Leaders Congress is held

Ayala brings Children's Hour to the Philippines

Ayala supports Habitat for Humanity's house-building activities

2000

Ayala Foundation USA is established

Investments in e-commerce are made

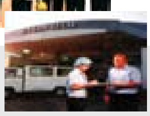
Ayala Technology Business Incubator opens

AFI launches Youth Tech

2005

Manila Water is listed in the Philippine stock exchange

GILAS is formed



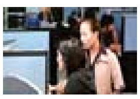
IMI acquires Saturn and Speedy-Tech

BPI establishes microfinance arm

Globe's Bridgecom sa Bayan supports small entrepreneurs

2006

Ayala invests in business process outsourcing



Ayala and ALI sponsor a private-equity fund for investments in Asian markets

Manila Water's *Tubig Para sa Barangay* serves more than one million customers

Manila Water begins largest wastewater project in Southeast Asia

1852 1856 1864 1868 1876 1888 1891 1897 1900

First paper money is issued

Earliest social commitment is made in education

Sociedad Roxas Hijos becomes Roxas Hermanos

Casa Ayala is established

Ayala y Compañia is founded

Streetcars are introduced in Manila

El Banco Español-Filipino begins correspondent relationship with international banks

El Banco Español-Filipino opens first branch

Tranvias Filipinas is sold

1958 1960 1961 1968 1969 1970 1971 1973

Filipinas Life Assurance Company is founded

Ayala develops Makati Commercial Center

Ayala acquires Pure Foods

Filipinas Foundation is established

Ayala y Cia. becomes Ayala Corporation

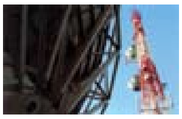
Ayala donates land for the site of the Asian Institute of Management

Ayala develops Alabang

BPI is listed in the Philippine stock exchange

Ayala partners with Mitsubishi Corporation

1990 1991 1993 1994 1995 1996



Globe-MacKay and Clavecilla Radio merge

Filipinas Life becomes Ayala Life Assurance Inc.

Ayala invests in automotive sector

ALI develops Cebu Business Park

ALI, Mitsubishi, and Kawasaki inaugurate Laguna Technopark

Filipinas Foundation becomes Ayala Foundation

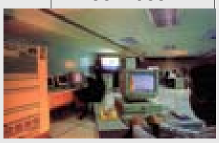
ALI is listed in the Philippine stock exchange

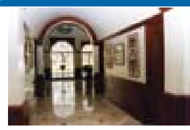
Ayala partners with Singapore Telecom

Globe Handyphone is launched

Isuzu Philippines is created

Globe introduces landline and Internet services





Filipinas Heritage Library opens

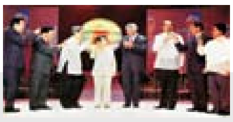
2001 2002 2003 2004

Globe acquires Islacom

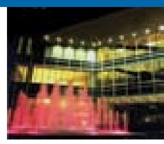
Ayala sells Pure Foods

Ayala forms AC Capital to manage emerging businesses

ALI acquires stake in Bonifacio Global City



Ayala refreshes corporate brand

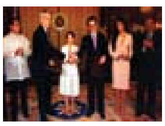


New Ayala Museum building opens to the public

Globe joins Bridge Mobile Alliance, the largest mobile alliance in Asia-Pacific

GCash and 3G revolutionize mobile telephony and commerce

2007 2008 2009

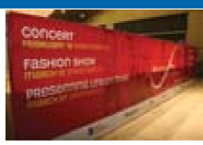


ALI enters a joint venture to build a luxury hotel complex

AG Holdings is formed

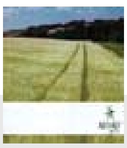
Ayala companies refresh brands

Ayala group integrates CSR projects into Ayala Social Initiatives



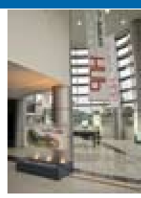
Bravo Filipino pays tribute to Filipino artistry

BPI updates brand and forms Pilipinas Bank



Nuvali rises

Ayala receives the People Program of the Year Award for HRMall



UP-AyalaLand TechnoHub is inaugurated

Ayala emphasizes social entrepreneurship in its business and CSR endeavors

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Fax (632) 759 4274

HRMall, Inc.
2F Market!Market!
Fort Bonifacio Taguig
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Fax (632) 729 7552

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Isuzu Automotive Dealership, Inc.
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Ayala Corporation welcomes inquiries from analysts, the financial community, and institutional investors.
Please write or call Ayala Corporation - Investor Relations
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For inquiries regarding dividend payments, change of address and account status, lost or damaged stock certificates, please write or call BPI Stock Transfer Services
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Ayala Corporation would like to thank the Ayala Mountaineers

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KEEPING THE MOMENTUM

At Ayala, we've never stopped believing that we are making a difference. From building relevant market-leading companies to supporting initiatives in corporate social responsibility, our sense of national stakeholdership has greatly influenced the way we've done business over the past 175 years. Today, even as we confront the challenges of the current economic environment, we remain optimistic about the future. Through prudent strategy and banking on the experience of our organization, we continue to explore promising opportunities that will allow us to enhance our portfolio and strengthen value creation for our shareholders.

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