



March 3, 2009

Securities & Exchange Commission

Attn.: Director Justina F. Callangan
Corporation & Finance Department
S.E.C. Building, EDSA
Mandaluyong City

Philippine Stock Exchange

Attn.: Atty. Pete M. Malabanan
Head - Disclosure Department
4/F PSE Center, Exchange Road
Ortigas Center, Pasig City

Philippine Dealing & Exchange Corp.

Attn.: Ms. Pilar Recto
Issuer Compliance and Disclosures Department
The Enterprise Center, Ayala Ave.
Makati City

Gentlemen:

We are submitting herewith our amended Definitive Information Statement for our annual stockholders' meeting on April 1, 2009. The amendments are on page 6, Item 5, Directors and Executive Officers, and in Annex A (Directors and Key Officers), reflecting our disclosures yesterday about the withdrawal by Mr. Jaime I. Ayala of his nomination to the Board and the nomination of Mr. Antonino T. Aquino as our director and President for election by our Board at its organizational meeting immediately after the stockholders' meeting.

Thank you.

Very truly yours,

A handwritten signature in blue ink, reading 'Michelle Marie T. Valbuena'.

Michelle Marie T. Valbuena
Compliance Manager
Office of the Corporate Secretary



NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of **AYALA LAND, INC.** will be held at the Grand Ballroom, InterContinental Manila, Ayala Center, Makati City, on **Wednesday, April 1, 2009 at 9:00 a.m.** with the following

A G E N D A

1. Proof of Notice and Determination of Quorum
2. Approval of Minutes of Previous Meetings
3. Annual Report
4. Ratification of All Acts and Resolutions of the Board of Directors and of the Executive Committee Adopted in the Ordinary Course of Business During the Preceding Year.
5. Election of Directors (including the Independent Directors)
6. Election of Auditors and Fixing of their Remuneration
7. Consideration of Such Other Business as May Properly Come Before the Meeting
8. Adjournment

Only stockholders of record at the close of business on **February 23, 2009** are entitled to notice of, and to vote at, this meeting.

Makati City, February 9, 2009.

FOR THE BOARD OF DIRECTORS

A handwritten signature in black ink, appearing to read 'Mercedita S. Nolledo'.

MERCEDITA S. NOLLEDO

Corporate Secretary

We are not soliciting your proxy. However, if you would be unable to attend the meeting but would like to be represented thereat, you may accomplish the enclosed proxy form and submit the same on or before **March 23, 2009** to the Office of the Corporate Secretary at 34^F Tower One, Ayala Triangle, Ayala Avenue, Makati City. You may use the enclosed reply envelope for this purpose. Validation of proxies shall be held on March 25, 2009 at 9:00 a.m. at the Office of the Corporate Secretary. Thank you.

PROXY

The undersigned stockholder of **AYALA LAND, INC.** (the "Company") hereby appoints _____ or in his absence, the Chairman of the meeting, as *attorney* and *proxy*, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on April 1, 2009 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Election of Directors

- ☐ Vote for all nominees listed below
Fernando Zobel de Ayala
Jaime Augusto Zobel de Ayala
Delfin L. Lazaro
Aurelio R. Montinola III
Mercedita S. Nollodo
Corazon S. de la Paz-Bernardo (Independent)
Francis G. Estrada (Independent)
Oscar S. Reyes (Independent)

☐ Withhold authority for all nominees listed above

☐ Withhold authority to vote for the nominees listed below:

2. Approval of minutes of previous meetings.

☐ Yes ☐ No ☐ Abstain

3. Approval of annual report.

☐ Yes ☐ No ☐ Abstain

4. Ratification of all acts and resolutions of the Board of Directors and of the Executive Committee.

☐ Yes ☐ No ☐ Abstain

5. Election of Sycip Gorres Velayo & Co. as independent auditors and fixing of their remuneration.

☐ Yes ☐ No ☐ Abstain

6. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.

☐ Yes ☐ No

PRINTED NAME OF STOCKHOLDER

SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY

DATE

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE MARCH 23, 2009, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement

of

Ayala Land, Inc. (the “Registrant,” “Company” or “ALI”)
Pursuant to Section 20 of the Securities Regulation Code (the “Code”)

1. Check the appropriate box:

☐ Preliminary Information Sheet
☒ Amended Definitive Information Sheet

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

3. Province, country or other jurisdiction of incorporation or organization:

REPUBLIC OF THE PHILIPPINES

4. SEC Identification Number: 152747

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

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

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

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

Date	-	April 1, 2009
Time	-	9:00 A.M.
Place	-	Grand Ballroom, InterContinental Manila Ayala Center, Makati City

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

March 9, 2009

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

a. Authorized Capital Stock	₱ 21,500,000,000.00
Common Shares	20,000,000,000 (₱1.00 par value)
Preferred Shares	15,000,000,000 (₱0.10 par value)

b. Number of Shares Outstanding as of December 31, 2008

<u>Class</u>	<u>Number of Shares</u>
Common Shares	12,963,002,441
Preferred Shares	13,034,603,880

c. Amount of Debt Outstanding as of December 31, 2008

₱ 4.1 billion (registered bonds)

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

☒ Yes ☐ No

12,999,038,152 common shares have been listed with the Philippine Stock Exchange ("PSE") as of December 31, 2008, excluding the 43,492,517 shares which have been approved for listing for the ESOWN Plan of the Company.

A. GENERAL INFORMATION

a. **Date** - April 1, 2009
 Time - 9:00 A.M.
 Place - Grand Ballroom, InterContinental Manila
 Ayala Center, Makati City

March 9, 2009

B. CONTROL AND COMPENSATION INFORMATION

c. **Manner of Voting**

For common shares, Article III, Secs. 7 and 8, of the By-Laws of the Company (the “By-laws”) provides:

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

Section 8 – The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him for as many persons as many votes as the number of Directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected. x x x”

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

i. Security Ownership of Record and Beneficial Owners of more than 5% as of January 31, 2009.

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent (of the Outstanding Common & Preferred Shares)
Common	Ayala Corporation ² 34/F Tower One Bldg. Ayala Ave., Makati City	Ayala Corporation ³	Filipino	6,941,009,514	26.699%
Preferred				12,679,029,436	48.770%
Common	PCD Nominee Corporation (Non-Filipino) ⁴ G/F MSE Bldg. Ayala Ave., Makati City	Hongkong and Shanghai Banking Corporation (HSBC) and Standard Chartered Bank (SCB) ⁵	Various	4,737,121,541	18.221%

ii. Security Ownership of Directors and Management (Executive Officers) as of January 31, 2009.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent (of the Outstanding Common & Preferred Shares)
<i>Directors</i>				
Common	Fernando Zobel de Ayala	12,000 (direct)	Filipino	0.00005%
Common	Jaime Augusto Zobel de Ayala	12,000 (direct)	Filipino	0.00005%
Common	Jaime I. Ayala	3,070,171 (direct & indirect)	Filipino	0.01181%
Common	Mercedita S. Nollado	250,014 (direct & indirect)	Filipino	0.00096%
Common	Corazon S. de la Paz-Bernardo	1,201 (direct & indirect)	Filipino	0.00000%
Common	Ramon R. del Rosario, Jr.	1 (direct)	Filipino	0.00000%
Common	Delfin L. Lazaro	125,001 (direct & indirect)	Filipino	0.00048%

² Ayala Corporation (“AC”) is the parent company of the Company.

³ As per By-laws and the Corporation Code, the AC Board has the power to decide how AC’s shares are to be voted.

⁴ The PCD is not related to the Company.

⁵ HSBC and SCB are participants of PCD. The 3,175,544,325 and 1,282,565,967 shares or 17.15% of the total issued and outstanding shares of the Company, owned by HSBC and SCB, respectively, form part of the 4,737,121,541 shares registered in the name of PCD Non-Filipino. The clients of HSBC and SCB have the power to decide how their shares are to be voted.

Common	Francis G. Estrada	1 (direct)	Filipino	0.00000%
Common	Aurelio R. Montinola III	3,578 (direct & indirect)	Filipino	0.00001%
<i>CEO and Most Highly Compensated Executive Officers</i>				
Common	Jaime I. Ayala	3,070,171 (direct & indirect)	Filipino	0.01181%
Common	Vincent Y. Tan	6,252,085 (direct & indirect)	Filipino	0.02405%
Common	Ma. Victoria E. Añonuevo	2,525,988 (direct & indirect)	Filipino	0.00972%
Common	Bernard Vincent O. Dy	1,180,616 (direct & indirect)	Filipino	0.00454%
Common	Raul M. Irlanda	472,451 (direct & indirect)	Filipino	0.00182%
Common	Rex Ma. A. Mendoza	1,205,110 (direct & indirect)	Filipino	0.00464%
Common	Emilio J. Tumbocon	4,427,257 (direct & indirect)	Filipino	0.01703%
Common	Jaime E. Ysmael	2,241,021 (direct & indirect)	Filipino	0.00862%
Common	Arturo G. Corpuz	980,683 (direct & indirect)	Filipino	0.00377%
Common	Anna Ma. Margarita B. Dy	722,885 (direct & indirect)	Filipino	0.00278%
Common	Jose Emmanuel H. Jalandoni	560,486 (direct & indirect)	Filipino	0.00216%
Common	Joselito N. Luna	689,766 (direct & indirect)	Filipino	0.00265%
Common	Maria Teresa Ruiz	0	Filipino	0.00000%
All Directors and Officers as a group		24,732,315		0.09513%

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

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

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

iv. **Changes in Control**

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

Item 5. Directors and Executive Officers

Article IV Section 1 of the Company's By-Laws provides in part:

“Section 1. x x x The Board of Directors shall have nine (9) members who shall be elected by the Corporation's stockholders entitled to vote at the annual meeting, and shall hold office for one year until their successors are elected and qualified in accordance with these By-laws.”

The record of attendance of the Company's directors at the meetings of the Board of Directors (the “Board”) held in 2008 is as follows:

Director	Regular Meetings				Organizational Meeting	Percentage
	Feb. 12	May 12	Aug. 12	Nov. 6	April 2	
Fernando Zobel de Ayala	P	P	P	P	P	100%
Jaime Augusto Zobel de Ayala	P	P	A	P	P	80%
Jaime I. Ayala	P	P	P	P	P	100%
Delfin L. Lazaro	P	P	P	P	P	100%

Mercedita S. Nollo	P	P	P	P	P	100%
Leandro Y. Locsin, Jr.*	P	-	-	-	-	100%
Aurelio R. Montinola III	P	A	P	A	P	60%
Corazon S. de la Paz-Bernardo	P	P	P	P	P	100%
Ramon R. del Rosario, Jr.	P	P	P	A	A	60%
Francis G. Estrada*	-	A	P	P	P	75%

* Mr. Estrada was elected to the Board effective April 2, 2008 replacing Mr. Locsin.

Legend:

P – Present

A – Absent

The Management Committee members and other officers, unless removed by the Board, shall serve as such until their successors are elected or appointed.

a. Information required of Directors and Executive Officers

i. Directors and Executive Officers

The following have been nominated to the Board for the ensuing year and have accepted and not withdrawn their nomination:

FERNANDO ZOBEL DE AYALA	JAIME AUGUSTO ZOBEL DE AYALA
DELFIN L. LAZARO	AURELIO R. MONTINOLA III
CORAZON S. DE LA PAZ-BERNARDO	MERCEDITA S. NOLLEDO
FRANCIS G. ESTRADA	OSCAR S. REYES

These nominees were formally nominated to the Nomination Committee (the NomCom, composed of Fernando Zobel de Ayala, Jaime I. Ayala and Ramon R. del Rosario, Jr.) by a shareholder of the Company, Mr. Fernando S. Jallorina. In addition, Mr. Francis G. Estrada and Ms. Corazon S. de la Paz-Bernardo, both incumbent directors, and Mr. Oscar S. Reyes are being nominated as independent directors. Mr. Jallorina is not related to any of the nominees for independent directors.

As of February 18, 2009, the deadline for nomination to the Board for election at the annual stockholders' meeting on April 1, 2009, the nominees to the Board included Mr. Jaime I. Ayala, who subsequently withdrew his nomination to rejoin Ayala Corporation, where he is a Senior Managing Director, and will take a lead role in strategic initiatives. On March 2, 2009, the Board approved the resolution of the NomCom accepting Mr. Ayala's withdrawal of his nomination. The Board also approved the NomCom's resolution endorsing the nomination and election of Mr. Antonino T. Aquino as director and President of the Company for election at the organizational meeting of the Board immediately following the annual meeting of the stockholders.

The nominees have served as directors of the Company for more than five years except for Mr. Aurelio R. Montinola III, Ms. Corazon S. de la Paz-Bernardo, Mr. Francis G. Estrada and Mr. Oscar S. Reyes. Mr. Montinola has served as director for four years, Ms. de la Paz-Bernardo for three years and Mr. Estrada for one year. Mr. Reyes has not previously served as director of the Company.

The Company has adopted and complied with SRC Rule 38 (Requirements on Nomination and Election of Independent Directors).

A summary of the qualifications of the incumbent directors, nominees for directors for election at the stockholders' meeting, nominee for directors for election by the Board at its organizational meeting and incumbent officers is set forth in Annex A.

ii. Significant Employees

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

iii. **Family Relationships**

Fernando Zobel de Ayala, the Chairman, and Jaime Augusto Zobel de Ayala, the Vice Chairman, are brothers.

iv. **Involvement in Certain Legal Proceedings**

None of the directors or executive officers is involved in any material pending legal proceedings in any court or administrative agency.

As of end-2008, the Company is not involved in any litigation it considers material. In any event, below are legal proceedings involving the Company that may be significant.

Ayala Southvale

Certain individuals and entities have claimed an interest in ALI's properties located in Las Piñas, Metro Manila, which are adjacent to its development in Ayala Southvale.

Prior to purchasing the aforesaid properties, ALI conducted an investigation of titles to the properties and had no notice of any title or claim that was superior to the titles purchased by ALI. ALI traced its titles to their original certificates of title and ALI believes that it has established its superior ownership position over said parcels of land. ALI has assessed these adverse claims and believes that its titles are in general superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning in October 1993, ALI filed petitions in the Regional Trial Courts (RTC) in Makati and Las Piñas for quieting of title to nullify the purported titles or claims of these claimants. These cases are at various stages of trial and appeal. Some of these cases have been finally decided by the Supreme Court ("SC") in ALI's favor. These include decisions affirming the title of ALI to some of these properties, which have been developed and offered for sale to the public as Sonera, Ayala Southvale. The controversy involves the remaining area of approximately 129 hectares.

ALI does not intend to develop and sell the rest of the Las Piñas properties until the litigation is resolved. It has made no provision in respect of such actual or threatened litigations.

Avida Tex System

In December 1999, plaintiffs Edgardo Vasquez and Vazquez Building Systems Corporation filed a patent infringement case against Avida, a wholly-owned subsidiary of ALI. Avida has raised a number of defenses, including the following: (i) Avida is utilizing the Tex system, a British technology patented in the Philippines of which Avida is a licensee, and not the Vasquez modular housing patent; (ii) patent claim is overbroad; and (iii) the H-shaped column and the wall panel installation system being claimed as the infringed component cannot be covered by the Vasquez patent because these are not patentable as they do not qualify as a "novelty". In a decision dated December 18, 2007, the RTC of Quezon City ruled in favor of plaintiffs, requiring Avida to compensate the plaintiffs in the amount of ₱90 million as temperate damages or reasonable royalty with interest at the rate of 6% p.a. from the date of filing of the complaint as well as moral and exemplary damages and reasonable attorney's fees and cost of suit. Avida filed a notice of appeal to contest this decision with the Court of Appeals.

Since then, Avida has entered into a compromise agreement with plaintiffs to resolve the patent infringement case filed by the latter against Avida. The compromise became effective upon the approval of the Court of Appeals last March 17, 2008. Avida has recently fully settled all of its obligations under the agreement.

Glorietta Explosion

As a result of the explosion which occurred on 19 October 2007 at the basement of the Makati Supermarket Building, the Philippine National Police ("PNP") has filed a complaint 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 the Company's subsidiary, 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. No civil case has been filed by any of the victims to date.

b. Certain Relationships and Related Transactions

The Company and its subsidiaries (the "Group"), in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of advances and reimbursement of expenses, purchase and sale of real estate properties, construction contracts, and development, management, underwriting, marketing, leasing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made on an arm's length basis and at current market prices at the time of the transactions.

However, no other transaction, without proper disclosure, was undertaken by the Company in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect) or any member of his immediate family was involved or had a direct or indirect material interest.

ALI employees are required to promptly disclose any business and family-related transactions with the company to ensure that potential conflicts of interest are surfaced and brought to the attention of management.

c. Ownership Structure and Parent Company

Ayala Corporation owns 75.47% of the total outstanding common and preferred shares of the Company as of December 31, 2008.

d. Resignation of Directors

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

Item 6. Compensation of Directors and Executive Officers

a. Executive Compensation

The Company adopts a performance-based compensation scheme. The total annual compensation of the President and Management Committee members amounted to ₱173.76 million in 2007 and ₱130.70 million in 2008. The projected total annual compensation for the current year is ₱144.28 million.

Total compensation paid to all senior personnel from Manager and up amounted to ₱633.73 million in 2007 and ₱350.06 million in 2008. The projected total annual compensation for the current year is ₱379.97 million.

Name and Principal Position	Year	Salary	Other Variable Pay
Jaime I. Ayala President & CEO			
Vincent Y. Tan Executive Vice President			
Ma. Victoria E. Añonuevo Senior Vice President			
Bernard Vincent O. Dy Senior Vice President			

Raul M. Irlanda Senior Vice President			
Rex Ma. A. Mendoza Senior Vice President			
Emilio J. Tumbocon Senior Vice President			
Jaime E. Ysmael Senior Vice President & CFO			
Arturo G. Corpuz* Vice President			
Anna Ma. Margarita B. Dy* Vice President			
Jose Emmanuel H. Jalandoni* Vice President			
Joselito N. Luna* Vice President			
Maria Teresa Ruiz Vice President			
CEO & 12 Most Highly Compensated Executive Officers	Actual 2007	P105.27M	P68.49 M
	Actual 2008	P115.88 M	P14.82 M**
	Projected 2009	P120.02 M	P24.26 M**
All other officers*** as a group unnamed	Actual 2007	P425.94 M	P207.79 M
	Actual 2008	P308.22 M	P41.84 M**
	Projected 2009	P316.07 M	P63.90 M**

* Member of the Management Committee effective August 2008

** Exclusive of Stock Option exercise

*** Managers and up

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

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

b. Compensation of Directors

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

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

i. Standard Arrangement (Current Compensation)

During the 2003 annual stockholders' meeting, the stockholders ratified the resolution fixing the remuneration of non-executive directors at ₱1,000,000.00 consisting of the following components:

Retainer Fee:	₱500,000.00
Per diem per Board meeting attended:	₱100,000.00

In addition, a non-executive director is entitled to a per diem of ₱20,000.00 per Board committee meeting actually attended.

ii. **Other Arrangement**

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

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

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

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

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

- i. The Company has offered its Executive Stock Option Plan (ESOP) to its officers since 1998. Of the above named officers, options for 532,920 common shares were exercised in 2008 by the above-named officers, to wit:

Name	No. of Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
All above-named Officers as a group	532,920	Various	3.68	5.70 *

* Average prices on the dates of grant.

- ii. The Company has adjusted the exercise price of the options awarded to the above named officers due to the stock dividend paid in June 2007.

Item 7. Independent Public Accountants

- a. The principal accountant and external auditor of the Company is SyCip, Gorres, Velayo & Company (SGV & Co.). The same accounting firm is being recommended for re-election at the meeting.
- b. Representatives of SGV & Co. for the current year and for the most recently completed fiscal year are expected to be present at the meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor, and Ms. Lucy L. Chan has been the Partner In-charge effective audit year 2007.

c. **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

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

d. **Audit and Audit-Related Fees**

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

	Audit & Audit-related Fees	Tax Fees	Other Fees
2008	8.1*	-	-
2007	7.7*	-	-

* Pertains to audit fees; no fees for other assurance and related services

Under paragraph D.3.1 of the ALI Audit Committee Charter, the Audit Committee (composed of Ramon R. del Rosario, Jr., Mercedita S. Nollado and Corazon S. de la Paz-Bernardo) recommends to the Board and stockholders the appointment of the external auditor and the fixing of audit fees. The Board and stockholders approve the Audit Committee's recommendation.

e. Tax Fees

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

Item 8. Compensation Plans

There are no matters or actions to be taken up in the meeting with respect to any compensation plan pursuant to which cash or non-cash compensation may be paid or distributed. The Executive Stock Option Plan (ESOP) and the Employee Stock Ownership Plan (ESOWN) of the Company were approved by the Securities and Exchange Commission in July 1991 and March 2006, respectively.

C. ISSUANCE AND EXCHANGE OF SECURITIES

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

There are no matters or actions to be taken up with respect to authorization or issuance of securities.

Item 10. Modification or Exchange of Securities

There are no matters or actions to be taken up with respect to the modification of any class of the Company's securities or the issuance of authorization for issuance of one class of the Company's securities in exchange for outstanding securities of another class.

Item 11. Financial and Other Information

The audited financial statements as of December 31, 2008, Management's Discussion and Analysis, Market Price of Shares and Dividends and other data related to the Company's financial information are attached hereto as Annex "B". The Schedules required under Part IV(c) of Rule 68 will be included in the Annual Report (SEC Form 17-A).

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

There are no matters or actions to be taken up in the meeting with respect to merger, consolidation, acquisition by, sale or liquidation of the Company.

Item 13. Acquisition or Disposition of Property

There are no matters or actions to be taken up in the meeting with respect to acquisition or disposition of any property by the Company.

Item 14. Restatement of Accounts

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the consolidated financial statements 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*, 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 a significant impact on the Group's financial statements.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangement*, 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. Adoption of this Interpretation did not have any impact on the Group's financial statements as it is not applicable to its operations.
- Philippine Interpretation IFRIC 14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, 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 a significant impact on the Group's financial statements.
- Amendments to Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, and PFRS 7, *Financial Instruments: Disclosure*, are effective beginning July 1, 2008. 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 Group's 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.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
This amendment will become effective January 1, 2009. It 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.
- Amendment to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
This amendment will become effective January 1, 2009. The 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 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 become effective January 1, 2009. It 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 sheets and consolidated statements 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 consolidated financial statements with a securities commission or similar party. The Group is in the process of assessing the impact of the Standard on its current manner of reporting segment information.
- *Amendment to PAS 1, Presentation of Financial Statements*
This amendment will become effective January 1, 2009. It 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' (OCI). 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 consolidated balance sheets and 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.
- *Amendment to PAS 23, Borrowing Costs*
This amendment will become effective January 1, 2009. 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. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.
- *Amendments to PAS 27, Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
These Amendments, which will be effective on January 1, 2009, introduce 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 the consolidated statement of income. However, the payment of such dividends requires the entity to consider whether there is an 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, which become effective January 1, 2009, specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the 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) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all 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) the 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.*
Effective January 1, 2009, 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. The Group is still in the process of assessing the impact of adoption of this Interpretation to the financial statements of AHI and Subsidiaries.
- *Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation*
This Interpretation will become effective January 1, 2009. It 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 wordings. There are the separate transitional provisions for each standard, which become effective January 1, 2009:

- *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 Asset*.

Items of property 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*
This revises the definition of 'past service cost' to include reduction in benefits related to past services ('negative past service cost') and to exclude reduction in benefits related to future services that arise from plan amendments. Amendments to plans that results 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.

It also 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*
This 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*
This 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 Company 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 intangible assets with finite lives 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.

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.

D. OTHER MATTERS

Item 15. Action with Respect to Reports

- a. Approval of the Minutes of the 2008 Annual Meeting of the Stockholders held on April 2, 2008 covering the following matters:
 - i) Annual Report of Officers;
 - ii) Ratification and approval of all acts and resolutions of the Board and the Executive Committee for the fiscal year 2007 which include among others the approval of projects and investments, treasury matters including borrowings and bank transactions and appointment of officers and signatories;
 - iii) Ratification of the resolutions of the Board approving the allotment and subsequent issuance of up to 1 Billion common shares of stock of the Company with an aggregate par value of One Billion Pesos (P1,000,000,000.00) (the "Shares") for the purpose of exchanging such Shares for properties or assets and/or to raise funds to acquire properties or assets needed for the business of the Company via issuance of equity-linked instruments the price and the terms and conditions of which shall be determined by the Board based on prevailing market conditions or on agreements negotiated; and the amendment of the Amended Articles of Incorporation of the Company to exclude the issuance of the Shares from the preemptive rights of the stockholders;
 - iv) Election of the Members of the Board, including Independent Directors, and
 - v) Election of External Auditors and Fixing their Remuneration.
- b. Approval of the Annual Report of Management for the year ending December 31, 2008.

Item 16. Matters not required to be Submitted

All matters or actions to be taken up in the meeting will require the vote of the security holders.

Item 17. Amendment of Charter, Bylaws or Other Documents

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

Item 18. Other Proposed Action

- a. Ratification of all acts of the Board, Executive Committee and Management for the period covering January 1, 2008 through December 31, 2008.

These acts are covered by Resolutions of the Board duly adopted in the normal course of trade or business involving:

- i) Approval of projects and investments;
- ii) Treasury matters including borrowings, opening of accounts and bank transactions; and
- iii) Appointment of signatories and amendments thereof.

- b. Election of the Members of the Board, including the independent directors, for the ensuing calendar year.
- c. Election of External Auditors and fixing their remuneration.

Item 19. Voting Procedures

- a. **Vote required:** The vote of stockholders representing at least a majority of the issued and outstanding capital stock entitled to vote is required.
- b. **Method of Voting:** Straight and Cumulative Voting

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

In case of election of directors, each common stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many nominees as he shall see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the total number of directors to be elected.

If there are more than nine nominees for the 9-member Board, voting shall be done by secret ballot. If there are only nine nominees, voting will be done by show of hands.

The external auditor of the Company, SGV & Co., will validate the ballots when voting is done by secret ballot. Likewise, SGV will count the number of hands raised when voting by show of hands is done.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on the 23rd day of February 2009.

AYALA LAND, INC.

by: 
MERCEDITA S. NOLLEDO
Corporate Secretary

ANNEX “A”

DIRECTORS AND KEY OFFICERS

The write-ups below include positions currently held by the directors and executive officers, as well as positions held during the past five years. An information is as of December 31, 2008 unless otherwise indicated.

Board of Directors

Fernando Zobel de Ayala	Francis G. Estrada
Jaime Augusto Zobel de Ayala	Delfin L. Lazaro
Jaime I. Ayala	Aurelio R. Montinola III
Corazon S. de la Paz-Bernardo	Mercedita S. Nollado
Ramon R. del Rosario, Jr.	

Fernando Zobel de Ayala, 48, Filipino, has served as Chairman of the Board of ALI since 1999. He is also the Vice Chairman, President and Chief Operating Officer of Ayala Corporation. His other significant positions include: Chairman of Manila Water Company, Inc., AC International Finance Ltd., AG Holdings Limited, Ayala Automotive Holdings Corp., Ayala Hotels, Inc., Alabang Commercial Corp., and Anvaya Cove Beach and Nature Club, Inc.; Co-Vice Chairman and Trustee of Ayala Foundation, Inc.; and Director of the Bank of the Philippine Islands, Globe Telecom, Inc., Integrated Micro-electronics Inc., AI North America and Habitat for Humanity International. He graduated with B.A. Liberal Arts from Harvard College in 1982.

Jaime Augusto Zobel de Ayala, 49, Filipino, has served as Director and member of the Executive Committee of ALI since 1988. He also serves as the Chairman and Chief Executive Officer of Ayala Corporation. He is also Chairman of the Board of Globe Telecom, Inc., Bank of the Philippine Islands and Integrated Micro-electronics, Inc.; Vice Chairman of Manila Water Co., Inc. and Co-Vice Chairman of Ayala Foundation, Inc. He is a member of various international and local business and socio-civic organizations including the JP Morgan International Council, Mitsubishi Corporation International Advisory Committee, Toshiba International Advisory Group, Harvard University Asia Center Advisory Committee, Board of Trustees of the Asian Institute of Management and a national council member of the World Wildlife Fund (US). He was a TOYM (Ten Outstanding Young Men) Awardee in 1999 and was named Management Man of the Year in 2006 by the Management Association of the Philippines for his important role in the transformation of Ayala Corporation into a highly diversified forward-looking conglomerate. He was also awarded the prestigious Harvard Business School Alumni Achievement Award in 2007. He graduated with B.A. in Economics (Cum Laude) from Harvard College in 1981 and took his MBA at the Harvard Graduate School of Business Administration in 1987.

Jaime I. Ayala, 46, Filipino, became President of ALI on July 1, 2004. He joined ALI in January 2004 as Executive Vice President and member of the Management Committee. Concurrently, he is Senior Managing Director of Ayala Corporation. His other significant positions include: Chairman and President of Makati Property Ventures, Inc.; Chairman of Ayala Property Management Corp., Cebu Holdings, Inc., Cebu Insular Hotel Co., Inc., Cebu Property Ventures & Development Corp., Alveo Land Corp., Avida Land Corp., Laguna Technopark, Inc., Makati Development Corp., and Station Square East Commercial Corp; Director and President of Aurora Properties, Inc, Ayala Hotels, Inc., Enjay Hotels, Inc., Roxas Land Corp., and Vesta Property Holdings, Inc.; Director of Alabang Commercial Corp., Ayala Greenfield Development Corp., Ayala Infrastructure Ventures, Inc., Ayala Land Sales, Inc., Berkshire Holdings, Inc., Bonifacio Arts Foundation, Inc., Bonifacio Land Corp., Emerging City Holdings, Inc., Fort Bonifacio Development Corp., myAyala.com, Inc., Ayala Center Association and Makati Parking Authority. Prior to joining ALI, he spent 19 years with McKinsey & Company in the US, Mexico, Tokyo and Hong Kong. At McKinsey, he was a Director (senior partner) and played a number of global and regional leadership roles, including that of President of McKinsey's Manila office. He earned his M.B.A. from Harvard School, graduating with honors in 1988. He completed his undergraduate work in 1984 at Princeton University, where he graduated Magna Cum Laude in Economics, with a minor in Engineering.

Corazon S. de la Paz-Bernardo, 67, Filipino, has served as an Independent Director of ALI since April 2006. She was re-elected on September 2007 as the President of the International Social Security Association, for the triennium 2008-2010, the first non-European to occupy this position. She is also a Director of Equitable Card Network, Inc. and Republic Glass Holdings. She is also a member of the Board of Trustees and Treasurer of Meralco Foundation, Inc. and Trustee of University of the East. She also serves as an advisor to the Audit Committee of the Philippine Long Distance Telephone Company. Until 2008, she served as the President and Chief Executive Officer of Social Security System and director of BDO Unibank. She was the Chairman and Senior Partner of Joaquin Cunanan & Co. (PricewaterhouseCoopers, Philippines) from 1981 to 2001 and served in the Price Waterhouse World Board from 1992 to 1995. She received a Fulbright Achievement Award for Business Administration in 1988 and was one of The Outstanding Women in the Nation's Service Awardee for Management in 1983. She has a Masters in Business Administration degree from Cornell University, as a Fulbrighter and a University of the East scholar. She studied Business Administration at the University of the East, graduating magna cum laude. She placed first in the 1960 Philippine board examination for certified public accountants.

Ramon R. del Rosario, Jr., 64, Filipino, has served as an Independent Director of ALI since 1994. He is the President and Chief Executive Officer of Philippine Investment Management (PHINMA), Inc.; President of Bacnotan Consolidated Industries, Inc. and Microtel Development Corp.; Chairman and CEO of AB Capital and Investment Corporation; Chairman of Paramount Building Management, United Pulp and Paper Co., Inc., Microtel Inns and Suites (Pilipinas), Inc., CIP II Power Corp., Trans-Asia Gold and Minerals Development Corp., Stock Transfer Services, Inc., Araullo University and Cagayan de Oro College. He is Director of Trans-Asia Oil & Energy Development Corporation, Trans-Asia Power Generation Corp., PHINMA Property Holdings Corp., Roxas Holdings, Inc., Holcim (Phils.), Inc., Bacnotan Industrial Park Corp., PHINMA Foundation, Inc. and Union Galvasteel Corp. He served as the Philippines' Secretary of Finance in 1992-1993. He is the current chairman of the Makati Business Club. He graduated with degrees in BSC-Accounting and AB-Social Sciences (Magna cum Laude) at De La Salle University, Manila in 1967 and earned his Masters in Business Administration at Harvard Business School in 1969.

Francis G. Estrada, 59, Filipino, has served as an Independent Director of ALI since April 2008. His other significant positions include: President of the Asian Institute of Management since May 2007, President and Trustee of AIM Scientific Research Foundation, Inc.; and Chairman and Co-Founder of Equity Managers Asia, Inc. He is also a Fellow and Trustee of the Institute of Corporate Directors, De La Salle University (Philippines), De La Salle University-Canlubang and De La Salle University-National Mission Council. He also serves as an Independent Director of Philippine National Oil Corp-Energy Development Center and Philamlife and General Assurance Company. He also serves as an advisor to Rizal Commercial Banking Corporation and Antai College of Economics and Management-Shanghai Jiaotong University. He was named "Most Outstanding Alumnus" of the Asian Institute of Management in 1989. He holds a Bachelor of Arts (Literature) and Bachelor of Science (Business Administration) degrees from De La Salle University (Philippines) and a Master in Business Management, "with Distinction" from the Asian Institute of Management. He also completed the Advanced Management Program at the Harvard Business School.

Delfin L. Lazaro, 62, Filipino, has served as member of the Board of ALI since 1996. His other significant positions include: Chairman of LiveIt Solutions, Inc., Philwater Holdings Co., Inc. and MPM Noodles Corp.; Chairman and President of AYC Holdings Ltd. and A.C.S.T. Business Holdings, Inc.; Vice Chairman and President of Asiacom Philippines, Inc.; Director of Ayala Corporation, Globe Telecom, Inc., Integrated Micro-electronics, Inc., Manila Water Co., Inc., AI North America, AC International Finance Ltd., Ayala DBS Holdings, Inc. and Ayala Automotive Holdings Corp. Formerly, Mr. Lazaro was the President and CEO of Benguet Corporation and Secretary of the Department of Energy of the Philippine government. He was named Management Man of the Year 1999 by the Management Association of the Philippines for his contribution to the conceptualization and implementation of the Philippine Energy Development Plan and to the passage of the law creating the Department of Energy. He was also cited for stabilizing the power situation that helped the country achieve successively high growth levels up to the Asian crisis in 1997. He graduated with BS Metallurgical Engineering at the University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

Aurelio R. Montinola, III, 57, Filipino, has served as member of the Board of ALI since February 2005. He is the President and CEO of Bank of the Philippine Islands. His other affiliations, among others, include: Vice Chairman of the Board of Republic Cement Corporation; Vice Chairman of the Board of Trustees of Far Eastern University; Chairman of East Asia Educational Foundation, Inc., Amon Trading Corporation, East Asia Educational Foundation, Inc., Shenton Realty Corporation, City Trust Realty Corporation and Syrel Investment and Realty Corporation; Regional Vice Chairman of MasterCard Incorporated; Director of Manila Water Company, Inc., BPI Family Savings Bank, BPI Direct Savings Bank, BPI/MS Insurance Corporation, Ayala Life Assurance, Inc., Universal Malayan Reinsurance Corporation and Makati Business Club; President of BPI Foundation, Inc.; and Member of the Management Association of the Philippines. He graduated with BS Management Engineering from the Ateneo de Manila University in 1973 and received his MBA at Harvard Business School in 1977.

Mercedita S. Nolledo, 67, Filipino, has served as Director and Corporate Secretary of ALI since 1994. She also serves as Board member, Senior Managing Director and Corporate Secretary of Ayala Corporation and Senior Counsel of the Ayala Group of Companies. Her other significant positions include: Director of Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings Corp., Bank of the Philippine Islands, BPI Family Bank, BPI Capital Corp., Ayalafil, Inc., Mandaue Primeland, Inc. and Anvaya Cove Beach and Nature Club, Inc.; Corporate Secretary and Member of the Board of Trustees of Ayala Foundation, Inc.; Director and Treasurer of Phil. Tuberculosis Society, Inc. She had her education at the University of the Philippines and graduated Magna Cum Laude and Class Valedictorian in Bachelor of Science in Business Administration and Cum Laude and Class Valedictorian in Bachelor of Laws.

Nominees to the Board of Directors for Election at the Stockholders' Meeting:

All the above incumbent directors, except Mr. Ayala.

Oscar S. Reyes, 61, Filipino, is the Chairman of MRL Gold Phils., Inc., Link Edge, Inc.; Director of Manila Water Co., Inc., Philippine Long Distance Telephone Company, Sun Life of Canada Philippines, Inc., Pepsi Cola Products Philippines Inc., First Philippine Electric Corporation and Bank of the Philippine Islands. He has also served the Shell Companies in the Philippines in various capacities such as Country Chairman and concurrently President of Pilipinas Shell Petroleum Corporation and Managing Director of Shell Philippines Exploration B.V. He is a Member of the Board of Trustees of Pilipinas Shell Foundation, Inc., SGV Foundation, and El Nido Foundation, Inc. He finished his BA, Major in Economics (Cum Laude) from the Ateneo de Manila University in 1965. He also finished post-graduate studies in Waterloo University and Harvard Business School, among other schools abroad.

Nominee to the Board for Election by the Board at its Organizational Meeting

Antonino T. Aquino, 61, Filipino, has been the President of Manila Water Company Inc. (MWC) since January 1999. He has also been a Director of MWC since April 24, 1998. Mr. Aquino joined MWC as Group Director for Corporate Affairs. He has been with the Ayala Group in various capacities for the past 28 years and now holds the position of Senior Managing Director of Ayala Corporation. He was President of the Ayala Property Management Corporation from 1990 to 1998 and Senior Vice President of Ayala Land, Inc. from 1989 to 1998. He was also a Business Unit Manager at IBM Philippines, Inc. from 1968-1980. He also serves as a Member of the Board of various corporate social responsibility foundations such as Ayala Foundation, Manila Water Foundation, Habitat for Humanities Philippines, La Mesa Watershed Foundation and Makati Environment Foundation. Mr. Aquino completed the academic requirements for masteral degree in Business Management at the Ateneo Graduate School of Business and completed his Bachelor of Science, major in Management degree at the Ateneo de Manila University.

Management Committee Members / Key Executive Officers

Jaime I. Ayala *	President and Chief Executive Officer
Mercedita S. Nollado*	Corporate Secretary
Vincent Y. Tan	Executive Vice President
Ma. Victoria E. Añonuevo	Senior Vice President
Bernard Vincent O. Dy	Senior Vice President
Raul M. Irlanda	Senior Vice President
Rex. Ma. A. Mendoza	Senior Vice President
Emilio J. Tumbocon	Senior Vice President
Jaime E. Ysmael	Senior Vice President & Chief Finance Officer
Augusto D. Bengzon	Vice President & Treasurer
Arturo G. Corpuz	Vice President
Anna Ma. Margarita B. Dy	Vice President
Jose Emmanuel H. Jalandoni	Vice President
Joselito N. Luna	Vice President
Maria Teresa T. Ruiz	Vice President

* Member of the Board

Vincent Y. Tan, 58, Filipino, is Executive Vice President and Head of the Planning Group of ALI. He is a member of the Management Committee of ALI. His other positions include: Chairman of Laguna Technopark, Inc.; Director of Capital Consortium, Inc., Crescent West Development Corporation, Gisborne Property, Inc., Hillsford Property Corporation, Summerhill E-Office Corporation, Ayala Property Partners Corporation, Ayala Property Partners Holdings Corporation, First Gateway Real Estate Corporation, Glensworth Development, Inc. One Dela Rosa Property Development, Inc., Aurora Properties, Inc., Vesta Property Holdings, Inc., CECI Realty Inc., North Triangle Depot Commercial Corporation, Monumento Rail Transit Corporation and Metro Rail Transit Development Corporation. He graduated with the degree of B.S. Management Engineering (Cum Laude) at the Ateneo de Manila University in 1971 and earned his M.B.A. (Concentration in Management Science and Finance) from the University of Chicago in 1973.

Ma. Victoria E. Añonuevo, 59, Filipino, is Senior Vice President and Member of the Management Committee of ALI. She also serves as Head of the Ayala Land Businesscapes Group and Ayala Malls Group. Her other significant positions include: President and Chief Executive Officer of Ayala Hotels, Inc.; President of Laguna Technopark, Inc., Enjay Hotels, Cebu Insular Hotel Co., Inc.; Chairman and President of ALI Property Partners Corp.; Chairman of Leisure Allied, Inc. and South Innovative Theatres Management, Inc.; Vice Chairman of Station Square East Commercial Corp.; Director of North Triangle Depot Commercial Corp., Tower One Condominium Corp., Anvaya Cove Beach and Nature Club, Inc., Madrigal Business Park Commercial Estate Association, Inc., Alabang Commercial Corp., Makati Development Corp., and Serendra, Inc. She graduated with the degree of Bachelor of Science in Business Administration, Major in Marketing (Cum Laude) from the University of the Philippines in 1971 and completed her Masters in Business Administration at the University of the Philippines in 1975. She was sent by ALI as a scholar to the Program for Management Development, Harvard Business School, 1997 in Boston, Massachusetts, USA.

Bernard Vincent O. Dy, 44, Filipino, is Senior Vice President & member of the Management Committee of ALI since 2005. Currently, he is the Head of the Residential Business Group of ALI. His other significant positions include: Director of Fort Bonifacio Development Group, Alveo Inc., Avida Land Corp., and Amicassa Inc.; President of Serendra, Inc. and Anvaya Cove Beach & Nature Club, Inc. He graduated with a degree of Bachelor of Science in Business Administration from the University of Notre Dame and took up his MBA and Masters in International Relations at the University of Chicago.

Raul M. Irlanda, CFM, 53, Filipino, is Senior Vice President and a member of the Management Committee of ALI. He is the President and Director of Ayala Property Management Corporation and Makati Development Corporation. He is also the Director of Tower One Condominium Corporation, and the first and only Filipino Certified Facility Manager (CFM) by the International Facility Management Association (IFMA); Governor of Ayala Center Association and also the Group head of Ayala Security Force. He is a Board Adviser of the College

of Technology Management at University of Makati. He is a Director of the Philippine Constructors Association and of the Construction Safety Foundation. He graduated with a degree of Bachelor of Science in Management/Finance from San Sebastian College and took his Masteral studies in Business Administration major in Financial Management from De La Salle University. He also completed in 2005 the Executive Development Program at the Aresty Institute of Executive Education at Wharton, University of Pennsylvania.

Rex Ma. A. Mendoza, 46, Filipino, is Senior Vice President and head of Corporate Sales and Marketing Group of ALI. He is a member of the Management Committee of Ayala Land, Inc. Concurrently, he is the Chairman of Ayala Land International Sales, Inc.; President of Ayala Land Sales, Inc.; Head of Sales & Marketing for the Residential Business Group; Chairman and President of Rampver, Inc.; Marketing and Training Consultant for IMPACT and Mindbroker, Inc.; and Professor of De La Salle University, Graduate School of Business. Prior to joining ALI, he was an Executive Vice President and Head of Sales, Marketing and Training at the Philippine American Life & General Insurance Company; Vice Chairman and CEO of Philam Asset Management and Philam Financials; Director of Philam Insurance Co., Security Philam, Philam Call Center and Philam Foundation. He graduated with a degree of Bachelor of Science in Business Administration, major in Marketing and Finance from the University of the Philippines, Diliman, Q.C., and took his Masters in Business Management, with distinction at the Asian Institute of Management.

Emilio J. Tumbocon, 52, Filipino, is a Senior Vice President and the Visayas-Mindanao SBU Group Head & the Superblock Technical Services Director of ALI. He is a member of the Management Committee of ALI. His other significant positions include: Director of Ayala Property Management Corporation, Laguna Technopark, Inc., Cebu Holdings Inc., Cebu Property Ventures Development Corporation, Accendo Commercial Corporation & Anvaya Cove Beach and Nature Club, Inc. He is also a certified Project Management Professional (PMP) of the Project Management Institute & Past President of the Philippine Constructors Association, Inc. (PCA). He graduated from the University of the Philippines with a degree of Bachelor of Science in Civil Engineering (C.E. '79) and graduated in Masters in Business Administration (MBA '85) from the same university. He also took the Construction Executive Program (CEPS '87) at Stanford University, Palo Alto, California, U.S.A., the Senior Business Executive Program (SBEP '91) at the University of Asia and the Pacific, and The Executive Program (TEP '97) at Darden Graduate School of Business Administration, University of Virginia, Charlottesville, Virginia, U.S.A.

Jaime E. Ysmael, 48, Filipino, is Senior Vice President, Chief Finance Officer and member of the Management Committee of ALI. Concurrently, he is a Managing Director of Ayala Corporation. His other significant positions include: Director and President of CMPI Holdings, Inc. and CMPI Land, Inc.; Director and Treasurer Ayala Land International Sales, Inc., Ayala Land Sales, Inc., Alveo Land Corp., Laguna Technopark, Inc., Makati Property Ventures, Inc. and, Serendra, Inc.; Director, Treasurer, CFO & Chairman of the Finance Committee of Anvaya Cove Beach & Nature Club, Inc.; Director, Treasurer & CFO of Glensworth Development, Inc.; Director, Treasurer & Member of the Executive Committee of Ayala Hotels, Inc., Enjay Hotels, Inc. and Cebu Holdings, Inc.; Director of Alabang Commercial Corp., Avida Land Corp., Ayala Greenfield Development Corporation, Ayala Greenfield Golf & Leisure Club, Inc., Cebu Insular Hotel Company, Inc., First Longfield Investments Ltd., Green Horizons Holdings, Ltd., North Triangle Depot Commercial Corp., Regent Time International, Ltd. and Station Square East Commercial Corp.; and Chief Finance Officer of Roxas Land Corp. He is currently Senior Vice President, Director and Member of the Executive Committee of the Asian Public Real Estate Association. He graduated Summa Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration, Major in Accounting. He holds an M.B.A. degree (Major in Finance) at The Wharton School and an M.A. degree in International Studies at the School of Arts and Sciences of the University of Pennsylvania under The Joseph H. Lauder Institute of Management and International Studies.

Augusto D. Bengzon, 45, Filipino, joined ALI in December 2004 as Vice President and Treasurer. His other significant positions include: Treasurer of Avida Land Corp., Makati Development Corp., Aurora Properties, Inc., Vesta Properties Holdings, Inc., and CECI Realty, Inc. Prior to joining ALI, he was Vice President and Credit Officer in Global Relationship Banking at Citibank N.A. where he spent sixteen years in various line management roles covering Treasury, Portfolio Management, Structuring, Debt Syndication and Relationship Management. He received his Bachelor of Science degree in Business Management from the Ateneo de Manila University and is a graduate of the Philippine Trust Institute. He was granted a full scholarship by the Asian Institute of Management where he received his Masters in Business Management degree.

Arturo G. Corpuz, 52, is Vice President and member of the Management Committee of ALI since 2008. He heads the Urban and Regional Planning Division and the Central Land Acquisition Unit of ALI. He is also a Trustee of the Makati Parking Authority and a member of the Board of Aurora Properties, Inc. and of Vesta Properties Holdings, Inc. He received his baccalaureate degree in Architecture from the University of the Philippines and his masteral and doctoral degrees in urban and regional planning from Cornell University.

Anna Ma. Margarita B. Dy, 39, Filipino, is Vice President and member of the Management Committee of ALI since August 2008. She is the Head of the Strategic Landbank Management Group of ALI. Her other significant positions include: Director and Executive Vice President of Fort Bonifacio Development Corporation and is a Director of the Nuvali Subsidiaries: Aurora Properties, Inc., Vesta Properties Holdings, Inc., and CECI Realty, Inc. Prior to joining ALI, she was Vice President of Benpres Holdings Corporation. She received her Masters of Business Administration degree from the Harvard Business School and graduated, magna cum laude from the Ateneo de Manila University with a Bachelor of Arts degree in Economics, Honors Program.

Jose Emmanuel H. Jalandoni, CFA, 41, Filipino, is Vice President and Group Head of ALI-Capital. He is a member of the Management Committee of ALI. Concurrently, he is a Director and member of the Investment Committee of ARCH Capital Management Company Ltd. (Hong Kong); Director of ARCH Capital Asian Partners, G.P. (Cayman), First Longfield Investments Limited (HK), Green Horizons Holdings Limited (HK), Jade Estates Holdings Limited (BVI), KHI-ALI Manila, Inc., CMPI Holdings, Inc., and CMPI Land, Inc.; Director and Treasurer of Ayala Property Partners Corporation, Ayala Property Partners Holding Corporation, First Gateway Real Estate Corporation, Glensworth Development, Inc., One Dela Rosa Property Development, Inc., UP North Property Holdings, Inc., Asterion Technopod Incorporated, Crestview E-Office Corporation, Summerhill E-Office Corporation, Sunnyfield E-Office Corporation; Chairman and President of Alinet.Com, Inc.; and Director and President of Ecoholdings, Inc. He joined ALI in 1996 and held various positions in the Company. He graduated with a degree of Bachelor of Science in Legal Management from the Ateneo de Manila University in 1989 and took his Masters in Business Management at the Asian Institute of Management in 1992.

Joselito N. Luna, 45, Filipino, is Vice President and member of the Management Committee of ALI since 2008. He is also ALI's Chief Architect and Head of Innovation and Design Group. His other significant positions include: Director of Vesta Properties Holdings, Inc. and Aurora Properties, Inc. He is a Registered Architect and Environmental Planner. He obtained his Bachelor of Science in Architecture degree from the University of the Philippines in 1985 and took his graduate courses in Urban and Regional Planning at the University of the Philippines and completed the Management Development Program of the University of Michigan at Ann Arbor.

Maria Teresa T. Ruiz, 54, Filipino, joined ALI in October 2007. She is Vice President and member of the Management Committee of ALI. She serves as Head of the Human Resources and Public Affairs Group (which covers External Affairs and Corporate Communications) of ALI. Prior to joining ALI, she served as Director for various Human Resources functions in Wyeth Philippines, Zuellig Pharma, Solid Cement and Apo Cement Companies, Coca Cola Bottlers, and PLDT. She graduated with a degree of Bachelor of Arts in Communication Arts (Cum Laude) from Maryknoll College.

ANNEX “B”

I. MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) OF FINANCIAL CONDITION AND RESULTS OF OPERATION

2008 vs. 2007

Results of Operations

Ayala Land, Inc. (“ALI” or “the Company”) posted a 10% growth in consolidated net income in 2008, reaching a record Php 4.8 billion from Php 4.4 billion the previous year, despite a challenging macroeconomic environment especially in the second half of 2008. This robust performance was achieved on the back of strong operating revenues and equity earnings from affiliates combined with effective cost control measures.

The Company recorded consolidated revenues of Php 33.7 billion, its highest ever and 31% more than the Php 25.7 billion achieved in 2007. Operating revenues increased by 34% to Php 30.6 billion with the bulk of the gains coming from the Residential, Strategic Landbank and Construction businesses. Shopping Centers and Corporate Business also contributed to consolidated revenue growth.

Equity in Net Earnings of Investees rose by 12% to Php 885 million following the favorable performance of the Company’s corporate investment vehicles in Bonifacio Global City, Cebu Holdings, Inc. (CHI) and the shopping centers affiliates. Meanwhile, Interest, Investment and Other Income contracted by 18% to Php 2.2 billion as the gain from the sale of shares in three subsidiaries (namely Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc.) in March 2008 was lower compared with the gains from similar large transactions in 2007. These were the sale of shares in Makati Property Venture, Inc (MPVI) to the Ascott Residence Trust in March and the sale of preferred shares in KHI-ALI Manila, Inc. (KAMI) to Kingdom Manila B.V. in connection with the development of a luxury hotel complex within Ayala Center in December 2007.

Consolidated net operating income (NOI) reached Php 9.3 billion in 2008, 21% higher year-on-year. However, overall NOI margins declined by four percentage points to 30% following the drop in shopping center and construction margins. Shopping center margins were affected by the closure of high-margin Glorietta 2 in connection with the ongoing Ayala Center redevelopment as well as the start-up operations at Greenbelt 5. Construction margins were put under pressure by the increase in the costs of construction materials, particularly in the third quarter. Meanwhile, Residential and Corporate Business both showed healthier margins compared with the previous year following the successful implementation of unit price increases and rental escalations, respectively.

Business Segments

The Residential Development business accounted for the bulk of revenues at Php 15.2 billion or 45% of total revenues. This was followed by the Support Businesses at 24%, or Php 8.0 billion, largely coming from the Construction business. Shopping Centers contributed 13% or Php 4.3 billion, while Strategic Landbank Management generated 5% or Php 1.8 billion. Corporate Business also accounted for 3% or Php 1.1 billion, followed by Visayas-Mindanao with Php 161 million or less than 1%. Interest and Other Income accounted for the balance of 9%.

Residential Development

Residential Development revenues amounted to Php 15.2 billion in 2008, 18% higher than the Php 12.8 billion posted in 2007. Alveo Land and Avida Land both registered double-digit growth rates of 33% and 38% year-on-year, respectively.

Ayala Land Premier (ALP) projects generated Php 7.7 billion in revenues, 5% higher than in 2007. High-end condominium units contributed the bulk (Php 4.2 billion) of ALP’s revenues, but were down 6% year-on-year due to a slowdown in the high-end condominium market. Bookings of high-end condominium units in 2008 declined from 508 to 171, with sales from One Serendra East Tower (launched in March 2008) not enough to make up for the sell-out of the highly successful The Residences at Greenbelt (TRaG) project, which accounted for the bulk of units in 2007. Despite the soft market conditions, revenue growth was driven by advancing project completion rates last

year (TRaG 2 at 75%; TRaG 3 at 38%; and One Serendra Sections D & E at 92%). High-end lots meanwhile contributed Php 2.7 billion (+34% year-on-year) with total booked sales of 371 lots, mostly from Abrio in NUVALI, Ayala Westgrove Heights and Ayala Greenfield Estates. Revenues of leisure project Anvaya Cove declined by 3% to Php 814 million as the higher completion rates in Anvaya Cove were offset by lower bookings, which fell to 188 from 433 the previous year due to a sell-out of available lot inventory.

Meanwhile the performance of the middle-income and affordable residential sectors remained robust. Alveo's revenues grew by 33% to Php 4.2 billion in 2008 from Php 3.0 billion the previous year. Although booked units grew by only 5% to 1,164 units, significant construction accomplishment secured the high revenue growth. New projects Treveia in NUVALI (265 lots), Senta in Legaspi Village, Makati (210 units), and Red Oak and The Aston at Two Serendra (total of 291 units) accounted for the bulk of bookings.

Avida's revenues rose by 38% to Php 3.6 billion in 2008 due to the increase in bookings to 1,957 units from 1,706 units in 2007, coupled with a steady progress of construction. New projects such as Avida Settings NUVALLI, Avida Settings Cavite, Avida Towers San Lazaro (new towers) and Avida Towers Makati West, likewise drove growth of Avida unit bookings.

NOI for Residential Development contributed 47% of total NOI and grew 28% in 2008 to Php 4.4 billion. NOI margin likewise improved to 29% from 27% in 2007 with the impact of the effected price increases across all three brands and effective cost management offsetting the higher average cost of construction materials.

Meanwhile, take-up of all residential projects in 2008 reached 4,803 units, 15% lower than the 5,644 units in 2007 with sales value also dropping by 12% to Php 18.4 billion. A total of 4,238 units were launched during the year, short of the original full-year target of 5,622 units (excluding residential projects in Visayas-Mindanao) by 24% and 18% less than what was brought into the market in 2007.

Shopping Centers

2008 revenues for Shopping Centers rose by 3% to Php 4.3 billion. Total gross leasable area (GLA) owned and operated by the Company grew 2% to 887,112 square meters as new mall openings in Greenbelt 5 Phase 2, Glorietta 5 and the The Terraces at Ayala Center Cebu were offset by the closure of Glorietta 2 and Park Square 2 for the start of the Ayala Center redevelopment. Average building rent for all malls meanwhile grew 4% to P1,100 per square meter per month, while average occupancy rates improved by 3% points to 92% with significant improvements in the occupancy of Trinoma and Market!Market!. Meanwhile flagship Ayala Center experienced flat rental rates and a decline in occupancy rates to 91% from 98% last year due to the start-up operations of Greenbelt 5 and Glorietta 5.

NOI for Shopping Centers posted a decline of 11% to Php 2.2 billion, while NOI margin was squeezed to 50% from 58% since the continued closure of high-margin Glorietta 2 and the start-up operations of Greenbelt 5 and Glorietta 5 were not fully offset by the improved performance of Market!Market!. Shopping Centers accounted for 23% of total NOI.

The construction of MarQueen Mall in Angeles, Pampanga is ongoing, with a target opening of May 2009. Planning activities for a retail-BPO development in Davao City is also currently underway.

Corporate Business

Revenues from Corporate Business amounted to Php 1.1 billion in 2008, higher by 10% from the previous year as rental escalations from both traditional headquarter-type (HQ) office buildings as well as business process outsourcing type buildings (BPO) kicked in. Average rental rates for HQ increased by 12% for the 2008, with BPO increasing by 7%. While there was no expansion for the HQ type office segment, BPO building GLA increased by 2.6 times to 93,487 square meters with the completion and start of operations of the first four buildings of the UP-Ayala Land TechnoHub. Average occupancy for BPO buildings dropped from 100% to 79% as some locators in the UP TechnoHub were still at various stages of fit-out. Occupancy rates for HQ-type buildings meanwhile improved by one percentage point to 98%.

NOI grew by 19% to Php 580 million from Php 489 million in 2007. NOI margin also improved by four percentage points to 53% following the increase in rental rates, decrease in direct operating expenses and the impact of a

decline in LTI lot sales which delivered lower margins. Only 5.8 hectares were sold in LTI in 2008 compared to 9.3 hectares in 2007. Corporate Business' NOI accounted for 6% of total.

The other BPO building projects that were completed in 2008 but will not be operational until the first quarter of 2009 include two additional buildings in UP-Ayala Land TechnoHub, Glorietta 5, Solaris (along Dela Rosa Street in Makati), San Lazaro Vertex and Cebu eBloc. These BPO buildings will contribute another 121,781 square meters to total GLA. Also targeted for completion in 2009 are the last four buildings in UP-Ayala Land TechnoHub with an incremental GLA of 40,000 square meters.

With the market slowdown that the industry is currently faced with in the near-term, the Company is recalibrating the timing of future launches. The posture is to prepare expansion sites that have already been secured into "push-button" mode, which will enable the Company to respond quickly in the event of a market upswing.

Strategic Landbank Management

Revenues of Strategic Landbank Management rose by 281% to Php 1.8 billion in 2008 from Php 478 million in 2007. Significant growth was generated from its share in lot sales at NUVALI across all three residential brands. Booked "override" (i.e. its share in residential lot sales by virtue of being the land owner and joint development partner) units increased to 440 units in 2008 versus 108 in 2007, complemented by higher construction completion on override units at The Columns at Legazpi Village.

Accordingly, NOI surged by 325% to Php 632 million from Php 149 million, while NOI margin improved by four percentage points to 35%. SLMG's NOI during the year contributed 7% to total NOI.

Equity in Net Earnings from Ayala Land's effective stake in Fort Bonifacio Development Corporation (FBDC) grew by 31% to Php 576 million, driven by improved leasing activities and the increase in the prices of sold lots in Bonifacio Global City (BGC). A total of 18,214 square meters were sold in 2008 at an average price of Php 151,000 per square meter.

The Company remains committed to drive the growth in land values of its three strategic landbank areas. In Makati, the major redevelopment of the Ayala Center is already ongoing and is expected to be completed by 2012. Glorietta 5, consisting of both retail and BPO, was completed in December 2008. Meanwhile, preparation for the redevelopment of Glorietta 1 & 2 commenced in January 2009 to make way for the construction of more retail, BPO and hotel spaces. In Bonifacio Global City, the 29-storey BGC E-Services Building, a Company-managed project, was 53% complete while construction of St. Luke's Hospital is nearing completion. In NUVALI, the Technopod building was completed in December 2008 and the retail areas are slated to open by April 2009.

Visayas-Mindanao

Visayas-Mindanao's revenues dropped by 9% to Php 161 million in 2008 from Php 176 million the previous year as bookings fell to 117 lots from 135 lots in 2007. Most of the bookings came from newer phases of Plantazionne Verdana Homes and Ayala Northpoint (both in Bacolod). NOI contribution was a negative Php 26 million as the price increases implemented and the sales volumes were not enough to offset the high fixed costs in Ayala Northpoint Phase 2 and the slow take-up of Alegria Hills in Cagayan de Oro.

Support Business

The Support Businesses, namely Construction, Property Management and Hotels, generated revenues (net of inter-company eliminations) of Php 8.0 billion in 2008, growing by 93% year-on-year. Total NOI for the Support Businesses in aggregate also grew by 33% to Php 1.6 billion, with bulk of the increase coming from the Construction business.

Makati Development Corporation (MDC), ALI's wholly-owned construction arm, reported revenues of Php 5.7 billion (net of inter-company eliminations), representing a 216% growth over the previous year on the back of significant progress in construction accomplishment on external projects. External projects accounted for 44% of the value of MDC's outstanding contracts. The construction business contributed Php 685 Million or 7% of the Company's NOI.

Ayala Property Management Corporation (APMC), a 100%-owned subsidiary, reported an almost flat growth in revenues of Php 1.0 billion (net of inter-company eliminations) in 2008 over the previous year's level. NOI margin, however, improved by 10 percentage points to 47%. Higher efficiencies achieved in facilities management led to significant savings in direct operating expenses. APMC's NOI amounted to Php 487 million or 5% of ALI's NOI.

The Hotels group, comprised of Hotel InterContinental Manila and Cebu City Marriott Hotel, generated Php 1.3 billion in 2008, slightly declining by 3% from the previous year. With their recent renovations, average room rates at Hotel InterContinental Manila and Cebu City Marriott Hotel were higher by 13% and 9% to Php 5,491 and Php 3,462, respectively. However, the fierce competition in the industry and renovation related disruptions saw occupancy rates drop from 82% to 78% for the InterCon and from 75% to 52% at the Marriott. The two hotel properties contributed Php 445 million or 5% to ALI's NOI.

NOI margins of the Support Businesses dropped to 20% from 29% largely because of lower margins on MDC's external contracts and the impact of higher construction material costs. The hotels exhibited slight margin improvements while the recovery in APMC's margins narrowed the drop in Support Businesses' total NOI margins.

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

Equity in Net Earnings from Investees grew by 12% to Php 885 million from Php 787 million, mostly coming from the combined contribution of ALI's corporate investment vehicles in Bonifacio Global City, and higher earnings of Cebu Holdings Inc. (CHI) and Alabang Commercial Corporation (ACC).

As mentioned in the Strategic Landbank discussion, the contribution of FBDC reached Php 576 million or 31% higher than the Php 439 million in 2007. Meanwhile, Equity Earnings from CHI and Cebu Property Ventures Development Corp. (CPVDC) were 45% higher at Php 201 million from Php 138 million in 2007. At Ayala Center Cebu, the average building rent was 5% higher year-on-year, while occupancy rate improved to 97% from 93%. Four lot sales, one in Cebu Business Park and three in Asiatown IT Park, with a total area of 24,202 square meters, further raised equity earnings.

For the shopping center business, ACC (corporate vehicle for Alabang Town Center) contributed Php 121 million in 2008, 10% more than the previous year as rental rates increased by 4%. TriNoma, which opened in May 2007, contributed another Php 14 million to equity earnings also due to higher rental and occupancy rates.

Interest, Fees, Investment and Other Income amounted to Php 2.2 billion in 2008 or a decline of 18% from Php 2.7 billion the previous year. The Php 761 million in pre-tax capital gains from the sale of shares in wholly-owned subsidiaries Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc. in March 2008 was lower compared with the two asset sales in 2007, namely the sale of shares in Makati Property Venture, Inc (MPVI) to the Ascott Residence Trust in March 2007 and the sale of preferred shares in KHI-ALI Manila, Inc. (KAMI) to Kingdom Manila B.V. in December 2007.

Expenses

For 2008, total expenses amounted to Php 28.9 billion, 32% more than the Php 22.0 billion in 2007. Real Estate and Hotels Cost of Sales accounted for the bulk at Php 21.3 billion, 41% more than the previous year. Meanwhile, General and Administrative Expenses (GAE) rose by 21% to Php 3.3 billion, still a much lower pace than the 34% increase in real estate revenues. Interest, Taxes and Other Charges likewise went up by 7% to Php 4.4 billion largely because of higher taxes resulting from higher taxable income from subsidiaries. This is expected to moderate in 2009 with the lowering of the corporate income tax rate from 35% to 30%.

Project and Capital Expenditures

ALI spent a record Php 18.9 billion for project and capital expenditures in 2008, 22% more than the Php 15.4 billion spent in the previous year. Residential Development projects accounted for the bulk of capex at Php 7.9 billion. This was followed by Corporate Business which used 28% or Php 5.3 billion, while around 12% or Php 2.2 billion was used by Shopping Centers.

For 2009, ALI has earmarked a similarly high Php 17.4 billion for capital and project expenditures as activity levels for the completion of current projects for delivery will remain high. Bulk of the budget will go to Residential Development and Strategic Landbank with a 50% and 17% share, respectively. Shopping Centers will get 13% while Corporate Business is expected to have a 12% allocation.

Financial Condition

The Company's balance sheet continues to be healthy with a Current Ratio of 1.89: 1. As of end-2008, Cash and Cash Equivalents stood at Php 15.4 billion, 20% higher than the end-2007 level of Php 13.6 billion. Total Borrowings were at Php 16.8 billion from Php 10.1 billion as of December the previous year, translating to a Debt-to-Equity Ratio of 0.34: 1. ALI's cash position has been boosted by the successful issuance of Php 4.0 billion in 5-year retail bonds, and Php1.4 billion in non-recourse sales of account receivables. The Company's debt profile has also been improved with average maturities lengthened to 4.7 years, and 83% of borrowings already at fixed-rates. ALI has already secured the bulk of its funding program for its capital expenditure commitments for 2009 (an additional Php 2.4 billion was drawn in January 2009) while additional cash and debt capacity is available for attractive investment opportunities that may arise.

Key Financial Performance Indicators

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

	<i>End- 2008</i>	<i>End-2007</i>
Current ratio ¹	1.89:1	1.65:1
Debt-to-equity ratio ²	0.34:1	0.22:1
Net debt(cash)-to-equity ratio ³	0.03:1	(0.08):1
	<i>FY 2008</i>	<i>FY 2007</i>
Return on assets ⁴	5.2%	5.4%
Return on equity ⁵	10.2%	10.2%

¹ Current assets / current liabilities

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

³ Interest-bearing debt less cash, cash equivalents & investment in government securities / stockholders' equity

⁴ Net income / average total assets

⁵ Net income / average stockholders' equity

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

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created in 2008.

For 2009, ALI has earmarked a total of ₱17.4 billion for project and capital expenditures, the bulk of which will be used to fund ongoing and planned projects of Residential Development and Strategic Landbank Management. Throughout the year, ALI examines the appropriate timing and allocated amounts for these projects, and adjusts the budget accordingly to reflect changes in plans. These projects will be funded through cash generated from operations and additional borrowings.

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

Income Statement items –2008 versus 2007

36% increase in real estate revenues

Primarily due to higher revenues from Residential, Strategic Landbank and Construction businesses, as well as better revenue performance of Shopping Centers and Corporate Business.

12% increase in equity in net earnings of investees

Largely due to higher income from ALI's corporate vehicles in Bonifacio Global City as well as improved performance of Cebu Holdings Inc., Alabang Commercial Corporation and North Triangle Depot Commercial Corporation.

58% increase in interest income

Mainly accounted by higher interest income from money market transactions.

11% decrease in other income

Primarily due to lower proceeds from the gain on sale of shares in Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc. in 2008 against the gain on sale of preferred shares in KHI-ALI Manila, Inc. in 2007.

43% increase in real estate costs and expenses

Mainly due to higher real estate revenues.

21% increase in general and administrative expenses

Primarily due to higher payroll costs and benefits following the salary increases.

18% increase in interest expense and other financing charges

Largely to higher average bank loans.

34% decrease in other charges

Primarily due to higher expenses related to the Glorietta 2 explosion and sale of preferred shares in KAMI in 2007.

25% increase in provision for income tax

Principally due to the higher taxable income during the period.

100% decrease in income associated with non-current assets held for sale

Primarily due to the sale of Oakwood recognized in 1Q07.

20% decrease in net income attributable to minority interests

Largely due to lower income of Ayala Hotels, Inc. following the sale of Oakwood in 1Q07.

Balance Sheet items – 2008 versus 2007

12% increase in cash and cash equivalents

Largely due to proceeds from bond issuance and from sale of shares in Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc.

18% increase in short-term investments and fair value through profit or loss financial assets

Largely due to increase in government securities.

42% increase in accounts and notes receivable

Primarily due to increase in advances to contractors and suppliers, as well as a reclassification of Serendra Inc. receivables from non-current receivables.

22% increase in real estate inventories

Largely due to set-up of additional costs for Anvaya shares, and disbursements for actual development of Anvaya, Abrio, Westgrove, Treveia, Senta and various Avida projects.

80% increase in other current assets

Mainly due to higher prepaid expenses and inventory of supplies of Makati Development Corporation and creditable withholding tax largely due to Serendra, Inc..

51% decline in non-current accounts and notes receivable

Primarily due to changes in Serendra Inc.'s classification of trade receivables.

10% increase in investments in associates and jointly controlled entities

Mainly due to new investments in Accendo (Davao mall) and Northbeacon Commercial Corporation (MarQueen Mall).

28% increase in available for sale financial assets

Largely due to acquisition of Ayala Corp. preferred shares.

27% increase in investment properties

Primarily due to disbursements related to the construction of UP Ayala Land TechnoHub, NUVALI Technopod and Greenbelt 5 Phase 2.

123% increase in property and equipment

Primarily due to disbursements for ongoing projects such as Solaris One, UP Ayala Land TechnoHub, San Lazaro Vertex, Asian I-Office, Glorietta 5 and MarQueen Mall.

18% decline in deferred tax assets

Primarily due to the shift in corporate tax rate from 35% to 30%.

5% decrease in other non-current assets

Mainly consist of prepaid items charged to various projects.

31% increase in accounts and other payables

Largely due to increase in Makati Development Corporation's accrual of salaries, equipment rental and cost of materials.

21% decrease in short-term debt

Largely due to retirement of short-term loan availments by Avida Land and Station Square East Commercial Corporation.

47% decline in income tax payable

Primarily due to higher creditable withholding tax recognized by Serendra, Inc. in 2008.

90% decrease in current portion of long-term debt

Largely due to retirement of loans by Ayala Land, Inc. and Station Square East Commercial Corporation.

79% increase in other current liabilities

Largely due to the increase in customers' deposits posted by Ayala Land, Inc. and Serendra, Inc.

148% increase in long-term debt – net of current portion

Mainly due to the issuance of Php 4 billion fixed-rate retail corporate bonds carrying a coupon rate of 8.75% per annum with a maturity of five years and the Php 3 billion debt of APPHC added as a result of consolidation.

44% decrease in pension liabilities

Primarily due to adjustments made to reflect latest actuarial valuation.

5% increase in deferred tax liabilities

Primarily due to the shift in the corporate tax rate from 35% to 30%.

28% increase in deposits and other non-current liabilities

Primarily due to increase in customer and security deposits, and deferred interest income on ALI advances and unearned management fees.

6% increase in deferred credits

Mainly owing to deferred rental income of APPHC and deferred interest income of Aurora Properties, Inc., Vesta Property Holdings, Inc. and Ceci Realty, Inc.

14% increase in retained earnings

Largely because of income generated in 2008.

11% increase in stock options outstanding

Primarily due to ESOP availments.

713% increase in unrealized gain on available-for-sale financial assets

Mainly due to market valuation of shares in Subic Bay Yacht Club and Tagaytay Highlands.

147,829% increase in treasury stock

Primarily due to the buyback of ALI shares initiated in August 2008.

19% increase in minority interest in net assets of subsidiaries

Largely attributed to APPHC and Serendra Inc.

Risks

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

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

High-End, Middle-Income and Affordable Residential Developments

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

Office Space, Retail and Land Rental

For its office rental properties, Ayala Land competes for tenants primarily based upon the quality and location of the relevant building, the reputation of the building's owner, the quality of support services provided by the property manager, and rental and other charges. The Company is addressing the growing demand from BPOs and call centers by providing fully integrated, well maintained developments (high rise or campus facility) in key locations in the country.

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

Industrial Property Business

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

Hotel Operations

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

Construction

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

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

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

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

2007 vs. 2006

Results of Operations

Ayala Land, Inc. ("the Company") posted a healthy 13% growth in consolidated net income, reaching Php 4.4 billion from Php 3.9 billion last year, on the back of significant margin expansion in the Company's key business lines. Consolidated revenues meanwhile increased 1% to P 25.7 billion from Php 25.6 billion in 2006.

Revenue growth was tempered by the accelerated residential revenue bookings in 2006 following the adoption of a standardized revenue recognition policy and the absence of BPO leasing revenues from the sale of PeopleSupport Building in the fourth quarter of 2006. As a result, operating revenues contributed by the Company's five core and three support businesses amounted to only Php 22.9 billion last year, down by 3% from Php 23.6 billion in 2006.

The impact of the decline in operating revenues was offset by robust growth in Interest and Other Income which grew by 25% to Php 2.1 billion. This was driven by the gain on the sale of 16,758 preferred shares in KHI-ALI Manila, Inc. (KAMI) to Kingdom Manila B.V. in connection with the development of a luxury hotel complex within Ayala Center. Also boosting revenues were higher equity earnings from Ayala Land's corporate investment vehicles for Bonifacio Global City, as well as the improved earnings performance of affiliates Cebu Holdings, Inc. (CHI) and Alabang Commercial Corporation (ACC), which accounted for Php 787 million, compared to Php 306 million in 2006. Meanwhile, the Company booked a net gain after tax of Php 599 million from the sale of shares in Makati Property Venture, Inc (MPVI) to the Ascott Residence Trust.

Driving the company's profitability was increased pricing power, particularly in the company's residential projects, as well as tight control of operating expenses. As a result, overall net operating income (NOI) margin increased to 34% from 31% in 2006, with residential development and corporate business contributing most of the improvement.

General and administrative expenses grew modestly by 4% to Php 2.7 billion due to the initiatives undertaken to further build up the organization for the current aggressive expansion programs. However, interest and other charges increased to Php 1.8 billion or by 64% due to expenses related to the Glorietta 2 explosion and incurred as a result of KAMI transaction.

Business Segments

The Residential Development business accounted for the bulk of revenues at Php 13.0 billion or 50% of total revenues. This was followed by Shopping Centers at Php 4.2 billion or 16% of total and Corporate Business at Php 993 million or 4% of total. Strategic Landbank Management generated Php 373 million and Visayas-Mindano added Php 176 million for a combined 2% share of total revenues.

Collectively, the Support Businesses, comprised of Hotels, Construction and Property Management, reported revenues of Php 4.2 billion, or 16% of total revenues. The balance of Php 2.9 billion or 11% of total revenues was from Equity in Net Earnings, Interest and Other Income.

Residential Development

Residential Development revenues amounted to Php 13.0 billion in 2007, 7% lower than the Php 14.0 billion posted in 2006. Avida Land reported a significant 54% increase in revenues but Ayala Land Premier (ALP) and Community Innovations (CII) pulled down Avida's gains. Despite the increase in unit bookings in 2007, ALP and CII's revenues declined due to the acceleration of revenues in 2006 as a result of the standardization of the revenue recognition policy implemented in the second quarter of 2006. Revenue recognition for all brands should normalize by 2008.

Overall demand for residential projects remained strong with 4,404 units booked during the year, 39% more than 2006. The value of these units was 25% higher at Php 16.0 billion versus the Php 12.8 billion last year. A total of 5,182 units were launched in 2007, 12% more than the previous year.

Ayala Land Premier. Revenues of ALP stood at Php 7.3 billion in 2007, 15% less than what was posted last year. 1,358 units were booked in 2007, compared to 1,352 units in 2006.

High-end lots contributed Php 2.0 billion or 25% less year-on-year (y-o-y) due to less lots sold in Sonera, which is nearly sold-out (5 lot sales in 2007 versus 103 in 2006), and Ayala Greenfield (113 lots in 2007 versus 135 in 2006). Abrio, the high-end residential development in Nuvali launched in October 2007, was a large success with 84% take-up of the 267 units launched in just two months and with bookings of 87 lots. Revenue impact was muted though since average completion was only at 28% by year-end. Revenues from high-end units were lower by 16% at Php 4.4 billion, despite the increase in units booked at The Residences at Greenbelt (TRaG), which ended at 357 from 224 the previous year. Meanwhile, revenues from leisure project Anvaya Cove reached Php 840 million, 42% more than the Php 593 million in 2006 as an additional 350 beach club shares, 74 lots and 9 villas were booked.

Community Innovations, Inc. CII reported a 19% drop in revenues to Php 3.0 billion despite the 53% jump in booked units to 1,198 from 785 last year. The standardization of the revenue recognition policy last year effectively pulled forward the booking of revenues for completed projects in 2006.

The higher sales bookings are largely due to brisk sales at newly-launched projects such as Marquee Place in Pampanga and The Aston, the first of four high-rises at Two Serendra. 290 units were booked at Marquee Place which was launched only in June, and achieved 44% completion by year-end. Similarly, 174 units were booked at The Aston, which registered 17% completion. With construction completion only at 6%, revenue contribution from the 208 booked units at The Columns Legaspi Village Tower Two was marginal. Likewise, Treveia in Nuvali booked 71 units but had 0% completion and therefore no revenue recognition by year-end.

Avida Land. Avida's revenues grew by 54% to Php 2.7 billion in 2007. This was due to the 2007 bookings of 1,848 units compared to only 1,033 units in 2006. Bulk of the revenues came from the newly-launched Avida Towers Makati West (231 bookings at 27% completion), Avida Towers San Lazaro (285 bookings at 57% completion), Avida Settings in Nuvali (99 bookings at 10% completion).

Overall Net Operating Income (NOI). NOI for the residential business reached Php 3.5 billion, 15% more than the previous year despite the drop in revenues. This is attributed to the five percentage point improvement in NOI margin to 27% from 22%, with all three brands enjoying healthy pricing power and contributing to the increase. In 2008, about 5,600 units from new projects and additional phases of existing projects will be launched and added to inventory, 8% more than what was brought into the market in 2007. Some projects will be in new locations such as Pasig, Marikina and the northern part of Quezon City.

Shopping Centers

Shopping Centers reported a 5% rise in revenues to Php 4.2 billion in 2007. This is attributed to the higher occupancy rate of consolidated malls (which averaged 95% compared with 93% in 2006), the 4% increase in average building rental rates, and a higher gross leasable area (GLA).

The opening of the 195,000-square meter TriNoma in May brought total GLA to 960,000 square meters from 760,000 square meters at end-2006. As of end-2007, 87% of the 72,000 square meters building leasable area (excluding the area occupied by anchor tenant Landmark) of TriNoma had been occupied. Phase 1 of Greenbelt 5, which soft-opened in October, was 100% leased out/committed as of year-end.

The NOI of Shopping Centers dropped slightly by 1% to Php 2.4 billion following the absence of one quarter's earnings from the high-margin Glorietta 2 mall, as a result of the unfortunate explosion last October 19. Because of this, the resulting NOI margin likewise declined by three percentage points and stood at 58% from 61% the previous year. Equity in Net Earnings from equitized malls, namely, Alabang Town Center, Pavilion Mall and TriNoma was higher at Php 124 million from Php 85 million last year. It is notable however that TriNoma already reached a positive NOI margin contribution in its initial year of operations.

In 2008, an additional 18,000 square meters of GLA will come on stream from the opening of Phase 2 of Greenbelt 5 in October. About 9,500 square meters of Glorietta 5 will also be operational later in the year. Construction of the 70,000-square meter Q Shopping in Angeles, Pampanga is ongoing, with a target opening of May 2009. Meanwhile, planning is underway for a retail-BPO development on a nine-hectare property in Davao City.

Corporate Business

Revenues from Corporate Business amounted to Php 993 million in 2007, lower than last year by 25% as 2006 included the revenues from the sale of the PeopleSupport building to the Goldman-Capmark-ALI consortium. Excluding the revenues from this sale, revenues in 2007 would have grown 14% due to the sale of an additional 9 hectares at Laguna Technopark's expansion phase (at a premium to competition), higher office occupancy rates, rent increases and higher fee income from managed buildings.

Accordingly, NOI settled at Php 487 million, a decline of 8% compared to Php 528 million in 2006. However, NOI margin improved by nine percentage points to 49% following price increases of lot sales, higher rents and lower utilities costs.

Significant progress was made towards the objective of increasing the Company's BPO portfolio to approximately 500,000 GLA by 2010, with six projects commencing construction in 2007. As of end-December, the first two buildings of the UP North Science and Technology Park were in turnover condition for fit-out purposes with completion slated for the first quarter of 2008. The remaining four buildings are for completion by the third quarter. The first three buildings have already been fully leased out. For the Dela Rosa E-Services building, construction accomplishment was at 50% by year-end, with a target completion of fourth quarter of 2008. More than half of the GLA had been pre-leased. Construction of the Nuvali Technopod Building 1 in Nuvali commenced in September, with completion slated within the third quarter of 2008.

Other BPO buildings targeted for completion in 2008 are the San Lazaro Building 1 (October 2008) and Glorietta 5 (December 2008). The Company also commenced construction of a new 30,300-square meter BPO building within Bonifacio Global City in December 2007.

Strategic Landbank Management

Revenues of Strategic Landbank Management stood at Php 373 million in 2007, 47% lower than the Php 707 million in 2006. This was due to the decline in sales of override units in Sta. Catalina and Avida Towers Sucat. The drop was partly offset by overrides from booked sales of 79 lots in Nuvali. NOI declined by 87% and ended at Php 43 million from Php 325 million last year. NOI margin declined to 12% from 46% previously as the override units at the higher-margin The Columns at Ayala Avenue were fully sold and completed in 2006.

Equity in net earnings from ALI's 20% effective stake in Fort Bonifacio Development Corporation (FBDC) amounted to Php 439 million, from Php 109 million in 2006. This was due to the sale of 18 lots at Bonifacio Global City (BGC) in 2007 against 6 lots the previous year. Selling prices in 2007 ranged from Php 52,250 to Php 210,975 per square meter compared to only Php 47,025 to Php 143,560 last year.

The Company continues to make significant progress in driving the growth in land values of its three strategic landholdings. The components of the Ayala Center redevelopment plans are in place and on schedule. The lot for the hotel complex project was cleared and turned over to Kingdom Hotel in December. The project will begin construction in 2008 and is estimated to be completed within three years. The retail and parking building between Shangri-la and Landmark, called The Link, was completed with retail spaces opened in October. Meanwhile, construction of Glorietta 5, consisting of three levels of retail, five levels of BPO and two levels of basement parking, commenced in April 2007 and will be completed by December 2008.

Development activities in Bonifacio Global City were in high gear and all of the key components of a Central Business District will be in place in the next few years. Planning is ongoing for a traditional headquarter office building that will house the PSE with a target completion date of 2012. FBDC also broke ground in November 2007 for a 29-storey BGC E-Services Building for completion in 2010. A major agreement was signed with the Shangri-La Hotels Group for their planned 6-star de luxe hotel and residential project. This brings a total of four hotel projects for BGC, inclusive of the 5-star Grand Hyatt hotel and other two business hotels.

The development plans for the various components of Phase 1 of Nuvali have been completed and construction is in full swing to gear up for the grand launch in June 2008. The BPO and residential lot parcels, specifically for Abrio, Treveia and Avida Settings, have been turned over to the Residential and Corporate Business Groups for development. Construction of two lanes of the North-South Road, extending from the Sta Rosa-Tagaytay road all the way to Montecito, has been completed.

Visayas-Mindanao

The revenue contribution of Visayas-Mindanao amounted to Php 176 million, a 5% improvement from Php 168 million last year. A total of 21 units were booked in Ayala Northpoint (Phase 2), with a completion rate of 98%. Additional eight lots were sold in Phase 3, with a completion rate of 18%. Plantazionne registered the sale of six lots (Phases 1 and 2) in 2007, while the newly-launched Phase 3 registered 86 lot sales at a 49% completion. In addition, Alegria sold 14 lots at 25% completion.

Affiliate CHI, 47%-owned by ALI, posted a 27% growth in revenues to Php 1.1 billion, with net income up by 22% to Php 252 million in 2007. Meanwhile, 8 lot sales in Cebu Property Ventures & Development Corporation's (CPVDC) Asiatown IT Park led to a revenue growth of 49% to Php 336 million and net income growth of 108% to Php 173 million. As a result, equity in net earnings from CHI and CPVDC amounted to Php 138 million, 41% more than the Php 98 million registered last year.

Serving as the unit that brings the Company's businesses to the Southern part of the country, Visayas-Mindanao unit will continue to secure its future growth in 2008. The construction of the Lagoon Development at the Ayala Center Cebu is underway and slated for completion by year-end. The eBloc, a project of Cebu Property Ventures Development Corporation (CPVDC) and the Company, began construction in the third quarter and will be the biggest facilities provider, consisting of 20,000 sqms. of gross leaseable space upon completion in November 2008.

Support Business

The Hotels, Construction and Property Management businesses generated revenues, net of inter-company eliminations, of Php 4.2 billion or a 21% growth y-o-y. Of this amount, the Hotels generated Php 1.4 billion, showing an improvement of 24% from previous year. The increase was largely due to the higher occupancy rate of Hotel InterContinental Manila at 82% last year compared to only 61% in 2006. The refurbishment work done in 2006 also led to a higher revenue per average room (REVPAR) of Php 3,987 vs. Php 2,547 the previous year. On the other hand, Cebu City Marriott Hotel's occupancy rate declined to 75% from 82% but was still higher than the Cebu average of 61%. REVPAR was also above industry at Php 2,402 versus Php 2,532 in 2006. Combined, the Hotels contributed Php 444 million to ALI's NOI.

Makati Development Corporation (MDC), ALI's wholly-owned construction arm, reported revenues of Php 1.8 billion (net of inter-company eliminations), representing a 24% growth over the previous year's revenues. As of end-2007, MDC had an outstanding orderbook worth Php 18.8 billion from 38 projects. About 41% of the outstanding contracts were for third parties. The construction business contributed Php 395 million to ALI's NOI.

Ayala Property Management Corporation (APMC), a 100%-owned subsidiary, reported revenues of Php 698 million (net of inter-company eliminations) for 2007, 16% more than the previous year's level. The additional revenues came from the operation of new carparks in Bonifacio Global City, the full operation of Carpark in Paseo de Magallanes and Madrigal Business Park, and the increase in occupancy of commercial spaces in CBD carparks. APMC's NOI amounted to Php 263 million, a 15% growth y-o-y.

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

In 2007, Interest, Fees, Investment and Other Income rose by 25% to Php 2.1 billion from Php 1.7 billion the previous year. This was mainly due to the gain on sale of preferred shares in KAMI to Kingdom Manila BV. Additionally, Php 599 million in net income after tax was recognized from the sale of MPVI shares, our investment vehicle for the Oakwood Serviced Apartments in Ayala Center.

Equity in Net Earnings from Investees more than doubled to Php 787 million from Php 306 million, largely due to the substantially higher contribution from ALI's corporate investment vehicles in BGC, as well as higher earnings of CHI and ACC.

The contribution of FBDC reached Php 439 million from Php 109 million last year. Sales accelerated at Bonifacio Global City with a total of 18 lot sales in 2007 from only 6 lots in 2006. Selling prices were also higher at Php 52,250 to Php 210,975 in 2007 from Php 47,025 to Php 143,560 last year.

Meanwhile, Equity Earnings from CHI/CPVDC were 41% higher at Php 138 million from Php 98 million. The growth was due to robust sale of commercial lots at CPVDC's Asiatown IT Park as well as increased retail revenues at the Ayala Center Cebu as the public warmly received the opening of its new Expansion Building during the first half of the year.

Alabang Commercial Center (ACC), through Alabang Town Center, contributed Php 110 million, 33% more than the previous year because of a higher occupancy rate, while TriNoma, which opened in May, contributed Php 13 million on its first year of operation.

Expenses

Total Expenses were flat for 2007 at Php 21.2 billion, compared with Php 21.5 billion in 2006. Direct Costs and Operating Expenses for the real estate and hotels business dropped by 6% to Php 15.1 billion as various cost management initiatives started in previous years began to bear fruit. Meanwhile, General and Administrative Expenses increased by 4% to Php 2.7 billion following a continuing organizational build-up to address the aggressive expansion plans for the future.

Interest and other charges of Php 1.8 billion grew by 64% despite a drop in average debt levels and borrowing costs as a result mainly of the additional costs arising from the Glorietta 2 explosion and expenses related to sale of KAMI shares. Provision for income tax of Php 1.6 billion was flat as the Company's effective tax rate in 2007 was significantly lower following higher income subjected to capital gains tax.

Project and Capital Expenditures

ALI spent Php 15.2 billion for project and capital expenditures in 2007, 11% more than the Php 13.7 billion spent in the previous year. Residential Development projects accounted for almost half of the capex at Php 7.3 billion. This was followed by Shopping Centers which used 25% or Php 3.9 billion, while around 12% or Php 1.8 billion was used for Corporate Business projects.

For 2008, ALI has earmarked an unprecedented Php 24.3 billion for capital and project expenditures, underscoring the continued high levels of activity across all business lines. Bulk of the budget will go to Residential Development and Corporate Business with a 42% and 30% share, respectively. Shopping Centers will get 14% while Strategic Landbank is expected to have a 10% allocation.

Financial Condition

The company's balance sheet continues to be healthy with a Current Ratio of 1.65: 1. As of end-2007, Cash and Equivalents stood at Php 13.6 billion, 43% higher than the end-2006 level of Php 9.5 billion with the collection of full payments from completed Serendra units and deposits from Preferred Shares subscriptions. Total Borrowings were at Php 10.1 billion, from Php 12.8 billion as of December last year, translating to a Debt-to-Equity Ratio of 0.22: 1.

Key Financial Performance Indicators

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

	<i>End-2007</i>	<i>End-2006</i>
Current ratio ¹	1.65:1	1.64:1
Debt-to-equity ratio ²	0.22:1	0.32:1
Net debt/(cash)-to-equity ratio ³	(0.08):1	0.08:1
	<i>FY 2007</i>	<i>FY 2006</i>
Return on assets ⁴	5.4%	5.2%
Return on equity ⁵	10.2%	9.8%

¹ Current assets / current liabilities

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

³ Interest-bearing debt less cash, cash equivalents & investment in government securities / stockholders' equity

⁴ Net income / total assets (average)

⁵ Net income / stockholders' equity (average)

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

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created in 2007.

For 2008, ALI has earmarked a total of P24.3 billion for project and capital expenditures, the bulk of which will be used to fund ongoing and planned projects of Residential Development and Corporate Business. Throughout the year, ALI examines the appropriate timing and allocated amounts for these projects, and adjusts the budget accordingly to reflect changes in plans. These projects will be funded through cash generated from operations and additional borrowings.

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

Income Statement items – 2007 versus 2006

24% increase in hotel operations revenues

Mainly due to higher occupancy rate and revenue per available room (REVPAR) at Hotel InterContinental Manila.

157% increase in equity in net earnings of investees

Largely due to higher income from ALI's corporate vehicles for its investment in Bonifacio Global City, as well as improved performance of Cebu Holdings Inc. and Alabang Commercial Corporation.

10% decline in interest income

Primarily due to lower average interest rate.

47% increase in other income

Primarily due to the gain on sale of preferred shares in KHI-ALI Manila, Inc. (KAMI) to Kingdom Manila B.V. in connection with the development of a luxury hotel complex within Ayala Center.

8% decrease in real estate costs and expenses

Mainly due to lower real estate revenues and improvement in margins of residential development business.

27% improvement in hotel operations costs and expenses

Largely due to the higher occupancy rate of Hotel InterContinental Manila.

10% increase in interest expense and other financing charges

Mainly due to the higher average bank loans.

222% increase in other charges

Principally due to the related costs on the sale of preferred shares in KAMI and other expenses related to the Glorietta 2 explosion.

286% increase in income associated with non-current assets held for sale

Primarily due to the gain on sale of shares in Makati Property Ventures, Inc. (Oakwood) in 1Q07.

162% increase in net income attributable to minority interests

Largely due to higher income of Ayala Hotels, Inc. following the sale of Oakwood.

Balance Sheet items – 2007 versus 2006

13% increase in cash and cash equivalents

Primarily due to deposits received from Preferred Shares subscriptions and sale of Oakwood.

65% increase in other current assets

Mainly due to higher prepaid expenses such as commissions and taxes, and increase in Makati Development Corporation's deferred charges representing costs on future projects.

30% decline in short-term investments

Largely due to lower investment of ALI (parent company) in government securities.

84% decline in fair value through profit and loss financial assets

Primarily due to maturity and sale of government securities.

9% increase in accounts and notes receivable

Mainly due to higher receivables from sales at new and existing projects.

13% decrease in real estate inventories

Mainly due to costs of sold units at residential building and subdivision projects.

100% decline in non-current assets held for sale

Due to sale of Oakwood.

63% increase in non-current accounts and notes receivable

Largely due to additional sales at new and existing projects, and availment of longer payment terms.

8% increase in property and equipment

Primarily due to disbursements for the Ayala Center redevelopment, construction of Glorietta 5 BPO building and Greenbelt 5, as well as additional communication and transportation equipment.

14% decline in deferred tax assets

Primarily due to an increase in the realization of Serendra's financial gross profit.

7% increase in other non-current assets

Mainly due to higher Meralco deposits.

30% increase in accounts and other payables

Mainly due to higher trade payables from real estate sales and increase in liabilities to buyers for the cost of uncompleted projects.

13% increase in income tax payable

Primarily due to a higher taxable income.

33% decrease in current portion of long-term debt

Largely due to payment of bonds and loan settlement made by Avida.

41% increase in other current liabilities

Mainly due to deposits from the high-end residential project, Abrio, which was launched in October 2007.

100% decline in liabilities directly associated with non-current assets held for sale

Due to sale of Oakwood.

20% decrease in long-term debt – net of current portion

Primarily due to reclassification of Php 2 billion bonds to current portion.

6% increase in pension liabilities

Mainly due to actuarial adjustment due to retirement plan amendment.

72% decline in deferred tax liabilities

Primarily due to decrease in excess financial realized gross profit over taxable realized gross profit of Avida.

16% increase in deposits and non-current liabilities

Mainly due to increase in buyers' deposits for new residential projects and tenants' deposits for shopping center spaces.

26% increase in deferred credits

Largely due to higher deferred interest income.

25% increase in paid-up capital

Largely due to the 20% stock dividend and deposit for Preferred Shares subscription.

11% decline in stock options outstanding

Primarily due to ESOP availments.

119% decline in unrealized gain on available-for-sale financial assets
Due to restatement of Avida's Meralco shares in 2006.

6% increase in retained earnings
Largely due to the higher income generated in 2007 vis-à-vis dividend payments.

8% decrease in minority interest – net of interest attributable to non-current assets held for sale
Largely due to dividends paid by Ayala Hotels, Inc.

100% decline in minority interest attributable to non-current assets held for sale
Due to sale of Oakwood.

Upon the written request of a stockholder, the Company undertakes to furnish said stockholder with a copy of SEC Form 17-A free of charge. Any written request for a copy of SEC Form 17-A shall be addressed to the following:

**Ayala Land, Inc.
30/F Tower One and Exchange Plaza
Ayala Triangle
Ayala Avenue, Makati City
1226**

**Attention: Mr. Jaime E. Ysmael
Senior Vice President & Chief Finance Officer**

II. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY

A) Principal Market where the Registrant's Common equity is traded.

Philippine Stock Exchange
Prices (in PhP/share)

	<u>High</u>		<u>Low</u>		<u>Close</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
First Quarter	15.00	13.75	9.70	13.54	10.75	13.75
Second Quarter	11.25	17.75	9.60	17.25	9.60	17.50
Third Quarter	11.25	16.75	8.40	16.00	9.20	16.25
Fourth Quarter	9.40	14.75	5.30	14.25	6.40	14.25

The market capitalization of ALI as of end-2008, based on the closing price of ₱6.40/share, was approximately ₱83 billion.

The price information as of the close of the latest practicable trading date, February 20, 2009, is ₱5.70.

B) Holders

There are approximately 11,456 holders of common equity security of the Company as of December 31, 2008 (based on number of accounts registered with the Stock Transfer Agent). The following are the top 20 direct holders of the common equity securities of the Company:

	Stockholder Name	No. of Common Shares	Percentage (of Common Shares)
1.	Ayala Corporation	6,941,009,514	53.54%
2.	PCD Nominee Corp. (Non-Filipino)	4,737,121,541	36.54%
3.	PCD Nominee Corp. (Filipino)	930,637,678	7.18%
4.	The Insular Life Assurance Company, Ltd.	30,269,149	0.23%
5.	ESOWN Administrator 2006	15,024,686	0.12%
6.	ESOWN Administrator 2005	14,676,580	0.11%
7.	Jose Luis Gerardo Yulo	12,382,458	0.10%
8.	ESOWN Administrator 2008	7,898,560	0.06%
9.	Elvira L. Yulo	6,024,000	0.05%
10.	BPI T/A #14016724	5,928,408	0.04%
11.	Estrellita B. Yulo	5,732,823	0.04%
12.	Xavier P. Loinaz	5,621,590	0.04%
13.	ESOWN Administrator 2007	5,034,400	0.03%
14.	Maria Alexandra Q. Caniza	4,531,026	0.03%
15.	Pan Malayan Management and Investment Corp.	4,002,748	0.03%
16.	Ma. Angela Y. La o'	3,728,620	0.03%
17.	ALI ESOP/ESOWN Account	3,659,781	0.03%
18.	Lucio W. Yan	3,483,871	0.03%
19.	Telengtan Brothers & Sons, Inc.	3,480,000	0.03%
20.	BPI T/A# 14016759	3,182,286	0.02%

C) Dividends

STOCK DIVIDEND (Per Share)			
<u>PERCENT</u>	<u>DECLARATION DATE</u>	<u>RECORD DATE</u>	<u>PAYMENT DATE</u>
20%	February 1, 2007	May 22, 2007	June 18, 2007

CASH DIVIDEND (Per Share)			
<u>PESO AMOUNT</u>	<u>DECLARATION DATE</u>	<u>RECORD DATE</u>	<u>PAYMENT DATE</u>
0.11	November 15, 2006	December 5, 2006	December 19, 2006
0.03	November 15, 2006	December 14, 2006	January 4, 2007
0.03	May 9, 2007	June 7, 2007	July 3, 2007
0.03	November 20, 2007	December 20, 2007	January 10, 2008
0.03	May 12, 2008	June 11, 2008	June 27, 2008
0.03	November 6, 2008	December 5, 2008	January 8, 2009

Dividend policy

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

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

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

D) Recent Sale of Securities

For the past three years, common shares were issued representing the exercise of stock options by the Company's executives under the Executive Stock Option Plan (ESOP) and the subscription to the common shares under the Executive Stock Ownership Plan (ESOWN) as follows:

<u>Year</u>	<u>No. of Shares</u>	
	<u>ESOP</u> (exercised)	<u>ESOWN</u> (subscribed)
2006	23.4 Million	16.6 Million
2007	14.2 Million	5 Million
2008	3.2 Million	7.9 Million

The aforesaid issuance of shares was covered by the Commission's approval of the Company's Stock Option Plan on July 1991 and subsequently on March 2006.

Last 18 October 2007, the SEC approved the Company's application for an increase in authorized capital stock from ₱20B to ₱21.5B to cover the offering and issuance of new 13.034 Billion Preferred Shares to the common shareholders of the Company.

E) Corporate Governance

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

- b. To ensure good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the company, as well as the mechanism for monitoring and evaluating Management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.
- c. There were no deviations from the Company's Manual of Corporate Governance. The Company has adopted in the Manual of Corporate Governance the leading practices and principles of good corporate governance, and full compliance therewith has been made since the adoption of the Manual.
- d. The Company is taking further steps to enhance adherence to principles and practices of good corporate governance.

ANNEX “C”

NATURE AND SCOPE OF BUSINESS

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

Core Businesses

- Residential Business - sale of high-end residential lots and units (including leisure community developments), middle-income residential lots and units, and affordable housing units and lots; lease of residential units; marketing of residential developments;
- Ayala Malls - development of commercial centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these commercial centers; management and operations of malls which are co-owned with partners;
- Corporate Business - development and lease or sale of office buildings; sale of industrial lots and lease of factory buildings;
- Strategic Landbank Management - acquisition, development and sale of large, mixed-use, masterplanned communities; sale of override units or Ayala Land's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center;
- Geographic Businesses:
 - Visayas-Mindanao – development, sale and lease of the Company and subsidiaries' product offerings in key cities in the Visayas and Mindanao regions
 - Ayala International – investment in an Asian real estate private equity fund and a fund management company

Support Businesses

- Construction – land development and construction of ALI and third-party projects
- Hotels – development and management of hotels; lease of land to hotel tenants
- Property management – facilities management of ALI and third-party projects
- Waterworks operations – operation of water and sewage treatment facilities in some ALI projects

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

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of Ayala Land, Inc. and its subsidiaries is responsible for all information and representations contained in the consolidated 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 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 stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors and stockholders.


FERNANDO ZOBEL DE AYALA
Chairman, Board of Directors


JAIME I. AYALA
President


JAIME E. YSMAEL
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FEB 16 2009 at Makati City, affiants exhibiting to me their respective Passports, to wit:

<u>Name</u>	<u>Passport No.</u>	<u>Date & Place of Issue</u>
Fernando Zobel de Ayala	ZZ185325	21 June 2006 – Manila
Jaime I. Ayala	XX1014080	23 April 2008 – Manila
Jaime E. Ysmael	XX1502287	03 June 2008 – Manila

Doc. No. 138 ;
Page No. 29 ;
Book No. LXX ;
Series of 2009.


CONSTANTINO A. MARCAIDA
Notary Public-until 31 Dec. 2009
PTR No. 0006819 06 Jan. 2009
Issued at Makati City
TIN: 622 256 734

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Ayala Land, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 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.

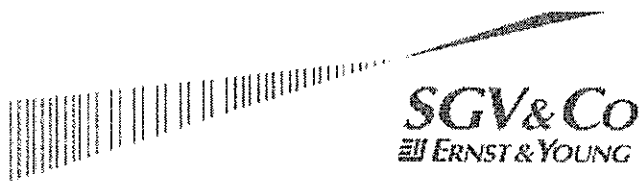
Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.



- 2 -

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ayala Land, Inc. and Subsidiaries as of December 31, 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. 1566465, January 5, 2009, Makati City

February 16, 2009



AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 27)	₱12,655,402	₱11,271,906
Short-term investments (Notes 5 and 27)	1,008,923	2,035,606
Financial assets at fair value through profit or loss (Notes 5 and 27)	1,778,720	318,018
Accounts and notes receivable - net (Notes 6 and 27)	15,795,711	11,124,597
Real estate inventories (Note 7)	8,139,898	6,696,007
Other current assets (Notes 8 and 27)	4,556,487	2,533,319
Total Current Assets	43,935,141	33,979,453
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 6 and 27)	1,780,191	3,475,306
Land and improvements	15,942,380	16,399,388
Investments in associates and jointly controlled entities (Note 9)	9,916,380	9,038,676
Available-for-sale financial assets (Notes 10 and 27)	468,860	366,788
Investment properties - net (Note 11)	17,482,504	13,792,850
Property and equipment - net (Notes 12 and 14)	8,947,846	4,015,226
Deferred tax assets - net (Note 20)	794,534	670,886
Other noncurrent assets	1,185,125	1,242,672
Total Noncurrent Assets	56,517,820	49,001,792
	₱100,452,961	₱82,981,245
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 13 and 27)	₱20,654,472	₱15,758,816
Short-term debt (Notes 14 and 27)	1,279,500	1,613,000
Income tax payable	89,084	167,124
Current portion of long-term debt (Notes 14 and 27)	244,142	2,376,600
Other current liabilities	1,115,727	623,294
Total Current Liabilities	23,382,925	20,538,834
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14 and 27)	15,227,888	6,149,874
Pension liabilities (Note 24)	98,626	175,837
Deferred tax liabilities - net (Note 20)	162,360	114,443
Deposits and other noncurrent liabilities (Notes 15 and 27)	5,600,926	4,375,807
Deferred credits (Note 15)	937,468	880,679
Total Noncurrent Liabilities	22,027,268	11,696,640
Total Liabilities	45,410,193	32,235,474

(Forward)



	December 31	
	2008	2007
Equity (Note 16)		
Equity attributable to equity holders of Ayala Land, Inc.		
Paid-up capital	₱18,357,905	₱18,202,647
Retained earnings	31,371,619	27,405,247
Stock options outstanding (Note 26)	106,281	95,901
Unrealized gain on available-for-sale financial assets (Note 10)	15,802	1,943
Treasury stock	(823,967)	(557)
	49,027,640	45,705,181
Minority interest in net assets of subsidiaries	6,015,128	5,040,590
Total equity	55,042,768	50,745,771
	₱100,452,961	₱82,981,245

See accompanying Notes to Consolidated Financial Statements.



AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2008	2007	2006
REVENUE			
Real estate (Notes 17 and 23)	₱29,295,299	₱21,490,348	₱22,501,221
Hotel operations (Note 18)	1,321,485	1,356,906	1,091,102
Equity in net earnings of associates and jointly controlled entities (Note 9)	884,727	787,209	306,233
Interest income (Note 23)	925,973	586,433	648,862
Other income (Notes 19 and 23)	1,321,499	1,486,333	1,011,424
	33,748,983	25,707,229	25,558,842
COSTS AND EXPENSES			
Real estate (Note 19)	20,409,684	14,229,832	15,448,634
Hotel operations (Note 19)	876,493	913,030	721,524
General and administrative expenses (Notes 19, 24 and 26)	3,288,971	2,715,140	2,606,054
Interest expense and other financing charges (Note 19)	1,050,041	892,771	813,228
Other charges (Note 19)	675,837	903,320	280,570
	26,301,026	19,654,093	19,870,010
INCOME BEFORE INCOME TAX	7,447,957	6,053,136	5,688,832
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 20)			
Current	2,154,636	1,745,325	1,483,473
Deferred	(89,499)	(189,071)	126,765
	2,065,137	1,556,254	1,610,238
INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE	5,382,820	4,496,882	4,078,594
INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE - net of tax (Note 22)	—	598,666	155,258
NET INCOME	₱5,382,820	₱5,095,548	₱4,233,852
Net Income Attributable to:			
Equity holders of Ayala Land, Inc. (Note 25)	₱4,812,348	₱4,386,362	₱3,865,602
Minority interests	570,472	709,186	368,250
	₱5,382,820	₱5,095,548	₱4,233,852
Earnings Per Share (Note 25)			
Basic			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	₱0.36	₱0.31	₱0.29
Net income attributable to equity holders of Ayala Land, Inc.	₱0.36	₱0.34	₱0.30
Diluted			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	₱0.36	₱0.31	₱0.29
Net income attributable to equity holders of Ayala Land, Inc.	₱0.36	₱0.33	₱0.30

See accompanying Notes to Consolidated Financial Statements.



AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands, Except Par Value and Cash Dividends Per Share Figures)

	Years Ended December 31		
	2008	2007	2006
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.			
Common Shares - ₱1 par value (Note 16)			
Issued			
Balance at beginning of year	₱13,002,821	₱10,809,675	₱10,794,539
Issuance of shares	622	2,776	1,071
Stock options exercised	–	17,972	14,065
Stock dividends	–	2,172,398	–
Balance at end of year	13,003,443	13,002,821	10,809,675
Subscribed			
Balance at beginning of year	31,811	34,587	1,116
Additions	7,899	–	34,542
Issuance of shares	(622)	(2,776)	(1,071)
Balance at end of year	39,088	31,811	34,587
Preferred Shares - ₱0.10 par value (Note 16)			
Balance at beginning of year	1,303,460	–	–
Issued during the year	–	1,303,460	–
Balance at end of year	1,303,460	1,303,460	–
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	3,994,945	3,863,431	3,593,157
Additions	185,026	131,514	270,274
Balance at end of year	4,179,971	3,994,945	3,863,431
SUBSCRIPTIONS RECEIVABLE			
Balance at beginning of year	(130,390)	(127,103)	(3,721)
Additions	(95,839)	(60,413)	(158,897)
Collections	58,172	57,126	35,515
Balance at end of year	(168,057)	(130,390)	(127,103)
TOTAL PAID-UP CAPITAL	18,357,905	18,202,647	14,580,590
RETAINED EARNINGS (Note 16)			
Appropriated for future expansion	6,000,000	6,000,000	6,000,000
Unappropriated:			
Balance at beginning of year	21,405,247	19,973,445	17,950,660
Cash dividends			
Common stock - ₱0.06 per share in 2008, ₱0.06 per share in 2007 and ₱0.17 per share in 2006	(779,862)	(782,162)	(1,842,817)
Preferred stock - ₱0.005 or 4.64% in 2008	(66,114)	–	–
Stock dividends	–	(2,172,398)	–
Net income	4,812,348	4,386,362	3,865,602
Balance at end of year	25,371,619	21,405,247	19,973,445
	31,371,619	27,405,247	25,973,445

(Forward)



	Years Ended December 31		
	2008	2007	2006
STOCK OPTIONS OUTSTANDING (Note 26)			
Balance at beginning of year	₱95,901	₱107,973	₱119,953
Cost of stock options	31,357	19,468	35,395
Stock options exercised	(20,977)	(31,540)	(47,375)
Balance at end of year	106,281	95,901	107,973
UNREALIZED GAIN (LOSS) ON AVAILABLE- FOR-SALE FINANCIAL ASSETS (Note 10)			
Balance at beginning of year	1,943	(10,323)	(7,508)
Net changes during the year	13,859	12,266	(2,815)
Balance at end of year	15,802	1,943	(10,323)
TREASURY STOCK (Note 16)			
Balance at beginning of year	(557)	(557)	(557)
Acquisition of treasury stock	(823,410)	—	—
Balance at end of year	(823,967)	(557)	(557)
MINORITY INTERESTS			
Balance at beginning of year	5,040,590	6,586,585	6,891,539
Net income	570,472	709,186	368,250
Increase (decrease) in minority interests	521,501	(1,887,483)	(440,130)
Dividends paid to minority interests	(119,402)	(367,923)	(225,977)
Net unrealized gain (loss) recognized in equity	1,967	225	(7,097)
Balance at end of year	6,015,128	5,040,590	6,586,585
	₱55,042,768	₱50,745,771	₱47,237,713
Total Income and Expense Recognized for the Year			
Net income attributable to:			
Equity holders of Ayala Land, Inc.	₱4,812,348	₱4,386,362	₱3,865,602
Minority interests	570,472	709,186	368,250
	5,382,820	5,095,548	4,233,852
Net unrealized gain (loss) recognized in equity:			
Equity holders of Ayala Land, Inc.	13,859	12,266	(2,815)
Minority interests	1,967	225	(7,097)
	15,826	12,491	(9,912)
	₱5,398,646	₱5,108,039	₱4,223,940

See accompanying Notes to Consolidated Financial Statements.



	Years Ended December 31		
	2008	2007	2006
Acquisition of a subsidiary, net of cash acquired (Note 21)	(P425,337)	P-	P-
Decrease (increase) in:			
Accounts and notes receivable - nontrade	898,011	(360,202)	(297,439)
Other noncurrent assets	19,576	31,124	113,220
Net cash provided by (used in) investing activities before cash items associated with noncurrent assets held for sale	(4,775,412)	579,951	(6,525,583)
Net cash used in investing activities associated with noncurrent assets held for sale, including cash balance	-	-	(361,691)
Total cash provided by (used in) investing activities	(4,775,412)	579,951	(6,887,274)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short and long-term debt (Note 14)	5,973,956	956,961	3,584,424
Payment of short and long-term debt (Note 14)	(2,710,100)	(3,654,899)	(1,017,342)
Increase (decrease) in:			
Deposits and other noncurrent liabilities	992,790	774,807	614,393
Minority interest in consolidated subsidiaries	2,192	(821,535)	(645,617)
Proceeds from issuance of preferred shares	-	1,303,460	-
Proceeds from capital stock subscriptions	58,172	57,126	35,515
Acquisition of treasury shares	(823,410)	-	-
Dividends paid to minority	(119,402)	(367,923)	(225,977)
Dividends paid to equity holders of Ayala Land, Inc. (Note 16)	(831,262)	(716,450)	(1,841,355)
Net cash provided by (used in) financing activities before cash items associated with noncurrent assets held for sale	2,542,936	(2,468,453)	504,041
Net cash used in financing activities associated with noncurrent assets held for sale	-	-	(187,120)
Total cash provided by (used in) financing activities	2,542,936	(2,468,453)	316,921
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,383,496	6,641,315	(1,002,104)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	11,271,906	4,630,591	5,632,695
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P12,655,402	P11,271,906	P4,630,591

See accompanying Notes to Consolidated Financial Statements.



AYALA LAND, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in Thousands)

	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱7,447,957	₱6,053,136	₱5,688,832
Adjustments for:			
Depreciation and amortization (Notes 11, 12 and 19)	1,258,169	1,310,457	1,067,280
Interest expense - net of amount capitalized (Note 19)	1,033,756	870,513	795,089
Dividends received from investees (Note 9)	170,934	84,377	72,779
Cost of share-based payments (Note 26)	138,916	104,704	148,004
Other charges	67,128	302,995	230,947
Gain on sale of investments (Note 20)	(761,815)	(1,003,976)	(608,865)
Equity in net earnings of associates and jointly controlled entities (Note 9)	(884,727)	(787,209)	(306,233)
Interest income	(925,973)	(337,818)	(443,777)
Other income (Note 19)	(6,974)	(129,680)	(43,841)
Operating income before changes in working capital	7,537,371	6,467,499	6,600,215
Decrease (increase) in:			
Accounts and notes receivable - trade	(3,072,955)	(2,009,164)	54,925
Real estate inventories	(995,750)	2,207,429	(779,221)
Other current assets	(1,882,680)	(624,571)	(80,282)
Increase (decrease) in:			
Accounts and other payables	4,354,501	3,821,922	1,214,997
Other current liabilities	451,222	180,674	260,475
Pension liabilities (Note 24)	(77,211)	83,909	(17,117)
Cash generated from operations	6,314,498	10,127,698	7,253,992
Interest received	753,306	346,712	431,603
Income tax paid	(2,232,676)	(1,725,723)	(1,461,760)
Interest paid	(1,219,156)	(817,536)	(947,258)
Net cash provided by operating activities before cash items associated with noncurrent assets held for sale	3,615,972	7,931,151	5,276,577
Net cash provided by operating activities associated with noncurrent assets held for sale	-	598,666	291,672
Total cash provided by operating activities	3,615,972	8,529,817	5,568,249
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale of investments and financial assets at fair value through profit or loss	1,633,405	1,389,974	460,000
Sale of available-for-sale financial assets	11,786	12,791	4,980
Disposal of property and equipment	18,332	-	263,236
Disposals of (additions to):			
Short-term investments and financial assets at fair value through profit or loss	(902,952)	2,596,048	(3,711,834)
Available-for-sale financial assets (Note 10)	(100,000)	-	(26,840)
Land and improvements	(131,833)	(548,392)	237,606
Investments in associates and jointly controlled entities	(794,476)	175,944	(1,528,059)
Investment properties	(765,905)	(699,180)	(343,689)
Property and equipment (Note 12)	(4,236,019)	(2,018,156)	(1,696,764)

(Forward)



AYALA LAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Ayala Land, Inc. (the Company) was incorporated in the Republic of the Philippines. The Company's parent is Ayala Corporation (AC). AC is a publicly-listed company, 50.92%-owned by Mermac, Inc., 10.58%-owned by Mitsubishi Corporation and the rest by the public. The Company's registered office and principal place of business is Tower One, Ayala Triangle, Ayala Avenue, Makati City.

The Company and its Subsidiaries (the Group) are incorporated to hold, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of, for itself or for others, residential including, but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; to acquire, purchase, hold, manage, develop and sell subdivision lots, with or without buildings or improvements; to erect, construct, alter, manage, operate, lease, in whole or in part, buildings and tenements of the Company or of other persons; and to engage or act as real estate broker. The Group is also involved in hotel operations.

The consolidated financial statements of Ayala Land, Inc. and Subsidiaries as of December 31, 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 9, 2009 and were authorized for issue by the Executive Committee of the Board of Directors (BOD) on February 16, 2009.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets and derivative asset that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱) and all values are rounded to the nearest thousand (₱000) except when otherwise indicated. The Group's functional currency is Philippine Peso.

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 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, using consistent accounting policies.

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

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



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

	Percentages of Ownership	
	2008	2007
Real Estate:		
Amorsedia Development Corporation and Subsidiaries	100%	100%
OLC Development Corporation	100	100
Ayala Greenfield Development Corporation (AGDC)	50	50
Avida Land Corporation and Subsidiaries (Avida)	100	100
Ayala Land International Sales, Inc.	100	100
Ayala Land Sales, Inc.	100	100
Buendia Landholdings, Inc.	100	100
Alveo Land Corporation (formerly Community Innovations, Inc.)	100	100
Crans Montana Holdings, Inc.	100	100
Crimson Field Enterprises, Inc.	100	100
Red Creek Properties, Inc.	100	100
Regent Time International, Limited (Regent) (British Virgin Islands)	100	100
Ecoholdings Company, Inc. (Note 21)	100	—
Northbeacon Commercial Corporation (NBCC) (Note 21)	100	100
ALI Property Partners Holding Corp. (APPHC) (Note 21)	80	60
ALI Property Partners Corp. (APPCo) (Note 21)	60	60
ALI Property Partners Corp. (APPCo) (Note 21)	20	—
Laguna Technopark, Inc.	75	75
Aurora Properties Incorporated	70	70
Vesta Property Holdings, Inc.	70	70
Station Square East Commercial Corporation (SSECC)	69	69
Serendra, Inc.	67	67
Ceci Realty, Inc.	60	60
CMPI Holdings, Inc.	60	60
Asian I-Office Properties, Inc. (AiO) (Note 21)	60	—
ALI-CII Development Corporation (ALI-CII)	50	50
Roxas Land Corporation (RLC)	50	50
Piedmont Property Ventures, Inc. (Note 19)	—	100
Stonehaven Land, Inc. (Note 19)	—	100
Streamwood Property, Inc. (Note 19)	—	100
Construction:		
Makati Development Corporation (MDC)	100	100
Hotels:		
Ayala Hotels, Inc. (AHI) and Subsidiaries	50	50
Enjay Hotels, Inc.	100	100
Cebu Insular Hotel Company, Inc.	63	63
Property Management:		
Ayala Property Management Corporation (APMC)	100	100
Ayala Theatres Management, Inc. and Subsidiaries	100	100
Entertainment:		
Five Star Cinema, Inc.	100	100
Leisure and Allied Industries Philippines, Inc. (LAI)	50	50
Others:		
ALInet.com, Inc. (ALInet)	100	100
First Longfield Investments Limited (First Longfield) (Hongkong Company)	100	100
Food Court Company, Inc.	100	100



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

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

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the adoption of the following Philippine Interpretations and Amendments 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*, 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 a significant impact on the Group's consolidated financial statements.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangement*, 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. Adoption of this Interpretation did not have any impact on the Group's consolidated financial statements as it is not applicable to its operations.
- Philippine Interpretation IFRIC 14, Philippine Accounting Standards (PAS) 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, 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 a significant impact on the Group's consolidated financial statements.
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 7, *Financial Instruments: Disclosure*, became effective beginning July 1, 2008. 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 Group's 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.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*



This Amendment will become effective January 1, 2009. It 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, *Consolidated and Separate Financial Statements*; 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.

- **Amendment to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations***
This Amendment will become effective January 1, 2009. The 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 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 become effective January 1, 2009. It 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 consolidated financial statements with a securities commission or similar party. The Group is in the process of assessing the impact of the Standard on its current manner of reporting segment information.
- **Amendment to PAS 1, *Presentation of Financial Statements***
This Amendment will become effective January 1, 2009. It 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' (OCI). 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 consolidated balance sheets and equity as well as additional disclosures to be included in the consolidated 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.
- **Amendment to PAS 23, *Borrowing Costs***
This Amendment will become effective January 1, 2009. 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***
These Amendments, which will be effective on January 1, 2009, introduce 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 the consolidated statement of



income. However, the payment of such dividends requires the entity to consider whether there is an 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, which become effective January 1, 2009, specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the 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) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all 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) the 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*
Effective January 1, 2009, 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 will become effective January 1, 2009. It 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 wordings. There are the separate transitional provisions for each standard, which became effective January 1, 2009:

- *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 Asset*.

Items of property 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*

This revises the definition of 'past service cost' to include reduction in benefits related to past services ('negative past service cost') and to exclude reduction in benefits related to future services that arise from plan amendments. Amendments to plans that results 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.

It also 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 20, Accounting for Government Grants and Disclosures of Government Assistance*

Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

- *PAS 23, Borrowing Costs*

This 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*

This revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property 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 Company 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 intangible assets with finite lives 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.

Requires use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring 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. The 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 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 rewards of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on the 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 the revenue from real estate sales and the corresponding costs, 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 (3) months or less from dates of placement and that are subject to an insignificant risk of changes in value.

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

Determination of fair value

The fair value for financial instruments traded in active markets at the 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 ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

Day 1 profit

Where the transaction price in a non-active market is different 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" and "Interest expense and other financing charges" accounts 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".

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

Financial assets may be designated at initial recognition as at FVPL, if any of the following criteria are met:

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

As of December 31, 2008 and 2007, the Group holds its "Treasury bills" and "Treasury bonds" for trading purposes and classifies them as financial assets at FVPL and has not designated any financial liability at FVPL.

As of December 31, 2007, the Company has an outstanding short-term nondeliverable currency forward contract to manage its exchange exposure and was accounted for as a nonhedge derivative.

Derivative Financial Instruments and Hedging

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 re-measured at fair value. Changes in fair value of derivative instruments not accounted for as hedges are recognized immediately in 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.

Derivative financial instruments also include bifurcated embedded derivatives. An embedded derivative is separated from the hybrid or combined contract if all the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not clearly and 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 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.

Where derivatives are designated as effective hedging instruments, provisions of hedge accounting apply. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

Contracts that are entered and continue to be held for the purpose of the receipt of materials in accordance with the Company'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 for which management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. 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 integral parts 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 under "Other income" or "Other charges" when the HTM investments are derecognized and impaired, as well as through the amortization process. As of December 31, 2008 and 2007, the Group has no HTM investments.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. This accounting policy relates to the consolidated balance sheet captions "Short-term investments" 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 allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. The amortization is included in the interest income in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized in the consolidated statement of income under "Other charges".

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as designated as 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. AFS financial assets include equity investments.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as "Unrealized gain (loss) on available-for-sale financial assets" in the consolidated statement of changes in equity.

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" account or "Other charges" account. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. The losses arising from impairment of such investments are recognized in the consolidated statement of income under the "Other charges" account.

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 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 integral parts 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 debts, accounts and other payables, 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 measured initially 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 "Real estate revenue" 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:

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

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

Financial liability

A financial liability is derecognized when the obligation under the liability expired, or is discharged or cancelled. 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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of income under "Other charges" account.

Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, 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 difference between loss estimates and actual loss experience.

AFS financial assets

For AFS 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.

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

In the case of debt instruments classified as AFS financial assets, 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 subsequent year, the fair value of a debt instrument increases 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.

Real Estate Inventories

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

Noncurrent Assets Held for Sale

The Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active 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 cashflows 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 those costs incurred for development and improvement of the properties.

Investments in Associates and Jointly Controlled Entities

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

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, the investments in the investee companies are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share in the net assets of the investee companies, less any impairment in values. The consolidated statement of income reflects the share of the results of the operations of the investee companies. The Group's 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 for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

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

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

Interest in a Joint Venture

MDC 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 that 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 residual value. Land is carried at cost less any impairment in value.

Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of investment properties follow:

	Years
Land improvements	5
Buildings	20-40

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.

A transfer is 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. A transfer is 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. A transfer between investment property, owner-occupied property and inventory does not change the carrying amount of the property transferred nor does it change the cost of that property for measurement or disclosure purposes.

Property and Equipment

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

Construction-in-progress is stated at cost less any impairment in value. 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 and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and are computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years
Buildings and improvements	20-40
Machinery and construction equipment	5
Furniture, fixtures and equipment	3-10
Transportation equipment	3-5

Hotel property and equipment includes the following type of assets and their corresponding estimated useful lives:

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

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 and equipment.

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

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 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 loss. 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. 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 the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated 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 any 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 such 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 a revaluation increase. After such 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.

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

Investments in associates and jointly controlled entities

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associates or jointly controlled entities is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference 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 obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Treasury Stock

Treasury stock is recorded at cost and is presented as a deduction from equity. 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 when the shares were issued and to retained earnings for the remaining balance.

Revenue and Cost Recognition

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

Any excess of collections over the recognized receivables are included in the "Other current liabilities" account in the liabilities section of the consolidated balance sheet.

Revenue from construction contracts included in the "Real estate" account in the consolidated statement of income is 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 administration and property management are recognized when services are rendered.

Revenue from hotel operations is recognized when the services are rendered.

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

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

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



Share-based Payments

The Group has equity-settled, share-based compensation plans with its employees.

PFRS 2 Options

For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes model, further details of which are given in Note 26.

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

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

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

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

Pre-PFRS 2 Options

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 25).

Employee Share Purchase Plans

The Company has an employee share purchase plan (ESOWN) which allows the grantees to purchase the Company's shares at a discounted price. The Company 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 collectible 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.

Pension Cost

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



The liability recognized in the consolidated balance 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 long-term 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.

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

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 in the "Real estate costs" account 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 costs (included in "Real estate inventories", "Investment properties" and "Property and equipment" accounts in the consolidated balance sheet). Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on applicable weighted average borrowing rate for those coming from general borrowings and the actual borrowing costs eligible for capitalization for funds borrowed specifically.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date 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 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 statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

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 an income in the 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 rents are recognized as revenue in the period in which they are earned.

Deferred Taxes

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

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

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

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

Foreign Currency Transactions

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate prevailing at balance sheet date. Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the year.

Investments in foreign associates are translated to Philippine Peso using the closing exchange rate prevailing at balance sheet date. The Group's share in the results of operations of the foreign investee is translated using the exchange rate at the dates of the transactions or, where practicable, the rate that approximates the exchange rates at the dates of the transactions, such as the average rate for the period. Any resulting exchange difference is recognized as a separate component of equity.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to common equity holders of the parent by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year attributable to common equity holders of the parent 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 into 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 28.

Contingencies

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

Subsequent Events

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

3. Significant Accounting Judgments and Estimates

The preparation of the accompanying financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the 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 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 the property as the Group considered, among others, the length of the lease term as compared with the estimated life of the assets.

A number of the Group's operating lease contracts are accounted for as non cancellable 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 appreciation and another portion



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

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 land 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).

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 (see Note 10).

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 key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue and cost recognition

The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Group's revenue from real estate and construction contracts recognized based on the percentage of completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project. See Note 17, 18 and 19 for the related balances.

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 receivables' 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 classify 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. See Note 6 for the related balances.

Evaluation of net realizable value of 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. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. See Note 7 for the related balances.

Evaluation of asset impairment

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

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the net selling price and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments in associates and jointly controlled entities, investment properties, property and equipment, and other noncurrent assets. See Notes 9, 11 and 12 for the related balances.

Estimating useful lives of property and equipment and investment properties

The Group estimates the useful lives of its property and equipment and investment properties based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. See Notes 11 and 12 for the related balances.

Deferred tax assets

The Group reviews the carrying amounts of deferred taxes at each balance sheet date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of deferred tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income. See Note 20 for the related balances.

Share-based payments

The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Group. See Note 26 for the related balances.

Estimating pension obligation and other retirement benefits

The determination of the Group's obligation and cost for pension and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24 and include among others, discount rate, expected return on plan assets and salary increase rate. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations. See Note 24 for the related balances.

Fair value of financial instruments



Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheets 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 its fair value by using the discounted cash flow methodology. See Notes 6, 15 and 27 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

	2008	2007
	(In Thousands)	
Cash on hand and in banks	₱2,029,724	₱2,799,775
Cash equivalents	10,625,678	8,472,131
	₱12,655,402	₱11,271,906

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term rates.

5. Short-term Investments and Financial Assets at FVPL

Short-term investments consist of:

	2008	2007
	(In Thousands)	
Money market placements	₱1,008,923	₱635,606
Investment Management Account (IMA)	—	1,400,000
	₱1,008,923	₱2,035,606

Money market placements are short-term investments made for varying periods of more than three (3) months and up to six (6) months and earn interest at the respective short-term investment rates.

The IMA was 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.

Financial assets at FVPL consist of the following held-for-trading securities:

	2008	2007
	(In Thousands)	
Treasury bills	₱993,457	₱—
Treasury bonds	785,263	318,018
	₱1,778,720	₱318,018

Treasury bonds and treasury bills have yields to maturity of 5.5% to 6.4% in 2008 and 5.7% in 2007. The Group recognized unrealized loss on these financial assets at FVPL 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.



6. Accounts and Notes Receivable - net

Accounts and notes receivable are summarized as follows:

	2008	2007
	(In Thousands)	
Trade:		
Residential development	₱7,786,256	₱7,374,149
Construction contracts	1,311,334	820,485
Shopping centers	1,178,032	974,771
Corporate business	254,222	159,007
Management fees	135,453	189,381
Others	202,317	156,014
Advances to contractors and suppliers	2,466,458	1,382,401
Related parties (see Note 23)	1,958,459	1,691,706
Receivables from employees	291,302	268,121
Accrued receivable	117,894	88,952
Advances to other companies	521,800	478,213
Others (see Note 8)	1,555,025	1,190,812
	17,778,552	14,774,012
Less allowance for impairment losses	202,650	174,109
	17,575,902	14,599,903
Less noncurrent portion	1,780,191	3,475,306
	₱15,795,711	₱11,124,597

The classes of trade receivables of the Group are as follows:

- Residential development - pertain to receivables from the sale of high-end, upper middle-income and affordable residential lots and units and leisure community developments
- Construction contracts - pertain to receivables from third party construction projects
- Shopping centers - pertain to lease receivables of retail space
- Corporate business - pertain to lease receivables of office and factory buildings and receivables from the sale of office buildings and industrial lots
- Management fees - pertain to facility management fees receivable

The sales contracts receivable, included under residential development, are collectible in monthly installments over a period of one (1) to ten (10) 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.

Corporate business receivables are collectible on a monthly or quarterly basis depending on the terms of the lease contracts.

Receivables from construction contracts, shopping centers and management fees are due within 30 days upon billing.

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



Receivables from related parties, advances to other companies and accrued receivables are due and demandable.

Receivables amounting to ₱202.7 million and ₱174.1 million as of December 31, 2008 and 2007, respectively, were impaired and fully provided for. Movements in the allowance for impairment losses follow:

2008

	Shopping centers	Residential	Construction Contracts	Management Fees	Trade- Others	Others	Total
Balance at beginning of year	₱89,940	₱13,008	₱2,301	₱3,166	₱11,093	₱54,601	₱174,109
Provisions during the period (Note 19)	48,714	—	10,753	648	1,411	11,320	72,846
Accounts written off	(42,066)	—	—	—	(2,239)	—	(44,305)
Balance at end of year	₱96,588	₱13,008	₱13,054	₱3,814	₱10,265	₱65,921	₱202,650
Individually impaired	₱56,026	₱9,555	₱5,878	₱3,814	₱7,355	₱53,875	₱136,503
Collectively impaired	40,562	3,453	7,176	—	2,910	12,046	66,147
Total	₱96,588	₱13,008	₱13,054	₱3,814	₱10,265	₱65,921	₱202,650
Gross amounts of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	₱56,522	₱9,555	₱5,878	₱3,814	₱7,355	₱187,640	₱270,764

2007

	Shopping centers	Residential	Construction Contracts	Management Fees	Trade- Others	Others	Total
Balance at beginning of year	₱84,629	₱13,008	₱2,301	₱3,166	₱3,872	₱801	₱107,777
Provisions during the period (Note 19)	27,995	—	—	715	7,355	53,800	89,865
Reversals (Note 19)	—	—	—	(715)	—	—	(715)
Accounts written off	(22,684)	—	—	—	(134)	—	(22,818)
Balance at end of year	₱89,940	₱13,008	₱2,301	₱3,166	₱11,093	₱54,601	₱174,109
Individually impaired	₱9,801	₱9,555	₱2,301	₱3,166	₱7,355	₱53,875	₱86,053
Collectively impaired	80,139	3,453	—	—	3,738	726	88,056
Total	₱89,940	₱13,008	₱2,301	₱3,166	₱11,093	₱54,601	₱174,109
Gross amounts of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	₱9,801	₱9,555	₱2,301	₱3,166	₱7,355	₱101,395	₱133,573

As of December 31, 2008 and 2007, 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, the Group entered into agreements with certain financial institutions for the sale of its 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 statements of income.



7. Real Estate Inventories

This account consists of:

	2008	2007
	(In Thousands)	
Subdivision land for sale:		
At cost	₱3,156,622	₱3,429,873
At NRV	1,020,981	867,126
Condominium, residential and commercial units		
for sale - at cost	3,681,273	2,341,030
Club shares - at cost	281,022	57,978
	₱8,139,898	₱6,696,007

Inventories recognized as cost of sales amounted to ₱9.5 billion and ₱8.5 billion in 2008 and 2007, respectively, and are included under "Real estate costs" in the consolidated statements of income. In 2008, the Group recorded provision for impairment amounting to ₱379.2 million for the development cost of real estate inventories which may no longer be recovered (see Note 19).

8. Other Current Assets

This account consists of:

	2008	2007
	(In Thousands)	
Prepaid expenses	₱1,655,309	₱1,269,662
Creditable withholding tax	1,078,372	439,283
Value-added input tax	1,056,058	520,498
Materials and supplies	203,038	95,959
Derivative asset (see Note 27)	—	59,026
Others	563,710	148,891
	₱4,556,487	₱2,533,319

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

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

As of December 31, 2007, the Company has an outstanding nondeliverable forward contract with 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 gain amounting to ₱7.0 million and ₱59.0 million was recognized in 2008 and 2007, respectively (see Note 19).

Creditable withholding tax amounting to ₱439.28 million as of December 31, 2007 was reclassified from "Accounts and notes receivable - net" to "Other current assets".



9. Investments in Associates and Jointly Controlled Entities

Details of this account are as follows:

	2008	2007
	(In Thousands)	
Acquisition cost	₱6,795,261	₱6,626,635
Accumulated equity in net earnings:		
Balance at beginning of year	2,412,041	1,709,209
Equity in net earnings during the year	884,727	787,209
Accumulated equity in APPHC (see Note 21)	(4,715)	—
Dividends received during the year	(170,934)	(84,377)
Balance at end of year	3,121,119	2,412,041
	₱9,916,380	₱9,038,676

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

	Percentages of Ownership		Carrying Amounts	
	2008	2007	2008	2007
	(In Thousands)			
Emerging City Holdings, Inc. (ECHI)*	50%	50%	₱2,822,867	₱2,485,455
Cebu Holdings, Inc. (CHI) and subsidiaries	47	47	1,939,526	1,809,631
North Triangle Depot Commercial Corporation (NTDCC)	49	49	1,555,470	1,541,375
Berkshires Holdings, Inc. (BHI)*	50	50	1,209,777	1,065,161
Bonifacio Land Corp. (BLC)	5	5	1,117,658	933,591
Alabang Commercial Corporation (ACC)*	50	50	594,329	573,052
Accendo Commercial Corp. (Accendo)	46	—	307,703	—
ARCH Asian Partners L.P.	8	8	290,433	316,078
Lagoon Development Corporation	30	30	63,562	61,450
KHI-ALI Manila, Inc. (KAMI)	82	82	11,144	11,144
ARCH Capital Management Co. Ltd. (ARCH Capital)	17	17	2,108	2,108
KHI Manila Property, Inc.	20	20	1,803	1,803
ALI Property Partners Holdings Corporation (APPHC)* (see Note 21)	—	60	—	237,828
			₱9,916,380	₱9,038,676

**Jointly controlled entities*

The Group's investments accounted for as joint ventures amounted to ₱4,934.7 million and ₱4,361.5 million as of December 31, 2008 and 2007, respectively.

The Company's 5.32% direct investment in BLC and 4.78% through Regent are accounted for using the equity method because the Company has significant influence over BLC.

The fair value of the investment in CHI for which there is a published price quotation amounted to ₱1,996.2 million and ₱3,266.5 million as of December 31, 2008 and 2007, respectively. CHI's subsidiary, Cebu Property Ventures Development Corporation, owns 40% interest in AIO (see Note 2).



Financial information on the Company's proportionate share in its jointly controlled entities (amounts in thousands) follows:

ECHI and Subsidiaries	2008	2007
Current assets	₱12,805,954	₱12,840,915
Noncurrent assets	9,135,789	8,863,005
Total assets	21,941,743	21,703,920
Current liabilities	2,279,359	2,331,978
Noncurrent liabilities	1,302,549	1,171,967
Total liabilities	3,581,908	3,503,945
Net operating revenue	3,055,229	3,218,021
Costs and expenses	2,044,013	2,760,760
Net income	1,011,216	457,261
BHI	2008	2007
Current assets	₱134	₱132
Noncurrent assets	1,149,391	846,026
Total assets	1,149,525	846,158
Total liabilities	605	443
Net operating revenue	303,365	137,178
Costs and expenses	487	18
Net income	302,878	137,160
ACC	2008	2007
Current assets	₱246,774	₱196,111
Noncurrent assets	619,791	651,257
Total assets	866,565	847,368
Current liabilities	251,532	257,496
Noncurrent liabilities	132,055	128,171
Total liabilities	383,587	385,667
Net operating revenue	333,533	323,757
Costs and expenses	212,171	213,553
Net income	121,362	110,204

Financial information on the Company's significant associates (amounts in thousands, except earnings per share) follows:

CHI and subsidiaries	2008	2007
Total assets	₱5,769,287	₱5,318,765
Total liabilities	1,501,555	1,335,582
Net operating revenue	1,500,031	1,277,481
Costs and expenses	1,100,552	984,731
Net income	399,479	292,750
Earnings per share	0.19	0.13
NTDCC	2008	2007
Total assets	₱7,820,668	₱7,373,178
Total liabilities	5,018,707	4,398,176
Net operating revenue	1,359,603	789,542
Costs and expenses	1,303,143	764,134
Net income	56,460	25,408



BLC and Subsidiaries	2008	2007
Total assets	₱43,877,733	₱43,677,672
Total liabilities	6,108,873	6,998,162
Net operating revenue	6,110,458	6,436,042
Costs and expenses	5,096,127	5,521,276
Net income	1,014,331	914,766
Accendo	2008	
Current assets	₱317,129	
Noncurrent assets	414,555	
Total assets	731,684	
Total liabilities	64,879	
Net operating revenue	2,565	
Costs and expenses	118	
Net income	2,447	

Investment in ECHI and BHI

On April 17, 2003, the following transactions have been consummated pursuant to the terms and conditions of the Assignment Agreement (Agreement), dated February 8, 2003, among the Company, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among the Company, EHI and Metro Pacific Corporation (MPC) as amended:

- (a) The assignment to the Company and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPC, pursuant to which, Larouge extended MPC a loan in the principal amount of US\$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by the Company and EHI for such assignment was approximately US\$90 million, subject in part to foreign exchange adjustment.
- (b) The assignment to the Company and EHI (acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus) of the controlling interest in BLC representing 50.38% of BLC's outstanding capital stock. This assignment was effected by MPC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.55% of its outstanding capital stock.

The Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.

The Company and EHI jointly hold the 50.38% equity interest in BLC through ECHI and BHI. The Company and EHI assigned the notes receivable from MPC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method, resulting in a negative goodwill of ₱1.4 billion.

On July 31, 2008, the Group acquired, through the Company, Regent and Columbus, additional 4,360,178 shares of BLC from FBDC amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC. This resulted in an increase in the Group's effective interest in BLC from 37.23% to 41.10%.



Investment in NTDCC

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

A series of capital calls was made by NTDCC with the Company infusing a total of ₱484.8 million in 2007 in additional investment, thus 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 Accendo

The Company entered into an Agreement with Anflo Group in 2007 to develop and operate a commercial center in Davao City. Accendo Commercial Corp., the newly formed company, is 46% owned by the Company whose share in the investment amounted to ₱307.7 million as of December 31, 2008. A total of ₱63.5 million has been advanced by the Company for this project and will eventually be converted to equity by 2009, thereby increasing stake to 51%. The project, known as "Abreeza", broke ground in September 2008.

Investment in ARCH Capital

In 2006, the Company and AC entered into a Shareholders' Agreement with ARCH Capital and Great ARCH Co. Limited, wherein the Company and AC 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), a wholly-owned subsidiary of First Longfield, transferring the interests of AC and the Company in ARCH Capital into Fine State and Green Horizons, respectively. Fine State and Green Horizons are 100% owned Hong Kong subsidiaries of AC and the Company, respectively.

The Company (through Green Horizons) and AC (through Fine State) 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 Green Horizon) and AC (through Fine State) 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 at December 31, 2007, the Fund achieved its final closing, resulting in a total investor commitment of US\$330.0 million. As a result, portion of the funds disbursed by the Company and AC and invested into the Fund have been returned in 2007, reducing the Company's overall capital invested to ₱214.5 million as of December 31, 2007.

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

Investment in KAMI

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

The 7,377-square meter property to be developed was conveyed by the Company to KAMI in exchange for 37,250 common shares, 38,250 redeemable preferred shares A and 16,758 preferred shares.



The Company does not consolidate KAMI as it does not exercise full control over it.

10. Available-For-Sale Financial Assets

This account consists of investments in:

	2008	2007
Shares of stock - acquisition cost:		
Unquoted	₱270,606	₱202,489
Quoted	182,452	162,356
	453,058	364,845
Unrealized gain	15,802	1,943
	₱468,860	₱366,788

Unquoted investments in shares of stock 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.

In 2008, the Company purchased preferred shares from AC amounting to ₱100.0 million at a purchase price of ₱500 per share.

Movements in the net unrealized gain on AFS financial assets follow:

	2008	2007
Balance at beginning of year	₱1,943	(₱10,323)
Fair value loss transferred to income (see Note 19)	10,226	-
Fair value changes during the year	3,633	12,266
Balance at end of year	₱15,802	₱1,943

11. Investment Properties

The movements in this account are:

	2008	2007
	(In Thousands)	
Cost		
Balance at the beginning of the year	₱18,674,209	₱17,274,275
Additions	765,905	844,576
Addition through business combination (see Note 21)	3,731,452	-
Transfers	-	1,133,034
Retirements	(304,191)	(577,676)
Balance at the end of the year	22,867,375	18,674,209
Accumulated Depreciation and Amortization		
Balance at the beginning of the year	4,881,359	4,241,513
Depreciation and amortization	679,864	858,280
Addition through business combination (see Note 21)	73,828	-
Retirements	(250,180)	(218,434)
Balance at the end of the year	5,384,871	4,881,359
Net Book Value	₱17,482,504	₱13,792,850



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

The aggregate fair value of the Group's investment properties amounted to ₱129.2 billion and ₱121.4 billion as of December 31, 2008 and 2007, respectively. The fair values of the investment properties were determined by independent professionally qualified appraisers.

Consolidated rental income from investment properties amounted to ₱5.9 billion, ₱5.5 billion and ₱5.2 billion in 2008, 2007 and 2006, respectively. 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 value of ₱72.0 million and ₱141.9 million, respectively, were written-off by the Company (see Note 19).

12. Property and Equipment

This account consists of (in thousands):

2008

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Construction in Progress	Total
Cost							
January 1	₱470,898	₱1,984,535	₱824,965	₱361,922	₱2,693,069	₱1,346,157	₱7,681,546
Additions	189,146	286,039	101,161	111,791	236,064	3,311,818	4,236,019
Disposals/Write-offs	(436)	(105,148)	-	(49,625)	(2,001)	-	(157,210)
Acquisition through business combination	-	3,970	-	-	-	1,288,753	1,292,723
December 31	659,608	2,169,396	926,126	424,088	2,927,132	5,946,728	13,053,078
Accumulated Depreciation and Amortization and Impairment Losses							
January 1	262,283	1,010,473	761,062	233,072	1,399,430	-	3,666,320
Depreciation and amortization	58,688	181,450	127,099	108,544	102,524	-	578,305
Disposals/Write-offs	(165)	(93,076)	-	(44,151)	(2,001)	-	(139,393)
December 31	320,806	1,098,847	888,161	297,465	1,499,953	-	4,105,232
Net Book Value	₱338,802	₱1,070,549	₱37,965	₱126,623	₱1,427,179	₱5,946,728	₱8,947,846

2007

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Construction in Progress	Total
Cost							
January 1	₱424,762	₱1,931,744	₱822,676	₱329,775	₱2,702,209	₱798,470	₱7,009,636
Additions	54,842	52,791	2,289	62,774	29,511	1,876,979	2,079,186
Disposals/Write-offs	(8,706)	-	-	(30,627)	(38,651)	-	(77,984)
Transfers	-	-	-	-	-	(1,329,292)	(1,329,292)
December 31	470,898	1,984,535	824,965	361,922	2,693,069	1,346,157	7,681,546
Accumulated Depreciation and Amortization and Impairment Losses							
January 1	237,910	781,655	724,533	214,352	1,326,151	-	3,284,601
Depreciation and amortization	28,422	228,818	36,529	46,582	111,231	-	451,582



Disposals/Write-offs	(4,049)	-	-	(27,862)	(37,952)	-	(69,863)
December 31	262,283	1,010,473	761,062	233,072	1,399,430	-	3,666,320
Net Book Value	₱208,615	₱974,062	₱63,903	₱128,850	₱1,293,639	₱1,346,157	₱4,015,226

Consolidated depreciation and amortization of property and equipment (included under various consolidated statements of income accounts) amounted to ₱578.3 million, ₱451.6 million and ₱490.3 million in 2008, 2007 and 2006, respectively.

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

13. Accounts and Other Payables

This account consists of:

	2008	2007
	(In Thousands)	
Accounts payable (see Note 23)	₱12,995,821	₱9,310,065
Accrued expenses	2,867,691	3,304,330
Accrued project costs	2,022,903	540,618
Taxes payable	1,616,435	1,630,478
Dividends payable	405,753	456,052
Retentions payable	317,945	44,412
Accrued salaries and employee benefits	176,785	196,262
Interest payable	151,689	135,459
Accrued rentals	99,450	141,140
	₱20,654,472	₱15,758,816

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.



14. Short-term and Long-term Debt

The short-term debt of ₱1,279.5 million and ₱1,613.0 million in 2008 and 2007, respectively, represents unsecured peso-denominated bank loans of the Company's subsidiaries with interest rates ranging from 7.0% to 8.5% per annum (p.a.) in 2008 and 5.5% to 7.9% p.a. in 2007.

Long-term debt consists of:

	2008	2007
	(In Thousands)	
Company:		
Bonds		
Due 2008	₱-	₱2,000,000
Due 2009	106,930	80,470
Due 2013	4,000,000	-
Fixed rate corporate notes (FXCNs)	3,580,000	3,580,000
	7,686,930	5,660,470
Subsidiaries:		
Bank loans - Philippine Peso	7,785,100	2,866,004
	15,472,030	8,526,474
Less current portion	244,142	2,376,600
	₱15,227,888	₱6,149,874

The Company:

Philippine Peso 5-Year Bonds due 2008

In 2003, the Company issued ₱2.0 billion bonds due 2008 with fixed and floating rate tranches. The fixed-rate bonds carry a coupon of 10.75% p.a. and have a nominal principal amount of ₱1.0 billion. The floating rate bonds, also worth ₱1.0 billion, bear a margin of 125 bps over benchmark 91-day PDST-F and is repriced quarterly. The bonds were fully paid when it matured in November 2008.

Philippine Peso Homestarter Bonds due 2009

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

Philippine Peso 5-Year Bonds due 2013

In 2008, the Company issued ₱4.0 billion bonds due 2013 with fixed rate equivalent to 8.75% p.a. The Philippine Rating Services Corporation (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.

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



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

Philippine Peso 10-Year FXCNs due 2012

The Company also had an outstanding ₱580.0 million 10-year FXCNs with fixed interest rate of 14.875% p.a. issued in 2002 and due 2012. In February 2009, the Company prepaid in full such FXCNs.

Subsidiaries

The subsidiaries' loans will mature on various dates up to 2015 with floating interest rates at 100 bps to 150 bps spread over benchmark 91-day PDST-R1/R2 and fixed interest rates of 6.97% to 9.72% p.a.. 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.

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

Interest capitalized amounted to ₱151.01 million and ₱3.4 million in 2008 and 2007, respectively. The average capitalization rates are 4.90% and 0.14% in 2008 and 2007, respectively.

15. Deposits and Other Noncurrent Liabilities

Deposits and other noncurrent liabilities consist of:

	2008	2007
	(In Thousands)	
Deposits	₱3,238,071	₱2,301,681
Retentions payable	1,766,831	1,070,491
Other liabilities	596,024	1,003,635
	₱5,600,926	₱4,375,807

Deposits are initially recorded at fair value, which was obtained by discounting its future cash flows using the applicable rates of similar types of instruments. The difference between the cash received and its fair value is included in "Deferred credits" account in the consolidated balance sheets.

16. Equity

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

	2008		2007		2006
	Preferred	Common	Preferred	Common	Common
Authorized	15,000,000	20,000,000	15,000,000	20,000,000	12,000,000
Issued	13,034,604	13,003,443	13,034,604	13,002,821	10,809,675
Subscribed	—	39,088	—	31,811	34,587
Treasury	—	(79,528)	—	(24)	(24)
Outstanding	13,034,604	12,963,003	13,034,604	13,034,608	10,844,238



Preferred Shares

In August 2007, the BOD approved the increase in authorized capital stock by ₱1.5 billion by creating 15 billion preferred shares with a par value of ₱0.10. Subsequently, in October 2007, 13,034,603,880 preferred shares were issued through a stock rights offer with the following features: (a) non-voting; (b) dividend rate of 4.64% p.a., payable annually, noncumulative; (c) nonparticipating; (d) convertible at the option of the holder at a ratio of one (1) preferred share to one (1) common share commencing on the 10th year from issue date at an exercise price equivalent to the higher of (i) the 30-day average closing price or (ii) closing price of common shares immediately preceding the exercise date, less the par value of the preferred shares; (e) no pre-emptive rights; (f) non-redeemable; (g) non-listed; and, (h) preferred in liquidation to the extent of par value.

The dividends for preferred shares are declared upon the sole discretion of the Company's BOD.

Common Shares

The rollforward of the outstanding number of common shares (in thousands) follows:

	2008	2007	2006
At beginning of year	13,034,608	10,844,238	10,795,631
Additional subscriptions	7,899	—	34,542
Exercise of stock options	—	17,972	14,065
Acquisition of treasury shares	(79,504)	—	—
Issuance of stock dividends	—	2,172,398	—
At end of year	12,963,003	13,034,608	10,844,238

On February 1, 2007, the BOD approved the increase in authorized capital stock from 12 billion to 20 billion shares.

In September 2007, the Company issued stock rights to all its existing common stockholders in which each stockholder is given the right to purchase at par one (1) preferred share for every common share held. ₱1,303.5 billion of the preferred shares were subscribed and subsequently issued.

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

On February 12, 2008, the BOD approved the allotment and subsequent issuance of up to 1 billion common shares of stock of the Company with an aggregate par value of ₱1.0 billion for the purpose of exchanging such shares for properties or assets and/or to raise funds to acquire properties or assets needed for the business of the Company via issuance of equity or equity-linked instruments, the price and the terms and conditions of which shall be determined by the BOD based on prevailing market conditions or on agreements negotiated.

On April 2, 2008, the Company's stockholders approved the allotment and subsequent issuance of the shares for the above-mentioned purposes and for the further amendment of the Amended Articles of Incorporation of the Company to exclude the issuance of shares from the pre-emptive rights of the stockholders pursuant to Section 39 of the Philippine Corporation Code.

Treasury Shares

On August 12, 2008, the BOD approved the creation of a share buyback program. It is part of the Company's balance sheet management program and aims to (i) improve the Company's balance sheet structure and capital efficiency and (ii) enhance shareholder value through the repurchase of shares whenever the stock is trading at a price discount perceived by the Company as not reflective of its fair corporate value.



The Company has repurchased a total of 79,500,000 of its common shares through open market purchases using the trading facilities of the Philippine Stock Exchange for a total purchase price of ₱823.4 million at an average price of ₱10.36 per share as of end of December 2008.

Retained Earnings

The BOD approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱ 0.06 per share in 2008, ₱0.06 per share in 2007 and ₱0.17 per share in 2006.

On October 9, 2008, the BOD approved the declaration and payment from unappropriated retained earnings of cash dividends at the dividend rate of 4.64% per annum to all issued and outstanding preferred shares.

The BOD approved the declaration of 20 percent stock dividends in 2007 which is equivalent to 2,172.4 million shares based on 10,809.7 million shares outstanding as of December 31, 2006.

Retained earnings of ₱6.0 billion are appropriated for future expansion. Retained earnings also include undistributed net earnings amounting to ₱8,526.5 million, ₱6,166.2 million and ₱5,612.4 million as of December 31, 2008, 2007 and 2006, respectively, representing accumulated equity in the net earnings of subsidiaries, associates and joint ventures.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the 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 to ₱15.3 billion.

Capital Management

The primary objective of the Group's capital management policy is to ensure that debt and equity capital are mobilized efficiently to support business objectives and maximize shareholder value. The Group establishes the appropriate capital structure for each business line that properly reflects its premier credit rating and allows it the financial flexibility, while providing it sufficient cushion to absorb cyclical industry risks.

The Group considers debt as a stable source of funding. The Group lengthened the maturity profile of its debt portfolio and makes it a point to spread out its debt maturities by not having a significant percentage of its total debt maturing in a single year.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. It monitors capital using leverage ratios on both a gross debt and net debt basis. As of December 31, 2008 and 2007, the Group had the following ratios:

	2008	2007
Debt to equity	34.2%	22.0%
Net debt to equity	2.7%	(8.0%)

Debt consists of short-term and long-term debt. Net debt includes short-term and long-term debt less cash and cash equivalents, short-term investments and FVPL financial assets. Equity, which the Group considers as capital, pertains to the equity attributable to equity holders of the Company less unrealized gain on AFS financial assets.

Financial risk assessment

The Company's financial condition and operating results would not be materially affected by the current changes in interest, currency, credit, liquidity and market conditions.



Credit risks continue to be managed through defined credit policies and continuing monitoring of exposure to credit risks. The Company's base of counterparties remains diverse. As such, it is not exposed to large concentration of credit risk.

Exposure to changes in interest rates is reduced by a debt portfolio mix of both fixed and floating interest rates. The Company's ratio of fixed to floating rate debt stood at 83:17 and 62:38 as of December 31, 2008 and 2007, respectively.

As a result, the movement in the actual average interest (borrowing) rate of the Company has been minimal

Exposure to foreign currency holdings is minimal at \$21.8 million as of December 31, 2008.

Liquidity risk is addressed with long term funding already locked in, while funds are placed on a short term placement.

17. Real Estate Revenue

This account consists of:

	2008	2007	2006
		(In Thousands)	
Real estate sales and services	₱17,618,117	₱14,148,015	₱15,804,625
Rental income	5,987,813	5,543,694	5,245,768
Construction contracts	5,689,369	1,798,639	1,450,828
	₱29,295,299	₱21,490,348	₱22,501,221

18. Revenue from Hotel Operations

This account consists of:

	2008	2007	2006
		(In Thousands)	
Rooms	₱724,081	₱751,458	₱590,812
Food and beverage	374,726	393,195	329,142
Rental	189,070	169,193	120,818
Others	33,608	43,060	50,330
	₱1,321,485	₱1,356,906	₱1,091,102

19. Other Income and Costs and Expenses

Other income consists of:

	2008	2007	2006
		(In Thousands)	
Gain on sale of investments	₱761,815	₱1,003,976	₱739,330
Fair value gain on derivative asset (see Note 8)	6,974	59,026	-
Management fees and marketing fees	328,852	215,285	272,094
Others - net	223,858	208,046	-
	₱1,321,499	₱1,486,333	₱1,011,424



In March 2008, the Company 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 the sale of the said subsidiaries amounted to ₱761.8 million.

On December 13, 2007, the Company sold 16,758 of its preferred shares in KAMI to Kingdom Manila B.V., which resulted in a gain of ₱1,004.0 million.

Other income mainly consist of management fees and foreign exchange gains and losses.

Real estate costs and expenses consist of:

	2008	2007	2006
	(In Thousands)		
Cost of sales and other direct costs (see Note 17)	₱16,860,499	₱11,256,663	₱12,492,267
Manpower costs	1,063,374	720,217	596,866
Depreciation and amortization	1,061,432	1,040,753	844,976
Marketing and management fees	740,550	632,311	986,665
Rental	683,829	579,888	527,860
	₱20,409,684	₱14,229,832	₱15,448,634

Hotel operations expenses consist of:

	2008	2007	2006
	(In Thousands)		
Food and beverage	₱234,671	₱245,912	₱206,866
Property operations, maintenance and energy costs	142,203	147,667	84,203
Depreciation and amortization	102,523	111,231	74,659
Rooms	76,984	79,480	104,525
Telephone and other department costs	24,803	14,518	16,781
Entertainment, amusement and recreation	3,519	6,335	5,150
Others	291,790	307,887	229,340
	₱876,493	₱913,030	₱721,524

General and administrative expenses included in the consolidated financial statements follow:

	2008	2007	2006
	(In Thousands)		
Manpower costs (see Notes 24 and 26)	₱1,959,544	₱1,459,474	₱1,512,769
Professional fees	172,471	181,902	113,428
Transportation and travel	115,151	112,821	93,364
Utilities	107,603	105,707	98,216
Depreciation and amortization	94,214	158,473	147,645
Entertainment, amusement and recreation	78,996	87,161	74,039
Advertising	59,427	66,449	86,753
Supplies	45,130	34,798	38,481
Others	656,435	508,355	441,359
	₱3,288,971	₱2,715,140	₱2,606,054



Manpower costs included in the consolidated statements of income follow:

	2008	2007	2006
	(In Thousands)		
Included in:			
Cost of:			
Real estate	₱1,063,374	₱720,217	₱596,866
Hotel operations	156,286	199,664	237,833
General and administrative expenses	1,959,544	1,459,474	1,512,769
	₱3,179,204	₱2,379,355	₱2,347,468

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

	2008	2007	2006
	(In Thousands)		
Included in:			
Cost of:			
Real estate	₱1,061,432	₱1,040,753	₱844,976
Hotel operations	102,523	111,231	74,659
General and administrative expenses	94,214	158,473	147,645
	₱1,258,169	₱1,310,457	₱1,067,280

Interest expense and other financing charges consist of:

	2008	2007	2006
	(In Thousands)		
Interest expense on:			
Short-term debt	₱165,315	₱210,472	₱102,187
Long-term debt	868,441	663,392	692,902
Other financing charges	16,285	18,907	18,139
	₱1,050,041	₱892,771	₱813,228

Other charges consist of:

	2008	2007	2006
	(In Thousands)		
Provision for impairment losses on:			
Receivables (see Note 6)	₱72,846	₱89,150	₱13,367
Real estate inventories	379,230	—	—
AFS financial assets (see Note 10)	10,226	—	—
Land and improvements	—	—	217,580
Write-offs and other charges (see Note 6)	—	669,949	—
Others	213,535	144,221	49,623
	₱675,837	₱903,320	₱280,570

In 2008, the Group recorded provision for impairment amounting to ₱379.2 million for the development cost of real estate inventories which may no longer be recovered (see Note 7). 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 Company's Ayala Center redevelopment program which amounted to a total of ₱213.9 million (see Note 11).



20. Income Taxes

The components of 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	₱774,347	₱662,727
Difference between tax and book basis of accounting for real estate transactions	329,973	391,709
Retirement benefits	104,431	184,483
Advanced rental	30,936	—
Outstanding share-based payments	27,470	47,541
NOLCO	5,964	59,016
MCIT	—	12,403
Others	98,840	57,070
	<u>1,371,961</u>	<u>1,414,949</u>
Deferred tax liabilities on:		
Capitalized interest and other expenses	(553,912)	(723,404)
Unrealized foreign exchange gain	(23,515)	—
Unrealized gain on forward contracts	—	(20,659)
	<u>(577,427)</u>	<u>(744,063)</u>
Net deferred tax assets	<u>₱794,534</u>	<u>₱670,886</u>

Net deferred tax liabilities:

	2008	2007
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	₱55,402	₱59,352
Retirement benefits	6,732	7,591
Allowance for probable losses	1,909	1,236
NOLCO	—	49,026
	<u>64,043</u>	<u>117,205</u>
Deferred tax liabilities on:		
Capitalized interest and other expenses	(157,577)	(122,576)
Unrealized foreign exchange gain	(65,369)	—
Deferred rent	(3,457)	—
Excess of financial realized gross profit over taxable realized gross profit	—	(109,072)
	<u>(226,403)</u>	<u>(231,648)</u>
Net deferred tax liabilities	<u>(₱162,360)</u>	<u>(₱114,443)</u>

Certain subsidiaries of the Company have NOLCO amounting to ₱322.6 million and ₱431.8 million as of December 31, 2008 and 2007, respectively and MCIT amounting to ₱15.1 million as of December 31, 2008, which were not recognized. Further, a subsidiary also has deductible temporary differences arising from unrealized gain on real estate sales amounting to ₱4.8 million as of December 31, 2007, which 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 subsidiaries will recognize a previously unrecognized deferred



tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As of December 31, 2008, carryover NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities are as follows:

NOLCO:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
(In Thousands)				
2005	₱304,867	₱304,867	₱—	2008
2006	333,493	187,102	146,391	2009
2007	102,083	—	102,083	2010
2008	94,238	—	94,238	2011
	₱834,681	₱491,969	₱342,712	

MCIT:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
(In Thousands)				
2005	₱9,886	₱9,886	₱—	2008
2006	1,363	—	1,363	2009
2007	8,863	—	8,863	2010
2008	4,899	—	4,899	2011
	₱25,011	₱9,886	₱15,125	

At December 31, 2008 and 2007, deferred income tax liabilities have not been recognized on the undistributed earnings of certain subsidiaries, associates or joint ventures since such amounts are not taxable.

Reconciliation between the statutory and the effective income tax rates follows:

	2008	2007	2006
Statutory income tax rate	35.00%	35.00%	35.00%
Tax effect of:			
Interest income and capital gains taxed at lower rates	(1.68)	(8.39)	(6.44)
Income subjected to lower income tax rates (see Note 29)	(0.43)	(1.86)	(1.91)
Equity in net earnings of associates and jointly controlled entities	(4.16)	(3.52)	(1.81)
Effect of change in statutory income tax rate	0.30	—	—
Others – net	(1.30)	4.48	3.47
Effective income tax rate	27.73%	25.71%	28.31%

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 9337.

21. Business Combinations

APPHC

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



APPHC, the joint-venture company formed, is 60% owned by the Company. 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 the Company, MIL, and FIL.

On December 8, 2008, the Company acquired from FIL its 20% ownership in APPHC and APPCo. This resulted in an increase in the Company's effective ownership interest in APPHC from 60% to 80% and APPCo from 36% to 68%, thereby providing the Company 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 (see Note 9).

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 of these identifiable assets and liabilities:

Assets	
Cash and cash equivalents	₱227,266
Trade and other receivables	189,105
Other current assets	645,582
Investment property (see Note 11)	3,657,624
Property and equipment (see Note 12)	1,292,723
Other assets	30,959
	<u>6,043,259</u>
Liabilities	
Accounts and other payables	718,625
Deposits and other current liabilities	41,212
Loans payable	3,348,200
Deposits and other noncurrent liabilities	373,523
	<u>4,481,560</u>
Net assets	1,561,699
Minority interest in APPHC	632,444
	<u>929,255</u>
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	<u>₱425,337</u>

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 been ₱4,826.4 million and revenue from continuing operations would have been ₱34,072.9 million.

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

In 2008, the Company, through NBCC and as part of its ongoing development in North Luzon, started to develop a 70,000 square meter retail center dubbed as "The MarQueen" mall located in Angeles City, Pampanga (included under Investment properties). Construction is already in full swing and the project is scheduled to soft open in 2009. A total of ₱451.0 million has been invested by the Company as of December 31, 2008.

The Company established Ecoholdings Company, Inc. in 2008 to engage in future land acquisitions.



In addition, the Company has been invited by Cebu Property Venture and Development Corporation (CPVDC), a subsidiary of CHI, to invest in Asian I-Office Properties, Inc. (AiO), an entity that will hold and operate eBloc Business Process Outsourcing (BPO) Building Project, a 12-storey BPO building located in the Asiatown IT Park in Cebu. The Company infused ₱270.0 million for a 60% stake in AiO, with CPVDC holding the remaining 40% (see Note 9).

22. Noncurrent Assets Held for Sale

Ayala Hotels, Inc., together with Ocmador Philippines B. V., agreed to sell Makati Property Ventures, Inc. (MPVI), to DBS Trustee Ltd. (Trustee of Ascott Residence Trust) on March 22, 2007 (Closing date). In 2007, total cash received from the sale amounted to ₱983.2 million. The Company recognized a net gain amounting to ₱598.7 million as a result of the consummation of the sale.

The results of MPVI for 2006 are presented below (in thousands):

Revenue from hotel operations	₱733,261
Interest, fees and other investment income	12,871
	<u>746,132</u>
Hotel cost and expenses	339,457
Depreciation	102,446
General administrative expenses	23,475
Interest and other financing charges	39,527
Provision for income tax	85,969
	<u>590,874</u>
Income associated with assets held for sale	₱155,258

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

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

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



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

	2007	2006
Income associated with noncurrent assets held for sale	₱598,666	₱155,258
Less income associated with noncurrent assets held for sale attributable to minority interests	299,333	108,681
	299,333	46,577
Weighted average number of common shares for basic EPS	13,026,949	12,988,994
Dilutive shares arising from stock options and preferred shares	150,916	56,410
Adjusted weighted average number of common shares for diluted EPS	13,177,865	13,045,404
Basic EPS	₱0.023	₱0.004
Diluted EPS	₱0.023	₱0.004

23. Related Party Transactions

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

The effects of the foregoing are shown under the appropriate accounts in the consolidated financial statements follow:

	2008	2007	2006
		(In Thousands)	
Revenue			
Associates	₱758,323	₱944,073	₱426,005
Other related parties	13,359	12,968	38,245
	₱771,682	₱957,041	₱464,250

The revenue earned from associates pertains mostly to income from leasing and developmental projects.

	2008	2007
		(In Thousands)
Receivables from Related Parties (see Note 6)		
Parent Company	₱47,640	₱29,171
Associates and jointly controlled entities	1,603,251	1,575,531
Other related parties	70,643	87,004
	₱1,721,534	₱1,691,706



Receivables from related parties pertain mostly to advances and reimbursements of operating expenses related to development cost and land acquisitions.

	2008	2007
	(In Thousands)	
Payables to Related Parties (see Note 13)		
Parent Company	₱945	₱945
Associates	414,326	360,660
Other related parties	4,532	688
	₱419,803	₱362,293

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

Compensation of key management personnel by benefit type follows:

	2008	2007	2006
	(In Thousands)		
Short-term employee benefits	₱130,943	₱114,379	₱113,427
Share-based payments (see Note 26)	3,635	59,586	85,963
Post-employment benefits (see Note 24)	14,930	3,308	3,587
	₱149,508	₱177,273	₱202,977

24. Retirement Plan

The Group has funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. In 2008 and 2007, the benefits are based on a defined benefit formula, while previously, the benefits are generally based on defined contribution formula with minimum lump-sum guarantee of 1.5 months' basic salary per year of service.

The Group's annual contributions to their respective plans consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

The components of expense (included in manpower costs under "General and administrative expenses") in the consolidated statements of income follow:

	2008	2007	2006
	(In Thousands)		
Current service cost	₱127,510	₱120,836	₱129,798
Interest cost on benefit obligation	103,157	41,704	82,231
Expected return on plan assets	(124,743)	(53,210)	(53,356)
Curtailment gain	(11,447)	—	—
Amortization of actuarial losses (gains)	—	(346)	9,775
Past service cost	2,777	98,539	—
Total pension expense	₱97,254	₱207,523	₱168,448
Actual return on plan assets	(₱191,990)	₱104,177	₱50,045



The funded status and amounts recognized in the consolidated balance sheets for the pension plan as of December 31, 2008 and 2007 follow:

	2008	2007
	(In Thousands)	
Benefit obligations	₱1,277,155	₱1,574,083
Plan assets	(1,057,896)	(1,428,976)
	219,259	145,107
Unrecognized net actuarial gains (losses)	(90,409)	69,051
Unrecognized past service cost	(30,224)	(38,321)
Liability recognized in the consolidated balance sheets	₱98,626	₱175,837

Changes in the present value of the defined benefit obligation follow:

	2008	2007	2006
	(In Thousands)		
Balance at January 1	₱1,574,083	₱1,389,916	₱1,489,168
Interest cost	103,157	41,704	82,231
Current service cost	127,510	120,836	129,798
Past service cost	-	136,860	-
Curtailments	(34,104)	1,369	-
Settlements	(153,679)	-	-
Benefits paid	(192,116)	(180,994)	(111,454)
Actuarial losses (gains)	(147,696)	64,392	(199,827)
Balance at December 31	₱1,277,155	₱1,574,083	₱1,389,916

Changes in the fair value of plan assets follow:

	2008	2007	2006
	(In Thousands)		
Balance at January 1	₱1,428,976	₱1,382,179	₱1,281,464
Expected return	124,743	53,210	53,356
Contributions	166,705	123,614	162,124
Settlements	(153,679)	-	-
Benefits paid	(192,116)	(180,994)	(111,454)
Actuarial gains (losses)	(316,733)	50,967	(3,311)
Balance at December 31	₱1,057,896	₱1,428,976	₱1,382,179

The Group expects to make contributions of ₱133.7 million to its retirement fund in 2009.

The allocations of the fair value of plan assets follow:

	2008	2007	2006
Investments in debt securities	56.92%	61.14%	55.53%
Investments in equity securities	14.77	29.37	32.74
Others	28.31	9.49	11.73

As of December 31, 2008 and 2007, the Group has investments in the Company's shares with fair value amounting to ₱6.16 million and ₱35.6 million, respectively.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.



The assumptions used to determine pension benefits for the Group for the years ended December 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
Discount rate	9 to 13%	7 to 9%	7%
Salary increase rate	7 to 8%	8 to 10%	5 to 10%
Expected rate of return on plan assets	8 to 10%	7%	7 to 10%

Amounts for the current and the previous periods follow:

	2008	2007	2006	2005	2004
			(In Thousands)		
Defined benefit obligation	₱1,277,155	₱1,574,083	₱1,389,916	₱1,489,168	₱957,526
Plan assets	(1,057,896)	(1,428,976)	(1,382,179)	(1,281,464)	(481,751)
Deficit	₱219,259	₱145,107	₱7,737	₱207,704	₱475,775

	2008	2007	2006
			(in Thousands)
Experience adjustments on plan liabilities	₱408,988	₱83,292	₱21,294
Experience adjustments on plan assets	₱316,733	₱50,967	₱3,311

25. Earnings Per Share

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

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

	2008	2007	2006
Net income attributable to equity holders of the parent	₱4,812,348	₱4,386,362	₱3,865,602
Less dividends on preferred stock	66,114	—	—
Net income attributable to equity holders for basic and diluted earnings per share	₱4,746,234	₱4,386,362	₱3,865,602
Weighted average number of common shares for basic EPS	13,011,387	13,026,949	12,988,994
Dilutive shares arising from stock options and preferred shares	22,932	150,916	56,410
Adjusted weighted average number of common shares for diluted EPS	13,034,319	13,177,865	13,045,404
Basic EPS	₱0.36	₱0.34	₱0.30
Diluted EPS	₱0.36	₱0.33	₱0.30

In 2008, the convertible preferred shares are ignored in the calculation of diluted EPS since these are antidilutive.



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

	2008	2007	2006
Income before income associated with noncurrent assets held for sale attributable to equity holders of the parent	₱4,812,348	₱4,496,882	₱4,078,594
Less income before income associated with noncurrent assets held for sale associated to minority interests	—	409,853	259,569
Less dividends on preferred stock	66,114	—	—
Net income before income associated with noncurrent assets held for sale attributable to equity holders for basic and diluted earnings per share	₱4,746,234	₱4,087,029	₱3,819,025
Weighted average number of common shares for basic EPS	13,011,387	13,026,949	12,988,994
Dilutive shares arising from stock options and preferred shares	22,932	150,916	56,410
Adjusted weighted average number of common shares for diluted EPS	13,034,319	13,177,865	13,045,404
Basic EPS	₱0.36	₱0.31	₱0.29
Diluted EPS	₱0.36	₱0.31	₱0.29

26. Stock Options and Ownership Plans

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

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

ESOP

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

Pre-PFRS 2 Options

	2008	Weighted average exercise price	2007	Weighted average exercise price
At January 1	23,847,002	₱4.13	25,914,997	₱4.89
Additions	—	—	4,413,205	4.10
Exercised	(1,575,489)	4.01	(6,019,491)	4.68
Cancelled	—	—	(461,709)	3.82
At December 31	22,271,513	₱4.15	23,847,002	₱4.14



PFRS 2 Options

	2008	Weighted average exercise price	2007	Weighted average exercise price
At January 1	20,018,950	₱4.13	23,349,898	₱4.89
Additions	—	—	4,520,159	4.10
Exercised	(1,577,118)	4.01	(7,107,360)	4.68
Cancelled	—	—	(743,747)	3.82
At December 31	18,441,832	₱4.15	20,018,950	₱4.14

The additions in 2007 pertain to the 20% stock dividend earned on the outstanding stock options.

The options exercised had a weighted average exercise price of ₱4.01 per share or ₱43.6 million in 2008 and ₱4.68 per share or ₱61.4 million in 2007. The average fair market value of the shares at the exercise date was ₱12.41 per share or about ₱39.14 million in 2008 and ₱16.73 per share or about ₱219.6 million in 2007.

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

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

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

ESOWN

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

In 2005, the Company introduced a revised ESOWN and granted to qualified officers wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of the Company or any of its subsidiaries during the ten (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 ten (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.



For the unsubscribed shares, the employee still has the option to subscribe within seven (7) years. Movements in the number of options outstanding under ESOWN follow:

	2008	Weighted average Exercise price	2007	Weighted average exercise price
At January 1	8,501,035	₱9.34	8,290,674	₱9.11
Granted	15,000,560	9.74	494,400	12.00
Cancelled	(1,924,176)	9.81	(284,039)	7.89
At December 31	21,577,419	₱9.58	8,501,035	₱9.34

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:

	Grant Dates			
	May 15, 2008	September 20, 2007	June 5, 2006	November 16, 2005
Number of unsubscribed shares	15,057,840	494,400	5,196,461	3,036,933
Fair value of each option	₱15.00	₱10.50	₱13.00	₱9.30
Weighted average share price	₱9.50	₱14.24	₱12.83	₱8.36
Exercise price	₱9.74	₱12.00	₱10.35	₱7.03
Expected volatility	32.04%	34.67%	46.03%	46.32%
Dividend yield	0.49%	0.41%	1.56%	0.77%
Interest rate	8.53%	6.93%	10.55%	11.30%

Total expense recognized in 2008, 2007 and 2006 in the consolidated statements of income arising from share-based payments amounted to ₱138.9 million, ₱104.7 million and ₱148.0 million, respectively.

27. Financial Assets and Liabilities

Fair Value Information

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2008 and 2007:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets at FVPL				
Financial assets through profit or loss	₱1,778,720	₱1,778,720	₱318,018	₱318,018
Derivative asset	—	—	59,026	59,026
Total financial assets at FVPL	1,778,720	1,778,720	377,044	377,044
Loans and Receivables				
Cash and cash equivalents	12,655,402	12,655,402	11,271,906	11,271,906
Short-term investments	1,008,923	1,008,923	2,035,606	2,035,606
Accounts and notes receivable				
Trade				
Residential development	7,773,248	8,463,361	7,361,141	7,613,864
Construction contracts	1,298,280	1,298,280	818,184	820,485
Shopping centers	1,081,444	1,081,444	884,831	974,771
Corporate business	254,222	254,222	159,007	159,007
Management fees	131,639	131,639	186,215	189,381
Others	192,052	192,052	144,921	144,921
	10,730,885	11,420,998	9,554,299	9,902,429

(Forward)



	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Related parties	1,958,459	1,958,459	1,691,706	1,691,706
Accrued receivable	117,894	117,894	88,952	88,952
Receivable from employees	291,302	265,137	268,121	236,035
Advances to other companies	521,800	513,362	478,213	463,583
Others	1,489,104	1,477,363	1,136,211	1,607,152
	4,378,559	4,332,215	3,663,203	4,087,428
Total loans and receivables	28,773,769	29,417,538	26,525,014	27,297,369
AFS financial assets				
Unquoted shares of stocks	₱270,606	₱270,606	₱202,489	₱202,489
Quoted shares of stocks	198,254	198,254	164,299	164,299
Total AFS financial assets	468,860	468,860	366,788	366,788
Total financial assets	₱31,021,349	₱31,665,118	₱27,268,846	₱28,041,201
Other Financial Liabilities				
Current				
Accounts payable	₱12,995,821	₱12,995,821	₱9,310,065	₱9,310,065
Accrued expenses	2,867,691	2,867,691	3,304,330	3,304,330
Accrued project costs	2,022,903	2,022,903	540,618	540,618
Dividends payable	405,753	405,753	456,052	456,052
Retentions payable	317,945	317,945	44,412	44,412
Accrued salaries and employee benefits	176,785	176,785	196,262	196,262
Interest payable	151,689	151,689	135,459	135,459
Accrued rentals	99,450	99,450	141,140	141,140
Short-term debt	1,279,500	1,279,500	1,613,000	1,613,000
Current portion of long-term debt	244,142	244,142	2,376,600	2,376,600
Noncurrent				
Long-term debt	15,227,888	15,191,324	6,149,874	6,952,606
Deposits and other noncurrent liabilities	5,600,926	5,607,019	4,375,807	4,381,898
Total other financial liabilities	₱41,390,493	₱41,360,022	₱28,643,619	₱29,452,442

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

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

FVPL financial assets - These are investments in government securities. Fair value is based on quoted prices as of balance sheet dates.

Noncurrent accounts and notes receivables - The fair values of residential accounts and notes receivable, advances to other companies, receivable from employees and other accounts receivable, 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% and 4.19% to 6.04% as of December 31, 2008 and 2007, respectively.

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

AFS unquoted equity securities - These are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value.

Liabilities - The fair value of noncurrent unquoted instruments (long-term debt and deposits) are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used ranged from 5.44% to 8.82% and 4.19% to 6.04% as of December 31, 2008 and 2007, respectively. The



fair value of noncurrent unquoted debt instruments with floating rates are estimated using discounted cash flow – last repricing method. The fair values of accounts and other payables and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

Financial Risk Management and Objectives

The Group's principal financial instruments comprise of cash and cash equivalents, short-term investments and financial assets at FVPL, AFS quoted equity securities, 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, short-term investments, financial assets at FVPL, AFS quoted equity securities, trade receivables and payables which arise directly from the conduct of its operations.

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

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

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

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

Liquidity risk

The Group employs scenario analysis and contingency planning to actively manage its liquidity position and guarantee that all operating, investing and financing needs are met. The Group has come up with a three-layered approach to liquidity through the prudent management of sufficient cash and cash equivalents, the potential sale of accounts receivables and the maintenance of short-term revolving credit facilities.

Cash and cash equivalents are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise. Management develops viable funding alternatives through a continuous program for the sale of its receivables and ensures the availability of ample unused short-term revolving credit facilities from both local and foreign banks as back-up liquidity.

The Group ascertains that its cash is invested in short-term bank placements and special deposit accounts, as well as in high-quality and marketable government and corporate securities.

The table summarizes the maturity profile of the Group's financial liabilities at December 31, 2008 and 2007 based on contractual undiscounted payments:

Year ended December 31, 2008:

	< 1 year	>1 to < 5 years	≥ 5 years	Total
Accounts and other payables	₱19,038,037	₱–	₱–	₱19,038,037
Short-term debt	1,279,500	–	–	1,279,500
Long-term debt	244,142	10,318,868	4,909,020	15,472,030
Deposits and other noncurrent liabilities	39,357	2,800,946	2,760,623	5,600,926
	₱20,601,036	₱13,119,814	₱7,669,643	₱41,390,493
Interest payable	₱1,243,870	₱3,971,394	₱569,022	₱5,784,286



Year ended December 31, 2007:

	< 1 year	>1 to < 5 years	≥ 5 years	Total
Accounts and other payables	₱14,128,338	₱—	₱—	₱14,128,338
Short-term debt	1,613,000	—	—	1,613,000
Long-term debt	2,376,600	4,778,507	1,371,367	8,526,474
Deposits and other noncurrent liabilities	3,031,680	1,214,741	129,386	4,375,807
	₱21,149,618	₱5,993,248	₱1,500,753	₱28,643,619
Interest payable	₱672,114	₱1,369,180	₱295,190	₱2,336,484

Credit risk

The Group's credit risks are primarily attributable to installments receivable, rental receivables and other financial assets. To manage credit risks, the Group maintains defined credit policies and monitors its exposure to credit risks on a continuous basis.

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

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants. For existing tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

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



The table below shows the maximum exposure to credit risk for the components of the balance sheet as of December 31, 2008 and 2007.

Balance sheet items	2008	2007
Cash and cash equivalents	₱12,655,402	₱11,271,906
Short-term investments	1,008,923	2,035,606
FVPL financial assets	1,778,720	318,018
Derivative asset	—	59,026
Accounts and notes receivable		
Trade:		
Shopping centers	1,081,444	884,831
Corporate business	254,222	159,007
Residential	7,773,248	7,361,141
Construction contracts	1,298,280	818,184
Management fees	131,639	186,215
Others	192,052	144,921
Related parties	1,958,459	1,691,706
Accrued receivable	117,894	88,952
Receivables from employees	291,302	268,121
Advances to other companies	521,800	478,213
Others	1,489,104	1,136,211
AFS financial assets	468,860	366,788
	₱31,021,349	₱27,268,846



Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk. As of December 31, 2008 and 2007, the aging analysis of past due but not impaired trade receivables presented per class, follow:

2008

	Neither Past Due nor Impaired	Past Due but not Impaired					Total	Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days			
		(In Thousands)							
Trade:									
Shopping centers	₱547,302	₱33,849	₱17,394	₱19,201	₱36,190	₱427,508	₱534,142	₱96,588	₱1,178,032
Corporate business	120,718	73,704	28,882	12,581	14,492	3,845	133,504	—	254,222
Residential	6,822,998	582,193	136,962	116,545	52,335	62,215	950,250	13,008	7,786,256
Construction contracts	747,292	168,035	36,006	201,343	13,199	132,405	550,988	13,054	1,311,334
Management fees	104,379	—	18,127	5,354	3,459	320	27,260	3,814	135,453
Others	77,544	14,132	30,288	14,748	12,765	42,575	114,508	10,265	202,317
Related parties	1,634,349	50,404	62,975	67,109	76,264	67,358	324,110	—	1,958,459
Advances to other companies	144,856	74,324	74,808	74,808	74,808	78,196	376,944	—	521,800
Accrued receivable	39,097	1,674	242	—	—	76,881	78,797	—	117,894
Receivable from employees	261,345	11,618	2,788	4,182	7,096	4,273	29,957	—	291,302
Others	1,153,098	33,860	63,504	74,874	90,628	73,140	336,006	65,921	1,555,025
Total	₱11,652,978	₱1,043,793	₱471,976	₱590,745	₱381,236	₱968,716	₱3,456,466	₱202,650	₱15,312,094



2007

	Neither Past Due nor Impaired	Past Due but not Impaired					Total	Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days			
		(In Thousands)							
Trade									
Shopping centers	₱589,173	₱240,484	₱4,774	₱4,250	₱103,062	₱23,227	₱375,797	₱9,801	₱974,771
Corporate business	50,009	107,600	127	143	23	1,105	108,998	–	159,007
Residential	7,076,363	53,829	118,251	60,198	14,400	41,553	288,231	9,555	7,374,149
Construction contracts	201,676	344,769	80,040	38,280	93,432	59,987	616,508	2,301	820,485
Management fees	78,128	36,476	22,820	10,632	8,911	29,248	108,087	3,166	189,381
Others	36,734	78,866	14,151	6,456	5,310	7,142	111,925	7,355	156,014
Related parties	1,453,342	8,062	15,765	22,033	28,952	163,552	238,364	–	1,691,706
Advances to other companies	264,089	36,618	35,504	52,276	69,669	19,982	214,049	75	478,213
Accrued receivable	70,965	14,485	399	363	248	2,492	17,987	–	88,952
Receivable from employees	223,179	12,118	15,045	6,286	8,402	3,091	44,942	–	268,121
Others	870,159	10,831	18,501	27,150	36,200	126,651	219,333	101,320	1,190,812
Total	₱10,913,817	₱944,138	₱325,377	₱228,067	₱368,609	₱478,030	₱2,344,221	₱133,573	₱13,391,611



The table below shows the credit quality of the Company's financial assets as of December 31, 2008:

2008

	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High Grade	Medium Grade	Low Grade			
Cash and cash equivalents	₱12,655,402		299,171	534,142	96,588	1,178,032
Short-term investments	1,008,923		5,182	133,504	-	254,222
FVPL financial assets	1,778,720		185,590	950,250	13,008	7,786,256
Accounts and notes receivables			3,231	550,988	13,054	1,311,334
Trade:				27,260	3,814	135,453
Shopping centers	204,740	43,391		114,508	10,265	202,317
Corporate business	109,057	6,479		324,110	-	1,958,459
Residential	5,087,268	1,550,140		376,944	-	521,800
Construction contracts	698,103	45,958		29,957	-	291,302
Management fees	104,379			78,797	-	117,894
Others	77,544			336,006	65,921	1,555,025
Related parties	1,634,246	103				
Advances to other companies	144,856					
Receivable from employees	261,345					
Accrued receivable	39,097					
Others	1,140,264	1,391	11,443			
AFS financial assets						
Quoted	100,000	98,254		198,254	-	198,254
Unquoted	-	270,606		270,606	-	270,606
	₱25,043,944	₱2,016,322	₱504,617	₱3,456,466	₱202,650	₱31,223,999



2007

	Neither past due nor impaired			Past due but			Total
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	
Cash and cash equivalents	P11,271,906	97,147	210,488	589,173	375,797	9,801	974,771
Short-term investments	2,035,906	5,243	-	50,009	108,998	-	159,007
FVPL financial assets	318,018	1,583,052	503,764	7,076,363	288,231	9,555	7,374,149
Accounts and notes receivables		30,251	28,235	201,676	616,508	2,301	820,485
Trade		33,064	13,392	78,128	108,087	3,166	189,381
Shopping centers	281,538	-	-	36,734	111,925	7,355	156,014
Corporate business	44,766	72	-	1,453,342	238,364	-	1,691,706
Residential	4,989,547	28,566	-	264,089	214,049	75	478,213
Construction contracts	143,190	16,664	-	70,965	17,987	-	88,952
Management fees	31,672	2,201	-	223,179	44,942	-	268,121
Others	36,734	209,373	104,354	870,159	219,333	101,320	1,190,812
Related parties	1,453,270						
Advances to other companies	235,523						
Receivable from employees	54,301						
Accrued receivable	220,978						
Others	556,432						
Available-for-sale financial assets							
Quoted	-	164,299	-	164,299	-	-	164,299
Unquoted	-	202,489	-	202,489	-	-	202,489
	P21,673,781	P2,372,421	P860,233	P24,906,435	P2,344,221	P133,573	P27,384,229



The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, short-term investments, FVPL financial assets, AFS quoted equity securities - based on the nature of the counterparty and the Group's internal rating system

Receivables - 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

AFS financial assets - the unquoted financial assets are unrated

Interest rate risk

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

The Group manages its interest rate risk by leveraging on its premier credit rating and increasing the fixed interest component of its debt portfolio. The Company's ratio of fixed to floating rate debt stood at around 83:17 and 62:38 as of December 31, 2008 and 2007, respectively.

The following tables demonstrate the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates on 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 through FVPL):

2008:

	Change in basis points	
	Effect on income before income tax	
	+ 100 basis points	- 100 basis points
FVPL financial assets	(P10,295)	P10,475
Subsidiaries - floating rate borrowings	(29,045)	29,045
	(P39,340)	P39,520

2007:

	Change in basis points	
	Effect on income before income tax	
	+ 100 basis points	- 100 basis points
FVPL financial assets	(P9,975)	P10,348
Company - floating rate borrowings	(10,000)	10,000
Subsidiaries - floating rate borrowings	(28,976)	28,976
	(P48,951)	P49,324

There is no other impact on the Group's equity other than those already affecting the net income.



The terms and maturity profile of the interest-bearing financial assets and liabilities, together with their corresponding nominal amounts and carrying values (in thousands) are shown in the following table:

2008		Interest terms (p.a.)	Rate	Nominal	< 1 year	1 to 5 years	> 5 years	Carrying
			Fixing Period	Amount				Value
<u>Group</u>								
Cash and cash equivalents		Fixed at the date of investment	Various	₱12,655,402	₱12,655,402	₱-	₱-	₱12,655,402
Short-term investments		Fixed at the date of investment or revaluation cut-off		1,008,923	1,008,923	-	-	1,008,923
FVPL financial assets		Fixed at the date of investment or revaluation cut-off		1,778,720	1,344,081	434,639	-	1,778,720
Accounts and notes receivables		Fixed at the date of sale	Date of sale	9,429,765	7,301,510	1,284,841	-	8,586,351
<u>Company</u>								
Long-term debt								
<i>Fixed</i>								
Peso		Fixed at 7.25% to 7.75%	5, 7 and 10 years	3,000,000	-	2,080,000	920,000	3,000,000
Peso		Fixed at 8.75%	5 years	4,000,000	-	4,000,000	-	4,000,000
Peso		Fixed at 14.88%	10 years	580,000	-	580,000	-	580,000
Peso		Fixed at 5%	3 years	106,930	106,930	-	-	106,930
Subsidiaries								
Short-term debt		Variable ranging from 7.0% to 8.5%	Monthly	1,279,500	1,279,500	-	-	1,279,500
Long-term debt								
<i>Fixed</i>								
Peso		Fixed at 6.97% to 9.72%	5 to 7 years	6,168,200	97,962	3,223,519	2,842,625	6,164,106
<i>Floating</i>								
Peso		Variable at 1.00% to 1.50% over 91-day PDST R1/R2	3 months	1,625,000	39,250	435,350	1,146,394	1,620,994



2007		Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
<u>Group</u>								
Cash and cash equivalents	Fixed at the date of investment	Various	Balance	₱11,271,906	₱11,271,906	₱-	₱-	₱11,271,906
Short-term investments	Fixed at the date of investment or revaluation cut-off	Balance date		2,035,606	2,035,606	-	-	2,035,606
FVPL financial assets	Fixed at the date of investment or revaluation cut-off	Balance date		318,018	-	318,018	-	318,018
Accounts and notes receivables	Fixed at the date of sale	Date of sale		8,889,207	4,830,796	3,276,678	-	8,107,474
<u>Company</u>								
Long-term debt								
<i>Fixed</i>								
Peso	Fixed at 7.25% to 7.75%	5, 7 and 10 years		3,000,000	-	1,830,000	1,170,000	3,000,000
Peso	Fixed at 10.75%	5 years		1,000,000	1,000,000	-	-	1,000,000
Peso	Fixed at 14.88%	10 years		580,000	-	580,000	-	580,000
Peso	Fixed at 5%	3 years		80,470	-	80,470	-	80,470
<i>Floating</i>								
Peso	Variable at 1.25% over 91-day PDST-F	3 months		1,000,000	1,000,000	-	-	1,000,000
Subsidiaries								
Short-term debt	Variable ranging from 5.5% to 7.9%	Monthly		1,613,000	1,613,000	-	-	1,613,000
Long-term debt								
<i>Fixed</i>								
Peso	Fixed at 7.75% to 10.69%	5 to 7 years		1,585,760	167,460	1,408,625	5,295	1,581,380
<i>Floating</i>								
Peso	Variable at 1.00% to 1.50% over 91-day PDST-F or PDST-R1	3 months		1,288,840	209,140	879,412	196,072	1,284,624



Foreign currency risk

Financial assets and credit facilities of the Group, as well as major contracts entered into for the purchase of raw materials, are mainly denominated in Philippine Peso. There are only minimal placements in foreign currencies and the Group does not have any foreign currency-denominated debt. The Group has not entered into any derivative or forward contract since the pre-termination of its nondeliverable forward contract in April 2008. As such, the Group's foreign currency risk is minimal.

The following table shows the Group's consolidated foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2008 and 2007:

	In Thousands			
	2008		2007	
	US Dollar	Php Equivalent	US Dollar	Php Equivalent
Financial Assets				
Cash and cash equivalents	\$15,703	₱746,207	\$13,291	₱555,210
Short-term investments	6,120	290,822	—	—
Total	21,823	1,037,029	13,291	555,210
Net foreign currency denominated assets	\$21,823	₱1,037,029	₱13,291	₱555,210

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine peso-US dollar 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.

Increase (decrease) in exchange rate	Effect on profit before tax	
	2008	2007
₱1.00	₱21,823	₱13,291
(₱1.00)	(21,823)	(13,291)

There is no other impact on the Group's equity other than those already affecting the net income.

28. Segment Information

The industry segments where the Group and its associates and joint ventures operate follow:

Core business:

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



Support Businesses:

- Hotels - development and management of hotels/serviced apartments and lease of land to hotel tenants
- Property management - facilities management of the Group and third-party projects
- Others - other income from investment activities and sale of non-core assets.

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

In 2008, the Group presented Construction as a reportable segment. Previously, Construction has been included as part of Support businesses. The 2007 and 2006 segment information has been restated to be consistent with the 2008 presentation.



Business segments

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

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	P4,281	P1,088	P15,297	P1,743	P161	P5,689	P2,358	P-	P-	P30,617
Intersegment sales	348	-	472	-	-	4,490	221	-	(5,531)	-
Equity in net earnings of associates and jointly controlled entities	138	14	-	576	201	-	-	(44)	-	885
Total revenue	4,767	1,102	15,769	2,319	362	10,179	2,579	(44)	(5,531)	31,502
Operating expenses	2,689	689	12,535	1,273	233	9,642	2,135	1,093	(5,714)	24,575
Operating profit	2,078	413	3,234	1,046	129	537	444	(1,137)	183	6,927
Interest income										926
Interest expense										(1,050)
Other income										1,321
Other expenses										(676)
Provision for income tax										(2,065)
Net income before income associated with noncurrent assets held for sale										5,383
Income associated with noncurrent assets held for sale, net of tax										-
Net income										P5,383
Net income attributable to:										
Equity holders of Ayala Land, Inc.										P4,812
Minority interests										571
										P5,383
Other Information										
Segment assets	P17,250	P15,971	P57,823	P9,477	P2,116	P7,163	P3,252	P4,668	(P27,978)	P89,742
Investment in associates and jointly controlled entities	2,521	-	-	5,163	1,940	-	-	292	-	9,916
	P19,771	P15,971	P57,823	P14,640	P4,056	P7,163	P3,252	P4,960	(P27,978)	P99,658
Deferred tax assets										795
Total assets										P100,453
Segment liabilities	P7,142	P5,042	P17,345	P2,328	P806	P5,893	P1,413	P11,051	(P5,772)	P45,248
Deferred tax liabilities										162
Total liabilities										P45,410

(Forward)



	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Segment additions to property and equipment and investment properties	P1,967	P1,389	P273	P-	P880	P172	P267	P54	P-	P5,002
Depreciation and amortization	P761	P189	P50	P-	P2	P100	P53	P104	P-	P1,259
Non-cash expenses other than depreciation and amortization	P49	P-	P-	P-	P379	P11	P-	P23	P-	P462

2007

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	P4,175	P993	P12,918	P414	P176	P1,799	P2,372	P-	P-	P22,847
Intersegment sales	360	-	197	-	-	4,317	17	-	(4,891)	-
Equity in net earnings of associates and jointly controlled entities	125	86	-	420	138	-	-	18	-	787
Total revenue	4,660	1,079	13,115	834	314	6,116	2,389	18	(4,891)	23,634
Operating expenses	2,389	597	10,820	383	205	5,704	2,124	865	(5,229)	17,858
Operating profit	P2,271	P482	P2,295	P451	P109	P412	P265	(P847)	P338	5,776
Interest income										586
Interest expense										(893)
Other income										1,486
Other expenses										(903)
Provision for income tax										(1,556)
Net income before income associated with noncurrent assets held for sale										4,496
Income associated with noncurrent assets held for sale, net of tax										599
Net income										P5,095
Net income attributable to:										
Equity holders of Ayala Land, Inc.										P4,497
Minority interests										598
										P5,095

(Forward)



	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Other Information										
Segment assets	P16,937	P9,071	P45,596	P8,848	P1,449	P5,797	P2,830	P7,704	(P24,961)	P73,271
Investment in associates and jointly controlled entities	2,176	238	-	4,497	1,810	-	-	318	-	9,039
	P19,113	P9,309	P45,596	P13,345	P3,259	P5,797	P2,830	P8,022	(P24,961)	P82,310
Deferred tax assets										671
Total assets										P82,981
Segment liabilities	P5,815	P626	P11,889	P1,808	P99	P4,694	P1,032	P11,873	(P5,715)	P32,121
Deferred tax liabilities										114
Total liabilities										P32,235
Segment additions to property and equipment and investment properties	P1,127	P321	P89	P-	P4	P159	P88	P80	P-	P1,868
Depreciation and amortization	P862	P97	P51	P-	P1	P86	P127	P86	P-	P1,310
Non-cash expenses other than depreciation and amortization	P213	P-	P-	P-	P-	P-	P-	P54	P-	P267

2006

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	P3,973	P1,329	P13,965	P707	P168	P1,451	P1,999	P-	P-	P23,592
Intersegment sales	446	-	60	-	-	2,737	174	-	(3,417)	-
Equity in net earnings of and jointly controlled entities	85	5	-	118	98	-	-	-	-	306
Total revenue	4,504	1,334	14,025	825	266	4,188	2,173	-	(3,417)	23,898
Operating expenses	1,988	861	11,636	449	172	4,090	1,440	1,340	(3,200)	18,776
Operating profit	2,516	473	2,389	376	94	98	733	(1,340)	(217)	5,122
Interest income										649
Interest expense										(813)
Other income										1,011
Other expenses										(280)
Provision for income tax										(1,610)
Net income before income associated with noncurrent assets held for sale										4,079
Income associated with noncurrent assets held for sale, net of tax										155
Net income										P4,234

(Forward)



	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Net income attributable to: Equity holders of Ayala Land, Inc.										P3,866
Minority interests										368
										P4,234
Other Information										
Segment assets	P14,707	P9,091	P42,954	P9,101	P1,489	P3,168	P5,656	P8,758	(P26,248)	P68,676
Investment in associates and jointly controlled entities	1,595	130	--	4,045	1,724	--	--	1,297	--	8,791
	P16,302	P9,221	P42,954	P13,146	P3,213	P3,168	P5,656	P10,796	(P27,065)	P77,467
Deferred tax assets										783
Total assets										P78,250
Segment liabilities	P4,881	P806	P18,976	P1,031	P147	P2,210	P1,293	P10,223	(P8,971)	P30,596
Deferred tax liabilities										416
Total liabilities	P4,881	P806	P18,976	P1,031	P147	P2,210	P1,293	P10,223	(P8,971)	P31,012
Segment additions to property and equipment and investment properties	P1,311	P112	P50	P--	P1	P102	P279	P417	P--	P2,272
Depreciation and amortization	P649	P131	P39	P4	P1	P87	87	69	--	1,067
Non-cash expenses other than depreciation and amortization	P--	P--	P118	P--	P--	P--	P--	P113	P--	P231



29. Registration with Philippine Economic Zone Authority (PEZA)

LTI is registered with PEZA on October 27, 1999 as a non-pioneer “ecozone developer/operator.” The PEZA registration entitled the subsidiary to a four-year income tax holiday from the start of its commercial operations. At the expiration of its four-year tax holiday, the subsidiary pays income tax at the special tax rate of 5% on its gross income earned from sources within the PEZA economic zone in lieu of paying all national and local income taxes.

Likewise, Ceci Realty, Inc. also became registered with PEZA in 2007 as the “developer/operator” of the Lakeside Evozone.

30. Leases

Operating Leases - Group as Lessor

The Group entered into 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 noncancellable operating leases of the Group follow:

	2008	2007
	(In Thousands)	
Within one year	₱1,361,011	₱653,150
After one year but not more than five years	3,783,220	1,485,316
More than five years	1,403,205	245,132
	₱6,547,436	₱2,383,598

Operating Leases - Group as Lessee

The Group entered into 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 payable under noncancellable operating leases of the Group follow:

	2008	2007
	(In Thousands)	
Within one year	₱104,581	₱104,581
After one year but not more than five years	418,323	418,323
More than five years	1,464,131	1,568,711
	₱1,987,035	₱2,091,615

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 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 the Company'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. Long-term Commitments and Contingencies

Commitments

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

As part of the bid requirement, the Company procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, 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, the Company entered into a Joint Development Agreement (JDA) with BCDA for development of another lot inside Fort Bonifacio with a gross area of 11.6 hectares for residential purposes. Pursuant to the agreement, BCDA shall contribute all its title and interest to the lot and the Company in turn shall provide the necessary cash and expertise to undertake and complete the implementation of the residential development. The Company commits to invest sufficient capital to complete the residential development.



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

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

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.

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, the Company issued ₱2.38 billion FXCNs consisting of 5-, 7- and 10-year notes to various primary institutional lenders. This will mature on various dates up to 2019.

