AYALA LAND | 2008 ANNUAL REPORT

Enhancing Land And Enriching Lives, For More People

We shall establish and maintain our preeminence among real estate companies in Asia. Our primary goal will be to continue being the best at what we do, and the most respected for what we have accomplished. We shall do so while acting in accordance with the highest standards of integrity that have always lent moral strength to policies and practices of Ayala Land.

Our preeminent position will be measured primarily in the marketplace, where we will be the preferred choice above all the others. This will be the natural outcome of consistently exceeding the customer's aspirations for a better lifestyle and a 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.

We shall accomplish our 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 our lasting commitment to nation-building by promoting the betterment of the Filipino.

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

AyalaLand

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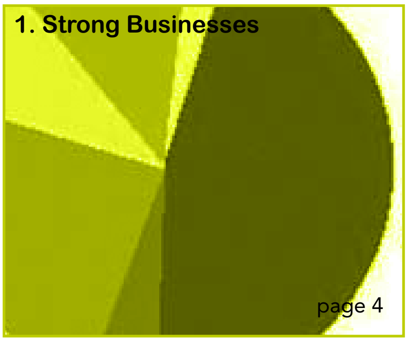
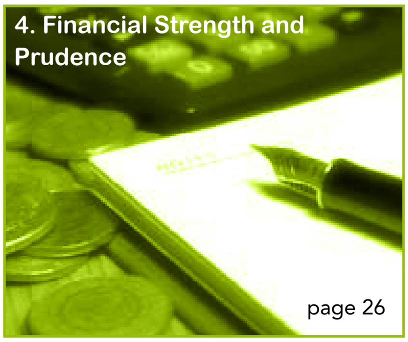
We are well positioned to navigate these turbulent times and continue building on our industry leadership.





Despite the challenges we faced in 2008, we posted record financials and achieved positive operating results in each of our key businesses.

Revenue and Net Income

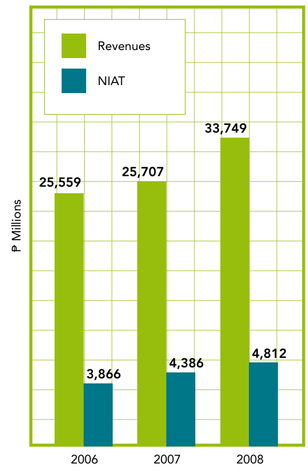
Our revenues and net income grew 31% and 10%, respectively.

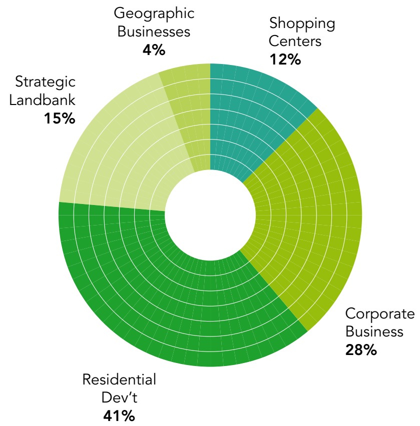
Capital Expenditure

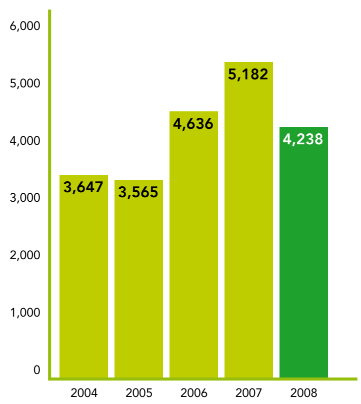
Total capex reached P18.9 billion, a new record level.

Residential Development

Project launches were recalibrated in line with market conditions.







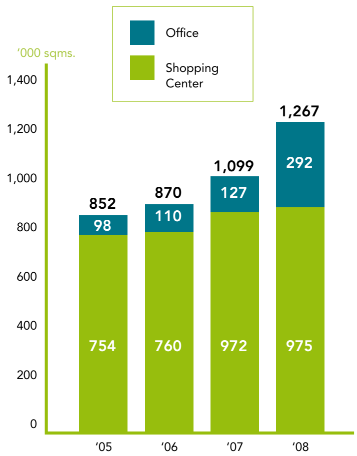
P4.8b
After-tax net income

23%
Growth in capex spending

4,238
Residential units launched

Leasing Portfolio

Our office leasing portfolio expanded 130% with the addition of U.P.-AyalaLand TechnoHub.



Balance Sheet

We strengthened our balance sheet and shored up liquidity.

BALANCE SHEET (Pm)	
Cash	15,443
Total Assets	100,453
Total Borrowings	16,752
Stockholders' Equity	49,028
Debt-to-Equity Ratio	0.34:1
Group Cash	16,651
Group Borrowings	21,321
Group Debt-to-Equity Ratio	0.44:1

Sustainability Reporting

We progressed to GRI B-Level reporting, with 31 indicators tracked.

FOR THE YEAR:

- Set up of ALI Sustainability Council and the creation of Sustainability Office
- Implementation of our sustainability flagship projects: NUVALI and U.P.-AyalaLand TechnoHub
- Kick-off of ALI Green Training Program

1.27m

Square meters total GLA in our leasing portfolio

P16.7b

Total Group Cash

2x

Increase in GRI sustainability indicators monitored from 2007

Strategic Landbank Management

Makati Central Business District | Bonifacio Global City | NUVALI

2008 HIGHLIGHTS

Makati CBD

- Start of Ayala Center redevelopment, with completion of Glorietta 5 and ongoing construction of Raffles Hotel and Private Residences, and Fairmont Hotel
- Sale of shares in 5,125 sqms. property along Valero St.

Bonifacio Global City

- 29% growth in GFA build-up to 1.4 million sqms.
- Sale of 18,214 sqms. commercial lots
- Continued price appreciation by >20%
- Increase of effective stake in Fort Bonifacio Development Corp. to 22.6%

NUVALI

- Take-up of 947 residential lots
- Sale of 18,830 sqms. commercial lots
- Completion of Phase 1, including Technopod Building 1, retail areas, Evoliving Center, NUVALI Boulevard and West Laguna Parkway Road

OUR COMMITMENT TO STAKEHOLDERS

Large, holistic, integrated and sustainable communities

PORTFOLIO

- Makati Central Business District (52 has.)
- Bonifacio Global City (33 has.)
- NUVALI (1,521 has.)

LOOKING AHEAD

MCBD

- Ayala Center redevelopment (Glorietta 1 and 2 area)
- Ayala Triangle masterplanning and redevelopment

Bonifacio Global City

- City Center Super Block development (continuation of Bonifacio High Street)
- North City Center development
- Continued build-up of office and recreational components
- Infrastructure expansion projects

NUVALI

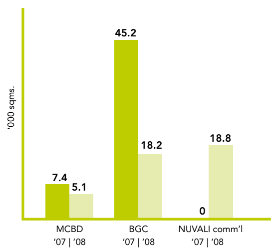
- Completion of Phase 1 and key infrastructure developments
- Grand launch of NUVALI
- Introduction of institutional, commercial/office and recreational land uses
- Roll-out of comprehensive sustainability program

Consolidated Landholdings as of end 2008

Location	Size (hectares)	Ownership	Book Value (P Billion)
Strategic Landbank			
Makati CBD	52	97%	1.9
Bonifacio Global City	33	23%	4.7
NUVALI	1,521	68%	4.3
Others	480	90%	2.6
Subtotal	**2,086**	**80%**	**13.5**
Properties under lease / JDA	1,966		
GRAND TOTAL	**4,052**		

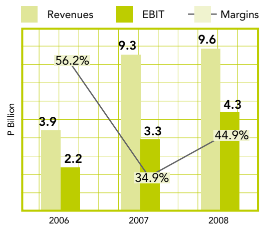
Almost 4,100 has., including 2,100 has. Company-owned property carried at original acquisition cost, are available for development

Lot Sales



Lot area sold was lower but at significantly higher prices and accommodation values

Revenues, EBIT and Margins



Strong contribution from NUVALI overrides and Makati lot sales offset drop in FBDC; EBIT improved due to higher margin lot sales

Residential Development

Ayala Land Premier | Alveo | Avida

2008 HIGHLIGHTS
- 4,238 new units launched
- Residential condominium projects included ALP's One Serendra East Tower, Alveo's Senta and Red Oak, and Avida Towers Makati West 2 and Avida Towers New Manila 4
- Sales take-up reached 4,803 units with total value of P18.4 billion
- 24% of total residential sales value, or P4.5 billion, accounted for by Overseas Filipino market
- Price increases implemented to mitigate impact of high prices of construction inputs
- P1.5 billion in buyer account receivables sold on a non-recourse basis

OUR COMMITMENT TO STAKEHOLDERS

Intuitively designed residential developments for three distinct market segments; designs that mix functionality with style; from distinctive communities to affordable homes, from luxury condominiums to middle-income housing developments.

Ayala Land Premier
- Exclusive and distinctive living experiences

Alveo Land
- Vibrant communities and groundbreaking living solutions adapted to the changing needs of the upscale market

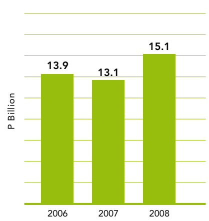
Avida Land
- Thoughtfully planned, secure, and easily accessible communities at affordable prices

PORTFOLIO

54 ongoing projects in 2008
- Ayala Land Premier (11)
- Alveo Land (13)
- Avida Land (30)

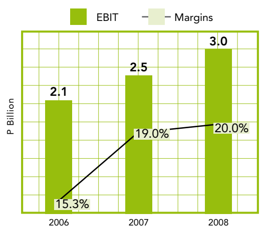
LOOKING AHEAD
- Shift product focus towards the more affordable products offered by Alveo and Avida
- Prioritize launches of horizontal developments
- Focus on sell-out of existing inventory before embarking on new launches
- Close monitoring and management of contingent liability arising from project costs to complete

Revenues



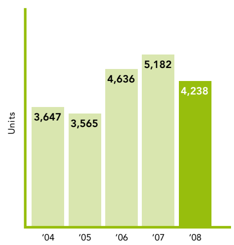
Revenue growth driven by accelerating construction completion, particularly in NUVALI and residential condos (TRaG, Serendra and Senta)

EBIT and Margins



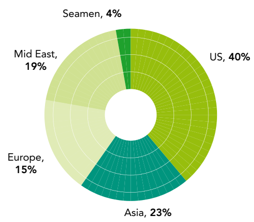
Price increases throughout the year and effective cost management mitigate higher construction costs and boost margins

Unit Launches



4,238 units launched was 18% lower as project launches were recalibrated in line with weak market conditions

Percentage Sales to Overseas-Based Filipinos



Sales to OF dropped 25% vs. 2007 due to inventory issues early in 2008 and sharp decline in US demand.

Shopping Centers

Ayala Malls

2008 HIGHLIGHTS
- New malls opened:
  - Greenbelt 5, Phase 2 (17,000 sqms., October)
  - The Terraces at Ayala Center Cebu (7,900 sqms., October)
  - Glorietta 5 (9,600 sqms., December)
- Overall average occupancy of 92% across all malls
- Occupancy rate of TriNoma significantly increased to 91%; building rent 20% higher
- Improved performance of Market! Market! with higher occupancy at 90%
- Average building lease rate 4% higher with impact of rental escalations

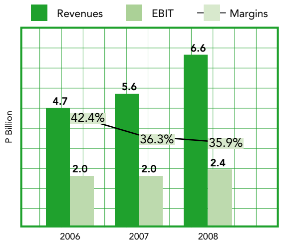
OUR COMMITMENT TO STAKEHOLDERS
Uniquely rewarding experiences with a sense of place that is innovative, fun and compelling

PORTFOLIO
- 13 shopping centers/retail areas with total GLA of 975,000 sqms.*, largely from:
  - Glorietta (241,000 sqms.)
  - Greenbelt (83,000 sqms.)
  - TriNoma (189,000 sqms.)
  - Market! Market! (150,000 sqms.)
  - Alabang Town Center (79,000 sqms.)
  - Bonifacio High Street (14,000 sqms.)

LOOKING AHEAD
- Opening of MarQuee Mall (38,000 sqms.) in Angeles, Pampanga in September 2009
- Completion of Davao Mall Phase 1 (35,000 sqms.) by 2011
- Redevelopment of Glorietta 1 and 2, with retail areas operational by 2012
- Major investments in energy-efficient infrastructure and technologies such as district cooling system for the redevelopment of Ayala Center

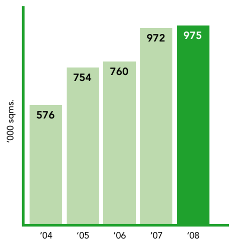
* Includes Ayala Center Cebu which is reported under Visayas-Mindanao

Revenues, EBIT and Margins



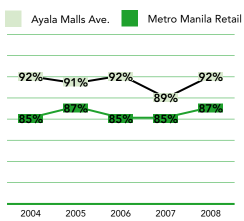
Revenue growth of 17% driven by improved performance of TriNoma and Market!Market! that more than offset impact of Ayala Center redevelopment

GLA Expansion



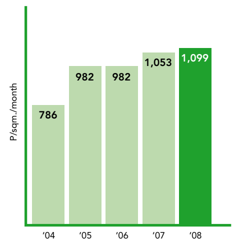
Shopping center GLA expansion underway, with 34,500 sqms. completed in 2008, offsetting closures of 32,000 sqms.

Mall Occupancy Rates



Overall occupancy improved to 92%, as TriNoma's occupancy increased to 91% from 71% in 2007.

Ave. Effective Building Rent



Building lease rate 4% higher due to rental escalations implemented across all malls

Corporate Business

AyalaLand Businesscapes | Laguna Technopark

2008 HIGHLIGHTS

- Average increase in lease rate of HQ-type and BPO buildings at 12% and 7%, respectively
- Completion of 165,000 sqms. of BPO office space in five locations - MCBD, Quezon City, Manila, Canlubang, Cebu - of which 58,000 sqms. are already leased out
- Launch of AyalaLand Businesscapes brand
- Execution of Land Lease Agreement for a 12.7 has. property within the John Hay Special Economic Zone in Baguio City for a BPO and retail development
- Increased stake in ALI Property Partners Holdings Corp. and ALI Property Partners Corp. to 80% and 68% respectively after purchase of shares in Filipinas Investment Ltd.

OUR COMMITMENT TO STAKEHOLDERS

Full line of office real estate in the most strategic sites developed according to world-class standards and complemented by preferred amenities and the most reliable facilities management services

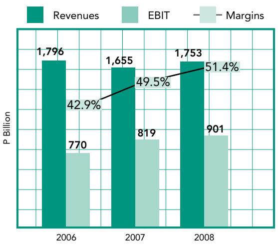
PORTFOLIO

- Office space for lease
    - Headquarter-type: 71,500 sqms. GLA
    - BPO: 200,800 sqms. GLA
    - Managed: 19,500 sqms. GLA
- Laguna Technopark Inc. (LTI) industrial lots for sale and standard factory buildings for lease

LOOKING AHEAD

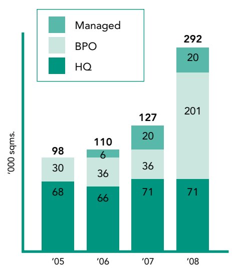
- Completion of additional 88,400 sqms. of BPO office space
- Start of construction of the Globe HQ Building in BGC
- Expansion projects on secured sites (on a push button mode), including Cebu BPO, John Hay-Baguio, Davao BPO and additional NUVALI Technopod buildings
- Roll-out of green features and technologies

Revenues, EBIT and Margins



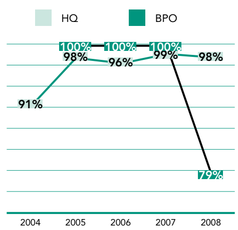
Revenues up from higher lease rates, offsetting impact of fewer LTI lot sales; EBIT improved by 10% with EBIT margin slightly higher at 51%

GLA Expansion



GLA increased more than twice with additional 165,000 sqms. BPO GLA

Office Occupancy Rates



BPO occupancy dropped with U.P.-Ayala Land TechnoHub still in start-up mode

Ave. Effective Office Rent

Lease rates of both HQ-type and BPOs went up, growing by 12% and 7%, respectively

Geographic Businesses

ARCH Capital Management Co. Ltd. | Cebu Holdings, Inc. | Cebu Property Ventures and Development Corporation |

OUR COMMITMENT TO STAKEHOLDERS
Diversification of risk via participation in an Asian Real Estate Fund that leverages on our deep knowledge of the real estate sector

PORTFOLIO
- Real Estate Fund with US$330 million of committed capital; partially invested in medium to high-end residential developments in Bangkok, Macau and Chennai

2008 HIGHLIGHTS
- Closed two new investments - a residential development in Bangkok and another in Chennai's Mahindra World City special economic zone
- Deliberate, measured and decelerated pace of new investment activities
- Active review of opportunities presenting attractive commercial terms and improved negotiating leverage

LOOKING AHEAD
- Fund's under-invested position presents significant opportunities
- Attractive valuation and terms of investment
- Investment discipline maintained while adhering to risk and portfolio management best practices

OUR COMMITMENT TO STAKEHOLDERS
Best-of-class products founded on superior understanding of local Vis-Min markets

PORTFOLIO
Cebu
- Ayala Center Cebu
- Cebu Business Park
- Asiatown IT Park
- City Sports Club Cebu
- Amara

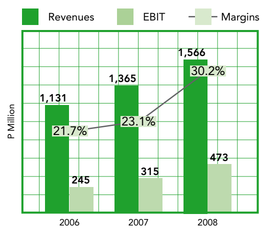
Negros Occidental
- Ayala Northpoint
- Plantazionne Verdana Homes

Cagayan de Oro
- Alegria Hills

2008 HIGHLIGHTS
- Opening of The Terraces at Ayala Center Cebu and The Walk at Asiatown IT Park
- Sale of six lots at Asiatown IT Park and one lot at Cebu Business Park
- Launch of Amara North and Plantazionne Verdana Homes Phase 4

LOOKING AHEAD
- Development of Cebu Business Park Superblock
- Tap new residential market segments
- Strategic land acquisition in key locations

Revenues, EBIT and Margins



Higher commercial lot sales more than offset drop in residential lot sales

Support Businesses

Makati Development Corporation | Ayala Property Management Corporation | Ayala Hotels, Inc.

OUR COMMITMENT TO STAKEHOLDERS

Competitive advantage in quality, cost and speed to market delivery

PORTFOLIO

- 38 projects
- P13.2 billion outstanding construction contracts

2008 HIGHLIGHTS

- Significant completion of St. Luke's Hospital and Continental Temic projects
- Award of new projects resulting in outstanding order book of P4.3 billion, including P1.1 billion from third parties
- Improvement in sustainable construction practices, focusing on dust/noise mitigation, erosion control, increased use of fly ash in cement, and erosion control

LOOKING AHEAD

- Focus resources to prioritize ALI Group projects
- Be more selective in taking on external projects, if capacity permits

OUR COMMITMENT TO STAKEHOLDERS

Enriching customer experience and enhancing property values over time

PORTFOLIO

- 176 managed facilities including 56 carparks, 55 residential projects and 35 offices
- P723 million outstanding property management contracts

2008 HIGHLIGHTS

- Secured additional P109 million property management contracts
- Roll-out of new technologies in cooling, lighting, waste management and parking system

LOOKING AHEAD

- Continuing improvement in service level standards
- Strengthening of green building and spend management initiatives

OUR COMMITMENT TO STAKEHOLDERS

Enhancing land values through strategic anchors in key landbank developments

PORTFOLIO

- Hotel InterContinental Manila (334 rooms)
- Cebu City Marriott (301 rooms)
- 20% stake in KHI Manila Property, Inc. for the Raffles/ Fairmont hotel projects (held directly through Ayala Land)

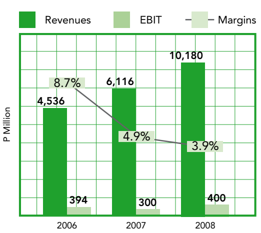
2008 HIGHLIGHTS

- Hotel InterContinental Manila achieves 78% occupancy rate; among top performers in its competitive set
- Completion of major Cebu City Marriott Hotel renovation

LOOKING AHEAD

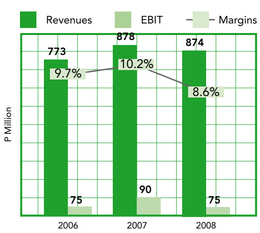
- International brand hotel planned as part of Ayala Center redevelopment
- Expand portfolio in areas where the Company has existing and/or planned developments
- Pursue opportunities and new business models to address gaps in hotel market

Revenues, EBIT and Margins



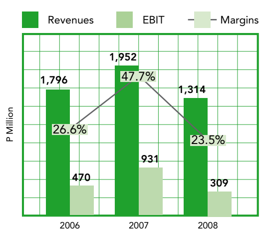
Significant construction accomplishment from both external and internal projects boost revenues and EBIT

Revenues, EBIT and Margins



Conclusion of NAIA contract resulted in slight decline in revenues; EBIT lower due to higher GAE as a result of manpower build up

Revenues, EBIT and Margins



Revenues fell 33% and EBIT down 67% due to capital gains from Oakwood sale to Ascott REIT booked in 2007

Financial Highlights

(All amounts expressed in thousand pesos, except as indicated)

	2008	2007	2006
Income Statement			
Revenues	33,748,983	25,707,229	25,558,842
Net Operating Income (NOI)	9,330,607	7,704,392	7,422,165
Earnings Before Interest & Taxes (EBIT)	9,173,835	8,447,893	6,937,888
Net Income (attributable to equity holders of ALI)	4,812,348	4,386,362	3,865,602
Balance Sheet			
Cash and Cash Equivalents	15,443,045	13,625,530	9,509,609
Total Assets	100,452,961	82,981,245	78,250,161
Total Borrowings	16,751,530	10,139,474	12,837,411
Stockholders' Equity	49,027,640	45,705,181	40,651,128
Cash Flow			
Net Cash Flow from Operating Activities	3,615,972	8,529,817	5,568,249
Net Cash Provided by (Used in) Investing Activities	(4,775,412)	579,951	(6,887,274)
Net Cash Provided by (Used in) Financing Activities	2,542,936	(2,468,453)	316,921
Consolidated Project and Capital Expenditures (P Billion)	18.89	15.22	13.65
Financial Ratios			
Current Ratio	1.89:1	1.65:1	1.64:1
Debt-to-Equity Ratio	0.34 :1	0.22:1	0.32:1
Net Debt/(Cash)-to-Equity Ratio	0.03 :1	(0.08):1	0.08 :1
Return on Equity*	10.2%	10.2%	9.8%
Return on Assets*	5.2%	5.4%	5.2%
Stock Information (in P except as indicated)			
Market Capitalization (P Billion)	83.0	185.8	165.37
Stock Price - Year-end	6.40	14.25	12.75
Earnings per Share	0.36	0.34	0.30
Total Shareholder Return - in Php **	(55%)	12%	55%

* Return on average equity and average assets

** Based on share price appreciation and cash dividends received (net of taxes), with cash dividends reinvested in ALI shares

Proven Track Record

"While the current environment is clearly challenging, we have been through worse times in the past, and have come out of those trying periods with our fundamentals intact and with more experience in managing through the cycles."

Fernando Zobel de Ayala
Chairman


Makati Central Business DIstrict (MCBD)

My Fellow Shareholders,

Let me start by thanking you all for your confidence in and continued support of Ayala Land through these difficult times. Amid the many challenges and gloom and doom scenarios that continue to face economies, industries and companies globally, 2008 will be remembered as an extremely challenging year. Trillions of dollars in market value have been lost from the global equity markets and our own Phisix lost nearly half of its value during the course of the year. The US, most of Europe and even some parts of Asia are seeing the onset of economic recession and collapsing asset prices, triggered by the sub-prime mortgage crisis and the subsequent global financial sector meltdown. The credit cycle has stagnated in many economies, resulting in major corporate bankruptcies, job losses and bailout plans of an unprecedented scale.

OUR ASSESSMENT OF THE CURRENT ENVIRONMENT

Within this context, we have made every effort to objectively assess the current situation and the economic environment in which your Company operates. While market conditions in the property sector are clearly different compared with just a year ago and have deteriorated in certain segments, we believe that the situation in the Philippines is not as dire as it is in other countries or even when compared with our nation's own historical experience.

Just a decade ago, we witnessed the Asian financial crisis where the Philippine peso lost half its value and the property market collapsed – a victim of regional contagion as well as domestic overbuilding, speculation and cheap leverage.

Comparing the current situation with past crises, we believe that the Philippine economy, and in particular the property sector, will be more resilient this time around. Credit remains largely available for both corporates and consumers and while our economy is no doubt affected by these global events, we are still expecting to post GDP growth in excess of 3% for 2009.

Structurally, the situation is quite different compared with what is happening in the property sector in other major markets. It is also very different from the Philippine experience during the Asian crisis. Property values are indeed up, but have

"Comparing the current situation with past crises, we believe that the Philippine economy, and in particular the property sector, will be more resilient this time around."

only risen on average about 10% in each of the last four years and peak Makati land values in 2008 were only 37% of their peak US dollar value in 1997 (nominal values, even lower on an inflation-adjusted basis). The amount of leverage in the system is also much, much lower compared with a decade ago, for the banking system in general and for the property sector in particular as most developers seemed to have learned from the lessons of the past crisis and have been maintaining reasonable amounts of gearing. Of equal importance is the fact that the domestic factors that helped to drive the property recovery these last few years – strong demand from a growing middle and professional class, availability and affordability of mortgage financing from banks and developers, and strong OFW remittance inflows – are still largely in place.

At times like these we need to be able to take a step back and put things into perspective. As a nation, as a people and as an enterprise – we are no stranger to difficulty and volatility. While we quietly celebrated your Company's 20th anniversary last year, we should remember that Ayala's experience and track record in property development stretches back over eight decades. We have survived and continued to move forward through some of the most uncertain and turbulent times in our nation's history. While the current environment is clearly challenging, we have been through worse times in the past, and have come out of those trying periods with our fundamentals intact and with more experience in managing through the cycles.

A PROVEN TRACK RECORD CENTERED ON THE "ALI WAY"

I believe that we have been able to weather these storms because your Company consistently maintains a timeless and long-term oriented approach in how we conduct our business and this has earned us the faith and trust of the Filipino public. We have endeavored over many decades to build the trust and confidence of our customers, business partners and all our stakeholders. We have sought to carefully nurture and reinforce this trust in three ways – by continually strengthening our brand, maintaining financial prudence, and investing in our people – and doing so in a way which is anchored on our core values of Integrity, Reliability and Commitment. This is the "ALI Way" and this forms all aspects of the way in which we conduct our business activities.

First, we are fully committed to our customers and to building long-term value in all our developments, irrespective of the external environment. The ALI Way is clearly evident in our approach and anchors the product differentiation that we untiringly strive for. Because this is something that our brands are well known for, we believe that these difficult times will further strengthen our position of leadership in the industry and in the marketplace as people seek refuge in quality and in the brands that they trust.

Second, we manage our business operations with strict financial prudence. Our balance sheet has always been very solid and we manage our gearing with a conservative approach to debt capacity where we ensure that maturities are well spread out and interest expenses can be covered by recurring cash flows from our investment properties. We have strong risk management practices in place and we take great care

"It is also worth noting that times of crisis are also times of opportunity for strong, forward thinking companies."

to evaluate and manage our contingent liability exposure in the vertical residential development business. Because of this conservative and risk-based approach, we are able to maintain good relationships with the various providers of capital, consistent access to the capital markets and a cost of borrowing that compares very favorably with even Philippine sovereign debt.

Finally, part of this commitment is that we are building a values-based and people-oriented institution that continually evolves around the changing market realities. We are committed to having the best team in the industry, to constantly adhere to our values of professionalism and integrity, and to constantly improve how we work, with a focus on productivity, speed and efficiency.

In essence, and this is a theme that you will see throughout this year's Annual Report, we are building a Company that is committed to sustainability on many levels – sustainable land development, environmental sustainability, sustainable partnerships and communities, and financial sustainability – all of which add up to the long-term sustainability and success of Ayala Land as an enterprise.

TURNING 20 WITH RECORD RESULTS IN A CHALLENGING YEAR

Because of this approach, we have been able to produce consistent results even through the difficult times and our financial results for 2008, which will be discussed in detail in both the President's and the CFO's reports, bear this out. Despite the difficulties experienced in the second half of the year, we are very pleased that 2008 was still a record performance as we achieved P47.0 billion* in consolidated revenues and P4.8 billion in net income, both of which were all-time highs for your Company and a fitting result for our 20th anniversary. In addition, we have been able to grow our base of recurring income from our shopping center and corporate office leasing businesses by more than double in revenue terms since the property markets began their recovery in 2003.

It is also worth noting that times of crisis are also times of opportunity for strong, forward thinking companies. Indeed, some of our best investments – an example of which is our acquisition, together with Greenfield Development Corporation, of a controlling stake in Fort Bonifacio Development Corporation as a distressed asset back in 2003 – have come during the most trying of times. We believe that because of the consistency of our approach and the trust that we have earned with all of our different stakeholders, we are very well positioned to take advantage of attractive opportunities that will arise in the next couple of years.

Taking all this into consideration, we are able to look at 2009 with a measure of cautious optimism. We know fully well that there are more challenging and volatile times ahead, but we are also convinced – and this is borne out by our track record – that we have the right approach and all the right elements in place to come out of this stronger. All of these elements are embedded in the ALI Way, are timeless in their value, and serve as our compass as we navigate these difficult times. Market conditions, as challenging as

Ayala Center

*Based on modified income statements where business segment performance has been grossed up before intersegment consolidation adjustments and therefore includes the full-line consolidation of the financial results of investee companies accounted for under the equity method in our statutory reporting accounts they are, play to our institutional strengths and we believe that our approach works particularly well during times like these. All our commitments remain and as we face the anticipated turbulence in these market cycles, we will redouble our efforts and make sure that we deliver on these commitments.

Finally, let me take a moment to express my deepest gratitude to Mr. Jaime I. Ayala, our departing President and Chief Executive Officer as he embarks on a new and exciting assignment with Ayala Corporation, our parent holding company. Jim has presided over a period of unprecedented growth and profitability at your Company, achieving 130% revenue growth and 80% earnings growth over the past five years. His track record at Ayala Land speaks for itself and in addition to the record financial results, he has also presided over the launch of two new sustainability-oriented cities in Bonifacio Global City and NUVALI and made significant new forays into new business lines such as leisure and tourism and new geographies such as Thailand, India and China. Jim will be involved in a number of new strategic initiatives at the parent company level, where his deep international experience and success at Ayala Land will be invaluable.

Taking his place will be Mr. Antonino T. Aquino, who is coming off a very successful stint as President and CEO of Manila Water Company where he led one of the most remarkable transformations of a public service company and one of the most awarded and celebrated success stories in Philippine corporate history. Tony is also a previous senior executive at Ayala Land prior to Manila Water and we have every confidence that his familiarity with the business and strong operating experience honed in Manila Water will enable him to be equally successful in navigating the challenges faced by your Company during these turbulent times.

On behalf of the Board of Directors, let me take this opportunity to thank Jim and wish him the best of luck in his new assignment and also welcome Tony back into the Ayala Land family. We wish to extend our gratitude as well to the rest of the management team and all our employees for your hard work and perseverance, and our shareholders, customers, and partners for your continued support.

Thank you and we look forward to Ayala Land's next 20 years!

Focused Strategy and Execution

"Amid the market uncertainty and the challenges that the industry faced in the latter half of 2008, your Company delivered another solid performance and posted new record highs in terms of both consolidated revenues and net income."

Jaime I. Ayala
President

To Our Valued Shareholders,

We are very pleased to report that despite the global market turbulence and decline in equity markets, 2008 was another banner year for Ayala Land, Inc. Already the market leader, your Company was able to achieve record financial and operating results last year while further strengthening our capabilities and market position across the board. With a robust balance sheet and healthy cash flows, a strong line-up of brands and products, an unparalleled strategic landbank, an unmatched professional and experienced organization, and strict governance standards, your Company is well positioned to navigate this downturn in the property cycle.

2008: A RECORD YEAR, A STRONGER COMPANY

First and foremost, let me update you on how the Company fared last year. Amid the market uncertainty and the challenges that the industry faced in the latter half of 2008, your Company delivered another solid performance and posted new record highs in terms of both consolidated revenues and net income. Fittingly for the commemoration of your Company's 20th year anniversary, our net income reached an all-time high of P4.8 billion coming from revenues of P47.0 billion*, surpassing 2007 levels by 10% and 17%, respectively. The details of our financial performance will be discussed at length in our Chief Finance Officer's report, which begins in the next section of this annual report.

We are also pleased to note that aside from posting record financial results, we have achieved very positive operating results in each of our key businesses. This is a direct result of a fairly aggressive investment strategy in which we spent P18.9 billion in capital expenditure – our highest ever – across our various strategic business units.

Strategic landbank: priming activity and enhanced portfolio delivers strong results

2008 was a year in which we were able to make significant progress in our strategic landbank with capital values rising as a result of our continued priming and redevelopment initiatives. More importantly, we are seeing the crystallization of major new fronts, particularly NUVALI and Bonifacio Global City (BGC), where we aim to replicate our success in Makati.

We touch the lives of **1.4 million** people everyday.

Tower One and Exchange Plaza at the heart of the MCBD

225,000 live in our residential communities

175,000 work in our office buildings, shopping centers, and industrial parks

1 million visit our malls on a daily basis

*Based on modified income statements where business segment performance has been grossed up before intersegment consolidation adjustments and therefore includes the full-line consolidation of the financial results of investee companies accounted for under the equity method in our statutory reporting accounts

Greenbelt 5

The total GLA of our leasing portfolio is equivalent to the size of 31 Yankee Stadiums

The brisk demand for NUVALI lots since we soft-launched in late 2007 underscores the success of our sustainable approach to development. Land values in the area have risen by an average of more than 20% for residential lots and reached new highs for commercial properties in just the span of a year, enabling your Company to capture a significant amount of value from what was just raw land two years ago. With significant development activity already proceeding, we will be unveiling the lakeside Evoliving Center this year in order to showcase our concept and vision for the area to prospective investors and customers. The business process outsourcing (BPO) campus – the first of its kind with an attractive lakeside setting – is being developed and will soon house key locators and retail outlets, effectively establishing the first of NUVALI's planned commercial districts.

While sales momentum in the area slowed down in the second half of 2008 as a result of the global market uncertainty, we nevertheless remain very excited about the pace of development in the area and remain confident that NUVALI will set a very high benchmark for future mixed-use community and township developments, especially with respect to environmental sustainability.

Glorietta 5

In BGC, selling prices for prime city center lots reached P225k per square meter in 2008, closely approaching Makati capital values on an accommodation value basis. Fort Bonifacio Development Corporation, where we hold a 22.6% stake, sold a total of 1.8 hectares in BGC, lower than the 4.5 hectares sold the previous year but for prices that were on average 39% higher. We deliberately slowed down the pace of lot sales in the area as we feel that the ongoing priming activities will redound to even higher land values in the coming years. BGC has already clearly established itself as one of the most attractive retail, dining, and entertainment destinations in the metropolis.

Meanwhile in Makati, capital values also rose on average 3% compared with the previous year, highlighted by some third-party sale transactions along Ayala Avenue which reached a high of P320k per square meter. We also realized P 761 million in after-tax capital gains from the sale of our shares in a company that owned a 5,125-square meter property along Valero Street in March 2008. This was the highest value we have obtained for a peripheral lot sale since the market recovered after the 1997 Asian financial crisis.

Residential: strong portfolio and healthy inventory

In our residential business, the strength of our brands and the depth of our product line-up enabled us to achieve positive results, driven by strong sales take-up and bookings in the first half of the year. The organizational realignment which we put in place two years ago have given us three strong platforms for addressing our different target markets and in 2008, we embarked on year-round brand strengthening campaigns that more crisply defined each brand's identity and value proposition. As a result, we have been able to increase their affinity with their target customers, creating a portfolio of powerful brands and attractive offerings that are uniquely differentiated from one another.

We launched a total of 4,238 units from 4 new projects and 14 new phases – the 3rd highest total over the last five years. Our offerings in NUVALI particularly Abrio, Treveia, and Avida Settings continued to enjoy strong market

"We have made great strides in strengthening our position in the affordable and middle-income segments."

differentiation and buyer interest – a testimony to the growing acceptance for our pioneering efforts in promoting green living. New condominium developments in BGC, which includes the East Tower in One Serendra, Aston and Red Oak, as well as Senta in Makati, also posted strong sales take up as these locations remain the prime choices of customers who prefer a more metropolitan lifestyle.

We have made great strides in strengthening our position in the affordable and middle-income segments as marketing efforts for our Alveo and Avida lines further boosted brand value and awareness, both domestically and abroad. Sales bookings for both brands were 11% and 24% higher year-on-year, respectively, as both domestic and Overseas Filipino (OF) demand remained strong for our more affordable product offerings, especially in areas like the Middle East. Unfortunately, the US credit crunch and subsequent recession reduced buyer demand significantly and bookings from US-based OFs were 43% lower compared with the previous year. This was a significant factor in the lower sales bookings for Ayala Land Premier as the US has traditionally been a high-end market, especially for our residential condominium products.

Apart from the demand impact of the global crisis in the second half of 2008, our residential business was also affected by high inflation in many construction materials as well as rising fuel prices and wages; the impact of which was most felt in the third quarter. Thankfully, cost-push inflation began moderating in the fourth quarter and we were able to implement several price increases across our three brands to mitigate their impact. The net effect is that our residential EBIT margins actually improved, ending with a full-year average of 20% compared with 19% the previous year. We remain cautious for 2009 and our posture will be to preserve our margin gains while calibrating our planned residential launches very carefully in line with both domestic and OF demand. This will be critical especially in the high-rise condominium segment where the inherent contingent risks can be significant in a difficult market.

Leasing: growth in recurring income

While we have been taking full advantage of the industry tailwinds these past few years in our residential development and strategic landbank management businesses, we have also been aware that our industry is inherently cyclical in nature, and that down cycles, such as the one we have experienced since the second half of 2008, are inevitable. To help stabilize the Company's cash flows and net income during difficult periods, we have made a deliberate effort to grow our recurring income base by further expanding our leasing operations. To this end, we continued to make steady progress in 2008.

In our shopping center operations, where we aim to provide not just convenience but rather a range of rewarding lifestyle experiences, our differentiated approach has been met with strong consumer and merchant preference, providing us with a stable source of growth. We have opened the retail component of the newly refurbished Glorietta 5 that contributed an additional 9,600 square meters of mall gross leasable area (GLA) as well as the second phase of Greenbelt 5 which adds 17,000 square meters of prime lifestyle center GLA at the heart of Makati and effectively completes the initial phase launched in 2007. Outside the Greater Manila area, we are nearing completion of the MarQuee Mall in Angeles City, Pampanga as of end-2008. This is our first provincial shopping center foray outside Cebu and is expected to open by late 2009. MarQuee Mall will add 38,000 square meters of shopping center GLA to our stock and, more importantly, broaden our reach and allow us to tap into the increasing consumer demand and sophistication in a rapidly expanding economic growth corridor at the heart of Central Luzon.

With Philippine economic growth expected to be driven by consumption spending and as the peso value of OF remittance inflows are expected to remain robust in 2009, we believe that our greatly differentiated shopping center expansion plan, through which your Company now owns or manages more than one million square meters in GLA, will serve us in good stead as we navigate through these challenging times.

"To help stabilize the Company's cash flows and net income during difficult periods, we have made a deliberate effort to grow our recurring income base by further expanding our leasing operations."

Meanwhile, our corporate business also generated favorable performances this past year from our traditional headquarter (HQ) and BPO office segments. Average lease rates in our four HQ office buildings reached P746 per square meter per month, 12% higher year-on-year as expiring contracts were renegotiated at better rates. New contracts negotiated in Tower One & Exchange Plaza reached a high of P1,250 per square meter per month, the same level achieved prior to the 1997 Asian financial crisis. While HQ office supply in Makati remained tight with a year-end 2008 vacancy rate of just 2% and no new supply, we anticipate that near-term growth in lease rates may come under some pressure from the slowdown in economic growth and the more affordable options available in some other business districts.

Riding on the global secular trend through BPOs, we completed our BPO office capacity build up as programmed last year – increasing our available BPO office GLA more than five-fold, from 35,800 square meters at the end of 2007 to 200,800 square meters by the end of last year. Six of the ten campus-type BPO office buildings in UP ALI Technohub (approximately 68,500 square meters GLA), Vertex in San Lazaro, Manila (19,000 square meters) and Solaris One in Makati (47,000 square meters) were completed last year, mostly in the fourth quarter. Of the additional GLA that became available in 2008, 35% was already leased out by the end of the year, with tenants in various stages of either fit-out or rental commencement.

While we remain positive on the long-term fundamentals and growth prospects of the Philippine BPO sector, this is an area that we are watching closely as demand growth is slowing down in the near-term and there is significant supply that will come on-stream from other developers in 2009. The recession in the US and in particular the impact of the credit crisis on global financial institutions has resulted in some

2.7 million square meters GFA of completed and ongoing projects in Bonifacio Global City, already equivalent to half of the MCBD


Bonifacio Global City

short-term dislocations which have negatively impacted demand. Since our BPO spaces are sufficiently differentiated and value-adding to our tenants, we are confident that we will be able to fully lease-out our available GLA at better rates than competition; however, we will temper our expansion plans until we get better visibility on the demand-supply balance. We will, however, continue with our planning activities and prepare our BPO sites to be on "push-button" mode so that we will be able to act quickly as overcapacity shrinks.

Driving competitive advantage: healthy support businesses and a stronger organization overall

Our support businesses performed well last year and remain integral to our business model, helping us sharpen our competitive advantage and strengthen our overall value proposition across our diverse operating platform. Collectively, they generated P12.4 billion in revenues for 2008, 38% more than the amount posted in the previous year with the bulk of the growth coming from increased construction activity and accomplishment.

In 2008, Makati Development Corporation (MDC) – already the country's largest construction company – accounted for the bulk of our construction accomplishment for the year, providing our projects with a key competitive advantage in quality, cost, and speed to market. In addition, MDC further strengthened its reputation as a world-class contractor and construction management company by significantly growing their third-party order book, with revenues from external contracts growing 28% year-on-year. Their work on St. Luke's Hospital in BGC is nearing completion while the expansion of the Continental Temic in Laguna was completed at the end of 2008 – both contributing significantly to their revenue growth for the year.

Ayala Property Management Corp. (APMC) also continued with its strong support role, ensuring that both Ayala-developed and third party facilities are well maintained, safe and attractive to live and work in, enriching homeowner and tenant experiences and enhancing values over time. APMC continues to grow with the number of facilities under management reaching 176 in 2008, making it the largest property management company in the country today. Meanwhile the performance of our hotel portfolio, comprised of the Hotel InterContinental Manila and the Cebu City Marriott, was steady relative to the previous year as higher average room rates resulting from recent renovations offset a decline in average occupancy rates.

Year in and year out, we have made great strides in strengthening our competitive standing across the entire organization and our 2008 results bear this out – we now have a portfolio that can deliver tremendous value from our new and existing developments, significant scale in our leasing businesses to help us ride the cyclicality of our development business, and a healthy cash flow position and robust balance sheet that can enable us to make opportunistic investments for future growth. Taking these all together, we have established for you a stronger Company that is very well-positioned to weather the turmoil and at the same time poised for a market recovery when it comes.

2009: PREPARED FOR THE DOWNTURN

While your Company achieved record financial results and delivered a robust operating performance in 2008, we are all keenly aware that the environment in which we operate now is very different from just a year ago. Some of the world's largest economies have already fallen into a recession, with the rest showing signs of a slowdown. As the highly interlinked global economy succumbs to a period of financial distress and volatility, we recognize that our ability to grow and deliver shareholder value at the same pace as that which we saw in the last few years will likely be affected as well.

While the Philippines has so far fared better than most and is likely to avoid the credit crunch that has crippled other major economies, the uncertain environment has already had a pronounced impact on the real estate sector beginning the second half of last year. A large

U.P.-AyalaLand TechnoHub in Diliman, Quezon City

P18.9 billion

Spending power of total workforce in our BPO developments part of what has made your Company survive and thrive through the decades is our unique ability to anticipate the changing winds and adjust our operating plans accordingly.

The uncertainty surrounding the current business landscape has required us to adjust our strategies – placing a bias towards preserving capital, managing risks, and containing costs over short-term profitability without sacrificing long-term value creation. To this end, our priorities for 2009 will be as follows:

Staying liquid with capacity to meet commitments

Despite the market uncertainty, 2009 will actually be one of our busiest years ever in terms of construction activity and delivering on our commitments. We are currently in the midst of executing 129 projects simultaneously that we have committed to complete on time. As we complete and turn over projects launched in recent years, we expect to spend P17.4 billion in capital expenditures this year, requiring us to manage our liquidity much more closely amid this period of intense activity. With a healthy total ALI Group cash position of P16.7 billion and an active funding program already in place, we are very confident that we will have the cash not only to meet our promises, but also to be able to invest in attractive opportunities. More details on our balance sheet and funding programs will be discussed in the report of our Chief Finance Officer (CFO), which begins on page 26.

Tailoring sales efforts to segments in line with the downturn

The changing landscape will usher in a new set of parameters and we have adjusted accordingly to cushion the impact of the downturn, capitalizing on our brand strength and flight to quality to capture market share.

Our residential business has already been making adjustments which will help cushion the downturn. For example, we are refocusing our overseas sales efforts towards OFs from Middle East and Asian countries where currently demand is stronger than areas like the US. As majority of consumers also has a tendency to trade-down during periods of uncertainty, we are likewise shifting our product focus in terms of volume towards the more affordable products offered by Alveo and Avida. Ayala Land Premier, however, will continue to dominate the high-end segment through sharper differentiation in terms of product and service specifications. Together with this strategic realignment, we are using this period as an opportunity to further raise brand awareness by intensifying our sales and marketing efforts and holding more targeted selling events. In line with the times, we are also tailoring the focus of our launches more on horizontal developments and less on vertical projects and highlighting in our campaigns the unique value of land as an inflation hedge and a proven store of value.

On the leasing side, we are likewise enhancing our competitive position in our BPO buildings under construction by sharpening product offerings and strengthening differentiation further. We believe that we have a unique model that allows our locators to reduce their occupancy costs and improve their competitive advantage, especially when it comes to talent recruitment and retention. This includes the provision of integrated retail establishments, affordable dormitory-type housing, sports, social facilities, and events that help locators address high employee turn-over by creating places where agents prefer to work. Because of our compelling value proposition, we are able to attract larger, proven and more stable locators, lock in longer term contracts, keep our occupancy rates high, and justify a premium pricing to competition.

Managing risks and contingent liabilities

Our business model inherently requires us to take on measured risks from the development stage to actual product delivery and these risks are clearly more pronounced during down cycles where there is a great deal of uncertainty with respect to pricing, sales performance, cash collection, as well as rental and occupancy rates for investment properties. To mitigate and manage these more effectively, we are pursuing a more proactive risk management stance at the corporate level and throughout our various business units.

In line with the likely contraction in market demand and possible tightness in the credit

"A large part of what has made your Company survive and thrive through the decades is our unique ability to anticipate the changing winds and adjust our strategies and operating plans accordingly."

markets, we have adopted a more conservative approach to new project launches. We have revised our feasibility plans in light of new realities and will prioritize investments with quick cash turnarounds that bear low risks and limit our exposure to larger scale projects until the markets recover. For projects that meet our tight investment criteria, we are shifting our funding mix more in favor of equity while also securing any required debt financing prior to launch to effectively limit our risk exposure.

We intend to stagger new commitments for the remainder of our pipeline and limit the number of projects running at any given time to further reduce our risk profile and ensure that your Company will not be vulnerable in case of a protracted slowdown. Despite the expected slowdown, our revenue pipeline for the next two years will actually remain robust as we progress with construction accomplishment on current projects. We therefore need to focus attention on sharpening our execution on existing projects and ensure on time delivery on all our customer commitments. With substantial inventory across our major segments, our priority will be to clear out our current positions to generate additional cash before we embark on new launches.

In the meantime, we will continue planning projects and building our capacity for the future but these will be subjected to much more demanding financial hurdles and parameters. A number of our projects have already been relegated to "push-button" mode, ready to be launched as soon as we get clearer visibility on a market rebound so that we do not lose our ability to capitalize on the upswing of specific segments.

Driving down costs

In addition to managing our contingent liabilities, we are also keeping our house in order and managing our costs and expenses much more stringently. With pressure on margins lingering, we need to be more aggressive at cost containment efforts without sacrificing quality or affecting our ability to execute and deliver.

Areas where we believe will generate significant savings are in our corporate overheads and direct operating expenses. We have already begun to identify and implement areas for potential savings and reduced wastage and we have integrated this into our budget process to ensure that we are able to track and monitor cost reductions effectively. For example, we are limiting the hiring of new personnel and instead focused on increasing the productivity of our current workforce. Across our facilities, we are also constantly reviewing our operations and procedures to ensure that these are running in the most cost-efficient way possible. We will also be implementing a range of cost initiatives in utilities management and other overheads to further bring down expenses.

Across the entire ALI Group, we are making efforts to improve our cost structure by identifying and enhancing synergies through outsourcing and shared services, streamlining of processes, reorganization, and expanding cross-functional roles. The establishment of Amicassa Process Solutions is a prime example of a shared support services scheme which was implemented across our three residential brands last year that will enable us to generate savings moving forward. The CFO report in the next section discusses our spend management and cost reduction initiatives in greater detail.

Managing resources with an eye for opportunities

While effectively managing our risks is our top priority, we are nonetheless also keenly aware that challenging and volatile times bring about unique investment opportunities. Prime assets that would normally never become available could find their way into the market and it is a fact, as mentioned by our Chairman in his message, that some of our best acquisitions have come during downturns. A more efficient control and management of our available cash and liquidity not only allows us to reduce our risk profile, but also affords us the possibility of quickly deploying capital should attractive opportunities present themselves.

Continue priming our strategic landbank areas

Apart from looking for new investment opportunities, we will also continue investing in our three strategic landbank areas as these continue to provide attractive growth platforms and redevelopment opportunities which will ultimately allow us to build and harvest more value when the time is right.

In Makati, the major redevelopment of Ayala Center has already started and while the area is already recognized as the country's leading mixed-use development hub, this will allow us to further improve the Center's retail flagship positioning, introduce additional office and hotel locators, and free up land for high-end residential development. All in all, this will strengthen Ayala Center's reputation as the central business district's (CBD's) preferred convening point. We are also now carefully master-planning the next phase of Ayala Triangle's development in order to solidify its presence as the country's most prestigious address and the apex of Makati.

The rapid pace of development in BGC is likewise expected to strengthen the area's positioning as an attractive alternative CBD that is complementary to Makati. With the coming addition of a six-star Shangri-La hotel, the completion of the world-class St. Luke's hospital, a world-class science center which will be known as the "Mind Museum", several planned headquarter and BPO type office buildings, and improved transportation linkages, BGC is well on its way to being a full-fledged CBD.

Meanwhile, NUVALI is fast shaping up to be the model for sustainable living on many fronts and, as we roll-out our development blueprint for the area, this will present us an enormous inventory of valuable assets. We will be discussing our initiatives in these three areas in greater detail in the section entitled "Long-term Orientation", which begins on page 34.

Looking ahead, it is difficult to predict with any degree of certainty just how long, and how deep, this down market will turn out. Scenarios and assumptions are constantly changing but one thing we know for sure is that we have been through times like these many times before and our track record clearly shows that we know how to adjust and navigate through these uncertain times. We cannot predict where share prices will be 12 months from now but we can, and we will, keep our focus on delivering results and reinforcing the fundamentals that redound to long-term shareholder value creation.

One thing that clearly sets us apart is that we have a very experienced group of managers who have seen it all and work very effectively as a cohesive team. Collectively they have been through many cycles like this before and they have the patience, experience and dedication to know what needs to be done and get your Company through this. I am confident that we are prepared and that we will continue to anticipate and be proactive. While we face an uncertain future, I am certain in the knowledge that we will emerge stronger than ever.

Finally, I would like to personally thank the Board, the management team, all of our employees and shareholders who have made the last five years a rich and rewarding experience. We have been through both good and challenging times and I believe that we have together built a strong and enduring Company. As already mentioned by our Chairman, I will be moving on to take a new role at Ayala Corporation, our holding company, to help guide and be involved in a number of strategic initiatives during this time of unprecedented risk and opportunity. I hope that you will all be able to extend the same level of support and commitment to my successor, Mr. Tony Aquino. Under his leadership, I have every confidence that your Company will remain as solid and successful as ever.

Thank you.

Financial Strength and Prudence

"The Company was able to leverage on the strength of its portfolio and financial discipline to deliver a second successive record year, despite a difficult and turbulent economic environment."

Jaime E. Ysmael
CFO

I am very pleased to report that for 2008, the Company was able to leverage on the strength of its portfolio and financial discipline to deliver a second successive record year in terms of financial results, despite a difficult and turbulent economic environment that challenged our various businesses in the second half of the year.

The following discussion on the Company's financial performance is based on modified income statements where business segment performance has been grossed up before intersegment consolidation adjustments and therefore includes the full-line consolidation of the financial results of investee companies accounted for under the equity method in our statutory reporting accounts.

RECORD EARNINGS DESPITE MARKET VOLATILITY

As mentioned in the Chairman and President's messages, 2008 was once again marked by a new all time-high for the Company in terms of consolidated revenues and net income. Total revenues increased to P47.0 billion, 17% higher than the comparable figure for 2007, following significant top-line gains across our major businesses particularly in the residential, shopping center and construction segments. Advancing construction completion on booked residential units and strong growth in bookings in our middle-income and affordable brands, increasing occupancy and lease rates in TriNoma and Market!Market!, as well as significant construction accomplishment on both internal and external projects, drove revenue growth for the year.

Meanwhile, cost of sales and direct operating expenses (DOE) rose from P27.9 billion to P32.8 billion – an increase that matched that of overall revenue growth at 17% year-on-year. However, a one-time expense associated with our corporate restructuring led to a 27% increase in General and Administrative Expenses (GAE), to P3.4 billion, slightly reducing the pace of growth in earnings before interest and taxes (EBIT) to 15% for 2008. A series of price adjustments implemented across our three residential brands and rental increases in both our shopping center and office portfolio, aided by DOE and GAE related cost reduction initiatives, enabled us to preserve the revenue gains across our various business lines. This allowed us to maintain our overall EBIT margins at 23.0%, largely at par with the 23.5% margins we achieved in 2007. Provision for income tax meanwhile rose 20% to P3.3 billion as taxable income for the period was higher and as the adjustment in the corporate income tax rate from 35% to 30% effective January 2009 necessitated the write-down of certain deferred tax assets prior to year-end.

The combination of robust top-line growth, especially in the first half of the year, and deliberate cost control initiatives resulted in the Company posting a record net income after tax (NIAT) of P4.8 billion, 10% higher than the previous year. Even more impressive was the growth in core operating earnings – which exclude the NIAT impact of large transactions – as the P4.1 billion achieved in 2008 was P1.0 billion, or 30% higher, than the previous year.

STRONG FIRST HALF IN DEVELOPMENT BUSINESS AND IMPROVED PERFORMANCE IN LEASING PORTFOLIO

Financial performance for 2008 was robust across our key business areas especially with a very strong first half from our residential and strategic landbank businesses and with improved operating performance across our shopping center and

P40 billion
Annual sales generated by Ayala Malls' merchants in 2008

CONSOLIDATED INCOME STATEMENT BY BUSINESS SEGMENT

2008
(in P million)

	Strategic Landbank Management	Residential Development	Shopping Centers	Corporate Business	Visayas-Mindanao	Support Businesses	Corporate	TOTAL Before Conso Adjustments	Conso Adjustments	TOTAL
Revenues	9,606	15,100	6,603	1,753	1,566	12,368	0	46,997	(13,248)	33,749
Cost of Sales/DOE	5,162	10,996	3,762	707	888	11,259	0	32,774	(11,487)	21,286
NOI	4,444	4,104	2,841	1,047	678	1,109	0	14,223	(1,760)	12,463
GAE	131	1,080	470	146	205	325	1,076	3,433	(144)	3,289
EBIT	4,313	3,024	2,371	901	473	785	(1,076)	10,790	(1,617)	9,174
Interest							393	393	(2,119)	(1,726)
Provision for Income Tax							(3,255)	(3,255)	1,190	(2,065)
NIAT							(3,938)	7,928	(2,546)	5,383
Minority Interest							(3,069)	(3,069)	2,498	(570)
NIAT to Equity Holders							(7,006)	4,860	(48)	4,812

2007
(in P million)

	Strategic Landbank Management	Residential Development	Shopping Centers	Corporate Business	Visayas-Mindanao	Support Businesses	Corporate	TOTAL Before Conso Adjustments	Conso Adjustments	TOTAL
Revenues	9,317	13,103	5,625	1,655	1,365	8,943	0	40,008	(14,301)	25,707
Cost of Sales/DOE	5,980	9,790	3,153	749	872	7,354	0	27,898	(12,755)	15,143
NOI	3,337	3,313	2,472	905	493	1,590	0	12,110	(1,546)	10,564
GAE	85	818	428	86	178	269	838	2,702	13	2,715
EBIT	3,252	2,495	2,044	819	315	1,320	(838)	9,408	(1,559)	7,849
Interest							(431)	(431)	(1,365)	(1,796)
Provision for Income Tax							(2,705)	(2,705)	1,148	(1,557)
NIAT before Oakwood							(3,974)	6,272	(1,776)	4,496
Income from Oakwood (net of tax)									599	599
NIAT							(3,974)	6,272	(1,177)	5,095
Minority Interest							(1,849)	(1,849)	1,140	(709)
NIAT to Equity Holders							(5,823)	4,423	(37)	4,386

office investment properties. The succeeding sections discuss each business line's contribution to the Company's overall financial performance.

Strategic Landbank Management

Our Strategic Landbank Management Group (SLMG) posted P9.6 billion in revenues last year, 3% higher than in 2007, and accounted for 20% of total revenues. In Makati, we were able to extract significant value in March as we realized a pre-tax gain of P761 million from the sale of shares in Piedmont Property Ventures, Inc., Stonehaven Land, Inc., and Streamwood Property, Inc. that collectively owned a 5,125-square meter piece of land along Valero Street.

NUVALI meanwhile became a significant contributor for the first time following its highly successful soft launch late in 2007. Significant construction completion on Abrio, Treveia and Avida Settings NUVALI, together with the sale of nine commercial lots at an average price of P26,800/square meter, accounted for the bulk of revenues contributed by SLMG in 2008.

The strong contributions from Makati and NUVALI effectively offset the 11% decline in revenues generated by Fort Bonifacio Development Corporation (FBDC), which saw the total value of land sales drop from P4.9 billion in 2007 to P2.7 billion last year. Accommodation values and average prices of lots sold in Bonifacio Global City increased by 8% and 39% to P14,000 per square meter and P150,500 per square meter, respectively, but there was a deliberate decision to slow down the pace of lot sales as we feel that there remains significant upside potential with the continued priming activities in the area (discussed in more detail in the President's Report and the Long-Term Commitment section of this annual report). As a result, only 1.8 hectares of lots were sold in 2008 – the most significant of which was the sale of a 15,120-square meter lot to the Shangri-La Hotels group at P178,000 per square meter – compared with a total of 4.5 hectares in 2007. We have also been able to increase our effective stake in FBDC in 2008 from 20.5% to 22.6% by purchasing FBDC's cross-holdings in Bonifacio Land Corporation.

With the bulk of SLMG revenues coming from the sale of higher margin lots that already reflect the value appreciation from past and ongoing priming efforts, EBIT jumped 33% to 4.3 billion with EBIT margin rising to 45% from 35%.

Residential Development

Despite a very challenging environment brought about by the global financial crisis, our residential business group delivered solid results with P15.1 billion in revenues for 2008, 32% of total and 15% higher year-on-year. Strong sales bookings in Alveo and Avida, particularly in the first half of the year, coupled with rising completion rates on projects launched in the previous two years helped offset the slowdown experienced by Ayala Land Premier (ALP).

A total of 4,238 units were launched in 2008 from four new projects and 14 expansion phases, 18% lower than the record 5,182 units launched in 2007 as we recalibrated and deferred the timing of launch for some projects as market conditions shifted. The total value of sales take-up fell 12% to P18.4 billion following the general weakness in the second half of the year, with ALP recording a decline of 35% that more than offset the 4%

P5.6 billion
Amount of national and local taxes we paid in 2008

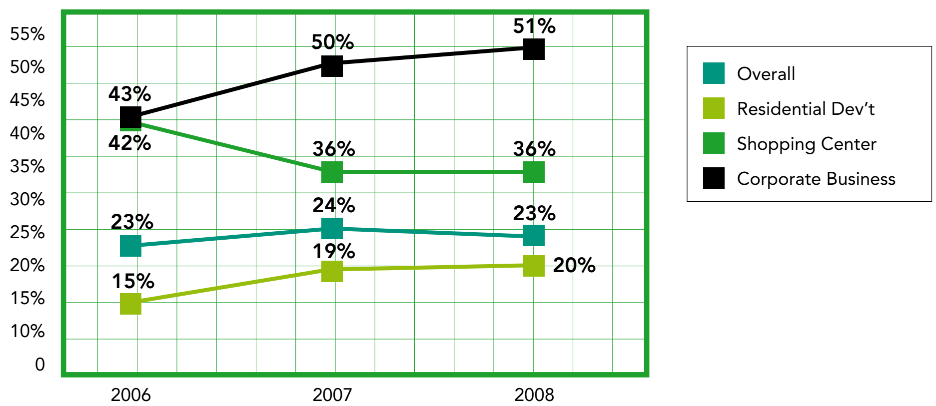
growth in Alveo and 20% gain in Avida. Similarly, the value of sales bookings for the year also contracted 8% to P14.7 billion. Total sales to Overseas Filipinos (OF) meanwhile registered a 25% decline for the year to P4.5 billion, with its share of total residential sales dropping to 24% from 32% in 2007 as key markets such as the US and Asia were significantly affected by the global financial crisis.

Residential EBIT reached P3.0 billion, 21% higher than in 2007 as EBIT margins posted a slight gain to 20% compared with 19% the previous year. Efforts to reduce direct operating expenses and a series of price adjustments for the year was implemented across our different projects, effectively offsetting the significant rise in construction material costs that we saw in the third quarter.

Shopping Centers

The Ayala Malls Group registered a total of P6.6 billion in revenues for 2008, 14% of total and a robust 17% higher year-on-year. The improved performance of TriNoma and Market!Market! as well as the increasing contribution of recently opened Greenbelt 5 more than offset the continued closure of Glorietta 2 and Park

EBIT Margins remained healthy despite cost pressures



Square 2 related to the ongoing Ayala Center redevelopment as total average occupancy rates for all malls increased from 89% in 2007 to 92% in 2008. TriNoma in particular saw its average occupancy rate increase from 71% to 91% and its revenue contribution also benefited from a significant increase in average lease rates (up 19% to P1,353 per square meter per month) and the full-year effect of its 2008 operations. Lease rates for all shopping centers increased by an average of 4% in 2008 to P1,099 per square meter per month.

The EBIT contribution of the Ayala Malls Group amounted to P2.4 billion in 2008, 16% higher year-on-year in line with revenue growth. EBIT margins remained stable at 36% as the loss of high-margin Glorietta 2 and the start-up operations of Greenbelt 5 were offset by improved margins in TriNoma, Market!Market!, Ayala Center Cebu and Bonifacio High Street.

Corporate Business

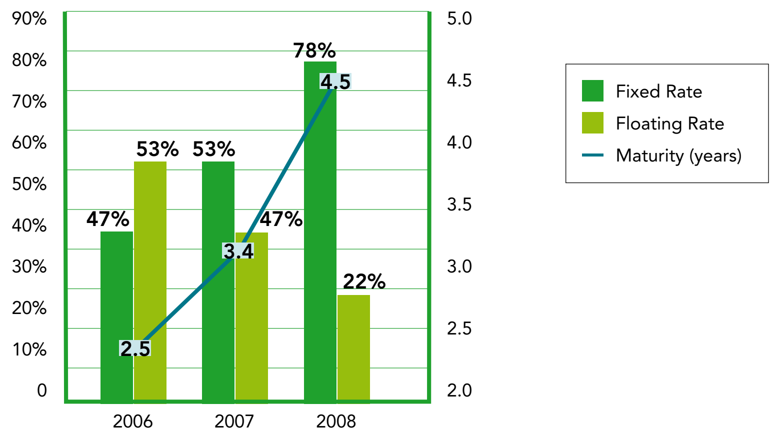
Our office portfolio – comprised of traditional headquarter (HQ)-type office buildings, business process outsourcing (BPO) buildings, and industrial park lots – delivered a 6% increase in revenues for 2008 to P1.8 billion and accounted for 4% of total. Lease income from HQ buildings went up by 18% year-on-year as average rental rates increased by 12% to P746 per square meter per month. Renegotiated contracts for Tower One peaked at P1,250 per square meter in the third quarter, similar to pre-1997 crisis levels but are expected to temper moving forward given the challenging economic conditions.

Leasing revenues from BPO buildings meanwhile improved by 59% due to rental escalations and the impact of four newly operational buildings in the U.P.-Ayala Land TechnoHub. Available BPO GLA by year-end 2008 increased more than five times to 200,800 square meters, with average monthly rental rates increasing 7% to P478 per square meter. Average weighted occupancy rates for the year dropped however from 100% to 79% due start-up operations at U.P.-AyalaLand TechnoHub which saw rental commencement at various stages only in the second half of the year.

While the performance of the office building portfolio was very positive, overall revenue growth was tempered however as total industrial park lot sales in Laguna Technopark dropped from 9.3 hectares in 2007 to 5.8 hectares in 2008 as several prospective buyers deferred their lot purchases due to the prevailing economic conditions.

Total EBIT rose 10% to P901 million with EBIT margins improving slightly from 50% in 2007 to 51% last year. Margin gains from the increased rental rates in the office portfolio and lower lot sales (which carry lower margins) were offset by delayed fit-out and rental commencement of some tenants in U.P.-AyalaLand TechnoHub as well as by some one-off expenses related to the group's re-branding initiatives last year (discussed in page 46 of this report). We were able to take

Increased proportion of fixed rate loans and stretched maturity to manage interest rate and refinancing risks



advantage of the opportunity to increase our stake in ALI Property Partners Holdings Corp. – our joint venture holding company for some of our BPO investments – from 36% to 68% by purchasing the shares of Filipinas Investment, Ltd. This will allow us to have a bigger share in the upside from our BPO investments especially as we continue to believe that the long-term fundamentals and growth potential of this industry remain attractive.

Visayas-Mindanao

Our geographic operations in the Visayas-Mindanao area also performed well in 2008, generating P1.6 billion in revenues, 15% higher than the previous year. Sales of residential lots in Ayala Northpoint, Plantazionne Verdana, and Alegria Hills dropped but was more than offset by increased commercial lot sales. A total of 2.7 hectares of commercial lots were sold in 2008 in Cebu Business Park and Asiatown IT Park, nearly double the 1.5 hectares sold in 2007. The redevelopment of Ayala Center Cebu also contributed to revenue growth with 5% higher average lease rates and an increase in occupancy rates from 93% to 97%. EBIT margins meanwhile improved from 23% to 30% due to the higher margins on commercial lot sales.

Support businesses

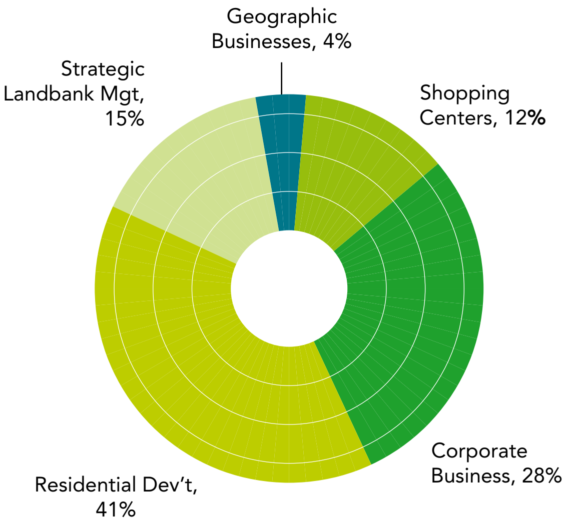
Overall, our support businesses also contributed strongly last year as Makati Development Corporation (MDC), Ayala Property Management Corporation (APMC) and Ayala Hotels, Inc. (AHI) delivered P12.4 billion in aggregate revenues, up 38% year-on-year and accounting for 26% of total.

MDC posted 57% higher revenues to P10.2 billion due to significant construction completion from both its internal and external order books that include, among others, NUVALI residential projects, the U.P.-AyalaLand TechnoHub buildings, and St. Luke's Hospital in BGC. EBIT margins in construction dropped however from 5% to 4% due to the rise in the cost of construction materials, in particular steel, that had a significant impact in the third quarter of last year.

Project and Capital Expenditures

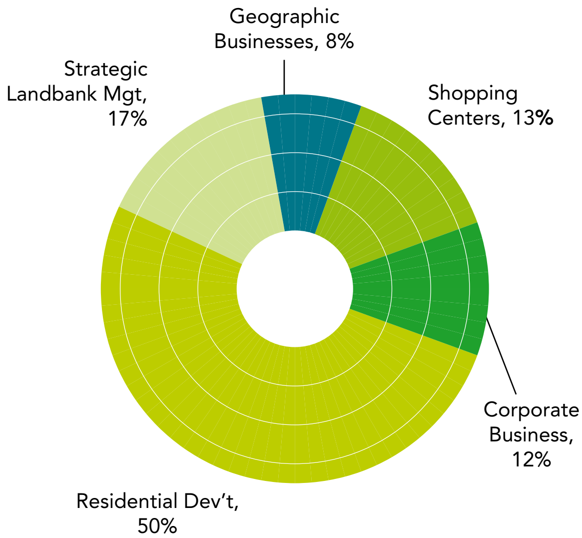
Record spending in FY08 with FY09 plan remaining high

FY08 ACTUAL



Php 18.9 billion

FY09 PLAN



Php 17.4 billion

Revenues from AHI on the other hand dropped significantly by 33% to P1.3 billion as the 2007 revenues of P2.0 billion were boosted by capital gains from the sale of Oakwood to the Ascott REIT. Net of capital gains, revenues were slightly lower as higher average room rates from the recent renovations at Hotel InterContinental Manila and Cebu City Marriott Hotel were offset by lower average occupancy rates. Revenues meanwhile for APMC was slightly lower in 2008 at P874 million than what it recorded in 2007 as the closure of Park Square 2 for the Ayala Center redevelopment offset the increase in parking rates implemented in its other carpark operations. EBIT margins were marginally lower at 9%, from 10% the previous year.

CAPITAL EXPENDITURES REACH AN ALL TIME-HIGH

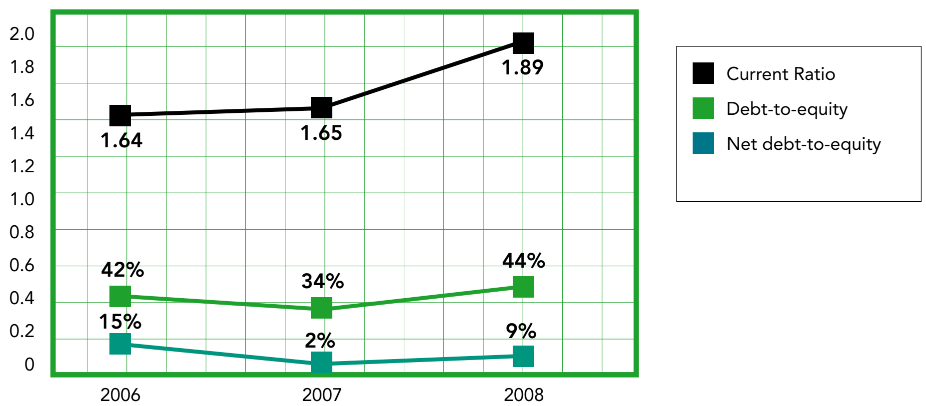
Taking advantage of the buoyant market conditions remaining up to the first half of last year, we implemented an aggressive capital expenditure plan which saw record spending for the Company of P18.9 billion for 2008. 56% of the capex was spent on development activities with the bulk accounted for by the continued priming of our three strategic landbank areas, significant completion of residential projects in NUVALI, and the launch of high-rise condominiums Senta, Red Oak (both Alveo) and One Serendra East Tower (ALP).

Our leasing portfolio accounted for 40% of capex spending with the bulk spent on completing BPO office buildings Solaris One in Makati, Vertex in Manila, the first six buildings in the U.P.-AyalaLand TechnoHub, Greenbelt 5 Phase 2 and MarQuee Mall in Angeles City, Pampanga. While 2008 was a record year in terms of capex spending and 23% higher than in 2007, we actually fell short of our P24.0 billion planned by 22% due to a combination of deferred launches (due to market conditions), cancelled projects (site not secured), and delayed timing on some cash disbursements of ongoing projects. While we remain cautious given the current market conditions, we nonetheless expect our 2009 spending to remain high at P17.4 billion as we continue to deliver on our commitment to complete a broad array of existing projects without delay.

BALANCE SHEET PREPARED FOR CONTINUED VOLATILITY

Our balance sheet remained strong in 2008 and we continued to shore up our cash reserves as we prepare for what may be a protracted industry slowdown. We ended the year with a total of nearly P16.7 billion in cash and cash equivalents at both the parent company and within our various subsidiaries and affiliate companies, 16% higher than the previous year-end. We also increased our total borrowings at the group level to P21.3 billion, 38% higher year-on-year mostly from the issuance of a P4.0 billion, 5-year retail corporate bond – which was the first new corporate issue to be listed in the Philippine Dealing Exchange. Gearing ratios remained comfortable with our total group debt-to-equity ratio increasing marginally from 0.34:1 to 0.44:1.

Balance sheet strength supportive of growth program



We also continued to manage credit risk and improve our debt profile by migrating more loans to fixed rate obligations, which carry an average blended cost of 8.1% and now account for 78% of total borrowings, compared with 53% in 2007. The average tenor of our debt maturities has also been stretched out further, from 3.4 years in 2007 to 4.5 years currently.

As part of our overall capital management program, we also continued to look for ways to generate additional liquidity. We sold a total of P1.5 billion in accounts receivable (AR) to a consortium of local banks last October which was especially significant because it was on a non-recourse basis and was transacted at the height of the global liquidity crisis. We continue to be approached by banks looking to grow their consumer loan books and we plan on raising additional liquidity through the sale of more ARs in 2009. In addition, we have been able to raise another P3.4 billion in debt in the first quarter of 2009 – P2.4 billion from the private placement of a mix of 5, 7 and 10-year fixed-rate corporate notes (at a blended rate of 8.6% and the bulk in 10-year money) and an additional P1.0 billion in bilateral bank financing. These transactions affirm the Company's strong credit standing and unimpaired access to capital during these difficult times and speak volumes about the quality of our AR portfolio, both of which we believe will serve us in very good stead as we continue to navigate the turbulence ahead.

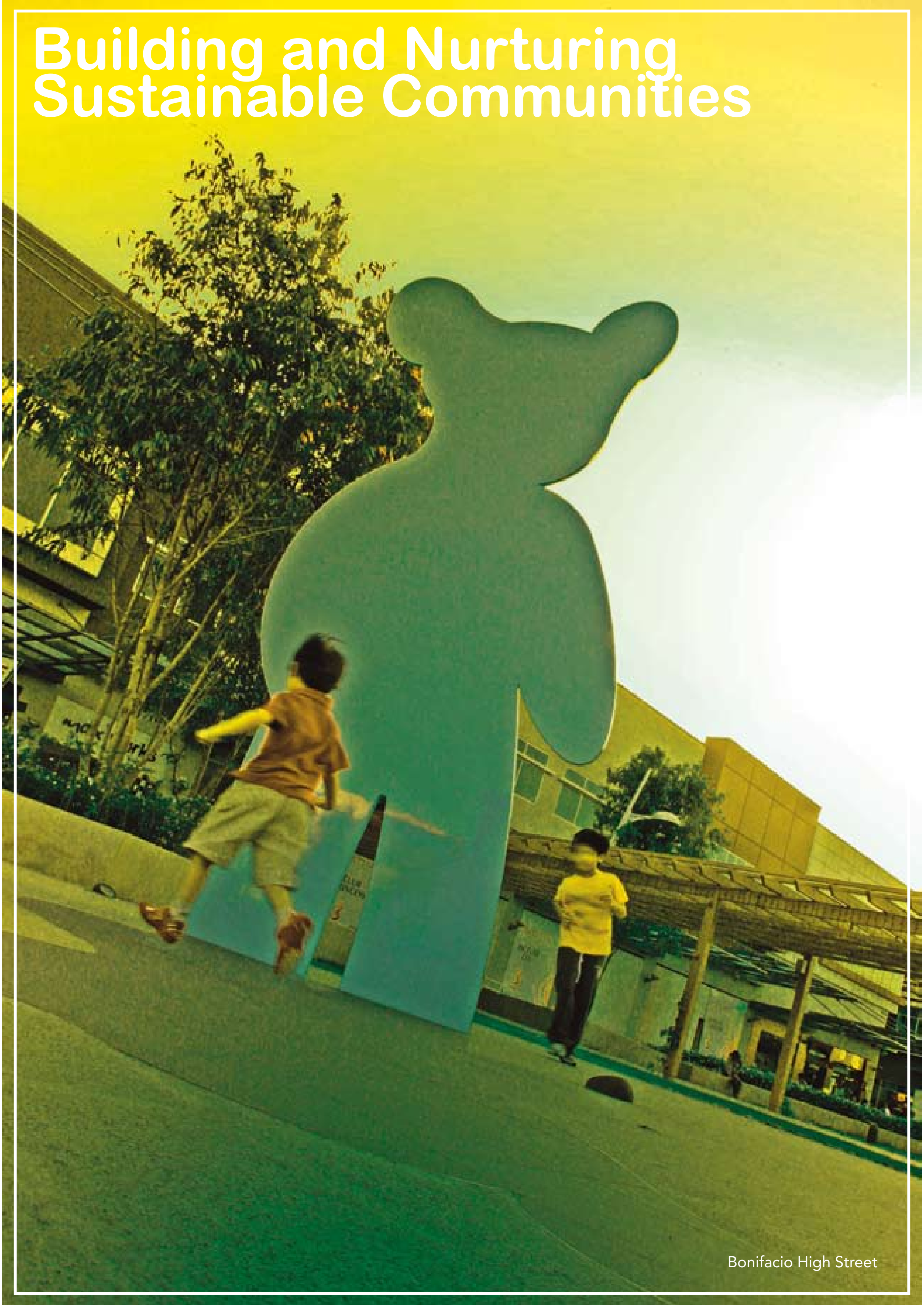
MARGIN PRESERVATION THROUGH COST CONTAINMENT

As the industry slowdown will inevitably result in decreased pricing power for property companies in general, the pressure to effectively contain costs and increase efficiency and productivity become even more paramount in order to preserve margins. In 2008, we continued to roll out our GAE and DOE spend management initiatives which included more active monitoring and control of utilities (electricity, water and telecommunications) usage across our various facilities, cost rationalization programs for foreign and domestic travel as well as the usage of Company service vehicles. In addition, we have also begun making use of shared service platforms in order to reduce our processing costs. The establishment of Amicassa Process Solutions, Inc. is a prime example of a shared support services scheme which was implemented across our three residential brands last year that will enable us to generate cost savings in the coming years. We will continue to explore the usage of similar arrangements and implement even tighter budgeting and cost monitoring processes as a way to lower or temper the growth of our GAE where possible. In addition to tighter control of corporate overheads, we also constituted a formal project control division which aims to further enhance project cost monitoring and feedback processes which will ultimately lead to less re-work and wastage across our different business units.

During this time of greater uncertainty, we have also initiated moves to beef up the role of the corporate center in ensuring that areas such as corporate governance, risk management, performance management, cash flow planning, information systems, and sustainability initiatives are all strengthened and managed more effectively across the organization. These are discussed in greater detail in the various theme-based sections of this annual report.

In summary, the Company has benefited from a strong and diverse business portfolio which has generated enough momentum to deliver record financial results for a second successive year. While market conditions have changed dramatically over the past six months, we have also been able to strengthen our balance sheet further by implementing various cash raising and risk management initiatives and by constantly looking for ways to lower our fundamental cost structure both at the corporate and the operating company levels. With these in place and a continued focus and commitment to find ways to do things even better and at lower cost, we believe that we are well positioned to ride out the market volatility and deliver an even stronger value proposition in the coming years.

Building and Nurturing Sustainable Communities



Bonifacio High Street

With an attractive and valuable landbank of over 2,000 hectares, the Strategic Landbank Management Group (SLMG) was formalized as a regular business unit in 2005 to make the management of our long-term landholdings even more value-oriented. Tasked with driving growth in land values by leveraging our unique capabilities in developing large, mixed-use, master-planned communities, SLMG is also responsible for providing a growth platform for the rest of our business units and for ensuring that recurring cashflow yields from these large assets remain attractive over the long term and that value realization opportunities are maximized and captured when appropriate.

The long-term vision of Ayala Land is to enhance the value of land and enrich and improve the lives of as many people and families as possible. We do this by building and nurturing communities that thrive through time and entails a firm commitment to real estate development that will be sustainable for all of our stakeholders, requiring resources, expertise, and discipline. In our long history spanning more than eight decades, we believe that we have developed the correct approach to best deliver on this value proposition.

PRINCIPLES BEHIND OUR SUCCESS

Thoughtful and well-integrated master plans

When we plan the developments for our strategic landbank areas, we do it at scale – integrated, mixed-use, and complete – and with each masterplan integrating the basic principles for a community to function properly over the long-term. We do our best to offer a complete city experience taking into consideration comfort and accessibility, pedestrian and vehicular traffic and circulation, clearly defined zoning restrictions, and highly reliable facilities, infrastructure, and utilities that are properly maintained by professional estate managers.

Makati, for example, remains the benchmark for the development of commercial business districts (CBDs) in the country with clear and enforced building and zoning guidelines and an active governance structure under the Makati Commercial Estate Association (MACEA) - encouraging community involvement and ownership. At the heart of the CBD is Ayala Center, which together with the Ayala Triangle, will be the focal point of redevelopment efforts to improve pedestrianization further and strengthen Makati's positioning as the country's premier CBD. (See sidebar discussion on page 36.) While Makati has benefited from


Shops at Serendra in Bonifacio Global City

many decades of development and redevelopment, these same basic principles are being applied and built-in to our other strategic landbank areas.

In BGC, incorporated in the masterplan are parks and open spaces that are strategically distributed so that they are all within easy walking distance from each neighborhood. We are also expanding the road and utility infrastructure in order to meet the fast growing demands of the city. In 2008 for example, we began widening 32nd Road, which is a major access road and a key link to the Makati CBD, to alleviate traffic congestion. With all of the critical elements for a well functioning CBD in place, BGC has seen significant expansion not only in the residential segment but also in terms of office space capacity. Gross floor area (GFA) expansion has been fairly aggressive in the office segment last year, doubling to 174,260 square meters and comprised 13% of total GFA from 8% in 2007.

Masterplanned as a sustainable, integrated eco-community, NUVALI is being developed to give paramount importance to the pedestrian. In addition to having clearly allocated zones for residential developments, office districts, and retail areas, our masterplan specifies that all residential developments should be within 500 meters from a commercial area, with wide and shady pedestrian sidewalks and bicycle lanes encouraging residents and office workers to drive less and walk more or take alternative modes of transport.

Innovative and socially facilitative spaces

Beyond the development of a long-term masterplan, we invest in our strategic

"Ayala Center Redevelopment: Recreating The Urban Experience"

While Makati is the country's business and financial capital and has remained the preferred location of top local and multinational corporates and the choice of residents who opt to embrace convenient urban living, the CBD requires continuous refreshing and even reinvention in order to maintain its premier status relative to competing alternative CBDs. Together with the Ayala Triangle, Ayala Center defines the central focal point of Makati and showcases Ayala Land's unique ability to successfully masterplan, develop, and operate a mixed-use, large-scale community. Revitalizing and reinvigorating this centerpiece is therefore a strategic imperative that can preserve Makati's premier standing while providing a platform for unlocking stored value.

The goal is to continue Ayala Center's evolution as a vibrant, world-class mixed-use development, ensure that Ayala Center continues to be the most prime and attractive address which attracts the most desired locators and to elevate the customer experience both indoors and outdoors. Redeveloping Ayala Center is all about recreating new dimensions: creating more usage, and therefore value out of the same piece of land and reshaping a new urban landscape for the public to experience.

The preparatory phase of this ambitious project began three years ago with the construction of The Link and its subsequent opening a year after to accommodate the displaced merchants and parking spaces at Park Square 2. This paved the way for the commencement of the construction of the Raffles and Fairmont luxury hotel and residence complex, providing a much needed new hotel operator for the area. This was followed by the completion of Glorietta 5 last year, effectively becoming landbank areas by putting in place the key priming elements to create activities and serve as a catalyst for the city's growth. We try and anticipate the future needs of our publics and aim to provide socially relevant facilities that keep them constantly inspired, delighted, and engaged. Beyond just putting up aesthetically appealing structures, we put a lot of emphasis on designing spaces that foster community life, encourage shared experiences, and allow residents and office workers to pursue numerous interests and passions.

The integration of an Activity Center at the heart of Glorietta in Makati, where a broad array of public-interest events and features are staged throughout the year, is an embodiment of this concept. We pioneered this concept and this has set the standard for mall-based activities and entertainment across the country.

We have also strengthened BGC's "live, work and play" proposition as we continue to sprinkle Bonifacio High Street (BHS) with facilities, exhibits and displays that promote the creative expressions of various artists. We have also partnered with respectable and renowned artist groups like Ballet Philippines, the Madrigal Singers and Tanghalang Pilipino for various performances throughout the year, adding a strong cultural and theatrical dimension to the city. This has effectively transformed the community center into the Bonifacio Arts Center – now a focal point for arts and culture in the area. A world-class science learning institution – to be called The Mind Museum – will also soon rise inside the City Center. This will be the first of its kind in the country and will change the face of BGC.

a staging area which would facilitate the temporary closure of Glorietta 1 and 2 to pave the way for the implementation of the initial phase of the new Ayala Center masterplan.

Scheduled for completion in the next four years, the Phase I redevelopment will essentially double the effective usage density on a smaller land footprint and free up valuable lot pads for other uses, including the possibility of additional high-end residential developments in the future. In addition, the introduction of another businessman's hotel and more office towers stacked on top of the expected retail establishments will effectively double the potential recurring revenues that can be generated by the area from 2013 onwards, further elevating the area's strategic importance to Ayala Land.

Equally important, the redevelopment will be able to expand the retail and entertainment opportunities at Glorietta and create a fresh and new experience for Ayala Center's visitors, workers as well as residents within walking distance of its vicinity. Grounded on the premise of sustainability, the redevelopment will transform Ayala Center into a more pedestrian-friendly community, with generous open spaces for people to move around that contribute to the improvement of the overall regional landscape. We will be continuing the usage of wider sidewalks, enhanced crosswalks, and the construction of canopies to make pedestrianization literally the walk of life in the Center. Intercept ramps have also been introduced and these direct vehicles to multi-level parking spaces under ground, effectively improving the circulation of vehicular traffic above ground.

54 million
Calories burned by all the people walking through the Makati CBD pedestrian walkway system everyday


Bonifacio Global City

In NUVALI, the lakeside development is another pioneering feature within a CBD setting. With its eco-friendly water taxis and lakeside dining and retail areas, this creates an attractive outdoor experience that the community and visitors can frequent and enjoy. In addition, the Evoliving Center by the lake will feature a rich collection of materials and exhibits on environmental awareness and education.

A commitment to sustainability

Sustainability has been a cornerstone of Ayala Land's developments long before it became fashionable. This has been ingrained in our masterplans not for marketing purposes but because we have long believed that it is the right thing to do for our customers and our patrons. As we develop our landbank areas, we ensure proper care for and maintenance of our surroundings to safeguard the long-term viability and sustainability of our communities. While the upfront costs are often higher, we believe that this approach is efficient in the long run as we are able to maintain the beauty and the value of our developments. In planning and designing our projects to have as little environmental impact as possible, we focus on the

following general areas: solid waste management, water conservation and ground water replenishment, energy conservation, and pedestrianization in parallel with the development of public transport linkages.

In Ayala Center, for example, we have encouraged waste segregation and recycling and implemented a "Pay as You Throw" scheme in all APMC-managed facilities where establishments can earn from their recyclable waste and also spend less on hauling charges for their residual garbage. This has resulted in the reduction of waste going to landfills by 22% to 6,838 tons in 2008, compared with 8,802 tons the previous year. With the success of this pilot program, we plan on implementing this system around the Makati CBD area beginning 2009. We also hope to be able to work with other building owners, stakeholders and local government units (LGUs) for the adoption and implementation of programs with similar objectives not only in Makati but in BGC as well.

Over the past years, we have also catalyzed, working with and through MACEA, the increased pedestrianization of the Makati CBD through a series of connected, covered, elevated walkways from some major office buildings to various points in Ayala Center and by safe, clean and well lit underground pedestrian crossings for a number of major intersections. In the past ten years, MACEA has built around two kilometers of covered walkways and constructed four underground crossings along Ayala Avenue and Paseo de Roxas, helping to reduce traffic congestion in Makati by encouraging people to walk to their destinations.

NUVALI itself is being showcased as our model for sustainability, with the specific initiatives being pursued, discussed in a special sidebar on page 40.

Strong partnership and governance to ensure continued value appreciation

We recognize that the communities we create play a major role in the long term appreciation of our developments and that effective governance is just as critical to the value retention and creation process as a sound masterplan. As such, we establish governance frameworks for the creation and development of strong community organizations that work together to ensure engaged leadership, the enforcement of design guidelines, zoning restrictions and ordinances, efficient delivery of basic services, and the provision of safety and security.

Last year for example, we made significant headway in rationalizing the separate functions of APMC, SLMG, and the Ayala Center Association (ACA), with respect to the overall estate management of Ayala Center. Under the stewardship of the ACA, we have been able to establish clear accountabilities for various estate management functions and we expect this to enhance operational efficiencies moving forward.

THE LONG-TERM ROLE OF SLMG

Creating and extracting value

The true measure of our efforts is in the amount of value we are able to create and extract from our key landbank areas over time. One of the main reasons for creating SLMG is the recognition that the value drivers for landbank are different from that of other traditional business lines and that creating and capturing value will entail a disciplined approach that considers long-term strategies along with short-term needs. In particular, we are ever mindful of the balance that we need to strike in terms of value appreciation versus immediate yields and cashflows

NUVALI: Pioneering the future

Important steps were taken in 2008 towards the fulfillment of our vision of NUVALI as an innovative, masterplanned, sustainable eco-community. In NUVALI, sustainability means striking an environmental, economic and social balance to serve as a catalyst for thriving communities and their continuous growth.

- **Environmental Sustainability.** Our masterplan preserves the natural topography, and ecosystem with its endemic bird sanctuary, wildlife corridor, and abundant green open spaces.
- **Economic Sustainability.** Strategically located within the already developing CALABARZON area, we have carefully designed the infrastructure needed to support and encourage economic productivity and growth.
- **Social Sustainability.** Plans are underway to ensure that NUVALI sparks constant interaction and dynamic relationships between individuals, communities and nature within the greater CALABARZON region.

NUVALI is our showcase for the application of environmentally sensitive initiatives that we hope will effectively change the real estate landscape for a better and more sustainable future. Below are some examples:

THE MASTERPLAN AND WHAT WE BUILD

Greywater Recycling
- Building the country's first dual-piped gated residential community and office campus. The secondary pipeline for recycled "greywater" (treated effluent water from the Sewage Treatment Plant) can be used for flushing water closets, washing cars, or watering plants. We estimate that this system will reduce the consumption of clean, potable water by as much as 30%

Multi-Functional Lake
- Completion of a 4-hectare lake, central to the retail and office zones. The lake will have many uses: rainwater harvesting, providing an alternative mode of transport through water taxis, an effective retention pond during heavy rains, and a habitat for aquatic birds and wildlife.

Bike-Friendly Community
- Bike lanes provide a healthy and green alternative to carbon-emitting motor vehicles.
- Our first office building will have a series of bike ramps at building entrances so that office workers can literally take their bicycles to work.

and the decision of how much to invest and hold versus sell and realize value already built-up.

In 2008, this balancing act was again evident as we continued to invest in, prime and build value in each of our three strategic landbank areas (details in the President's Report on page 16 and also in the CFO Report on page 36) while at the same time taking advantage of opportunities to extract value where appropriate. In Makati, we sold our stake in a 5,125 square meter property along Valero Street which we felt was non-strategic, in the process creating P761 million in pre-tax capital gains and nearly a billion pesos in cashflow that we were able to reinvest into our other projects. In BGC, we also sold a 1.5 hectare block of prime land in the West Superblock to the Shangri-La Hotels group, again providing significant cashflow and value realization at the Fort Bonifacio and Development Corp. level while at the same time securing a key locator that helps complete the necessary elements for a well-functioning CBD.

Platform for growth for other ALI businesses

We are also cognizant of the fact that a strong symbiotic relationship exists

THE TECHNOLOGIES WE USE

Use of Green Building Materials

- The Evoliving Center, a showcase venue for environmental education featuring interactive exhibits and a sustainability resource library available to students and guests on educational field trips, is in itself an exhibit on sustainability. It pioneers the use of "e-glass", a low-emissivity double-glazed glass panel, and a set of green roofs, reducing the energy consumption of the air conditioning system and lowering heat gain inside the building.
- Use of native building materials such as bamboo-based plywood.
- Use of "rammed-earth" paving blocks coming from a special mixture of soil and cement mix was pioneered in NUVALI.

Renewable Energy Technologies

- Pilot-testing solar and wind power applications.
- A hybrid solar/wind system is being planned for installation at one of the security outposts.

Permeable Paving

- Use of concrete pavers arranged in interlocking fashion, instead of solid concrete pavements, allowing rainwater to seep through the blocks to replenish the underground water acquifers.

Green Homes

- Model Green Homes will showcase the best practices in green architecture, translating into low-footprint, sustainable lifestyles for residents. We have also leveraged our strategic partnership with General Electric for the display and usage of eco-efficient appliances under GE's "Ecomagination" product line.

THE PROGRAMS WE PUT IN PLACE

Wildlife & Bird Sanctuary Program

- A flora and fauna study conducted by the Haribon Foundation showed a rich inventory of birds and wildlife inhabiting the terrestrial ecosystems of NUVALI, including at least 65 identified bird species and 55 floral species. At NUVALI, we are providing buffer areas for birds and wildlife to thrive and co-exist with our developments.
- As part of a long-term biodiversity conservation initiative, we will plant thousands of indigenous, fruit-bearing trees and fast-growing bamboo species on buffer zones on the sides of the rivers and ravines which cut through the property. These rivers and ravines have a combined length of about 17 kilometers.

Solid Waste Management Program

- Our innovative "Pay-As-You-Throw" solid waste management program, based on the "polluter pays principle,"will encourage residents and establishments to recycle and maximize the reuse of waste where possible.
- Materials Recovery Facilities are being established in strategic locations for maximum waste segregation, recycling, and composting.

between SLMG and our other key business lines in residential, shopping centers, and our corporate business. Just as our three strategic landbank areas provide a strong platform for the growth of our other businesses through decades of development and redevelopment opportunities, the introduction of developments bearing the Ayala Land brand name into our strategic landbank areas are also a key catalyst for land value creation.

Over time, our mixed-use approach within our large-scale developments has been very successful in driving the growth of our residential, mall, and office portfolio. Ayala Center is the Makati CBD's key anchor and we continue to redevelop this to increase density and "work the land harder" while also enhancing further its mixed-use character. The opening of Glorietta 5 and of Greenbelt 5 in 2008 have helped cushion the impact of the temporary closures for the Ayala Center redevelopment while our Makati office stock was also increased by the five floors of Glorietta 5 fully occupied by one of our major BPO locators. We also added 438 units to the staple of residential buildings around the Makati CBD with the successful launch of Alveo's Senta last year.

The brisk level of growth is likewise crystallizing in BGC as occupancy levels in Bonifacio High Street and Shops at Serendra, which are owned by FBDC but developed and managed by Ayala Land, as well as in Market! Market!, continue to improve from the previous year. This complemented the expansion in our residential offerings as we launched the 283-unit One Serendra East Tower and the combined 920 units from Alveo's Red Oak and Aston towers, also located within the Serendra complex.

In NUVALI, we have successfully soft launched residential subdivisions across our three brands and these have been met with strong customer acceptance. A total of 2,167 residential lots have been offered to the public for Abrio, Treveia and Avida Settings NUVALI since October 2007 and these have achieved cumulative take-up rates of 95%, 85% and 62%, respectively, as of year-end 2008. In addition, we have established the country's first lakeside BPO building – NUVALI Technopod – and this was already 60% pre-leased as of end last year. Ten of the sixteen retail spaces available for lease by the lake have also been taken up by popular retail establishments as of year-end.

Continuously replenishing inventory

As our landbank areas grow and develop and as we either sell lots to third-parties or partner with our other business units, we are mindful of the fact that our store of value and platforms for future growth are reduced as our precious land inventory is depleted. Our three strategic landbank areas are in various levels of development with NUVALI at the very early phases and with tremendous upside potential, BGC in its early stages of establishment and still in the process of building its distinct identity, while Makati is an established CBD with the most traditionally desirable spaces. Sooner or later, these will all reach a decisive point of maturity where value generation may slow down to a more deliberate and incremental pace.

As these progress, we are also continuously seeking new areas of opportunities for additional, large-scale, master planned developments in order to replenish our inventory and provide investors with an entry point into attractive long-term value propositions.

Our focus is on acquiring key sites in the Mega Manila area and other geographies with progressive economies that offer attractive potentials and where projected value appreciation will be fastest. We are in the process of considering several sites (which we are unable to disclose at this time in order not to jeopardize the transactions) and we feel that our strong balance sheet, brand name, and market position put us in very good stead to create our platforms for the future.

6 cities and townships we have developed to date


NUVALI Perspective


Makati CBD

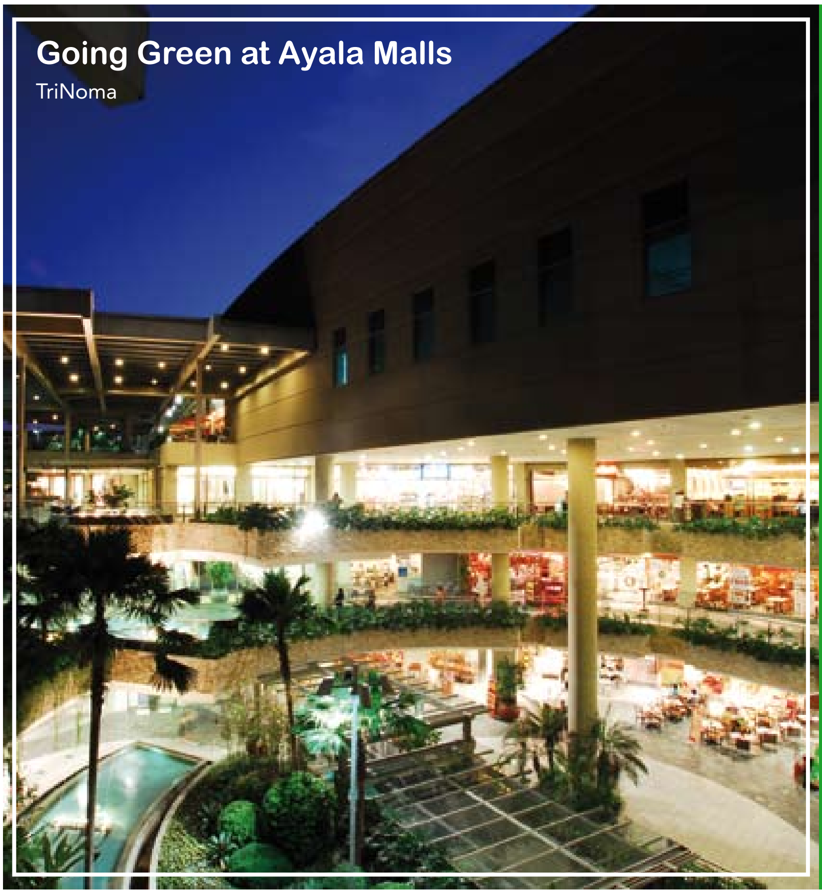

Bonifacio Global City

The Customer, Our Reason For Being, Foremost In Our Minds

We believe that the continued satisfaction of our customers play an integral part in our success. Through the years, we have sought to earn, build, and nurture their trust and confidence and it is because of this strong customer focus that our brand franchise across our various businesses remain strong. In each of our key business segments, we have analyzed critical customer needs and wants and designed our product offerings with these in mind.

Our inventory of residential units continued to move in 2008 despite the global downturn. Take-up of 4,803 units generated P18.4 billion in sales value, effectively implementing premium pricing even in a difficult and competitive market. Our shopping centers continue to enjoy very strong patronage and an average of one million shoppers passing through our malls on a daily basis while an average of 95% of our merchant spaces are either occupied or pre-leased (including committed spaces in TriNoma and Greenbelt 5). The occupancy levels in our office portfolio are likewise higher than the market average for both headquarter-type and BPO buildings. For instance, in our flagship building, Tower One & Exchange Plaza for example, had an overall occupancy level of 98% for 2008.

Going Green at Ayala Malls


TriNoma

Our malls have always been regarded as "green" by our customers, due largely to their nature-friendly designs, bannered by Greenbelt Mall in Makati.

Going beyond lush greenery and landscaped design, we are now using eco-efficient products and technologies in energy and water conservation and proper waste management to further reduce our malls' ecological footprint.

A new technology, ice thermal storage, provides cooling for Greenbelt 5, TriNoma and the Shops at Serendra. This technology shifts electric load

INNOVATIVE AND DISTINCTIVE PRODUCTS

To maintain our competitive advantage and remain the preferred choice of our customers, we continue to deliver constantly evolving, highly responsive and innovative products. Our shopping centers continue to receive citations from our merchant-partners for their retail excellence, innovation and customer satisfaction and are widely known for anticipating and merging industry trends abroad with the very best of Filipino design and execution. Three innovative retail developments – Greenbelt 5, Bonifacio High Street and TriNoma – garnered highly-coveted awards in the first ever ICSC Asia Shopping Centre Awards in Macau.

In our residential segment, a new generation of products were introduced to the market in 2008: in the vertical segment, we offered projects that addressed the increased demand for convenient condominium living in the heart of the city: Ayala Land Premier (ALP) with The East Tower at One Serendra in Bonifacio Global City; Alveo with Senta in the heart of Legazpi Village in Makati and The Red Oak at Two Serendra in Bonifacio Global City; Avida entered into its first foray in Makati with Avida Towers Makati West. For horizontals, the successful and unprecedented simultaneous launches in NUVALI of ALP's Abrio, Alveo's Treveia and Avida Settings respond to a growing demand for projects that are specifically designed for more environmentally sensitive and sustainable lifestyles. Examples of these are the bio-swales for drainage, wider roads that encourage walking, and dual piping in every household are among the many

3,000

Security personnel keep our communities and facilities safe and secure 24/7; the equivalent of six army battalions.

to reduce cooling energy cost. The majority of the sixteen Don Emilio Abello Energy Efficiency Awards garnered by APMC in 2008 were for energy conservation programs implemented at our malls.

Water conservation continues to be an important consideration in mall design. In Greenbelt, ponds have been incorporated in the landscaping to allow the collection of rainwater used in maintaining the numerous trees and plant species.

We pioneered a Solid Waste Management program, recovering recyclable waste materials from our merchants and common areas. Thanks to this program, residual waste volume from our malls has gone down by 80% since its launch in 2000.

Last year, we also started holding Ayala Recyclables Fairs in selected mall parking lots as collection and drop-off points for the sale and trading of non-traditional wastes such as used appliances, car batteries, and electronic devices. Glorietta, Greenbelt and Market! Market! also offered its customers eco-friendly reusable shopping bags produced by NGO partners as part of their livelihood programs. For more details on these and other sustainability measures adopted by our malls and other business units, please refer to our 2008 Ayala Land Sustainability Report, which can be accessed through the following website: www.ayalaland.com.ph deliberate design choices that provide a viable alternative to living in a more sustainable fashion. Last year also saw the opening of the Anvaya Cove Beach and Nature Club for the exclusive use of its members. With its uniquely Filipino tropical architecture nestled in the midst of the mountains and private coves of Morong, Bataan, Anvaya Cove's status as a unique leisure community further strengthened the brand equity of ALP.

For the office segment, our goal is to provide a complete work environment that encourages productivity and creativity for our locators alongside addressing their need for work-life balance. By end-2008, we commenced operations in four out of ten buildings in the U.P.-AyalaLand TechnoHub, the first totally-integrated office campus development in the country and completed the first building in the NUVALI BPO Campus. Both BPO campus developments will feature low-rise buildings surrounded by lush greenery, water features and jogging paths, lifestyle elements like retail shops and convenient transportation links. Events are likewise organized for their enjoyment.

Our commitment to offer innovative and distinctive products extends to the integration of sustainability principles in the way we design our products and operate our properties. The greening of our malls (see sidebar) meant the adoption of additional energy and water conservation measures as well as solid waste management programs to further reduce our malls' ecological footprint and optimize resource efficiencies.

We are likewise designing new office buildings in accordance with the Leadership in Energy and Environmental Design (LEED) standards. Examples of our sustainability initiatives in our proposed HQ-type and BPO projects include: district cooling, displacement cooling, radiant cooling, green walls and roofs, efficient lighting, solar heat reduction, water recycling and the

Our Brands

AyalaLand · ALVEO Live the life you deserve an AyalaLand company · Avída Affordable living at its best an AyalaLand company · Ayala Malls · AyalaLand Premier · AyalaLand Businesscapes · Bonifacio Global City · NUVALI Evo Living

2008 was a significant year for clearly defining the various brands yet keeping the distinct Ayala Land mark in each. Exceeding customer expectations was further emphasized as the company continued to face the challenge of catering to more people and enrich more lives. Our brand-building initiatives aimed to communicate these with more clarity and consistency.

In May, the Corporate Business Group was branded AyalaLand Businesscapes to convey the company's undisputed leadership in providing a complete line of office real estate solutions to different segments: industrial parks; traditional office buildings in the Makati Central Business District, Alabang, and Bonifacio Global City; office space in various formats for the fast-use of more environmentally friendly materials with low volatile organic compound content.

At the end of the day, our homeowners, office locators and merchants, and patrons of our malls trust us to "do the right thing." This means paying close attention during the critical stages of product development and design. This involves adhering strictly to the standards set at each stage, allowing property values to be maintained while lowering operating costs.

A STRONGER SERVICE PLATFORM

Apart from having high-quality, innovative and clearly differentiated products, we constantly and actively engage with our customers, forming as the foundation for long-term and successful partnerships.

Over the years, our Residential Business Group (RBG) has persistently focused on improving its service levels by enhancing the quality of

7 internationally-renowned artists who performed in one of our nearly 1,500 free mall events in 2008

growing business process offshoring and outsourcing (BPO) sector in select locations across the country.

In July, the rebranding of Community Innovations, Inc. to Alveo Land Corporation was the company's answer to the need for innovation in the fast evolving residential business in the country. This name change, along with the introduction of "Life Ecosystems" as a new paradigm in real estate, made us earn the Philippine Quill Award of Merit from the International Association of Business Communicators.

In September, to commemorate our 20th anniversary, a corporate campaign was launched, giving Ayala Land the role of a proactive visionary. It was to be a testament to our immense understanding of the diverse markets we serve and the drive to be the top of mind choice. The campaign highlighted our thrust in providing ultimate satisfaction and developing long-term loyalty with the customers.

In November, our efforts bore fruit as Ayala Land was honored with the Agora Marketing Company of the Year by the Philippine Marketing Association. A prestigious recognition given once in a lifetime to a select few. The award is a sign of excellence and an affirmation of the trust and confidence our stakeholders have bestowed on us.

Even as we face a global economic crisis, with our great heritage behind us and our forward drive to deliver better products and services, we can surely count on the trust and confidence of our customers. Ayala Land, enhancing land, enriching lives for more people.


TriNoma Activity Center

ICSC Asia Shopping Centre Awards
October 2008 | Macau

BRAVO FILIPINO: A Tribute to Filipinos' Creativity and Ingenuity
GOLD Award (Marketing, Community Relations)
Conceptualized by Don Jaime Zobel de Ayala, Bravo Filipino is a four-month festival celebrating the Filipino genius in music, fashion, photography and dance during the opening of Greenbelt 5.

BONIFACIO HIGH STREET
GOLD AWARD (Development and Design)
Bonifacio High Street is the first "main street" development in the Philippines, the focal point of what is envisioned as the next megacity in Metropolitan Manila.

TRINOMA: The Philippines' Largest, Richest City Wakes Up to a Mall They Can Call Their Own
SILVER AWARD (Development and Design)
The opening of TriNoma transformed the city into a hub of commerce and activities – similar to the Penn Station in New York but bigger. It houses unique shopping, dining and entertainment to provide only the very best to the market that it serves


Bonifacio High Street

customer interactions and providing easier access to customer assistance. In 2008, ALP, Alveo and Avida consolidated its sales administration and buyers' assistance services into a single unit. This provides a more aligned and consistent service standard for handling the thousands of customer transactions processed by each brand. In doing so, RBG is now equipped to track a customer's request from inception to resolution and monitor performance versus service standards more accurately. This equates to a strong service backbone that will increase efficiency, consistency and customer satisfaction.

Similarly, Ayala Malls Group (AMG) gathers feedback from both merchants and customers to better understand their needs. In 2008, as in previous years, AMG conducted various researches such as focus group discussions, market surveys and mystery shopper surveys. These generate better insights into the behavior, needs and wants of our mall shoppers to develop initiatives that provide full customer satisfaction. Examples of these are the newly launched free wi-fi zones in select areas and improved customer lounge

amenities. We also deployed roving service attendants to bring concierge services closer to customers.

We show support for the merchants through programs such as merchant consultations, visual merchandising seminars, concept development, sharing of market information, and the first and only Merchant Rewards Program in the country. These ensure continued trust and a symbiotic relationship – a key factor in the long-term success of our malls.

Our AyalaLand Businesscapes Group (ABG) likewise conducts regular tenant visits to get first hand locator feedback to ensure immediate action on any possible concerns. Tenant satisfaction surveys are also conducted twice a year to assist building management in identifying which office buildings and facilities require renovation or upgrading. Based on tenant inputs received from the previous year, ABG undertook the renovation of the Executive Lounges at Tower One and Exchange Plaza and 6750 Ayala Avenue, the function rooms at the MSE Building and 6750 Ayala Avenue, as well as its elevator lobby.

THE ROLE OF GOVERNANCE

A hallmark of Ayala Land's many successful communities has been the care that has gone into planning and designing the development, but also the governance bodies that allow a community to take shape, maintain order, and flourish. These include the rules and regulations that are enforced by condominium corporations, homeowners' associations and even estate managers. Our commitment to our customers does not end with the sale of a house and lot or with the signing of a merchant or tenancy agreement, but extends until the community takes shape and becomes self-sustaining and self-governing. Through our Residents and Members Relations Group, Ayala Land continually extends its assistance in shaping thriving and lasting communities.

The Most Experienced Management Team in the Industry

Standing behind every Ayala Land product are strong decision makers supported by significant experience in strategy formulation, project execution and management, land acquisition and development, corporate planning and finance. The current senior management team collectively has over 190 years of tried and tested experience in the real estate sector and this has defined, nurtured and strengthened the Ayala Land brand. We continue to develop distinctive new products and set standards for the industry with a wealth of experience that is difficult to replicate.

With over eight decades of experience and a proven approach in masterplanning, developing, selling and managing large tracts of land through numerous industry cycles and periods of crisis and turbulence, Ayala Land's management team has developed a unique ability to anticipate and navigate through the most trying of circumstances. Through leadership foresight, competence and financial conservatism, we were practically the only developer left standing after the Asian financial crisis of 1997-2001 ravaged the industry and its major players. The current difficult environment once again plays to our strengths as we were able to achieve record financial results in 2008 and ended the year with a stronger portfolio of businesses, a strong balance sheet, unimpaired access to liquidity and capital and continued trust and support from all our stakeholders.

This we believe is a testament to the quality of leadership and the strength of the management team and a reason why Ayala Land was voted as the "Most Admired Company in the Philippines"

Jaime I. Ayala
President and Chief Executive Officer

Vincent Y. Tan
Group Head, Planning

Ma. Victoria E. Añonuevo
Group Head, Ayala Land Businesscapes
Group Head, Ayala Malls

THE AYALA LAND MANAGEMENT COMMITTEE

in a survey conducted by the Asian Wall Street Journal in 2008, and "Best Overall Property Developer in the Philippines" by Euromoney in their Liquid Real Estate survey 2008. Euromoney Asia also ranked Ayala Land as second in its "Best Managed Company in Asia (for Property)" survey for 2008.

EXCELLENT PEOPLE ARE A KEY TO EXCEPTIONAL EXECUTION

A highly competent and competitive employee base is the key to superior execution. This holds true in Ayala Land where employee selection is not only based on expertise and experience but also on resiliency and cultural aptitude. Our ability to attract, develop, retain and motivate exceptional managers and support staff is, we believe, what sets us apart as an institution and, in tandem with the strength of our brand name, creates our biggest competitive advantage.

As a value based organization, employee adherence to the company's core values encapsulates what we call the "Ayala way". The structures that we build for the communities we serve are all the end products of the heart and soul of its people, guided by its time-tested values that make Ayala Land what it is today. Our values set us apart from competition and every time an employee works with these values in mind, it is a continued investment in the reputation we have built all these years. It is a reputation that is built on very strong foundations of integrity, reliability and commitment. These are the priceless and timeless values of Ayala Land and its people.

We proudly nurture a learning environment and place a significant amount of value on the development of our employees. As we face challenging times, we do not cut back on people development but rather we invest more. In 2008 alone, an average employee spent 29 hours on various internal and external training and development initiatives and 84% of the organization attended at least one training program. These programs focused on the enhancement of technical competencies, values as well as developmental programs that address current organizational issues derived from climate surveys done regularly to assess organizational health and employee well-being. Select

Bernard Vincent O. Dy
Group Head, Residential Business

Raul M. Irlanda
Group Head, Construction
Group Head, Property Management

Rex Ma. A. Mendoza
Group Head, Corporate Sales and Marketing
Head, Residential Sales

THE AYALA LAND MANAGEMENT COMMITTEE (cont.)

employees are also sent to international learning and development programs to benchmark for global practices and widen perspectives.

In line with its thrust of being a learning organization, experience, expertise and competency is further leveraged as the more senior members of management take on faculty roles in a carefully crafted internal training curriculum designed specifically for different levels of managers and staff.

A FOCUS ON TEAMWORK

By necessity and through the many challenging periods we have come through together, we have not only developed exceptional individuals but just as importantly, become much more adept at working as teams. Through the years, we have evolved into a much bigger company that plans, designs, executes and manages ever more complex projects. Currently, we are planning or constructing close to 129 projects simultaneously and managing an additional 176 facilities. The challenges of size and complexity are real – a need for better coordination, alignment, control, and leadership as project and

Emilio J. Tumbocon
Group Head, Visayas-Mindanao and Superblock Projects

SUSTAINABILITY COUNCIL
Establishing the Sustainability Framework

In 2008 we formally organized our ALI Sustainability Council, composed of our CEO and the ALI Management Team. The Sustainability Council's main objectives are: (1) to develop and establish a cohesive framework for planning, implementation, and measurement of our numerous sustainability initiatives; and (2) to align and support the initiatives of the various business units and support groups within the sustainability framework.

In support of the Sustainability Council, a senior-level Sustainability Steering Committee and a junior-level Technical Working Group were subsequently formed to map out our ongoing journey towards sustainability. A full-time Sustainability Office was also created within the Urban & Regional Planning Department, with the following mandates: (1) to assist the Sustainability Council and Steering Committee in framework development; (2) to help in measuring and and reducing our environmental footprint in key programs and projects; and (3) to further promote sustainability throughout the ALI culture.

The combined management experience and technical expertise of our Sustainability Council members provide the proper tools in managing the wide variety of sustainability initiatives that are flourishing throughout the ALI organization.

organizational issues become more complicated and as more people get involved in different decisions. Furthermore, the demands of the market and the expectations of customers continue to rise, requiring us to become ever more adaptable and nimble.

The solution is to continually increase the effectiveness of our teams. Most of what we do requires us to come together as teams that cut across organizational lines: projects, task forces, and functional networks. These teams form and disassemble as projects come and go and constantly at a high performance level. Effective teams, in our project-oriented context, are comprised of the right people with the right skills and who are sufficiently focused and have a common understanding of the project development process. They are mutually accountable for the shared goals of the team, but retain individual responsibilities that they are committed to deliver.

Harnessing the strength of both individual and group competencies, we form functional committees along various levels and capacities. From a senior leadership perspective, the key executives from the corporate center, strategic business units (SBUs) and functional units form a management steering committee to formulate strategy and policy, plan coordination, and outline key initiatives. A corporate working group – comprised of the President, the CFO, the Executive Vice President and Head of Planning and the Head of Corporate Strategy – is created to handle risk and performance management through a balance scorecard system aligned with each division's deliverables and key result areas (KRAs). A separate

The Ayala Land Management Team has a combined **2,032** years of industry experience

Jaime E. Ysmael
Chief Finance Officer
Group Head, Finance

Arturo G. Corpuz
Head, Urban/Regional Planning and Land Acquisition

Anna Ma. Margarita B. Dy
Group Head, Strategic Landbank Management

THE AYALA LAND MANAGEMENT COMMITTEE (cont.)

investment committee evaluates high-value and high-profile projects and work to optimize cash management and capital efficiency. Technical working groups, made up of representatives from SBUs and key corporate and functional units, are also in place to drive efficiencies in project execution and development. Quarterly (or more frequently if needed) updates then serve as a venue for performance management, progress tracking and monitoring, organizational alignment and the cascading of internal and external communication programs.

PERFORMANCE MANAGEMENT

Ayala Land is a value and performance based organization that aligns individual KRAs and the structure of incentive programs to the achievement of broader functional and organizational KRAs as measured with a holistic approach using a balanced scorecard which examines and evaluates not only key operating and financial metrics related to current performance but also future growth, shareholder returns, organizational development and brand health.

Rewards are given based on the level of delivered performance within a given period of time and organizational advancement requiring the delivery of consistently exceptional results in conjunction with the display of appropriate leadership and technical competencies. Through the KRAs, the senior management team is held jointly accountable for the overall performance and value of Ayala Land (through common metrics) as well as for the performance of their individual operating or functional units. Annual adjustments and performance bonuses are closely tied in with overall corporate, operating or functional group, and individual performances. This continues to foster a strong sense of ownership and accountability for individual results while also cultivating a culture of teamwork and applied interdependencies throughout the organization.

Jose Emmanuel H. Jalandoni
Head, ALI Capital

Joselito N. Luna
Group Head, Innovation and Design

Ma. Teresa T. Ruiz
Head, Human Resources and Public Affairs

Vision and Governance

Fernando Zobel de Ayala. Chairman of Ayala Land since 1999. President and COO of Ayala Corporation. Chairman of Manila Water Company, Inc., AC International Finance Ltd., Ayala International Pte. Ltd., Ayala Automotive Holdings Corp., Ayala Hotels, Inc. and Alabang Commercial Corp.; 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

Mercedita S. Nolledo. Director and Corporate Secretary of Ayala Land since 1994. Board member, Senior Managing Director and Corporate Secretary of Ayala Corporation and Senior Counsel of the Ayala Group of Companies. Director of Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings Corp., Bank of the Philippine Islands, BPI Family Bank and BPI Capital Corp. ; Corporate Secretary and Member of the Board of Trustees of Ayala Foundation, Inc.; Treasurer of Philippine Tuberculosis Society, Inc.

Corazon S. de la Paz-Bernardo. Independent Director of Ayala Land since April 2006. President of the International Social Security Association. Director of Equitable Card Network, Inc. Board of Trustee and Treasurer of Meralco Foundation, Inc. and Board of Trustee of the University of the East. Recipient of a Fulbright Achievement Award for Business Administration in 1988; Awardee of The Outstanding Women in the Nation's Service for Management in 1983.

Jaime Augusto Zobel de Ayala.

Director and member of the Executive Committee of Ayala Land since 1988. Chairman and CEO of Ayala Corporation; Chairman of Globe Telecom, Inc., Bank of the Philippine Islands and Integrated Micro-electronics, Inc.; Vice Chairman of Manila Water Company, Inc.; Co-Vice Chairman of Ayala Foundation, Inc.; Member of JP Morgan International Council, Mitsubishi Corporation International Advisory Committee, Toshiba International Advisory Group, Harvard University Asia Center Advisory Committee, Board of Trustee of the Asian Institute of Management and a national council member of the WWF (US). Awardee of the Ten Outstanding Young Men in 1999. Awarded Management Man of the Year in 2006 by the Management Association of the Philippines. Recipient of the Harvard Business School Alumni Achievement Award in 2007

Jaime I. Ayala.

President of Ayala Land, Inc. since July 1, 2004. Senior Managing Director of Ayala Corporation. Chairman of Ayala Property Management Corp., Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., Alveo Land Corp., Avida Land Corp., Laguna Technopark, Inc., Makati Development Corp., and Station Square East Commercial Corp; Director and President of Aurora Properties, Inc, Ayala Hotels, Inc., Ceci Realty, Inc.; Vesta Property Holdings, Inc., Bonifacio Land Corp. and Fort Bonifacio Development Corp.; Director of Alabang Commercial Corp., Ayala Greenfield Development Corp.; Trustee of World Wildlife Foundation and Bonifacio Arts Foundation, Inc.; Chairman of HERO Foundation, Inc.

Delfin L. Lazaro.

Member of the Board of Directors of Ayala Land since 1996. Chairman of LiveIt Solutions, Inc. and Philwater Holdings Co.; Director of Ayala Corporation, Globe Telecom, Inc., Integrated Micro-electronics, Inc., Manila Water Co., Inc. and Ayala Automotive Holdings Corp.; and named Management Man of the Year 1999 by the Management Association of the Philippines.

Ramon R. del Rosario,Jr.

Independent Director of Ayala Land since 1994. President and CEO of Philippine Investment Management, Inc.; President of Bacnotan Consolidated Industries, Inc.; Chairman and CEO of AB Capital and Investment Corporation; Chairman of United Pulp and Paper Co., Inc. and Microtel Inns and Suites (Pilipinas), Inc. ; Director of Trans-Asia Gold and Minerals Development Corp., Trans-Asia Oil & Energy Development Corporation, Trans-Asia Power Generation Corp., Holcim, Inc., Phinma Property Holdings Corp. and Union Galvasteel Corp.; Chairman of the Board of Trustees of De La Salle University and Philippine National Museum; and Chairman of the Makati Business Club.

Aurelio R. Montinola, III.

Member of the Board of Directors of Ayala Land since February 2005. President and CEO of the Bank of the Philippine Islands. Vice Chairman of Republic Cement Corporation; Vice Chairman of the Board of Trustees of Far Eastern University; Chairman of East Asia Educational Foundation, Inc., Shenton Investment and Realty Corp., CityTrust Realty Corp., Amon Trading Corp. and Seyrel Investment and Realty Corp.; Regional Vice Chairman of MasterCard International; Director of Manila Water Co., Inc.; President of BPI Foundation, Inc. and Makati Business Club; and Member of the Management Association of the Philippines

Francis G. Estrada.

Independent Director of Ayala Land since April 2008. President of the Asian Institute of Management since May 2007. President and Trustee of AIM Scientific Research Foundation, Inc. Chairman and Co-Founder of Equity Managers Asia, Inc. Fellow and Trustee of the Institute of Corporate Directors, De La Salle University (Philippines), De La Salle University-Canlubang and De La Salle University-National Mission Council. Independent Director of Philippine National Oil Corp-Energy Development Center and Philamlife and General Assurance Company.

Sustaining A Culture of Integrity and Transparency

We are firmly committed to good corporate governance as key to creating and sustaining shareholder value, while balancing the interests of our various stakeholders.

The structure for corporate governance is principally contained in our Articles of Incorporation and By-Laws and their amendments. Supplementing and complementing these is the Manual of Corporate Governance approved by the Board of Directors and submitted to the Securities and Exchange Commission (SEC). The Manual of Corporate Governance sets forth the principles of good and transparent governance and is regularly monitored by the SEC for compliance.

This Report describes our corporate governance framework and discusses initiatives taken by the Company in 2008 to further strengthen our commitment to integrity and transparency.

BOARD OF DIRECTORS

Ayala Land is led by a Board consisting of nine members who hold office for one year and until their successors are elected and qualified in accordance with the By-Laws of the Company.

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 that adequate internal controls are in place for the preservation and protection of Company assets and minimize the risk of losses.

The Board represents a mix of general business, industry, legal, and finance competencies, with each director capable of adding value and rendering independent judgment in relation to the formulation of sound corporate policies. All Board members have undergone training in corporate governance and have been certified by the Institute of Corporate Directors, a professional organization committed to promoting world-class corporate governance principles in the East Asia region and an accredited body by the Philippine SEC.

Independent Directors

As a publicly-listed company, Ayala Land conforms with the legal requirement of having at least two independent directors on the Board. Of the nine current directors, three are independent directors, namely Corazon S. de la Paz-Bernardo, Francis G. Estrada and Ramon R. del Rosario, Jr. Eight of the nine Board members were re-elected during the Annual Stockholders' Meeting held last April 2, 2008 while Mr. Estrada was elected as a replacement of Mr. Leandro Y. Locsin, Jr.

The Company defines an independent director as holding no interests or relationships with the Company that may hinder their independence from the Company or management which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. If the beneficial ownership of an independent director in the Corporation or in its related companies exceed the 10% limit, or if the director appointed or elected as an independent director subsequently becomes an officer or employee of the Corporation, the director shall cease to be designated or characterized as an independent director.

Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer are separate to ensure Board independence from management, an appropriate balance of power and increased accountability.

The Chairman of the Board is Fernando Zobel de Ayala who assumed the position in 1999. Jaime I. Ayala is the current President and Chief Executive Officer, a position he has held since 2004. It is also worth pointing out that despite the apparent similarities in their respective surnames, the Chairman and the President/CEO are not related.

Both the Chairman of the Board and the President/CEO attend Annual General and Special Stockholders' Meetings.

Board Performance

Full Board meetings are held at least once a quarter.

The Board has separate and independent access to the Corporate Secretary who, among other functions, oversees the adequate flow of information to the Board prior to meetings and serves as an adviser to the directors on their responsibilities and obligations. Discussions during Board meeting are open, and independent views are given due consideration.

In 2008, the Board had four regular meetings. The record of attendance of the Company's directors during the Board meetings held for the year 2008 met the Securities and Exchange Commission's requirement of more than 50% attendance.

Part of the tools used by the Board to monitor and improve its performance is an annual self-assessment. This is captured in a formal questionnaire that is answered by each member of the Board individually and where members of the Board are able to rate their individual performance and that of the Board as a whole with the results compiled by the Compliance Officer and submitted back to the Board for discussion and appropriate action through the Corporate Secretary. The self-assessment survey questions were reviewed and updated in early 2009 and applied for the 2008 review of performance. The Board also conducted its annual assessment of the CEO/President.

Board Committees

Four committees support the Board in the performance of specific functions and to aid in good governance.

Executive Committee. The Executive Committee acts on specific matters delegated by the Board of Directors except with respect to distribution of cash dividends; filling of vacancies on the Board or in the Executive Committee; amendment or repeal of By-Laws or the adoption of new By-Laws; amendment or repeal of any resolution of the Board of Directors; and the exercise of powers delegated by the Board exclusively to other committees. Strategic plans and directions are discussed in detail at the Executive Committee level.

In 2008, the Executive Committee held six meetings and deliberated on, among others, various projects and business proposals.

Nomination Committee. The Nomination Committee's main function is to install and maintain a process ensuring that all directors nominated for election at the annual stockholders' meeting have all the qualifications and none of the disqualifications for directors as stated in the By-Laws and Manual of Corporate Governance. The Committee is also tasked to review the qualifications of executives prior to movement/promotion/hiring.

During the year, the Nomination Committee held three meetings. In addition to reviewing the profiles of the nominees for directors for the year 2008-2009 and approving the final list of nominees, the Committee approved the appointments/promotions of key officers, including the designation of the Chief Legal Counsel and the Chief Information Officer.

Personnel and Compensation Committee. The Personnel & Compensation Committee's main function is to establish a formal and transparent procedure for developing a policy on executive remuneration packages of corporate officers and directors, and other key personnel.

The Committee approved the grant of the 2008 Executive Stock Ownership Plan (ESOWN) to qualified officers of the Company during its sole meeting on June 3, 2008. A total of 22,956,400 share grants, representing a dilution of less than 0.2% of the Company's issued and outstanding common shares over a period of ten years, were awarded to qualified employees at a strike price of P9.74 per share.

Audit Committee. The Audit Committee provides assistance to the Board of Directors in fulfilling their oversight responsibility relating to the Company's financial statements and the financial reporting process, the systems of internal and financial reporting controls, internal audit activities, the annual independent audit of the financial statements, and compliance with legal and regulatory matters.

In 2008, four meetings were held. At these meetings, the Audit Committee reviewed and approved the 2007 Audited Financial Statements of the Company as prepared by the external auditors SyCip, Gorres, Velayo & Co. (SGV), as well as the 1st Quarter, 1st Semester and 3rd Quarter 2008 unaudited financial statements. The Committee likewise gave its recommendation on the appointment of SGV as the Company's external auditors for 2008 and the proposed remuneration.

In addition, the Audit Committee reviewed, noted and/or approved presentations by the Internal Audit Division on matters such as its audit plan for 2008, risk-based audit activities and special reviews; as well as presentations by SGV on matters such as its audit plan and an update on IFRIC 15 (Agreements for the Construction of Real Estate).

The Audit Committee's activities are further discussed in its Report to the Board of Directors.

Director and Senior Executive Compensation

Non-executive directors, defined as members of the Board of Directors who are neither an officer nor a consultant of the company, receive remuneration consisting of a fixed retainer fee and a fixed per diem for each regular Board and Board committee meeting attended. The remuneration of non-executive directors was approved and ratified during the 2003 Annual General Meeting and has not increased since then.

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

The total compensation paid to the CEO and key officers of management, is disclosed in the Definitive Information Statement sent to all shareholders, together with the Notice of the Regular Annual General Meeting. The total annual compensation reported includes the basic salary and other variable pay (performance cash bonus and the exercise of Employee Stock Option Plan).

MANAGEMENT

Management places high importance on having clear policies, best practices and strong internal controls in support of effective corporate governance.

Training in Corporate Governance

Along with the members of the Board, the Company requires members of the Management Committee and other key officers to receive periodic training in corporate governance. As of year-end 2008, 12 of the 13 members of the Management Committee and an additional nine key officers, including among others the Treasurer, the Deputy Compliance Officer and the Head of Corporate Strategy were certified by the ICD for having attended an accredited corporate governance orientation course. The Company remains committed to periodic upgrading of corporate governance training and intends to broaden the attendance to other members of senior and middle management beginning 2009.

Shareholder Value Creation

We seek to provide consistent and attractive growth in the value of our shareholders' investment and, thus, drive consistent growth in the value of our company.

Our strategies, business models and operating plans have been geared to ensure consistent progress in the underlying determinants of value. Targets have been set for value growth and are being measured.

We continue to place a high importance on Total Shareholder Returns as a key metric in the overall performance scorecards of management which are reviewed by the Board. At the same time, we are also putting more focus on two metrics we consider key to long-term growth and value creation. One is securing the growth pipeline, which includes securing future growth through new growth areas and investments. The second is measuring the success of foundation building initiatives, which include organizational alignment, decision support and project control systems.

Equally important, we have cascaded these performance targets to our strategic business units, as well as support units and ensured these are embedded in their strategies.

Risk Management

The Board and Management remain firmly committed to the effective management of strategic, operational, financial and compliance-related risks throughout the organization. One of the key responsibilities of the Board is to ensure the presence of adequate and effective organizational and procedural controls, supported by both management information systems and a risk management monitoring and reporting system.

Key risk management initiatives implemented in 2008 focused on the following areas:

Management of Strategic and Operational Risks. Even before we got hit by the market slowdown in the second half of last year, efforts to continuously improve the management of strategic and operating risks have been implemented. A more rigorous strategic planning and budgeting process has been developed and rolled out across the organization with particular focus on our SBUs to ensure that project proposals undergo stricter financial hurdles and are subject to appropriate downside scenario and sensitivity analyses, and that budgets are screened for the elimination of unnecessary or excessive spending before being passed for Board approval. Part of this process is the active monitoring and management of contingent liabilities, especially for our residential business where the risks are higher. This has resulted in the deliberate deferral of projects or the adjustment in the timing of some launches to take into account shifting market conditions. Related to this was the formation of a separate Investment Committee for further screening of high-value and high-profile projects in conjunction with the need to optimize cash management and capital efficiency.

Other initiatives implemented in 2008 include the establishment of a Project Control Division whose role is to actively monitor cost, construction and delivery timetables, and adherence to quality standards; a review of Board approval limits for the group; a more rigorous performance management system through more in-depth regular reports on company performance and areas of concern; and the continued implementation of a more risk-based internal audit process that we employ to evaluate and monitor the effectiveness of current risk management practices.

Management of Risks to Financial Assets. Exposure to liquidity, credit, interest rate, currency and equity risks arise in the normal course of our business activities. The main financial risk management objectives are: to identify and monitor such risks on an ongoing basis; minimize and mitigate such risks; and, provide a degree of certainty about costs.

Our Treasury Group operates as a centralized service for managing financial risks and activities, as well as providing optimum investment yield and cost-efficient funding.

Over the past years, and critically in the last few months, various initiatives were undertaken to strengthen the balance sheet to enable the Company to weather the possibility of a protracted industry slowdown. These initiatives were undertaken along the following balance sheet items: cash, debt, accounts receivable, equity capital, contingent liabilities and the sale of non-core assets. More details on the Company's efforts to effectively manage financial risks are discussed in the Notes to Financial Statements on page 86.

Management of Risks to Property/Physical Asset. We recognize our inherent exposure to both natural and operational perils, and, as such, responsibly employ pure risk assessment processes to identify and apply proper risk control, mitigation and transfer measures at optimized levels of cost.

Catastrophe risk modeling of international industry underwriters are validated using the latest catastrophe studies of government agencies to ensure that the Company gets natural peril cover based on scientific approaches to risk management. Furthermore, internal processes in the management of loss recovery and claims handling have been reviewed and updated to ensure better reporting and tracking of claims and have led to faster recovery and restitution of losses.

The Company also recognizes the need to establish long term relationships with the international insurance markets. Hence, an Insurance Road Show was conducted in collaboration with the Company's broker and lead insurers to promote Ayala Land as a responsible risk partner. This initiative furthered market confidence in Ayala Land, and immediately translated to improved coverage and rationalized premium arrangements.

Management of Risks in Supply Chain Management. As supply chain organizations gravitate toward a "build anywhere, source from anywhere" mindset, the risks associated with procurement and managing supply assume greater proportions. Examples of real-world procurement risks include long-term contracts at volatile prices, excessive dependence on one geography or supplier, supply disruptions (assurance of supply) due to natural disasters and supplier performance/quality. Proactive management of supply risk often requires a continuous evaluation of risk factors across the organization.

From an operational standpoint, procurement risk management begins with the design of the supply network. Our definition of design encompasses the identification of suppliers, the design of the sourcing protocols/controls as well as the definition of contract terms. Although most discussions of risk center on supply volumes, price volatility is an important consideration as well and may require the use of financial strategies and tools.

The following are some of the initiatives we implemented in 2008:

Assurance of Supply

- **Supplier Accreditation Process.** Ensures that the Company and its subsidiaries deal only with vendors that complied with pre-qualification requirements and procedures of our Supply Chain Management Division (SCMD). It also limits the award of contracts to all pre-qualified vendors according to their specific classification or commodity grouping. This facilitates the short-listing and sourcing process of vendors prior to bidding/purchase of goods and services.

- **Expansion of the Supplier Base.** Efforts to expand the supplier database resulted in the addition of 205 new suppliers. This resulted to 29% share of the awarded business to new vendors in 2008 as against of only 12% in 2007. New vendors' share of the contracts increased from 2.8% in 2007 to 12% in 2008 resulting to more competitive prices. This included expanding the General Contractor pool which increased the GenCon roster from four (in 2007) to nine (in 2008).

- **Supplier Partnering Program.** We continued enhancing our partnering or long-term contracts with key suppliers which represent binding commitments between the Company and the supplier in which prices and terms are usually locked for a year of non-volatile commodities critical to projects and operations. We have recently reviewed our long-term supply agreements to ensure that they incorporate best practices in contract documentation.

Financial Standing/Capability

- **Surety Bonds.** The use of surety bonds is practiced to secure advance payments to suppliers as well as serve as a guarantee that the value of work will not be lost. Surety bonds take different forms and include performance bonds to guarantee satisfactory competion of a project by a contractor or advance payment bonds which ensure the recovery of advance payments made if the agreement under which the advance was made cannot be fulfilled.

- **Financial background check of vendors/ contractors prior to awarding of contracts.** This is usually a part of the Vendor Pre-qualification process which involves the financial evaluation of the vendor using various financial ratios, including the Altman Z score, and Gross Financial Contracting Capacity (GFCC) and Net Financial Contracting Capacity (NFCC) based on the submitted audited financial statements. A third party credit rating agency is also contracted to prepare a separate vendor evaluation report which includes credit investigation, financial standing and feedback from other companies.

Supplier Quality/Service Support/After Sales

- **Supplier Performance Management.** This ensures that the Company and its subsidiaries deal only with the most reliable and capable suppliers. Vendor performance is evaluated using vendor performance evaluation reports and incident reports that is required from project proponents or end-users before payments are released. An incident report is prepared by the project proponent as end-users encounter incidents that transpire before, during or after contract/project implementation/execution that have significant negative impact to the company or project. This assists vendors in improving their products and services by providing them feedback on their performance.

Enterprise-Wide Risk Management. Overall, we believe that an enterprise-wide approach to risk management is critical in providing the Board and Management with reasonable assurance that threats that may adversely affect the Company's ability to maximize shareholder value and achieve our business objectives are identified, monitored and effectively mitigated. The Enterprise-Wide Risk Management (EWRM) framework targets the enhancement, as well as protection, of the unique combination of tangible and intangible assets which are key to delivering on the Company's value propositions and are the foundation of sustainable value creation.

Critical steps necessary to prepare for the implementation of EWRM were undertaken in 2008 in an effort led by the Compliance Officer and key officers of the Finance Group. An EWRM framework that links risk management to business strategy was adopted and a risk mapping exercise was carried out and completed with a preliminary risk universe being identified and defined. This is an ongoing process that will be continued in 2009 with the creation of a formal Risk Management Committee at the Board level, the appointment of select "risk management champions" in various business and functional units, and the regular monitoring and formal reporting on the status of risk mitigation efforts throughout the organization. A statement on the Company's commitment to EWRM appears on page 68.

MANAGEMENT OF STAKEHOLDER RELATIONS

We believe our long term success rests on contributions of different stakeholders, including shareholders, customers, business partners and employees.

Shareholders

We are committed to providing the investment community reliable and quality information on the Company, and enabling shareholders to freely communicate their views and concerns.

Annual General Meeting. Shareholder meeting and voting procedures are an important component of the framework established to safeguard the rights and interests of our shareholders.

Stockholders are informed at least fifteen (15) business days in advance of the scheduled date of the general meetings. Notices of regular or special meetings contain, in addition to the date, hour and place of the meeting, a statement of the matters to be transacted at each meeting. The notice to stockholders also set the date, time and place of the validation of proxies which is prescribed to be no less than five business days prior to the annual stockholders' meeting.

Each share of stock entitles the person in whose name it is registered in the books of the Corporation to one vote, provided the conditions as regards payment have been complied with.

Voting results on each matter taken up are posted on our Investor Relations website immediately after the stockholders' meeting.

In 2009, we allowed for proxy voting on separate items on the agenda, including the election of directors, ratification of all acts and resolutions of the Board of Directors and of the Executive Committee, and the election of the independent auditors and fixing their renumeration. Proxy voting for individual nominees for Directors was likewise allowed.

Shareholder Communications. We believe open and transparent communications are requisite for sustained growth and building investor confidence.

Through our Investor Communication and Compliance Division reporting directly to the Chief Finance Officer (CFO), we address the various information requirements of the investing public in general, and minority shareholders, in particular. Over the past years, we have enhanced the amount and quality of operating and financial information disclosed to enable the investing public to better understand the Company's net asset value.

Aside from disclosures to the Securities and Exchange Commission and the Philippine Stock Exchange, we conduct quarterly briefings for equity analysts and representatives of financial institutions, and communicate directly with shareholders through one-on-one meetings, emails and telephone calls.

Throughout the year, our CEO, CFO, Head of Investor Communications and Compliance, and other members of the Management Committee (where appropriate) make themselves available for meetings with institutional investors through pre-arranged company visits, teleconferences, analyst briefings and attendance in international conferences and roadshows. In 2008, senior management met with institutional investors and fund managers in conferences and corporate days held in Singapore, Hong Kong, New York, London and Dubai.

In line with our commitment to uphold high standards of disclosure, transparency and dissemination, we continue to enhance our Investor Relations website which includes podcasts of quarterly Analyst Briefings. In 2008, we made available a teleconference facility to enable investors to participate in our Quarterly Briefings. Playback is available for three days after each briefing.

Customers

Our customers play an integral part in the making of our company. Over many years, we have endeavored to build the trust and confidence of our customers by consistently delivering on-spec, on-time, and best-in-class products and services. In the last few years, we have sharpened customer focus and accountability, and have significantly improved our service levels.

COMPANY VALUES

We strongly believe in the primacy of shared values and the empowerment of people as basic operating principles.

We expect our employees, especially members of our Management Team, to conduct themselves properly and consistently with the Company's core values: customer orientation, quality, pursuit of excellence, integrity, social responsibility, long-term focus, empowerment, bias for results and concern for people.

Code of Ethical Behavior

These core values are reinforced through the Code of Ethical Behavior outlining the general expectations of and setting standards for behavior and ethical conduct of all employees on such matters as reporting of improper conduct, i.e. "whistle blowing procedure,' use of company assets and conflicts of interest.

All employees are required to promptly disclose any business- and family-related transactions. At the beginning of each year, our employees complete the mandatory form on "Business Interest/Related Party Disclosure."

A Manual of Personnel Policies includes the Code of Conduct governing acceptable office conduct for the orderly operation of the Company, as well as the protection of the rights, safety, and benefit of the total employee force.

Vendors' Code of Ethics

We are committed to ensuring firms or individuals providing a product or service to us or indirectly to any of our clients, agents and subcontractors, uphold our reputation and brand.

We expect vendors to share and embrace the letter and spirit of our commitment to the Vendors' Code of Ethics prescribing specific business and employment practices. By vendor, we mean any firm or individual that provides a product or service to us or indirectly to any of our clients. Our ethics expectations are communicated to our suppliers/vendors during the application for and renewal of accreditation.

Business Partners

We endeavor to build long-term, mutually-beneficial relationships with our business partners through fair dealings and adherence to a high level of moral conduct.

We recognize and respect the rights of creditors as stakeholders, and are committed to honoring our contractual financial obligations. We believe in maintaining their confidence as key to ensuring availability of credit at favorable terms and at the time needed.

We provide creditors ready access to balanced information about the organization and its projects. They attend our annual and quarterly analyst briefings.

Our procurement organization subscribes to the Principles and Standards of Ethical Supply Management Conduct set by the Institute for Supply Management. Strategic and operational procurement activities are guided by principles and standards of ethical conduct which include providing equal opportunities to and promoting fair and open competition among vendors and trade partners, and by continually benchmarking, developing, and implementing the best practices that will result to the highest level of productivity, efficiency, quality, and cost-competitiveness.

Employees

We endeavor to provide a suitable environment for learning and development and strategically set up our people for excellence by best training opportunities and custom-fitted programs.

Various training programs cover business and technical knowledge and skills, values, ethics and good governance which we view to be building blocks for professional development and Company growth. Among the leadership-based programs is a requirement for all Board members and senior management to attend a course on Corporate Governance.

Under the Individual Development Plan process, our employees actively collaborate with managers to determine skills, knowledge and experiences needed in their current and prospective future roles.

ACCOUNTABILITY AND AUDIT

The Audit Committee provides oversight to external and internal auditors.

Independent Public Accountants

The principal accountant and external auditor of the Company is the accounting firm of SyCip, Gorres, Velayo & Co. (SGV). Ms. Lucy L. Chan has been the Partner-in-charge effective audit year 2007.

Audit and Audit-Related Fees. Ayala Land and its subsidaries paid its external auditors P8.1 million and P7.7 million (with VAT) for audit and audit-related fees in 2008 and 2007, respectively. No fees were paid for other assurance and related services for the past two years.

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

Internal Audit

The Internal Audit Division, headed by a Chief Audit Executive, reports to the Audit Committee of the Board of Directors.

The Internal Audit Division provides independent and objective assurance and advisory services to the Company with the following objectives: strengthen the internal control structure, identify opportunities for process and control improvements, monitor compliance with laws and regulations, share best practices, and enhance the operations and shareholder value of the Company, its subsidiaries and affiliates. Through the Audit Committee, the Internal Audit Division assists the Board of Directors carry out its duties and responsibilities as provided for in the Code of Corporate Governance.

Risk-based Audit Approach. The Internal Audit Division executed its audit activities for 2008 in accordance with the risk-based audit approach. This approach is in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (Standards) and, at the same time, complies with the Securities and Exchange Commission's Code of Corporate Governance (SEC Memorandum No. 2: Series of 2002).

External Quality Assurance. Following the thorough assessment, review and conclusion by Manabat, Sanagustin & Co. (KPMG) in 2007 that the Company's internal audit activity generally complies with the Standards and Code of Ethics, the Internal Audit Division introduced strategic changes to the positioning, people management system and processes of the function in support of overall business goals. "Generally complies" means that KPMG has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the Standards and Code of Ethics in all material respects.

DISCLOSURE AND TRANSPARENCY

We are committed to high standards of disclosure, transparency and dissemination.

RECOGNITIONS

We take pride in being recognized for our corporate governance initiatives and efforts to reach out to our stakeholders.

- Ayala Land was voted the most admired company overall in the 2008 Survey of the "200 Most Admired Companies in the Philippines" conducted by The Wall Street Journal Asia. The survey covered five attributes: namely, company reputation (which includes corporate governance, social, and environmental policies); quality of products and services; management's long-term vision; innovativeness in responding to customer needs; and financial soundness.

- Ayala Land garnered the award for Best Overall Developer in the Philippines in the Liquid Real Estate Poll 2008 conducted by Euromoney from March to September 2008.

  Ayala Land also won top awards for various industry segments: Best Residential Developer in the Philippines; Best Retail/Shopping Developer in the Philippines; Best Office/Business Developer in the Philippines; Best Industrial/Warehouse Developer in the Philippines; Best Leisure/Hotel Developer in the Philippines; and, Best Mixed-Use Developer in the Philippines.

  Apart from the Developer Services category, Ayala Land achieved top ranking in the Property Management category and won the award for Best Property Manager in the Philippines.

- Ayala Land, Inc. was also accorded the recognition for having the "Best Investor Relations by a Philippine company" in the 2008 IR Magazine South East Asia Awards. The awards, which are based on an extensive, independent research survey of analysts and portfolio managers globally who cover the South East Asian equity markets, were given to those deemed to have the highest degree of transparency, access and responsiveness as judged by investment professionals.

- Euromoney named Ayala Land a winner of the Euromoney 'Best Managed and Governed Companies - Asia Poll 2008' for having the overall most useful and informative Investor Relations website in Asia. The survey found our website to be state-of-the-art, not only on a national level but on a regional one.

- The Company was also cited for corporate governance in Philippines by Asset Corporate Governance Awards 2008.

Ownership Structure

We disclose quarterly and annually the top 100 holders of our common and preferred shares, and the security ownership of certain record and beneficial owners having more than 5% of total outstanding stock, as well as the security ownership of directors and management. This information is relayed quarterly through postings in our Investor Relations website and annually in the Definitive Information Statement sent to shareholders.

The following were the significant developments affecting our ownership structure during the year:

- Ayala Corporation owned 76% of the total common and preferred shares of the Company as of December 31, 2008.
- None of our directors or members of management own 2.0% or more of our outstanding capital stock. There are no cross or pyramid shareholdings.
- In the 3rd Quarter, we began to buy back Company shares after securing Board approval for a buyback program up to an authorized amount of P3.0 billion worth of the Company's issued and outstanding common shares as part of our balance sheet management program.
- As of December 31, 2008, we had used a total of P823 million for the cumulative purchase of 79.5 million shares, at an average price of P10.36 per share. The buy back program did not involve any active solicitation and was implemented through open market purchases executed through the electronic trading facilities of the Philippine Stock Exchange.

Content and Timing of Disclosures

We provide the public with strategic, operating and financial information through adequate and timely disclosures filed with the Securities and Exchange Commission and the Philippine Stock Exchange.

Along with periodic reports, we punctually disclose major and market-sensitive information. In 2008, these include the sale of our equity in three subsidiaries; the issuance of P5 billion corporate bonds; the allotment and issuance of up to 1 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 needed for the business of the Corporation via issuance of equity or equity-linked investments; and Board approval of the share buyback program. We have disclosed every buyback transaction entered into since creation of the share buyback program in August 2008.

Financial Reporting

Our financial statements comply with Philippine Financial Reporting Standards (PFRS) which are in compliance with International Accounting Standards.

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

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

In compliance with SEC directive issued in 3rd Quarter 2008, we have included in our Quarterly Reports an assessment of the financial risk exposures of the Company and its subsidiaries, particularly on currency, interest, credit, market and liquidity risks.

The Group will adopt other new and amended PFRS and Philippine Interpretations when these become effective in the future. These changes in Accounting

BOARD COMMITTEES AND MEMBERS

Executive Committee

Fernando Zobel de Ayala	Chairman
Jaime Augusto Zobel de Ayala	Member
Jaime I. Ayala	Member
Delfin L. Lazaro	Member
Ramon R. del Rosario, Jr.*	Member

Nomination Committee

Fernando Zobel de Ayala	Chairman
Jaime I. Ayala	Member
Ramon R. del Rosario, Jr.*	Member

Personnel & Compensation Committee

Fernando Zobel de Ayala	Chairman
Jaime Augusto Zobel de Ayala	Member
Mercedita S. Nolledo	Member
Francis G. Estrada*	Member

Audit Committee

Ramon R. del Rosario, Jr.*	Chairman
Mercedita S. Nolledo	Member
Corazon S. de la Paz-Bernardo*	Member

*Independent Director

Policies are fully explained in the Notes to the Audited Consolidated Financial Statements.

DEALINGS IN SECURITIES

We continue to implement a policy on securities transactions in compliance with existing government regulations against insider trading.

Reporting of Transactions

Acquisition, disposal or change in ALI shareholdings by Directors and Management Committee members are reported to the Securities and Exchange Commission within five days from the transaction. All other officers submit a quarterly report on their trades of Company shares to the Office of the Compliance Officer.

Trading Black-outs

We strictly enforce and monitor compliance with a policy on insider trading which prohibits the buying or selling of ALI securities during prescribed periods by directors, officers and employees who are considered to have knowledge of material facts or changes in the affairs of Ayala Land which have not been disclosed to the public.

Covered persons include members of the Board of Directors, key officers, consultants, advisers, and ALI employees who have been made aware of undisclosed material information with respect to the Company and its operations. This restriction is expanded to include the immediate families of the parties mentioned.

The trading black-outs cover ten (10) trading days before and three (3) trading days after disclosure of quarterly and annual financial results. In the case of other material information disclosed, the black-out covers three trading days before and after disclosure.

Insider Trading

We continue to implement a policy on securities transactions in compliance with existing government regulations against insider trading. There has not been any case of insider trading involving company directors or management in the past five years.

ANTI-MONEY LAUNDERING

As a covered institution, we comply with all rules, regulations and directives issued by the Bangko Sentral ng Pilipinas and the national government's Anti-Money Laundering Council (AMLC). This covers general information requirements for customers, record-keeping, and the reporting of covered and/or suspicious transactions. We have an internal Anti-Money Laundering Committee that meets at least quarterly to review and discuss specific transactions (if any), possible changes in the regulatory environment, enhancements to the documentation and front-liner training, and other issues. We also regularly engage the AMLC in productive discussions on how we can enhance our compliance and we cooperate fully with any request from the regulatory agencies that may arise in the course of our interaction.

COMPLIANCE OFFICER

Jaime E. Ysmael, who is our Chief Finance Officer and holds the position of Senior Vice President, is the Compliance Officer designated to ensure adherence to corporate governance principles and best practices.

Alfonso Javier D. Reyes, who is our Head for Investor Communications and Compliance Division, is our Deputy Compliance Officer.

SUMMARY OF DIRECTOR'S ATTENDANCE: 2008

	Regular Meetings				ASHM	
Director	Feb.12	May 12	Aug 12	Nov 6	April 2	Percentage
Fernando Zobel de Ayala	P	P	P	P	P	100%
Jaime Augusto Zobel de Ayala	P	P	A	P	P	80%
Jaime I. Ayala	P	P	P	P	P	100%
Delfin L. Lazaro	P	P	P	P	P	100%
Mercedita S. Nolledo	P	P	P	P	P	100%
Leandro Y. Locsin, Jr. *	P	-	-	-	-	100%
Aurelio R. Montinola III	P	A	P	A	P	60%
Corazon S. de la Paz-Bernardo	P	P	P	P	P	100%
Ramon R. del Rosario, Jr.	P	P	P	A	A	60%
Francis G. Estrada**	-	A	P	P	P	75%

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

P - Present
A - Absent

Enterprise-Wide Risk Management Statement

Risk is inherent in our business. The identification, monitoring and effective mitigation of these risks are critical in delivering the Company's business objectives and in creating sustainable shareholder value.

Risk will manifest itself in many forms and has the potential to impact the market, operational and financial performance of the Company as well as its reputation and the regulatory and socio-economic environment in which we operate. By understanding and managing risks more effectively, we provide greater certainty and confidence for our shareholders, employees, customers, partners, suppliers and the communities in which we operate.

The ultimate goal of Enterprise-wide Risk Management is to enhance the shareholder value of Ayala Land, Inc. and its subsidiaries and affiliates. It is also an integral part of our overall effort to adopt world-class corporate governance practices. With the effective management of risks being vital to the continued growth and success of the Company, we hereby state and commit that:

1. Risks faced by Ayala Land, Inc. and its subsidiaries and affiliates shall be identified, monitored and managed effectively and to the best of our ability at all times. The Company will use its risk management capabilities to maximize the long-term fundamental value of its assets, existing business portfolio and future business opportunities.
2. Enterprise-wide Risk Management will be embedded in the Company's critical business activities, functions and processes. The understanding of key risks and the Company's appetite and tolerance for these risks will be critical considerations in the various decision making processes involving our business and functional units, including project planning, launch and delivery, capital and resource allocation, investment and partnering opportunities, business operations, sales and marketing, service support, and others.
3. A robust risk assessment system, methodology and reporting structure will be used with all risk issues identified, analyzed, assessed, and monitored in a consistent manner. Risk controls will be designed and implemented to reasonably assure the achievement of the Company's goals and objectives. The effectiveness of these controls and the mitigating strategies and action plans will be systematically reviewed and, where necessary, improved.
4. The performance of our Enterprise-wide Risk Management initiatives will be regularly monitored, reviewed and reported. The risk management function will be implemented by the Chief Finance Officer and Compliance Officer, with oversight from the Board of Directors through a specially constituted Risk Management Committee.

JAIME I. AYALA
President and Chief Executive Officer
February 2009

A Responsible Approach to Development

Ayala Land's approach to land development extends beyond traditional brick-and-mortar notions into our vision of enhancing land and enriching lives. Our journey into sustainability allows us to progress into responsible development with greater maturity, so that we help our customers and communities fulfill their environmental, social, and economic goals fully and responsibly. This is why Ayala Land continues to be an industry leader and is now recognized as a stalwart of sustainable land development practices in the country.

Our responsible approach to development is upheld by five pillars, which we seek to continue to strengthen and report on as we progress in this practice. Environmental stewardship deals with the effective mitigation of our impact on the environment and addresses the sufficiency of resources as we develop land and communities. Community stewardship targets a more inclusive business model of raising the standard of sustainable living for the communities in which we operate. Personnel development, health and safety as well as market shaping continue to be key pillars because we believe that our employees and our customers can serve as effective agents of

change for sustainable practices in the country. A final pillar, accountability and planning, commits to consistent reporting to the public at large so that we are held accountable for our practices. Our five pillars compel us to plan according to international standards and to act in accordance with what needs to be done given the urgency of the impact of climate change and its effects on businesses.

ENSURING ENVIRONMENTALLY SENSITIVE DEVELOPMENT

In our efforts to promote environmental sustainability in land development and facilities management, the efficient use of resources such as energy and water is a priority. This is relevant both in terms of what we generate during our project development stages as well as what our residents and customers can contribute as they live and work in our communities. Sustainable construction and green materials selection, coupled with our life cycle assessment program, help to guard against wastefulness and to guarantee longevity and sustainability. Our buildings continue to receive recognition for their efficiency boosting initiatives, including 16 Don Emilio Abello Energy Awards in 2008. As we put more of these green systems and practices in place, we hope to foster a culture of a more conscientious consumption of energy and resources among our stakeholders.

Our award-winning solid waste management program, established back in 2001, consistently comes up with innovative solutions to the growing challenges of proper solid waste disposal into our environment. Through our partnership with the Ayala Foundation, Ayala Property Management Corporation, Ayala Center Association, and the Makati Commercial Estates Association, we continue to encourage public participation in this program. In 2008, we conducted 32 waste management seminars in our commercial and residential properties. Of the 372 buildings in the Makati CBD, 319 are already currently practicing SWM. The volume of residential waste generated from APMC-managed properties last year was 1,964,128 kilograms lower than the previous year, resulting in savings of P549,956 in hauling fees. Last year we held the Ayala Recyclables Fair in our various malls to provide the public with a convenient way of disposing of their recyclables. Special recyclables fairs were also held in three of the leading

50%
Potential savings in potable water consumption through the reuse of greywater for toilet flushing, landscape irrigation, and car-washing.

universities in the country, collecting an estimated P1 million worth of recyclables.

The conservation of biodiversity is another area we take a strong interest in and important watershed areas have been included in our environmental efforts. Our recent biodiversity audit in NUVALI showed that there are 65 bird species that must be protected and monitored. Tree-planting activities were conducted in the Buhisan Watershed by employees of the Cebu City Marriott, and in NUVALI to protect the quality of water, soil, biodiversity, and other natural resources that can improve the value of our properties. Specific tree species were also planted to attract the nesting and habitation of twenty different species of birds in the area. A coastal and underwater cleanup was also conducted by our employees last year in Morong, Bataan – a neighboring community of our Anvaya Cove – to protect the coral reefs which provide an effective natural breakwater as well as a source of food and income to the residents in the area.

ELEVATING SUSTAINABILITY AND ACCOUNTABILITY IN OUR CORPORATE CONSCIOUSNESS

BeneficiALI as a campaign has evolved into a bigger framework embedded in our operations and management practices and continues to be the focal point of activities that promote sustainable practices among internal and external stakeholders.

Last year we set up the ALI Sustainability Council, which provides the organization with proper tools and guidance in managing and meeting our goals. The ALI Sustainability Work Plan has been developed and now serves to guide our strategic business units in embedding sustainability principles in their day-to-day operations. We continue to report on our progress in meeting our triple bottom line goals in line with our commitment to submit a sustainability report annually. The 2008 report will now increase our reporting from 16 to 23 performance indicators, with monitoring, tracking and data gathering for another 8 indicators that we intend to include in our reporting in the future. This represents an upgrade from C-level to B-level reporting as per the standards of the Global Reporting Initiative (GRI) which we comply with.

We continue to encourage our employees to participate in our sustainability initiatives through Green Training and VoluntarALI, our high-impact employee volunteer program. Apart from environmental projects mentioned earlier, our employees gathered together 120 science high school students and organized a climate change film showing and discussed sustainability issues in an open forum following the film. Meanwhile, the World Wide Fund for Nature-Philippines, our strategic partner in sustainability, also gave a talk on garbage segregation to the residents of Sabang, another neighboring community of Anvaya Cove, to teach them about environmental protection and accountability.

Overall VoluntarALI has been very successful in channeling the interest and enthusiasm of employees towards consistent, deliberate, and meaningful action. In 2008, 386 out of 533 ALI employees availed of their paid VoluntarALI leaves to participate in the programs

65
Number of Bird Species identified at NUVALI during a 2-week study conducted by Haribon Foundation

mentioned above. This effectively translated into 1,968 hours of paid volunteer activity by the Company.

ENSURING A HAPPY, HEALTHY, AND SAFE WORKPLACE

We place a great deal of importance in creating a workplace that supports the personal and professional development of our employees. We continue to implement our Human Resources Corporate Learning and Development program so that Ayala Land employees are able to maintain their competitive edge in the industry.

In 2008, we established the baseline data for people development according to the GRI framework. This complemented our career development program and we were able to comprehensively cover the different aspects that measure concern for our employees' welfare and safety and also address gender and diversity representation issues. These are reported on in greater detail in our Ayala Land Sustainability Report, which can be viewed on our website at www.ayalaland.com.ph. We also conducted regular safety and security training sessions throughout the year and we are pleased to report that there were neither work-related injuries nor fatalities, reflecting our vigilance in protecting the physical well-being of our people.

The annual evaluation of employees and regular KRA reviews were in place to ensure alignment of individual and Company goals and to sufficiently reward performance. Coaching, role-modeling, trainings and lectures were offered regularly to enhance workplace performance, in support of the career goals of employees. Our employee development and incentive programs are discussed in greater detail on page 50.

LINKING UP FOR SUSTAINABILITY

As the Company progressed into greater alignment on sustainability, all the different strategic business units have likewise stepped up to the challenge. The Ayala Hotels unit was especially enthusiastic in its adoption of social and environmental sustainability guidelines. Both the Hotel InterContinental Manila and the Cebu City Marriott put in place community stewardship programs on education, the environment, livelihood, and health last year, an example of which was the Global Community Initiatives SERVE for Cebu City Marriott. Hotel InterContinental meanwhile also passed the "green" requirements of EC3 Global, and it is now recognized as a Green Globe Bronze Benchmarked Company.

In 2008, Ayala Land participated in the development of the Ayala Social Initiatives' (ASI) first community report using the GRI framework. Spearheaded by the Ayala Foundation, ASI covers community stewardship programs

Our monthly Ayala Recyclables Fairs have generated over **142,000** kilograms of non-traditional, recyclable waste, such as electronic appliances, cellphone wastes, and car batteries.

that address challenges in education, the environment, and entrepreneurship, with Ayala Land under the ASI's environmental pillar. To Ayala Land, aligning with the group's initiatives concurrently with our sustainability goals provides a broader perspective of how we affect communities. This serves as a clear signal of the group's intentions to develop a replicable, high-impact CSR model that positions business as a positive agent of widespread social change.

Working with the other Ayala Group companies, the Company was able to share best practices on sustainability goals and also learn about other measures that we may be able to replicate or apply in our developments. Ultimately, this strategic participation in the ASI will allow Ayala Land to further refine its approach to sustainable land development especially in conjunction with the broader perspective of national development.

WORKING TOGETHER FOR EDUCATION

With the goal of improving educational infrastructure on a national scale, Ayala Land continued its support of the following high-impact projects: Gearing up Internet Literacy and Access for Students (GILAS), a multi-sectoral social consortium composed of members from the business, government, and civil society that seeks to provide all public high schools nationwide with Internet-enabled computer laboratories; CENTEX, pilot public elementary schools that provide bright and deserving students from under-resourced families with a quality education in a unique and innovative public school environment; and the Ayala Young Leaders Congress, a leadership development program aiming to cultivate leadership ideals and linkages among the country's most promising youth leaders.

In 2008, GILAS connected an additional 448 Philippine public high schools nationwide, giving 224,000 students access to the Internet. Over 9,000 teachers from 2,123 schools have been trained on information communications technology (ICT), PC maintenance, networking and sustainability. Today, GILAS has achieved 100% connection in 37 areas nationwide, and at least 2 million students are benefiting from the Internet as a tool for education. CENTEX provided high-quality education to 995 elementary students, and assisted 198 CENTEX graduates to be able to continue their high-school education. CENTEX Manila ranked number one in the National Achievement Test in Manila and CENTEX Batangas reaped numerous academic awards at all grade levels. To ensure the full integration and certification of the unique CENTEX curriculum with the Department of Education, CENTEX also held a curriculum audit workshop.

Amount of carbon dioxide in kilograms annually removed by 640 trees preserved during the re-development of Greenbelt is equivalent to removing

1,000

cars off the streets once a week


Greenbelt 5


Coastal and underwater cleanup in Morong, Bataan

Finally, 74 outstanding student leaders from all over country participated in the 10th Ayala Young Leaders Congress (AYLC), held in February, with the theme, "Leadership: A Call to Moral Courage." AYLC alumni now total 803 active members, with several Ayala Young Leaders Alliance (AYLA) chapters all over the country. The alliance also launched the Resource and Fund Generation Project for Disaster Management (REFUGE) in 2008. REFUGE builds on AYLA's experience in regional relief operations during natural disasters. In addition to all these, a group organized by the Ayala Land secretaries collected and donated elementary and secondary educational materials to two school libraries in Taguig and Canlubang.

HOLISTIC COMMUNITY DEVELOPMENT

Building social infrastructures that address the diverse needs of contemporary society is crucial to a holistic approach to urban living as diversity of social infrastructure is a sign of a healthy urban space.

Thoughts on Sustainability

"The late 20th century was an age of indulgence and excess. The 21st century will be an age of responsible consumption, when the enduring values of the past will reclaim their rightful place. This new age is as inevitable as the warming of the earth and the drying up of the oil wells. Our duty to ALI and its stakeholders is to prepare the company for that new age."

– Vincent Tan, Executive Vice-President, Ayala Land

The Filipinas Heritage Library and the Ayala Museum, two prominent arts and culture institutions in the country located in our Makati CBD, continue to receive support from Ayala Land. In turn, they offer free and subsidized educational tours and programs on Philippine arts, history, and culture to public school students, specifically from Makati. Ayala Land also supported the projects of the Bonifacio Arts Foundation, Inc. (BAFI), which seeks to build and nurture similar institutions in Bonifacio Global City (BGC). A major project of BAFI is The Mind Museum, which is expected to be Philippines' first world-class science museum and an important community-learning center. What makes The Mind Museum unique is its focus on the sciences and its thrust of supplementing the science education of both students and teachers, critical in today's competitive global economy.

Ayala Land believes that practicing community stewardship must extend to the neighboring communities of our developments. To this end, Ayala Land continued to implement various livelihood and health programs to help promote the economic and physical well-being of residents in these areas. Our Alay Kalusugan (Gift of Health) program, implemented in various communities through our External Affairs Division, benefited hundreds of residents from different health programs and medical missions throughout 2008.

We are also conscious of the principles of inclusive development, and we make it a point when possible to source manpower from the communities where we have major development projects in order to improve their economic sustainability.

SHAPING THE MARKET OF THE FUTURE

Finally, we believe in the importance of taking leadership in shaping the behavior of the market and the stakeholders we affect as they progress towards a more sustainable lifestyle.

We want our stakeholders to see our communities as spaces where they can fulfill their economic and social goals while protecting their resources and the environment as a whole. The ongoing development of NUVALI and Anvaya Cove serve to highlight these principles of sustainable living and provide a realistic showcase of what is already possible. Ensuring that the resources of today continue to provide for the needs of tomorrow ultimately means heightened awareness and changes in behavior. Our buildings and the communities in which we operate—efficient, responsive to live, work and play at, aesthetically pleasing, and built to last—help shape this new market of the future.

NUVALI Tree Planting

Statement of Management's Responsibility for Financial Statements

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

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

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

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

FERNANDO ZOBEL DE AYALA
Chairman, Board of Directors

JAIME I. AYALA
President

JAIME E. YSMAEL
Chief Finance Officer

Report of Audit Committee to the Board of Directors For the Year-end December 31, 2008

The Audit Committee's roles and responsibilities are defined in the Audit Committee Charter approved by the Board of Directors. The Audit Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to:

a) the Company's financial statements and the financial reporting process,
b) the systems of internal controls and financial reporting controls,
c) the internal audit activity,
d) the annual independent audit of the Company's financial statements and,
e) compliance with legal and regulatory matters.

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

- An independent director chairs the Audit Committee;
- We had four (4) meetings during the year with all the members present except on November 7, 2008 when the Chairman was unable to join;
- We recommended to the Board of Directors the re-appointment of SGV & Co. as independent external auditor for 2008, based on the review of their performance and qualifications, including consideration of management's recommendation;
- We reviewed and discussed the quarterly consolidated financial statements and the annual consolidated financial statements of Ayala Land, Inc. and subsidiaries (the "Company"), including Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2008, with the Company's management and SGV & Co. These activities were performed in the following context:
    - That management has the primary responsibility for the financial statements and the reporting process.
    - That SGV & Co. is responsible for expressing an opinion on the conformity of the Company's consolidated audited financial statements with Philippine Financial Reporting Standards.
- We discussed and approved the overall scope and the respective audit plans of the Company's Internal Auditors and SGV & Co. We have also discussed the results of their audits and their assessment of the Company's internal controls and the overall quality of the financial reporting process;
- We reviewed and approved all audit services provided by SGV & Co. to the Company and the related fees for such services, and have concluded that such services do not impair their independence;
- We reviewed the reports of the Internal Auditors, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance with legal and regulatory issues;

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit Committee recommended to the Board of Directors the inclusion of the Company's consolidated financial statements as of and for the year ended December 31, 2008 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

February 9, 2009

RAMON DEL ROSARIO, JR. Committee Chair	CORAZON DE LA PAZ-BERNARDO Member	MERCEDITA S. NOLLEDO Member

The Stockholders and the Board of Directors
Ayala Land, Inc.

We have audited the accompanying consolidated financial statements of Ayala Land, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ayala Land, Inc. and Subsidiaries as of December 31, 2008 and 2007, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

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

February 16, 2009

Ayala Land, Inc. and Subsidiaries
Consolidated Balance Sheets
(Amounts in Thousands)

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 27)	**₱12,655,402**	₱11,271,906
Short-term investments (Notes 5 and 27)	**1,008,923**	2,035,606
Financial assets at fair value through profit or loss (Notes 5 and 27)	**1,778,720**	318,018
Accounts and notes receivable - net (Notes 6 and 27)	**15,795,711**	11,124,597
Real estate inventories (Note 7)	**8,139,898**	6,696,007
Other current assets (Notes 8 and 27)	**4,556,487**	2,533,319
Total Current Assets	**43,935,141**	33,979,453
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 6 and 27)	**1,780,191**	3,475,306
Land and improvements	**15,942,380**	16,399,388
Investments in associates and jointly controlled entities (Note 9)	**9,916,380**	9,038,676
Available-for-sale financial assets (Notes 10 and 27)	**468,860**	366,788
Investment properties - net (Note 11)	**17,482,504**	13,792,850
Property and equipment - net (Notes 12 and 14)	**8,947,846**	4,015,226
Deferred tax assets - net (Note 20)	**794,534**	670,886
Other noncurrent assets	**1,185,125**	1,242,672
Total Noncurrent Assets	**56,517,820**	49,001,792
	₱100,452,961	₱82,981,245

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 13 and 27)	**₱20,654,472**	₱15,758,816
Short-term debt (Notes 14 and 27)	**1,279,500**	1,613,000
Income tax payable	**89,084**	167,124
Current portion of long-term debt (Notes 14 and 27)	**244,142**	2,376,600
Other current liabilities	**1,115,727**	623,294
Total Current Liabilities	**23,382,925**	20,538,834
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14 and 27)	**15,227,888**	6,149,874
Pension liabilities (Note 24)	**98,626**	175,837
Deferred tax liabilities - net (Note 20)	**162,360**	114,443
Deposits and other noncurrent liabilities (Notes 15 and 27)	**5,600,926**	4,375,807
Deferred credits (Note 15)	**937,468**	880,679
Total Noncurrent Liabilities	**22,027,268**	11,696,640
Total Liabilities	**45,410,193**	32,235,474

(Forward)

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

See accompanying Notes to Consolidated Financial Statements.

Ayala Land, Inc. and Subsidiaries
Consolidated Statements of Income
(Amounts in Thousands, Except Earnings Per Share Figures)

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

See accompanying Notes to Consolidated Financial Statements.

Ayala Land, Inc. and Subsidiaries
Consolidated Statements of Changes in Equity
(Amounts in Thousands, Except Par Value and Cash Dividends Per Share Figures)

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

(Forward)

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

See accompanying Notes to Consolidated Financial Statements.

Ayala Land, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Amounts in Thousands)

	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱7,447,957**	₱6,053,136	₱5,688,832
Adjustments for:			
Depreciation and amortization (Notes 11, 12 and 19)	**1,258,169**	1,310,457	1,067,280
Interest expense - net of amount capitalized (Note 19)	**1,033,756**	870,513	795,089
Dividends received from investees (Note 9)	**170,934**	84,377	72,779
Cost of share-based payments (Note 26)	**138,916**	104,704	148,004
Other charges	**67,128**	302,995	230,947
Gain on sale of investments (Note 19)	**(761,815)**	(1,003,976)	(608,865)
Equity in net earnings of associates and jointly controlled entities (Note 9)	**(884,727)**	(787,209)	(306,233)
Interest income	**(925,973)**	(337,818)	(443,777)
Other income (Note 19)	**(6,974)**	(129,680)	(43,841)
Operating income before changes in working capital	**7,537,371**	6,467,499	6,600,215
Decrease (increase) in:			
Accounts and notes receivable - trade	**(3,072,955)**	(2,009,164)	54,925
Real estate inventories	**(995,750)**	2,207,429	(779,221)
Other current assets	**(1,882,680)**	(624,571)	(80,282)
Increase (decrease) in:			
Accounts and other payables	**4,354,501**	3,821,922	1,214,997
Other current liabilities	**451,222**	180,674	260,475
Pension liabilities (Note 24)	**(77,211)**	83,909	(17,117)
Cash generated from operations	**6,314,498**	10,127,698	7,253,992
Interest received	**753,306**	346,712	431,603
Income tax paid	**(2,232,676)**	(1,725,723)	(1,461,760)
Interest paid	**(1,219,156)**	(817,536)	(947,258)
Net cash provided by operating activities before cash items associated with noncurrent assets held for sale	**3,615,972**	7,931,151	5,276,577
Net cash provided by operating activities associated with noncurrent assets held for sale	**–**	598,666	291,672
Total cash provided by operating activities	**3,615,972**	8,529,817	5,568,249
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale of investments and financial assets at fair value through profit or loss	**1,633,405**	1,389,974	460,000
Sale of available-for-sale financial assets	**11,786**	12,791	4,980
Disposal of property and equipment	**18,332**	–	263,236
Disposals of (additions to):			
Short-term investments and financial assets at fair value through profit or loss	**(902,952)**	2,596,048	(3,711,834)
Available-for-sale financial assets (Note 10)	**(100,000)**	–	(26,840)
Land and improvements	**(131,833)**	(548,392)	237,606
Investments in associates and jointly controlled entities	**(794,476)**	175,944	(1,528,059)
Investment properties	**(765,905)**	(699,180)	(343,689)
Property and equipment (Note 12)	**(4,236,019)**	(2,018,156)	(1,696,764)
Acquisition of a subsidiary, net of cash acquired (Note 21)	**(425,337)**	–	–
Decrease (increase) in:			
Accounts and notes receivable - nontrade	**898,011**	(360,202)	(297,439)
Other noncurrent assets	**19,576**	31,124	113,220
Net cash provided by (used in) investing activities before cash items associated with noncurrent assets held for sale	**(4,775,412)**	579,951	(6,525,583)
Net cash used in investing activities associated with noncurrent assets held for sale, including cash balance	**–**	–	(361,691)
Total cash provided by (used in) investing activities	**(4,775,412)**	579,951	(6,887,274)

(Forward)

	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short and long-term debt (Note 14)	**₱5,973,956**	₱956,961	₱3,584,424
Payment of short and long-term debt (Note 14)	**(2,710,100)**	(3,654,899)	(1,017,342)
Increase (decrease) in:			
Deposits and other noncurrent liabilities	**992,790**	774,807	614,393
Minority interest in consolidated subsidiaries	**2,192**	(821,535)	(645,617)
Proceeds from issuance of preferred shares	**–**	1,303,460	–
Proceeds from capital stock subscriptions	**58,172**	57,126	35,515
Acquisition of treasury shares	**(823,410)**	–	–
Dividends paid to minority	**(119,402)**	(367,923)	(225,977)
Dividends paid to equity holders of Ayala Land, Inc. (Note 16)	**(831,262)**	(716,450)	(1,841,355)
Net cash provided by (used in) financing activities before cash items associated with noncurrent assets held for sale	**2,542,936**	(2,468,453)	504,041
Net cash used in financing activities associated with noncurrent assets held for sale	**–**	–	(187,120)
Total cash provided by (used in) financing activities	**2,542,936**	(2,468,453)	316,921
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,383,496**	6,641,315	(1,002,104)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**11,271,906**	4,630,591	5,632,695
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱12,655,402**	₱11,271,906	₱4,630,591

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

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

The consolidated financial statements of Ayala Land, Inc. and Subsidiaries as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 were endorsed for approval by the Audit Committee on February 9, 2009 and were authorized for issue by the Executive Committee of the Board of Directors (BOD) on February 16, 2009.

2. **Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

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

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

Ayala Land, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the adoption of the following Philippine Interpretations and Amendments which became effective on January 1, 2008, and amendments to existing standards that became effective on July 1, 2008.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*, requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if: (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. Adoption of this Interpretation did not have a significant impact on the Group's consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangement*, covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. Adoption of this Interpretation did not have any impact on the Group's consolidated financial statements as it is not applicable to its operations.

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

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 7, *Financial Instruments: Disclosure*, became effective beginning July 1, 2008. The Amendments to PAS 39 introduce the possibility of reclassification of securities out of the trading category in rare circumstances and reclassification to the loans and receivable category if there is intent and ability to hold the securities for the foreseeable future or to held-to-maturity if there is intent and ability to hold the securities until maturity. The amendments to PFRS 7 introduce the disclosures relating to these reclassifications. Adoption of these amendments did not have any impact on the Group's consolidated financial statements since the Group did not avail of the reclassification allowed under these amendments.

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

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  This Amendment will become effective January 1, 2009. It allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27, *Consolidated and Separate Financial Statements*; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- Amendment to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
  This Amendment will become effective January 1, 2009. The Standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires nonvesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a nonvesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a nonvesting condition that is beyond the control of either party does not give rise to a cancellation.

- PFRS 8, *Operating Segments*
  PFRS 8 will become effective January 1, 2009. It will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and the Group will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its consolidated financial statements with a securities commission or similar party. The Group is in the process of assessing the impact of the Standard on its current manner of reporting segment information.

- Amendment to PAS 1, *Presentation of Financial Statements*
  This Amendment will become effective January 1, 2009. It introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income' (OCI). Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Amendment also requires additional requirements in the presentation of the consolidated balance sheets and equity as well as additional disclosures to be included in the consolidated financial statements. Adoption of this Amendment will not have significant impact on the Group except for the presentation of a statement of comprehensive income and additional disclosures to be included in the consolidated financial statements.

- Amendment to PAS 23, *Borrowing Costs*
  This Amendment will become effective January 1, 2009. The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

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

- Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
  These Amendments, which become effective January 1, 2009, specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro-rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro-rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  Effective January 1, 2009, this Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
  This Interpretation will become effective January 1, 2009. It provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group, the hedging

instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to PFRS
In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. There are the separate transitional provisions for each standard, which became effective January 1, 2009:

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

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

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

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

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

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

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

- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
  Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

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

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

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

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

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

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

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

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

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

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

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

  Requires use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring a debt instrument on the cessation of fair value hedge accounting.

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

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

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

Effective in 2010

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

revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with noncontrolling interests.

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

Effective in 2012

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

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

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

Determination of fair value
The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

Day 1 profit
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statement of income under "Interest income" and "Interest expense and other financing charges" accounts unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial assets at FVPL
Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Fair value gains or losses on investments held for trading, net of interest income accrued on these assets, are recognized in the consolidated statement of income under "Other income" or "Other charges".

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

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

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

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

<u>Derivative Financial Instruments and Hedging</u>
Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Changes in fair value of derivative instruments not accounted for as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative financial instruments also include bifurcated embedded derivatives. An embedded derivative is separated from the hybrid or combined contract if all the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not recognized at FVPL.

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

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

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

HTM investments
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. The amortization is included in interest income in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income under "Other income" or "Other charges" when the HTM investments are derecognized and impaired, as well as through the amortization process. As of December 31, 2008 and 2007, the Group has no HTM investments.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. This accounting policy relates to the consolidated balance sheet captions "Short-term investments" and "Accounts and notes receivable" except for "Advances to contractors".

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

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

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets include equity investments.

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

a. the rights to receive cash flows from the asset have expired;
b. the Group retains the right to receive cash flows from the asset, but has assumed 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 expired, or is discharged or cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

impairment and for which an impairment loss is, or continues to be recognized are not included in a collective assessment for impairment.

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

Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any difference between loss estimates and actual loss experience.

AFS financial assets
For AFS financial assets, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Interest income account" in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet, if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

Noncurrent Assets Held for Sale
The Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The related results of operations and cash flows of the disposal group that qualified as discontinued operation are separated from the results of those that would be recovered principally through continuing use, and prior years' consolidated statement of income and cash flows are re-presented. Results of operations and cashflows of the disposal group that qualified as discontinued operation are presented in the consolidated statement of income and consolidated statement of cash flows as items associated with noncurrent assets held for sale.

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

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

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

Under the equity method, the investments in the investee companies are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share in the net assets of the investee companies, less any impairment in values. The consolidated statement of income reflects the share of the results of the operations of the investee companies. The Group's share of post-acquisition movements in the investee's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

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

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

Interest in a Joint Venture
MDC has an interest in a joint venture, whereby the venturers have a contractual arrangement that establishes joint control. MDC recognizes its interest in the joint venture using proportionate consolidation. MDC combines its share

of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies into line with those of MDC.

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

Investment Properties

Investment properties consist of properties that are held to earn rentals and that are not occupied by the companies in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in residual value. Land is carried at cost less any impairment in value.

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

	Years
Land improvements	5
Buildings	20-40

Investment properties are derecognized when either they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

A transfer is made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. A transfer is made from investment property when and only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. A transfer between investment property, owner-occupied property and inventory does not change the carrying amount of the property transferred nor does it change the cost of that property for measurement or disclosure purposes.

Property and Equipment

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

Construction-in-progress is stated at cost less any impairment in value. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

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

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

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

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

The assets' residual values, useful lives and depreciation and amortization method are reviewed periodically to ensure that the amounts, periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

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

Business Combinations and Goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets (including previously unrecognized intangible assets) acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

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

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

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

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

Investments in associates and jointly controlled entities
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associates or jointly controlled entities is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the consolidated statement of income.

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

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Treasury Stock
Treasury stock is recorded at cost and is presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

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

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

Revenue from construction contracts included in the "Real estate" account in the consolidated statement of income is recognized using the percentage-of-completion method, measured principally on the basis of the estimated physical completion of the contract work.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

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

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

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

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

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

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

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

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes model, further details of which are given in Note 26.

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

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

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

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

Pre-PFRS 2 Options
For options granted before November 7, 2002 that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

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

Employee Share Purchase Plans
The Company has an employee share purchase plan (ESOWN) which allows the grantees to purchase the Company's shares at a discounted price. The Company recognizes the difference between the market price at the time of subscription and the subscription price as stock compensation expense over the holding period. Where the

subscription receivable is collectible over more than one year, the subscription price is adjusted for the time value and treated as additional stock compensation expense. For the unsubscribed shares where the employees still have the option to subscribe in the future, these are accounted for as options.

Pension Cost

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

The liability recognized in the consolidated balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by using risk-free interest rates of long-term government bonds that have terms to maturity approximating the terms of the related pension liabilities or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

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

Commission Expense

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

Borrowing Costs

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

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).

Group as Lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments are recognized as an expense in the statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

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

Deferred Taxes
Deferred tax is provided, using the balance sheet liability method, on all temporary differences, with certain exceptions, at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

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

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income for the year attributable to common equity holders of the parent by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year attributable to common equity holders of the parent by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential

common shares into common shares. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential common shares that would have an antidilutive effect on earnings per share.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 28.

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

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

3. Significant Accounting Judgments and Estimates

The preparation of the accompanying financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

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

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

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

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

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

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

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

Impairment of AFS equity investments
The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities (see Note 10).

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 32).

Management's Use of Estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

Estimating allowance for impairment losses
The Group maintains allowance for doubtful accounts based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to classify its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. See Note 6 for the related balances.

Evaluation of net realizable value of real estate inventories
The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. In determining the recoverability of the inventories, management considers whether those inventories are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. See Note 7 for the related balances.

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

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

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

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

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

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

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheets cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at its fair value by using the discounted cash flow methodology. See Notes 6, 15 and 27 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

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

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

5. Short-term Investments and Financial Assets at FVPL

Short-term investments consist of:

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

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

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

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

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

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

6. **Accounts and Notes Receivable** - net

Accounts and notes receivable are summarized as follows:

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

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

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

The sales contracts receivable, included under residential development, are collectible in monthly installments over a period of one (1) to ten (10) years and bear annual interest rates ranging from 2.5% to 18.0% computed on the diminishing balance of the principal. Titles to real estate properties are not transferred to the buyers until full payment has been made.

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

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

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

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

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

2008

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

2007

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

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

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

7. Real Estate Inventories

This account consists of:

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

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

8. Other Current Assets

This account consists of:

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

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

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

As of December 31, 2007, the Company has an outstanding nondeliverable forward contract with notional amount of US$25.0 million and a forward rate of ₱44.48 with maturity date of October 30, 2008. This forward contract was preterminated in April 2008. Fair value gain amounting to ₱7.0 million and ₱59.0 million was recognized in 2008 and 2007, respectively (see Note 19).

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

9. **Investments in Associates and Jointly Controlled Entities**

Details of this account are as follows:

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

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

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

**Jointly controlled entities*

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

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

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

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

ECHI and Subsidiaries	**2008**	2007
Current assets	**₱12,805,954**	₱12,840,915
Noncurrent assets	**9,135,789**	8,863,005
Total assets	**21,941,743**	21,703,920
Current liabilities	**2,279,359**	2,331,978
Noncurrent liabilities	**1,302,549**	1,171,967
Total liabilities	**3,581,908**	3,503,945
Net operating revenue	**3,055,229**	3,218,021
Costs and expenses	**2,044,013**	2,760,760
Net income	**1,011,216**	457,261

BHI	**2008**	2007
Current assets	**₱134**	₱132
Noncurrent assets	**1,149,391**	846,026
Total assets	**1,149,525**	846,158
Total liabilities	**605**	443
Net operating revenue	**303,365**	137,178
Costs and expenses	**487**	18
Net income	**302,878**	137,160

ACC	**2008**	2007
Current assets	**₱246,774**	₱196,111
Noncurrent assets	**619,791**	651,257
Total assets	**866,565**	847,368
Current liabilities	**251,532**	257,496
Noncurrent liabilities	**132,055**	128,171
Total liabilities	**383,587**	385,667
Net operating revenue	**333,533**	323,757
Costs and expenses	**212,171**	213,553
Net income	**121,362**	110,204

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

CHI and subsidiaries	**2008**	2007
Total assets	**₱5,769,287**	₱5,318,765
Total liabilities	**1,501,555**	1,335,582
Net operating revenue	**1,500,031**	1,277,481
Costs and expenses	**1,100,552**	984,731
Net income	**399,479**	292,750
Earnings per share	**0.19**	0.13

NTDCC	**2008**	2007
Total assets	**₱7,820,668**	₱7,373,178
Total liabilities	**5,018,707**	4,398,176
Net operating revenue	**1,359,603**	789,542
Costs and expenses	**1,303,143**	764,134
Net income	**56,460**	25,408

BLC and Subsidiaries	2008	2007
Total assets	**₱43,877,733**	₱43,677,672
Total liabilities	**6,108,873**	6,998,162
Net operating revenue	**6,110,458**	6,436,042
Costs and expenses	**5,096,127**	5,521,276
Net income	**1,014,331**	914,766

Accendo	2008
Total assets	**₱731,684**
Total liabilities	**64,879**
Net operating revenue	**2,565**
Costs and expenses	**118**
Net income	**2,447**

Investment in ECHI and BHI

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

(a) The assignment to the Company and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPC, pursuant to which, Larouge extended MPC a loan in the principal amount of US$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by the Company and EHI for such assignment was approximately US$90 million, subject in part to foreign exchange adjustment.

(b) The assignment to the Company and EHI (acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus)) of the controlling interest in BLC representing 50.38% of BLC's outstanding capital stock. This assignment was effected by MPC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.55% of its outstanding capital stock.

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

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

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

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

Investment in NTDCC

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

A series of capital calls was made by NTDCC with the Company infusing a total of ₱484.8 million in 2007 in additional investment, thus increasing ALI's overall invested capital to ₱1,450.0 million or a 49.29% stake.

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

Investment in Accendo

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

Investment in ARCH Capital

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

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

In 2007, the private equity fund, called ARCH Asian Partners, L.P. (Fund) was established. As of December 31, 2007, the Fund achieved its final closing, resulting in a total investor commitment of US$330.0 million. As a result, portion of the funds disbursed by the Company and AC and invested into the Fund have been returned in 2007, reducing the Company's overall capital invested to ₱214.5 million as of December 31, 2007.

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

Investment in KAMI

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

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

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

10. **Available-For-Sale Financial Assets**

This account consists of investments in:

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

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

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

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

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

11. **Investment Properties**

The movements in this account are:

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

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

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

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

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

12. **Property and Equipment**

This account consists of (in thousands):

2008

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

2007

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Construction in Progress	Total
Cost							
January 1	₱424,762	₱1,931,744	₱822,676	₱329,775	₱2,702,209	₱798,470	₱7,009,636
Additions	54,842	52,791	2,289	62,774	29,511	1,876,979	2,079,186
Disposals/Write-offs	(8,706)	–	–	(30,627)	(38,651)	–	(77,984)
Transfers	–	–	–	–	–	(1,329,292)	(1,329,292)
December 31	470,898	1,984,535	824,965	361,922	2,693,069	1,346,157	7,681,546
Accumulated Depreciation and Amortization and Impairment Losses							
January 1	237,910	781,655	724,533	214,352	1,326,151	–	3,284,601
Depreciation and amortization	28,422	228,818	36,529	46,582	111,231	–	451,582
Disposals/Write-offs	(4,049)	–	–	(27,862)	(37,952)	–	(69,863)
December 31	262,283	1,010,473	761,062	233,072	1,399,430	–	3,666,320
Net Book Value	₱208,615	₱974,062	₱63,903	₱128,850	₱1,293,639	₱1,346,157	₱4,015,226

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

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

13. **Accounts and Other Payables**

This account consists of:

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

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

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

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

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

Long-term debt consists of:

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

The Company:

Philippine Peso 5-Year Bonds due 2008
In 2003, the Company issued ₱2.0 billion bonds due 2008 with fixed and floating rate tranches. The fixed-rate bonds carry a coupon of 10.75% p.a. and have a nominal principal amount of ₱1.0 billion. The floating rate bonds, also worth ₱1.0 billion, bear a margin of 125 bps over benchmark 91-day PDST-F and is repriced quarterly. The bonds were fully paid when it matured in November 2008.

Philippine Peso Homestarter Bonds due 2009
The Company launched in March 2006 its Homestarter Bonds of up to ₱169.2 million with fixed interest rate of 5% p.a.. The Homestarter Bonds are being issued monthly in a series for a period of thirty-six (36) months with final maturity in March 2009. On maturity date, the principal amount of the bond is redeemable with the accrued interest. Should the bondholder decide to purchase an Ayala Land property, he is entitled to an additional 10% of the aggregate face value of the bond as bonus credit which together with the principal and accrued interest can be applied as downpayment towards the purchase of an Ayala Land Premier, Alveo or Avida property. As of end of 2008 and 2007, outstanding Homestarter Bonds amounted to ₱106.9 million and ₱80.5 million, respectively.

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

Philippine Peso 5-, 7- and 10-Year FXCNs due 2011, 2013 and 2016
In 2006, the Company issued ₱3.0 billion FXCNs consisting of 5-, 7- and 10-year notes issued to various financial institutions and will mature on various dates up to 2016. The FXCNs bear fixed interest rates ranging from 7.25% to 7.75% p.a. depending on the term of the notes.

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

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

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

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

15. **Deposits and Other Noncurrent Liabilities**

Deposits and other noncurrent liabilities consist of:

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

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

16. **Equity**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2008 amounted to ₱15.3 billion.

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

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

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

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

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

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

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

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

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

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

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

17. Real Estate Revenue

This account consists of:

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

18. Revenue from Hotel Operations

This account consists of:

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

19. Other Income and Costs and Expenses

Other income consists of:

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

In March 2008, the Company sold its shares of stock in Streamwood Property, Inc., Piedmont Property Ventures, Inc. and Stonehaven Land, Inc. Total consideration received from the sale amounted to ₱902.0 million. Gain on the sale of the said subsidiaries amounted to ₱761.8 million.

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

Other income mainly consistsof management fees and foreign exchange gains and losses.

Real estate costs and expenses consist of:

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

Hotel operations expenses consist of:

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

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

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

Manpower costs included in the consolidated statements of income follow:

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

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

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

Interest expense and other financing charges consist of:

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

Other charges consist of:

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

In 2008, the Group recorded provision for impairment amounting to ₱379.2 million for the development cost of real estate inventories which may no longer be recovered (see Note 7). In 2007, write-offs and other charges include the write-down of investment properties damaged by the Glorietta 2 explosion and related expenses incurred, and demolition and relocation costs as part of the Company's Ayala Center redevelopment program which amounted to a total of ₱213.9 million (see Note 11).

20. Income Taxes

The components of deferred taxes as of December 31, 2008 and 2007 are as follows:

Net deferred tax assets:

	2008	2007
	(In Thousands)	
Deferred tax assets on:		
Allowance for probable losses	**₱774,347**	₱662,727
Difference between tax and book basis of accounting for real estate transactions	**329,973**	391,709
Retirement benefits	**104,431**	184,483
Advanced rental	**30,936**	–
Outstanding share-based payments	**27,470**	47,541
NOLCO	**5,964**	59,016
MCIT	**–**	12,403
Others	**98,840**	57,070
	1,371,961	1,414,949
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(553,912)**	(723,404)
Unrealized foreign exchange gain	**(23,515)**	–
Unrealized gain on forward contracts	**–**	(20,659)
	(577,427)	(744,063)
Net deferred tax assets	**₱794,534**	₱670,886

Net deferred tax liabilities:

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

Certain subsidiaries of the Company have NOLCO amounting to ₱322.6 million and ₱431.8 million as of December 31, 2008 and 2007, respectively and MCIT amounting to ₱15.1 million as of December 31, 2008, which were not recognized. Further, a subsidiary also has deductible temporary differences arising from unrealized gain on real estate sales amounting to ₱4.8 million as of December 31, 2007, which was also not recognized. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The subsidiaries will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

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

NOLCO:

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

MCIT:

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

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

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

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

As of December 31, 2008, the deferred tax assets and liabilities are set-up based on the 30% corporate tax rate which became effective beginning January 1, 2009 as provided under Republic Act 9337.

21. Business Combinations

APPHC

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

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

On December 8, 2008, the Company acquired from FIL its 20% ownership in APPHC and APPCo. This resulted in an increase in the Company's effective ownership interest in APPHC from 60% to 80% and APPCo from 36% to 68%, thereby providing the Company with the ability to control the operations of APPHC and APPCo following the acquisition. Accordingly, APPHC and APPCo's financial statements are consolidated on a line-by-line basis with that of the Group as of December 31, 2008 (see Note 9).

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

Assets	
Cash and cash equivalents	₱227,266
Trade and other receivables	189,105
Other current assets	645,582
Investment property (see Note 11)	3,657,624
Property and equipment (see Note 12)	1,292,723
Other assets	30,959
	6,043,259
Liabilities	
Accounts and other payables	718,625
Deposits and other current liabilities	41,212
Loans payable	3,348,200
Deposits and other noncurrent liabilities	373,523
	4,481,560
Net assets	1,561,699
Minority interest in APPHC	632,444
	929,255
Net assets of APPHC acquired	185,851
Minority interest in APPCo. Acquired	316,222
Total net assets acquired	502,073
Provisional goodwill	150,530
Acquisition cost	652,603
Cash and cash equivalents acquired with the subsidiary	227,266
Acquisition cost, net of cash acquired	₱425,337

From the date of acquisition, APPHC and APPCo's additional contribution to the Group's net income is immaterial. Had the combination taken place at the beginning of the year, the net income of the Group would have been ₱4,826.4 million and revenue from continuing operations would have been ₱34,072.9 million.

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

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

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

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

22. Noncurrent Assets Held for Sale

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

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

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

The major classes of assets and liabilities of MPVI classified as held for sale as of December 31, 2006 follow (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.

The following table presents information necessary to compute EPS on income associated with noncurrent assets held for sale attributable to equity holders of the Company (in thousands except EPS):

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

23. **Related Party Transactions**

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

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

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

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

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

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

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

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

Compensation of key management personnel by benefit type follows:

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

24. **Retirement Plan**

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

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

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

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

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

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

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

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

Changes in the fair value of plan assets follow:

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

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

The allocations of the fair value of plan assets follow:

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

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

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

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

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

Amounts for the current and the previous periods follow:

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

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

25. Earnings Per Share

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

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

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

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

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

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

26. **Stock Options and Ownership Plans**

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

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

ESOP

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

Pre-PFRS 2 Options

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

PFRS 2 Options

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

The additions in 2007 pertain to the 20% stock dividend earned on the outstanding stock options. The options exercised had a weighted average exercise price of ₱4.01 per share or ₱43.6 million in 2008 and ₱4.68 per share or ₱61.4 million in 2007. The average fair market value of the shares at the exercise date was ₱12.41 per share or about ₱39.14 million in 2008 and ₱16.73 per share or about ₱219.6 million in 2007.

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

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

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

ESOWN

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

In 2005, the Company introduced a revised ESOWN and granted to qualified officers wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of the Company or any of its subsidiaries during the ten (10)-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the ten (10)-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Company's Right to Repurchase.

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

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

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

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

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

27. **Financial Assets and Liabilities**

Fair Value Information

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

	2008		2007	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets at FVPL				
Financial assets through profit or loss	**₱1,778,720**	**₱1,778,720**	₱318,018	₱318,018
Derivative asset	**–**	**–**	59,026	59,026
Total financial assets at FVPL	**1,778,720**	**1,778,720**	377,044	377,044
Loans and Receivables				
Cash and cash equivalents	**12,655,402**	**12,655,402**	11,271,906	11,271,906
Short-term investments	**1,008,923**	**1,008,923**	2,035,606	2,035,606
Accounts and notes receivable				
Trade				
Residential development	**7,773,248**	**8,463,361**	7,361,141	7,613,864
Construction contracts	**1,298,280**	**1,298,280**	818,184	820,485
Shopping centers	**1,081,444**	**1,081,444**	884,831	974,771
Corporate business	**254,222**	**254,222**	159,007	159,007
Management fees	**131,639**	**131,639**	186,215	189,381
Others	**192,052**	**192,052**	144,921	144,921
	10,730,885	**11,420,998**	9,554,299	9,902,429
Related parties	**1,958,459**	**1,958,459**	1,691,706	1,691,706
Accrued receivable	**117,894**	**117,894**	88,952	88,952
Receivable from employees	**291,302**	**265,137**	268,121	236,035
Advances to other companies	**521,800**	**513,362**	478,213	463,583
Others	**1,489,104**	**1,477,363**	1,136,211	1,607,152
	4,378,559	**4,332,215**	3,663,203	4,087,428
Total loans and receivables	**28,773,769**	**29,417,538**	26,525,014	27,297,369
AFS financial assets				
Unquoted shares of stocks	**270,606**	**270,606**	202,489	202,489
Quoted shares of stocks	**198,254**	**198,254**	164,299	164,299
Total AFS financial assets	**468,860**	**468,860**	366,788	366,788
Total financial assets	**31,021,349**	**31,665,118**	27,268,846	28,041,201

(Forward)

	2008		2007	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	(In Thousands)			
Other Financial Liabilities				
Current				
Accounts payable	**₱12,995,821**	**₱12,995,821**	₱9,310,065	₱9,310,065
Accrued expenses	**2,867,691**	**2,867,691**	3,304,330	3,304,330
Accrued project costs	**2,022,903**	**2,022,903**	540,618	540,618
Dividends payable	**405,753**	**405,753**	456,052	456,052
Retentions payable	**317,945**	**317,945**	44,412	44,412
Accrued salaries and employee benefits	**176,785**	**176,785**	196,262	196,262
Interest payable	**151,689**	**151,689**	135,459	135,459
Accrued rentals	**99,450**	**99,450**	141,140	141,140
Short-term debt	**1,279,500**	**1,279,500**	1,613,000	1,613,000
Current portion of long-term debt	**244,142**	**244,142**	2,376,600	2,376,600
Noncurrent				
Long-term debt	**15,227,888**	**15,191,324**	6,149,874	6,952,606
Deposits and other noncurrent liabilities	**5,600,926**	**5,607,019**	4,375,807	4,381,898
Total other financial liabilities	**₱41,390,493**	**₱41,360,022**	₱28,643,619	₱29,452,442

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

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

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

Noncurrent accounts and notes receivables - The fair values of residential accounts and notes receivable, advances to other companies, receivable from employees and other accounts receivable, are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 6.40% to 7.70% and 4.19% to 6.04% as of December 31, 2008 and 2007, respectively.

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

AFS unquoted equity securities - These are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to 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 5.44% to 8.82% and 4.19% to 6.04% as of December 31, 2008 and 2007, respectively. The fair value of noncurrent unquoted debt instruments with floating rates are estimated using discounted cash flow - last repricing method. The fair values of accounts and other payables and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

Financial Risk Management and Objectives

The Group's principal financial instruments comprise of cash and cash equivalents, short-term investments and financial assets at FVPL, AFS quoted equity securities, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, short-term investments, financial assets at FVPL, AFS quoted equity securities, trade receivables and payables which arise directly from the conduct of its operations.

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

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

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

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

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

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

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

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

Year ended December 31, 2008:

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

Year ended December 31, 2007:

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

Credit risk

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

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

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

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

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

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

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

2008

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

2007

	Neither Past Due nor Impaired	Past Due but not Impaired						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	870,159	10,831	18,501	27,150	36,200	126,651	219,333	101,320	1,190,812
Total	₱10,913,817	₱944,138	₱325,377	₱228,067	₱368,609	₱478,030	₱2,344,221	₱133,573	₱13,391,611

The following tables show the credit quality of the Company's financial assets as of December 31, 2008 and 2007:

2008

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
				(In Thousands)			
Cash and cash equivalents	₱12,655,402	₱–	₱–	₱12,655,402	₱–	₱–	₱12,655,402
Short-term investments	1,008,923	–	–	1,008,923	–	–	1,008,923
Financial assets at FVPL	1,778,720	–	–	1,778,720	–	–	1,778,720
Accounts and notes receivables							
Trade:							
Shopping centers	204,740	43,391	299,171	547,302	534,142	96,588	1,178,032
Corporate business	109,057	6,479	5,182	120,718	133,504	–	254,222
Residential	5,087,268	1,550,140	185,590	6,822,998	950,250	13,008	7,786,256
Construction contracts	698,103	45,958	3,231	747,292	550,988	13,054	1,311,334
Management fees	104,379	–	–	104,379	27,260	3,814	135,453
Others	77,544	–	–	77,544	114,508	10,265	202,317
Related parties	1,634,246	103	–	1,634,349	324,110	–	1,958,459
Advances to other companies	144,856	–	–	144,856	376,944	–	521,800
Receivable from employees	261,345	–	–	261,345	29,957	–	291,302
Accrued receivable	39,097	–	–	39,097	78,797	–	117,894
Others	1,140,264	1,391	11,443	1,153,098	336,006	65,921	1,555,025
AFS financial assets							
Quoted	100,000	98,254	–	198,254	–	–	198,254
Unquoted	–	270,606	–	270,606	–	–	270,606
	₱25,043,944	₱2,016,322	₱504,617	₱27,564,883	₱3,456,466	₱202,650	₱31,223,999

2007

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
				(In Thousands)			
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
Financial assets at FVPL	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	556,432	209,373	104,354	870,159	219,333	101,320	1,190,812
AFS financial assets							
Quoted	–	164,299	–	164,299	–	–	164,299
Unquoted	–	202,489	–	202,489	–	–	202,489
	₱21,673,781	₱2,372,421	₱860,233	₱24,906,435	₱2,344,221	₱133,573	₱27,384,229

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

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

Receivables - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment; and low grade pertains to receivables with more than 3 defaults in payment

AFS financial assets - the unquoted financial assets are unrated

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

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

The following tables demonstrate the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates on December 31, 2008 and 2007, with all variables held constant, (through the impact on floating rate borrowings and changes in fair value of financial assets at FVPL):

2008

	Change in basis points	
	Effect on income before income tax	
	+ 100 basis points	**- 100 basis points**
	(In Thousands)	
Financial assets at FVPL	**(₱10,295)**	**₱10,475**
Subsidiaries - floating rate borrowings	**(29,045)**	**29,045**
	(₱39,340)	**₱39,520**

2007

	Change in basis points	
	Effect on income before income tax	
	+ 100 basis points	- 100 basis points
	(In Thousands)	
Financial assets at FVPL	(₱9,975)	₱10,348
Company - floating rate borrowings	(10,000)	10,000
Subsidiaries - floating rate borrowings	(28,976)	28,976
	(₱48,951)	₱49,324

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

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

2008

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

2007

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
					(In Thousands)		
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
Financial assets at FVPL	Fixed at the date of investment or revaluation cut-off	Balance date	318,018	–	318,018	–	318,018
Accounts and notes receivables	Fixed at the date of sale	Date of sale	8,889,207	4,830,796	3,276,678	–	8,107,474
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 10.69%	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

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

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

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

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine Peso - US Dollar exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

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

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

28. **Segment Information**

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

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

Support Businesses:

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

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

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

Business segments

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

2008

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	₱4,281	₱1,088	₱15,297	₱1,743	₱161	₱5,689	₱2,358	₱–	₱–	₱30,617
Intersegments sales	348	–	472	–	–	4,490	221	–	(5,531)	–
Equity in net earnings of associates and jointly controlled entities	138	14	–	576	201	–	–	(44)	–	885
Total revenue	4,767	1,102	15,769	2,319	362	10,179	2,579	(44)	(5,531)	31,502
Operating expenses	2,689	689	12,535	1,273	233	9,642	2,135	1,093	(5,714)	24,575
Operating profit	2,078	413	3,234	1,046	129	537	444	(1,137)	183	6,927
Interest income										926
Interest expense										(1,050)
Other income										1,321
Other expenses										(676)
Provision for income tax										(2,065)
Net income before income associated with noncurrent assets held for sale										5,383
Income associated with noncurrent assets held for sale, net of tax										–
Net income										₱5,383
Net income attributable to:										
Equity holders of Ayala Land, Inc.										₱4,812
Minority interests										571
										₱5,383
Other Information										
Segment assets	₱17,250	₱15,971	₱57,823	₱9,477	₱2,116	₱7,163	₱3,252	₱4,668	(₱27,978)	₱89,742
Investment in associates and jointly controlled entities	2,521	–	–	5,163	1,940	–	–	292	–	9,916
	₱19,771	₱15,971	₱57,823	₱14,640	₱4,056	₱7,163	₱3,252	₱4,960	(₱27,978)	₱99,658
Deferred tax assets										795
Total assets										₱100,453
Segment liabilities	₱7,142	₱5,042	₱17,345	₱2,328	₱806	₱5,893	₱1,413	₱11,051	(₱5,772)	₱45,248
Deferred tax liabilities										162
Total liabilities										₱45,410
Segment additions to property and equipment and investment properties	₱1,967	₱1,389	₱273	₱–	₱880	₱172	₱267	₱54	₱–	₱5,002
Depreciation and amortization	₱761	₱189	₱50	₱–	₱2	₱100	₱53	₱104	₱–	₱1,259
Non-cash expenses other than depreciation and amortization	₱49	₱–	₱–	₱–	₱379	₱11	₱–	₱23	₱–	₱462

2007

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	₱4,175	₱993	₱12,918	₱414	₱176	₱1,799	₱2,372	₱–	₱–	₱22,847
Intersegments sales	360	–	197	–	–	4,317	17	–	(4,891)	–
Equity in net earnings of associates and jointly controlled entities	125	86	–	420	138	–	–	18	–	787
Total revenue	4,660	1079	13,115	834	314	6,116	2,389	18	(4,891)	23,634
Operating expenses	2,389	597	10,820	383	205	5,704	2,124	865	(5,229)	17,858
Operating profit	2,271	482	2,295	451	109	412	265	(847)	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										599
Net income										₱5,095
Net income attributable to:										
Equity holders of Ayala Land, Inc.										₱4,497
Minority interests										598
										₱5,095
Other Information										
Segment assets	₱16,937	₱9,071	₱45,596	₱8,848	₱1,449	₱5,797	₱2,830	₱7,704	(₱24,961)	₱73,271
Investment in associates and jointly controlled entities	2,176	238	–	4,497	1,810	–	–	318	–	9,039
	₱19,113	₱9,309	₱45,596	₱13,345	₱3,259	₱5,797	₱2,830	₱8,022	(₱24,961)	₱82,310
Deferred tax assets										671
Total assets										₱82,981
Segment liabilities	₱5,815	₱626	₱11,889	₱1,808	₱99	₱4,694	₱1,032	₱11,873	(₱5,715)	₱32,121
Deferred tax liabilities										114
Total liabilities										₱32,235
Segment additions to property and equipment and investment properties	₱1,127	₱321	₱89	₱–	₱4	₱159	₱88	₱80	₱–	₱1,868
Depreciation and amortization	₱862	₱97	₱51	₱–	₱1	₱86	₱127	₱86	₱–	₱1,310
Non-cash expenses other than depreciation and amortization	₱213	₱–	₱–	₱–	₱–	₱–	₱–	₱54	₱–	₱267

2006

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	₱3,973	₱1,329	₱13,965	₱707	₱168	₱1,451	₱1,999	₱–	₱–	₱23,592
Intersegments sales	446	–	60	–	–	2,737	174	–	(3,417)	–
Equity in net earnings of and jointly controlled entities	85	5	–	118	98	–	–	–	–	306
Total revenue	4,504	1,334	14,025	825	266	4,188	2,173	–	(3,417)	23,898
Operating expenses	1,988	861	11,636	449	172	4,090	1,440	1,340	(3,200)	18,776
Operating profit	2,516	473	2,389	376	94	98	733	(1,340)	(217)	5,122
Interest income										649
Interest expense										(813)
Other income										1,011
Other expenses										(280)
Provision for income tax										(1,610)
Net income before income associated with noncurrent assets held for sale										4,079
Income associated with noncurrent assets held for sale, net of tax										155
Net income										₱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	₱3,168	₱5,656	₱8,758	(₱26,248)	₱68,676
Investment in associates and jointly controlled entities	1,595	130	–	4,045	1,724	–	–	1,297	–	8,791
	₱16,302	₱9,221	₱42,954	₱13,146	₱3,213	₱3,168	₱5,656	₱10,796	(₱27,065)	₱77,467
Deferred tax assets										783
Total assets										₱78,250
Segment liabilities	₱4,881	₱806	₱18,976	₱1,031	₱147	₱2,210	₱1,293	₱10,223	(₱8,971)	₱30,596
Deferred tax liabilities										416
Total liabilities	₱4,881	₱806	₱18,976	₱1,031	₱147	₱2,210	₱1,293	₱10,223	(₱8,971)	₱31,012
Segment additions to property and equipment and investment properties	₱1,311	₱112	₱50	₱–	₱1	₱102	₱279	₱417	₱–	₱2,272
Depreciation and amortization	₱649	₱131	₱39	₱4	₱1	₱87	87	69	–	1,067
Non-cash expenses other than depreciation and amortization	₱–	₱–	₱118	₱–	₱–	₱–	₱–	₱113	₱–	₱231

29. Registration with Philippine Economic Zone Authority (PEZA)

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

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

30. Leases

Operating Leases - Group as Lessor

The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals receivable under noncancellable operating leases of the Group follow:

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

Operating Leases - Group as Lessee

The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals payable under noncancellable operating leases of the Group follow:

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

31. Interest in a Joint Venture

MDC has a 51% interest in Makati Development Corporation - First Balfour, Inc. Joint Venture (the Joint Venture), a jointly controlled operation whose purpose is to design and build St. Luke's Medical Center (the Project) in Fort Bonifacio Global City, Taguig.

The Project was started on January 31, 2007. The Project is a world-class medical facility comprising, more or less, of a 611-bed hospital and a 378-unit medical office building, with an approximate gross floor area of 154,000 square meters, which meets international standards, and all standards and guidelines of applicable regulatory codes of the Philippines and complies with the criteria of the Environment of Care of the Joint Commission International Accreditation.

The Joint Venture expects that the Project will be completed in 30 months from Day 1 as stipulated in the contract with the Project Owner.

The share in the assets, liabilities, income and expenses of the Joint Venture at December 31, 2008 and 2007 and for the years then ended, which are included in the Company's financial statements, are as follows:

	2008	2007
	(In Thousands)	
Current assets		
Cash and cash equivalents	**₱181,953**	₱639,224
Receivables	**440,569**	230,052
Due from customers for contract work	**229,596**	72,596
Inventory	**18,349**	–
Other current assets	**135,674**	145,418
Property and equipment	**16,978**	18,695
Total assets	**₱1,023,119**	₱1,105,985
Total liabilities	**₱802,821**	₱1,053,085
Revenue	**₱1,422,023**	₱376,610
Contract costs	**(1,218,026)**	(344,496)
Interest and other income	**16,516**	24,635
Income before income tax	**220,513**	56,749
Income tax expense	**(2,250)**	(3,848)
Net profit	**₱218,263**	₱52,901

Provision for income tax expense pertains to the final tax on interest income.

32. Long-term Commitments and Contingencies

Commitments

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

As part of the bid requirement, the Company procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, SSECC obtained standby letters of credit to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement.

On April 15, 2003, the Company entered into a Joint Development Agreement (JDA) with BCDA for development of another lot inside Fort Bonifacio with a gross area of 11.6 hectares for residential purposes. Pursuant to the agreement, BCDA shall contribute all its title and interest to the lot and the Company in turn shall provide the necessary cash and expertise to undertake and complete the implementation of the residential development. The Company commits to invest sufficient capital to complete the residential development.

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

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

MDC, in the normal course of business, furnishes performance bonds in connection with its construction projects. These bonds shall guarantee MDC's execution and completion of the work indicated in the respective construction contracts.

Contingencies
The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

As a result of the explosion which occurred on 19 October 2007 at the basement of the Makati Supermarket Building, the Philippine National Police - Multi-Agency Investigation Task Force and the Department of Interior and Local Government - Inter-Agency task Force (DILG-IATF) filed complaints with and recommended to the Department of Justice ("DOJ") the prosecution of certain officers/employees of Makati Supermarket Corporation, the owner of the building, as well as some officers/employees of Ayala Property Management Corp. (APMC), among other individuals, for criminal negligence. In a Joint Resolution dated 23 April 2008, the DOJ special panel of prosecutors ruled that there was no probable cause to prosecute the APMC officers/employees for criminal negligence. This was affirmed by the DOJ Secretary in a Resolution dated 17 November 2008. A Motion for Reconsideration was filed by the DILG-IATF to question the DOJ Secretary's Resolution which remains unresolved to date. No civil case has been filed by any of the victims of the incident.

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33. **Subsequent Event**

In January 2009, the Company issued ₱2.38 billion FXCNs consisting of 5-, 7- and 10-year notes to various primary institutional lenders. This will mature on various dates up to 2019.

Subsidiaries and Affiliates

As of 1 January 2009

	OWNERSHIP (%)	
	By ALI	By the Subsidiary/Affiliate
CORE BUSINESSES		
STRATEGIC LANDBANK MANAGEMENT		
Aurora Properties, Inc.	70.0	
Vesta Property Holdings, Inc.	70.0	
Ceci Realty, Inc.	60.0	
Emerging City Holdings, Inc.	50.0	
Columbus Holdings, Inc.		70.0
Bonifacio Land Corporation [a]	5.3	62.0
Fort Bonifacio Development Corp. [b]		55.0
Berkshires Holdings, Inc.	50.0	
Columbus Holdings, Inc.		30.0
Bonifacio Land Corporation [a]	5.3	62.0
Fort Bonifacio Development Corp. [b]		55.0
Regent Time International Limited	100.0	
Bonifacio Land Corporation [a]	5.3	4.8
Buendia Landholdings, Inc.	100.0	
Red Creek Properties, Inc.	100.0	
Crimson Field Enterprises, Inc.	100.0	
Crans Montana Property Holdings Corporation	100.0	
Amorsedia Development Corporation	100.0	
HLC Development Corporation		100.0
Ecoholdings Company, Inc.	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
Amicassa Process Solutions, Inc.		100.0
Alveo Land Corp. (formerly 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 Corporation		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	
South Innovative Theater Management, Inc.		100.0
North Triangle Depot Commercial Corporation	49.0	
Accendo Commercial Corp.	46.0	
Lagoon Development Corporation	30.0	
Ayala Theatres Management, Inc.	100.0	

	OWNERSHIP (%) By ALI	By the Subsidiary/Affiliate
CORE BUSINESSES		
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	
Asian I-Office Properties, Inc.	60.0	
ALI Property Partners Holdings Corp. (c)	80.0	
ALI Property Partners Corp. (d)	20.0	60.0
One Dela Rosa Property Development Inc.		100.0
First Gateway Real Estate Corp.		100.0
Glensworth Development, Inc.		100.0
UP North Property Holdings, Inc.		100.0
VISAYAS-MINDANAO		
Cebu Holdings, Inc.	47.3	
Cebu Property Ventures & Development Corp.	7.8	76.3
Asian I-Office Properties, Inc.		40.0
Cebu Leisure Company, Inc.		100.0
CBP Theatre Management, Inc.		100.0
Cebu Insular Hotel Company, Inc.		37.1
INTERNATIONAL		
First Longfield Investments Limited	100.0	
Green Horizons Holdings Limited		100.0
ARCH Capital Management Co., Ltd.		17.0
ARCH Capital Asian Partners, L.P.		8.0
SUPPORT BUSINESSES		
CONSTRUCTION		
Makati Development Corporation	100.0	
Makati Development Corp. - First Balfour, Inc. Joint Venture		51.0
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.(e)	100.0	
ALInet.com, Inc.	100.0	
CMPI Holdings, Inc.	60.0	
CMPI Land, Inc.		60.0

a. ALI's effective ownership in Bonifacio Land Corporation is 41.1%
b. ALI's effective ownership in Fort Bonifacio Development Corporation is 22.6%
c. ALI's effective ownership in APPHC is 80%
d. ALI's effective ownership in APPCo. is 68%
e. Pertains to common shares

Key Officers and Consultants

As of 1 January 2009

President	
Jaime I. Ayala	Chief Executive Officer
Executive Vice President	
Vincent Y. Tan	Group Head, Planning
Senior Vice Presidents	
Ma. Victoria E. Anonuevo	Group Head, AyalaLand Businesscapes Group Head, Ayala Malls Group Head, Ayala Hotels
Bernard Vincent O. Dy	Group Head, Residential Business
Raul M. Irlanda	Group Head, Construction Group Head, Property Management
Rex Ma. A. Mendoza	Group Head, Corporate Sales & Marketing
Emilio J. Tumbocon	Group Head, Visayas-Mindanao & Superblock Projects
Jaime E. Ysmael	Chief Finance Officer Group Head, Finance
Vice Presidents	
Dante M. Abando	President, Alveo Land Corp.
Ruel C. Bautista	Head, Operations Makati Development Corp.
Augusto D. Bengzon	Head, Treasury
Manny A. Blas II	Head, Bonifacio Arts Foundation, Inc.
Arturo G. Corpuz	Head, Urban/Regional Planning & Land Acquisition
Maria Corazon G. Dizon	Head, Business Development & Strategic Planning Ayala Malls
Anna Margarita B. Dy	Group Head, Strategic Landbank Management
Jose Emmanuel H. Jalandoni	Head, ALI Capital
Joselito N. Luna	Group Head, Innovation & Design
Francis O. Monera	President, Cebu Holdings, Inc.
Rosaleo M. Montenegro	President, Avida Land Corp.
Ma. Teresa T. Ruiz	Head, Human Resources & Public Affairs
Rowena M. Tomeldan	Chief Operating Officer, Ayala Malls

Consultants

Michael Spence
David Y. San Pedro
Marcelo M. Casillan Jr.
Juanito P. Rosales

Shareholder Information

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INSTITUTIONAL INVESTOR INQUIRIES

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Fax Nos.	+63(2) 848 6059

SHAREHOLDER SERVICES AND ASSISTANCE

For inquiries regarding dividend payments, change of address and account status, lost or damaged stock certificates, please write or call BPI Stock Transfer Agency

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Ayala Avenue corner Paseo de Roxas
1227 Makati City Philippines

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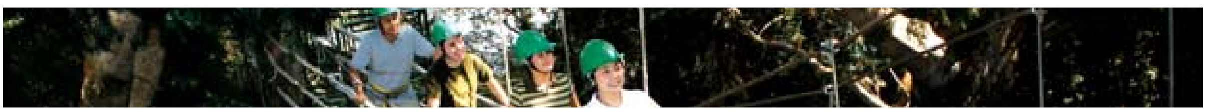
Credits

CONCEPT, CONTENT DESIGN AND LAYOUT
K2 Interactive (Asia) Inc.

PHOTOGRAPHY
Wig Tysmans (Cover | Portraitures)

Balancing Risks, Exploring Opportunities

Balancing Risks, Exploring Opportunities
Through the cycles that characterize the industry, we have proven many times that we have a unique ability to navigate through uncertain and difficult periods with a time-tested approach that balances uncompromising product quality, continuous innovation and a long-term vision with proven governance and sustainability principles, a prudent financial strategy and proactive risk management. Ayala Land is prepared for the challenges of both the present and the future and we continue to look for exceptional opportunities to expand our business portfolio, create value for our shareholders and enrich the lives of people who live, work and play in our communities.



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