Tower One, Ayala Triangle, Ayala Avenue, Makati City 1226
Telephone Number: (632) 848-5643

₱4,000,000,000 Fixed Rate Bonds Due 2013

Issue Price: 100% of Face Value
Interest Rate: 8.75% p.a.

Ayala Land, Inc. ("Ayala Land" or the "Issuer" or the "Company") is offering Bonds due 2013 (the "Bonds") in the aggregate principal amount of up to ₱4,000,000,000.

The Bonds, which shall be issued on August 13, 2008, shall have a term of five (5) years and one (1) day from the Issue Date, with a fixed interest rate equivalent to 8.75% p.a. Interest on the Bonds shall be payable quarterly in arrears on November 14, 2008 for the first Interest Payment Date, and February 14, May 14, August 14, and November 14 of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day. The last Interest Payment Date shall fall on the Maturity Date (as defined below) while the Bonds are outstanding (see "Description of the Bonds" – "Interest").

The Bonds shall be redeemed at par (or 100% of face value) on August 14, 2013 (the "Maturity Date") or as otherwise set out in "Description of the Bonds" – "Redemption and Purchase" and "Payment in the Event of Default" sections of this Prospectus.

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

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

The Bonds shall be offered to the public at face value through the Joint Lead Managers and Underwriters named below with the Philippine Depository & Trust Corp. ("PDTC") as the Registrar of the Bonds. It is intended that upon issuance, the Bonds shall be issued in scripless form, with PDTC maintaining the scripless Register of Bondholders, and listed in the Philippine Dealing & Exchange Corp. ("PDEx"). The Bonds shall be issued in denominations of ₱50,000.00 each, as a minimum, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000 in the secondary market.

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

The date of this Prospectus is August 4, 2008.

Joint Lead Managers and Underwriters
BPI CAPITAL CORPORATION
HSBC
LAND BANK OF THE PHILIPPINES

Ayala Land expects to raise gross proceeds amounting to ₱4,000,000,000.00. The net proceeds are estimated to be ₱3,957,236,875, after deducting fees, commissions and expenses relating to the issuance of the Bonds. Proceeds of the Offer shall be used for general corporate purposes (see "Use of Proceeds"). The Joint Lead Managers and Underwriters shall receive a fee of 0.40% on the final aggregate nominal principal amount of the Bonds issued.

Ayala Land confirms that this Prospectus contains all information relating to the Company, its subsidiaries and affiliates which is, in the context of the issue and offering of the Bonds, material (including all information required by the applicable laws of the Republic of the Philippines). There are no other facts the omission of which would make any statement in this Prospectus misleading in any material respect. Ayala Land confirms that it has made all reasonable inquiries in respect of the information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Prospectus. Ayala Land, however, has not independently verified any such publicly available information, data or analysis.

Neither the delivery of this Prospectus nor any sale made pursuant to the Offering shall, under any circumstance, create any implication that the information contained or referred to in this Prospectus is accurate as of any time subsequent to the date hereof. The Joint Lead Managers and Underwriters do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Prospectus.

The contents of this Prospectus are not to be considered as legal, business or tax advice. Each prospective purchaser of the Bonds receiving a copy of this Prospectus acknowledges that he has not relied on the Joint Lead Managers and Underwriters in his investigation of the accuracy of such information or in his investment decision. Prospective purchasers should consult their own counsel, accountants or other advisors as to legal, tax, business, financial and related aspects of the purchase of the Bonds. Investing in the Bonds involves certain risks. For a discussion of certain factors to be considered in respect of an investment in the Bonds, see the section entitled "Risk Factors and Other Considerations".

No dealer, salesman or other person has been authorized by Ayala Land and the Joint Lead Managers and Underwriters to give any information or to make any representation concerning the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by Ayala Land or the Joint Lead Managers and Underwriters.

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

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

AYALA LAND, INC.

By:

Original Signed and Notarized

JAIME I. AYALA
President and Chief Executive Officer

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FORWARD-LOOKING STATEMENTS

This Prospectus contains certain "forward-looking statements". These forward-looking statements have been based largely on the Company's current expectations and projections about future events and financial trends affecting its business. Words or phrases such as "believes," "expects," "anticipates," "intends," "plans," "foresees" or other words or phrases of similar import are intended to identify forward-looking statements. Similarly, statements that describe Ayala Land's objectives, plans or goals are also forward-looking statements. In light of these risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances discussed in this Prospectus might not occur. Actual results could differ materially from those contemplated in the relevant forward-looking statements. Important factors that could prevent forward-looking events and circumstances from occurring or could cause actual results to differ materially from the expectations of Ayala Land include, among others:

General Economic and Political Conditions

- changes in Philippine and international interest rates
- changes in political, economic and social conditions in the Philippines
- changes in foreign exchange control regulations in the Philippines
- changes in the value of the Peso

Conditions of the Real Estate Industry

- increasing competition in the Philippine real estate industry
- changes in laws and regulations that apply to the Philippine real estate industry

Factors Affecting Ayala Land's Operations

- Ayala Land's ability to maintain and further improve its market share in the various segments of the Philippine real estate market
- demand for Ayala Land's projects in the Philippines
- Ayala Land's ability to enter into various financing programs
- operational and implementation issues that Ayala Land may encounter in its projects
- Ayala Land's ability to manage changes in the cost of goods required for operations

For a further discussion of such risks, uncertainties and assumptions, see section "Risk Factors and Other Considerations" of this Prospectus. Prospective purchasers of the Bonds are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included herein are made only as of the date of this Prospectus and Ayala Land undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

DEFINITION OF TERMS

As used in this Prospectus, the following terms shall have the meanings ascribed to them:

"Affiliate" shall mean, with respect to Ayala Land, Inc., any corporation directly or indirectly controlled by it, whether by way of ownership of at least 20% of the total issued and outstanding capital stock of such corporation, or the right to elect at least 20% of the number of directors in such corporation, or the right to control the operation and management of such corporation by reason of management, contract or authority granted by said corporation to Ayala Land, Inc.

"Ayala" refers to Ayala Corporation.

"Ayala Group" refers to Ayala Corporation and its subsidiaries and affiliates.

"Ayala Land" or **"ALI"** or the **"Company"** or the **"Issuer"** refers to Ayala Land, Inc.

"Application to Purchase" shall mean the document to be executed by any Person or entity qualified to become a Bondholder.

"Banking Day" or **"Business Day"** shall be used interchangeably to refer to any day, except Saturday and Sunday, on which commercial banks are open for business in the Makati City, Metro Manila.

"Beneficial Owner" shall mean any person (and "Beneficial Ownership" shall mean ownership by any person) who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting of such security; and/or investment returns or power in respect of any security, which includes the power to dispose of, or to direct the disposition of, such security; provided, however, that a person shall be deemed to have an indirect beneficial ownership interest in any security which is:

i. held by members of his immediate family sharing the same household;
ii. held by partnership in which he is a general partner;
iii. held by a corporation of which he is a controlling shareholder; or
iv. subject to any contract, arrangement or understanding which gives him voting power or investment power with respect to such securities; provided, however, that the following persons or institutions shall not be deemed to be beneficial owners of securities held by them for the benefit of third parties or in customer or fiduciary accounts in the ordinary course of business, so long as such securities were acquired by such persons or institutions without the purpose or effect of changing or influencing control of the issuer:

    a. A broker dealer;
    b. An investment house registered under the Investment Houses Law;
    c. A bank authorized to operate as such by the *Bangko Sentral ng Pilipinas*;
    d. An insurance company subject to the supervision of the Office of the Insurance Commission;
    e. An investment company registered under the Investment Company Act;

f. A pension plan subject to regulation and supervision by the Bureau of Internal Revenue and/or the Office of the Insurance Commission or relevant authority; and

g. A group in which all of the members are persons specified above.

"Bond Agreements" shall mean the Trust Agreement between the Issuer and the Trustee and the Paying Agency and Registry Agreement between the Issuer, the Registrar and the Paying Agent.

"Bondholder" shall mean a Person whose name appears, at any time, as a holder of the Bonds in the Register of Bondholders.

"Bonds" shall refer to the bonds in the aggregate principal amount of ₱4,000,000,000.00 to be issued by Ayala Land and shall mature on August 14, 2013.

"BPI" shall refer to Bank of the Philippine Islands, an affiliate of the Ayala Group.

"BPI Capital" shall refer to BPI Capital Corporation.

"HSBC" shall mean The Hongkong and Shanghai Banking Corporation Limited.

"Interest Payment Date" shall mean November 14, 2008 for the first Interest Payment Date, and February 14, May 14, August 14, and November 14 of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day if such Interest Payment Date is not a Business Day. The last Interest Payment Date shall fall on the Maturity Date.

"Issue Date" shall mean the date on which the Bonds shall be issued by the Issuer.

"Joint Lead Managers and Underwriters" shall refer to BPI Capital, HSBC and Land Bank, the entities appointed by the Issuer as joint lead managers and underwriters for the Bonds pursuant to the Issue Management and Underwriting Agreement.

"Land Bank" shall mean Land Bank of the Philippines.

"Lien" shall mean any mortgage, pledge, lien or encumbrance constituted on any of the Issuer's properties for the purpose of securing its or its Affiliate's obligation.

"Majority Bondholders" shall mean, at any time, the Bondholder or Bondholders who hold, represent or account for more than 50% of the aggregate outstanding principal amount of the Bonds.

"Master Certificate of Indebtedness" shall mean the certificate to be issued by the Issuer to the Trustee evidencing and covering such amount corresponding to the Bonds.

"Maturity Date" shall mean August 14, 2013 which is five years and one day after the Issue Date; provided that, in the event that the Maturity Date falls on a day that is not a Business Day, the Maturity Date shall be automatically extended to the immediately succeeding Business Day.

"Offer" shall mean the issuance of Bonds by the Issuer under the Conditions as herein contained.

"Offer Period" shall refer to the period, commencing within two days from the date of the issuance of the SEC Permit, during which the Bonds shall be offered to the public.

"Paying Agent" shall refer to PDTC, the party which shall receive the funds from the Issuer for payment of principal, interest and other amounts due on the Bonds and remit the same to the Bondholders based on the records shown in the Register of Bondholders.

"Pesos", "₱", and **"Philippine currency"** shall mean the legal currency of the Republic of the Philippines.

"Philippines" shall mean the Republic of the Philippines.

"PDEx" shall refer to the Philippine Dealing & Exchange Corp.

"PDTC" shall refer to the Philippine Depository & Trust Corp.

"PFRS" shall mean the Philippine Financial Reporting Standards.

"PSE" shall refer to the Philippine Stock Exchange.

"Register of Bondholders" shall mean the electronic record of the issuances, sales and transfers of the Bonds to be maintained by the Registrar pursuant to and under the terms of the Paying Agency and Registry Agreement.

"Registrar" shall refer to the PDTC, being the registrar appointed by the Issuer to maintain the Register of Bondholders pursuant to the Paying Agency and Registry Agreement.

"SEC" means the Philippine Securities and Exchange Commission or its successor agency/ies.

"SEC Permit" shall mean the Permit to Sell issued by the SEC in connection with the Offer.

"SRC" shall mean the Securities Regulation Code of the Philippines.

"Tax Code" shall mean the Tax Reform Act of 1997, as amended, and its implementing rules and regulations.

"Taxes" shall mean any present or future taxes, including, but not limited to, documentary stamp tax, levies, imposts, filing and other fees or charges imposed by the Republic of the Philippines or any political subdivision or taxing authority thereof, including surcharges, penalties and interests on said taxes, but excluding final withholding tax, gross receipts tax, and taxes on the overall income of the underwriter or of the Bondholders.

"Trustee" shall refer to BPI Asset Management & Trust Group, the entity appointed by the Issuer which shall act as the legal title holder of the Bonds and shall monitor compliance and observance of all covenants of and performance by the Issuer of its obligations under the Bonds and enforce all possible remedies pursuant to such mandate.

EXECUTIVE SUMMARY

This summary highlights information contained elsewhere in this Prospectus. Because it is a summary, it does not contain all of the information that a prospective purchaser should consider before investing. Prospective purchasers should read the entire Prospectus carefully, including the section entitled "Risk Factors and Other Considerations" and the financial statements and the related notes to those statements included in this Prospectus.

The Company

Ayala Land is the real estate arm of Ayala Corporation. Ayala Land was spun-off by Ayala Corporation in 1988 to enhance management focus on Ayala Corporation's existing real estate business and to highlight the value of assets, management and capital structure of the real estate business.

The SEC issued Ayala Land its certificate of incorporation on June 30, 1988. The Ayala Land shares were offered to the public in an initial public offering ("IPO") of primary and secondary shares in 1991 and subsequently listed on the Makati and Manila Stock Exchanges (predecessors of the PSE). The IPO diluted Ayala Corporation's effective interest in Ayala Land to 88.2%. Since then, Ayala Corporation's effective interest has been further reduced to about 52.92% as of March 31, 2008 through, among others, the exercise of stock options by the respective employees of Ayala Corporation and Ayala Land, exchanges under Bonds due 1996 and Bonds due 2001, disposal of Ayala Land shares by Ayala Corporation and Ayala Land's issuance of new shares in relation to its acquisition of interest in companies owning properties in Canlubang, Laguna in 1993. Further reduction of Ayala Corporation's equity in Ayala Land has also been effected by the conversion to Ayala Land common B shares of the entire ₱3 billion convertible Long Term Commercial Paper publicly issued by the Company in December 1994.

As of March 31, 2008, equity attributable to equity holders of Ayala Land, Inc. amounted to ₱ 47.6 billion. It is listed on the PSE with a market capitalization of ₱140 billion as of March 31, 2008 based on Ayala Land's common share closing price of ₱10.75 as of that date.

Ayala Land is the largest real estate conglomerate in the Philippines engaged principally in the planning, development, subdivision and marketing of large-scale communities having a mix of residential, commercial, leisure and other uses. Its principal businesses include planning and development of mixed-use properties, particularly, the subdivision and sale of high-end, middle-income and affordable residential lots and housing units, leisure community development, commercial lots and the development and leasing of retail space and land in planned communities. Ayala Land also builds and sells residential condominium and office buildings, develops industrial and business parks. Ayala Land, through its subsidiaries, also owns hotels and movie theaters, and provides property management and construction services to its own projects and to third parties for industrial building and government infrastructure projects.

The Company's residential products are distributed to a wide range of clients through various sales groups. Ayala Land established a wholly-owned subsidiary, Ayala Land Sales, Inc. (ALSI), which exclusively markets and sells high-end properties and condominium projects developed by Ayala Land. Separate sales groups have also been formed for certain subsidiaries which cater to different market segments such as Community Innovations, Inc. (middle-income housing) and Avida Land Corporation (affordable housing). To complement these sales groups, Ayala Land and its subsidiaries also tap external brokers. Ayala Land International Sales, Inc. (ALISI), created in March 2005, led the marketing, sales and channel development activities and marketing initiatives of the three residential brands abroad. ALISI also signed up marketing partners in Bahrain, Saudi Arabia, London and Spain. Avida established representative offices in Rome and Milan in Italy and in Dubai.

Ayala Land's total consolidated revenues for 2007 amounted to ₱25.71 billion, slightly up by 1% compared to ₱25.56 billion for 2006. Net income attributable to equity holders of Ayala Land however, increased by 13% to ₱4.39 billion in 2007 from ₱3.87 billion in 2006. In the first three months of 2008, consolidated revenues totaled ₱8.23 billion, up 41% year-on-year, while net income attributable to equity holders of Ayala Land was posted at ₱1.83 billion, up 42%.

As of March 31, 2008, Ayala Land had ₱86.28 billion in assets. Its equity attributable to equity holders of Ayala Land amounted to ₱47.56 billion. Ayala Land's cash reserves stood at ₱11.57 billion with a current ratio of 1.72:1 as of such date. Bank debt-to-equity ratio was at 0.21:1, while net cash-to-equity ratio was at 0.03:1.

During the first quarter of 2008, Ayala Land spent ₱4.3 billion for project and capital expenditures, 39% more than the ₱3.1 billion spent during the same period in 2007. Residential Development accounted for 48% of total, followed by Corporate Business with 28% and Shopping Centers at 17% of total capex.

The ₱4.3 billion capex for 1Q08 represents 17% of the full year budget of ₱24.3 billion. The Company expects to execute the bulk of its capex spending program in the second half of the year.

New Projects

In 2008, Ayala Land intends to launch 5,622 residential units, 8% more than the 5,182 units launched in 2007. The Company also plans to aggressively expand its shopping centers as it continues to work on its programmed 322,000 sqm expansion of shopping center area by 2011. The Company is also embarking on a 452,000 sqm expansion of its Business Process Outsourcing buildings by 2011.

Among the recent moves made by Ayala Land to sustain growth momentum in future years include the following:

1) In Makati: The Ayala Center Redevelopment

   The redevelopment program involves the turnover of 7,377 sqm of land located at the corner of Makati Avenue to Kingdom Hotel Investments for the development of a high-end hotel complex.

   By the end of 2008, the Company will launch Glorietta 5 which consists of three levels of retail, five levels of business process outsourcing (BPO) offices and two levels of basement parking.

   Phase 2 of the Greenbelt 5 complex is expected to open in October 2008, complementing Phase 1 of Greenbelt 5 and The Link parking/retail building which opened in October 2007.

Land values have continued to increase in the area. As of end-December 2007, developable land in Makati Central Business District is estimated by Colliers International at ₱300,000 per square meter which is 18% up from 2006 and 38% up from 2005.

2) In Bonifacio Global City: Value Realization

The Company's priming activities include Market! Market!, Serendra and Bonifacio High Street. Projects such as St. Luke's Hospital, Mind Museum, unified Philippine Stock Exchange headquarters and the Shangrila Hotel Complex, will further drive land values upon completion.

3) Canlubang / NUVALI: Full Scale Regional Center

Residential projects were soft launched in October 2007 with strong sales take-up. The first Business Process Outsourcing building in the Technopod complex with total area of 8,700 sqm will be operational by the 4th quarter 2008. The retail component of the development will also be opened by the end of 2008.

On the infrastructure side, the North-South road was already completed. Wi-Fi access at the lakeside area has also been established.

Ayala Land has several malls in the pipeline. 14% more gross leasable area (GLA) is currently under construction which will bring total GLA under the management of the Company to 1.1 million sqm by the end of 2008. Expansion is composed of developments in Q Mall in Angeles City and the Davao Mall, which shall contribute an additional estimated 40,000 GLA by 2011.

At the start of 2008, the Company budgeted ₱24.3 billion for consolidated project and capital expenditures, broken down as follows:

Shopping centers	14%
Corporate business	30%
Residential developments	42%
Strategic landbank management	10%
Visayas-Mindanao	3%
Support businesses	1%
	100%

Project and capital expenditures will be funded from existing cash and cash from operations, pre-selling, additional borrowings and proceeds from the sale of non-core assets. The foregoing includes capital expenditures of unconsolidated affiliates – Alabang Commercial Corporation, Cebu Holdings, Inc., North Triangle Depot Commercial Corporation and ALI Property Partners Corp.

The Company will adjust its budgeted project and capital expenditure and funding programs in response to competition as well as prevailing and anticipated economic conditions.

Ayala Land's Principal Strengths

Ayala Land's principal strength lies in its involvement in highly diversified business segments such as the development of high-end subdivision lots and residential buildings, middle-income residential projects and affordable housing development, as well as in traditional office, BPO office and shopping center leasing, development and sale of industrial lots, hotel operations and construction. Ayala Land holds the dominant share of the market in most of these business segments.

The real estate industry in the Philippines offers rich opportunities across all its sub-sectors. Its bright prospects are anchored on strong fundamentals: a robust economy, rising foreign inflows, particularly from overseas Filipinos, increased affordability and the availability of attractive financing from banks, strong consumption spending in retail, and encouraging demand for office space in the BPO sector.

With over eight decades of experience, Ayala Land is the largest and most experienced real estate developer in the Philippines. Combining leading-edge product innovation with prudent and effective risk management practices, the Company has the ability to manage across a complex portfolio of projects and developments and is able to thrive and prosper through the cyclical nature of the industry. Ayala Land's proven track record includes the development of Makati as the country's premier central business district and Ayala Alabang as a prestigious suburban residential community. It is replicating these successes in areas such as Bonifacio Global City, Cebu, and Canlubang.

The Ayala Land name is synonymous with quality and prestige and is the most widely trusted brand in Philippine real estate. Ayala Land maintains leadership across all product lines – residential subdivision and high-rise, shopping centers, office buildings – and across a broad spectrum of price-points and geographies.

With control of 53 hectares of land in the Makati Central Business District and another 33 hectares in Bonifacio Global City, Ayala Land is a primary beneficiary of the country's asset reflation story. Capital values and yields have been rising with increased demand, falling vacancy rates and continued priming and redevelopment efforts. Providing significant upside is the 1,700-hectare NUVALI in Canlubang being developed as a showcase for environmental, economic and social sustainability.

The Company has a strong balance sheet, supportive strategic shareholders, a variety of available funding sources and the patience to undertake both pocket-sized and large-scale projects or investments that balance the need for sustained earnings growth and long-term net asset value accretion. Ayala Land also draws on the competitive advantage provided by its wholly-owned subsidiaries MDC and APMC, which are the country's largest and most experienced construction and property management companies, respectively.

The Company employs a proven and highly-credible management, architectural and engineering talent pool across all levels of the organization, most with experience across multiple business lines. Ayala Land also consistently ranks among the top Philippine companies in terms of corporate governance standards and best practices. In 2007, the Company was recognized by Asiamoney as "Best for Shareholder Rights and Equitable Treatment" in the country.

Over the last five years, Ayala Land has delivered an average Total Shareholder Return of 33% per annum. It is also by far the largest (by market capitalization) and most liquid property stock in the Philippines.

Ayala Land's Business Strategy

Ayala Land believes that a strong sense of differentiation has allowed it to achieve past success and will again be the key moving forward. Building large, holistic, integrated and sustainable communities with strong governance structures has been its principal strength all these years and has allowed the Company to build the Ayala Land brand into what it is today. Ayala Land was able to leverage off this strength and brand reputation and combine this with modern, flexible formats for residences, office spaces and retail. The Company has been able to offer the Ayala Land brand promise to developments that are increasingly affordable and accessible to more people in more geographical locations. To drive and sustain this market leadership, the Company is focused on a strong product differentiation strategy with four main pillars that constitute the Ayala Land approach to development.

- A holistic approach to land bank and community development that ensures products "work better" because Ayala Land continually engages the surrounding community and local government from planning to implementation. Ayala Land is dedicated to responsible development to ensure that it does not cut corners but instead pays attention even to those things that people would not see. Ayala Land provides good access, the appropriate infrastructure, and wide, open spaces for families to enjoy.
- Long-term commitment which brings above-average value retention and appreciation over time to its projects. Ayala Land strictly observes good governance principles, such as in planning and enforcing zoning rules, and continues to invest in and even do full-scale redevelopment of some of its projects.
- Staying ahead of the curve in anticipating global real estate trends which it makes relevant to the Philippine setting. In terms of sustainability and "green" buildings, which are increasingly demanded by environmentally concerned buyers, Ayala Land has consciously adhered to the same principles for a long time, and is taking full and active leadership in this area.
- Leveraging the partnerships it has nurtured for decades, and pursuing new partnerships with organizations that share the same long-term orientation as Ayala Land moves forward to newer geographies and unprecedented expansion.

The success of Ayala Land has been built on a partnership approach. Ayala Land has nurtured long term relationships with customers, landowners, tenants, its employees, the local government and NGO communities, and providers of capital. Ayala Land shares values and a common long-term orientation that allows all parties concerned to prosper over time. Many of the best names in local and international retailing anchor its shopping centers, and Ayala Land is the partner of choice for strategic new partners, such as the Shangri-La and Kingdom Hotels groups who want to make significant new investments in the country and help prime the Company's strategic landbank areas.

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

Ayala Land's Principal Shareholder

Ayala Land's principal shareholder, Ayala Corporation, effectively owns 52.92% of Ayala Land as of March 31, 2008, and is one of the Philippines' oldest conglomerates, with diversified operations in real estate and hotels, telecommunications, financial services, water distribution, electronics manufacturing, information technology and automotive dealerships.

Ayala Land's Principal Executive Offices

Ayala Land's executive offices are at the 31st Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The telephone number at this address is (632) 848-5643 and the fax number is (632) 759-4566.

Risk Factors

Prospective investors should consider carefully all of the information set forth in this Prospectus and, in particular, prospective purchasers should evaluate the specific factors set forth under the section "Risk Factors and Other Considerations" of this Prospectus for risks involved in the purchase of the Bonds. These factors may be summarized into those that pertain to the business and operations of Ayala Land, in particular, and those that pertain to the over-all political, economic, and business environment in the Philippines, in general.

As a real estate developer, Ayala Land competes with other developers and developments to attract purchasers of land and condominiums, retail and office tenants, and clientele for the retail outlets, restaurants and hotels in its commercial centers in terms of reputation, reliability, price, and the quality and location of the community in which the relevant project is located. Ayala Land's successful financial and operating performance as a real estate company will impact on its ability to refinance or repay its debt, including the Bonds. Moreover, the issuance of the Bonds should be evaluated in terms of its impact on the consolidated indebtedness of Ayala Land and the operating risks inherent in a further increase in its debt.

Ayala Land is further subject to certain debt covenants for the Bond issuance and its other existing debt. Ayala Land's failure to comply with these covenants could cause a default which, if not waived, could result in the debt becoming immediately due and payable. If any amount outstanding were to be accelerated, it could potentially trigger a cross-default under substantially all of Ayala Land's debt, in which case Ayala Land may not be able to perform its payment obligations under the Bonds. In such case, the Bonds, being unsecured debt, will be effectively subordinated in right of payment to all secured debt of Ayala Land to the extent of the value of the assets securing such debt and all debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

External factors affecting Ayala Land's businesses include the impact of current and future Philippine laws and regulations on certain aspects of real estate development, such as environment, health and safety, the effect of natural catastrophes, and political or economic instability in the country, including foreign exchange rate fluctuations which could impact on the acquisition cost of certain dollar-denominated construction materials and equipment necessary for Ayala Land's business.

Summary of Financial and Operating Data

The following table sets forth financial and operating information and other data of Ayala Land. Prospective purchasers of the Bonds should read the summary financial data below together with the financial statements and the notes thereto, as well as the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Prospectus. The summary financial data for the two years ended December 31, 2007 are derived from Ayala Land’s audited financial statements, including the notes thereto, which are included in this Prospectus. Summary financial data for the first three months of 2007 and 2008 are derived from Ayala Land’s unaudited financial statements. Ayala Land’s financial statements are prepared in compliance with the Philippine Financial Reporting Standards (PFRS).

	UNAUDITED For the three months ended March 31		**AUDITED For the year ended December 31**	
(in million Pesos)	**2008**	**2007**	**2007**	**2006**
Income Statement Data				
Revenues	8,230	5,853	25,707	25,559
Costs and expenses				
Real estate	4,676	3,271	14,230	15,449
Hotel operations	220	222	913	722
General & administrative	588	526	2,715	2,606
Interest and other charges	292	279	1,796	1,093
Subtotal	5,776	4,298	19,654	19,870
Income before Income tax	2,454	1,555	6,053	5,689
Provision for income tax	514	467	1,556	1,610
Income before income associated with noncurrent assets held for sale	1,940	1,088	4,497	4,079
Income associated with noncurrent assets held for sale	-	599	599	155
Net Income	1,940	1,687	5,096	4,234
Net Income attributable to:				
Equity holders of Ayala Land	1,830	1,288	4,386	3,866
Minority interests	110	399	710	368
	1,940	1,687	5,096	4,234
Unappropriated retained earnings,				
Beginning	21,405	19,973	19,973	17,951
Cash dividends	-	-	(782)	(1,843)
Stock Dividends	-	-	(2,172)	0
Net Income attributable to equity holders of Ayala Land	1,830	1,288	4,386	3,866
Unappropriated retained earnings, end	23,235	21,261	21,405	19,973
Earnings per share (diluted)*				
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	₱0.14	₱0.08	₱0.31	₱0.29
Net income attributable to equity holders of Ayala Land	₱0.14	₱0.10	₱0.33	₱0.30

(in million Pesos)	UNAUDITED As of March 31 2008	AUDITED As of December 31 2007	2006
Balance Sheet Data			
Cash and cash equivalents	11,573	11,272	4,631
Land and improvements	17,026	16,399	16,875
Investment properties – net	13,845	13,793	13,033
Total assets	86,280	82,981	78,250
Long-term debt-current portion	2,528	2,377	3,564
Long-term debt (net of current portion)	5,950	6,150	7,718
Total liabilities	33,652	32,236	31,012
Equity:			
Attributable to equity holders of Ayala Land	47,557	45,705	40,651
Minority interests	5,071	5,041	6,587
	52,628	50,746	47,238

* Based on weighted average number of shares (in thousands): 13,062,586 as of March 31, 2008; 13,054,986 as of March 31, 2007; 13,177,865 as of December 31, 2007; and 13,045,404 as of December 31, 2006.

SUMMARY OF THE OFFERING

Issuer	Ayala Land, Inc.
Instrument	Fixed rate bonds (the “Bonds”) in the aggregate principal amount of up to ₱4,000,000,000.00.
Use of Proceeds...........	The net proceeds of the issue shall be used by Ayala Land for general corporate purposes.
Issue Price	100% of face value
Form and Denomination of the Bonds..................	The Bonds shall be issued in scripless form in minimum denominations of ₱50,000.00 each, as a minimum, and in multiples of ₱10,000.00 thereafter.
Offer Period...................	The Offer shall commence on August 4, 2008 and end at 3:00 pm on August 8, 2008.
Issue Date	August 13, 2008
Maturity Date	August 14, 2013
Interest Rate.................	Fixed interest rate of 8.75% p.a.
Interest Payment……….	Interest on the Bonds shall be calculated on a 30/360-day count basis and shall be paid quarterly in arrears on November 14, February 14, May 14 and August 14 of each year commencing on November 14, 2008.
Final Redemption………	The Bonds shall be redeemed at 100% of face value on the Maturity Date

RISK FACTORS AND OTHER CONSIDERATIONS

GENERAL RISK WARNING

- *The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities.*
- *Past performance is not a guide to future performance.*
- *There is an extra risk of losing money when securities are bought from smaller companies. There may be a big difference between the buying price and the selling price of these securities.*
- *An investor deals in a range of investments each of which may carry a different level of risk.*

PRUDENCE REQUIRED

The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. An investor should undertake its, his or her own research and study on the trading of securities before commencing any trading activity. Investors may request information on the securities and Issuer thereof from the SEC which are available to the public.

PROFESSIONAL ADVICE

An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of the securities to invest in or the nature of risks involved in trading of securities specially those high risk securities.

RISK FACTORS

An investment in the Bonds described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider the following factors, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Bonds. This Prospectus contains forward-looking statements that involve risks and uncertainties. Ayala Land adopts what it considers conservative financial and operational controls and policies to manage its business risks. Ayala Land's actual results may differ significantly from the results discussed in the forward-looking statements. See section "Forward-Looking Statements" of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of Ayala Land, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below.

1. Ayala Land faces a highly competitive business environment

Ayala Land is subject to significant competition in each of its principal businesses. Competitive pressure is expected to remain as large property developers focus on the value-conscious middle market. Sustained demand growth is not likely to occur without real improvement in employment and real incomes. 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.

Ayala Land competes with other developers and developments to attract purchasers of land and residential units, office and retail tenants as well as other construction and property management firms, and hotel operators.

Land and Residential Sales

With respect to 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. With respect to its horizontal residential housing developments, Ayala Land competes for buyers based on quality of projects and reasonable pricing of units.

(a) High-end residential

Ayala Land continues to be the leader in the high-end residential market. It competes with a price premium over other high-end developers but justifies it with superior locations, workmanship quality, timely project completions, and overall reputation in the real estate industry. Through these, it has been able to keep well ahead of other high-end players.

Real estate has always been a major investment vehicle for the affluent. However, in a volatile environment, the high-end market tends to "wait and see," or they simply choose to place their money in other investment instruments.

The US economic slowdown has not significantly impacted residential sales for April YTD 2008. Sales of high-end condominium projects like One Serendra-East Tower and Senta have been robust.

Ayala Land has mitigated the market risks it faces through carefully planned project launches, clear product differentiation, product innovation, and increased market expansion through overseas sales.

(b) Middle-income residential

In the middle-income market segment, the environment remains challenging due to the number and aggressive moves of competitors. However, Ayala Land's middle-income residential business (through its subsidiary, CII) continued its robust growth with booked units increasing by 53% to 1,198 in 2007 from 785 in 2006. Booked units also increased to 292 in the first quarter of 2008, 76% higher than bookings over the same period in the previous year. Demand is expected to remain strong for several reasons: (a) stable economic outlook, (b) strong buying interest from overseas-based Filipinos, and (c) emerging preference for condominium living. Ayala Land remains confident that it can compete effectively in this segment because of its superior product offering in terms of location, amenities, features, after-sales service, and very competitive pricing and payment terms.

(c) Affordable residential

Ayala Land offers affordable residential projects through its wholly-owned subsidiary, Avida. In this segment, there is an increase in activities and marketing efforts of major developers to reach their desired target market. With weakening purchasing power due to increase in costs fueled by energy and borrowing cost increases, focused efforts are required since potential buyers are harder to come by. The above-mentioned factors reduce the interest and capacity for purchase of the regular Filipino as each peso earned is allocated less on housing needs and more on the basic commodities needed for day to day living.

Positive factors, on the other hand, spurring interest because of their long-term effects in the real estate industry:

- Increased developments north of Manila due to the North Luzon Expressway and the opening of the Subic-Clark tollway;
- Rehabilitation of the South Luzon Expressway to spur growth in the Cavite, Laguna, Batangas area south of Metro Manila;
- Increasing purchases by the overseas-based Filipino market due to marketing and promotions by various developers; and
- Availability of financing from the Home Development Mutual Fund (Pag-IBIG).

Office Space and Retail Rental

With respect to 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 owner, the quality of support services provided by the property manager, and rental and other charges. Lease rates and occupancy levels have improved because of the decreasing vacancy levels in the Makati Central Business District where Ayala Land office buildings are located. According to research data provided by Colliers International Philippines, vacancy rate for all grades as of December 2007 is estimated at 2.3%. The improvement in the occupancy rate is attributable to space take-up by call centers and BPO firms. Lease rates have likewise gradually improved because of the dwindling office supply.

With respect to its retail properties for lease, 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 and/or operator of the retail center, as well as rental and other charges. The market for shopping centers has become especially competitive and the number of competing properties is expected to grow. Some competing shopping centers are located within relatively close proximity of each of Ayala Land's commercial centers.

Ayala Land, nonetheless, has registered healthy occupancy rates and favorable lease rates.

Industrial Property Business

The industrial property business is affected by oversupply as well as limited industrial expansion and declining foreign investments. Overall, the industrial property segment is not likely to show significant demand improvement in the medium term.

Ayala Land, through Laguna Technopark, Inc., remains the preferred location for locators and has been successfully expanding its offerings at a time when industrial parks in the Calabarzon area have been experiencing the effects of an oversupply of manufacturing and processing facilities.

Hotel Operations

Although the hotel industry has seen increasing visitor arrivals in the past several years, it is generally subject to the slowdown in business activity due to global and local political turmoil, rise in oil prices, and security concerns. But the growth experienced in call center/BPO business and renewed interest in mining provide some resilience to the hotel industry. According to the Department of Tourism, foreign tourists in 2007 numbered 3.1 million, a 9% increase over the number of foreign tourists in 2006.

Infrastructure, Construction and Property Development

Ayala Land's construction business is exposed to any potential sector-wide slowdown in construction activities.

Notwithstanding stiff competition in the industry, Ayala Land intends to maintain and enhance its position as the leading property developer in the Philippines by continuing its over-all business strategy of developing large-scale, mixed-use integrated communities that perpetuate its strong market presence while ensuring a steady revenue growth for the Company. Furthermore, the Company has started to venture into stand-alone opportunities like the TriNoma, The Columns and BPO buildings in various locations within and outside Makati and Bonifacio Global City business districts. Ayala Land further intends to diversify its revenue base by expanding its real estate business into different markets and geographic areas in the country where there are significant growth opportunities or where its proposed developments complement its existing real estate business.

2. Ayala Land's leverage creates a number of operating risks and might affect its ability to repay the Bonds

The increase in debt of Ayala Land could have certain adverse consequences. For example, it could:

- reduce Ayala Land's ability to service its existing debt obligations, including the Bonds;
- affect Ayala Land's ability to obtain additional financing for working capital, capital expenditures, debt service and other purposes;
- require Ayala Land to divert a substantial portion of its cash flow from operations to debt service;

- affect Ayala Land's flexibility in reacting to and taking advantage of developments and opportunities in the Philippine economy, the Philippine property development industry and its business; or
- place Ayala Land at a competitive disadvantage to its competitors that have less debt.

As of March 31, 2008, ₱2 billion of Ayala Land's consolidated indebtedness of ₱10.2 billion was evidenced by public instruments. Any such debt may, by mandatory provision of law, rank ahead of the Bonds in the event of the insolvency or liquidation of Ayala Land.

Ayala Land's ability to refinance or repay its debt depends on its successful financial and operating performance, which will be affected by a number of factors, many of which are beyond its control. If Ayala Land is unable to refinance its debt, obtain necessary waivers or obtain new financing under these circumstances, Ayala Land would have to consider various other financing options such as sale of assets, procuring additional capital and other options available to Ayala Land under applicable law. Ayala Land might also have to modify, delay or abandon its development and expansion plans. See sections "Management's Discussion and Analysis of Financial Condition and Results of Operation" and "Description of Certain Other Debt" of this Prospectus.

3. Ayala Land is subject to certain debt covenants

The Bond Agreements and agreements for certain debts of Ayala Land contain covenants that limit its ability to, among other things:

- incur additional long-term debt to the extent that such additional indebtedness results in a breach of a required financial ratio;
- materially change its nature of business;
- merge, consolidate, or dispose of substantially all its assets; and
- encumber, mortgage or pledge some of its assets.

Complying with these covenants may cause Ayala Land to take actions that it otherwise would not take or not take actions that it otherwise would take. Ayala Land's failure to comply with these covenants would cause a default, which, if not waived, could result in the debt becoming immediately due and payable. In this event, Ayala Land may not be able to repay or refinance such debt on terms that are acceptable to Ayala Land or at all. See sections "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Description of Certain Other Debt", and "Description of the Bonds" of this Prospectus.

Ayala Land has historically taken a prudent stance in managing its debt obligations by ensuring that any corporate act, whether or not performed in the ordinary course of business, do not violate any existing debt covenants. In the event that any significant corporate act or business transaction is seen to potentially affect its debt covenants that would lead to accelerating the payment of existing debt, Ayala Land shall endeavor to obtain the necessary waivers in accordance with relevant debt agreements.

4. The occurrence of certain events of default under Ayala Land's other debt could affect Ayala Land's ability to repay the Bonds

A significant portion of the debt of Ayala Land contains terms which allow a lender to accelerate Ayala Land's debt if any event or change in circumstances occurs which, in the sole opinion of such lender, would materially impair Ayala Land's ability to repay its debt. If any amount outstanding were to be accelerated, it could potentially trigger a cross-default under substantially all of the Company's debt. In which case, it may not be able to perform its payment obligations under the Bonds.

Ayala Land has not defaulted in any of its debt obligations. It shall continue its strategy of compliance with its debt obligations by adopting the necessary internal controls in financial management and adopting good corporate governance policies that will ensure that transactions do not violate debt covenants.

5. The Bonds will be effectively subordinated to other debt

The Bonds will be effectively subordinated in right of payment to all secured debt of Ayala Land to the extent of the value of the assets securing such debt and all debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

Under Philippine law, in the event a borrower submits to insolvency or liquidation proceedings in which the borrower's assets are liquidated, unsecured debt evidenced by a public instrument, as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt not evidenced by a public instrument. Debt becomes evidenced by a public instrument when it has been acknowledged by the creditor and the debtor before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a *jurat* (a statement by one party of the circumstances in which an affidavit was made) may also be sufficient to make a document a public instrument. Accordingly, it may be possible for debt to become evidenced by a public instrument through the unilateral action of a creditor without the knowledge of the borrower.

As of March 31, 2008, ₱2.0 billion of Ayala Land's consolidated indebtedness of ₱10.2 billion was evidenced by a public instrument. Any such debt may, by mandatory provision of law, rank ahead of the Bonds in the event of the insolvency or liquidation of Ayala Land.

Notwithstanding the foregoing, investors are assured of Ayala Land's continuing track record of prudent financial management which has allowed it to be in a net cash-to-equity position of 0.03:1 as of March 31, 2008. Thus, in the unlikely event that Ayala Land is dissolved, there will be sufficient assets for disposition that will meet all its debt obligations, whether secured or unsecured.

6. Ayala Land from time to time considers business combination alternatives

Although Ayala Land's loan covenants contain certain restrictions on business combinations, Ayala Land will be able to engage in certain types of combinations. Business combinations involve financial and operational risks and could result in significant changes to Ayala Land's operations, management and financial condition.

These changes could adversely affect Ayala Land's ability to fulfill its obligations under the Bonds and reduce the value of the Bonds.

Ayala Land takes into consideration its existing debt obligations and concomitant debt covenants in making any major business investments or acquisitions. Any financial commitments under such business combinations are evaluated in terms of the inflow of revenues of such projects and their ability to service their own financial requirements once fully operational.

7. Successful development of Ayala Land's projects is dependent on various factors

There is no certainty that Ayala Land's current and future projects will be implemented as planned and within the projected timetable. Real estate developments are subject to risks such as delays in obtaining financing and/or finalizing project plans and/or obtaining approvals, increases in construction costs, natural calamities and/or market downturns hereinafter described. Ayala Land's future financial performance may be significantly affected by factors that limit its ability to finance and complete its current and future projects in a timely and cost-effective manner and to market them successfully.

Ayala Land continually looks for growth opportunities in different market segments and geographic areas in order that any negative impact on a particular market segment or geographic area by reason of political, economic or other factors will allow it to pursue its projects or other developments not affected thereby, thus providing it with a steady revenue base.

8. Secondary trading of the Bonds subject to various market factors

The Company plans to list the Bonds in the PDEx to provide price transparency and liquidity to the Bondholders.

As with other fixed income securities, the Bonds could trade at prices higher or lower than the initial offering price due to prevailing interest rates, Ayala Land's operations, and the overall market for debt securities, among others. It is possible that a selling Bondholder would receive sales proceeds lower than his initial investment should a Bondholder decide to sell his Bonds prior to maturity.

9. Ayala Land's business is affected by regulation in the Philippines

Ayala Land operates a material part of its businesses in a regulated environment. Ayala Land is subject to numerous environmental laws and regulations relating to the protection of the environment and human health and safety. These include laws and regulations governing air emissions, water and waste water discharges, odor emissions and the management of, disposal of and exposure to hazardous materials.

Ayala Land cannot predict what environmental or health and safety legislation or regulations will be amended or enacted in the future; how existing or future laws or regulations will be enforced, administered or interpreted; or the amount of future expenditures that may be required to comply with these environmental or health and safety laws or regulations or to respond to environmental claims.

Ayala Land, through its construction and property management arms, keeps itself abreast of the latest technologies that enable it to implement existing sanitation, environment and safety laws and regulations at cost-efficient means, a strategy which has earned Ayala Land awards from several local and international organizations.

10. Natural catastrophes may affect Ayala Land's businesses adversely

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, volcanic eruptions and earthquakes, the occurrence of such natural catastrophes in the future may materially disrupt and adversely affect the business operations of Ayala Land.

Although there can be no assurance that it will be adequately compensated for all damages and economic losses resulting from natural catastrophes, Ayala Land maintains comprehensive insurance against natural catastrophes to cover its various developments.

11. Government and Economic Factors

The growth and profitability of Ayala Land will be influenced by the general political situation in, and the state of the economy of, the Philippines. Any political or economic instability in the future may have a negative effect on the financial results of Ayala Land and the level of dividends paid and distributions made by Ayala Land's subsidiaries.

Political Considerations

The Philippines has from time to time experienced political and military instability. In February 1986, a peaceful uprising ended the 21-year rule of President Ferdinand Marcos and installed Corazon Aquino as President of the Philippines. Between 1986 and 1989, there were a number of attempted *coups d'etat*, none of which were successful. Political conditions in the Philippines were generally stable during the 1990s following the election of Fidel V. Ramos as President in 1992.

In 2000, Ramos' successor, Joseph Estrada, was subject to allegations of corruption, resulting in impeachment proceedings, mass public protests, withdrawal of support of the military, and Estrada's removal from office. The Vice President, Gloria Macapagal-Arroyo, was sworn in as President on January 20, 2001. In May 2001, violent clashes between government forces and Estrada loyalists occurred when Estrada was imprisoned to face charges of plunder.

On July 23, 2003, a group of more than 200 armed soldiers took over and occupied the Oakwood Premier Ayala Center, a serviced apartment project owned by Makati Property Ventures, Inc., a former subsidiary of Ayala Hotels, Inc., and located in the Ayala Center at Makati City. The group accused the Arroyo administration of corruption and terrorist acts. After hours of negotiations, the group agreed to return to barracks. The soldiers have been demoted following their prosecution in the court martial proceedings.

The Philippines has also been subject to sporadic terrorist attacks in the past three years. The Philippine army has been in conflict with the Abu Sayyaf organization which has been identified as being primarily responsible for kidnapping and terrorist activities in the Philippines. A series of bombings in the southern part of the Philippines also occurred in 2004. On February 14, 2005, three bomb explosions in the Makati financial district in Manila, Davao City and General Santos City resulted in the deaths of eight persons and more than 100 people were injured.

On May 10, 2004, national presidential elections were held and, on June 24, 2004, pursuant to the Constitution, a joint session of Congress declared Gloria Macapagal-Arroyo as President-elect. President Macapagal-Arroyo began her six-year term on June 30, 2004. Certain opposition candidates including defeated presidential candidate Fernando Poe, Jr. questioned the election results, alleging massive fraud and disenfranchisement of voters. On July 23, 2004, Mr. Poe petitioned the Philippine Supreme Court, acting as the Presidential Electoral Tribunal, to order a recount of votes cast in more than 118,000 precincts nationwide. The petition was eventually dismissed following death of Mr. Poe on December 14, 2004.

In 2005, the country again experienced political tension following President Macapagal-Arroyo's admission that she called a high ranking official of the Commission on Elections during the May 2004 election campaign. This was followed by the resignation of the Administration’s key Cabinet officials as well as the filing of three impeachment complaints alleging that she rigged the 2004 elections, none of which prospered.

A new impeachment complaint was filed on October 5, 2007 against President Arroyo in connection with bribery allegations involving a government contract awarded to a Chinese telecommunications company. Thus far, no substantial evidence has been found directly linking President Arroyo to the alleged bribery.

On November 29, 2007, a Philippine Senator and former lieutenant, Antonio Trillanes IV led a group of military officers in walking out of a trial for the occupation of the Oakwood Premier Ayala Center and seizing a hotel in Makati to demand President Arroyo to step down. The group peacefully surrendered after a 6-hour standoff with government forces.

The next presidential elections will be held in 2010 and a change in administration could possibly result in instability. Furthermore, there is no assurance that the future governments will adopt economic policies conducive to sustaining economic growth. Any future economic, political or social instability in the Philippines could adversely affect Ayala Land’s business, financial condition or results of operations.

Economic Considerations

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency, imposition of exchange controls, debt restructuring and electricity shortages and blackouts.

The regional Asian financial crisis in 1997 resulted in, among others, the depreciation of the Philippine peso, higher interest rates, slower growth and a reduction in the country’s credit ratings. Since the Asian financial crisis, the country experienced a ballooning budget deficit, volatile exchange rates and a relatively weak banking sector.

In November 2005, a new value-added tax (VAT) law took effect, expanding VAT coverage to previously exempt products and services; and in February 2006, the government increased the VAT rate to 12% from 10%. With tighter spending and improved revenue collection, the government was able to reduce the Philippines' budget deficit from ₱146.5 billion in 2005 to ₱62.2 billion in 2006 and ₱9.4 billion in 2007.

Real gross domestic product ("GDP") rose by 5.4% in 2006, versus a 4.9% growth registered in 2005. In 2007, GDP posted a 7.3% clip, the fastest in three decades, due to the robust performance of the industrial and services sectors.

While the Philippine economy performed well in 2007, macroeconomic conditions significantly changed in the first quarter of 2008. Inflation rate in the first three months of 2008 rose to an average of 6%, compared to an annual average of 3% in 2007. Rising food commodity and oil prices globally have driven up consumer prices domestically.

Compounding the country's inflation woes, the Philippine Peso depreciated in the first quarter of 2008 as foreign investors shied away from emerging markets as a spillover of the subprime mortgage crisis in the United States. From ₱40.65:$1.00 at the end of January 2008, the Philippine Peso weakened to ₱41.87:$1.00 by the end of March 2008.

Should economic conditions of the Philippines deteriorate, such deterioration could materially and adversely affect Ayala Land's financial condition and results of operations.

To mitigate the abovementioned risks, Ayala Land shall continue to adopt what it considers conservative financial and operational controls and policies within the context of the prevailing business, economic, and political environments taking into consideration the interests of its customers, stakeholders and creditors.

PHILIPPINE TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Bonds in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus.

The tax treatment of a holder of Bonds may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Bondholder.

PROSPECTIVE PURCHASERS OF THE BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A BOND, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine resident individuals from the Bonds are thus subject to income tax, which is withheld at source, at the rate of 20%. Generally, interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% withholding tax while that received by non-resident foreign individuals not engaged in trade or business is taxed at the rate of 25%. Interest income received by domestic corporations and resident foreign corporations is taxed at the rate of 20%. Interest income received by non-resident foreign corporations is subject to a 35% final withholding tax. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

TAX-EXEMPT STATUS

Bondholders who are exempt from or are not subject to final withholding tax on interest income may claim such exemption by submitting the necessary documents. Said Bondholder shall submit the following requirements to the Registrar, or to the underwriters or selling agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (i) certified true copy of the tax exemption certificate issued by the Bureau of Internal Revenue; (ii) a duly notarized undertaking, in prescribed form, declaring and warranting its tax-exempt status, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificate and agreeing to indemnify and hold the Issuer free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption or reasonable evidence of such exemption to the Registrar.

Bondholders may sell their Bonds any time to persons of similar tax status (*i.e.*, tax-exempt to tax-exempt, taxable to taxable); otherwise, such Bondholder may sell only for value on an Interest Payment Date. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Issuer, within three days from settlement date: (i) a written notification of the sale or purchase, including the tax status of the selling or buying party, and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Issuer for any tax or change that may later on be assessed from the Issuer on account of such transfer.

VALUE-ADDED TAX

Gross income arising from the sale of the Bonds in the Philippines by Philippine-registered dealers in securities shall be subject to a 12% value-added tax.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period referred above is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debentures and certificates of indebtedness issued by Philippine companies, such as the Bonds, at the rate of ₱1.00 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds.

TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS

Income Tax

Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) shall not be subject to income tax.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000. A Bondholder shall be subject to donor's tax on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱100,000 and where the donee or beneficiary is other than a stranger. For this purpose, a "stranger" is a person who is not a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor and lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

USE OF PROCEEDS

Ayala Land expects that the net proceeds of the Offering shall amount to approximately ₱ 3,957,236,845 after fees, commissions and expenses. Proceeds from the Offering are not projected to pay for any specific transaction but shall be used for general corporate purposes.

Net proceeds from the Offering is estimated as follows:

		Total
Estimated proceeds from the sale of the Bonds		₱4,000,000,000.00
Less: Estimated expenses		
Documentary Stamp Tax	20,000,000.00	
SEC Registration		
SEC Registration Fee	1,562,500.00	
SEC Legal Research and Publication Fee	15,625.00	
Underwriting and Other Professional Fees		
Underwriting Fee	16,000,000.00	
Legal Fee – Joint Lead Managers and Underwriters	900,000.00	
Rating Fee	3,640,000.00	
Listing Application Fee*	50,000.00	
Printing Cost	300,000.00	
Trustee Fees**	20,000.00	
Paying Agency and Registry Fees***	75,000.00	
Investors' Conference Fee	100,000.00	
Miscellaneous fees	100,000.00	
Estimated net proceeds to Ayala Land, Inc.		₱3,957,236,875

** Aside from the Listing Application Fee, the Issuer will be charged the first year Annual Maintenance Fee in advance upon the approval of the Listing, pro-rated from listing date to December 31, 2008*
*** In addition to the Opening Trustee Fee, the Issuer will pay a retainer fee of ₱62,500 per quarter.*
**** The Paying Agency fee amounting to ₱10,000 is payable every interest payment date. The Registrar will charge a monthly maintenance fee based on the face value of the Bonds and the number of Bondholders.*

Net Proceeds from the Offering will be used by Ayala Land to partially support its consolidated project and capital expenditure program for 2008. At the start of this year, Ayala Land budgeted a total of ₱24.3 billion for consolidated project and capital expenditures to be spent this year, broken down as follows:

Residential developments	**42%**
Ongoing and new residential projects such as Ayala Westgrove Heights, Abrio, Anvaya, The Residences at Greenbelt, Serendra, Celadon, Marquee Place, The Columns at Legazpi Village, Senta, Avida Settings, Avida Towers Makati West, Avida Towers New Manila, Avida Towers San Lazaro	

Corporate business BPO offices which includes Dela Rosa E-Services (Tower 1), UP North Science and Technology Park, Nuvali Technopad Building 1, Glorietta 5 BPO, San Lazaro BPO, Bonifacio Global City BPO and Laguna Technopark expansion	**30%**
Shopping centers Ayala Center redevelopment, Q Mall and Davao Mall	**14%**
Strategic landbank management Bonifacio Global City and Nuvali	**10%**
Visayas-Mindanao Ayala Center Cebu lagoon redevelopment, Cebu eBloc, Amara and Alegria Hills	**3%**
Support businesses Hotel refurbishment and acquisition of equipment	**1%**
	100%

Ayala Land intends to launch 5,622 residential units, 8% more than the 5,182 units launched in 2007. Ayala Land also plans to aggressively expand its shopping centers as it continues to work on its programmed 236,000 sqm expansion of shopping center area from 2007 to 2011. Ayala Land is also embarking on a 652,000 sqm expansion of its Business Process Outsourcing buildings by 2011.

In addition to the Net Proceeds from the Offering, project and capital expenditures will be funded from existing cash and cash from operations, pre-selling, additional borrowings and proceeds from the sale of non-core assets.

The Company will adjust its budgeted project and capital expenditure and funding programs in response to competition as well as prevailing and anticipated economic conditions.

DETERMINATION OF OFFERING PRICE

The Bonds shall be issued on a fully-paid basis and at an issue price that is at par.

PLAN OF DISTRIBUTION

BPI Capital Corporation ("BPI Capital"), The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), and Land Bank of the Philippines ("Land Bank), pursuant to an Underwriting and Issue Management Agreement with Ayala Land to be executed on August 1, 2008 (the "Underwriting and Issue Management Agreement"), have agreed to act as the Joint Lead Managers and Underwriters for the Offer and as such, distribute and sell the Bonds at the Issue Price, and have also committed to underwrite up to Four Billion Pesos (₱4,000,000,000.00) on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

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

BPI Capital	₱1,333,350,000.00
HSBC	1,333,300,000.00
Land Bank	1,333,350,000.00
	₱4,000,000,000.00

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

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

Except for BPI Capital, the Joint Lead Managers and Underwriters have no direct relations with Ayala Land in terms of ownership by either of their respective major stockholder/s. BPI Capital is a wholly-owned subsidiary of the Bank of the Philippine Islands (BPI). Ayala Land and BPI are affiliated companies, each having Ayala Corporation as a major shareholder.

SALE AND DISTRIBUTION

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

OFFER PERIOD

The Offer Period shall commence on August 4, 2008 and end at 3:00 p.m. of August 8, 2008.

APPLICATION TO PURCHASE

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

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

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

MINIMUM PURCHASE

A minimum purchase of Fifty Thousand Pesos (₱50,000.00) shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of Ten Thousand Pesos (₱ 10,000.00).

ALLOTMENT OF THE BONDS

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

REFUNDS

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

UNCLAIMED PAYMENTS

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

PURCHASE AND CANCELLATION

The Issuer may purchase the Bonds at any time in the open market or by tender or by contract at any price without any obligation to make pro-rata purchases from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

SECONDARY MARKET

Ayala Land intends to list the Bonds in the PDEx. Ayala Land may purchase the Bonds at any time in the PDEx trading system without any obligation to make pro-rata purchases of Bonds from all Bondholders.

REGISTRY OF BONDHOLDERS

The Bonds shall be issued in scripless form and shall be registered in the scripless Register of Bondholders maintained by PDTC. A Master Certificate of Indebtedness representing the Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Bonds shall be shown in the Register of Bondholders to be maintained by the designated registrar for the Bonds. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Register of Bondholders.

DESCRIPTION OF THE BONDS

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

The issue of up to ₱4,000,000,000.00 aggregate principal amount of 8.75% p.a. fixed rate bonds (the "Bonds") was authorized by a resolution of the Board of Directors of Ayala Land, Inc. (the "Issuer") dated May 12, 2008. The Bonds shall be constituted by a Trust Agreement executed on August 1, 2008 (the "Trust Agreement") entered into between the Issuer and BPI Asset Management and Trust Group (the "Trustee", which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement). The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement. A paying agency and registry agreement executed on August 4, 2008 (the "Paying Agency and Registry Agreement") in relation to the Bonds among the Issuer, The Philippine Depository and Trust Corp as paying agent (the "Paying Agent"), and as registrar (the "Registrar"). The Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of Fifty Thousand Pesos (₱50,000.00) in multiples of Ten Thousand Pesos (₱10,000) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000) in the secondary market. The Bonds shall mature on August 14, 2013, unless earlier redeemed by the Issuer pursuant to the terms thereof and subject to the provisions on redemption and payment below.

PDTC has no interest in or relation to Ayala Land which may conflict with its role as Registrar for the Offer. BPI Asset Management and Trust Group has no interest in or relation to the Ayala Land which may conflict with the performance of its functions as Trustee. BPI Asset Management and Trust Group is a business unit of Bank of the Philippine Islands ("BPI"). BPI and Ayala Land are affiliated companies, each having Ayala Corporation as a major shareholder. BPI Capital Corporation is a wholly owned subsidiary of BPI

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

Form and Denomination

The Bonds are in scripless form, and shall be issued in denominations of Fifty Thousand Pesos (₱50,000) each, as a minimum, and in multiples of Ten Thousand Pesos (₱10,000) thereafter and traded in denominations of Ten Thousand Pesos (₱10,000) in the secondary market.

Title

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

BOND RATING

The Bonds have been rated PRS Aaa by Philippine Rating Services Corporation ("PhilRatings"), having considered Ayala Land's business plans, growth prospects, portfolio of rental properties and cashflows. The rating denotes the smallest degree of investment risk where interest payments are protected by a large or by an exceptionally stable margin and principal is secured. 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.

The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the Bonds are outstanding. After Issue Date, the Trustee shall monitor the compliance of the Bonds with the regular annual reviews.

TRANSFER OF BONDS

Register of Bondholders

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

Transfers; Tax Status

Bondholders may transfer their Bonds at anytime, regardless of tax status of the transferor vis-à-vis the transferee. Should a transfer between Bondholders of different tax status occur on a day which is not an Interest Payment Date, tax exempt entities trading with tax-paid entities shall be treated as tax-paid entities. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under *"Payment of Additional Amounts; Taxation",* below, within three days from the settlement date for such transfer.

Secondary Trading of the Bonds

The Issuer intends to list the Bonds in PDEx for secondary market trading. Secondary market trading in PDEx shall follow the applicable PDEx rules and conventions, among others, rules and conventions on trading and settlement, Upon listing of the Bonds with PDEx, investors shall course their secondary market trades through PDEx Brokering Participants for execution in the PDEx Public Market Trading Platform in accordance with PDEx Trading Rules, Conventions and Guidelines, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The PDEx rules and conventions are available in the PDEx website (www.pdex.com.ph). An Investor Frequently Ased Questions (FAQ) discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

RANKING

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

INTEREST

Interest Payment Dates

Each Bond bears interest on its principal amount from and including Issue Date at the rate of 8.75% p.a., payable quarterly in arrears on November 14, 2008 for the first interest payment date, and February 14, May 14, August 14, and November 14 of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day, without adjustment, if such Interest Payment Date is not a Business Day. The last Interest Payment Date shall fall on the Maturity Date.

Interest Accrual

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

Determination of Interest Amount

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

REDEMPTION AND PURCHASE

Final Redemption

Unless previously purchased and cancelled, the Bonds shall be redeemed at par or 100% of face value on August 14, 2013 (the "Maturity Date"). However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Business Day if the Maturity Date is not a Business Day.

Redemption for Taxation Reasons

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

Purchase and Cancellation

The Issuer may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase (and the Bondholders shall not be obliged to sell) Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Change in Law or Circumstance

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

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

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

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

Payments

The principal of, interest on, and all other amounts payable on the Bonds shall be paid to the Bondholders by crediting of the settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos. The Issuer shall ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for the purposes of the Bonds. The Issuer may terminate the appointment of the Paying Agent, subject as provided in the Paying Agency and Registry Agreement. In the event the appointed office of any institution shall be unable or unwilling to continue to act as the Paying Agent, the Issuer shall appoint the Makati City office of such other leading institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

Payment of Additional Amounts; Taxation

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

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

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

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

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

FINANCIAL RATIOS

Similar to the covenants contained in other debt agreements of the Issuer, the Issuer shall maintain a Debt to Equity Ratio of not more than 3:1. Debt to Equity Ratio means the ratio which Total Liabilities Bears to Total Stockholders' Equity.

NEGATIVE PLEDGE

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

(a) Any Security over any asset, including, but not limited to assets purchased, leased, or developed in the ordinary course of business, to secure: (i) the payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset.

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

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

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

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

(f) Any Security in favor of banks, insurance companies, other financial institutions and Philippine government agencies, departments, authorities, corporations or other juridical entities, which secure a preferential financing obtained by the Issuer under a governmental program, and which cover assets of the Issuer which have an aggregate appraised value, determined in accordance with generally accepted appraisal principles and practices consistently applied not exceeding Five Billion Pesos (₱ 5,000,000,000.00).

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

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

(i) Any Security constituted for the purpose of guaranteeing an obligation of an Affiliate in connection with any contract or agreement that has been assigned to such Affiliate by the Issuer.

(j) The assignment, transfer or conveyance of the right of the Issuer to receive any of its income or revenues from receivables arising out of the sale of property held for sale by the Issuer in the ordinary course of business ("Project Receivables").

(k) The assignment, transfer or conveyance of the right of the Issuer to receive any income or revenues other than from Project Receivables; provided that, the constitution by the Issuer of such lien shall not cause the Issuer to exceed the ratio of the amount of indebtedness of the Issuer secured by any lien constituted pursuant to this subparagraph (k) to the non-current assets of the Issuer (as computed in accordance with Philippine Financial Reporting Standards and based on the most recent audited financial statements of the Issuer) which ratio shall not be more than 0.5:1.

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

(m) Any Security constituted over the investment of the Issuer in any of its Affiliates, whether such investment is in the form of shares, deposits or advances, to guarantee or secure the obligations of the said Affiliates.

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

EVENTS OF DEFAULT

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

(a) *Payment Default*

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

(b) *Representation/Warranty Default*

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

(c) *Other Default*

The Issuer fails to perform or violates any other provision, term of the Trust Agreement and the Bonds, and such failure or violation is not remediable or, if remediable, continues to be unremedied after the applicable grace period, or in the absence of such grace period, after 30 days from the date of occurrence of the said violation with respect to the covenant to maintain the prescribed financial ratio, (particularly a maximum debt to equity ratio of 3:1.0 and within ten (10) Business Days from the date of the occurrence of said violation, with respect to any other covenant or obligation; provided that, the Events of Default constituting a payment default, expropriation, insolvency or closure default, or a violation of a negative covenant shall not be remediable.

(d) *Cross Default*

The Issuer violates any term or condition of any contract executed by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money which constitutes an event of default under said contract, or in general, violation of any, law or regulation which violation, if remediable, is not remedied by the Issuer within 10 Business Days from receipt of notice by the Trustee to the Issuer, or which violation is otherwise not contested by the Issuer, and the effect of such violation results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; and which violation shall, further, in the reasonable opinion of the Trustee, adversely and materially affect the performance by the Issuer of its obligations under the Trust Agreement and the Bonds; provided however that, no event of default shall occur under this paragraph unless the aggregate amount of indebtedness in respect of which one or more of the events above mentioned has/have occurred equals or exceeds Five Hundred Million Pesos (₱500,000,000.00).

(e) *Expropriation Default*

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

(f) *Insolvency Default*

The Issuer becomes insolvent or unable to pay its debts when due or commits or permits any act of bankruptcy, which term shall include, but shall not be limited to: (i) filing of a petition in any bankruptcy, reorganization (other than a labor or management reorganization), winding-up, suspension of payment or liquidation proceeding, or any other proceeding analogous in purpose and effect; (ii) appointment of a trustee or receiver of all or a substantial portion of its properties; (iii) making of an assignment for the benefit of its creditors; (iv) the admission in writing by the Issuer of its inability to pay its debts; or (v) the entry of any order or judgment of any court, tribunal or administrative agency or body confirming the bankruptcy or insolvency of the Issuer or approving any reorganization (other than a labor or management reorganization), winding-up, liquidation or appointment of trustee or receiver of the Issuer or a substantial portion of its property or assets.

(g) *Judgment Default*

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

(h) *Writ and Similar Process Default*

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

(i) *Closure Default*

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

CONSEQUENCES OF DEFAULT

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

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

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

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

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

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

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

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

(d) If any one or more of the events enumerated as a Change of Law in the section *"Change in Law or Circumstance"* above, shall occur and be continuing for a period of 30 days with respect to the events contemplated in (a) or (b) of said section, and for a period of 15 Business Days with respect to the events contemplated in (c) of said section, the Majority Bondholders, by notice in writing delivered to the Issuer through the Trustee, after the lapse of the said 15 or 30-day period, may declare the principal of the Bonds, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable without any pre-payment penalty, anything in the Trust Agreement or in the Bonds contained to the contrary notwithstanding, subject to the notice requirements under the discussion on *"Notice of Default"* below.

Notice of Default

The Trustee shall, within 30 days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it, unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default, as described in *"Payment Default"* above, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in Metro Manila for two consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentment of sufficient and acceptable identification.

Penalty Interest

In case any amount payable by the Issuer under the Bonds, whether for principal, interest or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty interest on the defaulted amount(s) at the rate of 12% p.a. (the "Penalty Interest") from the time the amount falls due until it is fully paid.

Payment in the Event of Default

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

Application of Payments

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

Prescription

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

Remedies

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

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

Ability to File Suit

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

Waiver of Default by the Bondholders

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

TRUSTEE; NOTICES

Notice to the Trustee

All documents required to be submitted to the Trustee pursuant to the Trust Agreement and this Prospectus and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee:	**BPI Asset Management and Trust Group**
Attention:	The Trust Officer – Account Management Division (AMD4)
Subject:	P4.0 billion ALI Retail Bonds due 2013
Address:	17th Floor, Bank of the Philippine Islands Building, 6768 Ayala Avenue corner Paseo de Roxas, Makati City

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

Notice to the Bondholders

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

Binding and Conclusive Nature

Except as provided in the Trust Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Agreement, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence as referred to above) no liability to the Issuer, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Agreement.

Duties and Responsibilities of the Trustee

(a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.

(b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters exercise in the management of their own affairs.

(c) None of the provisions contained in this Agreement or Prospectus shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Resignation and Change of Trustee

(a) The Trustee may at any time resign by giving thirty (30) days' prior written notice to the Issuer and to the Bondholders of such resignation.

(b) Upon receiving such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the resigning Trustee and one (1) copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a bona fide holder for at least six months (the "Bona Fide Bondholder") may, for and in behalf of the Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee. A successor trustee must possess all the qualifications required under pertinent laws.

(c) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer may within thirty (30) days there from remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the Trustee so removed and one (1) copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any Bona Fide Bondholder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee.

(d) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence of the action in that regard taken by the Majority Bondholders.

(e) Any resignation or removal of the Trustee and the appointment of a successor trustee shall become effective upon acceptance of appointment by the successor trustee; provided however that, until such successor trustee is qualified and appointed, the resigning Trustee shall continue to discharge its duties and responsibilities as herein provided; provided finally that, such successor trustee possesses all the qualifications as required by pertinent laws.

Successor Trustee

(a) Any successor trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as trustee in the Trust Agreement. The foregoing notwithstanding, on the written request of the Issuer or of the successor trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties.

(b) Upon acceptance of the appointment by a successor trustee, the Issuer shall notify the Bondholders in writing of the succession of such trustee to the trusteeship. If the Issuer fails to notify the Bondholders within 10 days after the acceptance of appointment by the successor trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

Reports to the Bondholders

(a) The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date until full payment of the Bonds a brief report dated as of December 31 of the immediately preceding year with respect to:

(i) the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and

(ii) any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

(b) The Trustee shall submit to the Bondholders a brief report within 90 days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10%) of the aggregate outstanding principal amount of the Bonds at such time.

Inspection of Documents

The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:

1. Trust Agreement
2. Paying Agency and Registry Agreement
3. Articles of Incorporation and By-Laws of the Company
4. Registration Statement of the Company
5. Opinions of the legal counsels indicated above

MEETINGS OF THE BONDHOLDERS

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

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty five percent (25)% of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than forty five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

Failure of the Trustee to Call a Meeting

In case at any time the Issuer, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Issuer or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

Quorum

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

Procedure for Meetings

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

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

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one (1) or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one vote for every Ten Thousand Pesos (₱10,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

Voting Requirement

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

Role of the Trustee in Meetings of the Bondholders

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

Evidence Supporting the Action of the Bondholders

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

Non-Reliance

Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.

GOVERNING LAW

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

CERTAIN DEFINED TERMS

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

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

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

(c) **Current Liabilities** means the aggregate (as of the relevant date of circulation) of all liabilities of the Issuer falling due on demand or within one (1) year, including that portion of Long Term Debt which falls due within one (1) year (but excluding the current portion of any provision for estimated liability for land and property development) and such other liabilities as would be determined as such under the Philippine Financial Reporting Standards.

(d) **Long Term Debt** means the aggregate (as of the relevant date of calculation) of all those component parts of the liabilities of the Issuer which fall due or whose final payment is due on a date more than one (1) year after the relevant date for calculation, exclusive of reserve for land development and deferred credits, i.e., unearned income and/or unrealized gains.

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

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

(g) **Total Liabilities** means the aggregate (as of the relevant date for calculation) of Current Liabilities and Long Term Debt.

(h) **Total Stockholders' Equity** means the aggregate (as of the relevant date for calculation) of the par value of the outstanding common stock, preferred stock, capital surplus, retained earnings appraisal surplus arising from past appraisal and any further appraisal surplus arising from subsequent independent certified appraisal of the property, plant and equipment of the Issuer effected in compliance with the Philippine Financial Reporting Standards, and any reserve for expansion projects, less any intangible assets such as, but not limited to, goodwill, trademarks, patents, copyrights, leaseholds, and treasury stocks.

INTERESTS OF NAMED EXPERTS

LEGAL MATTERS

All legal opinion / matters in connection with the issuance of the Bonds which are subject of this Offer shall be passed upon by Romulo Mabanta Buenaventura Sayoc & De Los Angeles, for the Joint Lead Managers and Underwriters, and Ayala Land Legal Affairs Division for the Company.

INDEPENDENT AUDITORS

SyCip Gorres Velayo & Co, independent auditors and a member firm of Ernst & Young Global, audited Ayala Land's financial statements and schedules for the years ended 31 December, 2006 and 2007, included in this Prospectus.

Except for Ayala Land Legal Affairs Division, there is no arrangement that experts shall receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

DESCRIPTION OF BUSINESS

Overview

Ayala Land is the real estate arm of Ayala Corporation. Ayala Land was spun-off by Ayala Corporation in 1988 to enhance management focus on Ayala Corporation's existing real estate business and to highlight the value of assets, management and capital structure of the real estate business.

The SEC issued Ayala Land its certificate of incorporation on June 30, 1988. The Ayala Land shares were offered to the public in an initial public offering (IPO) of primary and secondary shares in 1991 and subsequently listed on the Makati and Manila Stock Exchanges (predecessors of the PSE). The IPO diluted Ayala Corporation's effective interest in Ayala Land to 88.2%. Since then, Ayala Corporation's effective interest has been further reduced to about 52.92% as March 31, 2008 through, among others, the exercise of stock options by the respective employees of Ayala Corporation and Ayala Land, exchanges under Bonds due 1996 and Bonds due 2001, disposal of Ayala Land shares by Ayala Corporation and Ayala Land's issuance of new shares in relation to its acquisition of interest in companies owning properties in Canlubang, Laguna in 1993. Further reduction of Ayala Corporation's equity in Ayala Land has also been effected by the conversions to Ayala Land common B shares of the entire ₱3 billion convertible Long Term Commercial Paper publicly issued in December 1994.

As of March 31, 2008, equity attributable to equity holders of Ayala Land, Inc. amounted to ₱ 47.6 billion. It is listed on the PSE with a market capitalization of ₱140 billion as of March 31, 2008 based on Ayala Land's common share closing price as of that date.

Ayala Land's Businesses

Ayala Land is the largest real estate conglomerate in the Philippines engaged principally in the planning, development, subdivision and marketing of large-scale communities having a mix of residential, commercial, leisure and other uses.

Ayala Land's Strategic Landbank Management Group (SLMG) is involved in the acquisition, development and sale of large, mixed-use, masterplanned communities and serves as platform for all of the Company's developments – residences, malls, offices, and all the services that make up a vibrant and sustainable community.

The Residential Business Group (RBG) of Ayala Land develops and sells high-end residential and leisure community developments through Ayala Land Premier; taps the middle-income urban residential segment through its wholly-owned subsidiary Community Innovations, Inc. (CII); and develops and sells affordable house-and-lot packages and farm/hacienda lots through Avida Land Corporation (Avida), also a wholly-owned subsidiary.

The Ayala Malls Group (AMG) develops shopping centers and leases to third parties retail space and land therein. Through its subsidiaries, Ayala Theaters Management, Inc. and Five Star Cinema, Inc., it also operates movie theatres in these shopping centers. The Company has also ventured into the operation of food courts and entertainment facilities to complement its shopping center operations.

The Company's Ayala Businesscapes Group (ABG) is involved in the development and lease or sale of office buildings; sale of industrial lots and lease of factory buildings; and fee-based management and operations of office buildings.

Ayala Land's geographic businesses are engaged in the development, sale and lease of the Company and subsidiaries' product offerings in key cities in the Visayas and Mindanao regions. In the international market, it has investments in an Asian real estate private equity fund and its fund management company.

Its support businesses, on the other hand, include construction of Ayala Land and third-party projects, hotels development and management, property management, and waterworks operations and sewage treatment facilities in some of the Company's projects.

Vision

Ayala Land plans to establish and maintain its preeminence among real estate companies in Asia. Its primary goal is to continue to be the best in the industry and the most respected for what it has accomplished. It shall do so while acting in accordance with the highest standards of integrity that have always lent moral strength to the policies and practices of Ayala Land.

Ayala Land's preeminent position will be measured primarily in the marketplace, where it will be the preferred choice above all the others. This will be the natural outcome of consistently exceeding the customers' aspirations for a better lifestyle and more effective business environment, and of good work done by a highly-motivated and empowered team of employees with genuine concern for customer needs and consequent satisfaction.

The Company plans to accomplish its market objectives by enhancing land and enriching lives as only Ayala can - primarily by building and nurturing communities that will thrive through time, as living and breathing testaments to the dreams and aspirations of those who build them and those who live and work in them. These communities will embody its lasting commitment to nation-building by promoting the betterment of the Filipino.

Ayala Land hopes that whenever quality of life is spoken of with pleasure and admiration, the inevitable byword will be Ayala Land.

Competitive Strengths

Attractive Industry Fundamentals. The real estate industry in the Philippines offers rich opportunities across all its sub-sectors. Its bright prospects are anchored on strong fundamentals: a robust economy, rising foreign inflows, particularly from overseas Filipinos, increased affordability and the availability of attractive financing from banks, strong consumption spending in retail, and encouraging demand for office space in the BPO sector.

Experience and Track Record. With over eight decades of experience, Ayala Land is the largest and most experienced real estate developer in the Philippines. Combining leading-edge product innovation with prudent and effective risk management practices, the Company has the ability to manage across a complex portfolio of projects and developments and is able to thrive and prosper through the cyclical nature of the industry. Ayala Land's proven track record includes the development of Makati as the country's premier central business district and Ayala Alabang as a prestigious suburban residential community. It is replicating these successes in areas such as Bonifacio Global City, Cebu, and Canlubang.

Trusted Brand and Unparalleled Product Line-up. The Ayala Land name is synonymous with quality and prestige and is the most widely trusted brand in Philippine real estate. Ayala Land maintains leadership across all product lines – residential subdivision and high-rise, shopping centers, office buildings – and across a broad spectrum of price-points and geographies.

Large, Strategic Landbank. With control of 53 hectares of land in the Makati Central Business District and another 33 hectares in Bonifacio Global City, Ayala Land is a primary beneficiary of the country's asset reflation story. Capital values and yields have been rising with increased demand, falling vacancy rates and continued priming and redevelopment efforts. Providing significant upside is the 1,700-hectare NUVALI in Canlubang being developed as a showcase for environmental, economic and social sustainability.

Financial and Operating Resources. The Company has a strong balance sheet, supportive strategic shareholders, a variety of available funding sources and the patience to undertake both pocket-sized and large-scale projects or investments that balance the need for sustained earnings growth and long-term net asset value accretion. Ayala Land also draws on the competitive advantage provided by its wholly-owned subsidiaries MDC and APMC, which are the country's largest and most experienced construction and property management companies, respectively.

Strong Management Team and Governance. The Company employs a proven and highly-credible management, architectural and engineering talent pool across all levels of the organization, most with experience across multiple business lines. Ayala Land also consistently ranks among the top Philippine companies in terms of corporate governance standards and best practices. In 2007, the Company was recognized by Asiamoney as "Best for Shareholder Rights and Equitable Treatment" in the country.

Attractive Stock. Over the last five years, Ayala Land has delivered an average Total Shareholder Return of 33% per annum. It is also by far the largest (by market capitalization) and most liquid property stock in the Philippines.

Strategy

Ayala Land believes that a strong sense of differentiation has allowed it to achieve past success and will again be the key moving forward. Building large, holistic, integrated and sustainable communities with strong governance structures has been its principal strength all these years and has allowed the Company to build the Ayala Land brand into what it is today. Ayala Land was able to leverage off this strength and brand reputation and combine this with modern, flexible formats for residences, office spaces and retail. The Company has been able to offer the Ayala Land brand promise to developments that are increasingly affordable and accessible to more people in more geographical locations. To drive and sustain this market leadership, the Company is focused on a strong product differentiation strategy with four main pillars that constitute the Ayala Land approach to development.

- A holistic approach to landbank and community development that ensures products "work better" because Ayala Land continually engages the surrounding community and local government from planning to implementation. Ayala Land is dedicated to responsible development to ensure that it does not cut corners but instead pays attention even to those things that people would not see. Ayala Land provides good access, the appropriate infrastructure, and wide, open spaces for families to enjoy.

- Long-term commitment which brings above-average value retention and appreciation over time to its projects. Ayala Land strictly observes good governance principles, such as in planning and enforcing zoning rules, and continue to invest in and even do full-scale redevelopment of some of its projects.

- Staying ahead of the curve in anticipating global real estate trends which it makes relevant to the Philippine setting. In terms of sustainability and “green” buildings, which are increasingly demanded by environmentally concerned buyers, Ayala Land has consciously adhered to the same principles for a long time, and is taking full and active leadership in this area.

- Leveraging the partnerships it has nurtured for decades, and pursuing new partnerships with organizations that share the same long-term orientation as Ayala Land moves forward to newer geographies and unprecedented expansion.

The success of Ayala Land has been built on a partnership approach. Ayala Land has nurtured long term relationships with customers, landowners, tenants, its employees, the local government and NGO communities, and providers of capital. Ayala Land shares values and a common long-term orientation that allows all parties concerned to prosper over time. Many of the best names in local and international retailing anchor its shopping centers, and Ayala Land is the partner of choice for strategic new partners, such as the Shangri-La and Kingdom Hotels groups who want to make significant new investments in the country and help prime the Company’s strategic landbank areas.

Products / Business and Recent Updates

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. Its core business units consist of Strategic Landbank Management, Residential Development, Shopping Centers, Corporate Business Centers and Geographic Businesses.

Strategic Landbank Management

SLMG is involved in the acquisition and development of large, mixed-use, masterplanned communities and serves as platform for all of the Company’s developments – residences, malls, offices, and all the services that make up a vibrant and sustainable community.

With a long-term horizon, SLMG views its key landbank areas as launching pads for decades of development. Its approach to landbanking is oriented towards value creation and realization. SLMG applies financial discipline with a focus on yields, cashflows, and the judicious buying and selling of lots at the opportune time. The group develops, updates and refines masterplans, providing clear framework for decision making. It also engages community-based stakeholders such as local government units and other government entities to assure that vital infrastructure is in place to support the long-term development plans. Embedded in all these, and central to value creation and retention over time, is the concept of sustainability.

As of December 31, 2007, Ayala Land has a portfolio composed of 53 hectares in the Makati Central Business District, 33 hectares in Bonifacio Global City and 1,677 hectares in Canlubang, Laguna.

Other recent moves made by Ayala Land to sustain growth in momentum in future years include the following:

- In Makati: The Ayala Center Redevelopment

  The redevelopment program for Ayala Center involves introducing pioneering mixed use development characterized by higher overall density and more integrated, efficient and forward looking concepts.

  The redevelopment program involves the turnover of a 7,377 sqm land located at the corner of Makati Avenue to Kingdom Hotel Investments for the development of a high-end hotel complex.

  By the end of 2008, Ayala Land will launch Glorietta 5 which consists of three levels of retail, five levels of BPO and two levels of basement parking.

  Meanwhile, Phase 2 of the Greenbelt 5 complex is expected to open in October 2008 complementing Phase 1 of Greenbelt 5 and The Link parking/retail building which opened in October 2007.

  Land values have continued to increase in the area. As of end-December 2007, developable land in Makati Central Business District is estimated by Colliers International at ₱300,000 per square meter which is 18% up from 2006 and 38% up from 2005.

- In Bonifacio Global City: Value Realization

  The Company's priming activities include Market! Market!, Serendra and Bonifacio High Street. Projects such as St. Luke's Hospital, Mind Museum, unified Philippine Stock Exchange headquarters and the Shangrila Hotel Complex, will further drive land values upon completion.

- In Canlubang / NUVALI: Full Scale Regional Center

  Priming of NUVALI, the Company's showcase township development for environmental, economic and social sustainability, is well underway. Better than expected land values have been realized for the 1,175 residential lots put on the market since the soft launch of all residential brands last October, 2007. 75% of all lots available for sale, with the full sell-out of high-end Abrio, have already been taken up as of end-March 2008. The first BPO building in the Technopod complex with total gross leasable area (GLA) of 10,900 sqm will be operational by the 4th quarter of 2008. Out of the total GLA, about 50% has been pre-leased as of end-March 2008. The retail component of the development will also be opened by the end of 2008.

  On the infrastructure side, the North-South road was already completed, as well as the establishment of Wi-Fi access in the lakeside area.

  Total project development cost is estimated at ₱6 billion for phase 1 from 2007 to 2013.

As of March 31, 2008, Ayala Land's SLMG reported the following operating statistics:

Ayala Land override bookings:

	1Q08	1Q07	% Change
The Columns at Legazpi	2	14	-86%
Avida Projects*	25	26	-4%
Total	27	40	-33%

* Includes Avida Towers Sucat, Sta. Catalina Village, and Sampaguita Village

Fort Bonifacio Development Corporation project statistics:

	Units / Lots Launched	Cumulative Take-up	Booked Units / Lots	
			1Q08	1Q07
Bonifacio Ridge	288	100%	0	3
Bonifacio Triangle	34*	100%	0	2
E-Square / Bonifacio South	21**	100%	0	7
City Center	16 (Ph 1 & 2)	88%	2	0

* 37 including 3 non-saleable lots

** Remaining lots when Ayala Land took over FBDC in April 2003; excludes 4 non-saleable lotS

Residential Development

RBG is involved in the sale of high-end residential lots and units (including leisure community developments), middle-income residential lots and units, and affordable lots and units. It caters to domestic and overseas Filipino markets across the high-end, middle-income and affordable segments.

In recent years, overall growth of the residential market has been strong largely as a result of a huge housing backlog of 3.8 million units and affordable mortgage loans. On the international front, the continued growth of OFW remittances has injected new demand into the residential market. In response to these opportunities, Ayala Land will continue to grow its residential business line, which accounted for 50% of total revenues in 2007. A robust project pipeline will enable the Company to expand its product offering in existing areas and accelerate geographic expansion, aided by strategic landbanking and mixed-use development and project management projects.

The Company will strengthen and provide clear differentiation across its three residential brands, each targeting a distinct segment of the market: Ayala Land Premier (ALP) for the high-end segment, CII for the middle-income market; and Avida for the affordable housing segment.

To be more competitive, the Company will continue to enhance margins by leveraging its brand and track record to maximize pricing power where possible, along with managing construction costs and streamlining the project delivery process.

The Company's ongoing residential projects under the Ayala Land Premier brand include Abrio at NUVALI, Ayala Westgrove Heights, Ayala Greenfield Estates, The Residences at Greenbelt (Laguna Tower, San Lorenzo Tower and Manila Tower and One Serendra). Ayala Land also introduced in 2005 its first leisure community project, Anvaya Cove, located in Morong, Bataan. Anvaya Cove, a 320-hectare development, is a high-end seaside residential resort community which offer a wide array of real estate options including residential lots, villas, and beach and nature club, among others.

In 2007, Ayala Land booked over 4,400 units from 50 projects, up 39% from the year before. The Company was able to add 5,182 units of invetory to buyers in 2007 with strong take up on new projects. This strong growth was sustained early this year, as the 1Q2008 bookings of 1,059 units was higher by 17% from the same period last year.

In Pampanga, CII launched Marquee last June 2007 and 60% of the 560 lots were taken up within the first month. In Makati City, Avida launched Avida Towers Makati West in July 2007 where 77% of the units were taken up within the first month. In Aston at Two Serendra launched in May 2007, 265 of the 400 units were taken up by the end of 2007. In NUVALI, residential project Abrio which was launched in September 2007, was 90% taken-up by the end of 2007, Treveia was 44% taken-up, and Avida Settings was 52% taken up.

For the first quarter of 2008, Ayala Land launched 928 units which is equivalent to 17% of their full year target. Majority of the new units were from the One Serendra East Tower (283 units) with 17% take up and Avida Towers Makati West 2 (399 units) with 8% take-up. There was also a strong market response to NUVALI residential offerings where 171 lots were launched across three brands. NUVALI's cumulative take up now stands at 71% of the total 1,375 lots launched since 3rd quarter of 2007.

As of end-March, 2008, RBG had 52 ongoing projects (10 for Ayala Land Premier, 10 for CII, and 32 for Avida) and had 1,769 hectares in developable land. The following table shows the operating statistics for its residential development business as of March 31, 2008.

	Units Launched	**Cumulative Take-up**	**Lots Taken-Up**		**Booked Lots**		**Completion Rate**
			1Q08	1Q07	1Q08	1Q07	
Ayala Land Premier Lots							
Total			**147**	**146**	**128**	**82**	
Westgrove Heights	2,142	99%	47	112	30	53	100%
Greenfield Estates	955	95%	25	34	18	27	100%
Sonera	257	100%	21	0	5	2	100%
Abrio-NUVALI	309	96%	54	0	80	--	29%
Ayala Land Premier Units							
Total			**81**	**205**	**17**	**159**	
One Serendra	SecA:236 SecB:250 SecC:89 SecD:162	95%	21	78	14	49	SecA:100% SecB:98% SecC:98% SecD:59% SecE:59%
One Serendra – East Tower	283	17%	55	--	0	--	
The Residences (Laguna Tower)	249	100%	0	1	(1)	1	100%
The Residences (San Lorenzo Tower)	383	100%	2	24	2	30	49%
The Residences (Manila Tower)	371	99%	3	99	2	79	16%
One Legazpi Park	369	100%	0	1	0	1	100%
One Roxas Triangle	182	100%	0	2	0	2	100%
Montgomery Place	341	100%	0	3	0	3	100%

	Units Launched	Cumulative Take-up	Lots Taken-Up		Booked Lots		Completion Rate
			1Q08	1Q07	1Q08	1Q07	
Ayala Land Premier – Leisure							
Total			**48**	**109**	**45**	**41**	
Anvaya Lots	365	91%	25	21	18	8	77-93%
Anvaya shares	2,450	59%	23	84	27	30	Beach Club 73%
Anvaya villas	17	100%	0	4	0	3	78-98%
Community Innovations, Inc.							
Total			**314**	**251**	**292**	**166**	
The Columns at Ayala Avenue Tower 1 Tower 2 Tower 3	 284 284 284	 100% 100% 98%	3	5	2	(1)	100%
The Columns at Legazpi Tower 1 Tower 2	 390 443	 94% 85%	53	63	64	53	 41% 9%
Two Serendra	SecA:350 SecB&C:438 SecD&E:576	99%	53	116	41	71	SecA:100% SecB&C:99% SecD&E:42%
The Aston (high rise)	400	84%	55	0	61	0	17%
Celandon Residences (townhouses)	202	76%	9	10	10	1	93%
Celandon Park (condos)	128	48%	9	24	5	12	5%
Veranda Homes Mamplasan	799	80%	31	33	21	30	100%
Veranda Village Center	30	90%	0	0	0	0	100%
Marquee	560	62%	12	0	16	0	52%
Treveia – NUVALI	477	48%	89	0	72	0	8%
AVIDA Land – Affordable Condominiums							
AVIDA Towers total			**351**	**204**	**293**	**256**	
Sucat Tower 1 Tower 2 Tower 3 Tower 4 Tower 5	 240 240 264 264 264	 100% 98% 99% 100% 42%	 109	 79	 72	 69	 100% 100% 97% 87% 28%
New Manila Tower 1 Tower 2 Tower 3	 400 330 354	 100% 97% 39%	 64	 61	 64	 97	 100% 75% 26%
San Lazaro Tower 1 Tower 2 Tower 3	 390 392 392	 99% 99% 35%	 90	 64	 72	 96	 86% 75% 34%
Makati West Tower 1 Tower 2	 462 399	 86% 8%	 88	 0	 85	 0	 29% 28%

Sales to Overseas Filipinos (OF) accounted for 32% of total residential sales in 2007, growing by 18% in value terms. Around 52% of the OF sales came from the US market.

As of March 31, 2008, the impact of the US subprime crisis has not yet been evident as there were no significant increase in cancellations nor defaults. However, OF sales from the US declined from 17% to 9% of total sales. ALP showed the largest decline in OF sales but this was largely due to lack of inventory of high rise residential condominium units favored by US-based OF buyers. For Avida and CII, the share of OF sales to total sales was steady. Ayala Land reported that sales to OFs in the first quarter of 2008 amounted to a total of ₱5.5 billion (for 1,491 units) which was 3% higher in value and 14% higher in unit terms when compared to the previous year.

Ayala Land has taken steps to tap into other markets in the US less affected by the subprime crisis such as Chicago, Texas, Florida, Hawaii, Virginia, New York and New Jersey. Aside from the expansion of sales efforts into other US states, Ayala Land is also looking at increasing its penetration in other markets such as Europe, the Middle East, and other fast growing markets like China and Australia.

Shopping Centers

AMG is involved in the 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; and management and operations of malls which are co-owned with partners. Ayala Land operates a total of 13 shopping centers with 972,000 sqm in GLA area. As of December 31, 2007, Ayala Land had 57 hectares in developable land earmarked for shopping centers and 98,000 sqm currently under construction.

Ayala Land operates movie theater complexes with a total of 36 screens and one live performance theater situated in its shopping centers. The movie theaters are operated primarily as a means of attracting customers to its shopping centers. The theaters are managed by Ayala Theaters Management, Inc. and Five Star Cinema, Inc., wholly-owned subsidiaries of Ayala Land.

Leases for retail space within the shopping centers are generally short-term, ranging from one to five years for the initial lease, renewable annually. Land leases, on the other hand, have longer terms, usually up to 50 years in the case of hotel tenants. In general, rental rates for retail space equal the higher of (i) a basic rent plus a percentage of the tenant’s gross sales, or (ii) a specified minimum amount. Rental rates for leases on hotel and department store sites are generally based on a percentage of gross sales.

Ayala Land’s large-scale mixed-use developments that feature a retail component are greatly enhanced by the quality and distinctiveness of the retail concepts conceived and implemented by AMG. At the Bonifacio Global City, for instance, Serendra and Bonifacio High Street are priming the development in its City Center. Serendra’s retail zone complements the suburban lifestyle of the residential development with authentic and unique restaurants and shops.

AMG continuously provides compelling and engaging mall events and promotions which enhance the shopping experience and sustain high pedestrian traffic. Close to 1,000 events, among them product launches, concerts, children’s meet-and-greet events and youth-oriented fairs, were held at the Ayala Malls in 2007.

AMG provides a strong year-round support to all merchants. Merchants are valued as long-term partners. AMG constantly interacts and exchanges ideas with its merchants and provides training and development support where needed.

The average occupancy rates of the consolidated malls were at 95% as of end December 31, 2007. In 2007, rental rates were also 4% higher compared to 2006. TriNoma which opened in May 2007 had an average 2007 occupancy rate of 71% but was able to end the 2007 with an 87% occupancy rate. GLA under management is at 972,000 sqm which is 28% more than in 2006 as a result of the TriNoma opening and the first phase of the Ayala Center Cebu expansion.

The following table shows the average occupancy rate per mall as of March 31, 2008:

	Ave. Occupancy	
Consolidated Malls		
	1Q08	1Q07
Ayala Center	92%	99%
Market! Market!	92%	73%
San Antonio Plaza	93%	93%
Metro Point	96%	97%
Convergys Retail	100%	100%
Shops at Serendra	97%	77%
Average	**92%**	**93%**
Equitized Malls		
Alabang Town Center	97%	98%
TriNoma	88%	--
Ayala Center Cebu	98%	96%
Pavillion Mall	77%	74%
Bonifacio High Street	97%	--
	93%	**98%**

Ayala Land will pursue expansion plans anchored on the opportunities presented by increasing aspirational and lifestyle spending among many families in different geographic areas. To ensure pipeline growth is based on right fundamentals, attention will be paid to selecting strategic sites, developing differentiated and superior product and ensuring proper execution of concepts for each new mall.

Ayala Land has several malls in the pipeline with 11% more GLA currently under construction which will bring total GLA under management to 1.1 million sqm by the end of 2009. Expansion is composed of developments in Q Mall in Angeles and the Davao Mall.

New developments such as Greenbelt 5 Phase 1, which has a total GLA of 13,500 sqm, is already 94% leased. Ayala Land is currently conducting marketing for Greenbelt 5 Phase 2, Glorietta 5 retail, and Q Mall in Angeles. The construction of the Davao Mall is scheduled to start by the end of 2008. Ayala Center Cebu also underwent retail expansion last year to the tune of 5,800 sqm. Additional 7,600 sqm GLA will be added this year with the completion of the Ayala Center Cebu lagoon redevelopment.

Corporate Business

ABG is involved in the development and lease or sale of office buildings; sale of industrial lots and lease of factory buildings; and fee-based management and operations of office buildings. Ayala Land owns and operates 5 traditional and 3 Business Process Outsourcing (BPO) buildings with a total area of 107,000 sqm. Ayala Land also manages 2 office building with a total area of 20,000 sqm. It has earmarked 50 hectares of land for development to service their corporate business clients and has 211,000 sqm currently under construction.

Ayala Land aims to be the leading provider of office space for BPOs and significantly build-up its BPO portfolio from end-2007 levels of 35,803 sqms GLA. The build-up involves a variety of offerings - in very choice locations - covering stand-alone, build-to-suit office buildings, integrated nodes within large-mixed used developments such as Glorietta 5, San Lazaro and Davao, and entire self-contained BPO and IT campuses, e.g., UP TechnoHub and NUVALI Technopod.

While Makati has been well established as the country’s premier Central Business District (CBD) for decades, the prospects are bright for Bonifacio Global City (BGC) to mirror Makati’s success in the future. Large corporates have purchased land and have chosen to build or relocate their offices in BGC. A key development in this respect is the premium office building which will house the unified Philippine Stock Exchange (PSE). This will be the Company’s first premium, headquarter-type office building project since 1998 and signals the continued strengthening of demand for this traditional product line.

In addition, Ayala Land continued to expand its industrial park offerings to meet the continued demand from export- and manufacturing-oriented locators. ABG purchased an additional 29 hectares adjacent to its fully-sold Laguna Technopark. Development work commenced in July 2007 with 9 hectares of the expansion area sold in the same year. Laguna Technopark remains as the preferred location of locators and has been successfully expanding its offerings at a time when industrial parks in the Calabarzon area have been experiencing the effects of an oversupply of manufacturing and processing facilities.

Occupancy rates are at 99% for traditional office buildings and 100% for BPO buildings. Rental rates for 2007 were 10% higher than 2006 rates. Total GLA under management is at 107,000 sqm.

The following table shows the office occupancy rates as of March 31, 2008:

	Ave. Occupancy	
Traditional Office Buildings		
	1Q08	1Q07
Tower One	96%	100%
6750	100%	100%
MSE	97%	92%
Ayala Life FGU Makati	100%	97%
Ayala Life Alabang	100%	100%
BPO Office Buildings		
People Support*	100%	100%
Convergys	100%	100%
InfoNXX	100%	100%
Managed Buildings		
Bonifacio High Street	100%	95%
HSBC	100%	100%

* Sold to 36% owned APPCO, JV with Goldman Sachs & GMAC in December 2006

The following table shows the status of the Company's upcoming BPO buildings as of March 31, 2008:

	GLA (sqm)	Completion	Status
BPO Building	**161,730**		
Dela Rosa Tower 1	46,868	Nov 08	50% taken up
UP TechnoHub			
- Building A	10,078	Jan 08	55% leased
- Building B	18,559	May 08	100% leased
- Building C	10,000	May 08	100% leased
- Building D	10,000	Sept 08	53% leased
- Building E	10,000	May 08	100% leased
- Building F	10,000	Sept 08	On-going marketing
Glorietta 5	16,000	Nov 08	100% leased
San Lazaro Bldg A	19,307	Nov 08	22% leased
NUVALI Technopod 1	10,918	Nov 08	50% leased
Managed Buildings	**49,620**		
Cebu eBloc	19,445	Nov 08	Ongoing marketing
BGC E-services	30,175	2010	Ongoing marketing

Geographic Businesses

Ayala Land's geographic businesses are engaged in the development, sale and lease of the Company and subsidiaries' product offerings in key cities in the Visayas and Mindanao regions. In the International market, it has investments in an Asian real estate private equity fund and its fund management company.

Visayas-Mindanao

The Company has been active at all fronts of real estate business in the Visayas and Mindanao regions. Through affiliates Cebu Holdings, Inc. (CHI) and Cebu Property Ventures Development Corporation (CPVDC), the Company offers the full range of Ayala Land's product line-up in the region: residential development, shopping center operations, office and BPO buildings and sale of commercial lots and club shares at City Sports Club Cebu.

It pioneered the seaside residential developments in Cebu with its landmark Amara project and has remained a market leader for the third consecutive year since its launch in 2005. In June 2007, Ayala Land entered the southern Philippine real estate market with the launch in Cagayan de Oro of Alegria Hills, Ayala Land Premier's first development in Mindanao. Two other Ayala Land projects in Negros Occidental continued to set the standards for local residential developments, Ayala Northpoint and Plantazionne Verdana Homes, both located in the suburbs of Bacolod City.

Given Cebu's role as a primary destination and international gateway in the Visayas and Mindanao, its shopping market has grown significantly and has extended to other key cities in the province. Ayala Land, through CHI, has embarked on a major expansion and renovation of Ayala Center Cebu. Adjacent to the mall, the redevelopment of the lagoon area is also being undertaken. Ayala Center Cebu registered occupancy rate of 98% as of March 31, 2008. The latest undertaking of Ayala Land in the shopping center business is a mall to be constructed in

Davao. Late in 2007, Ayala Land entered into a joint venture agreement with the Floirendo family to develop a nine-hectare property in Davao for a mixed-use development with retail and BPO facilities.

With the growth in IT industry, the demand for office space from both local and multinational companies continue to increase in Cebu. A total of nine lots were sold at CHI's Cebu Business Park and CPVDC's Asiatown IT Park. The Company, in partnership with CPVDC, will provide office space for lease to IT and IT-enabled firms and construct eBloc, a 12-storey mid-rise office condominium, with a retail space at the ground floor.

The following table shows updates on the Company's Visayas-Mindanao operations as of March 31, 2008:

	Units Launched	Cumulative Take-up	Units Taken Up		Booked units	
			1Q08	1Q07	1Q08	1Q07
Ayala Land						
Ayala Northpoint	526	82%	9	4	5	4
Plantazionne	492	92%	24	35	15	2
Alegria Hills	95	22%	2	--	1	0
Cebu Holdings, Inc.						
Amara	298	89%	10	8	7	8
CBP	122	89%	1	0	1	0
CPVDC Asiatown IT Park	45	87%	1	8	1	8
Ayala Land and Cebu Holdings, Inc.						
Cebu Sports Club – ALI	2,000	51%	0	0	0	0
Cebu Sports Club – CHI	2,000	51%	2	0	2	0

* launched units and taken up units based on total, but booked units pertain to ALI and CHI owned club shares.

International

Outside of the Philippines, Ayala Land is leveraging its current competencies to pursue attractive real estate investment opportunities.

The year 2007 marked the establishment and operation of ARCH Capital and its first Asian property fund, ARCH Capital Asian Partners LP. ARCH Capital Asian Partners is a private equity fund set up to pursue investments in Asian property markets which are in strong growth phases such as China, India and Thailand. The fund has several seeded investments and a number of projects that are moving actively. Among these are significant interests in a middle market residential community development project in Macau, a scaled medium-rise condominium project in Samut Prakarn province, Bangkok, and a high-end condominium project on Rama IV in the heart of Bangkok-Sathorn central business district. The fund's project management team, with its strong residential community development experience and the depth and support of Ayala personnel, has been actively involved in project design and planning stages for these projects.

First Longfield Investments Limited (incorporated in 2006) is wholly-owned by Ayala Land. Through Green Horizons Holdings Limited, it has a 22% stake in Arch Capital Management Co. Ltd, the fund management company established to handle the US$330 million Asian private real estate equity fund which is co-sponsored by Ayala Land with Ayala Corporation.

Support Businesses

Its support businesses include construction of Ayala Land and third-party projects, hotels development and management, property management, and waterworks operations and sewage treatment facilities in some of the Company's projects.

Construction

A wholly-owned subsidiary of Ayala Land, Makati Development Corporation (MDC) is engaged in engineering, design and construction of vertical and horizontal developments including roads, bridges and utilities. MDC is responsible for horizontal construction works at Ayala Land's land developments and is likewise engaged in private industrial and government infrastructure projects. MDC also developed residential condominium buildings and mall projects. It continued to service site development requirements of Ayala-related projects while it provided services to third-parties in both private and public sectors. As of March 31, 2008, MDC had a total of 47 projects and ₱18.4 billion in outstanding construction contracts. MDC is also collaborating with First Balfour, Inc. to build the state-of-the-art 600-bed St. Luke's Medical Center at Bonifacio Global City. ALI's construction subsidiary also became the first Filipino contractor to be accredited by the US government and bested several American and international contractors in winning the bid to undertake the expansion of two US Embassy compounds in Manila and Pasay.

Property Management

Ayala Property Management Corporation or APMC (incorporated in 1957), a wholly-owned subsidiary of Ayala Land, is engaged in property management, principally for Ayala Land and its subsidiaries. It also provided its services to third-party clients. Ayala Land's waterworks services pertain mainly to the operations of the water facilities in its developments, including Ayala Alabang Village and Laguna Technopark.

APMC guarantees worry-free ownership and helps property owners over the long haul in such areas as water, power and telecommunications, security, sustainable design and best practices aligned with green buildings, and assistance in managing the properties of owners living elsewhere. It offers a full suite of services not only to Ayala property owners and lessees but also to third party clients, including a centralized 24/7 concierge service. Among its key third-party clients are the International School Manila, the Ninoy Aquino International Airport Terminals 2 and 3, and all of Citibank's buildings, offices and branches nationwide. APMC also manages 24 third-party carparks, making it one of the largest third-party carpark operators in the country today.

As of March 31, 2008, Ayala Land had 185 managed facilities and had ₱468 million outstanding property management contracts.

Hotels

Ayala Land is also involved in the development and management of hotels. As of March 31, 2008, Ayala Land has in its portfolio the Hotel InterContinental Manila (338 rooms), the Cebu Marriot (303 rooms) and a 20% investment in a Kingdom Hotel complex composed of a Fairmont Hotel (300 rooms), Raffles Suites (30 rooms) and Raffles branded private residences (189 rooms) to be constructed within Ayala Center.

In March 2007, AHI sold its 60% stake in Oakwood Premier Ayala Center to Ascott Residences. Ayala Land, nonetheless, will continue to explore potential hotel investments in line with its objective of helping to prime the value of its strategic landbank areas.

The following table shows the operating statistics as of March 31, 2008:

	Occupancy		Room Rate		REVPAR	
	1Q08	1Q07	1Q08	1Q07	1Q08	1Q07
Hotel InterContinental	84%	85%	5,283	4,820	4,422	4,120
Cebu Marriott	78%	75%	3,034	3,796	2,591	2,858

Other Revenue

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

Contributions to Revenue

The table below illustrates the amounts of revenue, profitability, and identifiable assets attributable to domestic and foreign operations for 2007, 2006 and 2005 follow: (in ₱'000)

	2007	2006	2005
Consolidated revenues			
Domestic	25,707,229	25,558,842	21,375,369
Foreign	-	-	-
Net operating income			
Domestic	7,704,392	7,422,165	5,859,939
Foreign	-	-	-
Net income *(Attributable to equity holders of ALI)*			
Domestic	4,386,362	3,865,602	3,616,673
Foreign	-	-	-
Total assets			
Domestic	82,981,245	78,250,161	71,810,222
Foreign	-	-	-

Residential development business contributed 50% of 2007 consolidated revenues. Residential development includes sale of high-end lots and units, leisure properties, middle-income and affordable housing. The shopping center business unit contributed 16% and Equity in net earnings of investees, interest and other income contributed 11%.

Material Reclassification, Merger, Consolidation, or Purchase or Sale of a Significant Amount of Assets over the past three years

Since 2003, Ayala Land has implemented an asset rationalization program involving, among others, the sale of installment receivables and divestment of some non-core assets.

Asset sales in 2005 included sale of a Makati lot and preferred shares in Ayala Infrastructure Ventures, Inc. (AIVI), deemed no longer core, with the completion of the MRT-3 rail project. Asset sales in 2006 included sale of the Company's investment in Makati Property Ventures, Inc., the corporate vehicle for Oakwood Premier Ayala Center, and of ₱1.9 billion of accounts receivables to a bank and a non-bank financial institution. Makati asset sales in 2007 were bannered by 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 March 31, 2008, Ayala Land completed the sale of 100% of its equity shareholdings in three wholly-owned subsidiaries to Megaworld Corporation. The subsidiaries jointly own and operate a public parking facility in Ayala North, Makati Central Business District. The properties are considered non-strategic assets.

Various Diversification/new product lines introduced by the Company during the last three years

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

Ayala Land ventured into the development of office buildings catering to business process outsourcing firms and call centers. PeopleSupport Center broke ground in March 2004 and was completed in April 2005. Convergys started construction in July 2004 and was completed in October 2005, while InfoNXX Building was constructed from July to November 2005. In October 2006, Ayala Land signed a Contract of Lease with the University of the Philippines for a 38-hectare BPO campus project which broke ground in March 2007. In December 2006, Ayala Land formed Ayala Property Partners Corporation (APPCo), a joint venture with Goldman Sachs and Capmark Asia. APPCo subsequently bought PeopleSupport Center from Ayala Land. The Company's projects under APPCo include the UP TechnoHub, Dela Rosa Tower 1 and NUVALI Technopod.

Distribution Methods of Products

The Company's residential products are distributed to a wide range of clients through various sales groups.

Ayala Land (parent company) has its own in-house sales team. In addition, it has a wholly-owned subsidiary, Ayala Land Sales, Inc. (ALSI), which employs commission-based sales people. Ayala Land uses a sales force of about 2,000 brokers and sales agents guided by a strict Code of Ethics.

The Overseas Filipino market is being pursued through award-winning websites, permanent sales offices or broker networks, and regular roadshows with strong follow-through marketing support in key cities abroad. Ayala Land International Sales, Inc. (ALISI), created in March 2005, led the marketing, sales and channel development activities and marketing initiatives of the three residential brands abroad. ALISI also signed up marketing partners in Bahrain, Saudi Arabia, London and Spain. Avida established representative offices in Rome and Milan in Italy and in

Dubai. In addition, One Ayala program, which bundles the products and services of Ayala Land, the Bank of the Philippine Islands and Globe Telecom, gives access to potential Ayala Land clients overseas, e.g. through BPI's 17 overseas offices and 81 tie-ups.

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

Effective second half of 2008, residential sales support transactions of Ayala Land Premier, Community Innovations, and Avida will be undertaken by a shared services company being put up by the Company.

Competition

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

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

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

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

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

Project and Capital Expenditures (Consolidated)

In 2008, Ayala Land intends to launch 5,622 residential units, 8% more than the 5,182 units launched in 2007. Ayala Land also plans to aggressively expand its shopping centers as it continues to work on its programmed 236,000 sqm expansion of shopping center area from 2007 to 2011. Ayala Land is also embarking on a 652,000 sqm expansion of its Business Process Outsourcing buildings by 2011.

At the start of 2008, the Company budgeted ₱24.3 billion for consolidated project and capital expenditures, broken down as follows:

Shopping centers	14%
Corporate business	30%
Residential developments	42%
Strategic landbank management	10%
Visayas-Mindanao	3%
Support businesses	1%
	100%

Project and capital expenditures will be funded from existing cash and cash from operations, pre-selling, additional borrowings and proceeds from the sale of non-core assets. The above includes capital expenditures of unconsolidated affiliates.

During the first quarter of 2008, Ayala Land spent ₱4.3 billion for project and capital expenditures, 39% more than the ₱3.1 billion spent during the same period in 2007. Residential Development accounted for 48% of total, followed by Corporate Business with 28% and Shopping Centers at 17% of total capex.

The ₱4.3 billion capex for 1Q08 represents 17% of the full year budget of ₱24.3 billion. The Company expects to execute the bulk of its capex spending program in the second half of the year.

The Company will adjust its budgeted project and capital expenditure and funding programs in response to competition as well as prevailing and anticipated economic conditions.

Subsidiaries and Affiliates

As of March 31, 2008, there are several companies which are either subsidiaries or affiliates of Ayala Land. Certain details and the percentage of direct and effective ownership held by Ayala Land of each of these companies are described below:

	Ownership (%)	
	By Ayala Land	**By Subsidiary / Affiliate**
CORE BUSINESS		
Strategic Landbank Management		
Aurora Properties, Inc.	70.0	
Vesta Property Holdings, Inc.	70.0	
Ceci Realty, Inc.	60.0	
Emerging City Holdings, Inc.	50.0	
Columbus Holdings, Inc.		70.0
Bonifacio Land Corporation*	4.3	50.4
Fort Bonifacio Development Corp.**		55.0
Berkshires Holdings, Inc.	50.0	
Columbus Holdings, Inc.		30.0
Bonifacio Land Corporation*	4.3	50.4
Fort Bonifacio Development Corp.**		55.0
Regent Time International Limited	100.0	
Bonifacio Land Corporation *	4.3	3.9

	Ownership (%)	
	By Ayala Land	By Subsidiary / Affiliate
Buendia Landholdings, Inc.	100.0	
Red Creek Properties, Inc.	100.0	
Crimson Field Enterprises, Inc.	100.0	
Crans Montana Property Holdings Corp	100.0	
Amorsedia Development Corporation	100.0	
HLC Development Corporation		100.0
Residential Development		
Avida Land Corporation	100.0	
Buklod Bahayan Realty and Development Corp.		100.0
First Communities Realty, Inc.		100.0
Avida Sales Corp.		100.0
Community Innovations, Inc.	100.0	
Serendra, Inc.	28.1	38.9
Roxas Land Corporation	50.0	
Amorsedia Development Corporation	100.0	
OLC Development Corporation		100.0
Ayala Greenfield Development Corp.		50.0
Ayala Land Sales, Inc.	100.0	
Ayala Land International Sales, Inc.	100.0	
Shopping Centers		
Northbeacon Commercial Corporation	100.0	
Station Square East Commercial Corporation		69.0
ALI-CII Development Corporation	50.0	
Alabang Commercial Corporation	50.0	
North Triangle Depot Commercial Corporation	49.0	
Lagoon Development Corporation	30.0	
Ayala Theatres Management, Inc.	100.0	
South Innovative Theatre Management, Inc.		100.0
Five Star Cinema, Inc.	100.0	
Food Court Company, Inc.	100.0	
Leisure and Allied Industries Phils., Inc.	50.0	
Corporate Business		
Laguna Technopark, Inc.	75.0	
Glensworth Development, Inc.	100.0	
ALI Property Partners Holdings Corp.	60.0	
ALI Property Partners Corp.		60.0
One Dela Rosa Property Development Inc.		100.0
First Gateway Real Estate Corp.		100.0
UP North Property Holdings, Inc		100.0
Visayas Mindanao		
Cebu Holdings, Inc.	47.2	
Cebu Property Ventures & Development Corp.	8.0	76.0
Cebu Leisure Company, Inc.		100.0
CBP Theatre Management Inc.		100.0
Cebu Insular Hotel Company, Inc.		37.1

	Ownership (%)	
	By Ayala Land	By Subsidiary / Affiliate
International		
First Longfield Investments Limited	100.0	
Green Horizons Holdings Limited		100.0
ARCH Capital Management Co. Ltd.		17.0
ARCH Capital Partners L.P.		8.0
SUPPORT BUSINESS		
Construction		
Makati Development Corporation	100.0	
MG Construction Ventures Holdings, Inc.		66.0
Property Management		
Ayala Property Management Corporation	100.0	
Hotels		
Ayala Hotels, Inc.	50.0	
Enjay Hotels, Inc.		100.0
Cebu Insular Hotel Company, Inc.		62.9
OTHERS		
KHI-ALI Manila, Inc.	82.0	
KHI Manila Property, Inc.	20.0	
Astoria Investment Ventures, Inc.***	100.0	
ALInet.com, Inc.	100.0	
CMPI Holdings, Inc.	60.0	
CMPI Land, Inc.		60.0

**   ALI's effective ownership in Bonifacio Land Corporation is 37.2%*
*** ALI's effective ownership in Fort Bonifacio Development Corporation is 20.5%*
**** Pertains to common shares*

Strategic Landbank Management

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

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

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

Residential Development

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

Avida Land Corporation (incorporated in 1990), a 100%-owned subsidiary, continued to develop affordable housing projects which offer house-and lot packages and residential lots. Avida also ventured into the development and sale of farm/hacienda/commercial lots. Project launches in the past three years included Avida Towers Sucat, Avida Towers New Manila, Avida Towers San Lazaro, Avida Towers Makati West, Avida Settings NUVALI, Avida Residences San Fernando, Avida Residences Sta. Cecilia, and Riego de Dios Village.

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

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

Roxas Land Corp. (incorporated in 1996), 50% owned, sold-out One Roxas Triangle in 2007. The project was started in 1996 and was completed in September 2001.

Shopping Centers

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

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

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

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

North Triangle Depot Commercial Corporation (incorporated in 2001), 49% owned by Ayala Land, commenced development of TriNoma (formerly referred to as North Triangle Commercial Center), a 191,000-sqm mall constructed at the main depot of MRT-3 in Quezon City. TriNoma broke ground in June 2005 and partially opened in May 2007.

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

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

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

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

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

Corporate Business

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

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

Visayas-Mindanao

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

International

First Longfield Investments Limited (incorporated in 2006) is wholly-owned by Ayala Land. Through Green Horizons Holdings Limited, it has a 22% stake in Arch Capital Management Co. Ltd, the fund management company established to handle the US$330 million Asian private real estate equity fund which is co-sponsored by Ayala Land with Ayala Corporation.

Construction

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

Property Management

Ayala Property Management Corporation (incorporated in 1957), 100%-owned by Ayala Land, continued to manage properties of Ayala Land and its subsidiaries. It also provided its services to third-party clients.

Hotels

Ayala Hotels, Inc. (incorporated in 1991), 50% owned, continued to operate Hotel InterContinental Manila (through Enjay Hotels, Inc.) and Cebu City Marriott Hotel (through Cebu Insular Hotel Company, Inc.). In March 2007, AHI sold its 60% stake in Oakwood Premier Ayala Center to Ascott Residences.

Suppliers

The Company has a broad base of suppliers, both local and foreign. The Company is not dependent on one or a limited number of suppliers.

Customers

Ayala Land has a broad market base including local and foreign individual and institutional clients. The Company does not have a customer that will account for twenty percent (20%) or more of its revenues.

Research and Development

While the Company engages in research and development activities, the expenses incurred in connection with these activities are not material.

Employees

Ayala Land - parent company has a total workforce of 511 employees (2,009 including operating subsidiaries' manpower – both consolidated and equitized companies) as of March 31, 2008. The Company expects to, more or less, maintain its number of employees in the next 12 months.

The breakdown of the 511 ALI - parent company employees according to type is as follows:

Corporate Sales & Marketing Services Group	8
Project Development Group	236
Support Group	267
Total	511

In 2007, Ayala Land successfully renewed its Collective Bargaining Agreement (CBA) for a period of 3 years up to end-2009. In the same year, Ayala Land also rolled out the Employee Housing program for employees of the Company and its subsidiaries as well as employees of companies in the Ayala Group. The prime objective of the program is to provide employees who have rendered at least one (1) year of service the privilege of owning an Ayala Land property at a special price.

Intellectual Property and Licenses

Intellectual Property

The Company has been licensed by Ayala Corporation, as the owner of the brand and business name “Ayala”, to use the name “Ayala” in all of the Company’s current projects which carries the said brand. The Company is required to obtain the consent and approval of Ayala Corporation for future projects which will carry the brand.

Ayala Land (by itself or through its subsidiaries) has secured registrations for its major brands Ayala Land Premier, Community Innovations, Avida and Ayala Malls. As a matter of policy, the Company and its subsidiaries also apply for, obtain and maintain tradename registrations for its various developments, projects and events.

In the Philippines, certificates of registration of a trademark filed with the Philippine Intellectual Property Office prior to the effective date of the Philippine Intellectual Property Code in 1998 are generally effective for a period of 20 years from the date of the certificate, while those filed after the Philippine Intellectual Property Code became effective are generally effective for a shorter period of 10 years, unless terminated earlier.

Licenses

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

LPSC, a 50%-50% joint venture, is primarily engaged in the business of manufacturing, installation, erection and construction, marketing and promotion, and wholesaling of buildings, houses and other structures and accessories using the “Phenix” technology (for which a patent has been registered and issued in the Philippines under RP Patent No. 29862). Both MISA and Avida assigned their respective license rights to LPSC since the latter’s incorporation.

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

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

Registrations with the Philippine Intellectual Property Office and licenses held by the Company are being maintained and are up to date.

Regulation

Presidential Decree No. 957, as amended, is the principal statute which regulates the development and sale of real property as part of a condominium project or subdivision. Presidential Decree No. 957 covers subdivision projects and all areas included therein for residential, commercial, industrial and recreational purposes, and condominium projects for primarily residential purposes. The Housing and Land Use Regulatory Board (HLURB) is the administrative agency of the Government which enforces this decree and has jurisdiction to regulate the real estate trade and business.

All subdivision plans and condominium project plans are required to be filed with and approved by the HLURB. Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities. Alterations of approved plans which affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the relevant local government unit. Owners of or dealers in real estate projects are required to obtain licenses to sell before making sales or other dispositions of lots or real estate projects. Dealers, brokers and salesmen are also required to register with the HLURB. Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB by itself or upon complaint from an interested party.

Under current regulations, a developer of a residential subdivision is required to reserve at least 30% of the gross land area of such subdivision for open space for common uses, which include roads and recreational facilities. A developer of a commercial subdivision is required to reserve at least 3.5% of the gross project area for parks or playgrounds.

Under the agrarian reform law and the regulations issued thereunder by the Department of Agrarian Reform (DAR), land classified for agricultural purposes as of or after June 15, 1988, cannot be converted to non-agricultural use without the prior approval of DAR. However, there are opinions that the agrarian reform law expired on June 10, 2008.

There is generally no prohibition against foreigners owning building and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%.

Republic Act No. 7279 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same city or municipality, whenever feasible, and in accordance with the standards set by the HLURB.

Construction

The construction industry in the Philippines is subject to regulation by the Government as described below.

Licenses. A regular contractor's license is required to be obtained from the Philippine Contractors Accreditation Board (PCAB). In applying for and granting such license, the PCAB takes into consideration the applicant-contractor's qualifications and compliance with certain minimum requirements in the following criteria: (i) financial capacity, (ii) equipment capacity, (iii) experience of firm, and (iv) experience of technical personnel. Philippine laws also require a contractor to secure construction permits and environmental clearances from appropriate Government agencies prior to actually undertaking each project.

Minimum Philippine Ownership Requirement. Under Philippine law, in order to bid on publicly funded Government contracts, a contractor must be at least 75% owned by Philippine nationals. For purposes of this determination, so long as Ayala Land is owned at least 60% by Philippine nationals, Ayala Land will be considered owned by a Philippine National for purposes of the foregoing determination.

Property Laws

Land Registration

The Philippines has adopted a system of land registration which conclusively confirms land ownership which is binding on all persons, including the Government. Once registered, title to registered land can no longer be challenged except with respect to claims noted on the certificate of title. Title to registered lands cannot be lost through adverse possession or prescription.

Unregistered land may be brought under the system if, after proper surveying, application, publication, service of notice and hearing, the Regional Trial Court within whose jurisdiction the land is situated confirms title to the land. Persons opposing the registration may appeal the judgment within 15 days to the Court of Appeals or the Supreme Court. After the lapse of the period of appeal, the Register of Deeds may issue an Original Certificate of Title. The decree of registration may be annulled on the ground of actual fraud within one year from the date of entry of the decree of registration.

Any subsequent transfer or encumbrance of the land must be registered in the system in order to bind third persons. Subsequent registration and a new title in the name of the transferee will be granted upon presentation of certain documents and payment of fees and taxes.

Zoning

Land use may be limited by zoning ordinances enacted by provinces, cities or municipalities. Once enacted, land use may be restricted in accordance with a comprehensive land use plan approved by the relevant local government unit. Lands may be classified under zoning ordinances as commercial, industrial, residential or agricultural. While a procedure for change of allowed land use is available, this process may be lengthy and cumbersome.

Subdivisions and Condominiums

All subdivision and condominium plans for residential, commercial, industrial and other development projects are subject to approval by the local Government unit in which the project is situated. The development of subdivision and condominium projects can commence only after the local Government unit has issued the development permit.

The issuance of a development permit is dependent on compliance with required project standards and technical requirements which may differ depending on the nature of the project. A bond equivalent to 10% of the total project cost is required to be posted by the project developer to ensure commencement of the project within one year from the issuance of the development permit.

Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the HLURB. The license to sell may be issued only against a performance bond posted to guarantee the completion of the construction of the subdivision or condominium project and compliance with applicable laws and regulations. All documents evidencing conveyances of subdivision and condominium units should be registered with the Register of Deeds.

Title to the subdivision or condominium unit must be delivered to the purchaser upon full payment of the purchase price. Any mortgage existing thereon must be released within six months from the delivery of title.

Property Taxation

Real property taxes are payable annually based on the property's assessed value. The assessed value of property and improvements vary depending on the location, use and the nature of the property. Land is ordinarily assessed at 20% to 50% of its fair market value; buildings may be assessed at up to 80% of their fair market value; and machinery may be assessed at 40% to 80% of its fair market value. Real property taxes may not exceed 2% of the assessed value in municipalities and cities within Metro Manila or in other chartered cities and 1% in all other areas. An additional special education fund tax of 1% of the assessed value of the property is also levied annually.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate ("ECC") prior to commencement. As a requisite for the issuance of an ECC, an environmentally critical project must prepare an Environmental Impact Statement ("EIS") while a project in an environmentally critical area must prepare an Initial Environmental Examination ("IEE"), without prejudice to the power of the DENR to require a more detailed EIS. In case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandated.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the direct and indirect consequences to human welfare and ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the projects environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund ("EGF") when the ECC is issued to projects determined by the DENR to pose a significant public risk to life, health, property and the environment. The EGF is intended to answer for damages caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are mandated to include a commitment to establish an Environmental Monitoring Fund ("EMF") when an ECC is eventually issued. The EMF shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

The costs of compliance with such environmental laws and regulations varies on a case to case basis depending on the location of the project, the type of project and the extent of environmental impact as determined in the EIS.

Effects of existing or probable government regulations

The recent pronouncement by the DAR declaring a moratorium on the conversion of lands for non-agricultural purposes may operate to limit the land acquisition prospects of the Company. In any event, the said DAR moratorium on land use conversion does not affect the Company's current landbank.

DESCRIPTION OF PROPERTIES

Landbank / Properties

The following table provides summary information on Ayala Land's landbank as of March 31, 2008. Properties are wholly-owned and free of lien unless noted.

Location	***Hectares***	***Primary land use***
Makati [1]	53	commercial/ residential
Taguig [2]	33	commercial/ residential
Makati (outside CBD)	22	residential
Alabang [3]	18	commercial
Las Piñas	130	residential
Quezon City [4]	52	commercial/ residential
Manila / Pasay [5]	2	commercial/ residential
Pasig [6]	18	residential
Metro Manila	***328***	
Canlubang [7]	1,677	residential/ industrial/ commercial
Laguna (ex-Canlubang) [8]	854	residential/ industrial
Cavite [9]	126	residential
Batangas/Rizal/Quezon [10]	132	residential
Calabarzon	***2,789***	
Bulacan	51	residential
Pampanga [11]	11	residential
Naga	2	residential
Cabanatuan/ Baguio	72	residential
Bataan [12]	289	leisure/ residential
Other Luzon Area	***425***	
Bacolod/Iloilo [13]	269	residential
Cebu [14]	189	commercial/ residential
Davao	70	residential
Cagayan De Oro	195	residential
Visayas/Mindanao	***723***	
TOTAL	***4,265***	

[1] Makati includes sites of Mandarin Hotel (1.6 has.) and Peninsula Hotel (2.0 has.) which are 50% owned through Ayala Hotels, Inc., and remaining area at Roxas Triangle (0.5 ha.) which is 50% owned; 1.37 has. of which is mortgaged to Bank of the Philippine Islands in compliance with *Bangko Sentral ng Pilipinas* ruling on directors, officers, stockholders and related interests (DOSRI).

[2] Taguig includes 9.8-ha. site of Market! Market! under lease arrangement with Bases Conversion Development Authority (BCDA); 9-ha. site of Serendra which is under joint development agreement with Bases Conversion Development Authority; 14 has. in Taguig is owned through FBDC.

For Market! Market!, the lease agreement with the BCDA covers a period of 25 years (renewable for another 25 years) and involves an upfront cash payment of ₱700M and annual lease payments with fixed and variable components.

For Serendra, the joint development agreement with BCDA involves an upfront cash payment of ₱ 700M plus a guaranteed revenue stream totaling ₱1.1B over an 8-year period.

[3] Alabang pertains to the 17.6-ha. Alabang Town Center which is 50% owned through Alabang Commercial Corp. (ACC), 3.7 has. of which is subject of a Mortgage Trust Indenture as security for ACC's short-term loans with Bank of the Philippine Islands.

[4] Quezon City includes 38 has. under lease arrangement with University of the Philippines for a period of 25 years (renewable for another 25 years) at a rate based on 10% of gross lease revenues from office and retail leasing operations; and the 13-ha. site of TriNoma which is under lease arrangement with the DOTC until 2047 (renewable for another 25 years) with a predetermined lease schedule (₱230.5M for the fiscal year July 2008-2009). TriNoma is 49% owned by Ayala Land.

[5] Manila/Pasay includes 1.3 has. (under development) which are under joint venture with Manila Jockey Club, Inc. and 0.3-ha. site of Metro Point which is 50% owned through ALI-CII Development Corp.

[6] Pasig includes 18 has. for an upcoming residential project.

[7] Canlubang includes 1,307 has. which are 70% owned through Aurora Properties, Inc. and Vesta Holdings, Inc.; also includes 370 has. which are 65% owned through Ceci Realty, Inc.

[8] Laguna (excluding Canlubang) includes 100 has. which are under a 50-50% joint venture with Greenfield Development Corp.; 22 has. in Laguna Technopark, Inc. which is 61% owned by Ayala Land; and 3-ha. site of Pavilion Mall which is under 27-year lease arrangement with Extra Ordinary Group, with an option to renew every five years thereafter (lease payment is based on a certain percentage of gross income).

[9] Cavite includes 20 has. in Riego de Dios Village which is under joint venture with the Armed Forces of the Philippines.

[10] Batangas includes 17 has. in Sto. Tomas project which is under an override arrangement, while Quezon includes a 39-ha. property.

[11] Pampanga pertains to the site of Avida and CII projects, and an upcoming mall.

[12] Bataan pertains to the site of Anvaya Cove which is under joint development agreement with Subic Bay Development Corp.

[13] Bacolod includes 69 has. in Ayala Northpoint which is under override arrangement. Iloilo includes a 21-ha. property.

[14] Cebu includes about 12 has. in Cebu Business Park (including Ayala Center Cebu) which is 47% owned through Cebu Holdings, Inc.; 0.62-ha. hotel site owned by Ayala Hotels, Inc. and Cebu Holdings, Inc.; 9 has. in Asiatown IT Park which is owned by Cebu Property Ventures and Development Corporation which in turn is 76% owned by CHI; and 24 has. in Amara project, (66% owned by CHI) which is under joint venture with Coastal Highpoint Ventures, Inc. A 9.46-ha. Property (within the Cebu Business Park) which houses the Ayala Center Cebu is subject of a mortgage trust indenture securing term loan with Bank of the Philippine Islands; 0.62 has. is subject of a mortgage trust indenture securing Cebu Insular Hotel Company Inc.'s term loan with the Bank of the Philippine Islands.

Rental Properties

The Company's properties for lease are largely shopping centers and office buildings. It also leases land, carparks and some residential units. In the year 2007, rental revenues from these properties accounted for ₱4.97 billion or 19% of Ayala Land's consolidated revenues. Lease terms vary depending on the type of property and tenant.

Property Acquisitions

With 4,265 hectares in its landbank as of end-2007, Ayala Land believes that it has sufficient properties for development in the next 25 years.

The Company also sees opportunities in further expanding its market share in the sectors that are experiencing growth—residential, office (primarily BPOs) and shopping centers—as well as moving or positioning into new growth sectors (e.g. tourism estates) related to its core businesses. More particularly, the Company sees additional opportunities for strategic acquisitions and investments in the next two to three years, mainly in the form of strategic land parcels within and outside the Greater Manila Area.

Thus, at the Annual General Stockholders' Meeting on April 2, 2008, shareholders ratified the resolution of the Board of Directors approving the allotment and subsequent issuance of up to 1 billion common shares of stock of the Corporation with an aggregate par value of One Billion Pesos for the purpose of exchanging such shares for properties or assets and/or raise funds to acquire properties or assets needed for the business of the Corporation via issuance of equity or equity-linked instruments; and the amendment of the Amended Articles of Incorporation of the Corporation to exclude the aforementioned issuance of the shares from the preemptive rights of the stockholders. There is, however, no imminent transaction requiring the immediate issuance of said shares.

CERTAIN LEGAL PROCEEDINGS

As of end of May 2008, Ayala Land is not involved in any litigation it considers material. However, certain individuals and entities have claimed an interest in Ayala Land's properties located in Las Piñas, Metro Manila, which are adjacent to its development in Ayala Southvale.

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

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

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

In December 1999, plaintiffs Edgardo Vazquez and Vazquez Building Systems Corporation filed a patent infringement case against Avida, a wholly-owned subsidiary of Ayala Land. 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 unit patent; (b) 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 Vazquez patent, because these are not patentable as they do not qualify as "novelty." In a decision dated 18 December 2007, the Regional Trial Court 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 attorneys' 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 Edgardo Vazquez and Vazquez Building Systems Inc. to resolve the patent infringement case filed by the latter against Avida. The compromise became effective upon the approval by the Court of Appeals last March 17, 2008. This agreement paves the way for the final settlement of the case.

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") and the Department of Interior and Local Government ("DILG") filed two complaints with the Department of Justice ("DOJ") for 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 (the "Respondents"), for criminal negligence. On April 23, 2008, the DOJ-constituted panel of prosecutors issued a resolution dropping the complaints as against the officers/employees of APMC but recommended the filing of a criminal case against the other Respondents (the "Resolution"). The PNP questioned this Resolution and filed a Petition for Review with the Office of the Secretary of the DOJ, which to date, remains pending. No civil case has been filed by any of the victims. In the event that the Secretary of the DOJ decides to include the officers/employees of APMC as among the Respondents and file a criminal case against certain officers/employees of APMC as recommended by the PNP and DILG, the accused, if convicted after final judgment, can be held not only criminally but also civilly liable. In the event the accused will not be able to pay for the civil award, APMC will be held subsidiarily liable for such sums (the amount of which cannot be estimated). The Company and APMC believe, however, that the facts surrounding the incident do not show any negligence.

MARKET PRICE OF AND DIVIDENDS ON AYALA LAND'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Capitalization and Ownership

Ayala Land was incorporated in June 1988 and was listed on the Philippine Stock Exchange in July 1991. The Company's market capitalization as of end-2007, based on the closing price of ₱ 14.25/share, was approximately ₱185.8 billion.

As of end-March 2008, Ayala Land's market capitalization stood at ₱140 billion based on the ₱ 10.75/share closing price based on 13,034,603,881 Common Shares issued and outstanding.

There are approximately 11,474 holders of common equity security of the Company as of 31 March 2008 (based on number of accounts registered with the Stock Transfer Agent). The following are the top 20 holders of the common equity securities of the Company:

	Stockholder Name	No. of Common Shares	Percentage (of Common Shares)
1.	Ayala Corporation	6,898,380,448	52.92%
2.	PCD Nominee Corp. (Non-Filipino)	4,961,541,709	38.06%
3.	PCD Nominee Corp. (Filipino)	839,102,406	6.44%
4.	The Insular Life Assurance Company, Ltd.	17,027,852	0.13%
5.	ESOWN Administrator 2006	16,041,382	0.12%
6.	ESOWN Administrator 2005	15,248,828	0.12%
7.	Jose Luis Gerardo Yulo	12,682,458	0.10%
8.	Elvira L. Yulo	6,024,000	0.05%
9.	BPI T/A #14016724	5,928,408	0.05%
10.	Estrellita B. Yulo	5,732,823	0.04%
11.	Xavier P. Loinaz	5,621,590	0.04%
12.	ESOWN Administrator 2007	5,034,400	0.04%
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.	The Insular Life Assurance Co., Ltd.	3,698,160	0.03%
18.	Lucio W. Yan	3,483,871	0.03%
19.	Telengtan Brothers & Sons, Inc.	3,480,000	0.03%
13.	ALI ESOP/ESOWN Account	3,218,827	0.02%
20.	BPI T/A# 14016759	3,182,286	0.02%

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

On May 30, 2008, the SEC approved the Amended Articles of Incorporation to exclude from the pre-emptive rights of stockholders the issuance of up to one billion common shares of stock for the purpose of exchanging such shares for properties or assets and/or to raise funds to acquire properties or assets.

Dividends

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 capital expenditure and project requirements and the progress of its ongoing asset rationalization program.

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

Below is the recent Stock and Cash Dividend history of Ayala Land.

STOCK DIVIDEND (Per Share)			
PERCENT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
20%	April 26, 2000	May 16, 2000	June 26, 2000
20%	February 1, 2007	May 22, 2007	June 18, 2007

CASH DIVIDEND (Per Share)			
PESO AMOUNT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
0.03	November 16, 2005	December 16, 2005	January 6, 2006
0.03	May 2, 2006	June 1, 2006	June 27, 2006
0.11	November 15, 2006	December 5, 2006	December 19, 2006
0.03	November 15, 2006	December 14, 2006	January 4, 2007
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

Stock Price History

The following table sets out Ayala Land's share prices (adjusted for the effects of stock dividends) for the years 2005 to 2007 and for the first quarter of 2008.

	2008			2007			2006			2005		
Quarter	High	Low	Close	High	Low	Close	High	Low	Close	High	Low	Close
First	15.00	9.40	10.75	13.75	13.54	13.75	9.38	8.96	9.38	10.00	7.20	8.30
Second				17.75	17.25	17.50	9.38	9.17	9.17	8.80	7.20	7.80
Third				16.75	16.00	16.25	12.29	11.88	11.88	8.60	6.80	8.00
Fourth				14.75	14.25	14.25	12.92	12.50	12.92	8.33	5.67	8.00

As of July 31, 2008 Ayala Land's share price was at ₱9.80 per share.

Recent Sale of Unregistered or Exempt Securities

On February 1, 2007, Ayala Land's Board of Directors approved the increase in authorized capital stock from ₱12 billion to ₱20 billion by way of a 20% stock dividend. The increase will give Ayala Land additional shares that will provide it with the flexibility to raise additional equity capital and take advantage of investment opportunities.

Ayala Land subsequently increased its authorized capital stock from ₱20 billion to ₱21.5 billion to cover the offering and issuance of new 13.034 Billion Preferred Shares to the common shareholders of the Company as approved by the Board of Directors on July 5, 2007, ratified by the Stockholders on August 28, 2007, and approved by the SEC on October 18, 2007.

Stock Options

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:

Year	No. of Shares	
	ESOP (exercised)	ESOWN (subscribed)
2005	44.4 Million	18.0 Million
2006	23.4 Million	16.6 Million
2007	14.2 Million	5.0 Million
1Q2008	2.0 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.

Please refer to Note 23 ("Stock Option and Ownership Plans") of the Notes to Consolidated Financial Statements of the 2007 Audited Financial Statements.

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

Plan of Operations

Ayala Land's performance will continue to hinge on the overall economic performance of the country. Interest rate movements may affect the performance of the real estate industry, including the Company.

Principles of Consolidation

The consolidated financial statements represent the consolidation of the financial statements of Ayala Land and the following wholly owned and majority owned subsidiaries as of March 31, 2008:

	Effective Ownership (%)
Real Estate:	
Amorsedia Development Corporation and subsidiaries	100
OLC Development Corporation	100
Ayala Greenfield Development Corporation (AGDC)	50
Avida Land Corporation and subsidiaries (Avida)	100
Ayala Land International Sales, Inc.	100
Ayala Land Sales, Inc.	100
Buendia Landholdings, Inc.	100
Community Innovations, Inc.	100
Crans Montana Holdings, Inc.	
Crimson Field Enterprises, Inc.	100
Regent Time International, Limited	100
Northbeacon Commercial Corporation	100
Red Creek Properties, Inc.	100
Laguna Technopark , Inc.	75
Aurora Properties, Inc. (API)	70
Vesta Property Holdings, Inc.	70
Station Square East Commercial Corporation (SSECC)	69
Serendra, Inc.	67
Ceci Realty, Inc.	60
CMPI Holdings, Inc.	60
ALI-CII Development Corporation	50
Roxas Land Corporation	50
Construction:	
Makati Development Corporation	100
Hotels:	
Ayala Hotels, Inc. and subsidiaries	50
Property Management:	
Ayala Property Management Corporation	100
Ayala Theatres Management, Inc. and subsidiaries	100

	Effective Ownership
Entertainment:	
Five Star Cinema, Inc.	100
Leisure and Allied Industries Phils., Inc (LAI)	50
Others:	
ALInet.com, Inc.	100
Food Court Company, Inc.	100
NorthBeacon Commercial Corporation	100
First Longfield Investments Limited	100

Results of Operations for the Three Months Ended March 31, 2008

Ayala Land's consolidated revenues in the first quarter of 2008 totaled ₱8.23 billion, 41% higher than the ₱5.85 billion posted in the same period last year. Operating revenues increased by 34% to ₱7.08 billion, with strong growth from both residential and construction businesses. Shopping centers, corporate business and strategic landbank management also contributed to overall consolidated revenue growth, more than offsetting the decline in equity in net earnings and other income.

Complementing operating revenue growth was higher interest and investment income. The Company sold its shares in three subsidiaries (namely Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc.) in March and generated ₱762 million in pre-tax capital gains. This was higher than the ₱599 million in gains from the sale of shares in Makati Property Ventures (Oakwood) in 1Q07. The three subsidiaries jointly operate a public parking facility along Valero Street in Makati.

Consolidated net operating income (NOI) reached ₱2.19 billion in 1Q08, growing by 22% from the same period last year. Despite margin improvements in the residential and corporate businesses, overall NOI margin declined to 31%. Shopping center margins dropped due to the continued closure of high-margin Glorietta 2 and the loss of contribution from carparks with the start of the Ayala Center redevelopment late last year. Construction margins also dropped significantly due to lower margins on its large external contracts. Meanwhile, overhead costs grew at a slower rate than topline growth as general and administrative expenses increased by only 12% to ₱588 million.

Ayala Land ended the first quarter with a net income attributable to equity holders of Ayala Land of ₱1.83 billion, a significant 42% growth from the ₱1.29 billion posted last year.

Business Segments

Residential Development accounted for the biggest share of total revenues at 42% or ₱3.5 billion. This was followed by the Support Businesses at 25%, or ₱2.0 billion, again due to the growth in external construction contracts. Shopping Centers contributed 13% or ₱1.0 billion while Corporate Business generated 3% or ₱272 million. Strategic Landbank Management also accounted for 2% or ₱188 million, followed by Visayas-Mindanao with ₱22 million or less than 1%. Equity in net earnings of investees, interest and other income accounted for the balance of 14%.

Residential Development

Residential revenues grew strongly in the first quarter across all three of Ayala Land's brands. Community Innovations (CII) and Avida in particular posted double-digit growth rates of 25% and 37% respectively. As a result, total revenues reached ₱3.5 billion during the first three months of 2008, 19% more than the ₱2.9 billion reported during the same period in 2007.

Ayala Land Premier (ALP) projects generated ₱1.7 billion in revenues, 9% more than in 1Q07. High-end lots contributed ₱494 million (+10% y-o-y) with total booked sales of 128 lots, mostly from Abrio in NUVALI. High-end condominium units meanwhile added ₱970 million (-4% y-o-y), and was affected by the sell-out of The Residences at Greenbelt (TRaG), with only three units booked in 1Q08 against 110 units last year. The decline in the number of booked units at TRaG was however offset by a higher percentage of completion in 2008 (TRaG 1 at100%; TRaG 2 at 49%; and TRaG 3 at 16%). As a result of strong lot sales and higher completion rates, leisure project Anvaya Cove generated ₱204 million, up 161% from only ₱78 million in 2007.

CII's revenues increased 25% y-o-y to ₱1.1 billion in 1Q08. Booked units during the period grew by 76% to 292 units, with Treveia in NUVALI accounting for 72 lots and The Columns at Legazpi Village for 64 units. The relatively low construction accomplishment as of end-March tempered revenue growth.

Avida's revenues surged by 37% to ₱762 million in the first three months of 2008 due to steady progress of construction and an increase in booked units to 577 units from 456 units in 1Q07. Units taken-up during the period reached 901 units, 61% more than the 560 units taken-up in 1Q07. The first quarter was also highlighted by the strong market interest in the first tower of AVIDA Towers Makati West (take-up of 88% out of 462 units since launch in July 2007), as well as the launch of the second tower (406 units).

NOI for Residential Development contributed 45% of total NOI and grew 32% y-o-y in 1Q08 to ₱ 986 million. NOI margin likewise improved to 28% from 25% with the sale of more higher-margin lots.

Meanwhile, take-up of all residential projects reached 1,491 units, 17% more than in 1Q07. The sales value of these units however grew by just 2% to ₱5.5 billion with the lack of high-end condominium inventory for sale compared with last year. Out of the 5,600 units targeted for launch in 2008 (excluding residential projects in Visayas-Mindanao), 928 units were launched in the first quarter.

Shopping Centers

Ayala Land's Shopping Centers generated revenues of ₱1.0 billion during the first three months of 2008, growing by 6% from the same period last year. Average building occupancy rate was at 92% even with the growth in gross leasable area (GLA) to 886,000 from 678,000 square meters at end-March 2007. Additional GLA was contributed by TriNoma which opened in May 2007, Greenbelt 5 Phase 1 and The Link but was offset partially by the closure of Glorietta 2 and Park Square 2 in the fourth quarter of 2007. Average building rent stood at ₱1,104 per square meter per month, 9% higher than 1Q07.

NOI for Shopping Centers posted a slight decline of 1% to ₱584 million, while NOI margin dropped to 56% from 60%. The decline in margin was primarily due to the closure of Glorietta 2 which used to yield a high margin. This business line accounted for 27% of total NOI.

In Ayala Center, construction of the 18,000-square meter Greenbelt 5-Phase 2 and 9,500 square meters of Glorietta 5 retail is proceeding as scheduled and will be completed by the fourth quarter of 2008. Construction of the 70,000-square meter Q Shopping in Angeles, Pampanga is likewise ongoing, with target opening of May 2009. Meanwhile, construction of a retail-BPO development Davao City is also due to start in the fourth quarter, with Phase 1 of the shopping center targeted to open by late 2010 and Phase 2 by 2011.

Corporate Business

Revenues from Corporate Business amounted to ₱272 million in 1Q08, 17% higher than last year with the sale of three hectares at Laguna Technopark's expansion phase, higher office occupancy rates and average rental rates, as well as higher fee income from managed buildings.

NOI likewise grew to ₱160 million, an increase of 60% year-on-year compared to ₱100 million in 1Q07 largely because of Laguna Technopark lot sales this year versus none last year. NOI margins likewise improved by 16 percentage points to 59% with a 17% average increase in rental rates in the Company's traditional headquarter-type office buildings. Corporate Business' NOI accounted for 7% of total.

BPO projects initiated in 2007 and currently under construction will bring around 190,000 square meters in additional GLA when completed in 2008 to 2009. These projects consist of the following: six buildings of the UP TechnoHub, NUVALI Technopod Building 1, the BPO component of Glorietta 5, Dela Rosa E-Services, San Lazaro Building 1, BGC E-Services and Cebu eBloc. On average, 56% of the incremental GLA from these projects have already been pre-leased.

Strategic Landbank Management

Revenues of Strategic Landbank Management Group (SLMG) increased by 129% in the first three months of the year to ₱188 million largely from the revenues of NUVALI and higher construction completion on override units at The Columns at Ayala Avenue and Legazpi Village. A total of 27 units were booked in 1Q08 versus 40 in 1Q07.

NOI likewise increased by 170% to ₱74 million from ₱27 million, with NOI margin slightly improving to 35% from 33% last year. SLMG's NOI during the three-month period contributed 3% to total NOI.

Equity in net earnings from Ayala Land's 20% effective stake in Fort Bonifacio Development Corporation (FBDC) amounted to ₱41 million, down from ₱188 million in the first quarter of 2007. This drop resulted from a strategic decision on the part of FBDC to defer the sale of additional lots in Bonifacio Global City in order to realize the full value potential of the priming activities that are continuing.

The Company is continuing its efforts to drive the growth in land values of its three strategic landbank areas. In Makati, the implementation of the initial phase of the Ayala Center redevelopment is underway with site preparations already begun for the construction of a luxury hotel complex in partnership with Kingdom Hotel Investments. Construction is scheduled to commence this year while construction of Glorietta 5 is also underway and is set for completion by the end of 2008.

In Bonifacio Global City, the 29-storey BGC E-Services Building is under construction and is targeted to be completed in 2010. Plans for a new headquarter office building that will house the Philippine Stock Exchange (PSE) are also being finalized and will commence construction by the end of the year, with a target completion date of 2012. Also in the planning stages are several hotel projects, including the recently announced plans for a 6-star Shangri-La Hotels to be located at the West Superblock, beside the site of the new PSE building.

Priming of NUVALI, the Company's showcase township development for environmental, economic and social sustainability, is well underway. Better than expected land values have been realized for the 1,175 residential lots put on the market since the soft launch of all residential brands last October. 75% of all lots available for sale, with the full sell-out of high-end Abrio, have already been taken up as of end-March 2008. Significant progress is being made in the development of the road network, lake, Visitors' Center and the various retail, BPO and residential components. Completion of the NUVALI Technopod Building 1 in slated for the fouth quarter of 2008, with 50% of its 10,900 square meters of GLA already pre-leased as of end-March.

Visayas-Mindanao

Visayas-Mindanao's revenues slightly declined by 5% to ₱22 million in the first quarter from ₱24 million during the same period last year. Despite the increase in the number of booked units to 21 from 6 a year ago, most of the bookings came from newer phases of Plantazionne Verdana Homes and Ayala Northpoint (both in Bacolod), with relatively lower completion rates. NOI contribution was a negative ₱4.5 million.

In the coming months, additional subdivision lots will be launched in Amara North and Plantazionne Verdana Homes and these are expected to boost Visayas-Mindanao's profitability.

Support Businesses

The Support Businesses, namely Construction, Property Management and Hotels, generated revenues (net of inter-company eliminations) of ₱2.0 billion during the first three months of the year, double the revenues of the previous year for the same period. Total NOI for the support businesses in aggregate also grew by 18%, with the strong performance bannered by the robust growth in the Construction business.

Makati Development Corporation (MDC), Ayala Land's wholly-owned construction arm, reported revenues of ₱1.4 billion (net of inter-company eliminations), representing a 262% growth over first quarter 2007 revenues on the back of significant progress in construction accomplishment on external projects such as St.Luke's Hospital in BGC, the US Embassy expansion in Manila and Pasay, the Continental Temic Extension Building and some roadwork construction on segments of the South Luzon Expressway. These major projects account for 46% of the outstanding contracts with third parties. The construction business contributed ₱155 Million or 7% of the Company's NOI.

Ayala Property Management Corporation (APMC), a 100%-owned subsidiary, reported revenues of ₱176 million (net of inter-company eliminations) in the first three months of 2008, 2% less than the previous year's level. The slight decrease in revenues was brought about by closure of carparks such as Park Square 2 to give way to Ayala Center redevelopment. This was partly offset by new managed properties such as the HSBC building in BGC and Q Mall in

Pampanga, and higher commercial center parking rates. APMC's NOI amounted to ₱66 million or 3% of Ayala Land's NOI.

The Hotels group generated ₱351 million in revenues in the first quarter, showing a slight drop of 4% from the same period last year. While the Hotel InterContinental Manila was able to raise average room rates by 10% to ₱5,283, its occupancy went down to 84% from 85% in the same period last year. On the other hand, Cebu City Marriott Hotel's occupancy rate improved to 78% from 75%, but average room rates dropped by 20% to ₱3,034 due to increased competition in the area. The two managed hotels contributed ₱131 million or 6% to Ayala Land's NOI.

NOI margins however dropped to 19% from 32% largely because of the lower margins on MDC's external contracts and the loss of high-margin Park Square 2 for APMC.

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

Equity in Net Earnings from Investees dropped to ₱178 million in the first quarter of 2008, from ₱233 million in the same period last year. The decline is largely attributed to reduced earnings from FBDC which, as mentioned above, held off on additional lot sales at Bonifacio Global City in the light of the rapid land value appreciation currently being experienced.

Meanwhile, Equity Earnings from Cebu Holdings Inc. and Cebu Property Ventures Development Corp. were 91% higher at ₱102 million from ₱53 million, due to the continuing improvement of Ayala Center Cebu's performance with higher average rental and occupancy rates, GLA expansion, and the sale of lots at Cebu Business Park and Asiatown IT Park.

Alabang Commercial Center (holding company of Alabang Town Center), contributed ₱29 million, 16% more than the previous year because of higher rental rates, while Pavillion Mall's contribution of ₱1 million in the first quarter was double that of the previous year. TriNoma, which was already 94% leased out as of end-March 2008, has already been profitable in just its first year of operations and contributed ₱0.7 million.

Interest, fees, investment and other income was higher by 185% to ₱971 million in 1Q08 from ₱341 million in the same period last year. The bulk was contributed by the ₱762 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.

Expenses

For January to March 2008, total expenses amounted to ₱5.8 billion, 34% more than the ₱4.3 billion in 1Q07. Real estate cost of sales accounted for the bulk at ₱4.7 billion, 43% more than last year in line with the growth of the various business segments. Meanwhile, expenses for hotel operations remained steady at ₱220 million.

General and Administrative Expenses (GAE) were tightly controlled and rose by just 12% y-o-y to ₱588 million, a much lower pace than the 37% increase in real estate revenues. Meanwhile, interest and other charges increased to ₱292 million as end-March 2007 from ₱279 million the previous year.

Project and Capital Expenditures

During the first quarter of 2008, Ayala Land spent ₱4.3 billion for project and capital expenditures, 39% more than the ₱3.1 billion spent during the same period in 2007. Residential Development accounted for 48% of total, followed by Corporate Business with 28% and Shopping Centers at 17% of total capex,

The ₱4.3 billion capex for 1Q08 represents 17% of the full year budget of ₱24.3 billion. The Company expects to execute the bulk of its capex spending program in the second half of the year.

The breakdown of the Company's budgeted ₱24.3 billion for consolidated project and capital expenditures are as follows:

Shopping centers	14%
Corporate business	30%
Residential developments	42%
Strategic landbank management	10%
Visayas-Mindanao	3%
Support businesses	1%
	100%

Project and capital expenditures will be funded from existing cash and cash from operations, pre-selling, additional borrowings and proceeds from the sale of non-core assets. The above includes capital expenditures of unconsolidated affiliates.

The Company will adjust its budgeted project and capital expenditure and funding programs in response to competition as well as prevailing and anticipated economic conditions.

Financial Condition

Ayala Land's balance sheet continues to remain healthy with a Current Ratio of 1.72:1. Cash and Cash Equivalents stood at ₱11.6 billion, ₱0.3 billion more than the end-2007 level mainly due to proceeds from the aforementioned sale of the three subsidiaries. Meanwhile, Total Borrowings remained almost steady at ₱10.2 billion from the December 2007 level, translating to a Debt-to-Equity Ratio of 0.21:1.

Material Changes (+/- 5% or more) in the Financial Statements

Income Statement items – 1Q 2008 versus 1Q 2007

37% increase in real estate revenues
Primarily due to higher revenues from residential developments and construction business, well as higher shopping centers, corporate business and strategic landbank management revenues.

4% decline in hotel operations revenues
Mainly due to the lower occupancy rate of Hotel InterContinental Manila.

24% decrease in equity in net earnings of investees
Largely due to lower income from Ayala Land's corporate vehicles for its investment in Bonifacio Global City.

185% increase in interest, fees, investment and other income
Primarily due to the gain on sale of shares in Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc.

43% increase in real estate costs and expenses
Mainly due to higher real estate revenues.

12% increase in general and administrative expenses
Primarily due to higher payroll costs and benefits given salary and manpower increases.

5% increase in interest and other charges
Principally due to higher interest rates as well as costs related to the sale of shares in Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc.

10% increase in provision for income tax
Mainly due to the higher taxable income during the period.

72% decrease in net income attributable to minority interests
Largely due to lower income of Ayala Hotels, Inc. following the sale of Oakwood recognized in 1Q07.

<u>Balance Sheet items</u> – March 31, 2008 versus End-2007

7% increase in accounts and notes receivable (current portion)
Primarily due to booked sales recognized by Aurora Properties, Inc., higher receivables from Abrio, and increase in Makati Development Corporation's receivables from new projects.

11% increase in real estate inventories
Largely due to set-up of inventory and reserves of Avida Towers Makati West Tower 1, set-up of additional cost for Anvaya shares, and disbursements for actual development cost of Anvaya, Abrio and Westgrove.

31% increase in other current assets
Mainly due to Makati Development Corporation's deferred charges representing costs on future projects and higher prepaid expenses such as business tax, commissions and supplies inventories.

29% decline in non-current accounts and notes receivable
Largely due to higher estimated liability on new Avida projects namely Avida Towers Makati West and Avida Settings in NUVALI.

37% increase in deferred tax assets
Primarily due to higher recognized real estate sales.

5% increase in other non-current assets
Mainly due to reservation fund deposit paid to a property seller, increase in Meralco deposits for Westgrove and Southvale and disbursements for the Metro Davao project.

5% increase in account and other payables
Largely due to higher trade payable from construction of San Lazaro BPO building, NUVALI Technopod and other projects, and higher recognitions by Aurora Properties & CECI Realty as a result of lot reservations.

7% increase in short-term debt
Largely due to the new short-term loan availment by Avida from Metrobank.

44% increase in income tax payable
Primarily due to the 1Q2008 corporate income tax, in addition to the corporate income tax in 4Q2007 which was subsequently paid in April 2008.

6% increase in current portion of long-term debt
Mainly due to reclassification from non-current to current of loans of ALI Parent and AHI, and new loan availment of LAIPI.

31% decrease in other current liabilities
Mainly due to decline in buyers' deposits at The Columns at Ayala Avenue.

12% increase in pension liabilities
Primarily due to current year's accrual to the retirement benefit plan.

14% increase in deposits and other noncurrent liabilities
Mainly due to higher deferred credits from real estate sales and deferred rent from shopping centers and office leasing.

7% increase in retained earnings
Largely due to income generated in 1Q2008.

Balance Sheet

The table below sets forth the balance sheet of the Company and its majority-owned subsidiaries:

In Million Pesos	March 2008	December 2007	Increase / (Decrease)	
			Amount	%
Cash & Cash Equivalents	11,573	11,272	301	3%
Total Assets	86,280	82,981	3,298	4%
Total Borrowings	10,210	10,139	71	1%
Equity attributable to equity holders of Ayala Land	47,557	45,705	1,853	4%

Ayala Land engaged in several balance sheet strengthening initiatives last year such as the Preferred Shares issuance boosting cash balance by ₱1.3 billion, Paid off ₱3 billion bonds, Paid-out ₱716 million in cash dividends and increased authorized capital stock to ₱20 billion from ₱12 billion. The Company's shareholders also approved the allocation of 1.0 billion common shares for possible strategic investments.

Key Financial Performance Indicators – March 2008

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

	End-March 2008	*End-December 2007*
Acid-test ratio[1]	1.22:1	1.21:1
Current ratio [2]	1.72:1	1.65:1
Debt-to-equity ratio [3]	0.21:1	0.22:1
	1Q 2008	*2007*
Net profit margin [4]	25.8%	24.4%
Return on assets [5]	8.6% [5]	5.4%
Return on equity [6]	15.7% [5]	10.2%

[1] *Current assets less real estate inventories and other current assets / current liabilities*
[2] *Current assets / current liabilities*
[3] *Total interest-bearing debt (inclusive of bonds) / equity attributable to equity holders of Ayala Land, Inc.*
[4] *Net income attributable to equity holders of Ayala Land, Inc. / operating revenues from real estate and hotels*
[5] *Net income attributable to equity holders of Ayala Land, Inc. / average total assets*
[6] *Net income attributable to equity holders of Ayala Land, Inc. / average equity attributable to equity holders of Ayala Land, Inc.*
[7] *1Q08 NIAT annualized/average of end Mar-08 and end Dec-07 assets and equity attributable to equity holders of Ayala Land, Inc.*

The Company actively manages its liquidity position so as to ensure that all its short-term and long-term operating, investing and financing needs are met. ALI measures and forecasts its cash commitments, matches debt maturities with the assets being financed, maintains a diversity of funding sources with its unhampered access to bank financing and the capital markets, develops viable funding alternatives through its sale of receivables, non-core assets and adoption of joint development agreements for property acquisitions and developments, and holds a sufficient level of cash reserves and marketable securities.

Through scenario analysis and contingency planning, ALI also assesses its ability to withstand both temporary and longer-term disruptions relative to its capacity to finance its activities and commitments in a timely manner and at reasonable cost, and ensures the availability of ample unused credit facilities as back-up liquidity.

Review of 2007 Operations versus 2006

Results of Operations

Ayala Land posted a healthy 13% growth in consolidated net income attributable to equity holders of Ayala Land, reaching ₱4.4 billion from ₱3.9 billion in 2007, on the back of significant margin expansion in the Company's key business lines. Consolidated revenues meanwhile increased 1% to ₱25.7 billion from ₱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 ₱22.9 billion last year, down by 3% from ₱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 ₱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 ₱787 million, compared to ₱306 million in 2006. Meanwhile, the Company booked a net gain after tax of ₱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 ₱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 ₱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 ₱13.0 billion or 50% of total revenues. This was followed by Shopping Centers at ₱4.2 billion or 16% of total and Corporate Business at ₱993 million or 4% of total. Strategic Landbank Management generated ₱373 million and Visayas-Mindano added ₱176 million for a combined 2% share of total revenues.

Collectively, the Support Businesses, comprised of Hotels, Construction and Property Management, reported revenues of ₱4.2 billion, or 16% of total revenues. The balance of ₱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 ₱13.0 billion in 2007, 7% lower than the ₱14.0 billion posted in 2006. Avida 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 ₱16.0 billion versus the ₱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 ₱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 ₱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 ₱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 ₱840 million, 42% more than the ₱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 ₱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 Corporation. Avida's revenues grew by 54% to ₱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 ₱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 shall be launched and added to inventory, 8% more than what was brought into the market in 2007. Some projects shall 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 ₱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 ₱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 ₱124 million from ₱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 ₱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 ₱487 million, a decline of 8% compared to ₱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 ₱373 million in 2007, 47% lower than the ₱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 ₱43 million from ₱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 ₱439 million, from ₱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 ₱52,250 to ₱210,975 per square meter compared to only ₱47,025 to ₱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 Philippine Stock Exchange 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 ₱176 million, a 5% improvement from ₱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 ₱1.1 billion, with net income up by 22% to ₱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 ₱372 million and net income growth of 107% to ₱173 million. As a result, equity in net earnings from CHI and CPVDC amounted to ₱138 million, 41% more than the ₱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 ₱4.2 billion or a 21% growth y-o-y. Of this amount, the Hotels generated ₱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 ₱3,987 vs. ₱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 ₱2,402 versus ₱2,532 in 2006. Combined, the Hotels contributed ₱444 million to ALI's NOI.

Makati Development Corporation (MDC), ALI's wholly-owned construction arm, reported revenues of ₱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 ₱18.8 billion from 38 projects. About 41% of the outstanding contracts were for third parties. The construction business contributed ₱395 million to ALI's NOI.

Ayala Property Management Corporation (APMC), a 100%-owned subsidiary, reported revenues of ₱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 Carparks in Paseo de Magallanes and Madrigal Business Park, and the increase in occupancy of commercial spaces in CBD carparks. APMC's NOI amounted to ₱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 ₱2.1 billion from ₱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, ₱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 ₱787 million from ₱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 ₱439 million from ₱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 ₱52,250 to ₱210,975 in 2007 from ₱47,025 to ₱143,560 last year.

Meanwhile, Equity Earnings from CHI/CPVDC were 41% higher at ₱138 million from ₱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 ₱110 million, 33% more than the previous year because of a higher occupancy rate, while TriNoma, which opened in May, contributed ₱13 million on its first year of operation.

Expenses

Total Expenses, including provision for income tax, were flat for 2007 at ₱21.2 billion, compared with ₱21.5 billion in 2006. Direct Costs and Operating Expenses for the real estate and hotels business dropped by 6% to ₱15.1 billion as various cost management initiatives started in previous years began to bear fruit. The amount of real estate costs and expenses in the Statement of Income included other direct costs such as rentals, utilities, repairs and maintenance costs, taxes, advertisement and promotion. Meanwhile, General and Administrative Expenses increased by 4% to ₱2.7 billion following a continuing organizational build-up to address the aggressive expansion plans for the future.

Interest and other charges of ₱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 ₱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

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

Financial Condition

The Company's balance sheet continues to be healthy with a current ratio of 1.65: 1. As of end2007, Cash and cash equivalents, short-term investments, and fair value through profit or loss financial assets stood at ₱13.6 billion, 43% higher than the end-2006 level of ₱9.5 billion with the collection of full payments from completed Serendra units and deposits from Preferred Shares subscriptions. Total Borrowings were at ₱10.1 billion, from ₱12.8 billion as of December last year, translating to a Debt-to-Equity Ratio of 0.22: 1.

Prepaid expenses amounting to ₱1.27 billion includes prepaid commissions, prepaid insurance, prepaid association and membership dues, prepayments to suppliers and other prepaid expenses.

The Land and Improvements under Noncurrent Assets amounting to ₱16.40 billion consists substantially of the cost of land held for future development.

Key Financial Performance Indicators

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

	End-2007	*End-2006*
Acid test ratio [1]	1.23:1	1.13:1
Current ratio [2]	1.65:1	1.64:1
Debt-to-equity ratio [3]	0.22:1	0.32:1
Net debt/(cash)-to-equity ratio [4]	(0.08):1	0.08:1
	FY 2007	*FY 2006*
Net profit margin [5]	19.2%	16.4%
Return on assets [6]	5.4%	5.2%
Return on equity [7]	10.2%	9.8%

[1] *Current assets less real estate inventories and other current assets / current liabilities*
[2] *Current assets / current liabilities*
[3] *Total interest-bearing debt (inclusive of bonds and CPs) / equity attributable to equity holders of Ayala Land, Inc.*
[4] *Interest-bearing debt less cash, cash equivalents, short-term investments and fair value through profit or loss financial assets / equity attributable to equity holders of Ayala Land, Inc.*
[5] *Net income attributable to equity holders of Ayala Land, Inc. / operating revenues from real estate and hotels*
[6] *Net income attributable to equity holders of Ayala Land, Inc. / average total assets*
[7] *Net income attributable to equity holders of Ayala Land, Inc./ average equity attributable to equity holders of Ayala Land, Inc.*

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.

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 Ayala Land'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.

93% 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, short-term investments and fair value through profit or loss financial assets
Primarily due to deposits received from Preferred Shares subscriptions and sale of Oakwood.

48% 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 Ayala Land (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 ₱2 billion bonds to current portion.

91% 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.

Liquidity and Capital Resources

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

Cashflow from existing operations and borrowings were used for Ayala Land's (consolidated) project and capital expenditures aggregating ₱15.4 billion. Ending cash level (including short-term investments and fair value through profit or loss financial assets) stood at ₱13.6 billion while current ratio was at 1.65:1.

Guided by prudent financing strategies, Ayala Land kept its borrowings at low levels, placing bank debt-to-equity ratio at a low level of 0.22:1. Total borrowings registered at ₱10.1 billion, the bulk of which is long-term and peso-denominated.

Factors which may have material impact in Company's operations

Economic Factors

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

Competition

For a discussion on the Company's competition, see section entitled "Risk Factors and Other Considerations – Ayala Land faces a highly competitive business environment".
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 were no significant elements of income or loss that did not arise from continuing operations.

Review of 2006 Operations versus 2005

Results of Operations

Ayala Land's consolidated revenues in 2006 hit a new high of ₱25.6 billion, 20% higher than the previous year's ₱21.4 billion, notwithstanding the absence of extraordinary gains generated from the sale of the company's MRT investment in 2005. Operating revenues, excluding equity in net earnings of investees, interest and other income, totaled ₱23.6 billion and grew at an even higher rate of 37%. Heightened activity across all business lines drove operating revenues, with residential development and leasing businesses contributing the bulk.

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

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

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

Business Segments

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

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

Residential Development

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

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

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

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

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

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

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

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

Shopping Centers

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

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

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

Corporate Business

Revenues from Corporate Business reached ₱1.3 billion in 2006, a 111% growth y-o-y. The high growth was due to the sale of 1,407 square meters at Ayala Life-FGU, full year contribution of the three BPO buildings (started 3Q05) and the 8 percentage point rise in 6750's occupancy rate to 98%. On the average, ALI's traditional office buildings enjoyed an occupancy rate of 98%, an improvement from 2005's 93%.

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

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

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

Strategic Landbank Management

Strategic Landbank Management's revenues are generated mainly from override units from The Columns at Ayala Avenue and Legazpi Village, as well as Avida Towers Sucat, Avida Residences Catalina and Sampaguita Village. Additional bookings only reached 96 units from 176 in 2005, but additional revenues from construction accomplishment of previous bookings boosted revenues. Revenues amounted to ₱707 million in 2006, 42% higher than the previous year.

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

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

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

Visayas-Mindanao

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

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

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

Support Business

The Hotels, Construction and Property Management businesses generated revenues, net of inter-company eliminations, of ₱3.4 billion, a 29% growth y-o-y. Of this amount, the Hotels generated ₱1.1 billion, improving by 3% from previous year. The minimal increase in Hotel revenues is attributed to the partial closure of Hotel InterContinental Manila as refurbishment work was done from April to November. As a result, the hotel's average occupancy rate in 2006 dropped to 61% from 76% in the previous year. However, the hotel has been close to being fully occupied since its re-launch in November.

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

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

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

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

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

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

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

Expenses

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

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

Project and Capital Expenditures

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

Financial Condition

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

The company's balance sheet remained strong with Current Ratio at 1.64:1. Cash and Equivalents (including short term investments and fair value through profit or loss financial assets) was at ₱9.5 billion, 41% higher than the end-2005 level of ₱6.8 billion, with the increase attributed to additional cash from operations and the issuance of ₱3.0 billion Fixed Rate Corporate Notes (FXCN) in September, at a blended cost of 7.4%. As a result of the FXCN, total borrowings increased by 20% to ₱12.8 billion from ₱10.7 billion in December 2005, and Debt-to-Equity Ratio slightly increased to 0.32:1 from the previous year's 0.28:1. Nonetheless, net debt-to-equity improved to 0.09:1 from 0.10:1 with Cash and Equivalents increasing faster than total borrowings.

Key Financial Performance Indicators

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

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

[1] *Current assets / current liabilities*
[2] *Total interest-bearing debt (inclusive of bonds and CPs) / equity attributable to equity holders of Ayala Land, Inc.*
[3] *Interest-bearing debt less cash and cash equivalents, short-term investments and fair value through profit or loss financial assets / equity attributable to equity holders of Ayala Land, Inc.*
[4] *Net income attributable to equity holders of Ayala Land, Inc. / average total assets*
[5] *Net income attributable to equity holders of Ayala Land, Inc. / average equity attributable to equity holders of Ayala Land, Inc.*

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

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

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

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

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

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

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

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

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

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

Balance Sheet items – End-2006 versus End-2005

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

Guided by prudent financing strategies, ALI kept its borrowings at low levels, placing bank debt-to-equity ratio at a low level of 0.32:1. Total borrowings registered at P13.1 billion as of December 31, 2006, the bulk of which is long-term and peso-denominated.

Factors which may have material impact in Company's operations

Economic Factors

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

Competition

For a discussion on the Company's competition, see section entitled "Risk Factors and Other Considerations – Ayala Land faces a highly competitive business environment".

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 were no significant elements of income or loss that did not arise from continuing operations.

Review of 2005 Operations versus 2004

Results of Operations

Ayala Land delivered strong results in 2005, amidst the challenges faced by the real estate industry. Consolidated revenues of ₱21.38 billion were 23% higher than the ₱17.41 billion registered in 2004, due to improved performance across most business lines.

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

Proceeds from the sale of the Company's interest in preferred redeemable shares of Astoria Investment Ventures, Inc. (AIVI), the holding company for its investment in MRT Holdings, Inc., amounted to ₱3.53 billion and further boosted revenues.

Net income attributable to equity holders of Ayala Land amounted to ₱3.62 billion, 21% higher than the previous year, due to higher revenues and the ₱2.28 billion net gain from the AIVI transaction, offset by provisions and write-offs of ₱1.82 billion. Excluding the AIVI transaction and provisions and write-offs, net income attributable to equity holders of Ayala Land from regular operations amounted to ₱3.16 billion, a growth of 12%. With the net gain from the AIVI transaction, but before provisions and write-offs, net income attributable to equity holders of Ayala Land registered at ₱ 5.44 billion, 82% higher than comparable 2004 net income attributable to equity holders of Ayala Land.

Revenues

The Company's five core business lines, consisting of shopping centers, corporate business, residential developments, Visayas-Mindanao, and the newly-created Strategic Landbank Management, contributed ₱14.53 billion in revenues or 68% of total. Revenues from support businesses, consisting of construction, hotels, property management and waterworks, amounted to ₱2.67 billion, accounting for 12% of total. The remaining balance of ₱4.20 billion represents interest and investment income, equity in net earnings and other income, the bulk of which are proceeds from the divestment of non-core assets.

Residential Developments

Revenues from residential developments grew by 10% to ₱9.65 billion and contributed 45% to total revenues. Revenues were derived from sales and financing income of four residential operating units, as well as management and marketing fees from projects covered by joint development agreements.

Of the ₱9.65 billion, more than half of residential revenues were generated by Ayala Land Premier, which caters to the traditional high-end customers. Sales from middle-income market are also on the rise. Revenues from the sale of upper mid-income housing products of Community Innovations and affordable housing units of Avida Land grew by 75% and 12%, respectively.

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

High-end residentials.

A total of ₱5.00 billion was generated from the sale of lots and units by newly-formed Ayala Land Premier which caters to high-end customers. Booked sales consist of 480 residential lots, mostly from Ayala Westgrove Heights, Ayala Greenfield Estates and Sonera, and 359 residential units, mostly from The Residences at Greenbelt (San Lorenzo Tower) and Serendra District 1.

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

Leisure.

Anvaya Cove, Ayala Land's first high-end seaside residential community in Bataan, was well received by the market. Six months after launch in July 2005, the project had a take up rate of 111 or 47% of 237 residential lots and 558 or 23% of 2,450 club shares which were offered in two tranches. The second tranche of club shares was put on the market with a 6% price increase in August, two months after initial offering in July. Despite brisk sales, revenues amounted to only ₱173 million due to minimal construction accomplishment. Development and sales activities are proceeding as planned. In January 2006, 17 villa units priced at ₱20 million to P25 million were offered for sale.

Upper-mid income housing.

Community Innovations' (CII) revenue contribution of ₱2.15 billion grew by 75% from the previous year. Bookings of CII decreased to 575 units from 637 in 2004 given the timing of project launches towards the end of the year. The bulk of booked units were from Serendra District 2 and The Columns at Ayala Avenue, which were almost sold out at year-end. Despite the 10% decline in bookings, revenue growth was strong due to construction accomplishments at Serendra and The Columns at Ayala Avenue, and accelerated revenue recognition following the sale of CII's installment receivables. In November 2005, The Columns at Legazpi Village, consisting of 390 units, was soft launched, followed by the launch in December of Celadon Residences, consisting of 114 townhouse units, at the site of the former San Lazaro racetrack in Manila. By year-end, 25 units at The Columns at Legazpi Village and 35 units at Celadon Residences were taken up.

Affordable housing.

Revenue contribution of Avida Land Corporation, the new corporate name for Laguna Properties Holdings, Inc., increased to ₱2.15 billion or 12% from ₱1.93 billion in 2004 as a result of construction accomplishments at Avida Towers in Sucat and New Manila. Sales volume amounted to 1,538 booked units, with affordable lots, house-and-lot packages and condominium units accounting for about 80% of total. Bookings of affordable condominium units more than doubled to 560 from the previous year's 222 units, reflecting the continued success of its high-density, affordable residential product. Three towers launched during the year, namely Avida Towers Sucat- Tower 3, Avida Towers New Manila-Tower 2 and Avida Towers San Lazaro, consisting of 1,052 units, enjoyed brisk sales. Indicative of strong market interest is the 33% take-up rate for the 390-unit Avida Towers San Lazaro one month after launch. This tower is part of the Company's mixed-use development in San Lazaro which includes the Celadon Residences of CII also launched at the same time.

Shopping Centers

Revenues from shopping centers, mostly from land and building rentals, amounted to ₱3.56 billion, an increase of 22%, and contributed 16% of total revenues. The robust growth in revenues can be attributed to the full year operations of Market! Market! Phase 1A and SM Expansion coupled with improved merchant sales, particularly from replacement tenants at Ayala Center. A 5%-12% percent increase in basic rent also contributed to revenue growth. Although same-store sales were almost flat, total retail sales from all malls were up 10% as a result of year-round efforts to enhance each property's value propositions to shoppers and merchants. Occupancy levels continued to rise across all malls and retail areas and averaged at 91%. Market! Market!, including newly-opened Phase 1B, was already 65% occupied, with 81% of leasable area leased/committed as of end-2005. In 2005, Ayala Land steadily increased its shopping center portfolio. Phase 1B of Market! Market, consisting of nearly 34,000 sqms, soft opened in October. The retail areas at PeopleSupport Center and Convergys, totaling around 2,300 sqms, also opened and were fully let by December 2005. Construction of North Triangle Commercial Center, with its leasable area of nearly 200,000 sqms, would expand current retail portfolio by 26%. Given strong merchant interest, lease out is on schedule. An anchor tenant, Landmark Department Store, has already been engaged.

Corporate Business

In 2005, revenues from corporate business amounted to ₱632 million or 3% of total revenues. This represents a 5% decline from the previous year's level because of the absence of any office space sale compared to sale of 1,773 sqms at Ayala Life-FGU Makati in 2004. The decline in revenues was partly offset by the start of operations of PeopleSupport Center and Convergys, which added 36,000 sqms to the Company's office rental portfolio, and the sale of 6.25 hectares at Laguna Technopark compared to 3.7 hectares sold in 2004. Occupancy of ALI's traditional office buildings, namely Tower One, 6750, MSE, Ayala Life- FGU Makati, and Ayala Life-FGU Alabang, averaged at 93% during the year. Average occupancy level improved to 98% towards year-end following closure of deals with replacement tenants.

Strategic Landbank Management

A newly created business line formalized to actively manage the Company's landbank, the Strategic Landbank Management Group generated revenues of ₱499 million, consisting of its share of sales at The Columns at Ayala Avenue and Avida projects. This new group contributed 2% to consolidated revenues. Compared to 2004, revenues declined by 27% owing to the absence of a Makati lot sale in 2005. Revenue decline was, however, partly offset by additional construction accomplishment at The Columns at Ayala Avenue and Avida Towers Sucat where ALI has override units.

In 2005, significant progress was made in developing a long-term vision for the Company's key properties and identifying initiatives to catalyze their development. A masterplan review process was initiated for certain strategic parcels in Makati such as Ayala Center and the Ayala Triangle. Also during the year, a redesign of the masterplan for Fort Bonifacio's City Center core was undertaken. South of Metro Manila, the Canlubang properties likewise underwent a masterplanning review process aimed at developing the area into a complete and integrated township.

Visayas-Mindanao

Projects in the Visayas and Mindanao areas, primarily Plantazionne Verdana Homes and Ayala Northpoint in Bacolod, contributed ₱183 million or 1% to consolidated revenues. This grew by 16% year-on-year on account of higher unit bookings at Plantazionne.

Support Businesses

Ayala Land's support businesses, consisting of construction, property management, waterworks and hotels, collectively generated revenues of P2.67 billion or 12% of total and grew by 7%. Each of these businesses is a source of competitive advantage.

Construction.

Growth of service revenues was driven by Makati Development Corporation (MDC) revenues of ₱1.06 billion, 7% higher than 2004 revenues, net of inter-segment eliminations. Higher revenues from infrastructure projects, equipment rentals and concrete products accounted for MDC's strong performance. Before inter-segment eliminations, MDC revenues totaled ₱3.67 billion, up 5%. Net income likewise increased and amounted to ₱268 million.

Property Management.

Revenues of Ayala Property Management Corporation (APMC), net of inter-segment eliminations, grew by 6% to ₱486 million due to new facilities management contracts with third parties, notably for the NAIA Terminals 2 & 3 and International School Manila. Prior to inter-segment eliminations, total APMC revenues of ₱717 million increased by 3%.

Waterworks.

Operation of water facilities at Company-developed projects Ayala Alabang Village and Laguna Technopark amounted to ₱270 million, up 10% year-on-year,

Hotels.

The Company's properties, namely Hotel InterContinental, Cebu Marriott and Oakwood Premier Ayala Center, benefited from increased visitor arrivals and investor interest, such as BPO companies, in terms of occupancy and room rates. Total revenues of ₱1.01 billion were up 5% due to higher room rates and revenues per available room across all Company-owned properties. Average occupancy rate was up at 82%, with Oakwood and Marriott outperforming their respective markets in terms of occupancy, room rates and revenues per available room.

Equity in Net Earnings of Investees, Interest and Other Income

Interest and other income amounted to ₱4.20 billion, a significant increase from ₱1.71 billion in 2004 largely because of the ₱2.28 billion gain from sale of AIVI shares. Of the P4.20 billion, equity in net earnings contributed ₱221 million, up by 6% as a result of the improved performance of Alabang Commercial Corporation and Cebu Holdings, Inc.

Expenses

Total costs and expenses, including provision for income tax, grew to ₱17.52 billion, up 20%, compared to ₱14.56 billion in 2004. Of the ₱17.52 billion, interest and other charges accounted for ₱3.31 billion, up from ₱1.26 billion, mainly due to provisions and write-offs. General and administrative expenses, which amounted to 15% of real estate and hotel revenues, grew by 13% given increased payroll costs due to CBA adjustments and subsidiaries' expansion, and higher stock option availments.

Net Operating Income (NOI) and NOI Margins

Net operating income amounted to ₱5.86 billion, with residential developments and shopping centers as key contributors. Residential developments contributed ₱2.35 billion or 38% of total NOI. Shopping centers generated ₱2.11 billion or 34% of total. Overall NOI margin fell slightly to 34% from 36% due to Market! Market! which pulled down shopping center margins and the rental commencement at BPO buildings. The absence of a Makati land sale in 2005 also pulled margin lower.

Project and Capital Expenditures

The 2005 consolidated project and capital expenditures amounted to ₱6.8 billion, or 50% of the ₱13.6 billion budgeted for that year. Residential developments accounted for 75% of the disbursements while 17% was spent for shopping centers. About 6% was used for office building projects of the corporate business group. The balance was spent for projects of the Visayas-Mindanao and strategic landbank management groups and for support businesses. Actual 2005 consolidated expenditures was below budget due to the timing of closing of negotiations for acquisition and subsequent development of properties.

Financial Condition

Due to improved operating results, the Company ended the year with a strong balance sheet, a solid platform for future growth. Liquidity was enhanced by cash inflows from operations and sale of non-core assets and receivables. In 2005, the Company sold a total of ₱1.1 billion installment receivables. Total interest-bearing debt was reduced by 20% to ₱10.7 billion, bringing debt-to-equity and net debt-to-equity ratios down to 0.28:1and 0.10:1, respectively. While prepaying debt, the Company managed to pay out a total of ₱3.2 billion in regular and cash dividends.

Key Financial Performance Indicators

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

	End-2005
Current ratio [1]	1.56:1
Debt-to-equity ratio [2]	0.28:1
Net debt-to-equity ratio [3]	0.10:1
	FY 2005
Return on assets [4]	4.7%
Return on equity [5]	9.4%

[1] *Current assets / current liabilities*

[2] *Total interest-bearing debt (inclusive of bonds and CPs) / equity attributable to equity holders of Ayala Land, Inc.*

[3] *Interest-bearing debt less cash, cash equivalents & investment in government securities / equity attributable to equity holders of Ayala Land, Inc.*

[4] *Net income attributable to equity holders of Ayala Land, Inc. / average total assets*

[5] *Net income attributable to equity holders of Ayala Land, Inc. / average equity attributable to equity holders of Ayala Land, Inc.*

Liquidity and Capital Resources

The Company sourced its capital requirements through a combination of internally generated cash, pre-selling, joint ventures, borrowings, and sale of receivables and non-core assets. Ayala Land's fundamentals remained unchanged and its balance sheet continued to reflect strength and stability. Cashflow from existing operations and borrowings were used for ALI's (consolidated) project and capital expenditures aggregating P6.8 billion. Ending cash level (including short-term investments) stood at P6.8 billion while current ratio was at 1.56:1. Guided by prudent financing strategies, ALI kept its borrowings at low levels, placing bank debt-to-equity ratio at a low level of 0.28:1. Total borrowings registered at P10.7 billion, the bulk of which is long-term and peso-denominated.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

SyCip Gorres Velayo & Company, audited the Ayala Land, Inc. financial statements and schedules for the years ended 31 December 2005, 2006 and 2007, included in this Prospectus and has the following registration numbers:

CPA Cert. #	88118
PTR #	0017583, January 3, 2008, Makati City
SEC Accreditation #	0114-AR-1

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

	Audit & Audit-related Fees	Tax Fees	Other Fees
2007	7.7*	-	-
2006	7.2*	-	-

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

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

For March 31, 2008 Financial Statements

The consolidated financial statements of Ayala Land and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the Philippines, as set forth in PFRS. Accounting principles/policies and methods of computation applied for the three months ended March 31, 2008 are the same as those applied in the preceding calendar year, except as follows:

- Philippine Interpretation IFRIC-12, Service Concession Arrangement. covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remain in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This Interpretation did not have any impact on the consolidated financial statements as this is not relevant to the Group's current operations.

- Philippine Interpretation IFRIC-14, IAS 19, Limit on Defined Benefit Asset, Minimum Funding Requirement and Other Interaction, provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. This Interpretation did not have any impact on the consolidated financial statements.

The Group has not applied the following PFRS and Philippine Interpretations which are will be effective for fiscal years beginning January 1, 2009:

- Amendment to PAS 1, Amendment on Statement of Comprehensive Income, which requires that statement of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with detail included in a separate statement. Owners are defined as holders of instruments classified as equity.

In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statement of income together with 'other comprehensive income'. The revisions specify what is included in other comprehensive income, such as gains and losses on AFS financial assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can 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.

- PAS 23, Borrowing Costs, 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, this change in accounting for borrowing costs shall be accounted for prospectively. 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. The Group does not expect that the adoption of this Standard will have a significant impact on the consolidated financial statements.

- PFRS 8, Operating Segments, adopts a management approach to reporting segment information. PFRS 8, will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Group will apply PFRS 8 in 2009 and will assess the impact of this Standard on its current manner of reporting segment information.

- Philippine Interpretation IFRIC-13, Customer Loyalty Programmes, will become effective January 1, 2009. The Interpretation addresses accounting by the entity that grants award credits to its customers. This Interpretation applies to customer loyalty award credits that: (a) an entity grants to its customers as part of a sales transaction, i.e. a sale of goods, rendering of services or use by a customer of entity assets; and (b) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. This Interpretation will have no impact on the consolidated financial statements as the Group's has currently no such scheme.

Principles of Consolidation

The consolidated financial statements represent the consolidation of the financial statements of Ayala Land and the following wholly owned and majority owned subsidiaries:

	Effective Ownership (%)
Real Estate:	
Amorsedia Development Corporation and subsidiaries	100
OLC Development Corporation	100
Ayala Greenfield Development Corporation (AGDC)	50
Avida Land Corporation and subsidiaries (Avida)	100
Ayala Land International Sales, Inc.	100
Ayala Land Sales, Inc.	100
Buendia Landholdings, Inc.	100

	Effective Ownership %
Community Innovations, Inc.	100
Crans Montana Holdings, Inc.	100
Crimson Field Enterprises, Inc.	100
Regent Time International, Limited	100
Northbeacon Commercial Corporation	100
Red Creek Properties, Inc.	100
Laguna Technopark , Inc.	75
Aurora Properties, Inc. (API)	70
Vesta Property Holdings, Inc.	70
Station Square East Commercial Corporation (SSECC)	69
Serendra, Inc.	67
Ceci Realty, Inc.	60
CMPI Holdings, Inc.	60
ALI-CII Development Corporation	50
Roxas Land Corporation	50
Construction:	
Makati Development Corporation	100
Hotels:	
Ayala Hotels, Inc. and subsidiaries	50
Property Management:	
Ayala Property Management Corporation	100
Ayala Theatres Management, Inc. and subsidiaries	100
Entertainment:	
Five Star Cinema, Inc.	100
Leisure and Allied Industries Phils., Inc (LAI)	50
Others:	
ALInet.com, Inc.	100
Food Court Company, Inc.	100
NorthBeacon Commercial Corporation	100
First Longfield Investments Limited	100

For December 31, 2007 Financial Statements

Accounting principles/policies and methods of computation applied for the year ended December 31, 2007 are consistent with those of the previous financial year except as follows:

- *PFRS 7, Financial Instruments: Disclosures, and the complementary amendment to PAS 1, Presentation of Financial Statements: Capital Disclosures (effective for annual periods beginning on or after January 1, 2007)*

  PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation and PAS 30, Disclosure in the Financial Statements of Banks and Similar Financial Institutions*. It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

The Group adopted the amendment to the transition provisions of PFRS 7, as approved by the Financial Reporting Standards Council, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Group does not need to present comparative information for the disclosures required by paragraphs 31-42 of PFRS 7, unless the disclosure was previously required under PAS 30 or PAS 32. Adoption of PFRS 7 and the amendment to PAS 1 resulted in additional disclosures, which are included throughout the consolidated financial statements.

- *Philippine Interpretation IFRIC 10, Interim Financial Reporting and Impairment*

  IFRIC 10 provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS financial assets. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. Adoption of this Interpretation did not have any significant impact on the consolidated financial statements.

Future Changes in Accounting Policies

The Group has not applied the following PFRS and Philippine Interpretations which are not yet effective for the year ended December 31, 2007:

- *PAS 23, Borrowing Costs (effective for annual periods beginning on or after 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, this change in accounting for borrowing costs shall be accounted for prospectively. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed. The Group does not expect that the adoption of this standard will have a significant impact on the consolidated financial statements.

- *PFRS 8, Operating Segments (effective for annual periods beginning on or after January 1, 2009)*

  This PFRS adopts a management approach to reporting segment information. PFRS 8, will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Group will apply PFRS 8 in 2009 and will assess the impact of this Standard on its current manner of reporting segment information.

- *Amendment to PAS 1, Amendment on Statement of Comprehensive Income*

  This Amendment will become effective January 1, 2008. In accordance with the amendment to PAS 1, the statement of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

  In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statement of income together with 'other comprehensive income'. The revisions specify what is included in other comprehensive income, such as gains and losses on available-for-sale assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can 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. The Group will assess the impact of the standard on its current manner of reporting all items of income and expenses.

- Philippine Interpretation IFRIC-11, PFRS 2, *Group and Treasury Share Transactions*

  This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Group does not expect this interpretation to have a significant impact on its financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangement*

  This Interpretation will become effective January 1, 2008. This Interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remain in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This Interpretation will have no impact on the consolidated financial statements as this is not relevant to the Group's current operations.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Program*s

  This Interpretation will become effective January 1, 2009. The Interpretation addresses accounting by the entity that grants award credits to its customers. This Interpretation applies to customer loyalty award credits that: (a) an entity grants to its customers as part of a sales transaction, i.e. a sale of goods, rendering of services or use by a customer of entity assets; and (b) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. This Interpretation will have no impact on the consolidated financial statements as this is not relevant to the Group's current operations.

- Philippine Interpretation IFRIC-14, IAS 19, *Limit on Defined Benefit Asset, Minimum Funding Requirement and Other Interaction*.

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 *Employee Benefits*. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as all its defined benefit plans have unfunded portions.

DIRECTORS, EXECUTIVE OFFICERS AND CONTROL PERSONS

Board of Directors

The table below shows the name and position of each person who served as a director, executive officer or key management personnel of Ayala Land as of March 31, 2008:

BOARD OF DIRECTORS	POSITION	NATIONALITY
Fernando Zobel de Ayala	Chairman	Filipino
Jaime Augusto Zobel de Ayala	Vice Chairman	Filipino
Jaime I. Ayala	President & CEO	Filipino
Mercedita S. Nolledo	Director & Corporate Secretary	Filipino
Delfin L. Lazaro	Director	Filipino
Leandro Y. Locsin, Jr.*	Director	Filipino
Aurelio R. Montinola III	Director	Filipino
Corazon S. Dela Paz - Bernardo*	Director	Filipino
Ramon R. del Rosario, Jr.*	Director	Filipino
Francis G. Estrada**	Director	Filipino

* Independent directors appointed to the Board of Ayala Land pursuant to the requirements of the Securities Regulation Code.

** Replaced Leandro Y. Locsin, Jr. effective April 2, 2008 as Independent Director

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

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

Fernando Zobel de Ayala, 48, Filipino, has served as Chairman of the Board of Directors of Ayala Land since 1999. He is also the President and Chief Operating Officer of Ayala Corporation. His other significant positions include: Chairman of the Board of Directors of Manila Water Company, Inc., AC International Finance Ltd., Ayala International Pte. Ltd., 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.; 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. in Liberal Arts at Harvard College in 1982.

Jaime Augusto Zobel de Ayala, 49, Filipino, has served as Director and member of the Executive Committee of Ayala Land since 1988. He also serves as the Chairman and Chief Executive Officer of Ayala Corporation. His other significant positions include: Chairman of the Board of Directors of Globe Telecom, Inc., Bank of the Philippine Islands, Integrated Micro-electronics, Inc., Ramon Magsaysay Awards Foundation, World Wildlife Fund, Philippines; Vice Chairman and Director of Asia Society Philippine Foundation, Inc., Makati Business Club and Manila Water Company, Inc.; Co-Vice Chairman and Trustee of Ayala Foundation; Director of Ayala International Pte. Ltd.; Board of Trustee of Asia Business Council, Children's Hour Philippines, Inc. and The Conference Board. 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, Harvard Business School Asia Advisory Committee, Pacific Basin Economic Council, The Asia Society 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) at 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 Ayala Land, Inc. on July 1, 2004. He joined Ayala Land in January 2004 as Executive Vice President and member of the Management Committee. Concurrently, he is Senior Managing Director of Ayala Corporation. His other significant positions include: Chairman of the Board of Directors and President of Makati Property Ventures, Inc.; Chairman of the Board of Directors of Ayala Property Management Corp., Cebu Holdings, Inc., Cebu Insular Hotel Co., Inc., Cebu Property Ventures & Development Corp., Community Innovations, Inc., Avida Land Corporation, Laguna Technopark, Inc., Makati Development Corp., and Station Square East Commercial Corp; Member of the Board of Directors and President of Aurora Properties, Inc, Ayala Hotels, Inc., Ceci Realty Inc., Enjay Hotels, Inc., Roxas Land Corp., Vesta Property Holdings, Inc. and Anvaya Cove Beach and Nature Club, Inc.; Member of the Board of Directors of Alabang Commercial Corp., Ayala Greenfield Development Corp., Ayala Infrastructure Ventures, Inc., Ayala Land Sales, Inc., Berkshire Holdings, Inc., Bonifacio Arts Foundation, Inc., Bonifacio Land Corp., Emerging City Holdings, Inc., Fort Bonifacio Development Corp., myAyala.com, Inc., Ayala Center Association and Makati Parking Authority. Prior to joining Ayala Land, he spent 19 years with McKinsey & Company in the US, Mexico, Tokyo and Hong Kong. At McKinsey, he was a Director (senior partner) and played a number of global and regional leadership roles, including that of President of McKinsey's Manila office. He earned his M.B.A. from Harvard School, graduating with honors in 1988. He completed his undergraduate work in 1984 at Princeton University, where he graduated Magna Cum Laude in Economics, with a minor in Engineering.

Mercedita S. Nolledo, 67, Filipino, has served as Director and Corporate Secretary of Ayala Land 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: Chairman of the Board of Directors of BPI Investment Management, Inc. and FEB Management, Inc.; Director of Anvaya Cove, Ayala Automotive Holdings, Inc., Ayalafil, Inc., Bank of the Philippine Islands, BPI Capital Corporation, BPI Family Savings Bank, Honda Cars Cebu, Inc., Honda Cars Makati, Inc., HCMI Insurance Agency, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc. and Mandaue Primeland, Inc.; Trustee of Ayala Foundation (Corporate Secretary) and BPI Foundation, Inc.; Treasurer of JMY Realty Development Corp., Philippine Tuberculosis Society, Inc. and Sonoma Properties, Inc. (VP and ExCom Member). 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 in 1960 and Cum Laude and Class Valedictorian in Bachelor of Laws in 1965.

Delfin L. Lazaro, 62, Filipino, has served as member of the Board of Directors of Ayala Land since 1996. He is a member of the Management Committee of Ayala Corporation. His other significant positions include: Chairman of the Board of Directors of AYC Holdings, Ltd., Atlas Fertilizer and Chemicals, Inc., HRMall, Inc., LiveIt Solutions, Inc. and Philwater Holdings

Company, Inc.; Vice Chairman of Asiacom Philippines, Inc. and Globe Telecom; Director of AG Holdings, AI North America, Inc., Ayala Automotive Holdings Corp., Ayala DBS Holdings, Inc., Ayala International Holdings, Ltd., Bestfull Holdings Limited, Empire Insurance Company, Integrated Micro-electronics, Inc., Manila Water Company, Inc. and Probe Productions, Inc.; Trustee of The Insular Life Assurance Co., Ltd.; President of Azalea Technology Investments, Inc. 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.

Leandro Y. Locsin, Jr., 46, Filipino, has served as an Independent Director of Ayala Land since 1994. He also serves as Administrator and Design Consultant of Leandro V. Locsin Partners Architects; Senior Vice President of C-J Yulo & Sons and Canlubang Sugar Estate. He is the Founding Chairman/Director of The Beacon School and is a Director of World Wildlife Fund, Phils., E-Media Inc., and Museo Pambata ng Maynila. He is Chairman of Vesta Property Holdings, Inc., and a member of the Ayala Museum Board of Advisers. He graduated with a Bachelor of Arts, Double Major in Architecture and Eastern Art History at Wesleyan University in Connecticut in 1984, and earned his Master of Architecture degree at the Harvard University Graduate School of Design in 1989.

Aurelio R. Montinola, **III**, 56, Filipino, has served as member of the Board of Directors of Ayala Land since February 2005. He is the President and CEO of Bank of the Philippine Islands. His other significant positions include: Chairman of the Board of Directors of BPI Direct Savings Bank, BPI Computer Systems Corporation, BPI/MS Insurance Corporation, Ayala Life Assurance, Inc., Amon Trading Corporation, East Asia Educational Foundation, East Asia Computer Center, Inc., Monti-Rey, Inc., Western Resources Corp., Desrey, Inc., Seyrel Investment & Realty Corp., Armon Realty, Derrc, Inc. and Philippine Dealing Systems Group; Co-Chairman of Philippine-France Business Council; Vice Chairman of Republic Cement Corporation and LGU Guarantee Corporation; Vice Chairman of the Board of Trustees of BPI Foundation, Inc. and Far Eastern University; Trustee of International School Manila and Philippine Business for Education, Inc.; Director of BPI Family Bank, BPI Capital Corporation, BPI Bancassurance, Inc., Manila Water Company, Mere, Inc. and Makati Business Club; Member of the Board of Advisers of MasterCard Internatioal; President of Bankers Association of the Philippines. He graduated with BS Management Engineering at Ateneo de Manila University in 1973 and received his MBA at Harvard Business School in 1977.

Corazon S. de la Paz-Bernardo, 67, Filipino, has served as an Independent Director of Ayala Land since April 2006. She is currently the President and Chief Executive Officer of Social Security System. 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 served as Chairman of Equitable PCI Bank, Inc. (EPCIB) from February 21, 2006 up to June 2007. She was elected/appointed on July 2007 as Vice-Chairperson of the newly merged bank now known as Banco de Oro – EPCI, Inc. However, the bank is using BDO Unibank as its trade name. She is also a Director of San Miguel Corporation, Philippine Long Distance Telephone Company, Ionics, Inc., Equitable Card Network, Inc., PCI Leasing & Finance, Inc., Philex Mining Corp., Philex Gold, Inc., Republic Glass Holdings and Philippine Health Insurance Corporation. She is also the Treasurer of Meralco Foundation. 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., 63, Filipino, has served as an Independent Director of Ayala Land since 1994. He is President and Chief Executive Officer of Philippine Investment Management (PHINMA), Inc., President of Bacnotan Consolidated Industries, Inc. and Microtel Development Corp., Chairman and CEO of AB Capital and Investment Corporation, Chairman of United Pulp and Paper Co., Inc., Microtel Inns and Suites (Pilipinas), Inc., CIP II Power Corp., Trans-Asia Gold and Minerals Development Corp., Stock Transfer Services, Inc., Araullo University, Cagayan de Oro College, Paramount Building Management and Services Corp., and Investor Relations Global, Inc. He is Vice Chairman of Trans-Asia Oil & Energy Development Corporation and Director of Trans-Asia Power Generation Corp., Phinma Property Holdings Corp., Holcim (Phils.), Inc., Union Galvasteel Corp. and Bacnotan Industrial Park 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 College, Manila in 1967 and earned his Masters in Business Administration at Harvard Business School in 1969.

Francis G. Estrada, 58, Filipino, is the President and Trustee of Asian Institute of Management and AIM Scientific Research Foundation, Inc.. His other significant positions include: Founder and President of Odyssey Capital Ventures (SPV-AMC), Inc. and Chairman, and Founder of Equity Managers Asia, Inc., President and Founder of Latex Holdings, Inc. , Director and Chairman of the Compensation Committee of Clean Air Initiative Center, Independent Director and Chairman of Nomination and Compensation Committee of Philippine National Oil Corporation-Energy Development Center, Independent Director of Philamlife and General Insurance Company, Member of the Advisory Board of Rizal Commercial Banking Corporation, Adviser of Antai College of Economics & Management Shanghai Jiaotong University, Director of JP Latex Technology, Inc. and Maximo T. Kalaw Foundation, Trustee of Sociedad Espanola de Benificencia. ,He is also a Fellow and Trustee of the Institute of Corporate Directors and a Trustee, Chairman of the Investment Committee, and Member of the National Mission Council of the Board of De La Salle University in the Philippines. He also serves as Governor of Xavier Labour Realations Institute, India. 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.
*** Replaced Leandro Y. Locsin, Jr. effective April 2, 2008 as Independent Director*

Resignation of Directors

As of March 31, 2008, no director has resigned or declined to stand for re-election for the Board of Directors due to any disagreement with the Corporation relative to the Corporation's operations, policies and practices.

Management Committee Members / Key Officers

Jaime I. Ayala *	President and Chief Executive Officer
Vincent Y. Tan	Executive Vice President
Ma. Victoria E. Añonuevo	Senior Vice President
Raul M. Irlanda	Senior Vice President
Rex Ma. A. Mendoza	Senior Vice President
Emilio J. Tumbocon	Senior Vice President
Bernard Vincent O. Dy	Senior Vice President
Jaime E. Ysmael	Senior Vice President & Chief Finance Officer
Dinna G. Bayangos	Vice President
Ma. Teresa T. Ruiz	Vice President
Augusto D. Bengzon	Vice President & Treasurer

* *Member of the Board*

Vincent Y. Tan, 58, Filipino, is Executive Vice-President, member of the Management Committee. His other significant positions include: Chairman of the Board of Directors of Laguna Technopark, Inc.; Vice Chairman of Ayalaport, Inc.; Director of Aurora Properties, Inc., Ayala Greenfield Development Corp., CECI Realty, Inc., Metro Rail Transit Corp., Metro Rail Transit Holdings, Inc., Metro Rail Transit Holdings, II Inc., Metro Rail Triangle Depost Commercial Corp., North Triangle Depot Commercial Corp., myAyala.com, Station Square East Commercial Corp. and Vesta Property Holdings, Inc.; President of ALInet.com, Inc. and Anta Realty & Development Crop He graduated with a degree of B.S. Management Engineering (Cum Laude) at the Ateneo de Manila University in 1971 and earned his M.B.A. (Concentration in Management Science and Finance) at the University of Chicago in 1973.

Ma. Victoria E. Añonuevo, 58, Filipino, is Senior Vice-President and Member of the Management Committee of Ayala Land. She also serves as Head of the AyalaLand Businesscapes Group and Ayala Malls Group. Her other significant positions include: President of Laguna Technopark, Inc., President & Chief Executive Officer of Ayala Hotels, Inc. She graduated with a degree of Bachelor of Science in Business Administration, Major in Marketing (Cum Laude) at the University of the Philippines in 1971 and had her Masters in Business Administration at the University of the Philippines in 1975. She was sent by Ayala Land, Inc. in 1997 as a scholar to the Program for Management Development, Harvard Business School.

Raul M. Irlanda, CFM, 52, Filipino, is Senior Vice-President, member of the Management Committee. He is also the President Makati Development Corporation and Ayala Property Management Corp. He is the first and only Filipino Certified Facility Manager (CFM) by the International Facility Management Association (IFMA). He is also Board Adviser of the College of Technology Management of the University of Makati. He graduated with a degree of Bachelor of Science in Management/Finance from San Sebastian College and obtained his Master of Business Administration major in Financial Management from De La Salle University. He also completed in 2005 the Executive Development Program at the Aresty Institute of Executive Education at Wharton, University of Pennsylvania.

Rex Ma. A. Mendoza, 45, Filipino, is Senior Vice-President and head of Corporate Sales and Marketing Group. He is a member of the Management Committee of Ayala Land, Inc. Concurrently, he is the Chairman of Ayala Land International Sales, Inc.; President of Ayala Land Sales, Inc.; Chairman of the Membership Committee of Anvaya Cove Beach & Nature Club, Inc.; Chairman and President of Rampver, Inc.; Marketing and Training Consultant for IMPACT and Mindbroker, Inc.; and Professor of De La Salle University, Graduate School of

Business. Prior to joining Ayala Land, Inc., he was Executive Vice President and head of Sales, Marketing and Training at the Philippine American Life & General Insurance Company; Vice Chairman and CEO of Philam Asset Management; Vice Chairman and CEO of Philam Financials; Director of Philam Insurance Co., Security Philam, Philam Call Center and Philam Foundation. He graduated with a degree of Bachelor of Science in Business Administration, major in Marketing and Finance 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, 51, Filipino, is a Senior Vice-President, member of the Management Committee of Ayala Land, Inc. His other significant positions include: Director of Ayala Property Management Corp., Anvaya Cove and Laguna Technopark, Inc. He is also a certified Project Management Professional (PMP'06) of the Project Management Institute, Past President of the Philippine Constructors Association, Inc. (PCA), a Trustee of the Construction Safety Foundation, Inc. and a Director of the Anvaya Cove Beach and Nature Club, Inc. He graduated 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) at the same university. He also took the Construction Executive Program (CEPS '87) at Stanford University, Palo Alto, California, U.S.A., the Senior Business Executive Program (SBEP '91) at the University of Asia and the Pacific, and The Executive Program (TEP '97) at Darden Graduate School of Business Administration, University of Virginia.

Bernard Vincent O. Dy, 44, Filipino, is Senior Vice President & member of the Management Committee of Ayala Land, Inc. since 2005. Currently, he is the Head of the Residential Business Group of Ayala Land. His other significant positions include: Chairman of the Board of Directors of AmicaSSa and Bonifacio Estate Services Corp.; Director of Community Innovations, Inc., Crimson Field Enterprises, Inc., Bonifacio Land Corp., Fort Bonifacio Dev't. Corp., Columbus Bershire Holdings, Inc., Emerging City Holdings, Inc., Avida Land Corporation and Bonifacio Global City Estate Association Inc.; Director and 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.

Jaime E. Ysmael, 48, is Senior Vice President, Chief Finance Officer and member of the Management Committee of Ayala Land. Concurrently, he is Managing Director of Ayala Corporation. His other significant positions include: Director and Treasurer of Alinet.com, Ayala Hotels, Inc., Ayala Land Sales, Inc., Community Innovations, Inc., Enjay Hotels, Inc., Laguna Technopark, Inc., Anvaya Cove Beach & Nature Club, Inc., Gisborne Property, Inc., Glensworth Development, Inc. and Hillsford Property Corporation; Director and President of CMPI Holdings, Inc., CMPI Land, Inc. and First Communities Realty, Inc.; Director and Vice President of Ayala Westgrove Heights Homeowner's Association, Inc.; Director of Alabang Commercial Corp., Allysonia International, Inc., Aurora Properties, Inc., Avida Land Corporation, Ayala Land International Sales, Inc., Batangas Asset Corporation, Cebu Holdings, Inc., Cebu Insular Hotel Company, Inc. CECI Realty, Inc., Crans Montana Property Holdings Corp., Gammon Philippines, Inc., Laguna Phenix Structures Corporation and Makati Theatres, Inc. He graduated Summa Cum Laude at the University of the East with a degree of Bachelor of Science in Business Administration, Major in Accounting in 1980. He holds an M.B.A. degree (Major in Finance) from The Wharton School and an M.A. degree in International Studies from the School of Arts and Sciences of the University of Pennsylvania under The Joseph H. Lauder Institute of Management and International Studies.

Dinna G. Bayangos, 44, Filipino, is Vice President and member of the Management Committee of Ayala Land effective January 1, 2005. She is also the President of Ayala Land International Sales, Inc. (ALISI). Her other significant positions include: Director of Community Innovations, Inc., Makati Development Corp. and Cebu Holdings, Inc. Before she became President of Ayala Land International Sales, Inc. she was the President of Avida Land Corporation (formerly Laguna Properties Holdings, Inc.) and its subsidiary, Avida Sales Corp. She graduated with a degree of A.B. Major in Economics and B.S.C. Major in Management of Financial Institutions (Cum Laude) at De La Salle University and took her Masteral in Business Management at the Asian Institute of Management and an Advanced Management Program at Wharton School of Business.

Ma. Teresa T. Ruiz, 53, Filipino, is Vice President and member of the Management Committee of Ayala Land. Prior to joining Ayala Land, she was Human Resources Director for Wyeth Philippines, Inc. (2006-2007), Vice President,Human Resources of Zuellig Pharma Corp. (2002-2006), Vice President, Human Resources of Cemex Phils. Group of Companies (2001-2002) and Vice President, Human Resources of Coca-Cola Bottlers Phils. Inc. (1999-2001). She graduated with a degree of Bachelor of Art on Communication Arts at Maryknoll College in 1974.

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

Significant Employees

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

Family Relationships

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

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

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

None of them has been involved in any bankruptcy petition.

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

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

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

EXECUTIVE COMPENSATION

Directors

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

During the Annual Stockholders' Meeting held on April 2, 2003, the stockholders ratified the resolution fixing the remuneration of non-executive directors at ₱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.

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

Officers

The Company adopts a performance-based compensation scheme. The total annual compensation of the President and Management Committee members of the Company amounted to ₱199.21 million in 2006 and ₱173.76 million in 2007. The projected total annual compensation for the current year is ₱125.59 million.

Total compensation paid to all senior personnel from Manager and up amounted to ₱582.10 million in 2006 and ₱633.73 million in 2007. The projected total annual compensation for the current year is ₱501.72 million.

Name and Principal Position	Year	Salary	Other Variable Pay
Jaime I. Ayala President & CEO			
Miriam O. Katigbak * Executive Vice President			
Vincent Y. Tan Executive Vice President			
Ma. Victoria E. Añonuevo Senior Vice President			
Raul M. Irlanda Senior Vice President			
Rex Ma. A. Mendoza Senior Vice President			
John Philip S. Orbeta ** Senior Vice President			

Name and Principal Position	Year	Salary	Other Variable Pay
Emilio J. Tumbocon Senior Vice President			
Jaime E. Ysmael Senior Vice President			
Jose Rene D. Almendras *** Vice President			
Dinna G. Bayangos Vice President			
Bernard Vincent O. Dy Vice President			
Angela DV. Lacson Consultant			
CEO & 12 Most Highly Compensated Executive Officers	Actual 2006	₱103.60 M	₱95.61 M
	Actual 2007	₱105.27 M	₱68.49 M
	Projected 2008	₱115.80 M	₱9.79 M***
All other officers**** as a group unnamed	Actual 2006	₱368.07 M	₱214.03 M
	Actual 2007	₱425.94 M	₱207.79 M
	Projected 2008	₱468.54 M	₱33.18 M***

** Retired effective January 1, 2008*
*** Transferred to Ayala Corporation effective January 1, 2008*
**** Transferred to Ayala Corporation effective January 1, 2007*
***** Exclusive of Stock Option exercise*
****** Managers and up*

The total annual compensation paid to all senior personnel from Manager and up was all paid in cash. The total annual compensation includes the basic salary and other variable pay (performance bonus and exercise of Stock Option Plan). The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

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

Options Outstanding

Ayala Land has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Option Plan (ESOWN) covering 2.5% of the company's authorized capital stock. In 2005, the company introduced a revised ESOWN granted to qualified officers.

The Company has offered its Executive Stock Option Plan (ESOP) to the Company's officers since 1998. Of the above named officers, there were five million common shares exercised for the year 2007 by the following officers, to wit:

Name	No. of Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Jaime I. Ayala		Various	Various	Various
Ma. Victoria E. Añonuevo		Various	Various	Various
Dinna G. Bayangos		Various	Various	Various
Bernard Vincent O. Dy		Various	Various	Various
Raul M. Irlanda		Various	Various	Various
Miriam O. Katigbak *		Various	Various	Various
Emilio J. Tumbocon		Various	Various	Various
All above-named Officers as a group	5,001,488		4.13	5.58 **

* Retired effective January 1, 2008
** Average prices on the dates of grant

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

As of March 31, 2008, stock options outstanding are as follows:

ESOP	41,828,341 shares
ESOWN	35,831,264 shares
	77,659,605 shares

Outstanding shares pertain to shares subscribed by officers and employees which are not yet fully paid and not yet issued

For other details on Stock Options, please refer to Note 23 ("Stock Option and Ownership Plans") of the Notes to Consolidated Financial Statements of the 2007 Audited Financial Statements.

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN RECORD AND BENEFICIAL OWNERS

Security Ownership of Management

Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of March 31, 2008

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 Outstanding Common & Preferred Shares)
Common	Ayala Corporation[1] 34/F Tower One Bldg. Ayala Ave., Makati City	Ayala Corporation[2]	Filipino	6,939,009,512	26.618%
Preferred				12,679,029,436	48.636%
Common	PCD Nominee Corporation (Non-Filipino)[3] G/F MSE Bldg. Ayala Ave., Makati City	Hongkong and Shanghai Banking Corporation (HSBC) and Standard Chartered Bank (SCB)[4]	Various	4,961,541,709	19.032%

[1] The President and Chief Operating Officer of Ayala Corporation, Fernando Zobel de Ayala, is the Chairman of the Board of the Company.

[2] The Board of Directors of Ayala Corporation has the power to decide how AC shares in Ayala Land are to be voted.

[3] The PCD is not related to the Company.

[4] HSBC and SCB are participants of PCD. The 3,391,575,749 and 1,112,180,805 shares or 17.28% of the total issued and outstanding shares of the Company, beneficially owned by HSBC and SCB, respectively, form part of the 4,961,541,709 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.

The table below sets out the security ownership of directors and management (Executive Officers) as of March 31, 2008

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent (of the Outstanding Common & Preferred Shares)
Directors				
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	0.01178%
Common	Mercedita S. Nolledo	320,014 (direct & indirect)	Filipino	0.00123%
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	1 (direct)	Filipino	0.00000%
Common	Leandro Y. Locsin, Jr.	1,707,462 (direct)	Filipino	0.00655%
Common	Aurelio R. Montinola III	3,578 (direct & indirect)	Filipino	0.00001%
CEO and Most Highly Compensated Executive Officers				
Common	Jaime I. Ayala	3,070,171 (direct & indirect)	Filipino	0.01178%
Common	Vincent Y. Tan	6,352,085 (direct)	Filipino	0.02437%
Common	Ma. Victoria E. Añonuevo	2,525,988 (direct & indirect)	Filipino	0.00969%
Common	Raul M. Irlanda	472,451 (direct & indirect)	Filipino	0.00181%
Common	Rex Ma. A. Mendoza	1,205,110 (direct & indirect)	Filipino	0.00462%
Common	Emilio J. Tumbocon	3,894,337 (direct)	Filipino	0.01494%
Common	Jaime E. Ysmael	2,241,021 (direct & indirect)	Filipino	0.00860%
Common	Dinna G. Bayangos	1,967,277 (direct & indirect)	Filipino	0.00755%
Common	Bernard Vincent O. Dy	1,180,616 (direct & indirect)	Filipino	0.00453%
Other Executive Officers				
Common	Ruel C. Bautista	203,617 (direct)	Filipino	0.00078%
Common	Augusto D. Bengzon	10,000 (indirect)	Filipino	0.00004%
Common	Arturo G. Corpuz	980,683 (direct)	Filipino	0.00376%
Common	Ma. Corazon G. Dizon	890,431 (direct & indirect)	Filipino	0.00342%
Common	Anna Margarita B. Dy	722,885 (direct & indirect)	Filipino	0.00277%
Common	Jose Emmanuel H. Jalandoni	628,589 (direct)	Filipino	0.00241%
Common	Joseph V. Mendoza	1,858,437 (direct & indirect)	Filipino	0.00713%
Common	Francis O. Monera	906,939 (direct & indirect)	Filipino	0.00348%
Common	Ma. Teresa S. Palma	948,184 (direct & indirect)	Filipino	0.00364%
Common	Juanito P. Rosales	405,622 (direct)	Filipino	0.00156%
Common	Rowena M. Tomeldan	1,259,508 (direct & indirect)	Filipino	0.00483%
All Directors and Officers as a group		33,780,208		0.12958%

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

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

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

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Party Transactions

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

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

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

For the year ended December 31, 2007, the revenue from transactions with associates and other related parties amounting to ₱957 million in 2007 consisted of the following:

		(million)
Construction	(Mainly from One Dela Rosa Property Devt., Inc.)	₱ 936
Water Operations	(Mainly from IMI)	13
Others		8
Total		₱ 957

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

Please refer to Note 20 ("Related Party Transactions") of the Notes to Consolidated Financial Statements of the 2007 Audited Financial Statements

Parent Company / Major Holders

As of December 31, 2007, Ayala Corporation owned 6,939 million (53%) of the Company's total outstanding common shares of 13,034 million, and 12,679 million (97%) of total outstanding preferred shares of 13,034 million.

Ayala Corporation's common and preferred shares account for 26.618% and 48.636%, respectively, of total outstanding shares of 26,068 million, while PCD Nominee Corporation (Non-Filipino) holds or owns 19.395%.

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

HSBC and SCB are participants of PCD. The 3,561,666,841 and 1,053,331,833 shares beneficially owned by HSBC and SCB, respectively, form part of the 5,056,164,832 shares registered in the name of PCD Nominee Corporation (Non-Filipino). The clients of HSBC and SCB have the power to decide how their shares are to be voted.

DESCRIPTION OF CERTAIN OTHER DEBT

As of March 31, 2008, Ayala Land had the equivalent of ₱10.2 billion of outstanding debt, of which ₱1.5 billion is secured.

Of Ayala Land's outstanding unsecured debt, ₱8.7 billion is evidenced by a debt instrument that was acknowledged by both the creditor and Ayala Land before a notary public. Under Philippine law, in the event that a borrower submits to insolvency or liquidation proceedings in which the borrower's assets are liquidated, unsecured debt evidenced by a debt instrument that has been acknowledged by the creditor and the borrower before a notary public enjoys a preference over unsecured debt that has not been so notarized. See discussion under Clause 5 of "Risk Factors and Other Considerations" of this Prospectus.

The following tables set forth the outstanding long and short-term debt of Ayala Land and its subsidiaries as of March 31, 2008.

Short Term Indebtedness in Million Pesos:*

Borrower	Amount
Ayala Greenfield Development Corp. (AGDC)	173
Aurora Properties, Inc. (API)	44
Avida Land Corp. (Avida)	597
Leisure and Allied Industries, Phils., Inc. (LAIPI)	300
Station Square East Commercial Corp. (SSECC)	618
Total	1,732

Long Term Indebtedness in Million Pesos:*

	Current		Non-Current		Total	
Borrower	Peso	US$	Peso	US$	Peso	US$
Ayala Land, Inc.*	2,086		3,580		5,666	
Ayala Greenfield Development Corp.	-		-		-	
Avida Land Corp.	-		500		500	
Cebu Insular Hotel Company, Inc. (CIHCI)	-		150		150	
Enjay Hotels, Inc.	50		250		300	
Leisure and Allied Industries, Phils., Inc.	20		180		200	
Station Square East Commercial Corp.	372		1,113		1,484	
Northbeacon Commercial Corporation (NBCC)	-		185		185	
Total	2,528	-	5,958	-	8,486	-

** Including bonds and FXCNs*

The table below details Ayala Land's Issuances of Debt and Equity Securities / New Financing through Loans from January to March 2008.

In Million Pesos

Borrower	Amount	Nature
ALI	10	issuance of bonds
AGDC	326	renewal of short-term loans
API	88	renewal of short-term loan
Avida	1,471	renewal of short-term loans and new short-term loans
LAIPI	300	renewal of short-term loans and new short-term loans
SSECC	1,419	renewal of short-term loans and new short-term loans
NBCC	30	
Total	3,644	

The following sets out the repayments of Debt and Equity Securities from January to March 2008:

In Million Pesos

Borrower	Amount	Nature
ALI	4	retirement of bonds
AGDC	346	payment of matured short-term loans
API	88	payment of matured short-term loan
Avida	1,341	payment of matured short-term loans and amortization on long-term loans
LAIPI	290	payment of matured short-term loans
SSECC	1,505	payment of matured short-term loans and amortization on long-term loans
Total	**3,574**	

There were no commercial paper issuances and outstanding balance as of the three months ended March 31, 2008.

CORPORATE GOVERNANCE

Ayala Land has always been committed to strong and transparent corporate governance, going well beyond mere compliance with the code mandated by law. Ayala Land made several important improvements to its governance in 2004, focusing on increasing the involvement of various governance bodies, strengthening performance management, and ensuring compliance with International Accounting Standards (IAS). In 2007, the Company adopted several initiatives aimed toward achieving governance excellence. These include conduct of a Self Assessment Survey by the Board of Directors, development of Business Contingency Plans, adoption of risk-based audit approach and independent quality review of the Internal Audit function. Ayala Land believes that these changes will streamline its existing business models, improve execution, reduce risks, and better safeguard the collective and individual interests of its diverse set of shareholders.

Ayala Land seeks to promote and enhance compliance of good corporate governance. Ayala Land is requiring observance of good corporate governance of all its subsidiaries, including those that are not listed on the PSE and not covered by the SEC Code of Corporate Governance.

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

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

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

The Company continues to take further steps to enhance adherence to principles and practices of good corporate governance.

FINANCIAL INFORMATION

The following pages set forth Ayala Land's audited consolidated financial statements for the years ended December 31, 2007, 2006 and 2005 and unaudited consolidated financial statements as of March 31, 2008.

COVER SHEET

1 5 2 7 4 7

SEC Registration Number

AYALA LAND, INC. AND SUBSIDIARIES

(Company's Full Name)

Tower One, Ayala Triangle, Ayala Avenue, Makati City

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

Leovigildo D. Abot

(Contact Person)

848-5772

(Company Telephone Number)

1 2 3 1

Month *Day*

(Fiscal Year)

A A F S

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SGV & Co

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www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

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, 2007 and 2006, 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, 2007, 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ayala Land, Inc. and Subsidiaries as of December 31, 2007 and 2006, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2007 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. 0017583, January 3, 2008, Makati City

February 12, 2008

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 24)	**₱11,271,906**	₱4,630,591
Short-term investments (Notes 5 and 24)	**2,035,606**	2,927,928
Fair value through profit or loss financial assets (Notes 5 and 24)	**318,018**	1,951,090
Accounts and notes receivable - net (Notes 6 and 24)	**11,563,880**	10,644,524
Real estate inventories (Note 7)	**6,696,007**	7,735,587
Other current assets (Note 8)	**2,094,036**	1,411,034
Total Current Assets	**33,979,453**	29,300,754
Noncurrent assets held for sale (Note 19)	–	2,084,317
	33,979,453	31,385,071
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 6 and 24)	**3,475,306**	2,126,672
Land and improvements	**16,399,388**	16,874,794
Investments in associates and jointly controlled entities (Note 9)	**9,038,676**	8,791,217
Available-for-sale financial assets (Notes 10 and 24)	**366,788**	367,313
Investment properties - net (Notes 11, 14 and 17)	**13,792,850**	13,032,762
Property and equipment - net (Notes 12, 14 and 17)	**4,015,226**	3,725,035
Deferred tax assets - net (Note 18)	**670,886**	782,878
Other noncurrent assets	**1,242,672**	1,164,419
Total Noncurrent Assets	**49,001,792**	46,865,090
	₱82,981,245	₱78,250,161

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 13 and 24)	**₱15,758,816**	₱12,126,683
Short-term debt (Notes 14 and 24)	**1,613,000**	1,556,000
Income tax payable	**167,124**	147,521
Current portion of long-term debt (Notes 14, 18 and 24)	**2,376,600**	3,563,593
Other current liabilities	**623,294**	442,620
Total Current Liabilities	**20,538,834**	17,836,417
Liabilities directly associated with noncurrent assets held for sale (Note 19)	–	469,100
	20,538,834	18,305,517

(Forward)

	December 31	
	2007	2006
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 19 and 24)	**₱6,149,874**	₱7,717,818
Pension liabilities (Note 21)	**175,837**	91,928
Deferred tax liabilities - net (Note 18)	**114,443**	415,506
Deposits and other noncurrent liabilities (Notes 15 and 24)	**4,375,807**	3,782,281
Deferred credits (Note 15)	**880,679**	699,398
Total Noncurrent Liabilities	**11,696,640**	12,706,931
Total Liabilities	**32,235,474**	31,012,448
Equity (Note 16)		
Equity attributable to equity holders of Ayala Land, Inc.		
Paid-up capital	**18,202,647**	14,580,590
Retained earnings	**27,405,247**	25,973,445
Stock options outstanding (Note 23)	**95,901**	107,973
Unrealized gain (loss) on available-for-sale financial assets (Note 10)	**1,943**	(10,323)
Treasury stock	**(557)**	(557)
	45,705,181	40,651,128
Minority interests		
Minority interest - net of interest attributable to noncurrent assets held for sale	**5,040,590**	5,455,933
Minority interest attributable to noncurrent assets held for sale	–	1,130,652
	5,040,590	6,586,585
	50,745,771	47,237,713
	₱82,981,245	₱78,250,161

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2007	2006	2005
REVENUE (Note 20)			
Real estate	**₱21,490,348**	₱22,501,221	₱16,126,880
Hotel operations	**1,356,906**	1,091,102	1,065,016
Equity in net earnings of investees (Note 9)	**787,209**	306,233	227,267
Interest income	**586,433**	648,862	1,101,935
Other income (Note 17)	**1,486,333**	1,011,424	2,854,271
	25,707,229	25,558,842	21,375,369
COSTS AND EXPENSES			
Real estate (Notes 7 and 17)	**14,229,832**	15,448,634	10,622,305
Hotel operations (Note 17)	**913,030**	721,524	709,652
General and administrative expenses (Notes 17 and 21)	**2,715,140**	2,606,054	2,317,235
Interest expense and other financing charges (Note 17)	**892,771**	813,228	918,559
Other charges (Note 17)	**903,320**	280,570	2,394,034
	19,654,093	19,870,010	16,961,785
INCOME BEFORE INCOME TAX	**6,053,136**	5,688,832	4,413,584
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)			
Current	**1,745,325**	1,483,473	1,068,904
Deferred	**(189,071)**	126,765	(510,072)
	1,556,254	1,610,238	558,832
INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE	**4,496,882**	4,078,594	3,854,752
INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE - net of tax (Note 19)	**598,666**	155,258	130,679
NET INCOME	**₱5,095,548**	₱4,233,852	₱3,985,431
Net Income Attributable to:			
Equity holders of Ayala Land, Inc. (Note 22)	**₱4,386,362**	₱3,865,602	₱3,616,673
Minority interests	**709,186**	368,250	368,758
	₱5,095,548	₱4,233,852	₱3,985,431
Earnings Per Share (Note 22)			
Basic			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	**₱0.31**	₱0.29	₱0.28
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.34**	₱0.30	₱0.28
Diluted			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	**₱0.31**	₱0.29	₱0.28
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.33**	₱0.30	₱0.28

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Years Ended December 31		
	2007	2006	2005
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.			
Common Shares - ₱1 par value (Note 16)			
Issued			
Balance at beginning of year	**₱10,809,675**	₱10,794,539	₱10,774,189
Issuance of shares	**2,776**	1,071	65
Stock options exercised	**17,972**	14,065	20,285
Stock dividends	**2,172,398**	–	–
Balance at end of year	**13,002,821**	10,809,675	10,794,539
Subscribed			
Balance at beginning of year	**34,587**	1,116	1,181
Additions	**–**	34,542	–
Issuance of shares	**(2,776)**	(1,071)	(65)
Balance at end of year	**31,811**	34,587	1,116
Preferred Shares - P0.10 par value (Note 16)			
Balance at beginning of year	**–**	–	–
Issued during the year	**1,303,460**	–	–
Balance at end of year	**1,303,460**	–	–
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	**3,863,431**	3,593,157	3,549,922
Additions	**131,514**	270,274	43,235
Balance at end of year	**3,994,945**	3,863,431	3,593,157
SUBSCRIPTIONS RECEIVABLE			
Balance at beginning of year	**(127,103)**	(3,721)	(4,519)
Additions	**(60,413)**	(158,897)	–
Collections	**57,126**	35,515	798
Balance at end of year	**(130,390)**	(127,103)	(3,721)
TOTAL PAID-UP CAPITAL	**18,202,647**	14,580,590	14,385,091
RETAINED EARNINGS			
Appropriated for future expansion (Note 16)	**6,000,000**	6,000,000	6,000,000
Unappropriated:			
Balance at beginning of year	**19,973,445**	17,950,660	17,570,508
Cash dividends - ₱0.06 per share in 2007, ₱0.17 per share in 2006, and ₱0.30 per share in 2005 (Note 16)	**(782,162)**	(1,842,817)	(3,236,521)
Stock dividends	**(2,172,398)**	–	–
Net income	**4,386,362**	3,865,602	3,616,673
Balance at end of year	**21,405,247**	19,973,445	17,950,660
	27,405,247	25,973,445	23,950,660

(Forward)

	Years Ended December 31		
	2007	2006	2005
STOCK OPTIONS (Note 23)			
Balance at beginning of year	**₱107,973**	₱119,953	₱115,087
Cost of stock options	**19,468**	35,395	68,386
Stock options exercised	**(31,540)**	(47,375)	(63,520)
Balance at end of year	**95,901**	107,973	119,953
UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS (Note 10)			
Balance at beginning of year	**(10,323)**	(7,508)	(89,267)
Net unrealized gain (loss) recognized in equity	**12,266**	(2,815)	81,759
Balance at end of year	**1,943**	(10,323)	(7,508)
TREASURY STOCK (Note 16)	**(557)**	(557)	(557)
MINORITY INTERESTS			
Balance at beginning of year	**6,586,585**	6,891,539	6,618,317
Net income	**709,186**	368,250	368,758
Increase (decrease) in minority interests	**(1,887,483)**	(440,130)	78,684
Dividends paid to minority interests	**(367,923)**	(225,977)	(174,220)
Net unrealized gain (loss) recognized in equity	**225**	(7,097)	–
Balance at end of year	**5,040,590**	6,586,585	6,891,539
	₱50,745,771	₱47,237,713	₱45,339,178
Total Income and Expense Recognized for the Year			
Net income attributable to:			
Equity holders of Ayala Land, Inc.	**₱4,386,362**	₱3,865,602	₱3,616,673
Minority interests	**709,186**	368,250	368,758
	5,095,548	4,233,852	3,985,431
Net unrealized gain (loss) recognized in equity:			
Equity holders of Ayala Land, Inc.	**12,041**	4,282	81,759
Minority interests	**225**	(7,097)	–
	12,266	(2,815)	81,759
	₱5,107,814	₱4,231,037	₱4,067,190

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱6,053,136**	₱5,688,832	₱4,413,584
Adjustments for:			
Depreciation and amortization (Notes 11, 12 and 17)	**1,310,457**	1,067,280	917,875
Interest expense - net of amount capitalized	**870,513**	795,089	780,547
Other charges	**302,996**	230,947	2,174,130
Dividends received from investees (Note 9)	**84,376**	72,779	94,275
Cost of share-based payments	**104,704**	148,004	68,386
Equity in net earnings of investees (Note 9)	**(787,209)**	(306,233)	(227,267)
Gain on sale of investments (Note 17)	**(1,003,976)**	(608,865)	(3,047,578)
Interest income	**(337,818)**	(443,777)	(625,912)
Other income (Note 17)	**(129,680)**	(43,841)	–
Operating income before changes in working capital	**6,467,499**	6,600,215	4,548,040
Decrease (increase) in:			
Accounts and notes receivable - trade	**(2,009,164)**	54,925	(3,490,652)
Real estate inventories	**2,207,429**	(779,221)	(637,662)
Other current assets	**(624,571)**	(80,282)	(298,341)
Increase (decrease) in:			
Accounts and other payables	**3,821,922**	1,214,997	5,731,232
Pension liabilities	**83,909**	(17,117)	(364,765)
Other current liabilities	**180,674**	260,475	(11,855)
Cash generated from operations	**10,127,698**	7,253,992	5,475,997
Interest received	**346,712**	431,603	610,191
Income tax paid	**(1,725,723)**	(1,461,760)	(1,124,417)
Interest paid	**(817,536)**	(947,258)	(1,057,733)
Net cash provided by operating activities before cash items associated with noncurrent assets held for sale	**7,931,151**	5,276,577	3,904,038
Net cash provided by operating activities associated with noncurrent assets held for sale	**598,666**	291,672	241,186
Total cash provided by operating activities	**8,529,817**	5,568,249	4,145,224
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale of investments	**1,389,974**	460,000	3,752,298
Sale of available-for-sale financial assets	**12,791**	4,980	16,712
Disposal of property and equipment	–	263,236	–
Disposals of (additions to):			
Short term investments	**2,596,048**	(3,711,834)	(1,123,343)
Available-for-sale financial assets	–	(26,840)	–
Land and improvements	**(548,392)**	237,606	(5,295)
Investments in associates and jointly controlled entities	**175,944**	(1,528,059)	–
Investment properties	**(699,180)**	(343,689)	(339,007)
Property and equipment (Note 12)	**(2,018,156)**	(1,696,764)	(1,150,827)

(Forward)

	Years Ended December 31		
	2007	2006	2005
Decrease (increase) in:			
Accounts and notes receivable - non-trade	**(₱360,202)**	(₱297,439)	(₱18,292)
Other noncurrent assets	**31,124**	113,220	(633,629)
Net cash provided by (used in) investing activities before cash items associated with noncurrent assets held for sale	**579,951**	(6,525,583)	498,617
Net cash provided by (used in) investing activities associated with noncurrent assets held for sale, including cash balance	–	(361,691)	2,071
Total cash provided by (used in) investing activities	**579,951**	(6,887,274)	500,688
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short and long-term debt	**956,961**	3,584,424	870,000
Payment of short and long-term debt	**(3,654,899)**	(1,017,342)	(3,302,844)
Increase (decrease) in:			
Deposits and other noncurrent liabilities	**774,807**	614,393	740,350
Minority interest in consolidated subsidiaries	**(821,535)**	(645,617)	–
Proceeds from issuance of preferred shares	**1,303,460**	–	–
Proceeds from capital stock subscriptions	**57,126**	35,515	798
Dividends paid to minority	**(367,923)**	(225,977)	(174,220)
Dividends paid to equity holders of Ayala Land, Inc.	**(716,450)**	(1,841,355)	(3,235,916)
Net cash provided by (used in) financing activities before cash items associated with noncurrent assets held for sale	**(2,468,453)**	504,041	(5,101,832)
Net cash used in financing activities associated with noncurrent assets held for sale	–	(187,120)	(271,572)
Total cash provided by (used in) financing activities	**(2,468,453)**	316,921	(5,373,404)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,641,315**	(1,002,104)	(727,492)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**4,630,591**	5,632,695	6,360,187
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱11,271,906**	₱4,630,591	₱5,632,695

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Ayala Land, Inc. (the Company) is incorporated in the Republic of the Philippines. The Company's registered office and principal place of business is at Tower One, Ayala Triangle, Ayala Avenue, Makati City. The Company's parent is Ayala Corporation (AC). AC is a publicly-listed company, 50.90%-owned by Mermac, Inc., 10.57%-owned by Mitsubishi Corporation and the rest by the public.

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

The consolidated financial statements of Ayala Land, Inc. and Subsidiaries as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 were endorsed for approval by the Audit Committee on February 7, 2008 and were authorized for issue by the Board of Directors (BOD) on February 12, 2008.

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, 2007 and 2006 and for each of the three years in the period ended December 31, 2007. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

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

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

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

	Effective Percentages of Ownership	
	2007	2006
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
Community Innovations, Inc.	**100**	100
Crans Montana Holdings, Inc.	**100**	100
Crimson Field Enterprises, Inc.	**100**	100
Piedmont Property Ventures, Inc.	**100**	100
Red Creek Properties, Inc.	**100**	100
Regent Time International, Limited (Regent) (British Virgin Islands)	**100**	100
Stonehaven Land, Inc.	**100**	100
Streamwood Property, Inc.	**100**	100
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
ALI-CII Development Corporation (ALI-CII)	**50**	50
Roxas Land Corporation (RLC)	**50**	50
Construction:		
Makati Development Corporation	**100**	100
Hotels:		
Ayala Hotels, Inc. (AHI) and Subsidiaries	**50**	50
Enjay Hotels, Inc.	**100**	100
Cebu Insular Hotel Company, Inc.	**63**	63
Makati Property Ventures, Inc.	**–**	60

(Forward)

	Effective Percentages of Ownership	
	2007	2006
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
Food Court Company, Inc.	**100**	100
Northbeacon Commercial Corporation (formerly Alabang Theatres Management Corporation)	**100**	100
First Longfield Investments Limited (First Longfield) (Hongkong Company)	**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.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except as follows:

PFRS 7, *Financial Instruments: Disclosures, and the complementary amendment to PAS 1, Presentation of Financial Statements: Capital Disclosures (effective for annual periods beginning on or after January 1, 2007)*
PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation and* PAS 30*, Disclosure in the Financial Statements of Banks and Similar Financial Institutions*. It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

The Group adopted the amendment to the transition provisions of PFRS 7, as approved by the Financial Reporting Standards Council, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Group does not need to present comparative information for the disclosures required by paragraphs 31 - 42 of PFRS 7, unless the disclosure was previously required under PAS 30 or PAS 32. Adoption of PFRS 7 and the amendment to PAS 1 resulted in additional disclosures, which are included throughout the consolidated financial statements. These disclosures include presenting the different classes of loans and receivables (see Note 6), rollforward of allowance for impairment losses (see Note 6), Company's capital management (see Note 16), credit quality of financial assets (see Note 24), aging of past due but not impaired financial assets (see Note 24), and sensitivity analyses as to changes in interest and foreign exchange rates (see Note 24).

Philippine Interpretation IFRIC-10, *Interim Financial Reporting and Impairment*
This Interpretation provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS financial assets. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. Adoption of this Interpretation did not have any significant impact on the consolidated financial statements.

Future Changes in Accounting Policies
The Group has not applied the following PFRS and Philippine Interpretations which are not yet effective for the year ended December 31, 2007:

PAS 23, *Borrowing Costs (effective for annual periods beginning on or after 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, this change in accounting for borrowing costs shall be accounted for prospectively. 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. The Group does not expect that the adoption of this Standard will have a significant impact on the consolidated financial statements.

PFRS 8, *Operating Segments (effective for annual periods beginning on or after January 1, 2009)*
This PFRS adopts a management approach to reporting segment information. PFRS 8, will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Group will apply PFRS 8 in 2009 and will assess the impact of this Standard on its current manner of reporting segment information.

Amendment to PAS 1, *Amendment on Statement of Comprehensive Income*
This Amendment will become effective January 1, 2008. In accordance with the amendment to PAS 1, the statement of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statement of income together with 'other comprehensive income'. The revisions specify what is included in other comprehensive income, such as gains and losses on AFS financial assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can 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. The Group will assess the impact of the Standard on its current manner of reporting all items of income and expenses.

Philippine Interpretation IFRIC-11, PFRS 2, *Group and Treasury Share Transactions*
This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Group does not expect this Interpretation to have a significant impact on its consolidated financial statements.

Philippine Interpretation IFRIC-12, *Service Concession Arrangement*
This Interpretation will become effective January 1, 2008. This Interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remain in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This Interpretation will have no impact on the consolidated financial statements as this is not relevant to the Group’s current operations.

Philippine Interpretation IFRIC-13, *Customer Loyalty Programmes*
This Interpretation will become effective January 1, 2009. The Interpretation addresses accounting by the entity that grants award credits to its customers. This Interpretation applies to customer loyalty award credits that: (a) an entity grants to its customers as part of a sales transaction, i.e. a sale of goods, rendering of services or use by a customer of entity assets; and (b) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. This Interpretation will have no impact on the consolidated financial statements as the Group’s has currently no such scheme.

Philippine Interpretation IFRIC-14, IAS 19, *Limit on Defined Benefit Asset, Minimum Funding Requirement and Other Interaction*
IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 *Employee Benefits*. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as all its defined benefit plans have unfunded portions.

<u>Cash and Cash Equivalents</u>
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the 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 asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

Day 1 profit

Where the transaction price in a non-active market is different 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. Gains or losses on investments held for trading are recognized in the consolidated statement of income under “Other income” account or “Other charges” account.

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, 2007 and 2006 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.

The Company enters into short-term nondeliverable currency forward contracts to manage its exchange exposure. This is accounted for as non-hedge derivative.

HTM investments
HTM investments are quoted non-derivative 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 an integral part of the effective interest rate. The amortization is included in interest income in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income 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, 2007 and 2006, 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 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, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the interest income in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized in the consolidated statement of income under "Other charges" account.

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. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the statement of income as "Other income" when the right of payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of income under the "Other charges" account.

Other financial liabilities
Other financial liabilities include short-term and long-term debts. All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, short-term and long-term debts are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized under the "Other income" and "Other charges" accounts in the consolidated statement of income when the liabilities are derecognized or impaired, as well as through the amortization process under the "Interest expense and other financing charges" account.

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

For deposits, the difference between the cash received and its fair value is deferred (included in the "Deferred credits" in the 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 as obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
c. the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

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

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets

The Group assesses at each consolidated balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of Interest income in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheets.

Real Estate Inventories

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

Noncurrent Assets Held for Sale

The Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The related results of operations and cash flows of the disposal group that qualified as discontinued operation are separated from the results of those that would be recovered principally through continuing use, and prior years’ consolidated 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 statement of income and cashflows as items associated with noncurrent assets held for sale.

Land and Improvements

Land and improvements consist of properties for future development and are carried at the lower of cost or NRV. 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.

Under the equity method, the investments in the investee companies are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in the net assets of the investee companies. The consolidated statement of income reflects the share of the results of the operations of the investee companies. Profit and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies. If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company exceeds the cost of the business combination, the excess shall be recognized immediately in the consolidated statement of income.

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

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

Investment Properties

Investment properties consist of properties that are held to earn rentals and that 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 investments properties are as follows: land improvements - 5 years; and buildings - 20 to 40 years.

Investment properties are derecognized when either they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when and only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of 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, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

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

	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	5-50

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 asset's residual values, useful life and depreciation and amortization methods are reviewed periodically to ensure that the amounts, period and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

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

Impairment of Non-financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated 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 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 and joint ventures is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the investee company and the carrying value and recognizes the amount in the consolidated statement of income.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each consolidated balance sheet date and adjusted to reflect the current best estimate.

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

Any excess of collections over the recognized receivables are included in the "Accounts and other payables" account in the liabilities section of the consolidated balance sheet.

Revenue from construction contracts included in the "Real estate" account in the consolidated statement of income are recognized using the percentage of completion method, measured principally on the basis of the estimated physical completion of the contract work.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

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.

Revenue from hotel operations of a subsidiary is recognized when services are rendered.

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

Management fees from administration and property management and other fees are recognized when services are rendered.

Interest is recognized as it accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

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

Share-based Payments

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

PFRS 2 Options

For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes model, further details of which are given in Note 23.

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 22).

Employee Share Purchase Plans

The Company has 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 payable over more than one year, the subscription price is adjusted for the time value and treated as additional stock compensation expense. For the unsubscribed share 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 discounting the estimated future cash outflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

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

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.

Deferred Income Taxes
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

The carrying amount of deferred tax assets is reviewed at each 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 asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the consolidated balance sheet date.

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

Foreign Currency Transactions

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

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments under noncancellable leases are recognized on a straight-line basis over the lease term. Fixed and variable lease payments under cancellable leases are recognized based on the terms of the lease contract.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to common stockholders by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 25.

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 financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

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

Operating lease commitments - group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases.

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

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

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

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 28).

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.

Estimating allowance for doubtful accounts
The Group maintains allowance for doubtful accounts based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables, carrying balance and the computed present value. 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 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 18 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 23 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 21 and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations. See Note 21 for the related balances.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at its fair value by using the discounted cash flow methodology (see Notes 6, 15 and 24).

4. Cash and Cash Equivalents

This account consists of:

	2007	2006
	(In Thousands)	
Cash on hand and in banks	**₱2,799,775**	₱946,541
Cash equivalents	**8,472,131**	3,684,050
	₱11,271,906	₱4,630,591

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

5. Short-term Investments and FVPL Financial Assets

Short-term investments consist of:

	2007	2006
	(In Thousands)	
Investment Management Account (IMA)	**₱1,400,000**	₱–
Money market placements	**635,606**	2,927,928
	₱2,035,606	₱2,927,928

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

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

FVPL financial assets consist of:

	2007	2006
	(In Thousands)	
Treasury bonds	**₱318,018**	₱134,224
Treasury bills	–	1,816,866
	₱318,018	₱1,951,090

Treasury bonds and treasury bills have yields to maturity of 5.7% and 5.1% to 5.6% in 2007 and 2006, respectively. The Group recognized unrealized gain on these FVPL financial assets amounting to ₱18.0 million and ₱43.8 million in 2007 and 2006, respectively (see Note 17).

6. Accounts and Notes Receivable

Accounts and notes receivable are summarized as follows:

	2007	2006
	(In Thousands)	
Trade		
Residential development	**₱7,374,149**	₱5,273,262
Shopping centers	**974,771**	1,089,744
Construction contracts	**820,485**	385,539
Management fees	**189,381**	140,487
Corporate business	**159,007**	445,020
Others	**156,014**	582,927
Related parties (see Note 20)	**1,691,706**	1,331,504
Advances to other companies	**478,213**	652,431
Advances to contractors	**1,382,401**	659,842
Accrued receivable	**88,952**	109,471
Receivable from employees	**268,121**	200,071
Others	**1,630,095**	2,008,675
	15,213,295	12,878,973
Less allowance for doubtful accounts	**174,109**	107,777
	15,039,186	12,771,196
Less noncurrent portion	**3,475,306**	2,126,672
	₱11,563,880	₱10,644,524

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

- Residential development - pertains to receivables from the sale of high-end, upper middle-income and affordable residential lots and units and leisure community developments
- Shopping centers - pertains to lease receivables of retail space and land

- Construction contracts - pertains to receivables from third-party construction projects
- Management fees - pertains to facility management fees receivables
- Corporate business - pertains to lease receivables of office and factory buildings and receivables from the sale of office buildings and industrial lots

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

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.

Receivable from related parties, advances and accrued receivables are due and demandable.

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

Receivables amounting to ₱32.3 million as of December 31, 2007 were impaired and fully provided for. Movements in the allowance for doubtful accounts are as follows:

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	**27,995**	**–**	**–**	**715**	**7,355**	**53,800**	**89,865**
Reversals	**–**	**–**	**–**	**(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**

2006

	Shopping centers	Residential	Construction Contracts	Management Fees	Trade-Others	Others	Total
Balance at beginning of year	₱84,629	₱13,008	₱2,301	₱3,166	₱4,869	₱801	₱108,774
Provisions during the period	–	–	–	–	–	13,367	13,367
Accounts written off	–	–	–	–	(997)	(13,367)	(14,364)
Balance at end of year	₱84,629	₱13,008	₱2,301	₱3,166	₱3,872	₱801	₱107,777
Individually impaired	₱4,490	₱9,555	₱2,301	₱3,166	₱–	₱75	₱19,587
Collectively impaired	80,139	3,453	–	–	3,872	726	88,190
Total	₱84,629	₱13,008	₱2,301	₱3,166	₱3,872	₱801	₱107,777
Gross amounts of loans, individually determined to be impaired, before deducting any individual assessed impairment allowance	₱4,490	₱9,555	₱2,301	₱3,166	₱–	₱75	₱19,587

As of December 31, 2007 and 2006, receivables with a nominal amount of ₱5.7 billion and ₱4.7 billion, 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 ₱768.7 million and ₱695.9 million as of December 31, 2007 and 2006, respectively.

7. Real Estate Inventories

This account consists of:

	2007	2006
	(In Thousands)	
Subdivision land for sale		
At cost	**₱3,429,873**	₱3,758,013
At NRV	**867,126**	867,126
Condominium, residential and commercial units for sale - at cost	**2,341,030**	3,070,123
Club shares - at cost	**57,978**	40,325
	₱6,696,007	₱7,735,587

Inventories recognized as cost of sales amounted to ₱8.5 billion and ₱9.2 billion in 2007 and 2006, respectively, and were included under “Real estate costs” in the consolidated statements of income.

8. Other Current Assets

This account consists of:

	2007	2006
	(In Thousands)	
Prepaid expenses	**₱1,269,662**	₱430,579
Value-added input tax	**520,498**	452,966
Materials and supplies	**95,959**	64,748
Derivative asset	**59,026**	–
Others	**148,891**	462,741
	₱2,094,036	₱1,411,034

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 which will mature on October 30, 2008. Fair value gain amounted to ₱59.0 million, which is recognized as derivative asset (see Note 17).

9. Investments in Associates and Jointly Controlled Entities

	2007	2006
	(In Thousands)	
Acquisition cost	**₱6,626,635**	₱7,082,008
Accumulated equity in net earnings:		
Balance at beginning of year	**1,709,209**	1,477,287
Equity in net earnings during the year	**787,209**	306,233
Disposal of equity investment	–	(1,532)
Dividends received during the year	**(84,377)**	(72,779)
Balance at end of year	**2,412,041**	1,709,209
	₱9,038,676	₱8,791,217

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	
	2007	2006	2007	2006
			(In Thousands)	
Emerging City Holdings, Inc. (ECHI)*	**50%**	50%	**₱2,485,455**	₱2,233,447
Cebu Holdings, Inc. (CHI) and subsidiaries	**47**	47	**1,809,631**	1,724,036
North Triangle Depot Commercial Corporation (NTDCC)	**49**	49	**1,541,375**	1,044,047
Berkshires Holdings, Inc. (BHI)*	**50**	50	**1,065,161**	957,161
Bonifacio Land Corp. (BLC)	**8**	8	**933,591**	854,801
Alabang Commercial Corporation (ACC)*	**50**	50	**573,052**	490,502
ARCH Asian Partners L.P.	**8**	–	**316,078**	–
ALI Property Partners Holdings Corporation (APPHC)*	**60**	60	**237,828**	129,771
Lagoon Development Corporation	**30**	30	**61,450**	60,702
KHI-ALI Manila, Inc. (KAMI)	**82**	–	**11,144**	–
ARCH Capital Management Co. Ltd. (ARCH Capital)*	**17**	22	**2,108**	1,296,750
KHI Manila Property, Inc.	**20**	–	**1,803**	–
			₱9,038,676	₱8,791,217

**Jointly controlled entities*

The Group's investments accounted for under joint venture amounted to ₱4,363.6 million and ₱3,810.9 million as of December 31, 2007 and 2006, respectively.

The fair value of investment in CHI for which there is a published price quotation amounted to ₱3,266.5 million and ₱2,903.5 million as of December 31, 2007 and 2006, respectively.

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

ECHI and Subsidiaries	**2007**	2006
Current assets	**₱12,840,915**	₱12,535,787
Noncurrent assets	**8,863,005**	8,338,641
Total assets	**21,703,920**	20,874,428
Current liabilities	**2,331,978**	1,719,027
Noncurrent liabilities	**1,171,967**	1,117,296
Total liabilities	**3,503,945**	2,836,323
Net operating revenue	**3,218,021**	1,024,590
Costs and expenses	**2,760,760**	964,450
Net income	**457,261**	60,140

BHI	**2007**	2006
Current assets	**₱263**	₱259
Noncurrent assets	**1,631,803**	1,417,290
Total assets	**1,632,066**	1,417,549
Current liabilities	**885**	816
Noncurrent liabilities	**–**	–
Total liabilities	**885**	816
Net operating revenue	**7,022,140**	2,056,304
Costs and expenses	**5,644,642**	1,866,953
Net income	**1,377,498**	189,351

ACC	**2007**	2006
Current assets	**₱196,111**	₱126,146
Noncurrent assets	**651,257**	673,778
Total assets	**847,368**	799,924
Current liabilities	**257,496**	305,699
Noncurrent liabilities	**128,171**	115,074
Total liabilities	**385,667**	420,773
Net operating revenue	**323,757**	292,590
Costs and expenses	**213,553**	209,626
Net income	**110,204**	82,964

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

CHI and subsidiaries	**2007**	2006
Total assets	**₱5,318,765**	₱4,717,217
Total liabilities	**1,335,582**	908,456
Net operating revenue	**1,277,481**	1,035,690
Costs and expenses	**984,731**	809,083
Net income	**292,750**	226,607
Earnings per share	**0.13**	0.18

NTDCC	2007	2006
Total assets	**₱7,373,178**	₱5,567,313
Total liabilities	**4,398,176**	3,640,403
Net operating revenue	**789,542**	–
Costs and expenses	**764,134**	–
Net income	**25,408**	–

BLC and Subsidiaries	2007	2006
Total assets	**₱43,677,672**	₱41,513,107
Total liabilities	**6,998,162**	5,693,892
Net operating revenue	**6,436,042**	1,959,189
Costs and expenses	**5,521,276**	1,488,603
Net income	**914,766**	470,586

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% (56.19% beneficial interest) equity interest in BLC through ECHI and BHI. The Company and EHI assigned the notes receivable from MPC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method. The fair value of the identifiable consolidated assets and liabilities of BLC as at April 17, 2003, the date of acquisition, amounted to about ₱5.6 billion resulting in a negative goodwill of ₱1.4 billion.

The Company has 4.32% direct investment in BLC and 4.33% through Regent which are accounted for using the equity method because the Company has significant influence over BLC.

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 amounting to ₱484.8 million in 2007.

NTDCC was granted development rights by MRT Development Co. to construct and operate a shopping center under certain terms and conditions until the end of a 50-year lease term renewable for another 25 years. NTDCC officially started the construction of the shopping center in 2005. The shopping center became operational on May 16, 2007.

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, 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.

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

APPHC, the newly formed joint-venture company, is 60% owned by the Company. The remaining 40% interest is split evenly between MIL and FIL. APPHC is jointly controlled by the Company, MIL, and FIL.

The Company has contributed a total capital of ₱232.7 million as of December 31, 2007.

10. **Available-for-sale Financial Assets**

This account consists of investments in:

	2007	2006
Shares of stock		
Unquoted	**₱202,489**	₱281,475
Quoted	**162,356**	96,161
	364,845	377,636
Unrealized gain (loss)	**1,943**	(10,323)
	₱366,788	₱367,313

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.

Movements in the net unrealized gain (loss) on AFS financial assets are as follows:

	2007	2006
Balance at beginning of year	**(₱10,323)**	(₱7,508)
Gain (loss) recognized in equity	**12,266**	(2,815)
Balance at end of year	**₱1,943**	(₱10,323)

11. **Investment Properties**

The movements in this account are:

	2007	2006
	(In Thousands)	
Cost		
January 1	**₱17,274,275**	₱16,836,444
Additions	**844,576**	534,367
Transfers	**1,133,034**	649,594
Disposals	**(577,676)**	(746,130)
December 31	**18,674,209**	17,274,275
Accumulated Depreciation and Amortization		
January 1	**4,241,513**	3,627,732
Depreciation and amortization	**858,280**	677,191
Disposals	**(218,434)**	(63,410)
December 31	**4,881,359**	4,241,513
Net Book Value	**₱13,792,850**	₱13,032,762

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 ₱121.4 billion and ₱122.0 billion as of December 31, 2007 and 2006, respectively.

The fair value of the investment properties were determined by independent professionally qualified appraisers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

The value of the land and condominium units was arrived at by the *Market Data Approach*. In this approach, the value of the land and condominium units is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishing of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

Consolidated rental income from investment properties amounted to ₱5.5 billion in 2007, ₱5.3 billion in 2006 and ₱4.2 billion in 2005. Consolidated direct operating expenses arising from the investment properties amounted to ₱2.4 billion in 2007, ₱2.1 billion in 2006 and ₱2.0 billion in 2005.

In 2007, the Company wrote-off investment properties (with net book value of ₱72.0 million) which were damaged during the Glorietta 2 explosion and other investment properties connected to the Ayala Center redevelopment amounting to ₱141.9 million.

12. Property and Equipment

This account consists of (in thousands):

2007

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Construction in Progress	2007 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)**
Transfers	**–**	**–**	**–**	**–**	**–**	**–**	**–**
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**

2006

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Construction in Progress	2006 Total
Cost							
January 1	₱668,755	₱1,353,495	₱755,101	₱301,464	₱4,824,337	₱740,863	₱8,644,015
Additions	2,166	619,537	76,605	68,354	264,260	707,201	1,738,123
Disposals/Write-off	(246,159)	(41,288)	(9,030)	(40,043)	(31,218)	–	(367,738)
Transfers	–	–	–	–	(2,355,170)	(649,594)	(3,004,764)
December 31	424,762	1,931,744	822,676	329,775	2,702,209	798,470	7,009,636
Accumulated Depreciation and Amortization							
January 1	231,313	683,811	617,576	187,613	1,850,516	–	3,570,829
Depreciation and amortization	11,439	138,419	113,247	50,051	177,105	–	490,261
Disposals	(4,842)	(40,575)	(6,290)	(23,312)	(25,453)	–	(100,472)
Transfers	–	–	–	–	(676,017)	–	(676,017)
December 31	237,910	781,655	724,533	214,352	1,326,151	–	3,284,601
Net Book Value	₱186,852	₱1,150,089	₱98,143	₱115,423	₱1,376,058	₱798,470	₱3,725,035

In 2006, property and equipment of MPVI amounting to ₱1,679.2 million were reclassified from hotel property and equipment to noncurrent assets held for sale (see Note 19).

Consolidated depreciation and amortization of property and equipment (included under various consolidated statements of income accounts) amounted to ₱451.6 million in 2007, ₱490.3 million in 2006, and ₱489.5 million in 2005.

As of December 31, 2007, the Group has commitments of ₱1.9 billion relating to the completion its construction-in-progress projects.

13. Accounts and Other Payables

This account consists of:

	2007	2006
	(In Thousands)	
Accounts payable (see Note 20)	**₱9,310,065**	₱7,540,155
Accrued expenses	**3,304,330**	1,928,036
Taxes payable	**1,630,478**	1,339,495
Accrued project costs	**540,618**	443,569
Dividends payable	**456,052**	328,540
Accrued salaries and employee benefits	**196,262**	225,865
Accrued rentals	**141,140**	73,679
Interest payable	**135,459**	171,359
Retentions payable	**44,412**	75,985
	₱15,758,816	₱12,126,683

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.

14. Short-term and Long-term Debt

The short-term debt of ₱1,613.0 million in 2007 and ₱1,556.0 million in 2006 represents unsecured peso-denominated bank loans of the Company's subsidiaries with interest rates ranging from 5.5% and 7.9% per annum (p.a.) in 2007 and 6.1% to 7.6% p.a. in 2006.

Long-term debt consists of:

	2007	2006
	(In Thousands)	
Company:		
Bonds		
Due 2007	**₱–**	₱3,000,000
Due 2008	**2,000,000**	2,000,000
Due 2009	**80,470**	42,960
Fixed rate corporate notes (FXCNs)	**3,580,000**	3,580,000
	5,660,470	8,622,960
Subsidiaries:		
Bank loans		
Philippine peso	**2,866,004**	2,658,451
	8,526,474	11,281,411
Less current portion	**2,376,600**	3,563,593
	₱6,149,874	₱7,717,818

The Company

Philippine Peso 5-Year Bonds due 2007
The Company issued in 2002 ₱3.0 billion bonds due 2007 with interest at 200 bps over benchmark 91-day T-Bills based on secondary market bids (PDST-F). The bonds were fully paid when it matured in April 2007.

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 re-priced quarterly.

The Philippine Rating Services Corporation (PhilRatings) assigned a PRS Aaa rating on the bonds due 2007 and 2008 indicating that the issues have the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS Aaa is the highest credit rating possible on PhilRatings' rating scales for long-term issuances.

Philippine Peso Homestarter Bonds due 2009
The Company launched in March 2006 its Homestarter Bonds of up to ₱169.2 million with fixed interest rate of 5% p.a.. The Homestarter Bonds are being issued monthly in a series for a period of thirty-six (36) months with final maturity in March 2009. On maturity date, the principal amount of the bond is redeemable with the accrued interest. Should the bondholder decide to purchase an Ayala Land property, he is entitled to an additional 10% of the aggregate face value of the bond as bonus credit which together with the principal and accrued interest can be applied as downpayment. As of end 2007 and 2006, outstanding Homestarter Bonds amounted to ₱80.5 million and ₱43.0 million, respectively.

Philippine Peso 5-, 7- and 10-Year FXCNs due 2011, 2013 and 2016
In 2006, the Company issued ₱3.0 billion FXCNs consisting of 5-, 7- and 10-year notes issued to various financial institutions and will mature on various dates up to 2016. The FXCNs bear fixed interest rates ranging from 7.25% to 7.75% p.a. depending on the term of the notes.

Philippine Peso 10-Year FXCNs due 2012
The Company also has an outstanding ₱580.0 million 10-year FXCNs with fixed interest rate of 14.875% p.a. issued in 2002 and due 2012. The Company may redeem all (but not part only) of the FXCNs on the 7th anniversary.

Subsidiaries
The subsidiaries' loans will mature on various dates up to 2014 with floating interest rates at 100 bps to 150 bps spread over benchmark 91-day PDST-F or PDST-R1 and fixed interest rates of 7.75% to 12.69% p.a.. Certain subsidiaries' loans are secured by mortgages on real estate properties, hotel properties and equipment and leasehold rights with a total carrying value of ₱612.2 million and ₱653.0 million as of 2007 and 2006, respectively.

The Company pledged its investment in shares of stock of SSECC with a carrying value of ₱1.5 billion as of 2007 and 2006, as collateral to secure the latter's bank loans.

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

Total interest paid amounted to ₱820.9 million in 2007, ₱1,133.8 million in 2006 and ₱1,354.7 million in 2005.

Interest capitalized amounted to ₱3.4 million in 2007 and ₱186.5 million in 2006. The average capitalization rates are 0.14% and 8.19% in 2007 and 2006, respectively.

15. **Deposits and Other Noncurrent Liabilities**

Deposits and other noncurrent liabilities consist of:

	2007	2006
	(In Thousands)	
Deposits	**₱2,301,681**	₱2,286,010
Retentions payable	**1,070,491**	715,475
Other liabilities	**1,003,635**	780,796
	₱4,375,807	₱3,782,281

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:

	2007		2006	2005
	Preferred	**Common**	Common	Common
Authorized	**15,000,000**	**20,000,000**	12,000,000	12,000,000
Issued	**13,034,604**	**13,002,821**	10,809,675	10,794,539
Subscribed	**–**	**31,811**	34,587	1,116
Treasury	**–**	**(24)**	(24)	(24)
Outstanding	**13,034,604**	**13,034,608**	10,844,238	10,795,631

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 ₱0.1. 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, non-cumulative; (c) non-participating; (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.

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

	2007	2006	2005
At beginning of year	**10,844,238**	10,795,631	10,775,346
Issuance of stock dividends	**2,172,398**	–	–
Exercise of stock options	**17,972**	14,065	20,285
Additional subscriptions	–	34,542	–
At end of year	**13,034,608**	10,844,238	10,795,631

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

The BOD further agreed to secure the 2/3 vote of the stockholders for 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.

Retained Earnings
The BOD approved the declaration of 20 percent stock dividends in 2007 which is equivalent to 2.1 bi1llion shares based on 10.8 billion shares as of December 31, 2006.

The BOD approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱0.06 per share in 2007, ₱0.17 per share in 2006 and ₱0.30 per share in 2005.

Retained earnings of ₱6.0 billion are appropriated for future expansion. Retained earnings also include undistributed net earnings amounting to ₱6,166.2 million, ₱5,612.4 million and ₱5,411.4 million as of December 31, 2007, 2006 and 2005, respectively, representing accumulated equity in the net earnings of subsidiaries, associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the investees.

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

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 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, 2007 and 2006, the Group had the following ratios:

	2007	2006
Debt to equity	**22.0%**	31.6%
Net debt to equity	**(8.0%)**	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. The Group considers as capital the equity attributable to equity holders of the Company less unrealized gain (loss) on available-for-sale financial assets.

17. Other Income and Costs and Expenses

Other income consists of:

	2007	2006	2005
		(In Thousands)	
Gain on sale of investments and others - net	**₱1,212,022**	₱739,330	₱2,706,318
Fair value gain on derivative asset (see Note 8)	**59,026**	–	–
Management and marketing fees	**215,285**	272,094	147,953
	₱1,486,333	₱1,011,424	₱2,854,271

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. Gain on disposal of investments amounted to ₱758.6 million in 2006 and ₱2,354.6 million in 2005.

Manpower costs included in consolidated statements of income are as follows:

	2007	2006	2005
		(In Thousands)	
Included in:			
Cost of:			
Real estate	**₱720,217**	₱596,866	₱488,337
Hotel operations	**199,664**	237,833	232,131
General and administrative expenses	**1,459,474**	1,512,769	1,237,720
	₱2,379,355	₱2,347,468	₱1,958,188

Depreciation and amortization expense included in consolidated statements of income are as follows:

	2007	2006	2005
		(In Thousands)	
Included in:			
Cost of:			
Real estate	**₱1,040,753**	₱844,976	₱711,555
Hotel operations	**111,231**	74,659	65,945
General and administrative expenses	**158,473**	147,645	140,375
	₱1,310,457	₱1,067,280	₱917,875

Hotel operations expenses consist of:

	2007	2006	2005
		(In Thousands)	
Food and beverage	**₱245,912**	₱206,866	₱204,201
Property operations, maintenance and energy costs	**147,667**	84,203	83,593
Depreciation and amortization	**111,231**	74,659	65,945
Rooms	**79,480**	104,525	90,469
Telephone and other department costs	**14,518**	16,781	18,752
Entertainment, amusement and recreation	**6,335**	5,150	2,461
Others	**307,887**	229,340	244,231
	₱913,030	₱721,524	₱709,652

General and administrative expenses included in the consolidated financial statements are as follows:

	2007	2006	2005
		(In Thousands)	
Manpower cost (see Notes 21 and 23)	**₱1,459,474**	₱1,512,769	₱1,237,720
Professional fees	**181,902**	113,428	102,827
Depreciation and amortization	**158,473**	147,645	140,375
Transportation and travel	**112,821**	93,364	93,494
Utilities	**105,707**	98,216	78,645
Entertainment, amusement and recreation	**87,161**	74,039	59,206
Advertising	**66,449**	86,753	63,084
Supplies	**34,798**	38,481	33,252
Others	**508,355**	441,359	508,632
	₱2,715,140	₱2,606,054	₱2,317,235

Interest expense and other financing charges consist of:

	2007	2006	2005
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱210,472**	₱102,187	₱137,469
Long-term debt	**663,392**	692,902	643,077
Other financing charges	**18,907**	18,139	138,013
	₱892,771	₱813,228	₱918,559

Other charges consist of:

	2007	2006	2005
		(In Thousands)	
Provision for impairment losses on:			
Receivables	**₱89,150**	₱13,367	₱153,000
Property and equipment	**–**	–	316,130
Land and improvements	**–**	217,580	1,523,438
Investment properties	**–**	–	181,562
Write-offs and other charges	**669,949**	–	–
Others	**144,221**	49,623	219,904
	₱903,320	₱280,570	₱2,394,034

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 amounting to a total of ₱213.9 million (see Note 11).

18. **Income Taxes**

The components of deferred taxes as of December 31, 2007 and 2006 are as follows:

Net deferred tax assets:

	2007	2006
	(In Thousands)	
Deferred tax assets on:		
Allowance for probable losses	**₱662,727**	₱660,985
Difference between tax and book basis of accounting for real estate transactions	**391,709**	248,256
Retirement benefits	**184,483**	187,983
Outstanding share-based payments	**47,541**	104,679
NOLCO	**59,016**	34,759
MCIT	**12,403**	1,946
Others	**57,070**	230,886
	1,414,949	1,469,494
Deferred tax liabilities on:		
Capitalized customs duties, interest and other expenses	**(723,404)**	(686,616)
Unrealized gain on forward contracts	**(20,659)**	–
	(744,063)	(686,616)
Net deferred tax assets	**₱670,886**	₱782,878

Net deferred tax liabilities:

	2007	2006
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱59,352**	₱58,070
NOLCO	**49,026**	47,967
Retirement benefits	**7,591**	6,416
Allowance for probable losses	**1,236**	4,977
MCIT	–	1,904
	117,205	119,334
Deferred tax liabilities on:		
Capitalized customs duties, interest and other expenses	**(122,576)**	(290,728)
Excess of financial realized gross profit over taxable realized gross profit	**(109,072)**	(244,112)
	(231,648)	(534,840)
Net deferred tax liabilities	**(₱114,443)**	(₱415,506)

Certain subsidiaries of the Company have NOLCO amounting to ₱431.8 million and ₱752.8 million as of December 31, 2007 and 2006, respectively, which were not recognized. Further, a subsidiary also has deductible temporary differences arising from unrealized gain on

real estate sales amounting to ₱4.8 million and ₱143.3 million as of December 31, 2007 and 2006, respectively, which were also not recognized. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The subsidiaries will recognize a previously unrecognized deferred tax assets to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As of December 31, 2007, 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)		
2004	₱536,322	₱536,322	₱–	2007
2005	304,867	–	304,867	2008
2006	333,493	–	333,493	2009
2007	102,083	–	102,083	2010
	₱1,276,765	₱536,322	₱740,443	

MCIT:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
2004	₱5,023	₱5,023	₱–	2007
2005	9,886	7,709	2,177	2008
2006	1,363	–	1,363	2009
2007	8,863	–	8,863	2010
	₱25,135	₱12,732	₱12,403	

At December 31, 2007 and 2006, 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.

There are no income tax consequences attaching the payment of dividends by the Company and its subsidiaries to the shareholders of the Company.

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

	2007	2006	2005
Statutory income tax rate	**35.00%**	35.00%	32.50%
Tax effect of:			
Interest income and capital gains taxed at lower rates	**(8.39)**	(6.44)	(15.64)
Income subjected to lower income tax rates (see Note 26)	**(1.86)**	(1.91)	(0.68)
Equity in net earnings of investees	**(3.52)**	(1.81)	(1.60)
Effect of change in statutory income tax rate	**–**	–	(1.99)
Others - net	**4.48**	3.47	0.07
Effective income tax rate	**25.71%**	28.31%	12.66%

Republic Act (RA) No. 9337

RA No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA, which became effective on November 1, 2005, are as follows:

- Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
- Increases in value-added tax (VAT) rate from 10% to 12% effective February 1, 2006 as authorized by the Philippine President pursuant to the recommendation of the Secretary of Finance;
- Revised invoicing and reporting requirements for VAT;
- Expanded scope of transactions subject to VAT; and
- Provide thresholds and limitations on the amounts of VAT credits that can be claimed.

19. 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 and 2005 are presented below:

	2006	2005
	(In Thousands)	
Revenue from hotel operations	₱733,261	₱673,147
Interest, fees and other investment income	12,871	12,177
	746,132	685,324
Hotel cost and expenses	339,457	304,054
Depreciation	102,446	102,673
General administrative expenses	23,475	42,661
Interest and other financing charges	39,527	47,283
Provision for income tax	85,969	57,974
	590,874	554,645
Income associated with assets held for sale	**₱155,258**	**₱130,679**

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	2005
Income associated with noncurrent assets held for sale	**₱598,666**	₱155,258	₱130,679
Less income associated with noncurrent assets held for sale attributable to minority interests	**299,333**	108,681	91,475
	299,333	46,577	39,204
Weighted average number of common shares for basic EPS	**13,026,949**	12,988,994	12,945,635
Dilutive shares arising from stock options and preferred shares	**150,916**	56,410	39,150
Adjusted weighted average number of common shares for diluted EPS	**13,177,865**	13,045,404	12,984,785
Basic EPS	**₱0.023**	₱0.004	₱0.003
Diluted EPS	**₱0.023**	₱0.004	₱0.003

20. 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 as follows:

	2007	2006	2005
		(In Thousands)	
Revenue			
Associates and jointly controlled entities	**₱944,073**	₱426,005	₱212,323
Other related parties	**12,968**	38,245	203,500
	₱957,041	₱464,250	₱415,823

	2007	2006
	(In Thousands)	
Receivable from Related Parties		
Parent Company	**₱29,171**	₱16,744
Associates and jointly controlled entities	**1,575,531**	1,290,413
Other related parties	**87,004**	24,347
	₱1,691,706	₱1,331,504

	2007	2006
	(In Thousands)	
Payable to Related Parties		
Parent Company	**₱945**	₱3,019
Associates and jointly controlled entities	**360,660**	534,391
Other related parties	**688**	1,101
	₱362,293	₱538,511

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:

	2007	2006	2005
		(In Thousands)	
Short-term employee benefits	**₱114,379**	₱113,427	₱94,132
Share-based payments (see Note 23)	**59,586**	85,963	31,577
Post-employment benefits (see Note 21)	**3,308**	3,587	3,413
	₱177,273	₱202,977	₱129,122

21. **Retirement Plan**

The Group has funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. In 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 pension expense (included in manpower costs under "General and administrative expenses") in the consolidated statements of income are as follows:

	2007	2006	2005
		(In Thousands)	
Current service cost	**₱120,836**	₱129,798	₱170,744
Interest cost on benefit obligation	**41,704**	82,231	61,143
Expected return on plan assets	**(53,210)**	(53,356)	(7,175)
Net actuarial losses (gains)	**(346)**	9,775	(1,134)
Past service cost	**98,539**	–	2,706
Total pension expense	**₱207,523**	₱168,448	₱226,284
Actual return on plan assets	**₱104,177**	₱50,045	₱11,025

The funded status and amounts recognized in the consolidated balance sheets for the pension plan as of December 31, 2007 and 2006 are as follows:

	2007	2006
	(In Thousands)	
Benefit obligations	**₱1,574,083**	₱1,389,916
Plan assets	**(1,428,976)**	(1,382,179)
	145,107	7,737
Unrecognized net actuarial gains	**69,051**	84,191
Unrecognized past service cost	**(38,321)**	–
Liability recognized in the consolidated balance sheets	**₱175,837**	₱91,928

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

	2007	2006	2005
		(In Thousands)	
Balance at January 1	**₱1,389,916**	₱1,489,168	₱1,213,067
Interest cost	**41,704**	82,231	61,143
Current service cost	**120,836**	129,798	170,744
Past service cost	**136,860**	–	2,706
Curtailments	**1,369**	–	–
Benefits paid	**(180,994)**	(111,454)	(75,277)
Actuarial losses (gains)	**64,392**	(199,827)	116,785
Balance at December 31	**₱1,574,083**	₱1,389,916	₱1,489,168

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

	2007	2006	2005
		(In Thousands)	
Balance at January 1	**₱1,382,179**	₱1,281,464	₱731,209
Expected return	**53,210**	53,356	7,175
Contributions	**123,614**	162,124	614,507
Benefits paid	**(180,994)**	(111,454)	(75,277)
Actuarial gains (losses)	**50,967**	(3,311)	3,850
Balance at December 31	**₱1,428,976**	₱1,382,179	₱1,281,464

The Group expects to make contributions of ₱41.9 million to its retirement fund in 2008.

The allocations of the fair value of plan assets are as follows:

	2007	2006	2005
Investments in government instruments	**61.14%**	55.53%	66.93%
Investments in equity securities	**29.37**	32.74	30.09
Others	**9.49**	11.73	2.98

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

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, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Discount rate	**7 to 9%**	7%	11%
Salary increase rate	**8 to 10**	5 to 10	5 to 10
Expected rate of return on plan assets	**7**	7 to 10	7 to 10

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

	2007	2006	2005	2004
		(In Thousands)		
Defined benefit obligation	**₱1,574,083**	₱1,389,916	₱1,489,168	₱1,213,067
Plan assets	**(1,428,976)**	(1,382,179)	(1,281,464)	(731,209)
Deficit	**₱145,107**	₱7,737	₱207,704	₱481,858

Experience adjustments on plan liabilities amounted to ₱83,292 loss in 2007 and ₱21,294 loss in 2006. Experience adjustments on plan assets amounted to ₱50,967 gain in 2007 and ₱3,311 loss in 2006.

22. 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:

	2007	2006	2005
Net income	**₱4,386,362**	₱3,865,602	₱3,616,673
Weighted average number of common shares for basic EPS	**13,026,949**	12,988,994	12,945,635
Dilutive shares arising from stock options and preferred shares	**150,916**	56,410	39,150
Adjusted weighted average number of common shares for diluted EPS	**13,177,865**	13,045,404	12,984,785
Basic EPS	**₱0.34**	₱0.30	₱0.28
Diluted EPS	**₱0.33**	₱0.30	₱0.28

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

	2007	2006	2005
Income before income associated with noncurrent assets held for sale	**₱4,496,882**	₱4,078,594	₱3,854,752
Less income before income associated with noncurrent assets held for sale associated to minority interests	**409,853**	259,569	277,283
	₱4,087,029	₱3,819,025	₱3,577,469
Weighted average number of common shares for basic EPS	**13,026,949**	12,988,994	12,945,635
Dilutive shares arising from stock options and preferred shares	**150,916**	56,410	39,150
Adjusted weighted average number of common shares for diluted EPS	**13,177,865**	13,045,404	12,984,785
Basic EPS	**₱0.31**	₱0.29	₱0.28
Diluted EPS	**₱0.31**	₱0.29	₱0.28

23. Stock Option 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

	2007	**Weighted average exercise price**	2006	Weighted average exercise price
At January 1	**25,914,997**	**₱4.89**	38,628,537	₱4.84
Additions	**4,413,205**	**4.10**	–	–
Exercised	**(6,019,491)**	**4.68**	(12,713,540)	4.74
Cancelled	**(461,709)**	**3.82**	–	–
At December 31	**23,847,002**	**₱4.14**	25,914,997	₱4.89

PFRS 2 Options

	2007	**Weighted average exercise price**	2006	Weighted average exercise price
At January 1	**23,349,898**	**₱4.89**	34,080,099	₱4.84
Additions	**4,520,159**	**4.10**	–	–
Exercised	**(7,107,360)**	**4.68**	(10,730,201)	4.74
Cancelled	**(742,747)**	**3.82**	–	–
At December 31	**20,019,950**	**₱4.14**	23,349,898	₱4.89

The additions during the year pertain to the 20% stock dividend earned on the outstanding stock options.

The options exercised had a weighted average exercise price of ₱4.68 per share or ₱61.4 million in 2007 and ₱4.74 per share or ₱111.1 million in 2006. The average fair market value of the shares at the exercise date was ₱16.73 per share or about ₱219.6 million in 2007 and ₱11.84 per share or about ₱277.6 million in 2006.

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

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

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

ESOWN

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

In 2005, the Company introduced a revised ESOWN and granted to qualified officers wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of 10 years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of the Company or any of its subsidiaries during the 10-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Company's Right to Repurchase.

For the unsubscribed shares, the employee still has the option to subscribe within seven years. Movements in the number of options outstanding under ESOWN are as follows:

	2007	**Weighted average exercise price**	2006	Weighted average exercise price
At January 1	**8,290,674**	**₱9.11**	3,094,213	₱7.03
Granted	**494,400**	**12.00**	5,196,461	10.35
Cancelled	**(284,039)**	**7.89**	–	–
At December 31	**8,501,035**	**9.34**	8,290,674	₱9.11

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

	Grant Dates		
	September 20, 2007	June 5, 2006	November 16, 2005
Weighted average share price	**₱14.24**	₱12.83	₱8.36
Exercise price	**₱12.00**	₱10.35	₱7.03
Expected volatility	**34.67%**	46.03%	46.32%
Dividend yield	**0.41%**	1.56%	0.77%
Interest rate	**6.93%**	10.55%	11.30%

Total expense recognized in 2007, 2006 and 2005 in the consolidated statements of income arising from share-based payments amounted to ₱104.7 million, ₱148.0 million and ₱68.4 million.

24. **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, 2007 and 2006:

	2007		2006	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FVPL Financial Assets				
Financial assets through profit and loss	**₱318,018**	**₱318,018**	₱1,951,090	₱1,951,090
Derivative asset	**59,026**	**59,026**	–	–
Total FVPL financial assets	**377,044**	**377,044**	1,951,090	1,951,090
Loans and Receivables				
Cash and cash equivalents	**11,271,906**	**11,271,906**	4,630,591	4,630,591
Short-term investments	**2,035,606**	**2,035,606**	2,927,928	2,927,928
Accounts and notes receivable				
Trade				
Residential development	**7,374,149**	**7,613,864**	5,273,262	5,960,168
Shopping centers	**974,771**	**974,771**	1,089,744	1,089,744
Construction contracts	**820,485**	**820,485**	385,539	385,539
Management fees	**189,381**	**189,381**	140,487	140,487
Corporate business	**159,007**	**159,007**	445,020	445,020
Others	**156,014**	**156,014**	582,927	582,927
	9,673,807	**9,913,522**	7,916,979	8,603,885
Related parties	**1,691,706**	**1,691,706**	1,331,504	1,331,504
Advances to other companies	**478,213**	**463,583**	652,431	652,431
Accrued receivable	**88,952**	**88,952**	109,471	109,471
Receivable from employees	**268,121**	**236,035**	200,071	200,071
Others	**1,630,095**	**1,607,152**	2,008,675	2,008,675
	4,157,087	**4,087,428**	4,302,152	4,302,152
Total loans and receivables	**27,138,406**	**27,308,462**	19,777,650	20,464,556
Available-for-sale financial assets				
Unquoted shares of stocks	**202,489**	**202,489**	281,475	281,475
Quoted shares of stocks	**162,356**	**162,356**	96,161	96,161
Total available-for-sale financial assets	**364,845**	**364,845**	377,636	377,636
Total financial assets	**₱27,880,295**	**₱28,050,351**	₱22,106,376	₱22,793,282
Other Financial Liabilities				
Current				
Accounts payable	**₱9,310,065**	**₱9,310,065**	₱7,540,155	₱7,540,155
Accrued expenses	**3,304,330**	**3,304,330**	1,703,136	1,928,036
Accrued project cost	**540,618**	**540,618**	443,569	443,569
Dividends payable	**456,052**	**456,052**	328,540	328,540
Accrued salaries and employee benefits	**196,262**	**196,262**	450,765	225,865
Accrued rentals	**141,140**	**141,140**	73,679	73,679
Intrerest payable	**135,459**	**135,459**	171,359	171,359
Retentions payable	**44,412**	**44,412**	75,985	75,985
Short-term debt	**1,613,000**	**1,613,000**	1,556,000	1,556,000
Current portion of long-term debt	**2,376,600**	**2,376,600**	3,563,593	3,563,593
Noncurrent				
Long-term debt	**6,149,874**	**6,952,606**	7,717,818	8,549,132
Deposits and other noncurrent liabilities	**4,375,807**	**4,381,898**	3,782,281	3,776,605
Total other financial liabilities	**₱28,643,619**	**₱29,452,442**	₱27,406,880	₱28,232,518

The methods and assumptions used by the Company 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 4.19% to 6.04% and 5.0% to 6.7% as of December 31, 2007 and 2006, 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 because of 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 4.19% to 6.04% and 5.0% to 6.7% as of December 31, 2007 and 2006, respectively. The fair value of noncurrent unquoted instruments with floating rates approximate their carrying amounts due to the regular repricing of the instruments. 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 AFS financial assets, 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, AFS financial assets, 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 actively manages its liquidity position so as to ensure that all operating, investing and financing needs are met. In mitigating liquidity risk, management measures and forecasts its cash commitments, matches debt maturities with the assets being financed, maintains a diversity of funding sources with its unhampered access to bank financing and the capital markets, develops viable funding alternatives through its sale of receivables, non-core assets and adoption of joint development agreements for property acquisitions and developments, and holds a sufficient level of cash reserves and marketable securities.

Through scenario analysis and contingency planning, the Group also assesses its ability to withstand both temporary and longer-term disruptions relative to its capacity to finance its activities and commitments in a timely manner and at reasonable cost, and ensures the availability of ample unused credit facilities as back-up liquidity.

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

Year ended December 31, 2007

	< 1 year	>1 to < 5 years	> 5 years	Total
Accounts and other payables	₱15,758,816	₱	₱	₱15,758,816
Other current liabilities	623,294	–	–	623,294
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
	₱23,403,390	₱5,993,248	₱1,500,753	₱30,897,391

	< 1 year	>1 to < 5 years	> 5 years	Total
Interest payable	₱672,114	₱1,369,180	₱295,190	₱2,336,484

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

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.

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

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. 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.

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

Balance sheet items	**2007**	2006
Cash and cash equivalents	**₱11,271,906**	₱4,630,591
Short-term investments	**2,035,606**	2,927,928
FVPL financial assets	**318,018**	1,951,090
Accounts and notes receivable		
Trade		
Shopping centers	**974,771**	1,089,744
Corporate business	**159,007**	445,020
Residential	**7,374,149**	5,273,262
Construction contracts	**820,485**	385,539
Management fees	**189,381**	140,487
Others	**156,014**	582,927
Advances to related parties	**1,691,706**	1,331,504
Advances to other companies	**478,213**	652,431
Accrued receivable	**88,952**	109,471
Receivables from employees	**268,121**	200,071
Others	**1,630,095**	2,008,675
	₱27,456,424	₱21,728,740

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

2007

	Neither Past Due nor Impaired	Past Due but not Impaired						Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
					(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	1,309,442	10,831	18,501	27,150	36,200	126,651	219,333	101,320	1,630,095
Total	₱11,353,100	₱944,138	₱325,377	₱228,067	₱368,609	₱478,030	₱2,344,221	₱133,573	₱13,830,894

The table below shows the credit quality of the Company's financial assets as of December 31, 2007:

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱11,271,906	₱–	₱–	₱11,271,906	₱–	₱–	₱11,271,906
Short-term investments	2,035,906	–	–	2,035,906	–	–	2,035,906
FVPL financial assets	318,018	–	–	318,018	–	–	318,018
Accounts and notes receivables							
Trade							
Shopping centers	281,538	97,147	210,488	589,173	375,797	9,801	974,771
Corporate business	44,766	5,243	–	50,009	108,998	–	159,007
Residential	4,989,547	1,583,052	503,764	7,076,363	288,231	9,555	7,374,149
Construction contracts	143,190	30,251	28,235	201,676	616,508	2,301	820,485
Management fees	31,672	33,064	13,392	78,128	108,087	3,166	189,381
Others	36,734	–	–	36,734	111,925	7,355	156,014
Related parties	1,453,270	72	–	1,453,342	238,364	–	1,691,706
Advances to other companies	235,523	28,566	–	264,089	214,049	75	478,213
Receivable from employees	54,301	16,664	–	70,965	17,987	–	88,952
Accrued receivable	220,978	2,201	–	223,179	44,942	–	268,121
Others	995,715	209,373	104,354	1,309,442	219,333	101,320	1,630,095
Available-for-sale financial assets							
Quoted	–	202,489	–	202,489	–	–	202,489
Unquoted	–	162,356	–	162,356	–	–	162,356
	₱22,113,064	₱2,370,478	₱860,233	₱25,343,775	₱2,344,221	₱133,573	₱27,821,569

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

Cash and cash equivalents, short-term investments, FVPL financial assets - 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.

Available-for-sale 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 maintaining a debt portfolio mix of both fixed and floating interest rates. The portfolio mix is a function of historical, current trend and outlook of interest rates, volatility of short-term interest rates, the steepness of the yield curve, and degree of variability of cash flows.

The Company's ratio of fixed to floating rate debt stood at 62:38 and 47:53 as of December 31, 2007 and 2006, respectively.

The following tables demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates on December 31, 2007, with all variables held constant, (through the impact on floating rate borrowings and changes in fair value of financial assets through FVPL):

	Change in basis points	
	+ 100 basis points	
	Effect on income before income tax	**Effect on equity**
FVPL financial assets	(₱9,975)	(₱9,975)
Company - floating rate borrowings	(10,000)	(6,500)
Subsidiaries - floating rate borrowings	(28,976)	(18,834)
	(₱48,951)	(₱35,309)

	Change in basis points	
	- 100 basis points	
	Effect on income before income tax	**Effect on equity**
FVPL financial assets	₱10,348	₱10,348
Company - floating rate borrowings	10,000	6,500
Subsidiaries - floating rate borrowings	28,976	18,834
	₱49,324	₱35,682

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

2007

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱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	13,656,785	10,181,479	3,475,306		13,656,785
Company							
Long-term debt							
Fixed							
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
Floating							
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							
Fixed							
Peso	Fixed at 7.75% to 12.69%	5 to 7 years	1,585,760	167,460	1,408,625	5,295	1,581,380
Floating							
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

2006

	Interest terms (p.a.)	Rate FixingPeriod	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱4,630,591	₱4,630,591	–	–	₱4,630,591
Short-term investments	Fixed at the date of investment or revaluation cut-off	Balance date	2,927,928	2,927,928	–	–	2,927,928
FVPL financial assets	Fixed at the date of investment or revaluation cut-off	Balance date	1,951,090		–	–	
Receivables	Fixed at the date of sale	Date of sale	12,771,196	10,644,524	2,126,672	–	12,771,196
Company							
Long-term debt							
Fixed							
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 5.00%	3 years	42,960	–	42,960	-	42,960
Floating							
Peso	Variable at 2.00% over 91-day Mart1	3 months	3,000,000	3,000,000	–	–	3,000,000
Peso	Variable at 1.25% over 91-day Mart1	3 months	1,000,000	–	1,000,000	–	1,000,000
Subsidiaries							
Short-term debt	Variable ranging from 6.1% to 7.6%	Monthly	1,556,000	1,556,000	-	-	1,556,000
Long-term debt							
Fixed							
Peso	Fixed at 8.25% to 12%	4 to 8 years	1,319,608	175,100	1,137,886	–	1,312,986
Floating							
Peso	Variable at 1.50% to 2.50% over 91-day T-Bill or 91-day Mart1	3 months	1,352,333	388,493	956,972	–	1,345,465

Foreign Currency Risk
Financial assets and credit facilities of the Group are mainly denominated in Philippine Peso. Any foreign exchange holdings are matched with foreign currency requirements to fund equity commitments and new projects. As such, the Group's foreign currency risk is minimal.

The following table shows the Group's consolidated foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2007 and 2006:

	In Thousands			
	2007		2006	
	US Dollar	**Php Equivalent**	US Dollar	Php Equivalent
Financial Assets				
Cash and cash equivalents	**$13,291**	**₱555,210**	$15,771	₱770,882
Financial Liabilities				
Current portion of long-term debt	–	–	2,852	139,821
Long-term debt, net of current portion	**47**	**1,961**	2,879	141,154
Total	**47**	**1,961**	5,731	280,975
Net foreign currency denominated assets	**$13,244**	**₱553,249**	$10,040	₱489,907

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 on December 31, 2007.

Increase (decrease) in exchange rate	Effect on profit before tax	Effect on equity
₱1.00	₱13,244	₱8,609
(₱1.00)	(13,244)	(8,609)

25. **Segment Information**

The industry segments where the Group and its associates and joint ventures operate are as follows:

Core business:

- Shopping centers - development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; management and operation of malls which are co-owned with partners
- Corporate business - development and lease or sale of office buildings; sale of industrial lots and lease of factory building
- Residential developments - sale of high-end and upper middle-income residential lots and units, affordable housing units and lots, and leisure community developments; lease of residential developments under joint venture

- Strategic landbank management - acquisition, development and sale of large-scale, mixed-use, masterplanned communities; sale of override units or Ayala Land's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center
- Visayas-Mindanao - development, sale and lease of the Group's product offerings in key cities in the Visayas and Mindanao regions. This consists of shopping centers and residential developments

Support Businesses:
- Construction - land development and construction of the Group and third-party projects
- 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 Group and its associates and joint ventures generally account for inter-segment sales and transfers as if the sales and transfers were to third parties at current market prices.

Business segments
The following tables regarding business segments present assets and liabilities as of December 31, 2007 and 2006 and revenue and profit information for each of the three years in the period ended December 31, 2007 (in millions).

2007

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	**₱4,175**	**₱993**	**₱12,918**	**₱414**	**₱176**	**₱4,171**	**₱–**	**₱–**	**₱22,847**
Intersegments sales	**360**	–	**197**	–	–	**4,334**	–	**(4,891)**	–
Equity in net earnings of investees	**125**	–	–	**420**	**138**	–	**104**	–	**787**
Total revenue	**4,660**	**993**	**13,115**	**834**	**314**	**8,505**	**104**	**(4,891)**	**23,634**
Operating expenses	**2,389**	**597**	**10,820**	**383**	**205**	**7,828**	**865**	**(5,229)**	**17,858**
Operating profit	**2,271**	**396**	**2,295**	**451**	**109**	**677**	**(761)**	**338**	**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 (previously included in Support Businesses segment)									**599**
Net income									**₱5,095**

(Forward)

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Net income attributable to:									
Equity holders of Ayala Land, Inc.									**₱4,386**
Minority interests									**709**
									₱5,095
Other Information									
Segment assets	₱16,937	₱9,071	₱44,039	₱9,806	₱1,449	₱8,627	₱8,304	(₱24,961)	₱73,272
Investment in associates and jointly controlled entities	2,176	238	–	4,497	1,810	–	318	–	9,039
Deferred tax assets	10	–	(164)	32	–	54	738		670
Total assets	**₱19,123**	**₱9,309**	**₱43,875**	**₱14,335**	**₱3,259**	**₱8,681**	**₱9,360**	**(₱24,961)**	**₱82,981**
Segment liabilities	5,815	626	11,889	1,808	99	5,726	11,873	(5,715)	32,121
Deferred tax liabilities	–	–	114	–	–	–	–	–	114
Total liabilities	**₱5,815**	**₱626**	**₱12,003**	**₱1,808**	**₱99**	**₱5,726**	**₱11,873**	**(₱5,715)**	**₱32,235**
Segment additions to property and equipment and investment properties	1,127	321	89	–	4	247	80	–	1,868
Depreciation and amortization	863	97	51	–	1	213	86	–	1,311
Non-cash expenses other than depreciation and amortization	₱213	₱–	₱–	₱–	₱–	₱–	₱54	₱–	₱267

2006

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱3,973	₱1,329	₱13,965	₱707	₱168	₱3,450	₱–	₱–	₱23,592
Intersegments sales	446	–	60	–	–	2,911	–	(3,417)	–
Equity in net earnings of investees	85	5	–	118	98	–	–	–	306
Total revenue	**4,504**	**1,334**	**14,025**	**825**	**266**	**6,361**	**–**	**(3,417)**	**23,898**
Operating expenses	1,988	861	11,636	449	172	5,530	1,339	(3,200)	18,775
Operating profit	**2,516**	**473**	**2,389**	**376**	**94**	**831**	**(1,339)**	**(217)**	**5,123**
Interest income									435
Interest expense									(813)
Other income									1,225
Other expenses									(281)
Provision for income tax									(1,610)
Net income before income associated with noncurrent assets held for sale									**4,079**
Income associated with noncurrent assets held for sale, net of tax (previously included in Support Businesses segment)									**155**
Net income									**₱4,234**
Net income attributable to:									
Equity holders of Ayala Land, Inc.									3,866
Minority interests									368
									₱4,234
Other Information									
Segment assets	₱14,707	₱9,091	₱42,954	₱9,101	₱1,489	₱8,824	₱9,499	(₱27,065)	₱68,600
Investment in associates and jointly controlled entities	1,595	130	–	4,045	1,724	–	1,297	–	8,791
Deferred tax assets									805
Total assets									**₱78,196**
Segment liabilities	4,881	806	18,976	1,031	147	3,503	10,223	(8,971)	30,596
Deferred tax liabilities									416
Total liabilities									**₱31,012**
Segment additions to property and equipment and investment properties	₱1,311	₱112	₱50	₱–	₱1	₱381	₱417	₱–	₱2,272
Depreciation and amortization	649	131	39	4	1	174	69	–	1,067
Non-cash expenses other than depreciation and amortization	₱–	₱–	₱118	₱–	₱–	₱–	₱113	₱–	₱231

2005

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱3,557	₱632	₱9,654	₱499	₱183	₱2,667	₱–	₱–	₱17,192
Intersegments sales	342	–	118	–	–	3,036	–	(3,496)	–
Equity in net earnings of investees	75	–	2	100	52	–	(2)	–	227
TTotal revenue	**3,974**	**632**	**9,774**	**599**	**235**	**5,703**	**(2)**	**(3,496)**	**17,419**
Operating expenses	1,962	422	7,922	354	178	4,879	1,206	(3,274)	13,649
Operating profit	**2,012**	**210**	**1,852**	**245**	**57**	**824**	**(1,208)**	**(222)**	**3,770**
Interest income									662
Interest expense									(918)
Other income									3,294
Other expenses									(2,394)
Provision for income tax									(559)
Net income before income associated with noncurrent assets held for sale									**3,855**
Income associated with noncurrent assets held for sale, net of tax (previously included in Support Businesses segment)									**131**
Net income									**₱3,986**
Net income attributable to:									
Equity holders of Ayala Land, Inc.									3,617
Minority interests									369
									₱3,986
Other Information									
Segment assets	₱13,382	₱10,792	₱41,979	₱8,772	₱1,383	₱7,504	₱7,258	(₱26,839)	₱64,231
Investment in associates and jointly controlled entities	1,550	–	–	3,559	1,703	–	–	–	6,812
Deferred tax assets									767
Total assets									**₱71,810**
Segment liabilities	4,806	888	20,496	2,387	82	4,462	8,421	(15,344)	26,198
Deferred tax liabilities									273
Total liabilities									**₱26,471**
Segment additions to property and equipment and investment properties	1,324	326	8	–	–	176	86	–	1,920
Depreciation and amortization	547	80	59	–	2	168	62	–	918
Non-cash expenses other than depreciation and amortization	₱–	₱182	₱1,523	₱–	₱–	₱–	₱469	₱–	₱2,174

26. Registration with Philippine Economic Zone Authority (PEZA)

A subsidiary is registered with PEZA on October 27, 1999 as a non-pioneer “ecozone developer/operator.” The PEZA registration entitled the subsidiary to a four-year income tax holiday from the start of its commercial operations. At the expiration of its four-year tax holiday, the subsidiary 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.

27. Leases

Operating leases - 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 rental receivables under non-cancellable operating leases of the Group are as follows:

	2007	2006
	(In Thousands)	
Within one year	**₱653,150**	₱586,617
After one year but not more than five years	**1,485,316**	2,083,551
More than five years	**245,132**	300,048
	₱2,383,598	₱2,970,216

28. Long-term Commitments and Contingencies

Commitments

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

As part of the bid requirement, the Company procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, the Company obtained surety bonds to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement. The surety bonds are secured by a mortgage on a property of certain subsidiary with a carrying value of ₱48.6 million in 2004.

On April 15, 2003, the Company entered into a Joint Development Agreement (JDA) with BCDA for development of another lot inside Fort Bonifacio with a gross area of 11.6 hectares for residential purposes. Pursuant to the agreement, BCDA shall contribute all its title and interest to the lot and the Company in turn shall provide the necessary cash and expertise to undertake and complete the implementation of the residential development. The Company commits to invest sufficient capital to complete the residential development.

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

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

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.

One of the court cases pending against the Group is the Avida case which involves a patent infringement suit brought by plaintiffs Edgardo Vasquez and Vasquez Building Systems Corporation against Avida. The plaintiffs allege that Avida infringed on Vasquez's modular housing unit patent. Avida had raised a number of defenses, including (a) it makes use of patented technology licensed from United Kingdom and French Companies, and not Vasquez's modular housing unit patent; (b) the Vasquez patent claim is overboard, since the patent does not protect the H-shaped column and the wall panel installation system; and (c) the H-shaped column and the wall panel installation system cannot be covered by the Vasquez patent, because these are not patentable as they do not qualify on "novelty."

In a decision dated December 18, 2007, the Regional Trial Court of Quezon City found in favor of the plaintiffs and rendered the following awards against Avida: (a) ₱90.0 million as temperate damages or reasonable royalty with interest at the rate of six percent (6%) per annum reckoned from the date of filing of the verified Complaint, December 19, 1999, until the same is fully paid: (b) ₱5.0 million as moral damages; (c) ₱1.0 million as exemplary damages; (d) ₱0.5 million as reasonable attorney's fees and expenses of litigation; (e) costs of suit.

Although the decision was against the Company, the overwhelming strength of the Company's defenses which were arbitrarily disregarded by the Trial Court has prompted the Company's management to seek relief from a higher court. Hence, on 4 January 2008, the Company filed an appeal to contest this Decision, intending to elevate this case to the Court of Appeals.

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. No provisions were made during the year. The information usually required by PAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

29. **Subsequent Events**

As a result of the explosion which occurred on October 19, 2007 at the basement of the Makati Supermarket Building, the Philippine National Police (PNP) has recommended to the Department of Justice (DOJ), in its report dated January 11, 2008, 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, APMC, among other individuals, for criminal negligence. No criminal case has been filed by the Department of Justice at this time. No civil case has likewise been filed by any of the victims. In the event that the DOJ decides to file a criminal case against certain officers/employees of APMC as recommended by the PNP, the accused, if convicted after final judgment, can be held not only criminally but also civilly liable. In the event the accused will not be able to pay for the civil award, APMC will be held subsidiarily liable for such sums (the amount of which cannot be estimated). The Company and APMC believe, however, that the facts surrounding the incident do not show any negligence.

AYALA LAND, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Financial Statements as of March 31, 2008 and for the Three-Month Periods Ended March 31, 2008 and 2007 *(With Comparative Audited Consolidated Balance Sheet as of December 31, 2007)*

AYALA LAND, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2008
(With Comparative Audited Figures as of December 31, 2007)
(Amounts in Millions)

	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	**₱11,573**	₱11,272
Short-term investments	**2,186**	2,036
Accounts and notes receivable - net	**12,356**	11,564
Real estate inventories	**7,422**	6,696
Other current assets	**3,166**	2,412
Total Current Assets	**36,703**	33,980
Noncurrent Assets		
Noncurrent accounts and notes receivable	**2,473**	3,475
Land and improvements (Note 3)	**17,026**	16,399
Investments in associates and jointly controlled entities	**9,408**	9,039
Available-for-sale financial assets	**366**	367
Investment properties - net	**13,845**	13,793
Property and equipment - net	**4,239**	4,015
Deferred tax assets - net	**918**	671
Other noncurrent assets	**1,302**	1,243
Total Noncurrent Assets	**49,577**	49,002
	₱86,280	₱82,982
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables	**₱16,468**	₱15,759
Short-term debt (Note 4)	**1,732**	1,613
Income tax payable	**241**	167
Current portion of long-term debt	**2,528**	2,377
Other current liabilities	**431**	623
Total Current Liabilities	**21,400**	20,539

(Forward)

	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
Noncurrent Liabilities		
Long-term debt - net of current portion	**₱5,950**	₱6,150
Pension liabilities	**197**	176
Deferred tax liabilities - net	**115**	114
Deposits and other noncurrent liabilities	**5,990**	5,257
Total Noncurrent Liabilities	**12,252**	11,697
Total Liabilities	**33,652**	32,236
Equity		
Equity attributable to equity holders of Ayala Land, Inc.		
Paid-up capital	**18,229**	18,203
Retained earnings	**29,235**	27,405
Stock options outstanding	**92**	96
Unrealized gain on available-for-sale financial assets	**2**	2
Treasury stock	**(1)**	(1)
	47,557	45,705
Minority interests	**5,071**	5,041
	52,628	50,746
	₱86,280	₱82,982

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Millions, except Earnings per Share)

	Three Months Ended March 31	
	2008	2007
REVENUE		
Real estate	**₱6,730**	₱4,912
Hotel operations	**351**	367
Equity in net earnings of investees, interest, fees, investment and other income	**1,149**	574
	8,230	5,853
COSTS AND EXPENSES		
Real estate	**4,676**	3,271
Hotel operations	**220**	222
General and administrative expenses	**588**	526
Interest and other charges	**292**	279
	5,776	4,298
INCOME BEFORE INCOME TAX	**2,454**	1,555
PROVISION FOR INCOME TAX	**(514)**	(467)
INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE	**1,940**	1,088
INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE - net of tax	**–**	599
NET INCOME	**₱1,940**	₱1,687
Net Income Attributable to:		
Equity holders of Ayala Land, Inc.	**₱1,830**	₱1,288
Minority interests	**110**	399
	₱1,940	₱1,687
Earnings Per Share		
Basic		
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	**₱0.14**	₱0.08
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.14**	₱0.10
Diluted		
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	**₱0.14**	₱0.08
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.14**	₱0.10

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Millions, Except Par Value)

	Three Months Ended March 31	
	2008	2007
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.		
Common Shares - ₱1 par value		
Issued		
Balance at beginning of period	**₱13,003**	₱10,810
Issuance of shares	–	1
Stock options exercised	–	17
Balance at end of period	**13,003**	10,828
Subscribed		
Balance at beginning of period	**32**	34
Additions	**–**	(1)
Balance at end of period	**32**	33
Preferred Shares - ₱0.10 par value	**1,303**	–
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of period	**3,995**	3,863
Stock options exercised	**5**	6
Adjustment on share-based payment	**14**	–
Balance at end of period	**4,014**	3,869
SUBSCRIPTIONS RECEIVABLE		
Balance at beginning of period	**(130)**	(127)
Additions	**–**	(16)
Collections	**7**	9
Balance at end of period	**(123)**	(134)
TOTAL PAID-UP CAPITAL	**18,229**	14,596
RETAINED EARNINGS		
Appropriated for future expansion	**6,000**	6,000
Unappropriated:		
Balance at beginning of period	**21,405**	19,973
Net income	**1,830**	1,288
Balance at end of period	**23,235**	21,261
	29,235	27,261

(Forward)

	Three Months Ended March 31	
	2008	2007
STOCK OPTIONS		
Balance at beginning of period	**₱96**	₱108
Cost of stock options	**–**	7
Stock options exercised	**(4)**	(9)
Balance at end of period	**92**	106
UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	**2**	(64)
TREASURY STOCK	**(1)**	(1)
MINORITY INTERESTS		
Balance at beginning of period	**5,041**	6,587
Net income	**110**	399
Decrease in minority interests	**(80)**	(687)
Balance at end of period	**5,071**	6,299
	₱52,628	₱48,197
Total Income and Expense Recognized for the Period		
Net income attributable to:		
Equity holders of Ayala Land, Inc.	**₱1,830**	₱1,288
Minority interests	**110**	399
	1,940	₱1,687
Net unrealized loss recognized in equity:		
Equity holders of Ayala Land, Inc.	**–**	(54)
Minority interests	**–**	–
	–	(54)
	₱1,940	₱1,633

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

	Three Months Ended March 31	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,454**	₱1,555
Adjustments for:		
Depreciation and amortization	**294**	264
Interest expense and other charges - net of amount capitalized	**200**	254
Equity in net earnings of investees	**(178)**	(233)
Gain on sale of investments in shares of stock of subsidiaries (Note 3)	**(762)**	(667)
Interest and other income	**(152)**	(137)
Operating income before changes in working capital	**1,856**	1,036
Decrease (increase) in:		
Accounts and notes receivable - trade	**1,223**	430
Real estate inventories	**(726)**	104
Other current assets	**(754)**	(673)
Increase (decrease) in:		
Accounts and other payables	**849**	(660)
Pension liabilities	**21**	–
Other current liabilities	**(192)**	(83)
Cash generated from operations	**2,277**	154
Interest received	**175**	117
Income tax paid	**(510)**	(251)
Interest paid	**(271)**	(322)
Net cash provided by (used in) operating activities before cash items associated with noncurrent assets held for sale	**1,671**	(302)
Net cash provided by operating activities associated with noncurrent assets held for sale	**–**	599
Total cash provided by operating activities	**1,671**	297
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	**903**	1,637
Disposals of (additions to):		
Short-term investments	**(150)**	–
Land and improvements	**(626)**	(160)
Investments in associates and jointly controlled entities	**(332)**	106
Investment properties	**(227)**	777
Property and equipment	**(342)**	(279)
Increase in:		
Accounts and notes receivable - non-trade	**(1,034)**	(87)
Other noncurrent assets	**(307)**	(43)
Total cash provided by (used in) investing activities	**(2,115)**	1,951

(Forward)

	Three Months Ended March 31	
	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term debt	**291**	305
Payment of long-term debt	**(221)**	(389)
Increase (decrease) in:		
Deposits and other noncurrent liabilities	**733**	466
Minority interest in consolidated subsidiaries	**(81)**	(687)
Proceeds from capital stock subscriptions	**23**	14
Dividends paid to minority	**–**	(325)
Total cash provided by (used in) financing activities	**745**	(616)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**301**	1,632
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**11,272**	4,631
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱11,573**	₱6,263

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. **Basis of Financial Statement Preparation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting.* Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and disclosures required in the December 31, 2007 annual audited consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2007.

The preparation of the financial statements in compliance with Philippine Financial Reporting Standards (PFRS) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying unaudited condensed consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the unaudited condensed consolidated financial statements. Actual results could differ from such estimates.

The unaudited condensed consolidated financial statements include the accounts of Ayala Land, Inc. (herein referred to as "the Company") and its subsidiaries collectively referred to as "Group."

The unaudited condensed consolidated financial statements are presented in Philippine peso (₱), the Group's functional currency, and rounded to the nearest millions except when otherwise indicated.

On May 8, 2008, the Board of Directors approved and authorized the release of the accompanying unaudited condensed consolidated financial statements of Ayala Land, Inc. and subsidiaries.

2. **Accounting Policies**

Changes in Accounting Policies
The accounting policies adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2007, except for the adoption of new Standards and Interpretations enumerated below.

- 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 has no impact on the condensed consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, 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 has no impact on the condensed consolidated financial statements.

- 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 has no impact on the condensed consolidated financial statements.

3. Sale of Investments in Shares of Stock of Subsidiaries

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 ₱903 million. Gain on the sale of the said subsidiaries amounted to ₱762 million included under the “Other income” caption in the unaudited condensed consolidated statements of income.

4. Short-term Debt

The short-term debt of ₱1,732 million and ₱1,613 million as of March 31, 2008 and December 31, 2007, respectively, represents unsecured peso-denominated bank loans of the Company’s subsidiaries with interest rates ranging from 5.5% and 7.9% per annum.

5. Segment Information

The industry segments where the Group and its associates and joint ventures operate are as follows:

Core business:

- Shopping centers - development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; management and operation of malls which are co-owned with partners.

- Corporate business - development and lease or sale of office buildings; sale of industrial lots and lease of factory building.

- Residential developments - sale of high-end and upper middle-income residential lots and units, affordable housing units and lots, and leisure community developments; lease of residential developments under joint venture.

- Strategic landbank management - acquisition, development and sale of large-scale, mixed-use, masterplanned communities; sale of override units or the Company's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center.

- Visayas-Mindanao - development, sale and lease of the Group's product offerings in key cities in the Visayas and Mindanao regions. This consists of shopping centers and residential developments.

Support Businesses:
- Construction - land development and construction of the Group and third-party projects.
- 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 Group and its associates and joint ventures generally account for inter-segment sales and transfers as if the sales and transfers were to third parties at current market prices.

Business segments
The following tables regarding business segments present revenue and profit information for the three months ended March 31, 2008 and 2007 (in millions):

March 31, 2008

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	**₱1,035**	**₱272**	**₱3,516**	**₱188**	**₱22**	**₱2,048**	**₱–**	**₱–**	**₱7,081**
Intersegments sales	**91**	–	**56**	–	–	**1,567**	–	**(1,714)**	–
Equity in net earnings of investees	**31**	**2**	–	**41**	**102**	–	**2**	–	**178**
Total revenue	1,157	274	3,572	229	124	3,615	2	(1,714)	7,259
Operating expenses	**589**	**138**	**2,735**	**173**	**34**	**3,288**	**231**	**(1,704)**	**5,484**
Operating profit	**568**	**136**	**837**	**56**	**90**	**327**	**(229)**	**(10)**	1,775
Interest income									**145**
Interest expense and other charges									**(292)**
Other income									**826**
Provision for income tax									**(514)**
Net income									**₱1,940**
Net income attributable to:									
Equity holders of Ayala Land, Inc.									**₱1,830**
Minority interests									**110**
									₱1,940

March 31, 2007

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱978	₱232	₱2,937	₱82	₱23	₱1,027	₱–	₱–	₱5,279
Intersegments sales	96	–	33	–	–	905	–	(1,034)	–
Equity in net earnings of investees	13	–	–	167	53	–	–	–	233
Total revenue	**1,087**	**232**	**2,970**	**249**	**76**	**1,932**	**–**	**(1,034)**	**5,512**
Operating expenses	512	149	2,408	59	31	1,683	179	(1,002)	4,019
Operating profit	**575**	**83**	**562**	**190**	**45**	**249**	**(179)**	**(32)**	**1,493**
Interest income									100
Interest expense									(279)
Other income									241
Other expenses									–
Provision for income tax									(467)
Net income before income associated with noncurrent assets held for sale									1,088
Income associated with noncurrent assets held for sale, net of tax (previously included in Support Businesses segment)									599
Net income									**₱1,687**
Net income attributable to:									
Equity holders of Ayala Land, Inc.									1,288
Minority interests									399
									₱1,687

6. Contingencies

In December 1999, plaintiffs Edgardo Vazquez and Vazquez Building Systems Corporation filed a patent infringement case against Avida, a wholly-owned subsidiary of the Company. 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 unit patent; (b) 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 Vazquez patent, because these are not patentable as they do not qualify as "novelty." In a decision dated December 18, 2007, the Regional Trial Court 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% per annum from the date of filing of the complaint as well as moral and exemplary damages and reasonable attorneys' 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 Edgardo Vazquez and Vazquez Building Systems Inc. to resolve the patent infringement case filed by the latter against Avida. The compromise became effective upon the approval by the Court of Appeals last March 17, 2008. This agreement paved the way for the final settlement of the case.

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