

SEC Number: 152-747  
File Number: \_\_\_\_\_

**AYALA LAND, INC.**

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(Company's Full Name)

c/o 30/F, Tower One, Ayala Triangle  
Ayala Avenue, Makati City 1226

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(Company Address)

(632) 848-5313

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(Telephone Number)

**September 30, 2008**

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(Quarter Ending)

**SEC Form 17-Q Quarterly Report**

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(Form Type)

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(Amendments)

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

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

1. For the quarterly period ended **September 30, 2008**
2. Commission Identification Number **152747**
3. BIR Tax Identification No. **050-000-153-790**
4. Exact name of issuer as specified in its charter: **AYALA LAND, INC.**
5. Province, Country or other jurisdiction of incorporation or organization:  
**Makati City, Philippines**
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of issuer's principal office and postal code:  
**c/o 30/F, Tower One, Ayala Triangle, Ayala Avenue, Makati City 1226**
8. Issuer's telephone number, including area code: **(632) 848-5313**
9. Former name, former address, former fiscal year: **not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

**As of September 30, 2008**

<u>Title of each class</u>	<u>Number of shares issued and outstanding</u>
<b>Common shares</b>	<b>12,966,002,441</b>

Amount of Debt Outstanding  
**P15.4 billion**

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

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

12. Indicate by check mark whether the registrant:

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

Yes

No

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

Yes

No

## TABLE OF CONTENTS

Page No.

### **PART I - FINANCIAL STATEMENTS**

#### Item 1. Financial Statements

- Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007 5
- Consolidated Statements of Income for the Three Months and Nine Months Ended September 30, 2008 and September 30, 2007 6
- Consolidated Statement of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2008 and September 30, 2007 7
  
- Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2008 and September 30, 2007 8
- Notes to Consolidated Financial Statements 9

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 23

### **PART II - OTHER INFORMATION**

- Item 3. 3Q 2008 Developments 31
- Item 4. Other Notes to 9M 2008 Operations and Financials 32
- Item 5. Performance Indicators 34
- 
- Signature 35

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements



**Ayala Land, Inc.**  
**Consolidated Balance Sheets**  
**As of September 30, 2008 and December 31, 2007**  
 (in million pesos)

	September 2008 Unaudited	December 2007 Audited
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	14,972	11,272
Short-term investments	1,156	2,036
Fair value through profit or loss financial assets	2,490	318
Accounts and notes receivable	14,357	11,564
Real estate inventories	7,416	6,696
Other current assets	2,915	2,094
Total Current Assets	43,306	33,979
<b>Noncurrent Assets</b>		
Non-current accounts and notes receivable	2,376	3,475
Land and improvements	17,731	16,399
Investments in associates and jointly controlled entities	10,806	9,039
Available-for-sale financial assets	368	367
Investment properties - net	13,445	13,793
Property and equipment - net	6,443	4,015
Deferred tax assets	1,022	671
Other noncurrent assets	1,597	1,243
Total Noncurrent Assets	53,789	49,002
	97,094	82,981
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts and other payables	20,147	15,759
Short-term debt	1,751	1,613
Income tax payable	(0)	167
Current portion of long-term debt	2,211	2,377
Other current liabilities	715	623
Total Current Liabilities	24,823	20,539
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion	11,415	6,150
Pension liabilities	274	176
Deferred tax liabilities	298	114
Deposits and other noncurrent liabilities	6,493	5,256
Total Noncurrent Liabilities	18,479	11,697
Total Liabilities	43,302	32,235
<b>Equity</b>		
Equity Attributable to Equity Holders of Ayala Land, Inc.		
Paid-up Capital	18,274	18,203
Retained Earnings	30,857	27,405
Stock Options Outstanding	107	96
Unrealized Gain(Loss) on Available-for-sale Financial Assets	7	2
Treasury Stock	(798)	(1)
	48,448	45,705
Minority interests	5,344	5,041
	53,792	50,746
	97,094	82,981



**Ayala Land, Inc.**  
**Consolidated Statements of Income**  
**For the Three Months and Nine Months Ended September 30, 2008 and September 30, 2007**  
(in million pesos)

	2008 Unaudited		2007 Unaudited	
	July 1 to Sept 30	Jan 1 to Sept 30	July 1 to Sept 30	Jan 1 to Sept 30
<b>REVENUE</b>				
Real estate	7,960	20,990	5,263	15,504
Hotel operations	305	989	329	1,010
Equity in net earnings of investees, interest, fees, investment and other income	350	2,021	339	1,047
	<b>8,615</b>	<b>23,999</b>	<b>5,931</b>	<b>17,561</b>
<b>COSTS AND EXPENSES</b>				
Real estate	6,065	15,055	3,369	10,170
Hotel operations	211	649	231	671
General and administrative expenses	650	1,961	542	1,722
Interest expense and other financing charges	200	683	200	675
Other charges	43	75	3	30
	<b>7,169</b>	<b>18,423</b>	<b>4,346</b>	<b>13,268</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>1,446</b>	<b>5,576</b>	<b>1,585</b>	<b>4,294</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>				
Current	440	1,610	469	1,177
Deferred	(15)	(188)	2	(5)
	<b>425</b>	<b>1,422</b>	<b>471</b>	<b>1,172</b>
<b>INCOME BEFORE INCOME ASSOCIATED WITH NON CURRENT ASSETS HELD FOR SALE</b>	<b>1,021</b>	<b>4,154</b>	<b>1,115</b>	<b>3,122</b>
<b>INCOME ASSOCIATED WITH NON CURRENT ASSETS HELD FOR SALE</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	<b>599</b>
<b>NET INCOME</b>	<b>1,021</b>	<b>4,154</b>	<b>1,115</b>	<b>3,720</b>
<b>Net Income(Loss) Attributable to :</b>				
Equity holders of Ayala Land, Inc.	934	3,843	994	3,120
Minority interests	87	311	120	600
	<b>1,021</b>	<b>4,154</b>	<b>1,115</b>	<b>3,720</b>
<b>Earnings per Share</b>				
Basic *	0.07	0.29	0.08	0.24
Diluted **	0.07	0.29	0.08	0.24

\* Based on 13,037,264,962 and 13,030,481,732 weighted average number of shares as of September 30, 2008 and September 30, 2007, respectively

\*\* Based on 13,062,808,442 and 13,062,625,466 weighted average number of shares as of September 30, 2008 and September 30, 2007, respectively



**Ayala Land, Inc.**  
**Consolidated Statement of Changes in Stockholders' Equity**  
**For the Nine Months Ended September 30, 2008 and September 30, 2007**  
(in million pesos)

	Jan 1 - Sept 30 2008 Unaudited	Jan 1 - Sept 30 2007 Unaudited
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.</b>		
<b>CAPITAL STOCK - (Common shares -P1.00 par value)</b>		
<b>Issued</b>		
Balance at beginning of year	13,003	10,810
Issuance of shares	0	2
Stock options exercised	0	18
Stock dividends	0	2,172
Balance at end of year	13,003	13,002
<b>Subscribed</b>		
Balance at beginning of year	32	34
Issuance of shares	7	(2)
Balance at end of year	39	32
<b>CAPITAL STOCK - (Preferred Shares- P.10 par value)</b>		
<b>Issued</b>		
Issuance of shares	1,303	
Balance at end of year	1,303	0
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance at beginning of year	3,995	3,863
Stock options exercised	76	23
IFRS 2- Adjustment on Share-based payment	12	0
Balance at end of year	4,083	3,886
<b>DEPOSIT ON FUTURE SUBSCRIPTIONS</b>		
Deposit for preferred shares subscription		1,303
Balance at end of year	0	1,303
<b>SUBSCRIPTIONS RECEIVABLE</b>		
Balance at beginning of year	(130)	(127)
Subscriptions	(77)	(21)
Collections/Cancellations	83	33
IFRS 2- Adjustment on Share-based payment	(30)	0
Balance at end of year	(154)	(115)
<b>TOTAL PAID-UP CAPITAL</b>	<b>18,274</b>	<b>18,109</b>
<b>STOCK OPTIONS</b>		
Balance at beginning of year	96	108
Cost of stock options	16	7
Stock options exercised	(5)	(30)
Balance at end of year	107	85
<b>TREASURY STOCK</b>	<b>(798)</b>	<b>(1)</b>
<b>RETAINED EARNINGS</b>		
Appropriated for future expansion	6,000	6,000
<b>Unappropriated:</b>		
Balance at beginning of year	21,405	19,973
Stock dividends	0	(2,172)
Cash dividends	(391)	(391)
Net income	3,843	3,120
Balance at end of year	24,857	20,530
	<b>30,857</b>	<b>26,530</b>
<b>UNREALIZED LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>		
<b>FINANCIAL ASSETS</b>	<b>7</b>	<b>(64)</b>
	<b>48,447</b>	<b>44,659</b>
<b>MINORITY INTERESTS</b>		
Balance at beginning of year	5,041	6,587
Net income(loss)	311	601
Decrease in minority interests	(11)	(326)
Dividends paid to minority interests	3	(786)
	<b>5,344</b>	<b>6,076</b>
	<b>53,791</b>	<b>50,735</b>
<b>Total income and expense recognized for the year</b>		
<b>Net income (loss) attributable to:</b>		
Equity holders of Ayala Land, Inc.	3,843	3,120
Minority Interests	311	601
	<b>4,154</b>	<b>3,721</b>



**Ayala Land, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Nine Months Ended September 30, 2008 and September 30, 2007**  
**(in million pesos)**

	Jan 1 - Sept 30 2008 Unaudited	Jan 1 - Sept 30 2007 Unaudited
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	5,576	4,961
Adjustments for:		
Depreciation and amortization	876	825
Interest expense - net of amount capitalized	758	669
Unrealized gain on financial assets	5	0
Provision for doubtful accounts	2	24
Gain on sale of investments	(761)	(667)
Equity in net earnings of investees	(646)	(488)
Interest income	(441)	(317)
Operating income before changes in working capital	5,369	5,008
Decrease (increase) in :		
Accounts and notes receivable - trade	(1,183)	(1,068)
Real estate inventories	(720)	255
Other current assets	(821)	(915)
Increase (decrease) in :	0	
Accounts payable and accrued expenses	3,919	640
Pension liabilities	98	5
Other current liabilities	92	(28)
Cash generated from operations	6,754	3,898
Interest received	480	331
Income tax paid	(1,098)	(1,291)
Interest paid - net of amount capitalized	(781)	(771)
Net cash provided by (used in) operating activities	5,355	2,167
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from:		
Sale of investments	902	1,637
Disposals of (additions to):		
Short term investments	(1,292)	
Land and improvements	(1,332)	246
Investments	(1,433)	(177)
Property and equipment	(2,787)	(1,127)
Decrease (increase) in:		
Noncurrent accounts and notes receivable - non trade	(551)	(35)
Other assets	(705)	56
Net cash provided by (used in) investing activities	(7,198)	600
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from (payment of) short-term loans payable	(28)	1,518
Proceeds from (payment of) long-term loans payable	5,265	(3,726)
Increase (decrease) in :	0	
Noncurrent liabilities and deposits	1,419	1,182
Minority interest	(4)	(309)
Proceeds from capital stock subscriptions	82	1,333
Purchase of treasury shares	(797)	0
Loss on redemption of preferred shares	0	(16)
Dividends paid to minority	(3)	(786)
Dividends paid to equity holders of Ayala Land, Inc.	(391)	(716)
Net cash provided by (used in) financing activities	5,543	(1,520)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,700</b>	<b>1,247</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>11,272</b>	<b>9,510</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>14,972</b>	<b>10,757</b>



**Ayala Land, Inc. and Subsidiaries**  
**Notes to 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 (Php), the Group's functional currency, and rounded to the nearest thousands except when otherwise indicated.

On November 7, 2008, the Audit Committee 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.

## 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 September 30, 2008 and December 31, 2007 the Group holds its "Treasury bills" and "Treasury bonds" for trading purposes and classifies them as financial assets at FVPL and has not designated any financial liability at FVPL.

The Company enters into short-term non deliverable 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 September 30, 2008 and December 31, 2007, the Group has no HTM investments.

### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS 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 an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- c. the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

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

#### *Financial liability*

A financial liability is derecognized when the obligation under the liability 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.

### **3. Principles of Consolidation**

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

	<u>Effective Ownership</u>
<i>Real Estate:</i>	(%)
Amorsedia Development Corporation and subsidiaries	100
OLC Development Corporation	100
Ayala Greenfield Development Corporation (AGDC)	50
Ayala Land International Sales, Inc.	100
Ayala Land Sales, Inc.	100
Buendia Landholdings, Inc.	100
Community Innovations, Inc.	100
Crimson Field Enterprises, Inc.	100
Avida Land Corp. and subsidiaries (Avida)	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
Asian I-Office Properties, Inc.	60
Ceci Realty, Inc.	60
CMPI Holdings, Inc.	60
ALI-CII Development Corporation	50

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

#### 4. Receivables / Payables

##### Aging of Receivables (as of September 30, 2008; in Million Pesos)

	Up to 6 mos.	Over 6 mos. to One Year	Over One Year	Past Due	Total
Trade Receivables	6,499	2,772	1,722	791	11,784
Non-Trade Receivables	3,596	699	654	0	4,949
Total	10,095	3,471	2,376	791	16,733

##### Aging of Payables (as of September 30, 2008; in Million Pesos)

	Up to 6 mos.	Over 6 mos. to One Year	Over One Year	Past Due	Total
Trade Payables	5,148	4,743	1,521	20	11,432
Non-Trade Payables	9,805	1,146	5,543	0	16,494
Total	14,953	5,889	7,064	20	27,926

#### 5. Short-Term and Long-Term Debt

##### Short-Term Debt (as of September 30, 2008; in Million Pesos)

<u>Borrower</u>	<u>Amount</u>
AGDC	128
AiO	335
Avida	607
LAI	300
SSECC	381
Total	1,751



Long-Term Debt (as of September 30, 2008; in Million Pesos / US\$)

<u>Borrower</u>	<u>Current</u>		<u>Non-Current</u>		<u>Total</u>	
	<u>Peso</u>	<u>US\$</u>	<u>Peso</u>	<u>US\$</u>	<u>Peso</u>	<u>US\$</u>
ALI *	2,099		7,580		9,679	
Avida	-		500		500	
CIHC	-		250		250	
EHI	22		274		296	
LAI	40		160		200	
SSECC	50		1,650		1,700	
NBCC	-		1,000		1,000	
Total	2,211	-	11,414	-	13,625	-

\* Including FXCNs and bonds

Issuances, Repurchases and Repayments of Debt and Equity Securities

Issuances of Debt and Equity Securities / New Financing through Loans –  
January – September 2008 (in Million Pesos)

<u>Borrower</u>	<u>Amount</u>	<u>Nature</u>
ALI	4,030	issuance of Homestarter Bonds and Fixed Rate Retail Bonds
AGDC	647	renewal of short-term loans
AiO	335	availment of short-term loan
API	132	renewal of short-term loan
Avida	5,113	renewal of short-term loans and new short-term loans
CIHCI	100	availment of long-term loan
EHI	300	refinancing of long-term loan
LAI	300	renewal of short-term loans and new short-term loan
SSECC	4,943	renewal of short-term loans, new short-term loans and refinancing of long-term loan
NBCC	845	availment of long-term loan
Total	16,745	

Repayments of Debt and Equity Securities –  
January – September 2008 (in Million Pesos)

<u>Borrower</u>	<u>Amount</u>	<u>Nature</u>
ALI	12	retirement of Homestarter Bonds
AGDC	712	payment of matured short-term loans
API	176	payment of matured short-term loan
Avida	4,973	payment of matured short-term loans
EHI	304	payment of refinanced long-term loan and amortization on long-term loan
LAI	290	payment of matured short-term loans
SSECC	5,050	payment of matured short-term loans, amortization on long-term loans and payment of refinanced long-term loan
Total	11,517	

**6. Commercial Paper Issuances and Outstanding Balance  
(for the quarter ended September 30, 2008)**

None.

**7. Accounts and Other Payables**

The accounts and other payables as of September 30, 2008 are broken down as follows:

	(million)
Accounts payable	P 12,016
Accrued expenses	6,003
Taxes payable	1,881
Dividends payable	72
Retentions payable	176
Total	<u><u>P 20,147</u></u>

**8. Financial Assets and Liabilities**

Fair Value Information

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.

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 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.

Changes in the fair values of financial instruments as of September 30, 2008 and June 30, 2008 are not material.

#### Financial Risk Management Objectives and Assessment

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.

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

#### *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.

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

#### *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 September 30, 2008.

<b>Balance sheet items</b>	<b>Sept 30, 2008</b>	<b>Dec 31, 2007</b>
Cash and cash equivalents	₱14,972	₱11,272
Short-term investments	1,156	2,036
FVPL financial assets	2,490	318
Accounts and notes receivable	14,357	13,831
	<b>₱32,975</b>	<b>₱27,457</b>

Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

#### *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 76:24 and 62:38 as of September 30, 2008 and December 31, 2007, respectively. As a result, the movement in the actual average interest (borrowing) rate of the Company has been minimal. Average cost of consolidated borrowings stood at 8.1% as of end-September 2008, compared to 7.9% for 2007.

*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 September 30, 2008 and December 31, 2007:

	In Thousands			
	September 30, 2008		December 31, 2007	
	US Dollar	Php Equivalent	US Dollar	Php Equivalent
<b>Financial Assets</b>				
Cash and cash equivalents	\$46,019	₱2,161,570	\$13,291	₱555,210
Short Term Investment	8,600	404,630		
Total	54,619	2,566,200	13,291	555,210
<b>Financial Liabilities</b>				
Current portion of long-term debt	47	1,961	-	-
Long-term debt, net of current portion			47	1,961
Total	47	1,961	47	1,961
Net foreign currency denominated assets	\$54,572	₱2,564,239	\$13,244	₱553,249

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 September 30, 2008.

Increase (decrease) in exchange rate	Effect on profit before tax	Effect on equity
₱1.00	₱54,572	₱35,472
(₱1.00)	(54,572)	(35,472)

## 10. Segment information

YTD-September 2008										
<i>(in million pesos)</i>										
	Strategic Landbank Mgt.	Residential Development	Shopping Centers	Corporate Business	Vsmin/ International	Support Businesses	Corporate	Total	Intersegment Adjustments	Consolidated
Revenues	1,111	10,774	2,752	633	96	6,612	-	21,978	-	21,978
Sales to external customers	-	361	280	-	-	4,250	-	4,891	(4,891)	-
Intersegment sales	382	-	94	6	177	-	(13)	646	-	646
Equity in net earnings of investees	1,493	11,135	3,126	639	273	10,862	(13)	27,515	(4,891)	22,624
Total revenue	625	9,046	1,792	335	132	9,986	503	22,419	(4,754)	17,665
Operating expenses	868	2,093	1,334	304	141	876	(516)	5,096	(137)	4,959
Operating profit	-	-	-	-	-	-	-	-	-	1,237
Interest income	-	-	-	-	-	-	-	-	-	(758)
Interest expense	-	-	-	-	-	-	-	-	-	138
Other income	-	-	-	-	-	-	-	-	-	(1,422)
Provision for income tax	-	-	-	-	-	-	-	-	-	4,154
Net income	-	-	-	-	-	-	-	-	-	3,843
Net income attributable to:	-	-	-	-	-	-	-	-	-	311
Equity holders of Ayala Land, Inc.	-	-	-	-	-	-	-	-	-	4,154
Minority interests	-	-	-	-	-	-	-	-	-	-
Other information	8,517	66,640	28,364	11,157	4,753	12,305	(8,924)	122,812	(26,740)	96,072
Segment assets	-	-	-	-	-	-	-	-	-	-
Investment in associates and jointly controlled entities	176	16	9	-	-	40	1,375	1,616	(594)	1,022
Deferred tax assets	8,693	66,656	28,373	11,157	4,753	12,345	(7,549)	124,428	(27,334)	97,094
Total assets	3,033	16,197	6,841	917	716	8,453	13,444	49,601	(6,597)	43,004
Segment liabilities	-	306	-	-	-	6	580	892	(594)	298
Deferred tax liabilities	3,033	16,503	6,841	917	716	8,459	14,024	50,493	(7,191)	43,302
Total liabilities	-	71	506	122	5	262	43	1,009	-	1,009
Segment additions to property and equipment and investment properties	-	50	503	73	2	153	95	876	-	876
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-

  

YTD-September 2007										
<i>(in million pesos)</i>										
	Strategic Landbank Mgt.	Residential Development	Shopping Centers	Corporate Business	Vsmin	Support Businesses	Corporate	Total	Intersegment Adjustments	Consolidated
Revenues	180	9,404	3,216	742	60	2,912	0	16,514	0	16,514
Sales to external customers	0	126	297	0	0	3,275	0	3,698	(3,698)	0
Intersegment sales	318	0	56	0	114	0	0	488	0	488
Equity in net earnings of investees	498	9,530	3,569	742	174	6,187	0	20,700	(3,698)	17,002
Total revenue	122	7,845	1,656	468	91	5,572	465	16,219	(3,555)	12,663
Operating expenses	376	1,885	1,913	274	83	615	(465)	4,481	(42)	4,439
Operating profit	-	-	-	-	-	-	-	-	-	1,100
Interest income	-	-	-	-	-	-	-	-	-	(704)
Interest expense	-	-	-	-	-	-	-	-	-	125
Other income	-	-	-	-	-	-	-	-	-	(1,240)
Provision for income tax	-	-	-	-	-	-	-	-	-	3,720
Net income	-	-	-	-	-	-	-	-	-	3,120
Net income attributable to:	-	-	-	-	-	-	-	-	-	600
Equity holders of Ayala Land, Inc.	-	-	-	-	-	-	-	-	-	3,720
Minority interests	-	-	-	-	-	-	-	-	-	-
Other information	1,462	51,191	19,303	9,633	1,312	7,271	4,097	94,269	(23,811)	70,458
Segment assets	4,400	2,108	1,838	6	6	71	1,341	9,643	(674)	9,643
Investment in associates and jointly controlled entities	1	11	6	-	-	-	-	1,438	(674)	762
Deferred tax assets	5,863	51,202	21,417	10,936	3,150	7,342	5,438	105,348	(24,485)	80,863
Total assets	1,628	12,160	5,211	1,548	126	4,992	9,478	34,743	(4,886)	29,858
Segment liabilities	0	278	0	0	0	7	658	943	(674)	269
Deferred tax liabilities	1,628	12,438	5,211	1,548	126	4,559	10,136	35,686	(5,559)	30,127
Total liabilities	0	70	531	846	1	202	52	1,702	0	1,702
Segment additions to property and equipment and investment properties	0	38	511	110	1	153	52	865	0	865
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-

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

### **Results of Operations for the Nine Months Ended September 30, 2008**

Amidst a challenging macroeconomic environment, Ayala Land, Inc. ("the Company") posted a Php 3.84 billion net income in the first nine months of 2008, 23% higher than the Php 3.12 billion recorded in the same period last year. Growth was achieved given positive results from operating revenues, equity earnings from affiliates, interest and other income, and cost control measures.

The Company recorded consolidated revenues of Php 24.0 billion, 37% more than the Php 17.56 billion recorded in the same period last year. Operating revenues increased by 33% to Php 21.98 billion as the Residential, Strategic Landbank and Construction businesses sustained previous quarters' gains. Visayas-Mindanao operations also contributed to consolidated revenue growth.

Equity in Net Earnings of Investees rose by 32% to Php 646 million following the favorable performance of the Company's corporate investment vehicles in Bonifacio Global City, Cebu Holdings, Inc. (CHI) and Alabang Commercial Corporation (ACC). Higher interest, investment and other income grew by 41% to Php 1.38 billion, largely from the sale of shares in three subsidiaries (namely Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc.) in March this year.

Consolidated net operating income (NOI) reached Php 6.27 billion in the nine months of 2008, growing by 11% from the same period last year. However, overall NOI margin declined by five percentage points to 29% following the drop in shopping center and construction margins. Shopping center margins were affected by the continued closure of high-margin Glorietta 2 and the start-up operations at Greenbelt 5, while construction margins were strained by the rising costs of construction materials. Residential margins were stable, but margin gains in the first half of the year from price increases were eroded by the significant impact of higher construction costs in the third quarter. Meanwhile, overhead costs were kept at bay as general and administrative expenses increased by only 14% to Php 1.96 billion.

### **Business Segments**

Residential Development accounted for the biggest share of total revenues at 45% or Php 10.7 billion. This was followed by the Support Businesses at 28%, or Php 6.6 billion, largely coming from the Construction business. Shopping Centers contributed 13% or Php 3.2 billion, while Corporate Business generated 3% or Php 633 million. Strategic Landbank Management also accounted for 3% or Php 707 million, followed by Visayas-Mindanao with Php 96 million or less than 1%. Interest and Other Income accounted for the balance of 8%.

### ***Residential Development***

Residential Development revenues amounted to Php 10.7 billion in the first nine months of 2008, 14% higher than the Php 9.4 billion during the same period in 2007. Alveo Land (formerly Community Innovations) and Avida Land posted double-digit growth rates of 29% and 45%, respectively.

Ayala Land Premier (ALP) projects generated Php 5.2 billion in revenues, 2% lower than in 9M07. High-end condominium units contributed the bulk (P 3.1 billion) of ALP's revenues, but were down 5% y-o-y due to the lower unit bookings. Bookings of high-end condominium units in the first nine months of 2008 declined to 136, mostly from One Serendra East Tower launched in March 2008. This compared with the 469 units booked in the same period last year, which largely consisted of 328 units from The Residences at Greenbelt (TRaG) project, now fully sold out. The decrease in booked units was, however, cushioned by the higher percentage of completion in 9M08 (TRaG 1 at 100%; TRaG 2 at 67%; TRaG 3 at 29%; and East Tower at 22%). High-end lots meanwhile contributed Php 1.6 billion (+25% y-o-y) with total booked sales of 307 lots, mostly from Abrio in NUVALI. Revenues of leisure project Anvaya Cove amounted to Php 488 million from 129 booked lots and shares, and declined 35% due to the full sellout of seaside villas in the 4<sup>th</sup> Quarter 2007.

Alveo's revenues grew by 29% y-o-y to Php 2.9 billion in the first nine months of 2008. Although booked units grew by only 5% to 922 units, higher construction accomplishment boosted revenue growth. New projects, namely, Treveia in NUVALI (228 lots), Senta in Legaspi Village, Makati (164 units) and Red Oak at Two Serendra (109 units) accounted for the bulk of bookings.

Avida's revenues surged by 45% to Php 2.6 billion in the first nine months of 2008 due to the increase in bookings to 1,569 units from 1,257 units in 9M07, coupled with a steady progress of construction. New projects such as Avida Settings NUVALI, Avida Settings Cavite, Avida Towers San Lazaro (new towers) and Avida Towers Makati West, likewise drove growth of Avida unit bookings.

NOI for Residential Development contributed 43% of total NOI and grew 13% y-o-y in 9M08 to Php 2.7 billion. NOI margin, however, was flat at 25% as increased costs of construction materials offset the price adjustments implemented in the third quarter.

Meanwhile, take-up of all residential projects during the first nine months of the year reached 4,162 units, slightly lower than the 4,262 units in 9M07. The sales value of these units, however, grew by 5% to Php 16.3 billion, reflecting the impact of the price increases. A total of 3,685 units were launched during the first nine months of the year, representing 66% of the original full-year target of 5,600 units (excluding residential projects in Visayas-Mindanao). The Company is currently re-visiting the schedule for the launch of the remaining balance of the original target.

### *Shopping Centers*

Revenues for the first nine months of the year of Shopping Centers were flat at Php 3.2 billion as the contributions from Greenbelt 5 and improved performance of Market! Market! was offset by the continued closure of Glorietta 2. Greenbelt 5 Phase 1 experienced delays on the fit-out and rental commencement of some merchants, resulting in a decline in average building occupancy rate of consolidated malls by 2% points to 93%. Average building rent went up to Php 1,160/sqm/month as implemented rental escalations slightly offset the loss of high-rent Glorietta 2.

NOI for Shopping Centers posted a decline of 10% to Php 1.8 billion, while NOI margin was squeezed to 56% from 62% since the continued closure of high-margin Glorietta 2 was not fully offset by the improved performance of Market!Market!. Shopping Centers accounted for 29% of total NOI.



Gross leasable area (GLA) of Shopping Centers under ALI's portfolio is expected to increase by 26,500 square meters by year-end. Within Ayala Center, in addition to Greenbelt 5 Phase 2 (which opened in October), Glorietta 5's 9,500 sqms.- retail area has started to turnover space to tenants for fit out in time for opening by December. Construction of Q Mall in Angeles, Pampanga is ongoing, with a target opening of May 2009. Planning of the retail-BPO development Davao City is also underway.

### ***Corporate Business***

Revenues from Corporate Business amounted to Php 633 million in 9M08, a drop of 15% from last year largely due to lower lot sales at Laguna Technopark's (LTI) expansion phase with only 3.9 hectares sold in 9M08 against 6.2 hectares in 9M07. Average rent at headquarter-type office buildings, however, increased by 9% while average occupancy level remained steady at 98%.

For BPO buildings, average rent of all operational tenants went up by 8%. Occupancy levels dropped to 83% from 100% as a result of additional GLA that came on stream. The first five buildings of ALI-UP TechnoHub, totaling 58,459 square meters of GLA, started operations during the period and are in various stages of fit-out, three of which are already fully leased-out. The sixth building is expected to begin operations by year-end. Pre-leasing activities are ongoing for the remaining 4 buildings, which will begin operations in 2009.

The other ongoing BPO building projects, namely Glorietta 5, Solaris (along Dela Rosa Street in Makati), San Lazaro Vertex and NUVALI Technopod, are in various stages of construction completion and will be completed by year-end.

NOI grew to Php 394 million, an increase of 6% compared to the same period last year of Php 372 million. Worth noting is the improvement in NOI margins by 12 percentage points to 62% from 50% resulting from the increase in rental rates, decrease in direct operating expenses and the impact of a decline in LTI lot sales which deliver lower margins. Corporate Business' NOI accounted for 6% of total.

In response to the increasing supply of BPO space expected to come onstream over the next three years as well as the near-term uncertainty of demand due to the global financial crisis, the Company is currently recalibrating its launch schedule for additional BPO projects. Expansion sites have already been secured and projects will be prepared for a "push-button" mode, which will enable the Company to respond quickly to potential demand upswings.

### ***Strategic Landbank Management***

Revenues of Strategic Landbank Management surged by 205% to Php 707 million during the first nine months of 2008 from Php 232 million in the same period in 2007. Significant growth was generated from its share in lot sales at NUVALI across all three residential brands. Booked override units increased to 104 units in 9M08 versus 89 in 9M07, complemented by higher construction completion on override units at The Columns at Legazpi Village.

NOI likewise increased by 208% to Php 213 million from Php 69 million, while NOI margin was flat at 30% due to higher management fees paid in 9M08. SLMG's NOI during the six-month period contributed 3% to total NOI.

Equity in net earnings from Ayala Land's 24% effective stake in Fort Bonifacio Development Corporation (FBDC) grew to Php 382 million, up 20% year-on-year, driven by the significant

increase in the prices of sold lots in Bonifacio Global City (BGC). A total of 28,044 square meters were sold in the first nine months of 2008 at an average price of Php 151,000 per square meter, compared with 43,457 square meters at an average of Php 102,000 during the same period last year.

The Company, through Strategic Landbank Management, remains committed to drive the growth in land values of its three strategic landbank areas. In Makati, the Ayala Center redevelopment is well underway with Glorietta 5, which has both office and retail components, set for operation by the end of 2008. Plans for the redevelopment of Glorietta 1 and 2 are already being finalized. In Bonifacio Global City, the 29-storey BGC E-Services Building, a Company-managed project, was 32% complete. Meanwhile, construction on the 6-star Shangri-La Hotel already started in the third quarter while construction on St. Luke's Hospital is already nearing completion. In NUVALI, Technopod Building 1 and the retail areas are slated for completion in the fourth quarter of 2008, while the lake and Visitors' Center are in the final stages of construction.

### **Visayas-Mindanao**

Visayas-Mindanao's revenues went up by 59% to Php 96 million in the first nine months from Php 60 million during the same period last year. Revenue growth was achieved despite a decline in bookings to 83 lots in 9M08 from 98 lots in the same period last year as construction completion kicked-in. Most of the bookings came from newer phases of Plantazionne Verdana Homes and Ayala Northpoint (both in Bacolod). NOI contribution, however, was a negative Php 8 million as the price increases effected and the sales volumes were not enough to offset the high fixed costs in Ayala Northpoint Phase 2 and the slow take-up of Alegria Hills in Cagayan de Oro.

### **Support Businesses**

The Support Businesses, namely Construction, Property Management and Hotels, generated revenues (net of inter-company eliminations) of Php 6.6 billion during the first nine months of the year, growing by 127% from the same period last year. Total NOI for the support businesses in aggregate also grew by 39% to Php 1.2 billion, with most of the increase coming from the Construction business.

Makati Development Corporation (MDC), ALI's wholly-owned construction arm, reported revenues of Php 4.9 billion (net of inter-company eliminations), representing a 326% growth over the first nine months of 2007 on the back of significant progress in construction accomplishment on external projects. External projects account for 46% of the value of MDC's outstanding contracts. The construction business contributed Php 461 Million or 7% of the Company's NOI.

Ayala Property Management Corporation (APMC), a 100%-owned subsidiary, reported an almost flat growth in revenues of Php 526 million (net of inter-company eliminations) in the first nine months of 2008 over the previous year's level. Lower carpark volume in Ayala Center as a result of ongoing redevelopment offset the increase in revenues from CBD carparks and third-party accounts. APMC's NOI amounted to Php 256 million or 4% of ALI's NOI.

The Hotels group, comprised of Hotel InterContinental Manila and Cebu City Marriott Hotel, generated Php 989 million in revenues in the first nine months, slightly declining by 2% from the same period last year. Hotel InterContinental Manila was able to raise average room rates by 15% to Php 5,517 but its occupancy went down to 78% from 83% last year. Similarly, Cebu City Marriott Hotel managed to increase its average room rate by 3% to Php 3,376 but its occupancy

occupancy plunged to 58% from 76% last year with the opening of alternative hotels in the area. The two hotel properties contributed Php 339 million or 5% to ALI's NOI.

NOI margins of the Support Businesses dropped to 17% from 29% largely because of lower margins on MDC's contracts brought about by higher material costs, lower volumes at the high-margin Ayala Center carparks, and the average 10 percentage point drop in Hotel occupancy rates.

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

Equity in Net Earnings from Investees grew by 32% to Php 646 million from Php 488 million, mostly coming from the combined contribution of ALI's corporate investment vehicles in BGC, and higher earnings of Cebu Holdings Inc. (CHI) and Alabang Commercial Corporation (ACC).

As previously mentioned, the contribution of FBDC reached Php 382 million or 20% higher than the Php 318 million in the same period last year. Meanwhile, Equity Earnings from CHI and Cebu Property Ventures Development Corp. (CPVDC) were 55% higher at Php 177 million from Php 114 million last year. At Ayala Center Cebu, the average building rent was 5% higher y-o-y, while occupancy rate slightly improved to 97% from 96%. Four lot sales, one in Cebu Business Park and three in Asiatown IT Park, with a total area of 24,202 square meters, further raised equity earnings.

For the shopping center business, ACC (corporate vehicle for Alabang Town Center) contributed Php 87 million, 11% more than the previous year as rental rates increased by 5%. TriNoma, which opened in May 2007, reached profitability this year, with a positive equity earnings contribution of Php 5 million in 9M08 against a negative Php 24 million in 9M07 also due to higher rental and occupancy rates.

Interest, fees, investment and other income amounted to Php 1.4 billion from Php 559 million a year ago. Growth was brought about by the Php 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. in March this year as well as by increased interest income from the higher cash balance.

### **Expenses**

For the first nine months of 2008, total expenses amounted to Php 18.4 billion, 39% more than the Php 13.3 billion in 9M07. Real estate and hotels cost of sales accounted for the bulk at Php 15.7 billion, 45% more than last year. Meanwhile, General and Administrative Expenses (GAE) were tightly controlled and rose by only 14% y-o-y to Php 2.0 billion, a much lower pace than the 33% increase in real estate revenues. Interest and other charges likewise increased to Php 758 million as end-September 2008 from Php 705 million the previous year.

### **Project and Capital Expenditures**

For the first nine months of 2008, ALI spent a total of Php 12.2 billion for project and capital expenditures, 14% more than the Php 10.7 billion spent in 9M07. This represents 50% of the full year 2008 budget of Php 24.3.

Residential Development projects accounted for the bulk of capex at 52% of total or Php 6.3 billion. Corporate Business followed and used 22% or Php 2.7 billion, mainly for UP TechnoHub and Dela Rosa E-Services Building. Shopping Centers spent 18% or Php 2.2 billion, while the balance was accounted for by Strategic Landbank Management and Visayas-Mindanao.

The Company is currently re-assessing its launch plans for various residential and BPO projects given the changing external environment and does not expect to spend the full amount of Php 24.3 billion budgeted for the year.

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

#### Income Statement items – 9M 2008 versus 9M 2007

##### *33% increase in real estate and hotel revenues*

Primarily due to higher revenues from residential developments and construction business, as well as better revenue performance of strategic landbank management, Visayas-Mindanao operations and property management.

##### *93% increase in equity in net earnings of investees, interest, fees, investment and other income*

Largely due to higher income from ALI's corporate vehicles for its investment in Bonifacio Global City as well as improved performance of Cebu Holdings Inc. and Alabang Commercial Corporation, higher interest income from money market transactions, and gain on sale of shares in Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc.

##### *48% increase in real estate costs and expenses*

Mainly due to higher real estate revenues.

##### *14% increase in general and administrative expenses*

Primarily due to higher payroll costs and benefits given salary and manpower increases.

##### *21% increase in provision for income tax*

Mainly due to the higher taxable income during the period.

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

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

##### *48% decrease in net income attributable to minority interests*

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

#### Balance Sheet items – September 30, 2008 versus End-2007

##### *33% increase in cash and cash equivalents*

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

##### *55% increase in short-term investments and fair value through profit or loss financial assets*

Largely due to increase in government securities.

##### *24% increase in accounts and notes receivable*

Primarily due to increase in Makati Development Corporation's receivables from projects such as US Embassy and Bonifacio Global City BPO.

*11% increase in real estate inventories*

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

*39% increase in other current assets*

Mainly due to Makati Development Corporation's deferred charges representing costs on new and future projects and higher disbursements for business taxes, commissions and other expenses.

*32% decline in non-current accounts and notes receivable*

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

*8% increase in land and improvements*

Primarily due to new development phases.

*20% increase in investments in associates and jointly controlled entities*

Mainly due to additional investments in Fort Bonifacio Development Corp. (FBDC) and Asian Property Partners Holdings Corp. (APPHC).

*60% increase in property and equipment*

Primarily due to disbursements for the construction of San Lazaro BPO, Glorietta 5 and Greenbelt 5 Phase 2.

*52% increase in deferred tax assets*

Primarily due to higher recognized real estate sales.

*29% increase in other non-current assets*

Mainly due to disbursements for future projects.

*28% increase in accounts and other payables*

Largely due to higher trade payable from construction of San Lazaro BPO, and increase in Makati Development Corporation's accrual of salaries, equipment rental and cost of materials.

*9% increase in short-term debt*

Largely due to short-term loan availments by Avida Land and Asian I-Office Properties, Inc.

*100% decline in income tax payable*

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

*7% decrease in current portion of long-term debt*

Largely due to loan maturities and reclassification from non-current to current loans of Station Square East Commercial Corporation.

*15% increase in other current liabilities*

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

*86% increase in long-term debt – net of current portion*

Mainly due to the reclassification from non-current to current loans of Station Square East Commercial Corporation.

*56% increase in pension liabilities*

Primarily due to the accrual to the retirement benefit plan.

*160% increase in deferred tax liabilities*

Primarily due to timing differences in tax recognition of Serendra, Inc.

*24% increase in deposits and other non-current liabilities*

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

*13% increase in retained earnings*

Largely because of income generated in 2008.

*11% increase in stock options outstanding*

Primarily due to ESOP availments.

*272% increase in unrealized gain on available-for-sale financial assets*

Mainly due to market valuation of Ayala Hotel, Inc.'s investment in Manila Golf and Country Club and Makati Sports Club.

*143,081% increase in treasury stock*

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

## PART II - OTHER INFORMATION

### Item 3. 3Q 2008 Developments

- A. New project or investments in another line of business or corporation** None.
- B. Composition of Board of Directors (as of September 30, 2008)**
- |                                 |                 |
|---------------------------------|-----------------|
| Fernando Zobel de Ayala         | Chairman        |
| Jaime Augusto Zobel de Ayala II | Vice Chairman   |
| Jaime I. Ayala                  | President & CEO |
| Mercedita S. Nollo              | Corp. Secretary |
| Francis G. Estrada              | Director        |
| Delfin L. Lazaro                | Director        |
| Aurelio R. Montinola III        | Director        |
| Corazon dela Paz - Bernardo     | Director        |
| Ramon R. del Rosario, Jr.       | Director        |
- C. Performance of the corporation or result/progress of operations** Please see unaudited consolidated financial statements and management's discussion on results of operations.
- D. Declaration of dividends** P0.03 cash dividend  
Declaration date: May 12, 2008  
Record date: June 11, 2008  
Payment date: June 27, 2008
- E. Contracts of merger, consolidation or joint venture; contract of management, licensing, marketing, distributorship, technical assistance or similar agreements** None.
- F. Offering of rights, granting of Stock Options and corresponding plans therefore** ALI has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Option Plan (ESOWN) covering 2.5% of the company's authorized capital stock.
- In 2005, the company introduced a revised ESOWN granted to qualified officers.
- As of September 30, 2008, stock options outstanding\* are as follows:
- |       |                          |
|-------|--------------------------|
| ESOP  | 41,081,976 shares        |
| ESOWN | <u>42,367,895 shares</u> |
|       | 83,449,871 shares        |
- \* outstanding shares pertain to shares subscribed by officers and employees which are not yet fully paid and not yet issued*
- G. Acquisition of additional mining claims or other capital assets or patents, formula, real estate** None.

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

**Item 4. Other Notes to 9M 2008 Operations and Financials**

- |   |  |
|---|--|
| <b>J. Nature and amount of items affecting assets, liabilities, equity, or net income that are unusual because of their nature, size, or incidents</b>  | None.  |
| <b>K. Nature and amount of changes in estimates of amounts reported in prior periods and their material effect in the current period</b>  | None.  |
| <b>L. New financing through loans / Issuances, repurchases, and repayments of debt and equity securities</b>  | Please see Notes to Financial Statements (Item #5).  |
| <b>M. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period</b>   | <ul style="list-style-type: none"> <li>• Declaration of annual cash dividends of 4.64% per annum to all shareholders of preferred shares amounting to a total of Php 60 million, with record date of October 10, 2008 and payable on October 20, 2008.</li> <li>• Declaration of cash dividend of Php 0.03 per common share totaling Php389 million as of record date December 5, 2008 and payable on January 8, 2009.</li> </ul>  |
| <b>N. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations</b> | None.  |
| <b>O. Changes in contingent liabilities or contingent assets since the last annual balance sheet date</b>   | None.  |
| <b>P. Other material events or transactions during the interim period</b>   | <ul style="list-style-type: none"> <li>• Sale of shares in three subsidiaries, Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc., to Megaworld.</li> <li>• Declaration of cash dividend of Php 0.03 per share to all common shareholders amounting to Php 391 million as of record date June 11, 2008, payable on June 27, 2008</li> <li>• Issuance of Php 4 billion worth of fixed-rate retail corporate bonds in August 2008.</li> </ul> |



- Share buyback program involving the repurchase of ALI shares up to the total amount of Php 3 billion commencing on August 13, 2008 and ending upon full usage of the allotment.
- Q. Existence of material contingencies during the interim period; events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation** None.
- R. Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period** None.
- S. Material commitments for capital expenditures, general purpose and expected sources of funds** For year 2008, Ayala Land's consolidated budget for project and capital expenditures amount to P24.3 billion. About 42% is earmarked for residential developments, 30% for corporate business, 14% for shopping centers, and the balance for strategic landbank management, Visayas-Mindanao, and support businesses. This will be financed through a combination of internally-generated funds, borrowings, pre-selling and with proceeds from sale of non-core assets.
- For the first nine months of 2008, consolidated project and capital expenditures amounted to 12.2 billion, about 50% of the P24.3 billion budget for the whole year. About 52% was spent for Residential projects, 22% for Corporate business, 18% for Shopping Centers, and the balance for Visayas-Mindanao and Strategic Landbank Management businesses.
- T. Known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/ income from continuing operations** Ayala Land's performance will continue to hinge on the overall economic performance of the country. Interest rate movements may affect the performance of the real estate industry, including the Company.
- For financial risk assessments, please see Notes to Financial Statements (Item #8).
- U. Significant elements of income or loss that did not arise from continuing operations** None.
- V. Causes for any material change/s from period to period in one or more line items of the financial statements** Please see Management's Discussion and Analysis of Financial Condition and Results of Operations.

**W. Seasonal aspects that had material effect on the financial condition or results of operations**

ALI's leasing portfolio generates a fairly stable stream of revenues throughout the year, with higher sales experienced in the fourth quarter from shopping centers due to holiday spending.

The Company's development operations do not show any seasonality. Projects are launched anytime of the year depending on several factors such as completion of plans and permits and appropriate timing in terms of market conditions and strategy. Development and construction work follow target completion dates committed at the time of project launch.

**X. Disclosures not made under SEC Form 17-C**

None.

**Item 5. Performance Indicators**

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

	<i>End-September 2008</i>	<i>End-December 2007</i>
Current ratio <sup>1</sup>	1.74:1	1.65:1
Debt-to-equity ratio <sup>2</sup>	0.32:1	0.22:1
	<i>9M 2008</i>	<i>2007</i>
Return on assets <sup>3</sup>	5.7% <sup>5</sup>	5.4%
Return on equity <sup>4</sup>	10.9% <sup>5</sup>	10.2%

<sup>1</sup> *Current assets / current liabilities*

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

<sup>3</sup> *Net income / average total assets*

<sup>4</sup> *Net income / average stockholders' equity*

<sup>5</sup> *9M08 NIAT annualized/average of end Sept-08 and end Dec-07 assets and equity*

**SIGNATURE**

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

Issuer: **AYALA LAND, INC.**

By:

A handwritten signature in black ink, appearing to read 'Jaime E. Ysmael', with a long, sweeping flourish extending to the right.

**Jaime E. Ysmael**  
Senior Vice President and Chief Finance Officer

Date: November 7, 2008