AyalaLand

EXTENDING PROGRESS
AYALA LAND
ANNUAL REPORT 2007

Ayala Land is well-positioned to meet the evolving needs of its customers as technology, economic growth, and globalization rapidly reshape the real estate industry. Beyond property development, our core competencies now encompass every aspect of community engineering.

We create integrated environments optimized for different markets in select locations around the Philippines. Our holistic approach ensures that aside from designing and delivering quality products, we remain involved as partners of our clients in managing their respective communities. This commitment to collaborate on safe, peaceful, and well-maintained environs enhances their value over time, not just as investments, but as sustainable habitats for generations of families to live, work and play in.

OUR VISION

Enhancing Land and Enriching Land, 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.

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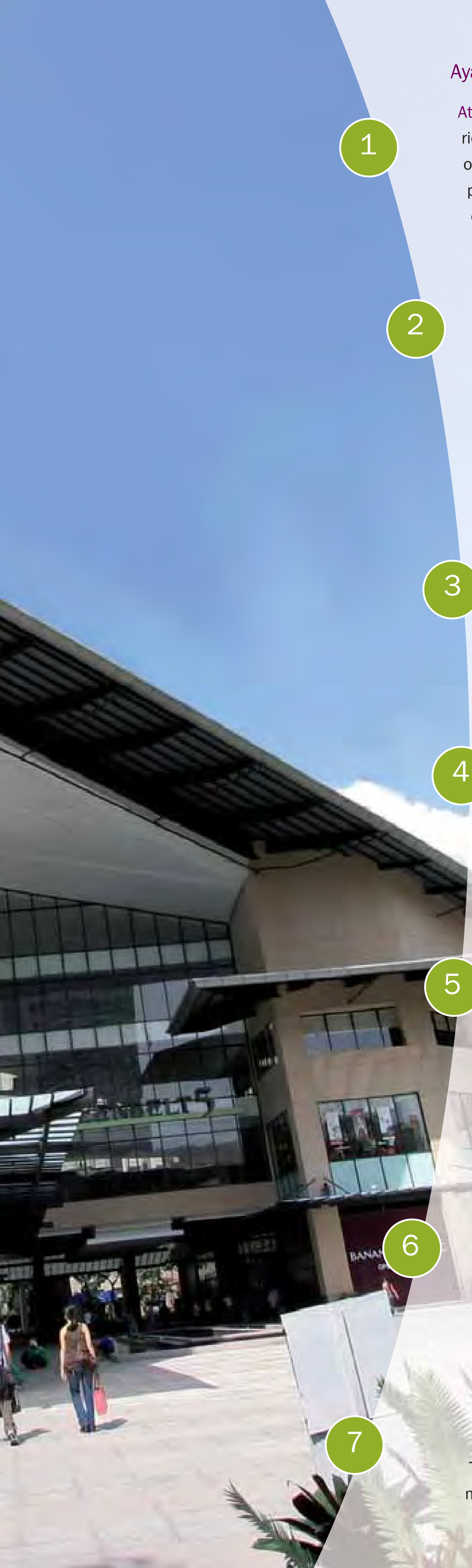
FINANCIAL HIGHLIGHTS

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

	2007	2006	2005
Income Statement			
Revenues	25,707,229	25,558,842	21,375,369
Net Operating Income (NOI)	7,704,392	7,422,165	5,859,939
Earnings Before Interest, Other Charges & Taxes	8,447,893	6,937,888	7,856,856
Net Income (attributable to equity holders of ALI)	4,386,362	3,865,602	3,616,673
Balance Sheet			
Cash and Cash Equivalents (including short-term investments)	13,625,530	9,509,609	6,756,038
Total Assets	82,981,245	78,250,161	71,810,222
Total Borrowings	10,139,474	12,837,411	10,722,834
Stockholders' Equity	45,705,181	40,651,128	38,447,639
Cash Flow			
Net Cash Flow from Operating Activities	8,529,817	5,568,249	4,145,224
Net Cash Provided by (Used in) Investing Activities	579,951	(6,887,274)	500,688
Net Cash Provided by (Used in) Financing Activities	(2,468,453)	316,921	(5,373,404)
Consolidated Project and Capital Expenditures (P Billion)	15.22	13.65	6.79
Financial Ratios			
Current Ratio	1.65:1	1.64:1	1.55:1
Debt-to-Equity Ratio	0.22:1	0.32:1	0.28:1
Net Debt/(Cash)-to-Equity Ratio	(0.08):1	0.08:1	0.10:1
Return on Equity*	10.2%	9.8%	9.4%
Return on Assets*	5.4%	5.2%	4.9%
Stock Information			
(in P except as indicated)			
Market Capitalization (P Billion)	185.8	165.37	106.88
Stock Price - Year-end	14.25	12.75	8.25
Earnings per Share	0.34	0.30	0.28
Total Shareholder Return - in P**	12%	55%	39%

* 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



Ayala Land: A Compelling Investment Story

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

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

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

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

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

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

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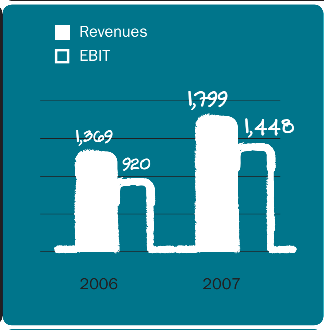
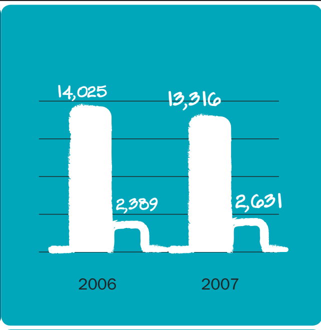
7 Attractive stock. Over the last five years, Ayala Land has delivered an average Total Shareholder Return of 33% per annum. It is also by far the largest (by market capitalization) and most liquid property stock in the Philippines.

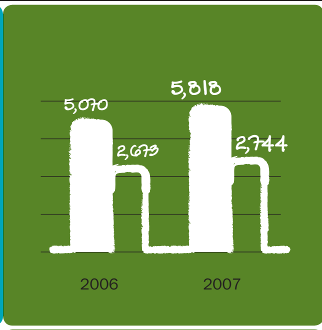
At-A-Glance

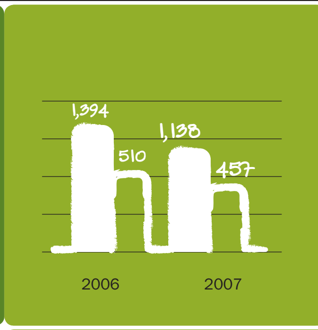
Core Businesses

Revenues & EBIT (in P Million)



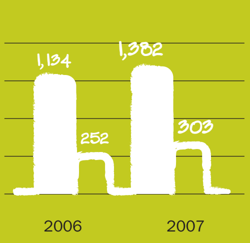
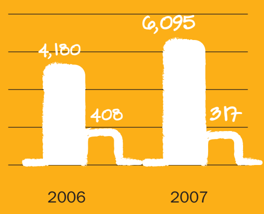
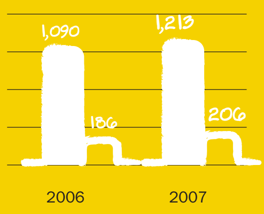
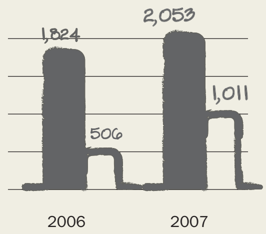






	Strategic Landbank Management	Residential Development	Shopping Centers	Corporate Business
Project/Product Portfolio	Makati CBD (53 hectares) Bonifacio Global City (33 hectares) Canlubang (1,700 hectares)	50 ongoing projects: • Ayala Land Premier (9) • Community Innovations (10) • Avida Land (31)	13 shopping centers (886,000 sqms of Gross Leasable Area)*	**Owned** 5 headquarter-type office buildings (71,553 sqms) 3 BPO office buildings (35,803 sqms) **Managed** 2 managed office buildings (19,542 sqms)
2007 Highlights	**Ayala Center** Signed agreement with Kingdom Hotel Investments for luxury hotel complex and completed The Link **Bonifacio Global City** Sold 64,020 sqms of commercial lots and completed plans for West Super Block-City Center **Nuvali** Launched Abrio, Treveia and Avida Settings	Launched 5,182 units from 24 new projects and phases Booked 4,404 units equivalent to P16 billion Sales to Overseas Filipinos increased 18% in value Sold 672 lots in Abrio, Treveia and Avida Settings in Nuvali in less than four months	Weighted average mall occupancy of 95% Average building rental rates grew 7% New malls and expansions total 208,000 sqms* • Retail component of Bonifacio High Street in Bonifacio Global City • TriNoma regional mall • Greenbelt 5, Phase 1	Occupancy levels of 99% (headquarter-type buildings) and 100% (BPO buildings) Commenced construction of 7 BPO projects representing total GLA of 220,000 sqms, for completion in 2008-2009; preleased several buildings under construction
Looking Ahead	**Ayala Center** Completion of Glorietta 5 and luxury hotel projects, Glorietta 1 redevelopment **Bonifacio Global City** Premium-grade office tower, 6-star deluxe hotel and residential project, Mind Museum **Nuvali** Grand launch in second half 2008	New inventory of 5,600 units in 2008 from new projects and additional phases in existing projects Presence in new locations within Metro Manila and outlying areas	Opening of Phase 2 of Greenbelt 5 and Glorietta 5 in late 2008 Q Mall, regional mall in Angeles, Pampanga, to be completed in 2009 Retail-BPO development on a nine-hectare property in Davao City	Total BPO GLA increase to almost 700,000 sqms (inclusive of managed buildings) from 36,000 sqms as of end-2006 Continuing development of remaining four buildings and amenities at UP North Science & Technology Park Development of Technopod and dormitories at Nuvali Adoption of LEED-certifiable green building features

Support Businesses

	Geographic Businesses	Construction	Property Management	Hotels
				
				
Project/Product Portfolio	**Visayas-Mindanao** 1 shopping center (86,000 sqms of GLA) 4 residential subdivisions 2 business/IT parks International Residential projects in Bangkok and Macau	44 projects P18.6 billion outstanding construction contracts	174 managed facilities P672 million outstanding property management contracts	2 hotels (641 rooms) • Hotel InterContinental Manila–338 rooms • Cebu City Marriott–303 rooms
2007 Highlights	**Visayas-Mindanao** Launched Alegria Hills in Cagayan de Oro Opened Ayala Center Cebu Phase 1 expansion in June Sold eight lots at Asiatown IT Park **International** Final closing of ARCH Capital Asian Partners LP with total commitments of US$330 million Ongoing construction of Parkland-Phase 1 and Amanta Lumpini residential projects in Bangkok Project design and planning of Macau residential project	Construction of 600-bed St. Luke's Medical Center at Bonifacio Global City Awarded new projects amounting to P13.5 billion Awarded contract for expansion of US Embassy compounds in Manila and Pasay	Assumed property management of nine Avida villages in Metro Manila and other areas in Luzon Acquired parking management contract for 16 new carpark facilities Introduced new technologies to improve energy efficiency and systems across managed properties	Achieved significant improvement in occupancy and average room rates at Hotel InterCon following completion of refurbishment in November 2006 Occupancy rate and REVPAR of Cebu City Marriott higher than market, despite increased competition
Looking Ahead	**Visayas-Mindanao** Launch of residential projects in new areas in the region Development of Asiatown IT Park Phase 2 **International** Construction of initial phase of Macau project Development of succeeding phases of Bangkok projects Continued build-up of projects and investment pipeline	Steady annual expansion of order book from third-party clients and ALI-related projects Introduction of new construction methodologies to enhance quality Set up of Quality Assurance/Quality Control Division	As Corporate Sustaining Partner of US Green Building Council, promote balance between environmental, social and economic prosperity, i.e. triple bottom line, in managed properties Continue to pursue cost and quality initiatives on major spend commodities	Inclusion of hotel components at Glorietta 1 and UP S&T Park developments

* Excluding Ayala Center Cebu which is reported under Visayas-Mindanao; includes owned and managed malls

Significant Events

Q Mall, Angeles City

Marquee Place, Angeles City

January

- Fort Bonifacio Development Corporation (FBDC) completes construction and turns over HSBC office building in Bonifacio Global City (BGC)
- Construction of De La Rosa E-Services Tower 1 in Makati Central Business District commences
- Ayala Property Management Corporation (APMC) becomes a corporate member of the US Green Building Council

February

- Board approves increase in authorized capital stock from P12 billion to P20 billion and payment of a twenty percent (20%) stock dividend
- Community Innovations launches the first tower of Celadon Park, Manila and Tower 2 of The Columns Legazpi Village
- Community Innovations signs Memorandum of Agreement for development of YMCA property in Makati
- Avida Land launches the third tower of Avida New Manila in Quezon City
- Q Mall, a new regional mall in Angeles, Pampanga, starts site development
- Ayala Land receives a certificate of recognition from the Management Association of the Philippines as one of the ten finalists for the Best Annual Report awards

March

- Retail and office components of Bonifacio High Street in BGC are formally launched
- Ayala Land and Kingdom Hotel Investments (KHI) sign agreement to develop a 7,377-sqm property within Ayala Center into a luxury hotel complex
- Construction of the first two of the ten BPO buildings at UP North Science and Technology Park begins
- Ayala Land commences construction of Glorietta 5 along Ayala Avenue, Makati City
- APMC secures its first international technical consultancy services for Legation Headquarters in Beijing, China through ARCH Capital Management Co. Ltd.

April

- Avida Land launches Avida Settings in Dasmariñas, Cavite and the fifth tower of Avida Towers in Sucat, Parañaque
- Ayala Land signs Memorandum of Agreement with the Philippine Stock Exchange and FBDC for the construction of a headquarter-type office building in BGC
- APMC assumes property management of nine Avida villages in Luzon
- Ayala Land ranks #2 in The Asset Awards 2007 for Best in Corporate Governance for Philippine corporates

May

- TriNoma regional mall in Quezon City begins operations
- The Aston, the first of the series of high-rise sections of Two Serendra, is launched
- The Homestarter Financing program is made available to Community Innovations buyers
- Ayala Land declares P0.03/share regular cash dividend for the first semester 2007

June

- Community Innovations launches Marquee Place in Angeles City, Pampanga
- The first phase of Ayala Center Cebu expansion begins operations
- Alegria Hills, a high-end residential development in Cagayan de Oro, ALI's first venture in Mindanao, is launched
- The Company achieves Top ranking in FinanceAsia's seventh annual Best Companies Poll across several categories: best managed, best corporate governance, best investor relations and most committed to a strong dividend policy
- APMC, together with Ayala Land, Ayala Foundation and 11 other organizations and private practitioners, co-founds the Philippine Green Building Council (PhilGBC)

Nuvali Technopod, Canlubang

Treveia in Nuvali, Canlubang

July

- Ayala Land and Manila Jockey Club, Inc. announce joint development of two BPO buildings, with retail, on a 1.1-hectare property in San Lazaro, Manila
- Avida Land launches Avida Towers Makati West, its first high-rise condominium project in Makati
- Ayala Land Premier re-launches Montecito Estates in Canlubang
- Development of Laguna Technopark 29-hectare expansion area commences

August

- Special Stockholders Meeting ratifies increase in authorized capital stock from P20 billion to P21.5 billion, and rights offer for 13.034 billion preferred shares
- Construction of BPO building starts in Asiatown IT Park in Cebu
- Ayala Westgrove Heights launches two new phases comprising 70 lots

September

- Ayala Land Premier awarded "4-Stars Best High-Rise Development" from the CNBC/International Property Awards for The Residences at Greenbelt
- The initial phase (113 lots) of Abrio, Ayala Land Premier's residential development in Nuvali, is sold out within two hours
- Groundbreaking takes place in Nuvali's BPO campus
- Makati Development Corporation is awarded contract for expansion of US Embassy compounds in Manila and Pasay

October

- SEC approves issuance of new P13.034 billion Preferred Shares to common shareholders, effectively bringing foreign ownership in ALI down to 20%
- Community Innovations and Avida Land opens Treveia and Avida Settings, respectively, in Nuvali
- The first phase of Greenbelt 5 and certain portions of The Link open
- Glorietta 2 closed indefinitely as explosion results in significant structural damage and loss of life

November

- Ayala Land Premier launches and immediately sells out second phase (122 lots) of Abrio
- Ayala Land International Sales' website, www.atayala.com, emerges as winner in the 10th Philippine Web Awards' corporate website category
- FBDC breaks ground on the 29-storey E-Services building at BGC
- Ayala Land enters into a joint venture covering a 9-hectare property in Davao City for retail/BPO development

December

- Ayala Land turns over lot to KHI-Manila for hotel complex development
- FBDC signs agreement with the Shangri-La Hotels Group for sale of a 1.5-hectare lot in the BGC West Superblock
- ARCH Capital Asian Partners announces final closing of its first property fund with total capital committments of US$330 million
- APMC receives recognitions and citations from the Don Emilio Abello Energy Efficiency Awards for the following: Outstanding Building of the Year Award for MSE Building and Citibank Center; Energy Citation Award for Citibank Tower and Citibank Square; Award of Recognition during the First ASEAN Best Practice Competition for Energy Management in Buildings and Industry for Serendra and Ninoy Aquino International Airport Terminal 2

Chairman's Message

Fernando Zobel de Ayala
Chairman

Building large, holistic, integrated and sustainable communities with strong governance structures has been our principal strength.

My fellow shareholders,

I am pleased to report that 2007 was another good year for your Company as we achieved record profitability while sustaining our position as the country's leading property developer. With a stable macroeconomic environment, the market remained buoyant across all of our business lines and we continued to see robust demand, healthy pricing power, and a steady appreciation of land values in our strategic landbank areas. In addition, the structural shift away from traditional manufacturing to being a consumption-led and globally competitive service economy has resulted in the emergence of significant new segments in the property market that present attractive growth opportunities for Ayala Land to sustain its market leadership.

Structurally attractive growth markets

The sustained growth in consumption spending, driven in part by a healthy economy and a steady flow of remittances from Overseas Filipinos (OFs), continues to spur demand for modern, lifestyle-oriented retail formats not only in established urban centers, but also in diverse geographic locations. We also continue to see residential demand growing not only domestically due to better affordability and the increased availability of financing options, but also from very healthy demand from OFs, especially in Asia, Europe and the Middle East. Finally, the country's emergence as a preferred destination for Business Process Outsourcing (BPO) continues to gather momentum, particularly in areas outside the central business district.

While we see tremendous growth areas driven by these trends, we recognize that capturing an increasing market share of these segments brings many challenges. These include a general slowing down in the US economy and the continued appreciation of the Philippine peso against the US dollar as well as increased competition in the real estate industry as our competitors also strive to grow their market share. To succeed and maintain our leadership in this highly competitive environment, we need to come up with innovative products that simply work better and hold their value over time.

Differentiation as competitive advantage

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

- A holistic approach to landbank and community development that ensures our products "work better" because we continually engage the surrounding community and local government from planning to implementation. Our dedication to responsible development ensures that we do not cut corners but instead pay attention even to those things that people would not see. We provide good access, the appropriate infrastructure, and wide, open spaces for families to enjoy.

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

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

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

We are focused on a strong product differentiation strategy with four main pillars that constitute the Ayala Land approach to development.

We are confident that this four-pillar development approach would be replicable across our businesses and at different scales. In terms of a holistic approach, for instance, our development strategy for BPOs requires that we not only focus on speed-to-market and the particular physical requirements of locators, such as built-in redundancies for their 24/7 operations. We also address their competitive concerns with respect to the work-life balance demanded by their youthful, highly mobile agents. So, we provide them with a self-contained but socially fulfilling campus environment, round-the-clock retail support and other amenities, and "green" building technology that keep their work places clean, healthy, efficient and nature-friendly.

In staying ahead of the curve in global real estate trends, our development at Nuvali in Canlubang will be a showcase for environmental, economic and social sustainability. With thoughtfully designed road networks, an efficient privately managed transit system, reliable internet and broadband infrastructure and an overall design that promotes bonding, outdoor recreation and human interaction, Nuvali covers the many aspects of technological and human connectivity needed to spur economic growth in a sustainable setting. More than being just a tagline, Nuvali will pioneer the concept of the "evolution of living", with a community focused on environmental sustainability with pedestrian-friendly pathways to encourage walking, abundant greenery, bioswale and permeable paving, water recapture and recycling and distinctly designed multi-use neighborhoods.

Strong sense of partnership

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

We stand by our partners and they stand by us and this became a vital source of support for your Company as we faced the worst crisis in our company's history with the explosion that rocked Glorietta last October 19. I am honored and proud to say that during this dark time, the support of all of our partners never faltered even as the public's trust was put to the test. We took care of the victims and their families, we shared the financial burden with our merchants and tenants, and our crisis management teams worked around the clock in search of the truth and to protect your Company's good name. The whole organization put in a very significant amount of time and effort to make sure that we were able to maintain business as usual in all our other projects and developments even as key management resources were stretched to the limit.

On behalf of the Board of Directors, I would like to express my deep gratitude to my colleagues at Ayala Land and everyone who contributed to our many successes and especially those who helped us manage through adversity. I would also like to thank our partners and stockholders who have kept their faith in us. Their support was the key to our success, and we look forward to an even better year in 2008.

Thank you.

President's Report

Dear Shareholders,

The year under review saw Ayala Land taking concrete steps to extend its market leadership by executing a sound product differentiation strategy in its most aggressive expansion ever. This has resulted in strong earnings growth in our operating businesses as well as robust land value appreciation in your Company's strategic landbank areas.

Strong operating results

It has been a good and active year in many respects, punctuated by strong earnings growth and margin expansion across our key business lines. Your Company's net income reached a record P4.4 billion in 2007, 13% higher than the previous year. Increased pricing power and tight control of operating expenses improved our net operating income margin to 34%, from 31% in 2006. The details of your Company's financial and operating performance are discussed further in a separate CFO report.

The market was extremely receptive to our residential product offerings across a wide breadth of price points and geographies as we launched over 5,500 units in 2007 (including Visayas-Mindanao). This was 17% more than what we launched in 2006 and was accompanied by faster growth in both take-up and bookings. This has been highlighted by the unprecedented success of Nuvali where our Abrio, Treveia and Avida Settings residential lot offerings sold out very quickly. With continued strong interest in the future phases to be launched in Nuvali, it is clear that sustainability as a differentiating value proposition resonates very positively with our target markets and this is a theme that we will continue to leverage on in future developments.

2007 was also an exciting year for our leasing businesses. We opened TriNoma in Quezon City last May and this contributed an additional 191,000 sqms in gross leasable area (GLA) with effective average rental rates that were higher than what we initially projected. We also opened Phase 1 of Greenbelt 5, a showcase for leading Filipino and international designers, last October and it has quickly established itself as a favorite destination among its target market of affluent and discerning shoppers and diners in Makati. Phase 1 of

Ayala Land took concrete steps to extend its market leadership, resulting in strong earnings growth and robust land value appreciation.

Jaime I. Ayala
President and Chief Executive Officer

Greenbelt 5 (13,326 sqms GLA) was already 100% leased/committed as of year-end, with another 18,000 sqms of Phase 2 to open in the fourth quarter of 2008.

TriNoma is particularly noteworthy in that it has already become profitable in just its first year of operations and we expect this to contribute significantly to our malls business in 2008 and beyond. We also learned that there is a strong acceptance among the Filipino public for regional lifestyle centers even in non-CBD areas and this is a model that we can successfully replicate in other geographic areas in the future. We have already made significant headway into this geographic expansion with the ongoing construction of Q Mall in Angeles City, and our recent announcement of a joint venture mixed-use development with a significant retail component in Davao.

In our corporate business lines, we continued the aggressive ramp-up of our Business Process Outsourcing (BPO) operations with a number of exciting projects in various stages of construction in and around the Mega-Manila area. This is a sector that we believe continues to hold tremendous growth potential as pressure to reduce costs and explore outsourcing and offshoring continues in other countries. While there are attendant challenges and increased competition in this attractive sector, we are confident that our value proposition – fully integrated campuses that enable locators to scale up quickly and inexpensively while attracting top agents and managers with organized activities and affordable housing and the convenience of retail and lifestyle outlets – will stand out. We are on track to achieving our target of almost 700,000 sqms of BPO GLA by 2011.

We further secured our pipeline of future growth through the new sites acquired, construction of which have been largely on track, and sealed agreements with new and proven locators. We moved to secure additional land in attractive areas outside Metro Manila where we see immediate and under-served demand for multiple uses that will drive quick value appreciation. We are completing construction of the first 6 (3 already fully-leased) of the projected 10 buildings we will put up under our mixed-use development plan for the UP North Science and Technology Park. This BPO campus model will be replicated in other off-CBD locations that we are constructing to respond to the needs of BPO locators all over the country.

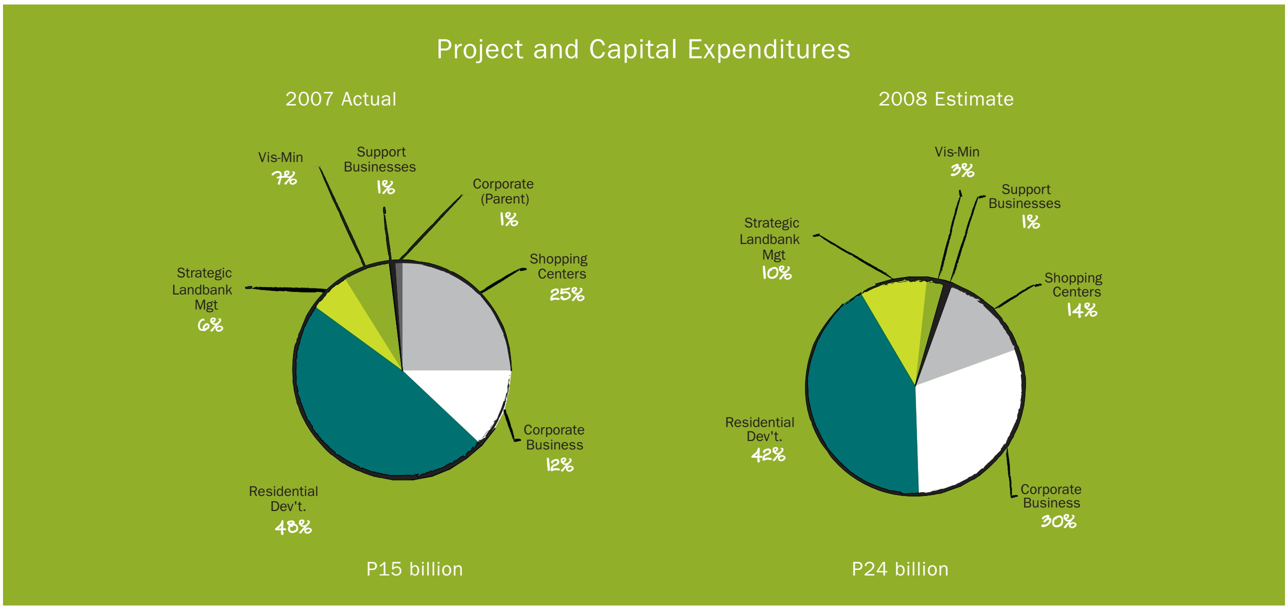
Values being driven in strategic landbank

The Ayala Land approach to development is centered on our unique ability to continually prime and develop large tracts of land in strategic areas for long-term value appreciation. In this respect, 2007 was a very positive year for our three strategic landbank areas in Makati, Bonifacio Global City (BGC), and Nuvali in Canlubang.

Land values continued their upward trajectory in Makati, and have risen 38% over the last two years as we continued with the implementation of the Ayala Center redevelopment plan. This is being undertaken in phases and is intended to maximize the value and returns of the land by creating a mixed-use development which will effectively more than double the floor area ratio utilization of Ayala Center in the coming years. A significant development here is the entry of the Kingdom Hotels Group, who is developing Fairmont and Raffles luxury hotel complex to coincide with the redevelopment which we are planning for the adjacent Glorietta 1 and 2.

In BGC, value appreciation has been even sharper as our priming activities continue to bear fruit and attract more and more locators and lot purchasers. Land values in BGC have nearly doubled in the last two years and have already started to approximate Makati CBD prices in some areas. Bonifacio High Street has clearly come into its own with its unique pedestrian focus and attractive retail and dining experiences. We are particularly excited about the future development of the West Superblock area, which will feature a luxury hotel to be developed by the Shangri-La Hotels Group, a new premium-grade office building which will house the unified Philippine Stock Exchange, as well as a unique Mind Museum.

We are equally excited about the prospects for Nuvali, which in many ways showcases the future direction of our large-scale mixed-use developments with its strong focus on economic, environmental, and social sustainability. Sales have been extremely strong as previously mentioned and we are gearing up for additional launches in 2008 across all our three residential brands. With critical infrastructure already largely in place and the first BPO building scheduled to be completed by November, we are confident that Nuvali will be a significant driver of both earnings and net asset value (NAV) growth in the coming years.



Sound fundamentals for long-term shareholder returns

Notwithstanding a softening in the equity markets globally which have caused significant volatility as well as some recent share price weakness, we believe that your Company's fundamentals are strong and will continue to offer investors attractive returns. Total shareholder return (TSR) for 2007 was 12% and while this lagged the broader Phisix (+21%) and Philippine Property Index (+33%) benchmarks, this must be viewed in the context of the previous four years' outperformance, which had averaged 39% in TSR annually. We are also in the midst of a very heavy investment phase which frontloads a lot of capital expenditure but we are confident that this will result in faster growth in revenues, earnings, return on equity and ultimately TSR as these projects start to hit their target returns.

With a year-end market capitalization of P186 billion, your Company was the 6th largest company listed on the Philippine Stock Exchange and was 1.5 times larger than the next largest property stock. We also continued to be the most liquid property company with an average daily value turnover of P297 million. Overall, we feel that the recent weakness of the equity markets, which have seen share prices retract to end-2006 levels, represents an attractive buying opportunity for our long-term investors.

Prospects in 2008 and beyond

Moving forward, we expect to further heighten our activity and investment levels in order to achieve and sustain growth across our business lines. We are projecting P24 billion in capital expenditure for 2008, 60% higher than the P15 billion we spent last year. Our residential businesses will continue to take the bulk of our investments as we expect to launch some 5,600 units in 2008, 8% more than the additional inventory that we launched last year. It is noteworthy that we have earmarked 30% of our total capex for our aggressive BPO expansion plans, compared with just 12% in 2007. This is a level nearly 5 times more than what we spent last year, and reflects our confidence in your Company's ability to secure a higher market share in this very attractive sector. Redevelopment and priming activities will continue in full swing in our three strategic landbank areas and we are also in the process of securing additional key sites in the Mega-Manila area and other geographies with attractive and fast growing economies.

Achieving all this will not be easy and we continue to grow and strengthen our organization. Our focus will remain on maintaining and improving the quality that Ayala Land developments are known for, while improving margins and speed to market through improved productivity in project planning and delivery.

I am proud and grateful for the dedication and commitment shown by our employees, the guidance shown by our Board, and the support of our loyal shareholders. As we look forward to the opportunities and challenges of 2008 and beyond, we will continue to count on all these, confident that your Company will be able to achieve its targets and strengthen its position as the country's leading property developer.

Thank you.

CFO Report

Jaime E. Ysmael
Senior Vice President and Chief Finance Officer

The Company's continuing commitment to a time-tested approach to real estate development has yielded record financials for 2007.

The Company's continuing commitment to a time-tested approach to real estate development, as manifested by its relentless focus on market leadership and product differentiation, has yielded record financial results for 2007, both in terms of revenues and net income. The majority of our operating businesses registered significant growth amidst a buoyant property market.

The following discussion on financial performance is based on the modified statutory income statement (see table on next page), where business segment performance has been grossed up before inter-segment consolidation adjustments, to more properly reflect the underlying performance of each business line.

Differentiation strategy gains ground, resulting to upbeat financials

The Company ended 2007 on a high note, continuing the gains of prior years with total revenues before consolidation adjustments hitting an all-time high of P34 billion. The various business lines capitalized on their respective strengths and actively pursued a differentiation strategy in order to deliver record performance. Revenue growth was achieved on the back of strong sales of 4,404 residential units representing P16 billion in value, a 28% increase in shopping center Gross Leasable Area (GLA) equivalent to 212,500 sqms, and higher occupancies and rental rates achieved in the shopping center and office portfolios. This was further boosted by the strong performance of Fort Bonifacio Development Corporation (FBDC) and some Makati asset sales, bannered by the sale of preferred shares in KHI-ALI Manila, Inc. (KAMI) to Kingdom Manila, B.V., in connection with the development of a luxury hotel complex within Ayala Center.

Aggressive pricing implemented for select residential and leasing projects, supplemented by cost savings and tighter overhead control, led to margin expansion across various business lines. As a result, net income after consolidation adjustments registered at P4.4 billion, the highest ever, representing a healthy 13% growth over last year.

Revenues continue to gain momentum; margin improvements now evident

Total revenues, before inter-segment consolidation adjustments, grew by 9% or P2.7 billion from the previous high set in 2006 of P31 billion, following an increase in contribution from the Strategic Landbank Management, Shopping Centers, Visayas-Mindanao, and Support Businesses. This effectively tempered the decline in revenues from Residential Development and Corporate Business.

Meanwhile, operating costs grew at a slower pace of 5% to P21.8 billion from P20.7 billion a year ago, as various cost management initiatives started in previous years began to bear fruit. General and Administrative Expenses (GAE), however, grew at a faster pace than revenues at 11%, registering at P3.1 billion due to initiatives undertaken to further build up the organization for the current aggressive expansion programs.

These resulted in Earnings Before Interest and Taxes (EBIT) of P9 billion, representing a growth of 17% from the previous year, as well as higher EBIT margin of 27%, 2 percentage points above the 2006 level.

Lower borrowing costs and income tax temper other charges

Interest and other charges of P1.8 billion increased by 64% despite a drop in average debt levels and borrowing costs, mainly as a result of the costs related to the Glorietta 2 incident and the KAMI deal. Meanwhile, provision for income tax of P1.6 billion registered a 3% decline from the 2006 level as the Company's effective tax rate in 2007 was significantly lower following higher income subjected to capital gains tax at a lower rate.

Below is a discussion of each business line's contribution to the Company's overall financial performance.

CONSOLIDATED INCOME STATEMENT BY BUSINESS SEGMENT*

2007
(in P Million)

	Strategic Landbank Management	Residential Development	Shopping Centers	Corporate Business	Visayas-Mindanao	Support Businesses	Corporate	Total Before Consolidation Adjustments	Consolidation Adjustments	TOTAL
Revenues	1,799	13,316	5,818	1,138	1,382	9,361	1,147	33,961	(8,254)	25,707
Cost of Sales/DOE	330	9,809	2,607	619	892	7,491	0	21,748	(6,605)	15,143
NOI	1,469	3,507	3,211	519	490	1,870	1,147	12,213	(1,649)	10,564
GAE	21	876	467	62	187	337	1,163	3,113	(398)	2,715
EBIT	1,448	2,631	2,744	457	303	1,533	(16)	9,100	(1,251)	7,849
Interest and Other Charges							1,796	1,796		1,796
Provision for Income Tax							1,556	1,556		1,556
Income before Oakwood							(3,368)	5,748	(1,251)	4,497
Income from Oakwood									599	599
Income before Minority Interest								5,748	(652)	5,096
Minority Interest									(710)	(710)
Net Income								5,748	(1,362)	4,386

2006
(in P Million)

	Strategic Landbank Management	Residential Development	Shopping Centers	Corporate Business	Visayas-Mindanao	Support Businesses	Corporate	Total Before Consolidation Adjustments	Consolidation Adjustments	TOTAL
Revenues	1,369	14,025	5,070	1,394	1,134	7,095	1,193	31,280	(5,721)	25,559
Cost of Sales/DOE	382	10,998	2,039	822	712	5,697	50	20,700	(4,530)	16,170
NOI	987	3,027	3,031	572	422	1,398	1,143	10,580	(1,191)	9,389
GAE	67	638	358	62	170	298	1,218	2,811	(205)	2,606
EBIT	920	2,389	2,673	510	252	1,100	(75)	7,769	(986)	6,783
Interest and other charges							1,094	1,094		1,094
Provision for Income Tax							1,610	1,610		1,610
Income before Oakwood							(2,779)	5,065	(986)	4,079
Income from Oakwood									155	155
Income before Minority Interest								5,065	(831)	4,234
Minority Interest									(368)	(368)
Net Income								5,065	(1,199)	3,866

* Modified statutory income statement where business segment performance has been grossed-up before intersegment consolidation adjustments. Segment operating results include the fully consolidated financial performance of investee companies accounted for under the equity method, except for Fort Bonifacio Development Corporation.

Our core businesses delivered healthy earnings growth, driven by strong operating performance supplemented by asset sales.

Core Businesses: Strong Growth and Margin Expansion

Against the backdrop of a vibrant property market, all of our core businesses delivered healthy earnings growth, driven by strong operating performance supplemented by asset sales. The underlying business activity across all segments of the business remained strong. With continued focus on managing the pricing and cost levers more effectively, overall margins have improved.

Strategic Landbank Management

The Company's continuing effort to prime and capture value from its strategic landholdings has significantly impacted current earnings, with the Strategic Landbank Management Group generating P1.8 billion in revenues (5% of total), a significant increase of 31% from the 2006 level.

Higher equity in net earnings from the investment in FBDC came on the back of the sale of 6.4 hectares of commercial lots at higher average prices in Bonifacio Global City (BGC), an all-time high for FBDC, which, as a company, ended the year with revenues of P6 billion and net income of P1 billion. The increased sales activity and growth in land prices are expected to continue as development activities in BGC remain in high gear and all of the key components of a Central Business District fall into place in the next few years. The P1 billion net gain realized from the sale of preferred shares in KAMI to Kingdom Manila, B.V. also contributed to the growth in revenues, as well as helped jumpstart the redevelopment of the Ayala Center. Nuvali, a fully integrated, mixed-use landmark sustainable community in Canlubang, was successfully soft launched in the last quarter of the year. Its revenue impact, however, was minimal as construction completion remained low.

EBIT amounted to P1.5 billion, posting a growth of 57% from last year's level and is equivalent to 16% of total. EBIT margin also improved by 13 percentage points to 80%, following the higher equity in net earnings from FBDC.

Residential Development

Taking advantage of the positive market trends and bolstered by a sharper value proposition across all three brands, the residential development business posted a record high growth in unit sales take-up of 31% to 5,669 units. A total of ten new projects were launched in 2007, involving new geographic areas like Community Innovations' Marquee project in Angeles, Pampanga, and Avida's Makati West Tower. Additionally, in an unprecedented first, we simultaneously launched three residential developments involving all three brands in Nuvali, which aims to be the country's gold standard in sustainable community development. Take-up rates and pricing for all three projects, namely Abrio, Treveia and Avida Settings, were very encouraging, with the high-end lots at Abrio's first two phases having sold out in a matter of hours after launch through lotteries.

Capitalizing on the growing population of Filipinos based abroad, Ayala Land International Sales, Inc. (ALISI), our international sales arm, expanded its reach and tapped this market more systematically. This resulted to an 18% growth in sales to Overseas Filipinos, with a sales value of P6 billion. This robust growth was seen despite the strengthening of the Philippine peso and the sub-prime issues affecting buyers based in the United States.

Revenues generated by the residential development business amounted to P13.3 billion or 39% of total, a decline of 5% from its 2006 level, mainly due to the effect of the standardization of the revenue recognition policy across all three brands, implemented in 2006 as part of the integration of the residential development business. This accounting policy-related decline, however, is not at all indicative of the underlying strength and prospects of the residential development business, as the reservations pool remained healthy and grew by 39% in value to P21 billion. In addition, unit bookings of 4,404 representing P16 billion in value grew by 39% from the 2006 level. Of this, 25% was contributed by relatively new projects which have yet to contribute to topline following minimal construction accomplishment.

Resulting EBIT of P2.6 billion was 29% of overall EBIT, representing an increase of 10% from last year's level. EBIT margin of 20% improved by 3 percentage points following price increases implemented in key projects, construction cost savings and the positive impact of various cost management initiatives.

Shopping Centers

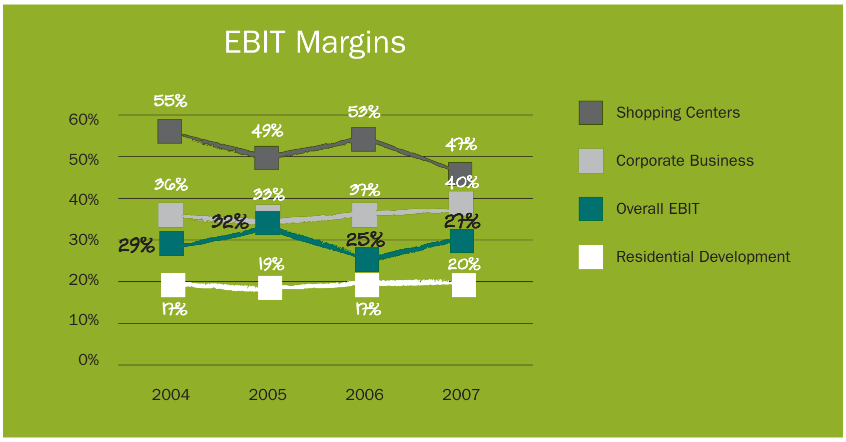
With the strong value proposition of its malls anchored on a keen sense of place, superior customer service and high impact marketing events, the shopping centers business grew revenues through additional GLA, better occupancies, basic rental rate increases and increased management fees, overshadowing the negative impact on revenues of the Glorietta 2 incident. It posted a considerable revenue increase of 15% to P5.8 billion or 17% of total, mainly through the contribution of TriNoma, the Company's first super regional mall in Northern Metro Manila which opened in May.

EBIT contribution amounted to P2.7 billion or 30% of total, with EBIT margin dropping by 6 percentage points to 47%, as the newly-opened malls (TriNoma and Greenbelt 5 Phase 1) are still in their start-up stage and have not normalized their operations. The absence of almost one quarter's worth of earnings from the high-margin Glorietta 2 mall as a result of the October 19 incident also dampened operating margins.

The Company's continued thrust towards increasing GLA to ensure future growth has borne fruit, with the successful opening during the year of TriNoma, Greenbelt 5 Phase 1, Bonifacio High Street and the Ayala Center Cebu expansion, bringing total GLA to 972,000 sqms, representing a 28% growth from the previous year. Additionally, the construction of the Q Mall in Angeles, Pampanga commenced, while the identified site for the retail-BPO development in Davao was secured during the year.

Corporate Business

Corporate Business contributed 3% to the Company's revenues at P1.1 billion, lower than last year by 18%, due to lower office rentals as a result of the sale of the PeopleSupport building to the Goldman-Capmark-Ayala Land consortium in 2006. Discounting the effect of this one-off



Tight rein on costs and overhead increase overall EBIT margin to 29%

item, revenues in 2007 actually grew significantly by 22% following higher industrial lot sales at Laguna Technopark's expansion phase, better occupancy and rental rates at its five headquarter-type and three BPO buildings, as well as increased fee income from managed buildings.

As a result of the revenue decline, EBIT was also lower by 10% to P457 million, representing 5% of total. EBIT margin, however, increased to 40% from 37% in 2006, following price increases implemented on industrial lot sales, higher rents and lower utilities costs.

Significant progress has been made towards increasing the Company's BPO portfolio, with seven projects commencing construction in 2007, in various parts of the Mega-Manila area. At the same time, negotiations continue for the acquisition of new sites for additional BPO buildings.

Visayas-Mindanao

Mirroring the gains of the other operating businesses, our Visayas-Mindanao unit registered a stellar performance with revenues hitting P1.4 billion, a 22% improvement from the previous year's level, accounting for 4% of total. The growth came mainly from robust commercial lot sales at the Asiatown IT Park, driven by the continued strong growth in the IT-enabled outsourcing business in the region, as well as increased retail revenues at Ayala Center Cebu, as the public warmly received the opening of its new expansion building in July 2007.

Resulting EBIT was at P303m, representing a 21% growth from 2006, with EBIT margin steady at 22%.

As the Company's vehicle for pursuing business opportunities in the rapidly growing Central and Southern Philippines, the Visayas-Mindanao unit continued to build its future growth platforms in anticipation of a sustained industry upswing. It started the construction of the Lagoon Development at the Ayala Center Cebu to further expand the offerings at the premier shopping and lifestyle center in the the area, and the eBloc building at Asiatown IT Park, its first foray into the BPO building leasing business. It continues to pursue negotiations for the acquisition of new sites for residential and other mixed-use developments.

Support Businesses: Effective Partner in Ensuring Leadership and Product Differentiation

The Company's support businesses, composed of its interests in construction, property management and hotels, continued to support the core businesses in achieving their growth targets and in differentiating their products. Collectively, they contributed P9.4 billion in revenues, a strong 32% growth from 2006 as our construction arm Makati Development Corporation posted its highest revenues ever, underpinned by an increased order book from both internal and external projects. Ayala Property Management Corporation also registered a 14% growth in its topline following increased number of accounts arising from the Company's new projects as well as external contracts. The revenue performance of Ayala Hotels, Inc. continued to improve as a result of the higher occupancy and room rates at the newly refurbished InterContinental Hotel, and was further boosted by the gain on the sale of the investment in Makati Property Ventures, Inc., the corporate vehicle for Oakwood Premier Ayala Center, which was sold to the Ascott Residence Trust during the year.

Meanwhile, EBIT amounted to P1.5 billion, a 39% increase from prior year, consistent with revenue growth.

Our support businesses continue to be a source of competitive advantage for the Company as they provide world class services that serve to enhance product quality and after sales service, and prime our strategic landbank.

Corporate Center: Driving Value through Change Programs and Active Balance Sheet Management

The Corporate Center continued to create value for the Company in support of the growth plans of the various business lines. Several corporate programs were pursued during the year to achieve this goal.

1. We achieved significant progress in instituting value-adding and capability-enhancing change programs, particularly in areas critical for the future success and growth of the company such as decision support systems, project development processes, and spend management.

Healthy balance sheet supportive of an aggressive investment program that will ensure sustainable growth

- We made good progress in further improving a number of critical companywide systems and processes, particularly the management information system, the planning process, and the evaluation and rewards process. Our efforts in 2007, which were focused on near-term impact, yielded quick wins in better decisions as well as more efficient operations.

- Significant efforts were also made to improve the project development process, in light of the continuous build-up of activity, with particular focus on project value propositions.

- The ongoing spend management program has now yielded promising results, as evidenced by a decline in GAE to P1.16 billion from P1.22 billion, despite an ongoing organizational build-up in support of heightened business activity.

2. Various initiatives were undertaken to strengthen our balance sheet to support an aggressive investment program that will help sustain future growth.

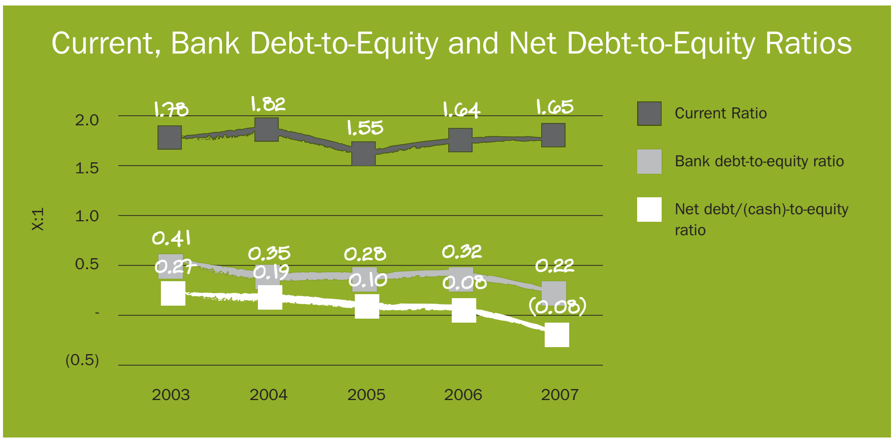
    - The Corporate Center facilitated the sale of preferred shares in KAMI to Kingdom Manila, B.V. and the MPVI shares to Ascott Residence Trust. These asset sales generated significant cash proceeds totaling P2.4 billion that will be redeployed to prime the Company's strategic landbank portfolio, as well as help jumpstart the redevelopment of Ayala Center.

    - We introduced two significant changes in our capital structure designed to improve our ability to raise funds, while at the same time, increase the liquidity of the Company's shares. First, the Company increased its authorized capital stock to P20 billion from P12 billion common shares, the 25% paid-up requirement of which was complied with in a cost-effective manner via the issuance of a 20% stock dividend. The move gave the Company additional currency in the form of unissued common shares that can be used to raise capital to fund investments. Second, a new class of non-voting preferred shares totaling P15 billion with a par value of 10 centavos per share was created, of which 13.034 billion shares were offered via a rights issue and subsequently issued, generating cash proceeds of P1.3 billion. These new preferred shares, which are counted towards determining foreign ownership limit in the Company, effectively allow increased foreign trading of the Company's listed common shares without compromising the constitutional limitation on foreign ownership in property companies.

- The Company continued to pursue efforts in reducing its overall borrowing cost and stretching loan maturities to match its project requirements and cash conversion cycle. This was done by pricing the loans based on credit spread, asset-liability matching, continuous rebalancing of debt maturity profile to spread out refinancing requirements, and increasing the proportion of fixed rate notes versus floating rate instruments to take advantage of the current low interest rate environment and effectively manage exposure to interest rate risk. The blended cost of debt declined to 7.9% from 9.0% in 2006, with average maturities extending to 3.3 years from 2.5 years in 2006 while the ratio of fixed to floating rate debt stood at 62:38 from 47:53 the previous year.

- As a result of these initiatives, the Company ended the year with a healthy balance sheet. Cash and cash equivalents grew 43% to P13.6 billion and debt level declined 21% to P10.1 billion, resulting in a debt-to-equity ratio of 22% compared to 32% in 2006. Return on equity registered at 10.2%, an improvement from previous year's 9.8% and the strongest since the Asian financial crisis.

In summary, despite the challenges faced during the year, the Company achieved strong financial results while maintaining the forward momentum in the transformation program we started in late 2004. With the strength of its balance sheet and the significant progress made in instituting value-adding change programs, the Company is well on its way towards supporting much higher levels of activity that will lay the groundwork for future growth.



Healthy balance sheet supports planned investment program

Management Committee*

Jaime I. Ayala
President and CEO
Group Head, Ayala Malls

Ma. Victoria E. Añonuevo
Group Head, Corporate Business Group
Group Head, Hotels

Dinna G. Bayangos
Group Head, International Business
Head, International Sales

Bernard Vincent O. Dy
Group Head, Residential Business

Raul M. Irlanda
Group Head, Construction

Miriam O. Katigbak**
Head, Strategic Landbank Management –
Signature Projects

Angela dV. Lacson***
Group Head, Innovation and Design

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

John Philip S. Orbeta****
Group Head, Human Resources

Vincent Y. Tan
Group Head, Planning
Group Head, Strategic Landbank Management

Emilio J. Tumbocon
Group Head, Property Management

Jaime E. Ysmael
Chief Finance Officer
Group Head, Finance

* As of January 1, 2008
** Retired effective January 1, 2008
*** Consultancy from January 1, 2007-December 31, 2007
**** Transferred to Ayala Corporation effective January 1, 2008

Bonifacio High Street

Strategic Landbank Management

SLMG leverages Ayala Land's unique capabilities and experience in developing raw land into large, mixed-use, masterplanned townships where people live, work, study, dine, relax and interact with one another.

Value enhancing efforts in key areas bearing fruit

The Strategic Landbank Management Group (SLMG) is at the heart of Ayala Land's business. With 1,780 hectares in its three key landbank areas of Makati, Bonifacio Global City and Nuvali (Canlubang), SLMG leverages Ayala Land's unique capabilities and experience in developing raw land into large, mixed-use, masterplanned townships where people live, work, study, dine, relax and interact with one another. It finds, develops, primes and manages the best and most strategic locations and they become the platform for all other developments – residences, malls, offices, and all the services that make up a vibrant and sustainable community.

With a very long-term horizon, SLMG views its key landbank areas as launching pads for decades of development. More than just priming land, it transforms it over time. "When your strategies are transformative in nature, it means you lay down deep foundations. You do not compromise on value. You watch over the pace of development and how this creates value and you never leave it behind," says ALI President Jaime I. Ayala.

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

Sustainability embedded in strategy

Much more than just a byword, sustainability is, and will continue to be a central theme in every project that the company launches – from planning, to execution, delivery, maintenance and governance.

Sustainability is something that ALI will integrate fully into its business models. For ALI, the concept of sustainable development builds lasting communities and promotes harmony among people and between people and nature. It is about the evolution of living standards where the need for environmental preservation, economic growth and social interaction are all integrated and harmonized.

Sustainability, value priming and value capture were at the core of SLMG's activities in 2007 as it crafted or started implementing key segments of new master plans and redevelopment plans for the Makati Central Business District, Bonifacio Global City (BGC), and Nuvali in Canlubang, Laguna.

Momentum building in key landbank areas

In 2007, ALI began to implement its Ayala Center redevelopment plan for Makati. The company completed a transaction with the Kingdom Hotels Group for the turnover of a 7,377-sqm site for a luxury hotel complex consisting of a 300-room Fairmont Hotel, a 30-suite Raffles Hotel, and 189 Raffles-branded private residences.

Construction for Glorietta 5 along Ayala Avenue began and is due for completion by the end of 2008. The Link, located between the Shangri-La Hotel and The Landmark, was completed, consisting of two levels of retail and six levels of parking. With all of these efforts underway, land prices in the Makati CBD continued to climb, ending the year at P300,000 per square meter for the most prime locations, an increase of 18% for the year.

A flurry of continued activity is likewise priming BGC to become another premier business district that will ultimately complement Makati. Lot sales for 2007 totalled 6.4 hectares, with lot prices going up by as much as 50% for the year with those in the City Center being listed for as much as P210,000 per square meter. A key development was the finalization of an agreement to construct a premium office building which will house the unified trading floors of the Philippine Stock Exchange (PSE). This will be located in the West Superblock.

Complementing the PSE office building in the West Superblock will be a six-star luxury Shangri-La hotel, also slated to begin construction this year. This will be the first hotel complex to rise in BGC, with other hotel developers expected to follow suit. Other significant developments include the continued construction on the ultra-modern 600-bed St. Luke's Hospital as well as the groundbreaking for a 29-storey BGC E-Services building.

To improve access to and from the Makati CBD and facilitate the movement of people in and around BGC, the feasibility of a novel Rapid Transit Bus System is also being studied.
Infrastructure development continued to be put in place at Nuvali, with the completion of the two lanes of the North-South Road, as well as the opening of the temporary Visitors' Center. Ground has been broken for the first BPO building, which is expected to open in July 2008. A total of 200 hectares were allocated for the first phases of Abrio, Treveia, and Avida Settings, which were launched late last year to great success. Abrio in particular set a new sales record with a full sell-out of available units within hours from launch.

Balancing value priming and value capture

Vincent Y. Tan, Executive Vice President and Group Head of SLMG says, "Aside from providing available inventory for the Strategic Business Units' (SBU) use

The Link, Ayala Center

Consolidated Landholdings
as of End-2007

Location	Size (hectares)	% Ownership	Book Value (P Billion)
Strategic Landbank			
Makati CBD	53	96%	2.2
Bonifacio Global City	33	20%	4.0
Canlubang	1,677*	68%	3.9
Non-Strategic Landbank			
For disposal	521	100%	1.8
Other Landholdings			
For development (raw land)	1,046	89%	4.4
Under development	286	83%	6.4
SUBTOTAL	**3,616**	**80%**	**22.7**
Properties under lease / Joint development agreements	849		
GRAND TOTAL	**4,265**		

* Net of sold lots

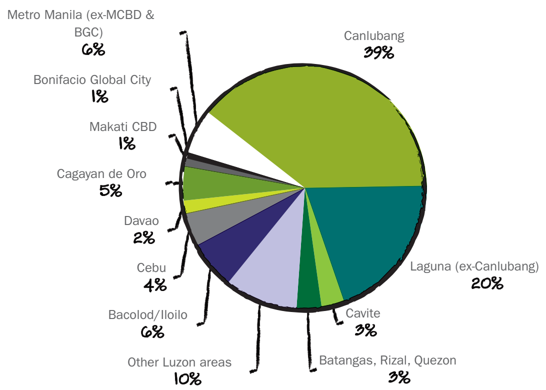
4,265 hectares available for development

Landbank: Acquisition and Use

(In hectares)	2006 Year-End	Land Used	2007 Land Acquired	Year-End
Residential	1,729	73	20	1,676
Retail	49	0	10	59
Office	34	0	13	47
Strategic Landbank	2,010	53	4	1,962
Non-Strategic Landbank	521	0	0	521
TOTAL LANDHOLDINGS*	**4,343**	**– 126**	**+ 47**	**= 4,265**

Bulk of 47 hectares acquired in 2007 was via joint development agreements

End-2007 Landbank by Location
4,265 Hectares



Diversified landbank allows wide range of product offerings in more geographical locations

in the next five to ten years, we want to translate the very evident growth in land values into both earnings and cashflow."

ALI captures optimal value from its landholdings in two ways: the judicious selling of lots that have significantly appreciated in value; and the development of key parcels as platforms for growth for ALI's other businesses.

At the Bonifacio Global City, Aniceto V. Bisnar, Jr., Assistant Vice President and Head of Commercial Operations and Landbank, Bonifacio Global City, is enthusiastic about what's being done to make BGC the next alternative CBD. "People are drawn here because they find it more spacious and airy, there is less traffic and congestion, it is accessible from almost all directions, and the new masterplan has a more intelligible traffic grid, and provides for infrastructure and basic services that are world-class.

"Many companies have chosen to relocate their headquarters here, we have the international schools, and the BPO campuses we are building will be aligned to the lifestyle and needs of the young employees. We recently added six new Euro emissions compliant Mercedes Benz buses, giving us a total fleet of 17 shuttles. We are also studying a modern Rapid Transit Bus System that will eventually link us to the Makati CBD."

Bonifacio High Street, a nearly kilometer-long, 40-meter-wide promenade and activity park that offers a uniquely refreshing environment for both work and leisure, has become a very popular office and upscale retail and dining site. BGC has a public art program where many art pieces and a planned "Mind Museum" will enhance the aesthetics and give character and style to the community.

Evoliving begins at Nuvali

Catherine A. Ilagan, Assistant Vice President who oversees both Nuvali and Makati, says Nuvali is probably the first community to embrace sustainability in its total development plan. This has resulted in Nuvali being called the flagship project for "Evoliving," a term which evokes a less stressful and healthier lifestyle that they see evolving for the community.

Ms. Ilagan says, "Nuvali will be a truly complete community where one can go to work, stay at home, play and study in an environment close to nature. Nuvali will be Leadership in Energy and Environmental Design (LEED) certifiable, which means it will conform to the American model of 'green' communities or workplaces. We have the benefit of applying past and present learnings from all our experiences in our older developments. But we are not going to just repeat what we have done in Makati. Makati responded to the needs of its time. In Nuvali, we are responding to the needs of a new generation for social interaction, environmental preservation, and being more technology-enabled. We are even building in the flexibility to address other future needs that we cannot even imagine at this point."

Nuvali: An Evolution In Our Way of Living

Nuvali is a name that signals new beginnings. "Nova," Latin for birth of a star, and "valley," a place of growth and abundance—where a fresh approach to balanced living emerges. Amidst outstanding natural beauty charged with the excitement of economic potential rises NUVALI. Ayala Land and the Yulo family combine their efforts to draw on a common heritage of successful community development and deep connection with the land, carving out a 1,700-hectare community in Canlubang, Laguna that aspires for an unparalleled level of sustainability on three fronts.

Nature at its best, an environment preserved for the ages

NUVALI will deliver the physical and institutional infrastructure to match the community's desire to preserve the uniqueness of the place—a walkable community less dependent on the automobile; drainage systems promoting water recapture; alternative energy sources such as solar panels to fuel daily life; "green" facilities and systems fostering conservation, ethical consumption, and recycling throughout the whole area.

Solid underpinnings for future economic growth

NUVALI is not only about natural beauty. It is also about economic vibrancy, situated as it is in the heart of the country's emerging economic growth corridor south of Metro Manila. As the region makes its inevitable progress from agriculture to manufacturing and up the value chain to an increasingly knowledge-based economy, the master planning of the community assures that it keeps pace with evolving needs even 20 years down the road.

At NUVALI, connectivity with the rest of the world takes many forms—from a carefully-designed congestion-free road network linking the community's many neighborhoods to each other and to the greater Mega-Manila community, to technologically-advanced electronic networks blanketing the community with the most precious of all 21st century resources—information. Facilities are creatively tailored to meet the needs of businesses while nourishing interconnectedness between individuals and communities, human interfaces, and natural landscapes—from lifestyle retail and entertainment spaces with lake front exposure, to corporate offices and business process campuses in environmentally-sensitive green buildings.

A living, breathing community

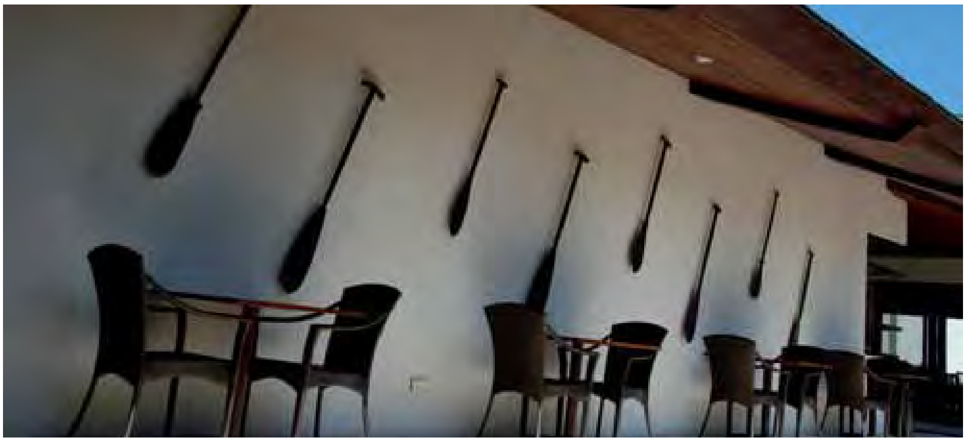
Often ignored in the real estate development industry, social sustainability is at the heart of Ayala Land's success as a community builder.

People-oriented spaces—a masterfully planned organic intersection of parks, offices and residences with destination gathering places and accidental meeting spots—work hand in hand with Ayala Land's village associations and fellow institutional networks to nourish cohesiveness, strengthen existing community links, and create new ones.

Diversity sparks vitality, life. The vastness at NUVALI is expressed in the diversity of spaces, activities and communities, all diligently planned to stimulate a dynamic equilibrium between private and public realms, natural and built environments, and civic, educational, leisure, and business pursuits. Retail, dining and entertainment choices infuse all corners, churches blend seamlessly with schools, playgrounds, and libraries.

The result is a cosmopolitan, progressive community, a dynamic blend of customs, sub-cultures, goals and communities of interest—the freedom to live the way you choose.

NUVALI heralds a revolution in the attainment of that ever-elusive equilibrium between nature and modernity, work and recreation, the contemporary and the timeless.



Residential Developments

Reaching out to more Filipinos

"My family and I have always dreamt of owning an Ayala home, but we thought it was not within our means and was available only in places like Makati and Alabang. Now, that dream has become a happy reality," says Juan Cruz, a Filipino engineer working in Dubai. Juan, like many others, found that in 2007, Ayala Land residential properties were more readily accessible than ever before: through more brokers, more channels and more financing options – and located in new geographies.

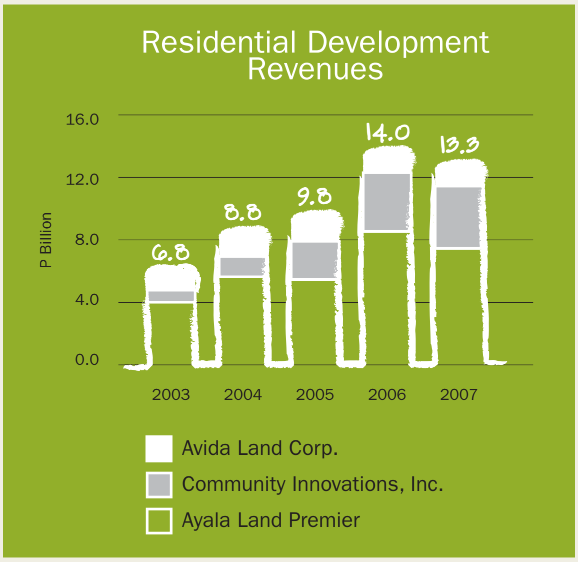
To meet the increasing demand for Ayala properties, the general tenor of the residential business throughout 2007 was one of investment in brand-building, continued innovation, expansion in reach, and deliberate management of operational efficiencies. The market's bouyancy was evident across all segments. ALI's Residential Business Group (RBG) experienced significant growth: total residential revenues amounted to P13 billion, contributing more than half of total ALI revenues; a total of 5,182 units were put on the market, 12% more than the previous year.

Leveraging on the Ayala brand

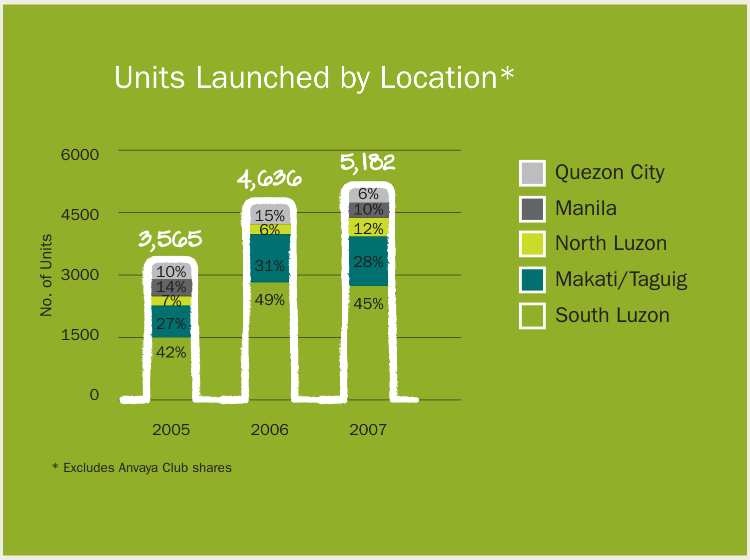
"The magic is in the Ayala brand name, and we've put our energies this year into building up the three brands – Ayala Land Premier, Community Innovations and Avida - under this umbrella, as it is our continuing delivery of excellence in our products and services that will ensure continued market preference for all Ayala Land brands in an increasingly competitive environment," said Rex Mendoza, Senior Vice President and Group Head, Corporate Sales and Marketing.

RBG's brand building initiatives focused on sharpening focus around each brand's customer, identifying relevant customer needs, and setting clearly superior product and service standards. As a result, all three brands emerged independently stronger and more competitive in their particular segments.

Evidence of the increased strength of the individual brands is seen in the enthusiastic reception of new products in new geographies. "Towards the end of 2007, Ayala Land launched Nuvali which is designed to be a sustainable,



Revenues remain strong; decline due to acceleration of revenues in 2006 following standardization of revenue recognition



Project launches in new locations address broader market

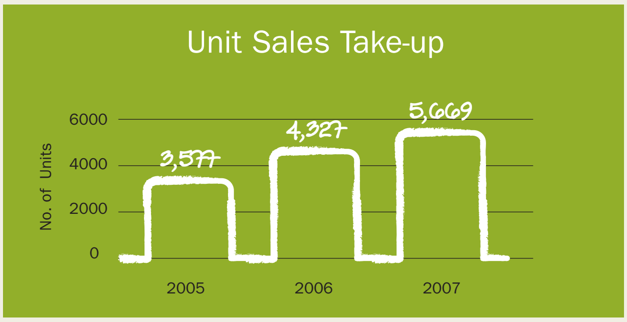
One Serendra

masterplanned community with schools, offices, residential and retail components. In an unprecedented move, all three brands launched their new-generation of subdivisions simultaneously," says Mr. Mendoza. "The results were tremendous: Ayala Land Premier's Abrio project which offered exclusivity and privacy on a different level sold out its first phase –all 113 lots– worth over P1 billion, within hours after they were offered. Community Innovations' product in Nuvali, Treveia, continues to do well as does Avida Settings. To date, both projects have sold half of their respective inventories." Moreover, RBG expanded its portfolio in other directions: Community Innovations went to Angeles, Pampanga with Marquee Place and Avida added to its offerings its first condominium project in Makati, the Makati Towers West and Avida Settings in Dasmariñas, Cavite.

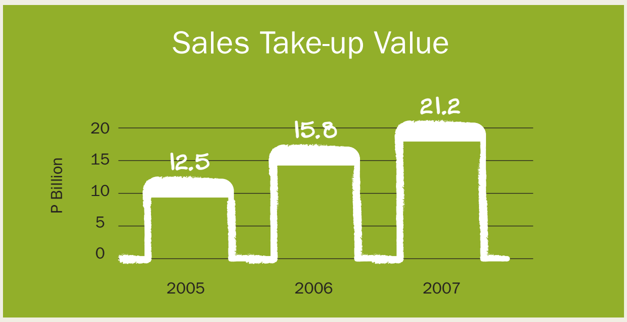
Differentiating through design and innovation

As part of the focus on sharpening brand propositions, each brand relied on a keen understanding of the customer to develop designs that would strengthen customer preference.

"We're sharpening the value proposition of the different brands. In the area of product excellence, we achieve this through careful, deliberate efforts in conceptualization, design and planning, For instance, in Ayala Land Premier, we used to be content



Unit sales take-up grows by an all-time high of 31%



Value of sales take-up also grows by an all-time high of 34%

with architectural drawings and interior design concepts. But now, we even go to the extent of building study units, so we can see how a unit will actually look like and how it will feel to live there. We go around and try to improve every little detail: the position of light switches, the layout of bathrooms, the height of the ceiling, etc. We are confident that the new owners will not have to spend a lot in redesigning the units after buying them," says Bernard Vincent Dy, Vice President and Group Head, Residential Development.

Innovative planning and design as a focus area have led to products which have redefined the standard for comparable projects by other developers. "By focusing on design and attention to detail, the upgrading of product specifications to keep our units current with modern tastes, we are able to ensure a pricing premium and better sales velocity. In Avida Settings in Nuvali, we are delivering affordable homes designed around a green ribbon of landscaping – this allows most families in the neighbourhood to enjoy park-side living. In addition, we are building in features like dual-piping that allow our buyers to build environmentally friendly homes. Design ideas such as this heighten the standard of living for more families" Mr. Dy adds that "Community Innovations' Two Serendra elevated the definition of amenities with the introduction of sprawling water and pool features in the high-rise section of Two Serendra. Its first tower, The Aston, features an Olympic-size swimming pool for adults, resort pools and a kids' play area which includes a docked jungle riverboat , a hanging bridge, a tree house and a maze. Clearly, we take pains in our design to ensure that our customers will get the best value for their money and love to live in our developments."

Improving customer reach

In 2007, one of the main thrusts of RBG was to improve the accessibility of its products for Overseas Filipino (OF) income-earners and their families. Although the sub-prime mortgage crisis in the US and other factors resulted in the weakening of the dollar and effectively raised local property prices, sales to OFs remained healthy and grew 18% in value in 2007. Roughly a third of all residential sales now originate from OFs and this is attributed to RBG's more aggressive pursuit of this attractive market through award-winning websites, permanent sales offices or broker networks, and regular roadshows with strong follow-through marketing support in key cities abroad.

In addition, the combined efforts of the One Ayala program, which bundles the products and services of Ayala Group companies with strong international sales thrusts, has helped the company tap into these markets more effectively. By creating synergies among Ayala Land, the Bank of the Philippine Islands, and Globe Telecom, One Ayala offers to Overseas Filipinos and their families more tailor-fit, convenient and relevant products and services. For instance, ALI's potential clients overseas can be reached by ALI's marketing teams through BPI's 17 overseas offices and 81 tie-ups. One Ayala also creates stronger brand recall, bundled products and services, omnibus marketing programs and merchandising materials, and expense sharing in select media buys.

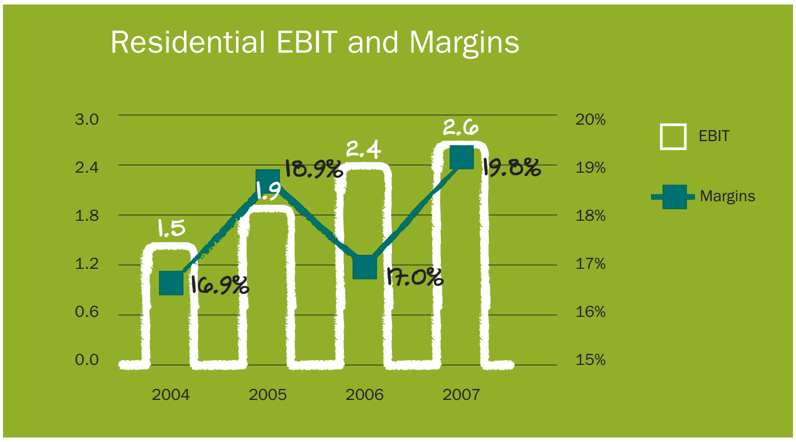
For its domestic market, ALI uses a beefed-up sales force of some 2,000 brokers and sales agents who not only know how to sell but also how to consistently represent the brand. ALI is the first real estate developer to have its sellers and brokers observe a strict Code of Ethics. The sheer breadth and reach of Ayala Land's sales force has significantly improved the company's ability to be within a customer's reach.

Managing operational efficiency

Another highlight of RBG's initiatives for 2007 was in significantly improving its operational and financial efficiencies. "Across the board, we worked hard to ensure each peso spent was spent more efficiently," says Mr. Dy. "More targeted communications and effective channel management have resulted in a 35% decrease in overall marketing spend and cost-per-site visit. Despite the consistent growth in sales, our overhead costs have not gone up, and fixed costs have been well contained."

In terms of service excellence, the focus has been on innovations in the backroom operations like the

Sales to overseas-based Filipinos remain healthy at 32% of total sales value



EBIT and margins improve amidst drive to deliver quality products setting up of a 24/7 call center which responds to all customer inquiries and suggestions. This gives owners and prospective owners an easily accessible communication channel through which they can inquire, transact, and provide feedback. This has become a valuable tool in planning and design, as well as in refining sales and marketing efforts,

For the future, Ayala Land's Residential Building Group has secured a robust pipeline of projects which will continue to build on strong brand franchises. Buoyed by increased customer preference and a strong macro-economic environment, ALI is committing some P9 billion for capital expenditure in 2008 alone, close to 80% more than the P5 billion spent in 2007. With sharper focus on each brand, a commitment to innovating design and efficient management of operations, there appears to be little doubt that RBG's platform for growth is secure.

The Columns at Ayala Avenue

Overseas Filipinos: A Wellspring of Opportunity

Overseas Filipinos (OFs), aspiring for better quality homes for their families back home or for retirement or investment, make up a large and fast-growing target market for Ayala Land. For 2007, OF remittances reached some P14.5 billion, 13% higher year-on-year. This is a significant driver of consumption and investment spending for the Philippine economy as remittances in total account for 10% of the country's GDP.

Remittance inflows have remained strong as Philippine banks expanded their banking services and grew their overseas networks to 3,939 correspondent banks and other formal channels. These came principally from the US, the UK, Italy, the United Arab Emirates, Saudi Arabia, Canada, Singapore, Japan and Hong Kong.

The number of OFWs deployed in various land and sea-based employment overseas reached 1.1 million in 2007 alone. Altogether, there are now close to 9 million Filipinos working and living overseas, or some 10% of the total population. Some studies estimate that nearly half of all Filipino families, on average, have a direct family member employed in another country.

Despite the weakening of the US dollar, ALI's total residential sales to overseas buyers grew 18% in value terms and reached P6 billion in 2007. This was seen as the result of marketing, sales and channel development activities led by Ayala Land International Sales, Inc. (ALISI) and marketing initiatives of the three residential brands. Eight International Property Specialists were deployed to the same number of US cities in the middle of last year to recruit, train and assist brokers. ALISI also signed up marketing partners in Bahrain, Saudi Arabia, London and Spain.

With its marketing partners, ALISI also opened sales offices in the Middle East and the UK, and put up a 24/7 call center and a website to support the group's sales and marketing efforts. Their website later won as the best corporate website at the 10th Philippine Web Awards.

The One Ayala program, a collaborative effort between Ayala Land, Globe Telecom and the Bank of the Philippine Islands to achieve greater synergy in their overseas marketing efforts, enabled ALISI to participate in marketing campaigns in 18 cities around the world at a fraction of previous costs. One Ayala opened its first promotional desks in Seafood City West Covina and Las Vegas to make it easier for OFs to inquire about and, ultimately, purchase ALI properties.

Shopping Centers

For the Ayala Malls, the past year has been characterized by higher store sales, occupancy rates and rents, the opening of malls in new places, and strong affirmation of genuine partnership with merchants and customers.

Taking Unique Mall Experiences to New Places

For the Ayala Malls, 2007 was highlighted by significant expansion in its gross leasable area (GLA), robust operating performance and a strong affirmation of genuine partnership with its merchants and customers. Buoyed by a steady flow of OFW remittances, the Philippine economy continued to be consumption-led, and spending time in malls and shopping centers with friends and family has become a Filipino way of life. Ayala has seen these trends develop and has anchored its expansion plans on the

TriNoma, Quezon City

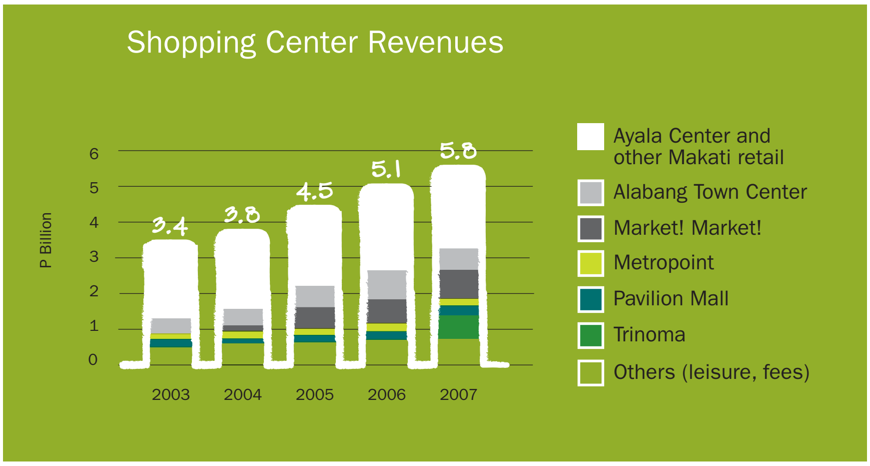
opportunities presented by increasing aspirational and lifestyle spending among many families in different geographic areas.

In the urban centers, the rapid expansion of BPOs continued to help boost the purchasing power of young Filipinos between 20 to 30 years old. Other developers and retailers have also latched on to these trends and were aggressive in their construction and promotions, shifting to modern formats that attempt to attract a more affluent, connected and increasingly sophisticated customer.

Despite intense competition, Ayala Malls retained their distinctive edge and continued to perform very well in 2007. Occupancy rates averaged 95%, up from 92% in 2006 while average rental rates rose by 7%, which kept it higher than the industry average. Ayala Malls Group's (AMG) expansion plans remained on track with a total GLA increase of 28% to 972,000 sqms (including Ayala Center Cebu and BGC retail) with the opening of TriNoma in Quezon City, Phase 1 of Greenbelt 5, and Phase 1 of the Ayala Center Cebu redevelopment. The company also began construction of Q Mall in Angeles City, Pampanga, and signed a joint venture agreement for a mixed-use development, with retail, in Davao City.

AMG's new malls have received very strong patronage from the public, with

Greenbelt 5



Opening of TriNoma in May significantly increase revenues

Greenbelt 5 becoming a favorite shopping and dining destination among the Makati crowd. TriNoma's performance has been better than anticipated, with 93% of all available spaces committed as of year-end and with rental rates approaching those of Ayala Center in Makati. TriNoma has also become profitable in just its first year of operations, and has been the top-ranked mall in cinema gross receipts nationwide since it opened last May.

Compelling events and a distinctive sense of place

"Ayala Malls are bringing a distinctive shopping experience to more people in more places in Metro Manila and in key urban centers outside the metropolis," says ALI President and AMG Group Head Jaime I. Ayala. "The malls have also added tremendous value to the broader development efforts of our Strategic Landbank Management Group as the malls usher in a new lifestyle and offer a fresh merchandise mix that brings people beyond shopping to a unique and holistic sense of place. Each mall is unique and not only delivers the Ayala experience but also tries to incorporate a keener expression of the cultural nuances of the different regions."

Mr. Ayala believes that by bringing this distinctive experience to new geographic locations, the Ayala Malls are elevating the expectations and standards of what was formerly available in these localities. In the process, the company is helping to bring about the evolution of the Filipino consumer into one who is increasingly sophisticated and discerning. Ayala Malls are known for having the trendiest stores and restaurants, giving customers a keen sense of place, and frequently coming up with compelling special events to drive mall patronage. Each

of the company's malls is unique in character. This value proposition has clearly differentiated Ayala Malls from the competition.

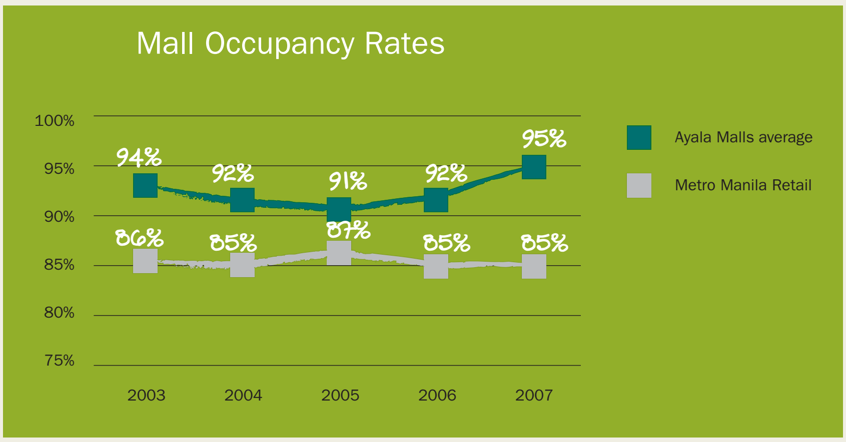
Ayala Land's large-scale mixed-use developments that feature a retail component are greatly enhanced by the quality and distinctiveness of the retail concepts conceived and implemented by AMG. At the Bonifacio Global City, for instance, Serendra and Bonifacio High Street are priming the development in its City Center. Serendra's retail zone complements the suburban lifestyle of the residential development with authentic and unique restaurants and shops set in a cozy, intimate and relaxing environment. Bonifacio High Street is a one-of-a-kind promenade anchored by an activity park stretching nearly a kilometer long, where convivial crowds find rows of flagship stores, restaurants and premium brands.

Another reason why Ayala Malls stand out is its compelling and engaging mall events and promotions through the year, which enhance the shopping experience and sustain high pedestrian traffic. Close to 1,000 events, among them product launches, concerts, children's meet-and-greet events and youth-oriented fairs, were held at the Ayala Center and other malls in 2007. Crowd-drawers such as American Idol winners Taylor Hicks and Elliot Yamin performed for free to delighted shoppers and their families.

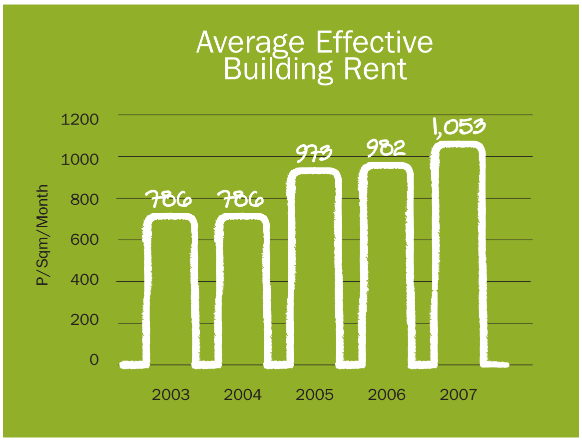
Merchant support and true partnerships

Ms. Rowena M. Tomeldan, Vice President and Deputy Group Head, AMG, says, "The Ayala Malls provide a strong year-round support to all merchants. We value our merchants as long-term partners." AMG constantly interacts and exchanges ideas with its merchants and provides training and development support where needed.

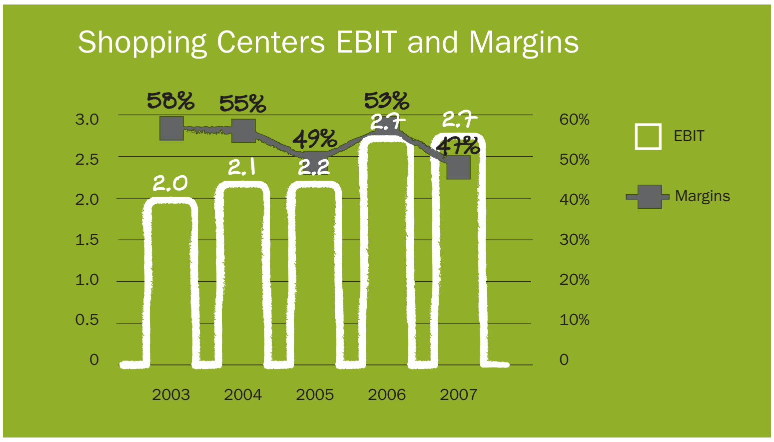
"This partnership was put to a severe test in October last year, as we together with our merchants, suppliers and consumers were reeling from the aftermath of what happened at Glorietta 2," says Ms. Tomeldan. "That experience proved that we are real partners, both in good and tough times. The moral support that we received was tremendous." AMG believes that the goodwill generated by working together with its merchants through this difficult experience strengthened their relationships further. The Company gave rental concessions and helped



Occupancy rate high at 95%, well above Metro Manila average



Average effective rent boosted by TriNoma rents higher than expected



EBIT flat in 2007; margin decline due to absence of 4Q07 earnings of high-margin Glorietta 2

its merchants further by giving them alternatives spaces to continue their operations.

The goal is a healthy, symbiotic relationship and optimized sales performance. Ayala's merchants value initiatives like the Merchant Rewards Program, now on its 10th year, which recognizes merchants' excellence in store operations, marketing, visual merchandising and overall performance. Last year, the awards night was preceded by a full day forum where New York's celebrity photographer, Nigel Barker, and Phil Schoutrop, an architect from Buchan and Partners of Australia, gave them tips on visually arresting window displays and in achieving a global outlook in their store operations.

Ms. Tomeldan adds that "there is a need to anticipate and respond to the customers' ever-changing needs. Our team shares a common mindset that we are here to address the needs and expectations of our customers. This is everyone's job. So, we involve everyone – from the operations managers, our concept teams, project development groups, and even merchants' representatives – so we can get a holistic, iterative flow of information and ideas that will give us the clearest customer insights."

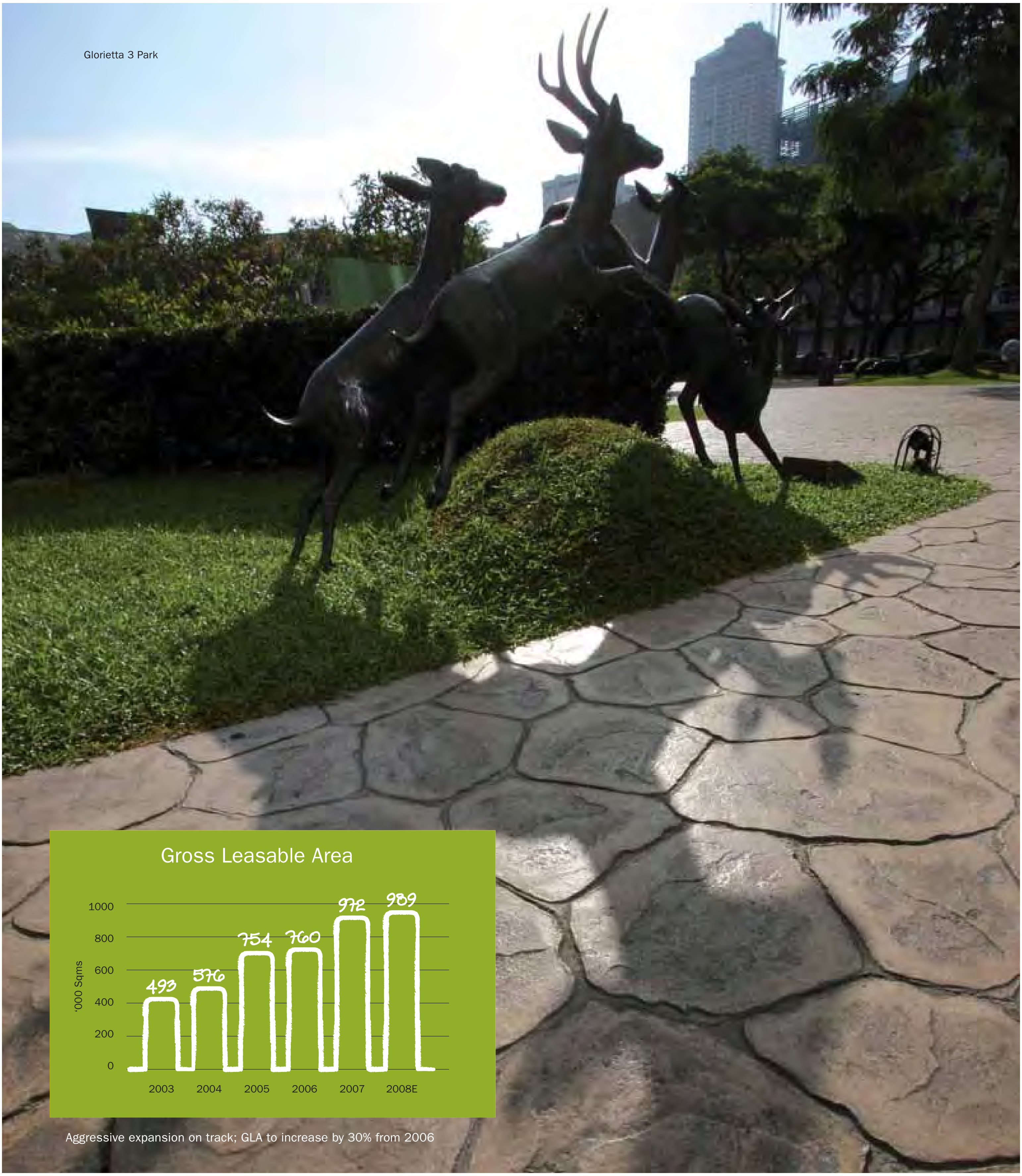
Ms. Ma. Corazon G. Dizon, Vice President, Asset Management/Finance, AMG, says, "We do not limit our relationship with our merchants to that of lessor and lessees. When we design our malls, we take serious note of the merchants' suggestions and their store concepts. We want our merchants to have profitable operations. Glorietta, for instance, is home to some of their biggest selling outlets. We set standards not only for aesthetics but also financially, where they can make the appropriate margins and business is profitable for both parties. We advise our merchants on the right size for their stores, to achieve uniqueness and innovation in their concepts so they can cater effectively to their target market."

Continued expansion and redevelopment

Over the next three years, AMG will continue to expand its offerings by looking for underserved areas for regional malls as well as by participating in more mixed-use developments in a variety of retail formats. By 2010, AMG is targeting to have over a million square meters in GLA in its portfolio.

The flagship Ayala Center will also be undergoing a major redevelopment program, which will begin in 2009 and be implemented in phases. This will update and refresh the look of the area as well as provide a better yield on the prime land given that the redevelopment plan will incorporate a mixed-use development with more than double the average floor-to-area ratio.

The future growth of the business will continue to be driven by what AMG officials say is their passion for innovation, world-class quality, and customer insight. Ma. Teresa S. Palma, Vice President for Development and Acquisition, AMG, says that "as we open more malls in new locations, perhaps one can say we are going to continue to have fresh and innovative offerings. But we are always guided by prudence and our learnings over the years. As we bring the Ayala Mall experience to the regions, we see to it that we understand and incorporate the cultural nuances of these regions. We always try to have the correct market insight."



Glorietta 3 Park

Aggressive expansion on track; GLA to increase by 30% from 2006

Corporate Business

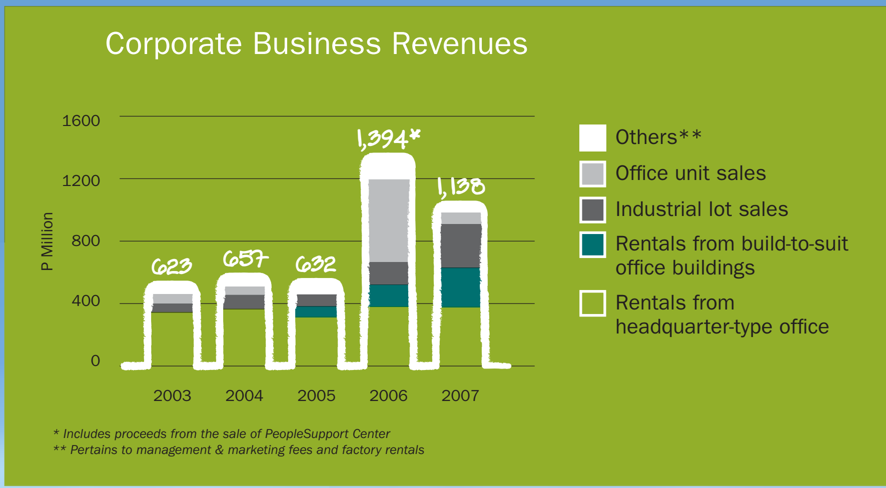
Partner of Choice in a Rapidly Expanding Market

Business Process Outsourcing (BPO) is currently the fastest growing sector of the country's rapidly expanding service economy. While India is expected to remain as the global market leader, the Philippines has been growing its market share and is widely regarded as one of the few countries that can challenge India's dominance in the years to come. The Business Processing Association of the Philippines (BPAP) projects that the country's outsourcing and offshoring industry will have revenues of US$13 billion and employ 1 million people by 2010, compared with US$4.9 billion in revenues and 300,000 employees in 2007.

The BPAP estimates that all of this expansion will require an additional 3 million square meters of new supply to come onstream within the next three years, both within Metro Manila and in other suitable non-CBD locations. To put this figure into perspective, this incremental requirement for space is larger than the entire current office stock of Makati. Being a preferred supplier of prime BPO sites to help fuel this growth is what drives Ayala Land's Corporate Business Group (CBG).

"ALI is aiming to be the leading provider of office space for BPOs. We

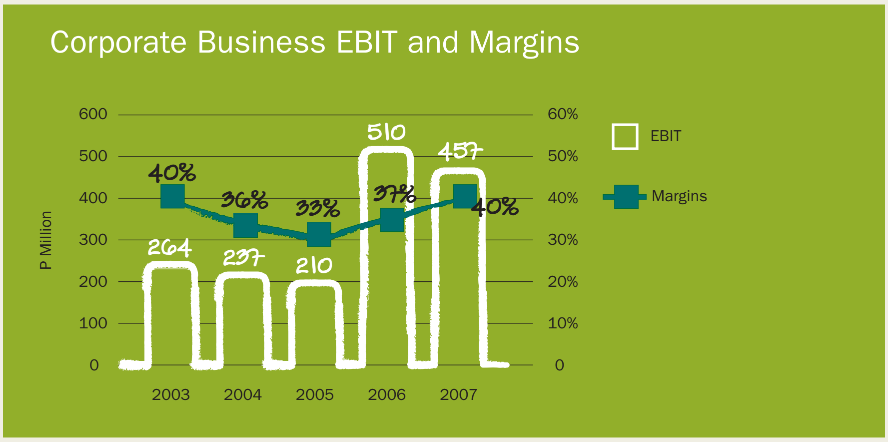
are building up a variety of offerings in very choice locations and we are flexible in our approach. We also offer potential locators the option of partnering with us in the construction of buildings that meet very specific needs. We have also positioned ourselves strongly by forming partnerships with large and reputable companies to service the offshoring needs of their global organizations" says Ma. Victoria E. Añonuevo, Senior Vice President and Group Head, CBG. "Our range of buildings include stand-alone, build-to-suit office buildings, self-contained BPO and IT campuses, similar to what we'll have in Nuvali, Quezon City, Cebu and Baguio, and integrated nodes within large, mixed-use developments such as what we're putting up in Glorietta 5, San Lazaro and Davao."



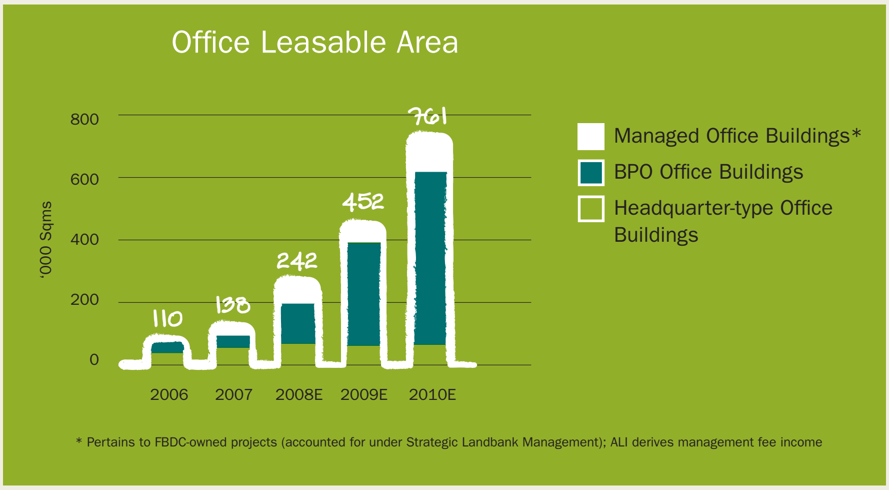
Revenues from office leasing, industrial lot sales and management fees reach P1.1 billion

While other real estate developers are also ramping up and adding to the supply situation, ALI is clearly a preferred BPO developer as shown by the strong market acceptance of its projects and the rapid take-up of its buildings under construction, all of which are fully leased by the time the building is ready for fit-out. The Dela Rosa E-Services building, for example, is slated for completion towards the end of 2008, but its 46,868 sqms in GLA was already 59% committed by the end of 2007. Another example is the UP North Science and Technology Park, a 10 building BPO campus on a leased 38-hectare property of the University of the Philippines in Quezon City. While construction of the first six buildings were in various stages of completion and fit-out as of end-2007, the first three buildings were already fully-leased out and the next two buildings were already on average two-thirds committed.

"Ayala Land's reputation for quality and delivering on what we promise serves us well," adds Ms. Añonuevo. "Our credibility in the market is strong and it becomes an easy and low-risk decision for prospective partners and locators. In addition, we have some built-in advantages since our tie-up with Goldman Sachs and Capmark Asia has given us further financial muscle that would enable us to accelerate our capability to fill in the space demand for this sunrise industry."



Higher lease-out rates and significant cost savings improve EBIT margins



Total leasable area, mostly BPO offices, to reach over 700,000 sqms in 2010

CBG currently has 26 projects, comprising 47 buildings under construction or in various stages of planning which will grow its GLA to over 700,000 sqms by 2010. We broke ground for the first of around 10 buildings of a BPO campus at Nuvali in Canlubang which is scheduled to open by November 2008. Other BPO projects which will be completed by late 2008 or early 2009 include Glorietta 5, the Company's first BPO facility within Ayala Center in Makati, as well as the first of a two-building project in San Lazaro, Manila. Other significant developments for 2007 include the groundbreaking for a new BPO building in Bonifacio Global City and the execution of a joint development agreement for the company's first BPO foray in Davao.

Translating product differentiation into market share

While the market for BPO facilities is clearly attractive, there are challenges along the way. Competition among property developers is intensifying, the currency exchange rate is affecting the economics of the business, and a potential shortage of talent could lower growth rates of the sector in the future. At some point, the supply-demand dynamics will shift and market share will be gained and maintained by those that have highly differentiated offerings and the clearest value proposition for locators.

Ma. Carmela K. Ignacio, Senior Division Manager, CBG, says that ALI is determined to become the undisputed frontrunner in this segment, similar to its pre-eminent position in CBG's headquarter-type office and industrial park offerings. "Leadership will come as a result of ALI's rapid expansion to new geographical areas in Metro Manila, North and South Luzon, and the key cities of Visayas and Mindanao, and the clear product differentiation emphasizing excellence in products and services."

Such differentiation will come from different value propositions, such as speed to market and a large inventory of available office space, both of which are very important to big locators among the BPOs, either those who have "captive" or home-based markets, or those which are third-party providers. Both are very conscious of rapid changes in the market, and must react fast. In 2007, CBG established clear business models for different product lines. For each project, before the company starts construction, it sets the clear value proposition, building specifications, economics, desired customer mix as well as the target locators list.

Ms. Ignacio adds that "for the big locators, we would like to ensure that wherever they wish to locate in the Philippines, we can build offices for them, and design this not as piecemeal BPO sites but as a totally integrated BPO and IT campus, preferably within a large mixed-use development where their employees can have a life outside work. We want their employees and agents to want to work in those places. To ensure this, all their needs for leisure and social interaction, and all the support systems they need such as affordable housing or transport links, will be provided for."

Asiatown IT Park, Cebu

Business Process Outsourcing: A Dynamic High-Growth Industry

The Philippine Business Process Outsourcing (BPO) industry, alternatively known as Outsourcing and Offshoring, is expected to be a key growth driver for the real estate industry in the coming years. The potential is immense and has the capacity to rival remittances from Overseas Filipino Workers in its contribution to the Philippine economy. The Business Processing Association of the Philippines (BPAP) has developed a roadmap that would enable the industry, given the right support by its principal stakeholders, to earn US$13 billion in revenues and employ directly close to one million people, and indirectly employ another 1.3 million people, by the end of 2010. If these roadmap targets are met, the BPO sector would account for between 8%-9% of the country's GDP (in 2007, OFW remittances accounted for 10% of Philippine GDP). The industry is also expected to have significant secondary effects on the economy, and will result in increased demand for sectors such as food, housing, transportation and communications, personal goods and financial services.

The industry achieved 50% revenue growth in US dollar terms in 2007, and the BPAP believes that this is on track to be able to garner a 10% global market share by 2010. With the Philippines firmly established as one of the leading destinations for BPO, the demand is clearly there to satisfy these growth objectives. On the supply side, this will mean that real estate developers will need to build another 3 million square meters in office space for this segment over the next three years, while the service providers themselves will have to find the additional 700,000 new recruits that the industry will need to boost the talent pool.

The BPAP study says that tapping alternative labor pools – working students, housewives, retirees, and career-switchers – will broaden the supply. In addition, there is a need to develop the available talent that resides outside the National Capital Region, which the study estimates could yield up to three times as many agents as the NCR if talent development initiatives are pursued. At least 13 new locations can support more than 5,000 employees and five cities can function as hubs and support from three to 10 times that number.

A McKinsey & Co. study valued the global addressable market for BPO at US$450 billion, with the actual penetration at only 10% to 12% of that addressable market, indicating a huge potential for growth. The big players are India and China, with the Philippines a fast-growing destination due to several advantages – 500,000 English-speaking college graduates every year; a reputation for accent-neutral communication skills, inter-personal warmth, customer service orientation, and a cultural affinity with Western markets and customs. In addition, the Philippines has a low cost base (estimated at only one-tenth that of the US), world-class telecommunications infrastructure, and attractive government incentives for investors.


Tower One, MCBD

Apart from keeping agents happy, the company's value proposition includes the use of more efficient building systems, and value-oriented pricing made possible by tight control of construction and maintenance costs. ALI remains the leader in build-to-suit segment as it constructs highly flexible and replicable products. The company also offers superior quality office spaces through sustainable design and construction, such as being more energy efficient in terms of power and water consumption, and paying attention to waste management.

The Company's clearly established track record as a responsible developer is a strong competitive advantage. This is important for the multinational companies and large, well-established BPOs that the company prefers to attract. "The long-term view is integral to what is probably our biggest differentiation, which is sustainability. We will have green buildings, integrating into our designs such elements as being energy efficient, water recycling and recapture, and other elements which will help preserve the natural environment.

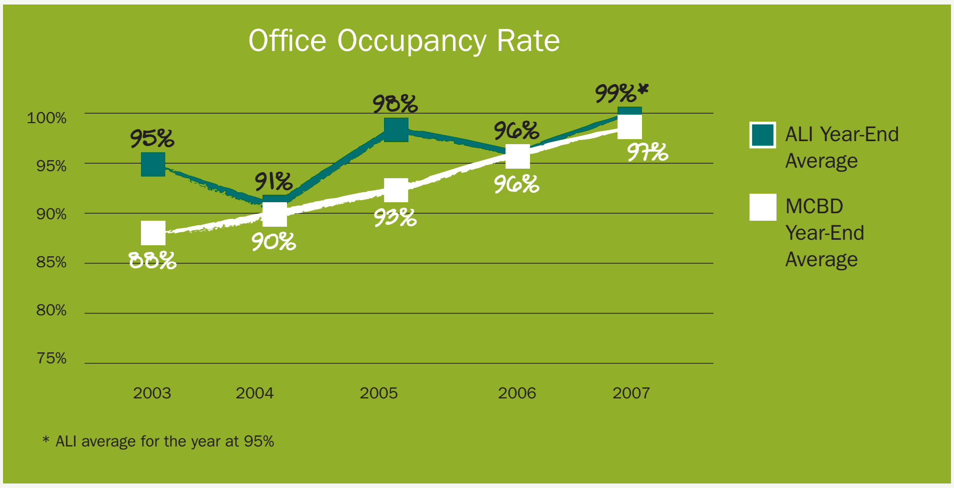
"The buildings we are putting up are high-grade, most of which will be Leadership in Energy and Environmental Design (LEED) certifiable, which means that they will conform to standards set by the United States Green Building Council for sustainable developments. We also of course consider the aesthetics of our communities, and we find that people are noticing our efforts to harmonize our design with the environment and with their artistic, creative impulses," says Ms. Añonuevo.

More than just a BPO story

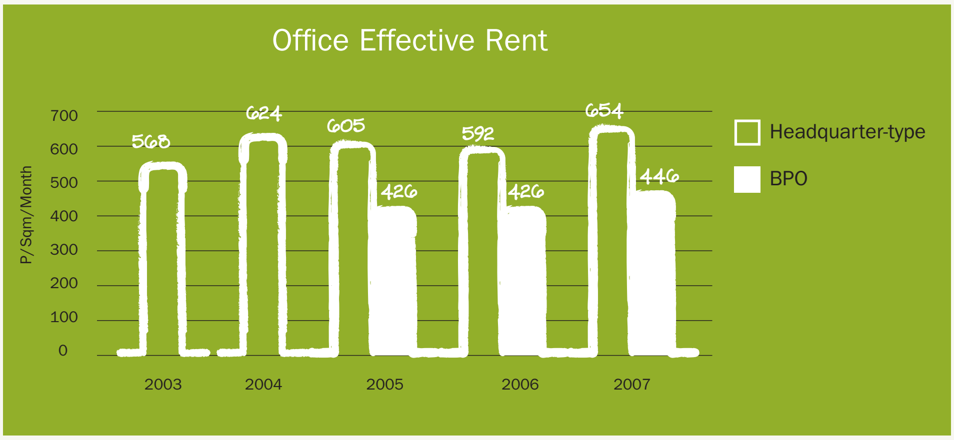
While the BPO build-out plan is expected to dominate CBG's growth prospects for the medium term, the group's more traditional offerings continued to perform well in 2007. Ayala's headquarter-type office buildings maintained an average occupancy level of 95% last year, with prime buildings like Tower One and Exchange Plaza having full occupancy year round. Rental rates also increased by 9% on average, with new contracts in Tower One being negotiated in excess of P1,000 per month, or similar to pre-Asian crisis levels.

While Makati has been well established as the country's premier CBD for decades, the prospects are good for Bonifacio Global City to mirror Makati's success in the future. "Just one look at the corporate names who have purchased land and which have chosen to build or relocate their offices to BGC would show that Ayala retains the franchise for premium headquarter spaces especially for large companies," says Ms. Añonuevo. A key development in this respect is the finalization of the planning stages for a new, premium office building which will house the unified Philippine Stock Exchange. The new PSE building will be located in the West Superblock of BGC, and is expected to break ground sometime in the second half of 2008. This will be Ayala Land's first premium, headquarter-type office building project since 1998 and signals the continued strengthening of demand for this traditional product line.

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



Occupancy in ALI headquarter-type buildings remain higher than market



ALI office building rent increase by 9%

Amara, Cebu

Geographic Businesses

Consistent with its strategy of tapping new, attractive growth markets, Ayala Land expanded into new areas in Visayas and Mindanao even as the Company began building a platform for overseas investments.

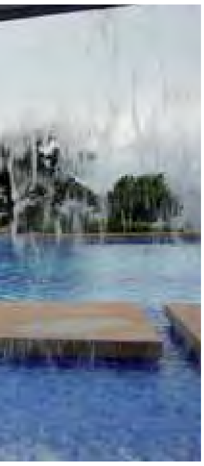
BRINGING THE COMPANY'S BEST-OF CLASS PRODUCTS TO VISAYAS-MINDANAO

In 2007, Ayala Land maintained leadership in the Visayas-Mindanao markets. "We bring best-of-class products based on an understanding of the needs of our customers, with their own regional preferences and priorities," explains Francis Monera, Head for Visayas-Mindanao and President, Cebu Holdings, Inc.

Setting standards for residential developments

For the third consecutive year since launch in 2005, and despite increased prices, Amara, Cebu Holdings Inc.'s (CHI) and Coastal Highpoint Ventures, Inc.'s landmark project in Cebu, remained a market leader in high-end seaside residential developments it had pioneered. Reservations for nearly half of Phase 3 lots were received on the same day of launch date on October 18, bringing total lots taken-up to 229 lots.

In June, Ayala Land entered the southern Philippine real estate market with the launch in Cagayan de Oro of Alegria Hills, Ayala Land Premier's



first development in Mindanao. This masterplanned 53-hectare high-end residential subdivision sits on a highland plateau, affording a panoramic view of the city and Macajalar Bay. One fourth of Phase 1's 95 lots has been presold. Completion of Phase 1 land development in the coming months is expected to clearly demonstrate the project's superior values in product features, amenities and value appreciation within the Ayala Land trademark and to further drive sales.

Two other Ayala Land projects in Negros Occidental continued to set the standards for local residential developments. Ayala Northpoint, located in the suburbs of Bacolod City, launched additional 95 lots in September and completed its offering of first class-facilities with the opening of Sadhana Garden, a meditation garden.

Plantazionne Verdana Homes maintained its position as market leader in the residential midmarket with sale of 92 lots in 2007. Given strong market response, launch of Phase 4 has been scheduled by the second quarter of 2008.

Strengthening Cebu's role as major shopping destination in the Philippines

Given Cebu's role as a primary destination and international gateway in the Visayas and Mindanao, its shopping market has grown significantly and has extended to other key cities and towns in the province.

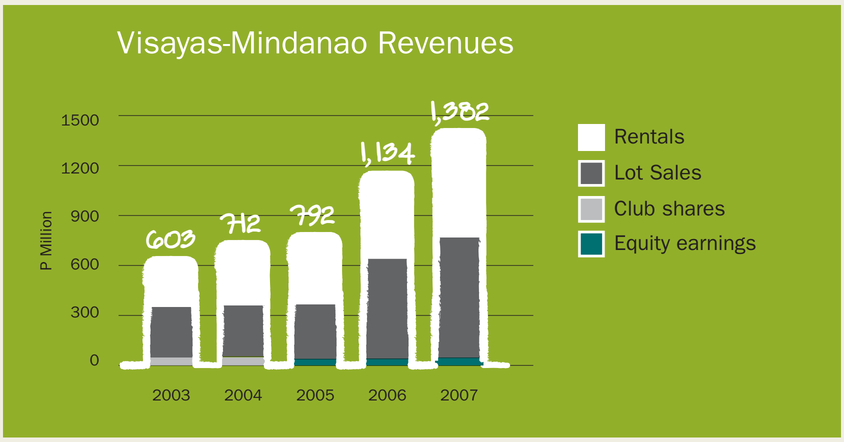
In 2006, CHI embarked on a major expansion of Ayala Center Cebu, the focal attraction of Cebu Business Park, to reinforce its role as a lifestyle destination. Completed in July 2007, the five level expansion introduced to the market 50 new concepts featuring leading foreign and popular local brands, an IT zone and a supermarket brand for the AB market. Adjacent to the mall, the renovation of the Lagoon area is being undertaken. The re-designed al fresco lagoon area will open in the second quarter of 2008 as a dining and entertainment area.

These expansions complement the ongoing refurbishing of the existing four-level building which had 96% average occupancy during the year.

Capitalizing on the Booming BPO Industry

With the unprecedented growth of the information technology (IT) industry, the demand for office space from both local and multinational companies continues to increase.

Sale of office lots exceeded expectations. A total of nine lots were sold, consisting of one lot at Cebu



Sale of higher value residential and commercial lots increases revenue by 22%...

Ayala Center Cebu

Business Park and eight lots at Asiatown IT Park.

Within Asiatown IT Park, Cebu Property Ventures and Development Corporation (CPVDC) will provide office space for lease to IT and IT-enabled firms and construct eBloc, a 12-storey mid-rise office condominium, with retail space at the ground floor.

"We at the Ayala group, are aggressively venturing into the IT industry, which we believe, is here to stay," said Francis Monera, who is also CPVDC President. "The eBloc is only the first among the many projects that we plan to pursue in the near future as we strive to push for Cebu's twin-win industries: information and communication technology and tourism," he added.

ALI Senior Vice President and Head of Corporate Business Group, Marivic Añonuevo, added, “BPO is booming industry, especially in Cebu. eBloc will be the first of the many series of office buildings in Asiatown IT Park.”

Looking Ahead

Cebu and the rest of Visayas and Mindanao continues to offer great opportunities for ALI.

Late in 2007, Ayala Land entered into a joint venture agreement with the Floirendo family to develop a nine-hectare property in Davao into a mixed-use community. The project will consist of retail and BPO facilities to occupy 40,000 sqms and 20,000 sqms, respectively.

The Company is actively exploring partnerships with the right operators for tourism estates, one of the country’s sunshine industries.

ALI PARLAYS ITS EXPERIENCE TO OTHER ASIAN CITIES

Outside of the Philippines, ALI is leveraging its current competencies to pursue attractive real estate investment opportunities given present global economic conditions and regional property market developments.

The year 2007 marked the completion of all formalities related to the establishment and operation of ARCH Capital and its first Asian property fund, ARCH Capital Asian Partners LP. ARCH Capital Asian Partners is a private equity fund set up to pursue investments in Asian property markets which are in strong growth phases, such as China, India and Thailand.

The Fund is in an advantageous position to pursue attractive real state investment opportunities in the region. As of year-end 2007, ARCH Capital Asian Partners successfully raised and announced final closing of the Fund with total capital commitments of US$330 million, higher than the originally projected fund size of US$250 million. The commitment of Ayala Corporation, through AG Holdings Limited, stands at US$50 million, or approximately 15% of the total committed capital fund, with Ayala Land’s participation amounting to US$25 million, or approximately 8%.

By early 2007, ARCH Capital Management, the organization that manages and runs the Fund, had been established and was operational. ARCH Capital Management, which is a joint venture among Ayala Corporation, through AG Holdings Limited, Ayala Land and Great Arch, a management team with experience in underwriting and executing real estate investments in Asia, has been staffed with professionals representing project development, management and marketing backgrounds.

The Fund has several seeded investments and a number of projects that are moving actively. Among these are significant interests in an upper

Asiatown IT Park, Cebu

Amana Lumpini Residential, Bangkok

Parkland Srinakarin Residential, Bangkok

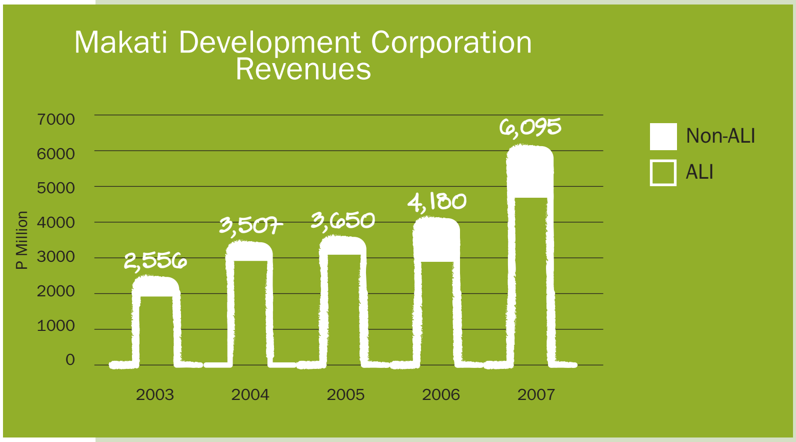
middle market residential community development project in Macau, a scaled medium-rise condominium project in Samut Prakarn province, Bangkok, and a high-end condominium project on Rama IV in the heart of Bangkok-Sathorn central business district. The Fund's project management team, with its strong residential community development experience and the depth and support of Ayala personnel, has been actively involved in project design and planning stages for these projects.

The challenge moving forward is to successfully deploy the capital raised and create an investment track record. If the response is positive, ARCH could target to create more funds and increase its asset under management.

"Asian real estate is growing faster than any other real estate market given its population size, economic growth rate, and high savings rate. Cross-border investment activities will continue to increase as global capital seeks growth opportunities. There are not too many property developers in Asia who have ALI's track record in master planning, developing and managing properties of well over 1,000 hectares, and enhancing its value over time. For ALI, participation in the fund will provide the Company with a very large growth platform and opportunities for establishing new partnerships and acquiring new competencies," says Jose Emmanuel H. Jalandoni, Vice President and Head for Special Projects.

MDC, APMC and Ayala Hotels: A Strong Supporting Cast


Marriott Hotel, Cebu



Robust order book drives revenue growth

Ayala Land's three support businesses in construction, property management and hotels may not be headline grabbers, but together they account for a sizeable chunk of the company's revenues. More importantly, they each play critical roles in Ayala Land's ability to build, deliver, and maintain superior products and services as well as prime strategic land for optimal value appreciation and retention. Each is a significant operating business in its own right with their respective revenue and margin targets, but their operations have one common goal: keep the customers happy by exceeding their highest expectations. Together, they accounted for 28% of the company's consolidated revenues in 2007.

Makati Development Corporation (MDC) had a stellar 2007 and ended the year with a robust project portfolio and was awarded P14 billion

Hotel InterContinental Manila

worth of new projects. This was the highest amount of contracts ever awarded to MDC in a single year in the company's entire 30-year history and was more than double the P6 billion jobs it received in 2006. As of year-end, MDC had an outstanding order book of P19 billion, 59% of which came from ALI projects and 41% were third-party contracts. MDC ended 2007 with P6 billion in revenues, 46% higher than the previous year.

Apart from playing a key role in the construction of Ayala Land's various residential, office and shopping center projects, MDC is also collaborating with First Balfour, Inc. to build the state-of-the-art 600-bed St. Luke's Medical Center at Bonifacio Global City. ALI's construction subsidiary also became the first Filipino contractor to be accredited by the US government and bested several American and international contractors in winning the bid to undertake the expansion of two US Embassy compounds in Manila and Pasay.

"Over the years, we have steadily built up a capability for world-class construction services. We are focused on maintaining high standards of execution that have been recognized by both our clients and our triple certifications from the International Standards Organization (ISO) and Occupational Health and Safety Advisory Services (OHSAS)," says Raul M. Irlanda, Senior Vice President and Group Head for Construction.

For its part, Ayala Property Management Corporation (APMC) also performed well as it produced P894 million in revenues for 2007, 14% higher year-on-year.

APMC is the country's largest property management company with 174 properties in its management portfolio, with contracts worth P672 million. This compares favorably with the 144 properties with contracts worth P566 million in APMC's portfolio in 2006 and reflects the strong market acceptance of APMC's wide range of services.

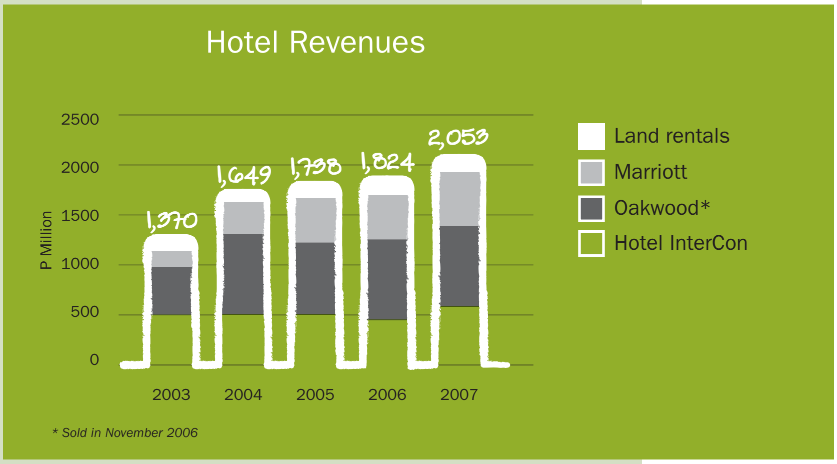
APMC's unwavering committment to service excellence in facilities management, carparks and waterworks operation, technical consultancy and project management services has enabled it to stay ahead in the property management industry. "We focus on customer satisfaction and a continuous process of improving and expanding our suite of services to keep our clients happy and satisfied," says Emilio J. Tumbocon, Senior Vice President and Group Head, Property Management.

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

2007 was also a good year for Ayala Land's hotels business. Revenues from the Hotel InterContinental Manila and the Cebu City Marriott increased a combined 24% to P1.4 billion last year, from P1.1 billion the previous year. While Cebu City Marriott suffered a slight drop in occupancy rate, from 82% to 75%, this was more than offset by the 21 percentage point increase in average occupancy rates at the Intercon, which went from 61% to 82%, along with a 17% increase in average room rates. The average occupancy rates for both hotels were significantly higher than the Makati CBD and Cebu averages, respectively.

Ayala Land will continue to explore potential hotel investments in line with its objective of helping to prime the value of its strategic landbank areas. Last March 2007, Ayala Land signed an agreement with the Kingdom Hotels Group to jointly develop a 7,377-sqm property on one corner of Ayala Center in Makati. The development will be a luxury hotel complex which will comprise a 300-room Fairmont Hotel, a 30-suite Raffles Hotel, and 189 Raffles-branded private residences. Clearing of the site is already underway and the US$153 million project will kick-off the redevelopment of Ayala Center.

APMC revenues grow by 10% due to higher property management fees and new businesses



Revenues from Hotel InterCon and Cebu City Marriott increase by 24%

Board of Directors

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., Alabang Commercial Corp., and Anvaya Cove Beach and Nature Club, Inc.; Co-Vice Chairman and Trustee of Ayala Foundation, Inc.; Director of the Bank of the Philippine Islands, Globe Telecom, Inc., Integrated Microelectronics, Inc., AI North America and Habitat for Humanity International; and Member of the East Asia Council of INSEAD

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 the Board of Directors of Globe Telecom, Inc., Bank of the Philippine Islands and Integrated Microelectronics, Inc.; Member of JP Morgan International Council, Mitsubishi Corporation International Advisory Committee, Toshiba International Advisory Group, Harvard University Asia Center Advisory Committee, Board of Trustees of the Asian Institute of Management and a national council member of the 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. Receipient 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., Community Innovations, Inc., 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. and Anvaya Cove Beach and Nature Club, Inc.; Director of Alabang Commercial Corp., Ayala Greenfield Development Corp., Berkshire Holdings, Inc., Bonifacio Land Corp., Emerging City Holdings, Inc. and Fort Bonifacio Development Corp.

Delfin L. Lazaro. Member of the Board of Directors of Ayala Land since 1996. Member of the Management Committee of Ayala Corporation. Director and Chairman of the Executive Committee of Globe Telecom, Inc.; Director of Integrated Microelectronics, Inc., Manila Water Co., Inc. and Ayala Automotive Holdings Corp.; and President of Azalea Technology Investments. Named Management Man of the Year 1999 by the Management Association of the Philippines

Mercedita S. Nolledo. Director and Corporate Secretary of ALI 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, BPI Capital Corp. and Anvaya Cove Beach and Nature Club, Inc.; Corporate Secretary and Member of the Board of Trustees of Ayala Foundation, Inc.; Director and Treasurer of Philippine Tuberculosis Society, Inc.

Corazon S. de la Paz-Bernardo. Independent Director of ALI since April 2006. President and Chief Executive Officer of Social Security System. President of the International Social Security Association for the triennium 2008-2010. Vice-Chairperson of Banco de Oro – EPCI, Inc. Director of San Miguel Corporation, Philippine Long Distance Telephone Company, Ionics, Inc., Equitable Card Network, Inc., PCI Leasing & Finance, Inc., Philex Mining Corp., Philex Gold, Inc., Republic Glass Holdings and Philippine Health Insurance Corporation. Receipient of a Fulbright Achievement Award for Business Administration in 1988; Awardee of The Outstanding Women in the Nation's Service for Management in 1983

Ramon R. del Rosario, Jr. Independent Director of Ayala Land since 1994. President and Chief Executive Officer of Philippine Investment Management, Inc.; President of Bacnotan Consolidated Industries, Inc. and Microtel Development Corp.; Chairman and CEO of AB Capital and Investment Corporation; Chairman of United Pulp and Paper Co., Inc., Microtel Inns and Suites (Pilipinas), Inc., CIP II Power Corp., Trans-Asia Gold and Minerals Development Corp., Stock Transfer Services, Inc., Araullo University and Cagayan de Oro College; Director of Trans-Asia Oil & Energy Development Corporation, Trans-Asia Power Generation Corp., Phinma Property Holdings Corp., Roxas Holdings, Inc., Holcim (Phils.), Inc., and Union Galvasteel Corp. 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 the Board of Directors of Republic Cement Corporation; Vice Chairman of the Board of Trustees of Far Eastern University; Chairman of East Asia Educational Foundation, Inc.; Chairman of the Board of Directors of Amon Trading Corporation; Regional Board of Advisers of MasterCard Incorporated; Director of Manila Water Co., Inc.; President of BPI Foundation, Inc.; Director of Makati Business Club and Member of the Management Association of the Philippines

Leandro Y. Locsin. Independent Director of ALI since 1994. Administrator and Design Consultant of Leandro V. Locsin Partners Architects; Senior Vice President of C-J Yulo & Sons and Canlubang Sugar Estate; Founding Chairman/Director of The Beacon School; Director of World Wildlife Fund, Phils., E-Media Inc., and Museo Pambata ng Maynila. Chairman of Vesta Property Holdings, Inc., and member of the Ayala Museum Board of Advisers

Corporate Governance

STATE OF CORPORATE GOVERNANCE

The Board of Directors, Management, Officers and employees of Ayala Land commit themselves to the principles of good governance and pledge to preserve, protect, and enhance the value of the Company.

The structure for corporate governance of Ayala Land is principally contained in its Articles of Incorporation and By-Laws and their amendments. Supplementing and complementing these constitutive documents is the Manual of Corporate Governance approved by the Board of Directors, setting forth the principles of good and transparent governance.

In 2007, the Company maintained its focus on corporate governance and pursued key initiatives towards achieving governance excellence.

Initiatives adopted include:

- Conduct of a Self-Assessment Survey by the Board of Directors covering performance of individual members and the full Board

- Development of Business Contingency Plans and establishment of mechanisms for implementation

- Adoption of Risk-based Audit Approach

- Independent quality assurance review of the Internal Audit function and a conclusion of general compliance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and Code of Ethics

- Issuance of preferred shares with due regard to protecting the interest of the minority holders of common shares

- Formulation and adoption of reporting guidelines for unstructured disclosures

This section briefly outlines the basic structure for corporate governance and, within this context, discusses these initiatives.

BOARD OF DIRECTORS

Structure

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.

As a publicly-listed company, Ayala Land conforms with the legal requirement to have at least two independent directors on the Board. Of the nine directors, three are independent directors, namely Leandro Y. Locsin, Jr., Corazon S. de la Paz-Bernardo, and Ramon R. del Rosario, Jr.

The Chairman of the Board is Fernando Zobel de Ayala who assumed the position in 1999. Jaime Augusto Zobel de Ayala acts as Vice Chairman. Jaime I. Ayala holds the position of President and Chief Executive Officer. The Chairman and the President/CEO are not related.

Special Stockholders' Meeting
August 28, 2007

Performance

Attendance. In 2007, the Board had 7 meetings and the stockholders had 2 meetings. The record of attendance of the Company's directors during the Board meetings held for the year 2007 met the Securities and Exchange Commission's requirement of more than 50% attendance. ▼

Self-Assessment. At the end of the year, consistent with corporate governance best practice, the Company conducted a formal Board self-assessment evaluating the role of individual board members and the governing role of the full board.

The survey covered individual performance in terms of elements of good governance such as attendance, active participation in Board discussions, extent of preparation for Board meetings and avoiding conflicts of interest. Individual members also assessed the governing role of the Board of Directors in terms of, among others, establishing Company priorities through strategic policies, assurance of sufficient controls and plans to ensure the Company's short- and long-term fiscal health, and adherence to good corporate governance.

Director	Regular Meetings				Special Meetings		Annl.Stckhlders' Meeting & Organizational Mtg	Special Stockholders' Meeting	Percentage
	13 Feb	08 May	09 Aug	20 Nov	01 Feb	05 July	28 Mar	28 Aug	
Fernando Zobel de Ayala	P	P	P	P	P	P	P	P	100.00%
Jaime Augusto Zobel de Ayala	P	P	P	A	P	A	P	P	75.00%
Jaime I. Ayala	P	P	P	P	P	P	P	P	100.00%
Delfin L. Lazaro	P	P	P	P	P	P	P	P	100.00%
Mercedita S. Nolledo	P	P	P	P	P	P	P	A	87.50%
Leandro Y. Locsin, Jr.	P	A	P	P	P	P	P	P	87.50%
Aurelio R. Montinola III	P	P	P	A	P	P	P	P	87.50%
Corazon S. de la Paz-Bernardo	P	P	P	P	P	A	P	P	87.50%
Ramon R. del Rosario, Jr.	P	P	P	P	P	P	A	P	87.50%

P- Present A- Absent

Board Committees

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

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

Activities. The Executive Committee, which acts on specific matters delegated by the Board of Directors except with respect to items specified in the company's Manual of Corporate Governance, met four times in 2007.

Compensation Committee. In March 2007, the Compensation Committee met and approved the 2006 Performance Bonus for the staff, managers and executives; the 2007 Executive Housing Program Awardees; and the 2007 salary adjustment for the managers and senior executives. All members of the Compensation Committee attended the meeting.

In September 2007, the Compensation Committee met and approved the grant to qualified officers of the 2007 Executive Stock Ownership Plan (ESOWN). All members of the Compensation Committee attended the meeting.

Nomination Committee. In 2007, the Nomination Committee held five meetings. At the meeting on 12 February 2007, the Nomination Committee reviewed the profile of the nominees for directors of the company for the year 2007 – 2008. Based on such review, the Committee found the nominees to have all the qualifications and none of the disqualifications to be elected as directors of the company, and therefore approved the final list of nominees for the year 2007 – 2008. There was full attendance of the Nomination Committee meetings held during the year.

At the other meetings on 09 January 2007, 19 March 2007, 08 May 2007 and 17 September 2007, the Nomination Committee deliberated upon and approved, subject to final approval by the Board of Directors, the promotion of certain executives to Assistant Vice President (1), Vice President

Board Committee Members

	Board	Executive Committee	Nomination Committee	Compensation Committee	Audit Committee
No. of Meetings Held 2007	**7**	**4**	**5**	**2**	**5**
Fernando Zobel de Ayala	Chairman	Chairman	Chairman	Chairman	
Jaime Augusto Zobel de Ayala	Vice Chairman	Member		Member	
Jaime I. Ayala	Member	Member	Member		
Delfin L. Lazaro	Member	Member			
Leandro Y. Locsin, Jr.*	Member			Member	
Aurelio R. Montinola III	Member				
Mercedita S. Nolledo	Member				Member
Corazon S. de la Paz-Bernardo*	Member				Member
Ramon R. del Rosario, Jr.*	Member	Member	Member		Chairman

* Independent Director

(2) and Senior Vice President (1); and the hiring of one Assistant Vice President and two Vice Presidents.

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

The Committee, which is chaired by an independent director, held five meetings in 2007. Its activities are further discussed in the section on Accountability and Audit.

Director and Senior Executive Compensation

Non-executive directors, defined as members of the Board of Directors who are neither an officer nor consultant of the company, receive remuneration consisting of a retainer fee and per diem for each Board and Board committee meeting attended. The remuneration of non-executive directors was ratified during the 2003 Annual General Meeting.

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 non-executive Directors, as well as Officers, is disclosed in the Definitive Information Statement sent to shareholders, together with the Notice of Regular Annual General Meeting. The total annual compensation includes the basic salary and other variable pay (performance bonus and exercise of 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

Senior management attended corporate governance training during the year. Other key officers were also given the opportunity to gain a working knowledge of corporate governance and its requirements.

Value Based Management System

Management remains steadfast in its commitment to run the company for the long-term interest of shareholders, as embodied in the shareholder value creation program presented at the 2005 Annual General Stockholders' Meeting.

Considerable progress was achieved in the undertaking, initiated in 2006, to establish a comprehensive Value Based Management System.

In 2007, the Company attained a significant improvement in management information and reporting systems and processes. The move to full SBU reporting is almost complete, with full profit and loss and balance sheet accountability already in place. Management reporting dashboards have already been developed at the corporate and SBU levels. The design of the standardized project runs for the Residential Business Group has been completed and is already in the financial modeling phase. The capital allocation model has been reviewed and enhanced. The cash flow reporting module is on stream, with the forecasting module still undergoing development. The system, once in place, will ensure value principles are incorporated in all key business processes.

Strategic Risk Assessment and Management

Key to the company's business strategy is the identification and assessment of strategic risks, determination of the levels of risks that are acceptable, and management of the business to address these risks accordingly. The Board of Directors takes part in setting company-wide risk management processes.

Financial Risk Management. Exposure to liquidity, credit, interest rate and foreign currency risks arise in the normal course of business activities. The main objectives of the Company's financial risk management program are to identify and monitor such risks on an ongoing basis, minimize and mitigate such risks, and provide a degree of certainty about costs.

The Company's receivable 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.

Property/Physical Asset Risk Management. In addition to financial risk management policies, Ayala Land also recognizes its exposures to both natural and operational perils, and, as such, responsibly employs pure risk assessment processes to identify and apply proper risk control, mitigation and transfer measures at optimized levels of cost.

Operational Risk Management. Planning for business continuity in the event of a crisis scenario is an integral part of Ayala Land's risk management process.

In 2007, management set out to establish a formal Business Continuity Plan (BCP) through an integrated program involving business continuity planning process review, refinement and updating of existing contingency procedures of each SBU, and the establishment of recovery plans aimed at minimizing disruption and ensuring continuous operation.

The program was underway when the Glorietta 2 explosion took place in October. The The Crisis Management Team immediately mobilized company resources and set up task forces to attend to emergency management, particularly the needs of the victims, continuity of operations, and recovery/ reconstruction efforts.

ACCOUNTABILITY AND AUDIT

The Audit Committee provides oversight to external and internal auditors.

Independent Public Accountants

The principal accountants and external auditors of the Company is the accounting firm of SyCip, Gorres, Velayo & Company (SGV). Ms. Lucy L. Chan took over as Partner-In-charge effective audit year 2007, following the policy on rotation of audit partners every five years.

Ayala Land receives Independent Quality Assurance Review Report from KPMG

Over the past two years, Ayala Land and its subsidiaries paid its external auditors the following fees, including VAT.

- Audit and Audit-Related Fees
  Ayala Land and its subsidiaries paid its external auditors the following fees in the past two years: (in P million, inclusive of VAT)

	Audit & Audit-related Fees	Tax Fees	Other Fees
2007	7.7*	-	-
2006	7.2*	-	-

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

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

Internal Audit

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

Adoption of Risk-based Audit Approach. The Internal Audit Division adopted the risk-based audit approach in preparing and executing its audit plan for 2007.

The risk-based audit approach was adopted following an internal assessment of the effectiveness of the internal audit function conducted in 2006. The essence of risk-based audit is its business and customer focus. The audit starts with understanding the objectives of the business activity being audited. Thereafter, the attendant risks in achieving the objectives are identified and prioritized as to impact, in coordination with the customer, and then related to the processes and controls to mitigate the said risks. These processes and controls are then reviewed for adequacy and effectiveness which effectively leads to recommendations for improvement. The process results in a more business oriented and risk-based approach to auditing which adds value to the customers.

The adoption of the risk-based audit approach is in accordance with the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (Standard) and, at the same time, complies with the Securities and Exchange Commission's Code of Corporate Governance (SEC Memorandum Circular No. 2; Series of 2002).

External Quality Assurance Review. In 2007, in compliance with IIA's Standard 1312 requiring the conduct of external assessments at least every five years by a qualified, independent reviewer or review team from outside the organization, ALI engaged Manabat, Sanagustin & Co. (KPMG) to determine whether ALI's internal audit activities are in accordance with the Standard.

After a thorough assessment and review, KPMG concluded that the Company's internal audit activity generally complies with the Standard and Code of Ethics. "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. Aside from aligning the internal audit function to international standards, the review allowed the Company to introduce strategic changes to the positioning, people management system and processes of the function in support of overall business goals.

Audit Committee Activities

In 2007, the Audit Committee reviewed and approved the 2006 financial statements of the Company as audited by the external auditors, SGV, as well as the unaudited financial statements prepared by management for the first to third quarters of the year. The Committee likewise evaluated the performance of SGV during the year and gave its recommendation to the Board of Directors on the appointment of SGV as the company's external auditors for 2007 and the proposed remuneration.

The Audit Committee further reviewed, noted and approved updates, presentations and reports from the Internal Audit Division and from Management on audit initiatives involving various SBUs and support units undertaken during the year.

DISCLOSURE AND TRANSPARENCY

Ayala Land is committed to high standards of disclosure, transparency and dissemination.

Ownership Structure

Listing of Common Stockholders. The company discloses quarterly and annually the top 100 holders of its common shares, and the security ownership of certain record and beneficial owners owning more than 10% of total outstanding stock, as well as the security ownership of directors and management.

None of the company's directors and management owns 2.0% or more of the outstanding capital stock of the company. There are no cross or pyramid shareholdings.

As of December 31, 2007, Ayala Corporation held 6.94 billion shares representing 53% of total outstanding common shares. Out of the 13.03 billion total outstanding shares, 5.07 billion shares, or 39% are beneficially owned by non-Filipinos.

Preferred Shares Issue. The strong performance of the Philippine equity market in 2007 had been driven by, among others, the renewed confidence of foreign investors in the country. As a result of the substantial foreign capital inflow, Ayala Land's foreign ownership reached the 40% limit by the middle of 2007. To allow the Company's shareholders to reap the full benefits of the increased demand for Ayala Land's shares, the Company issued on October 18, 2007 13.034 billion preferred shares which effectively pared down foreign ownership. The initiative increased the liquidity of the company's stock while ensuring that Ayala Land remained a Philippine national.

Deliberate and significant efforts were taken to ensure that the preferred shares were issued in the most transparent manner possible. The preferred shares were distributed via the declaration of stock rights, whereby each common stockholder of record was accorded the right to subscribe to the preferred shares in proportion to their existing shareholdings on a one for one basis.

The preferred shares carry a fixed dividend rate payable annually, on a non-cumulative and non-participating basis. They have a convertibility feature whereby preferred shareholders have the option to convert one preferred share to one common share commencing on the 10th year after issue date, with the exercise price being the higher of either the 30-day average closing price or the closing price immediately preceding the exercise date less the par value of the preferred share.

The preferred shares have no voting rights, no pre-emptive rights, are non-redeemable and shall not be listed. In terms of liquidation rights, the preferred shares have preference to the extent of its par value.

Content and Timing of Disclosures

Ayala Land updates the investing public with strategic, operating and financial information through adequate and timely disclosures filed with the Securities and Exchange Commission and the Philippine Stock Exchange.

The audited annual financial statements are submitted at least 15 working days before the Annual General Meeting (AGM). Interim financial statements are released between 30 and 45 calendar days from the end of the financial period. The results are disclosed to the SEC and PSE within 24 hours from the Audit Committee's approval. The results are also sent to analysts via e-mail broadcasts immediately upon confirmation by PSE/SEC of receipt of disclosure, and uploaded on the company's corporate website.

In addition to compliance with periodic reportorial requirements, the company punctually discloses major and market-sensitive information such as dividend declarations, joint ventures and acquisitions, and sale and disposition of significant assets.

Financial Reporting

Ayala Land's financial statements comply with Philippine Financial Reporting Standards (PFRS) which are in compliance with International Accounting Standards.

The accounting policies adopted in 2007 are consistent with those of the previous financial year, except as follows:

• PFRS 7, Financial Instruments: Disclosures, and the complementary amendment to PAS1, Presentation of Financial Statements: Capital Disclosures (effective for annual periods beginning on or after January 1, 2007)

• Philippine Interpretation IFRIC 10, Interim Financial Reporting and Impairment

The above changes in Accounting Policies are explained in the Notes to Consolidated Financial Statements.

DEALINGS IN SECURITIES

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

Reporting of Transactions

Ayala Land is compliant with the requirement of the Philippine Stock Exchange for directors and principal officers to report any acquisition, disposal or change in ALI shareholdings to the Securities and Exchange Commission within five trading days from the transaction. The company has expanded coverage of this reporting requirement to include members of the Management Committee. All other officers are required to submit a quarterly report on their trades of company shares to the Office of the Compliance Officer.

Trading Blackouts

The company has adopted a policy on insider trading. Under the insider trading policy, 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, including any information likely to affect the market price of ALI securities, are prohibited from buying or selling ALI securities during prescribed periods.

Compliance with these trading blackouts is strictly monitored and enforced. There have been no cases of violation by Directors, management and employees, of the Company's policy on insider trading.

STAKEHOLDER RELATIONS

Ayala Land seeks to adhere to a high level of moral conduct and fair dealings with all its shareholders, customers, employees and business partners as a basis for building long-term, mutually-beneficial relationships.

Shareholder Meeting & Voting Procedures

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

Shareholder Relations

The company believes that open and transparent communications are requisites for sustained growth and building investor confidence.

The Company, through the Investor Communications and Compliance Division which reports directly to the Chief Finance Officer, addresses the various information requirements of the investing public.

Ayala Land communicates with minority shareholders through timely and full disclosures to the Securities and Exchange Commission and the Philippine Stock Exchange, regular analyst briefings, Annual General Meetings, one-on-one meetings, conference calls, website and emails or telephone calls. During the year, senior management held meetings in Manila, Singapore, Hong Kong, Sydney, New York, Boston, London, Amsterdam and Frankfurt with investment directors, fund managers and analysts representing various institutional investors.

Proceedings of analysts' briefings by way of presentations and podcasts are made available on the web. Access to senior management is also provided through year round meetings with the Chief Finance Officer and a yearly meeting with the Management Committee after the Annual Stockholders' Meeting.

Employee Relations

Ayala Land is committed to promoting the safety and welfare of its employees. It believes in inspiring its employees, developing their talents, and recognizing their needs as key stakeholders.

Employees are given a diverse range of training opportunities to enable them to perform at their peak potential. Selected employees, depending on their level and scope of responsibility, undergo foundation building and leadership development programs. Functional and technical programs are made available to enhance their technical skills and ensure better execution.

COMPANY VALUES

Ayala Land strongly believes in the primacy of shared values and the empowerment of people as its basic operating principles.

Code of Ethical Behavior

The company and its employees commit to live out its core values: customer orientation, quality, pursuit of excellence, integrity, social responsibility, long-term focus, empowerment, bias for results, and concern for people.
The core values are captured in the Code of Ethical Behavior. Additionally, the company's Human Resources Manual of Personnel Policies prescribes the Code of Conduct governing acceptable office conduct for the orderly operation of the company as well as for the protection of the rights, safety, and benefit of the total employee force.

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

Vendors' Code of Ethics

The Company likewise is committed to ensuring firms or individuals providing a product or service to the Company or indirectly to any of its clients, their agents and subcontractors uphold the company's reputation and brand.

A Vendor Code of Ethics prescribes specific business and employment practices, and requires self-monitoring by vendors. Vendors are directed to report questionable behavior or possible violation to the Head of the Strategic Procurement Division.

ANTI-MONEY LAUNDERING

The Company is compliant with the Anti-Money Laundering Act of 2001 (RA 9160), as amended in 2003 (RA 9194). An Anti-Money Laundering Manual was approved by the Board on November 29, 2002 and amended accordingly. Internal guidelines have been drawn up to support implementation. Regular seminars and updates on the Anti-Money Laundering Act are given to front line employees and those involved in the implementation, with the help of the Anti-Money Laundering Council.

COMPLIANCE OFFICER

Ayala Land, as a registered and publicly-listed entity, strictly complies with the disclosure and reportorial requirements of the Securities and Exchange Commission and the Philippine Stock Exchange.

Jaime E. Ysmael, who is the company's 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.

In 2007, the Compliance Officer issued guidelines for unstructured disclosures as required under SEC Form 17-C. The guidelines aim to assist Management determine material information or events requiring disclosure and specify the triggers for disclosure. In addition, these guidelines supplement the company's Insider Trading Policy by identifying sensitive information requiring trading blackout within the company.

The Investor Communications and Compliance Division and the Office of the Corporate Secretary share the responsibility for implementing these guidelines on behalf of the Compliance Officer.

Ayala Land receives a certificate of recognition as one of the Top Five Philippine publicly listed Companies of the 2007 Institute of Corporate Directors (ICD) Corporate Governance Scorecard

RECOGNITION

Ayala Land was awarded a certificate of recognition for being one of the Top Five Philippine publicly listed Companies of the 2007 Institute of Corporate Directors (ICD) Corporate Governance Scorecard. The award was given by the ICD, in collaboration with the Securities and Exchange Commission, the Philippine Stock Exchange and the Ateneo Law School. Ayala Land ranked #2 among Philippine corporates in The Asset Awards 2007 for Best in Corporate Governance for the Philippines. This ranking was obtained on the basis of questionnaires completed by participating companies, a poll of institutional investors and dialogues with Company management. The award was given by The Asset magazine, an internationally recognized business magazine.

The Company also achieved top ranking in Finance Asia's seventh annual Best Companies Poll across several categories: best managed, best corporate governance, best investor relations and most committed to a strong dividend policy.

The Company was also conferred the Best in Treatment of Minority Shareholders' by Asia Money, another leading business magazine in the region.

WEB SITE

Additional information on the Company's Corporate Governance initiatives may be obtained from **www.ayalaland.com.ph**

Nuvali, Canlubang

ALI CSR: Differentiation through Sustainability

In 2007 BeneficiALI, Ayala Land's campaign for sustainability, marked its transition from traditional philanthropy to more strategic initiatives aligned closely with the Company's product offerings and business models. Land development creates a significant impact on the environment and on society. Depending on the approach, it may affect the future of our businesses favorably or adversely, whether in terms of the availability of resources or our brand equity and reputation. As a respected business leader, Ayala Land heeds the call to respond concretely to the consequences of these impacts, especially the pressing and inescapable reality of climate change. ALI recognizes that it can mitigate the impact of climate change through the conduct of its business, specifically in the areas of energy efficiency, water use, solid waste management (SWM), and community development.

As a first step in the journey towards a full commitment to sustainability, ALI is publishing its first sustainability report alongside our 2007 Annual Report. We invite the readers of this annual report to please visit www.ayalaland.com.ph/beneficiALI/sustainabilityreport to download the PDF version of the full report. This report is based on the Global Reporting Initiative (GRI) framework which holds the most respected and most widely-adopted guidelines for public reporting on Corporate Social Responsibility (CSR) and sustainability performance. It is the most widely referenced framework by international investor groups and financial institutions and is a proven reporting system that creates a cycle of development for the internal management and external engagement of CSR.

We use sustainability reporting to provide us with the tools and techniques that push us further into responsible and sustainable development as a land developer. We deem the move to use the latest version of reporting guidelines as necessary so that we can benchmark our practices against international standards. Our campaign for sustainability has a two-fold strategy: sustainable land use and development and the building of model communities.

Corporate Initiatives Toward Sustainability

Initially, we focused our corporate efforts on raising the level of awareness of our employees with respect to the principle of sustainability and the need to care for the environment, a message that rang loud and clear at our 2007 Community Day. Complementing this were introductory training sessions on energy and water efficiency, solid waste management (SWM), and social sustainability that were made available to our employees. We arranged for special screenings of Al Gore's An Inconvenient Truth, followed by a presentation on the impact of climate change in the Philippine context and an open forum, both to deepen the audience's understanding of the issues and to make them want to get engaged in this effort. We then hosted the premier of Leonardo Di Caprio's The 11th Hour to increase a broader public awareness of these issues, taking it to the cinemas of Ayala Center, TriNoma, Alabang, Market! Market!, and Ayala Center Cebu to cascade the same urgent message to our customers.

Ayala Land cited for strategic partnership during WWF Philippines' Partners Night 2007

Our conservation efforts also included the maintenance of over 50,000 trees and over 60 species in our nurseries. During ALI's 19th anniversary, we held a tree planting activity at Nuvali and our employee volunteers achieved their goal of planting 1,000 new trees. Last year we also launched the tree-planting activity at Ayala Westgrove Heights where we initially planted over 300 mango trees, which we expect to multiply as we run quarterly tree-planting events. At Kan-Irag in Cebu, we planted 6,400 seedlings and continue to expand our nursery to more than 27,500 trees, comprising almost a hundred different species.

We strengthened our two-year-old employee volunteer program, VoluntarALI, by offering participants a diverse spectrum of volunteer activities in either community building or in selected national advocacies. Furthermore, employee time was used to build social capital in our project areas as they participated in activities within ALI Project sites. The company gives each employee four paid leaves in support of VoluntarALI and more than 40% availed of this special benefit. This translated to over 600 hours of company-paid volunteer hours, more than double than in the previous year. Memorable activities in 2007 included a visit to the conservation awareness program at the Pawikan Center in Bataan, in coordination with Hands On Manila (HOM) where the volunteers learned environmental stewardship and then cascaded these to the students of Morong Elementary School; the facilitation of the values formation and leadership training workshop to the staff of I-Serve, our partner in community rebuilding at Canlubang; and a study habits and parenting workshop at Pembo Elementary School, Nueve de Febrero Elementary School, and Plainview Elementary School. The HOM-led projects totaled 175 volunteer hours and benefited 120 students from the Morong Elementary School, 15 staff members of I Serve, and 40 parents from the three Makati public schools.

Sustainable Land Use and Development

Nuvali kicked off ALI's commitment to sustainability by convening the first-ever Sustainability 101 workshop facilitated by the World Wildlife Fund for Nature-Philippines. It was a groundbreaking event in the Philippines, and Ayala Land was WWF-Philippines' first corporate partner in this ambitious endeavor.

The objective of the workshop was to introduce the principles and perspectives of sustainability in property planning and development. It aligned our different business units with the common goal of sustainability and provided us with a coherent planning framework. Nuvali is our first large-scale development to incorporate sustainable practices right from design stage all the way to construction and maintenance. Nuvali will provide a platform for Ayala Land Premiere, Community Innovations, and Avida Land to offer highly differentiated developments built on sustainable principles. We expect to take our learnings from Nuvali and use this to serve as a model for the sustainability aspects of our future developments. Nuvali also benefited from another workshop on environmental life-cycle assessment, an approach in construction and development that is based on the belief that all stages in the life of a product—raw material acquisition, product manufacture, transportation, installation, operation and maintenance, as well as recycling and waste management—generate significant environmental impact and must therefore be analyzed. The workshop introduced us to the social impact of our projects as well as tools for their effective measurement.

ALI employee-volunteers undertake tree planting in Nuvali

Still in partnership with WWF-Philippines, we were also able to enhance the land value of our premier leisure project Anvaya Cove through our coastal resource management project. Coral reefs are Morong's most important coastal habitat, and based on the 2007 studies of WWF-Philippines, there are seventy-four (74) hard coral species in the area. They act as an effective natural breakwater for the local villages, are year-round sources of food and income, and they make for important tourism and recreation sites.

Nuvali and Anvaya attest to our commitment to sustainability and because of the positive strides made in both projects, a General Partnership Agreement was signed between Ayala Land and WWF-Philippines. The GPA will work on a five-year sustainability framework, geared towards specific goals on energy conservation, efficient water management, and SWM, among others. Included in our agreement is our participation in WWF-Philippines' Climate Savers Program, where leading corporations volunteer to increase efficiencies in their operations in order to reduce greenhouse gas emissions by ten million tons each year. This is the equivalent of taking two million cars off the road. We will also continue to receive additional training in Greenhouse Gas Emissions Accounting from the Philippine Business for Environment of which Ayala Land is a member and whose recycling programs we have consistently supported.

ALI volunteers work with students from Morong Elementary School to create campaign materials for Pawikan Protection


ALI signs General Partnership Agreement with WWF to deliver a company-wide Eco Footprint and Sustainability Roadmap

Building Model Communities

The second leg of Ayala Land's CSR strategy is the building of sustainable communities. Our signature project is the community rebuilding effort facilitated by I-Serve, an NGO that works for social justice through securing land and development. The project underscores the impact of our NGO Partner Investment Program and its reliance on the expertise of partner-agencies for grassroots implementation. Habitat for Humanity, a nonprofit housing organization that builds simple, decent, affordable housing, assisted I-Serve in the delivery of new homes for the community. Habitat completed the construction of the first 51 houses for residents at the Majada site, and I-Serve began instituting a social development program for this new community.

Under this social development program, community members, who had no experience in community leadership, were trained and resourced by I-Serve so that they could incorporate as a legitimate entity. The Pangarap Neighborhood Association (PNA) was formed, with ten elected officers of PNA tasked to work with I-Serve in the planning and implementation of community projects for livelihood, security, health, and environmental conservation. The PNA is a legitimate and recognized organization that is entitled to LGU-funded community projects. The PNA had 12 training activities on capability building and values education from the last quarter of 2006 throughout 2007. They were also able to purchase a community vehicle for general utility and to facilitate relationship building between the new residents and their neighboring communities. This is a replicable program which we can implement in other areas.

Crucial to the goal of a model community is the social infrastructure that enables it to work. We support our communities by helping address their needs in education, healthcare, and livelihood programs. Notable support went to education, particularly for the Gearing Up Internet Literacy and Access for Students (GILAS) project, which aims to provide Internet connectivity to all public high schools in the Philippines. In 2007, ALI contributed P3.5 million to GILAS, enough for the information infrastructure needs of 31 public schools in Taguig, Quezon City, Manila, and Canlubang. This benefited a total student population of over 50,000. We continue to support the Ayala Young Leaders' Congress (AYLC), a youth development program that attracts 70 of the brightest and most promising student leaders in the Philippines, in preparation for a new generation of servant leaders and change agents for nation building. We also subsidized the operations of the Filipinas Heritage Library, an online resource center on Philippine society and culture. The library, in turn, given its expertise in education, research, and publication, undertook the requisite public information program to support Ayala Land's CSR initiatives to strengthen our brand reputation and value proposition.

Our Alay Kabataan program was able to benefit 2,500 elementary students in the areas of Bataan, Cavite, Calamba, Makati, and Quezon City with public school supply kits at the beginning of the school year. Alay Kalusugan offered free dental and medical services in our partner-communities and addressed the healthcare needs of 1,200 adults and children in Bataan, Pampanga, Taguig, Manila, Cavite and Quezon City. Prior to the opening of TriNoma in Quezon City, we organized a job fair in coordination with the city government to match the needs of the mall's future merchants with the skills and livelihood needs of the local community. During its first run, the job fair was able to place over 5,000 applicants for TriNoma.


I-Serve program activity

A Cut Above the Rest

Last year the Ayala Group of Companies launched Ayala Social Initiatives (ASI), which positions the conglomerate as agent of change with three broad social investments in education, entrepreneurship, and the environment. Our projects were bannered under the environment, especially highlighting our success in SWM. Our SWM program aims to reduce residual solid waste by recovering materials that can be reused, recycled, or processed into compost. Ayala Properties Management Corporation (APMC), ALI's custodian for best practices in this area, believes that through proper waste segregation, the Makati CBD's residual waste can be further reduced by 25 percent in three years. We reduced our residual waste yield from almost 6.5 million tons to 6 million tons. Seven years ago, Ayala Land developments accounted for almost 2% of total amount of waste generated on a national level. Through APMC's programs, we have managed to bring our residual waste down by 85% since the year 2000. By the end of last year, we effectively reduced our use of dump trucks from 20 in the year 2000 to none in 2007.

ALI also keeps track of its energy consumption and over the years, our APMC-managed properties have generated nearly P19 million in savings in electricity costs. This was due to major energy conservation measures such as process redesign, equipment scheduling, retrofitting with more efficient technologies, and re-calibration and repairs. In 2007, six of our managed and controlled properties and one of our engineers won various awards for energy efficiency and conservation practices.

ALI also supported the operations of the waste market project of the Philippine Business for Environment by providing the use of its mall parking areas as collection and drop-off points. The waste market is organized to improve the collection of non-traditional waste, complement the waste collection efforts of the local government; provide convenient and accessible drop-off areas and buying stations of recyclables to the public and educate them about the current recycling efforts in the country. Ayala Center, Alabang Town Center, Bonifacio Global City, and TriNoma are all designated areas for these monthly markets, A total of 73,000 kilos or 9,500 pieces of recyclable materials were collected from 1,834 participants, amounting to an equivalent cost of more than P725,000. Makati and TriNoma produced the highest participant turnout and equivalent cost collected.

In 2007, Ayala Land also became a founding member of Philippine Green Building Council (PhilGBC). A primary project of the PhilGBC is the establishment of the Green Rating System for the country, an equivalent of the Leadership in Energy and Environmental Design (LEED) Green Rating System of the United States. This rating system will serve as the national benchmark for the design, construction, and operation of green buildings according to Philippine conditions. With its experience in the completion of two new green buildings at U.P. North Science and Technology Park and at the Technopod in Nuvali, as well as its application for the LEED certification of Greenbelt 5 and 6750, Ayala Land is taking a leadership role in the crafting of the rating system.

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, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2007, and 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 judgement 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 and its subsidiaries in accordance with Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the Board of Directors and stockholders.

FERNANDO ZOBEL DE AYALA
Chairman

JAIME I. AYALA
President

JAIME E. YSMAEL
Chief Finance Officer

Report of Audit Committee to the Board of Directors

For the Year Ended December 31, 2007

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 five (5) meetings during the year with all the members present except on November 12, 2007 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 2007 and 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 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, 2007, 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;
- We required that the internal audit activity be subjected to an external quality assurance review in compliance with the Securities and Exchange Commission's Code of Corporate Governance. The resulting opinion of the independent evaluator, Manabat, Sanagustin & Co. (KPMG) is that the internal audit activity of Ayala Land inc. generally complies with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors as of December 28, 2007.

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, 2007 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

February 7, 2008

RAMON R. DEL ROSARIO, JR	CORAZON S. DELA PAZ	MERCEDITA S. NOLLEDO
Committee Chair	Member	Member

SyCip Gorres Velayo & Co.
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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

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, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ayala Land, Inc. and Subsidiaries as of December 31, 2007 and 2006, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-1
Tax Identification No. 152-884-511
PTR No. 0017583, January 3, 2008, Makati City

February 12, 2008

Consolidated Balance Sheets
(Amounts in Thousands)

	December 31	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 24)	**₱11,271,906**	₱4,630,591
Short-term investments (Notes 5 and 24)	**2,035,606**	2,927,928
Fair value through profit or loss financial assets (Notes 5 and 24)	**318,018**	1,951,090
Accounts and notes receivable - net (Notes 6 and 24)	**11,563,880**	10,644,524
Real estate inventories (Note 7)	**6,696,007**	7,735,587
Other current assets (Note 8)	**2,094,036**	1,411,034
Total Current Assets	**33,979,453**	29,300,754
Noncurrent assets held for sale (Note 19)	**–**	2,084,317
	33,979,453	31,385,071
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 6 and 24)	**3,475,306**	2,126,672
Land and improvements	**16,399,388**	16,874,794
Investments in associates and jointly controlled entities (Note 9)	**9,038,676**	8,791,217
Available-for-sale financial assets (Notes 10 and 24)	**366,788**	367,313
Investment properties - net (Notes 11, 14 and 17)	**13,792,850**	13,032,762
Property and equipment - net (Notes 12, 14 and 17)	**4,015,226**	3,725,035
Deferred tax assets - net (Note 18)	**670,886**	782,878
Other noncurrent assets	**1,242,672**	1,164,419
Total Noncurrent Assets	**49,001,792**	46,865,090
	₱82,981,245	₱78,250,161

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 13 and 24)	**₱15,758,816**	₱12,126,683
Short-term debt (Notes 14 and 24)	**1,613,000**	1,556,000
Income tax payable	**167,124**	147,521
Current portion of long-term debt (Notes 14, 18 and 24)	**2,376,600**	3,563,593
Other current liabilities	**623,294**	442,620
Total Current Liabilities	**20,538,834**	17,836,417
Liabilities directly associated with noncurrent assets held for sale (Note 19)	**–**	469,100
	20,538,834	18,305,517

(Forward)

Consolidated Balance Sheets (Amounts in Thousands)

	December 31	
	2007	2006
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 19 and 24)	**₱6,149,874**	₱7,717,818
Pension liabilities (Note 21)	**175,837**	91,928
Deferred tax liabilities - net (Note 18)	**114,443**	415,506
Deposits and other noncurrent liabilities (Notes 15 and 24)	**4,375,807**	3,782,281
Deferred credits (Note 15)	**880,679**	699,398
Total Noncurrent Liabilities	**11,696,640**	12,706,931
Total Liabilities	**32,235,474**	31,012,448
Equity (Note 16)		
Equity attributable to equity holders of Ayala Land, Inc.		
Paid-up capital	**18,202,647**	14,580,590
Retained earnings	**27,405,247**	25,973,445
Stock options outstanding (Note 23)	**95,901**	107,973
Unrealized gain (loss) on available-for-sale financial assets (Note 10)	**1,943**	(10,323)
Treasury stock	**(557)**	(557)
	45,705,181	40,651,128
Minority interests		
Minority interest - net of interest attributable to noncurrent assets held for sale	**5,040,590**	5,455,933
Minority interest attributable to noncurrent assets held for sale	**–**	1,130,652
	5,040,590	6,586,585
	50,745,771	47,237,713
	₱82,981,245	₱78,250,161

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements Of Income
(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2007	2006	2005
REVENUE (Note 20)			
Real estate	**₱21,490,348**	₱22,501,221	₱16,126,880
Hotel operations	**1,356,906**	1,091,102	1,065,016
Equity in net earnings of investees (Note 9)	**787,209**	306,233	227,267
Interest income	**586,433**	648,862	1,101,935
Other income (Note 17)	**1,486,333**	1,011,424	2,854,271
	25,707,229	25,558,842	21,375,369
COSTS AND EXPENSES			
Real estate (Notes 7 and 17)	**14,229,832**	15,448,634	10,622,305
Hotel operations (Note 17)	**913,030**	721,524	709,652
General and administrative expenses (Notes 17 and 21)	**2,715,140**	2,606,054	2,317,235
Interest expense and other financing charges (Note 17)	**892,771**	813,228	918,559
Other charges (Note 17)	**903,320**	280,570	2,394,034
	19,654,093	19,870,010	16,961,785
INCOME BEFORE INCOME TAX	**6,053,136**	5,688,832	4,413,584
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)			
Current	**1,745,325**	1,483,473	1,068,904
Deferred	**(189,071)**	126,765	(510,072)
	1,556,254	1,610,238	558,832
INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE	**4,496,882**	4,078,594	3,854,752
INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE - net of tax (Note 19)	**598,666**	155,258	130,679
NET INCOME	**₱5,095,548**	₱4,233,852	₱3,985,431
Net Income Attributable to:			
Equity holders of Ayala Land, Inc. (Note 22)	**₱4,386,362**	₱3,865,602	₱3,616,673
Minority interests	**709,186**	368,250	368,758
	₱5,095,548	₱4,233,852	₱3,985,431
Earnings Per Share (Note 22)			
Basic			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	**₱0.31**	₱0.29	₱0.28
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.34**	₱0.30	₱0.28
Diluted			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	**₱0.31**	₱0.29	₱0.28
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.33**	₱0.30	₱0.28

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity (Amounts in Thousands, Except Par Value and Cash Dividends Per Share)

	Years Ended December 31		
	2007	2006	2005
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.			
Common Shares - ₱1 par value (Note 16)			
Issued			
Balance at beginning of year	**₱10,809,675**	₱10,794,539	₱10,774,189
Issuance of shares	**2,776**	1,071	65
Stock options exercised	**17,972**	14,065	20,285
Stock dividends	**2,172,398**	–	–
Balance at end of year	**13,002,821**	10,809,675	10,794,539
Subscribed			
Balance at beginning of year	**34,587**	1,116	1,181
Additions	**–**	34,542	–
Issuance of shares	**(2,776)**	(1,071)	(65)
Balance at end of year	**31,811**	34,587	1,116
Preferred Shares - P0.10 par value (Note 16)			
Balance at beginning of year	**–**	–	–
Issued during the year	**1,303,460**	–	–
Balance at end of year	**1,303,460**	–	–
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	**3,863,431**	3,593,157	3,549,922
Additions	**131,514**	270,274	43,235
Balance at end of year	**3,994,945**	3,863,431	3,593,157
SUBSCRIPTIONS RECEIVABLE			
Balance at beginning of year	**(127,103)**	(3,721)	(4,519)
Additions	**(60,413)**	(158,897)	–
Collections	**57,126**	35,515	798
Balance at end of year	**(130,390)**	(127,103)	(3,721)
TOTAL PAID-UP CAPITAL	**18,202,647**	14,580,590	14,385,091
RETAINED EARNINGS			
Appropriated for future expansion (Note 16)	**6,000,000**	6,000,000	6,000,000
Unappropriated:			
Balance at beginning of year	**19,973,445**	17,950,660	17,570,508
Cash dividends - ₱0.06 per share in 2007, ₱0.17 per share in 2006, and ₱0.30 per share in 2005 (Note 16)	**(782,162)**	(1,842,817)	(3,236,521)
Stock dividends	**(2,172,398)**	–	–
Net income	**4,386,362**	3,865,602	3,616,673
Balance at end of year	**21,405,247**	19,973,445	17,950,660
	27,405,247	25,973,445	23,950,660

(Forward)

Consolidated Statements of Changes in Equity (Amounts in Thousands, Except Par Value and Cash Dividends Per Share)

	Years Ended December 31		
	2007	2006	2005
STOCK OPTIONS (Note 23)			
Balance at beginning of year	**₱107,973**	₱119,953	₱115,087
Cost of stock options	**19,468**	35,395	68,386
Stock options exercised	**(31,540)**	(47,375)	(63,520)
Balance at end of year	**95,901**	107,973	119,953
UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS (Note 10)			
Balance at beginning of year	**(10,323)**	(7,508)	(89,267)
Net unrealized gain (loss) recognized in equity	**12,266**	(2,815)	81,759
Balance at end of year	**1,943**	(10,323)	(7,508)
TREASURY STOCK (Note 16)	**(557)**	(557)	(557)
MINORITY INTERESTS			
Balance at beginning of year	**6,586,585**	6,891,539	6,618,317
Net income	**709,186**	368,250	368,758
Increase (decrease) in minority interests	**(1,887,483)**	(440,130)	78,684
Dividends paid to minority interests	**(367,923)**	(225,977)	(174,220)
Net unrealized gain (loss) recognized in equity	**225**	(7,097)	–
Balance at end of year	**5,040,590**	6,586,585	6,891,539
	₱50,745,771	₱47,237,713	₱45,339,178
Total Income and Expense Recognized for the Year			
Net income attributable to:			
Equity holders of Ayala Land, Inc.	**₱4,386,362**	₱3,865,602	₱3,616,673
Minority interests	**709,186**	368,250	368,758
	5,095,548	4,233,852	3,985,431
Net unrealized gain (loss) recognized in equity:			
Equity holders of Ayala Land, Inc.	**12,041**	4,282	81,759
Minority interests	**225**	(7,097)	–
	12,266	(2,815)	81,759
	₱5,107,814	₱4,231,037	₱4,067,190

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
(Amounts in Thousands)

	Years Ended December 31		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱6,053,136**	₱5,688,832	₱4,413,584
Adjustments for:			
Depreciation and amortization (Notes 11, 12 and 17)	**1,310,457**	1,067,280	917,875
Interest expense - net of amount capitalized	**870,513**	795,089	780,547
Other charges	**302,996**	230,947	2,174,130
Dividends received from investees (Note 9)	**84,376**	72,779	94,275
Cost of share-based payments	**104,704**	148,004	68,386
Equity in net earnings of investees (Note 9)	**(787,209)**	(306,233)	(227,267)
Gain on sale of investments (Note 17)	**(1,003,976)**	(608,865)	(3,047,578)
Interest income	**(337,818)**	(443,777)	(625,912)
Other income (Note 17)	**(129,680)**	(43,841)	–
Operating income before changes in working capital	**6,467,499**	6,600,215	4,548,040
Decrease (increase) in:			
Accounts and notes receivable - trade	**(2,009,164)**	54,925	(3,490,652)
Real estate inventories	**2,207,429**	(779,221)	(637,662)
Other current assets	**(624,571)**	(80,282)	(298,341)
Increase (decrease) in:			
Accounts and other payables	**3,821,922**	1,214,997	5,731,232
Pension liabilities	**83,909**	(17,117)	(364,765)
Other current liabilities	**180,674**	260,475	(11,855)
Cash generated from operations	**10,127,698**	7,253,992	5,475,997
Interest received	**346,712**	431,603	610,191
Income tax paid	**(1,725,723)**	(1,461,760)	(1,124,417)
Interest paid	**(817,536)**	(947,258)	(1,057,733)
Net cash provided by operating activities before cash items associated with noncurrent assets held for sale	**7,931,151**	5,276,577	3,904,038
Net cash provided by operating activities associated with noncurrent assets held for sale	**598,666**	291,672	241,186
Total cash provided by operating activities	**8,529,817**	5,568,249	4,145,224
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale of investments	**1,389,974**	460,000	3,752,298
Sale of available-for-sale financial assets	**12,791**	4,980	16,712
Disposal of property and equipment	**–**	263,236	–
Disposals of (additions to):			
Short term investments	**2,596,048**	(3,711,834)	(1,123,343)
Available-for-sale financial assets	**–**	(26,840)	–
Land and improvements	**(548,392)**	237,606	(5,295)
Investments in associates and jointly controlled entities	**175,944**	(1,528,059)	–
Investment properties	**(699,180)**	(343,689)	(339,007)
Property and equipment (Note 12)	**(2,018,156)**	(1,696,764)	(1,150,827)

(Forward)

Consolidated Statements of Cash Flows
(Amounts in Thousands)

	Years Ended December 31		
	2007	2006	2005
Decrease (increase) in:			
Accounts and notes receivable - non-trade	**(₱360,202)**	(₱297,439)	(₱18,292)
Other noncurrent assets	**31,124**	113,220	(633,629)
Net cash provided by (used in) investing activities before cash items associated with noncurrent assets held for sale	**579,951**	(6,525,583)	498,617
Net cash provided by (used in) investing activities associated with noncurrent assets held for sale, including cash balance	**–**	(361,691)	2,071
Total cash provided by (used in) investing activities	**579,951**	(6,887,274)	500,688
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short and long-term debt	**956,961**	3,584,424	870,000
Payment of short and long-term debt	**(3,654,899)**	(1,017,342)	(3,302,844)
Increase (decrease) in:			
Deposits and other noncurrent liabilities	**774,807**	614,393	740,350
Minority interest in consolidated subsidiaries	**(821,535)**	(645,617)	–
Proceeds from issuance of preferred shares	**1,303,460**	–	–
Proceeds from capital stock subscriptions	**57,126**	35,515	798
Dividends paid to minority	**(367,923)**	(225,977)	(174,220)
Dividends paid to equity holders of Ayala Land, Inc.	**(716,450)**	(1,841,355)	(3,235,916)
Net cash provided by (used in) financing activities before cash items associated with noncurrent assets held for sale	**(2,468,453)**	504,041	(5,101,832)
Net cash used in financing activities associated with noncurrent assets held for sale	**–**	(187,120)	(271,572)
Total cash provided by (used in) financing activities	**(2,468,453)**	316,921	(5,373,404)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,641,315**	(1,002,104)	(727,492)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**4,630,591**	5,632,695	6,360,187
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱11,271,906**	₱4,630,591	₱5,632,695

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Corporate Information

Ayala Land, Inc. (the Company) is incorporated in the Republic of the Philippines. The Company's registered office and principal place of business is at Tower One, Ayala Triangle, Ayala Avenue, Makati City. The Company's parent is Ayala Corporation (AC). AC is a publicly-listed company, 50.90%-owned by Mermac, Inc., 10.57%-owned by Mitsubishi Corporation and the rest by the public.

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

The consolidated financial statements of Ayala Land, Inc. and Subsidiaries as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 were endorsed for approval by the Audit Committee on February 7, 2008 and were authorized for issue by the Board of Directors (BOD) on February 12, 2008.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

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

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

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

	Effective Percentages of Ownership	
	2007	2006
Real Estate:		
Amorsedia Development Corporation and Subsidiaries	**100**	100
OLC Development Corporation	**100**	100
Ayala Greenfield Development Corporation (AGDC)	**50**	50
Avida Land Corporation and Subsidiaries (Avida)	**100**	100
Ayala Land International Sales, Inc.	**100**	100
Ayala Land Sales, Inc.	**100**	100
Buendia Landholdings, Inc.	**100**	100
Community Innovations, Inc.	**100**	100
Crans Montana Holdings, Inc.	**100**	100
Crimson Field Enterprises, Inc.	**100**	100
Piedmont Property Ventures, Inc.	**100**	100
Red Creek Properties, Inc.	**100**	100
Regent Time International, Limited (Regent) (British Virgin Islands)	**100**	100
Stonehaven Land, Inc.	**100**	100
Streamwood Property, Inc.	**100**	100
Laguna Technopark, Inc.	**75**	75
Aurora Properties Incorporated	**70**	70
Vesta Property Holdings, Inc.	**70**	70
Station Square East Commercial Corporation (SSECC)	**69**	69
Serendra, Inc.	**67**	67
Ceci Realty, Inc.	**60**	60
CMPI Holdings, Inc.	**60**	60
ALI-CII Development Corporation (ALI-CII)	**50**	50
Roxas Land Corporation (RLC)	**50**	50
Construction:		
Makati Development Corporation	**100**	100
Hotels:		
Ayala Hotels, Inc. (AHI) and Subsidiaries	**50**	50
Enjay Hotels, Inc.	**100**	100
Cebu Insular Hotel Company, Inc.	**63**	63
Makati Property Ventures, Inc.	**–**	60
Property Management:		
Ayala Property Management Corporation (APMC)	**100**	100
Ayala Theatres Management, Inc. and Subsidiaries	**100**	100
Entertainment:		
Five Star Cinema, Inc.	**100**	100
Leisure and Allied Industries Philippines, Inc. (LAI)	**50**	50
Others:		
ALInet.com, Inc. (ALInet)	**100**	100
Food Court Company, Inc.	**100**	100
Northbeacon Commercial Corporation (formerly Alabang Theatres Management Corporation)	**100**	100
First Longfield Investments Limited (First Longfield) (Hongkong Company)	**100**	100

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

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

<u>Changes in Accounting Policies</u>
The accounting policies adopted are consistent with those of the previous financial year except as follows:

PFRS 7, *Financial Instruments: Disclosures, and the complementary amendment to PAS 1, Presentation of Financial Statements: Capital Disclosures (effective for annual periods beginning on or after January 1, 2007)*
PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation and* PAS 30*, Disclosure in the Financial Statements of Banks and Similar Financial Institutions*. It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

The Group adopted the amendment to the transition provisions of PFRS 7, as approved by the Financial Reporting Standards Council, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Group does not need to present comparative information for the disclosures required by paragraphs 31 - 42 of PFRS 7, unless the disclosure was previously required under PAS 30 or PAS 32. Adoption of PFRS 7 and the amendment to PAS 1 resulted in additional disclosures, which are included throughout the consolidated financial statements. These disclosures include presenting the different classes of loans and receivables (see Note 6), rollforward of allowance for impairment losses (see Note 6), Company's capital management (see Note 16), credit quality of financial assets (see Note 24), aging of past due but not impaired financial assets (see Note 24), and sensitivity analyses as to changes in interest and foreign exchange rates (see Note 24).

Philippine Interpretation IFRIC-10, *Interim Financial Reporting and Impairment*
This Interpretation provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS financial assets. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. Adoption of this Interpretation did not have any significant impact on the consolidated financial statements.

<u>Future Changes in Accounting Policies</u>
The Group has not applied the following PFRS and Philippine Interpretations which are not yet effective for the year ended December 31, 2007:

PAS 23, *Borrowing Costs (effective for annual periods beginning on or after January 1, 2009)*
The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, this change in accounting for borrowing costs shall be accounted for prospectively. Accordingly, borrowing costs will be capitalized on qualifying

assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed. The Group does not expect that the adoption of this Standard will have a significant impact on the consolidated financial statements.

PFRS 8, *Operating Segments (effective for annual periods beginning on or after January 1, 2009)*
This PFRS adopts a management approach to reporting segment information. PFRS 8, will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Group will apply PFRS 8 in 2009 and will assess the impact of this Standard on its current manner of reporting segment information.

Amendment to PAS 1, *Amendment on Statement of Comprehensive Income*
This Amendment will become effective January 1, 2008. In accordance with the amendment to PAS 1, the statement of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statement of income together with 'other comprehensive income'. The revisions specify what is included in other comprehensive income, such as gains and losses on AFS financial assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. The Group will assess the impact of the Standard on its current manner of reporting all items of income and expenses.

Philippine Interpretation IFRIC-11, PFRS 2, *Group and Treasury Share Transactions*
This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Group does not expect this Interpretation to have a significant impact on its consolidated financial statements.

Philippine Interpretation IFRIC-12, *Service Concession Arrangement*
This Interpretation will become effective January 1, 2008. This Interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remain in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This Interpretation will have no impact on the consolidated financial statements as this is not relevant to the Group's current operations.

Philippine Interpretation IFRIC-13, *Customer Loyalty Programmes*
This Interpretation will become effective January 1, 2009. The Interpretation addresses accounting by the entity that grants award credits to its customers. This Interpretation applies to customer loyalty award credits that: (a) an entity grants to its customers as part of a sales transaction, i.e. a sale of goods, rendering of services or use by a customer of entity assets; and (b) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. This Interpretation will have no impact on the consolidated financial statements as the Group's has currently no such scheme.

Notes to Consolidated Financial Statements

Philippine Interpretation IFRIC-14, IAS 19, *Limit on Defined Benefit Asset, Minimum Funding Requirement and Other Interaction*
IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 *Employee Benefits*. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as all its defined benefit plans have unfunded portions.

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

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

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

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

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

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

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

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

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

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

As of December 31, 2007 and 2006 the Group holds its "Treasury bills" and "Treasury bonds" for trading purposes and classifies them as financial assets at FVPL and has not designated any financial liability at FVPL.

The Company enters into short-term nondeliverable currency forward contracts to manage its exchange exposure. This is accounted for as non-hedge derivative.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in interest income in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income under "Other income" or "Other charges" when the HTM investments are derecognized and impaired, as well as through the amortization process. As of December 31, 2007 and 2006, the Group has no HTM investments.

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

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

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

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

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

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under "Other income" account or "Other charges" account. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the statement of income as "Other income" when the right of payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of income under the "Other charges" account.

Other financial liabilities
Other financial liabilities include short-term and long-term debts. All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, short-term and long-term debts are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized under the "Other income" and "Other charges" accounts in the consolidated statement of income when the liabilities are derecognized or impaired, as well as through the amortization process under the "Interest expense and other financing charges" account.

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

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

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

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

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

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of income under "Other charges" account. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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

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

Increases in fair value after impairment are recognized directly in the consolidated statement of changes in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of Interest income in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheets.

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

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

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

Under the equity method, the investments in the investee companies are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in the net assets of the investee companies. The consolidated statement of income reflects the share of the results of the operations of the investee companies. Profit and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies. If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company exceeds the cost of the business combination, the excess shall be recognized immediately in the consolidated statement of income.

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

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

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

Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of investments properties are as follows: land improvements - 5 years; and buildings - 20 to 40 years.

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

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when and only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Property and Equipment

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

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

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

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

	Years
Buildings and improvements	20-40
Machinery and construction equipment	5
Furniture, fixtures and equipment	3-10
Transportation equipment	3-5
Hotel property and equipment	5-50

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

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

The asset's residual values, useful life and depreciation and amortization methods are reviewed periodically to ensure that the amounts, period and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

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

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

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

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

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

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money

and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each consolidated balance sheet date and adjusted to reflect the current best estimate.

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

Any excess of collections over the recognized receivables are included in the “Accounts and other payables” account in the liabilities section of the consolidated balance sheet.

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

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

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

Revenue from hotel operations of a subsidiary is recognized when services are rendered.

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

Management fees from administration and property management and other fees are recognized when services are rendered.

Interest is recognized as it accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

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

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

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes model, further details of which are given in Note 23.

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

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

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 22).

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

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

The liability recognized in the consolidated balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

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

Commission Expense

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

Borrowing Costs

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

Deferred Income Taxes

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the consolidated balance sheet date.

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

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

Operating Leases
Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments under noncancellable leases are recognized on a straight-line basis over the lease term. Fixed and variable lease payments under cancellable leases are recognized based on the terms of the lease contract.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income for the year attributable to common stockholders by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 25.

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

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

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3. **Significant Accounting Judgments and Estimates**

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

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

Notes to Consolidated Financial Statements

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases.

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

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

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

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

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 28).

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

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

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

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

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

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

Deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each balance sheet date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of deferred tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income. See Note 18 for the related balances.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Group. See Note 23 for the related balances.

Estimating pension obligation and other retirement benefits
The determination of the Group's obligation and cost for pension and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21 and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations. See Note 21 for the related balances.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at its fair value by using the discounted cash flow methodology (see Notes 6, 15 and 24).

4. Cash and Cash Equivalents

This account consists of:

	2007	2006
	(In Thousands)	
Cash on hand and in banks	**₱2,799,775**	₱946,541
Cash equivalents	**8,472,131**	3,684,050
	₱11,271,906	₱4,630,591

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

5. Short-term Investments and FVPL Financial Assets

Short-term investments consist of:

	2007	2006
	(In Thousands)	
Investment Management Account (IMA)	**₱1,400,000**	₱–
Money market placements	**635,606**	2,927,928
	₱2,035,606	₱2,927,928

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

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

FVPL financial assets consist of:

	2007	2006
	(In Thousands)	
Treasury bonds	**₱318,018**	₱134,224
Treasury bills	**–**	1,816,866
	₱318,018	₱1,951,090

Treasury bonds and treasury bills have yields to maturity of 5.7% and 5.1% to 5.6% in 2007 and 2006, respectively. The Group recognized unrealized gain on these FVPL financial assets amounting to ₱18.0 million and ₱43.8 million in 2007 and 2006, respectively (see Note 17).

6. **Accounts and Notes Receivable**

Accounts and notes receivable are summarized as follows:

	2007	2006
	(In Thousands)	
Trade		
Residential development	**₱7,374,149**	₱5,273,262
Shopping centers	**974,771**	1,089,744
Construction contracts	**820,485**	385,539
Management fees	**189,381**	140,487
Corporate business	**159,007**	445,020
Others	**156,014**	582,927
Related parties (see Note 20)	**1,691,706**	1,331,504
Advances to other companies	**478,213**	652,431
Advances to contractors	**1,382,401**	659,842
Accrued receivable	**88,952**	109,471
Receivable from employees	**268,121**	200,071
Others	**1,630,095**	2,008,675
	15,213,295	12,878,973
Less allowance for doubtful accounts	**174,109**	107,777
	15,039,186	12,771,196
Less noncurrent portion	**3,475,306**	2,126,672
	₱11,563,880	₱10,644,524

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

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

Notes to Consolidated Financial Statements

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

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

Receivables from construction contracts, shopping centers and management fees are due within 30 days upon billing. Receivable from related parties, advances to other companies and accrued receivables are due and demandable.

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

Receivables amounting to ₱32.3 million as of December 31, 2007 were impaired and fully provided for. Movements in the allowance for doubtful accounts are as follows:

2007

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

2006

	Shopping centers	Residential	Construction Contracts	Management Fees	Trade-Others	Others	Total
Balance at beginning of year	₱84,629	₱13,008	₱2,301	₱3,166	₱4,869	₱801	₱108,774
Provisions during the period	–	–	–	–	–	13,367	13,367
Accounts written off	–	–	–	–	(997)	(13,367)	(14,364)
Balance at end of year	₱84,629	₱13,008	₱2,301	₱3,166	₱3,872	₱801	₱107,777
Individually impaired	₱4,490	₱9,555	₱2,301	₱3,166	₱–	₱75	₱19,587
Collectively impaired	80,139	3,453	–	–	3,872	726	88,190
Total	₱84,629	₱13,008	₱2,301	₱3,166	₱3,872	₱801	₱107,777
Gross amounts of loans, individually determined to be impaired, before deducting any individual assessed impairment allowance	₱4,490	₱9,555	₱2,301	₱3,166	₱–	₱75	₱19,587

As of December 31, 2007 and 2006, receivables with a nominal amount of ₱5.7 billion and ₱4.7 billion, respectively, were recorded initially at fair value. The fair value of the receivables was obtained by discounting future cash flows using the applicable rates of similar types of instruments. The unamortized discount amounted to ₱768.7 million and ₱695.9 million as of December 31, 2007 and 2006, respectively.

7. Real Estate Inventories

This account consists of:

	2007	2006
	(In Thousands)	
Subdivision land for sale		
At cost	**₱3,429,873**	₱3,758,013
At NRV	**867,126**	867,126
Condominium, residential and commercial units		
for sale - at cost	**2,341,030**	3,070,123
Club shares - at cost	**57,978**	40,325
	₱6,696,007	₱7,735,587

Inventories recognized as cost of sales amounted to ₱8.5 billion and ₱9.2 billion in 2007 and 2006, respectively, and were included under “Real estate costs” in the consolidated statements of income.

8. Other Current Assets

This account consists of:

	2007	2006
	(In Thousands)	
Prepaid expenses	**₱1,269,662**	₱430,579
Value-added input tax	**520,498**	452,966
Materials and supplies	**95,959**	64,748
Derivative asset	**59,026**	–
Others	**148,891**	462,741
	₱2,094,036	₱1,411,034

As of December 31, 2007, the Company has an outstanding nondeliverable forward contract with notional amount of US$25.0 million and a forward rate of ₱44.48 which will mature on October 30, 2008. Fair value gain amounted to ₱59.0 million, which is recognized as derivative asset (see Note 17).

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

	2007	2006
	(In Thousands)	
Acquisition cost	**₱6,626,635**	₱7,082,008
Accumulated equity in net earnings:		
Balance at beginning of year	**1,709,209**	1,477,287
Equity in net earnings during the year	**787,209**	306,233
Disposal of equity investment	**–**	(1,532)
Dividends received during the year	**(84,377)**	(72,779)
Balance at end of year	**2,412,041**	1,709,209
	₱9,038,676	₱8,791,217

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

	Percentages of Ownership		**Carrying Amounts**	
	2007	2006	**2007**	2006
			(In Thousands)	
Emerging City Holdings, Inc. (ECHI)*	**50**	50	**₱2,485,455**	₱2,233,447
Cebu Holdings, Inc. (CHI) and subsidiaries	**47**	47	**1,809,631**	1,724,036
North Triangle Depot Commercial Corporation (NTDCC)	**49**	49	**1,541,375**	1,044,047
Berkshires Holdings, Inc. (BHI)*	**50**	50	**1,065,161**	957,161
Bonifacio Land Corp. (BLC)	**8**	8	**933,591**	854,801
Alabang Commercial Corporation (ACC)*	**50**	50	**573,052**	490,502
ARCH Asian Partners L.P.	**8**	–	**316,078**	–
ALI Property Partners Holdings Corporation (APPHC)*	**60**	60	**237,828**	129,771
Lagoon Development Corporation	**30**	30	**61,450**	60,702
KHI-ALI Manila, Inc. (KAMI)	**82**	–	**11,144**	–
ARCH Capital Management Co. Ltd. (ARCH Capital)*	**17**	22	**2,108**	1,296,750
KHI Manila Property, Inc.	**20**	–	**1,803**	–
			₱9,038,676	₱8,791,217

**Jointly controlled entities*

The Group's investments accounted for under joint venture amounted to ₱4,363.6 million and ₱3,810.9 million as of December 31, 2007 and 2006, respectively.

The fair value of investment in CHI for which there is a published price quotation amounted to ₱3,266.5 million and ₱2,903.5 million as of December 31, 2007 and 2006, respectively.

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

ECHI and Subsidiaries	2007	2006
Current assets	**₱12,840,915**	₱12,535,787
Noncurrent assets	**8,863,005**	8,338,641
Total assets	**21,703,920**	20,874,428
Current liabilities	**2,331,978**	1,719,027
Noncurrent liabilities	**1,171,967**	1,117,296
Total liabilities	**3,503,945**	2,836,323
Net operating revenue	**3,218,021**	1,024,590
Costs and expenses	**2,760,760**	964,450
Net income	**457,261**	60,140

BHI	2007	2006
Current assets	**₱263**	₱259
Noncurrent assets	**1,631,803**	1,417,290
Total assets	**1,632,066**	1,417,549
Current liabilities	**885**	816
Noncurrent liabilities	**–**	–
Total liabilities	**885**	816
Net operating revenue	**7,022,140**	2,056,304
Costs and expenses	**5,644,642**	1,866,953
Net income	**1,377,498**	189,351

ACC	2007	2006
Current assets	**₱196,111**	₱126,146
Noncurrent assets	**651,257**	673,778
Total assets	**847,368**	799,924
Current liabilities	**257,496**	305,699
Noncurrent liabilities	**128,171**	115,074
Total liabilities	**385,667**	420,773
Net operating revenue	**323,757**	292,590
Costs and expenses	**213,553**	209,626
Net income	**110,204**	82,964

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

CHI and subsidiaries	2007	2006
Total assets	**₱5,318,765**	₱4,717,217
Total liabilities	**1,335,582**	908,456
Net operating revenue	**1,277,481**	1,035,690
Costs and expenses	**984,731**	809,083
Net income	**292,750**	226,607
Earnings per share	**0.13**	0.18

Notes to Consolidated Financial Statements

NTDCC	2007	2006
Total assets	**₱7,373,178**	₱5,567,313
Total liabilities	**4,398,176**	3,640,403
Net operating revenue	**789,542**	–
Costs and expenses	**764,134**	–
Net income	**25,408**	–

BLC and Subsidiaries	2007	2006
Total assets	**₱43,677,672**	₱41,513,107
Total liabilities	**6,998,162**	5,693,892
Net operating revenue	**6,436,042**	1,959,189
Costs and expenses	**5,521,276**	1,488,603
Net income	**914,766**	470,586

Investment in ECHI and BHI

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

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

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

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

The Company and EHI jointly hold the 50.38% (56.19% beneficial interest) equity interest in BLC through ECHI and BHI. The Company and EHI assigned the notes receivable from MPC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method. The fair value of the identifiable consolidated assets and liabilities of BLC as at April 17, 2003, the date of acquisition, amounted to about ₱5.6 billion resulting in a negative goodwill of ₱1.4 billion.

The Company has 4.32% direct investment in BLC and 4.33% through Regent which are accounted for using the equity method because the Company has significant influence over BLC.

Investment in NTDCC

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

A series of capital calls was made by NTDCC amounting to ₱484.8 million in 2007.

NTDCC was granted development rights by MRT Development Co. to construct and operate a shopping center under certain terms and conditions until the end of a 50-year lease term renewable for another 25 years. NTDCC officially started the construction of the shopping center in 2005. The shopping center became operational on May 16, 2007.

Investment in ARCH Capital

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

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

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

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

Investment in KAMI

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

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

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

Investment in APPHC

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

APPHC, the newly formed joint-venture company, is 60% owned by the Company. The remaining 40% interest is split evenly between MIL and FIL. APPHC is jointly controlled by the Company, MIL, and FIL.

The Company has contributed a total capital of ₱232.7 million as of December 31, 2007.

10. **Available-for-sale Financial Assets**

This account consists of investments in:

	2007	2006
Shares of stock		
Unquoted	**₱202,489**	₱281,475
Quoted	**162,356**	96,161
	364,845	377,636
Unrealized gain (loss)	**1,943**	(10,323)
	₱366,788	₱367,313

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

Movements in the net unrealized gain (loss) on AFS financial assets are as follows:

	2007	2006
Balance at beginning of year	**(₱10,323)**	(₱7,508)
Gain (loss) recognized in equity	**12,266**	(2,815)
Balance at end of year	**₱1,943**	(₱10,323)

11. **Investment Properties**

The movements in this account are:

	2007	2006
	(In Thousands)	
Cost		
January 1	**₱17,274,275**	₱16,836,444
Additions	**844,576**	534,367
Transfers	**1,133,034**	649,594
Disposals	**(577,676)**	(746,130)
December 31	**18,674,209**	17,274,275
Accumulated Depreciation and Amortization		
January 1	**4,241,513**	3,627,732
Depreciation and amortization	**858,280**	677,191
Disposals	**(218,434)**	(63,410)
December 31	**4,881,359**	4,241,513
Net Book Value	**₱13,792,850**	₱13,032,762

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

The aggregate fair value of the Group's investment properties amounted to ₱121.4 billion and ₱122.0 billion as of December 31, 2007 and 2006, respectively.

The fair value of the investment properties were determined by independent professionally qualified appraisers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

The value of the land and condominium units was arrived at by the *Market Data Approach*. In this approach, the value of the land and condominium units is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishing of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

Consolidated rental income from investment properties amounted to ₱5.5 billion in 2007, ₱5.3 billion in 2006 and ₱4.2 billion in 2005. Consolidated direct operating expenses arising from the investment properties amounted to ₱2.4 billion in 2007, ₱2.1 billion in 2006 and ₱2.0 billion in 2005.

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

12. Property and Equipment

This account consists of (in thousands):

2007

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Construction in Progress	2007 Total
Cost							
January 1	**₱424,762**	**₱1,931,744**	**₱822,676**	**₱329,775**	**₱2,702,209**	**₱798,470**	**₱7,009,636**
Additions	**54,842**	**52,791**	**2,289**	**62,774**	**29,511**	**1,876,979**	**2,079,186**
Disposals/Write-offs	**(8,706)**	**–**	**–**	**(30,627)**	**(38,651)**	**–**	**(77,984)**
Transfers	**–**	**–**	**–**	**–**	**–**	**(1,329,292)**	**(1,329,292)**
December 31	**470,898**	**1,984,535**	**824,965**	**361,922**	**2,693,069**	**1,346,157**	**7,681,546**
Accumulated Depreciation and Amortization and Impairment Losses							
January 1	**237,910**	**781,655**	**724,533**	**214,352**	**1,326,151**	**–**	**3,284,601**
Depreciation and amortization	**28,422**	**228,818**	**36,529**	**46,582**	**111,231**	**–**	**451,582**
Disposals/Write-offs	**(4,049)**	**–**	**–**	**(27,862)**	**(37,952)**	**–**	**(69,863)**
Transfers	**–**	**–**	**–**	**–**	**–**	**–**	**–**
December 31	**262,283**	**1,010,473**	**761,062**	**233,072**	**1,399,430**	**–**	**3,666,320**
Net Book Value	**₱208,615**	**₱974,062**	**₱63,903**	**₱128,850**	**₱1,293,639**	**₱1,346,157**	**₱4,015,226**

Notes to Consolidated Financial Statements

2006

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Construction in Progress	2006 Total
Cost							
January 1	₱668,755	₱1,353,495	₱755,101	₱301,464	₱4,824,337	₱740,863	₱8,644,015
Additions	2,166	619,537	76,605	68,354	264,260	707,201	1,738,123
Disposals/Write-off	(246,159)	(41,288)	(9,030)	(40,043)	(31,218)	–	(367,738)
Transfers	–	–	–	–	(2,355,170)	(649,594)	(3,004,764)
December 31	424,762	1,931,744	822,676	329,775	2,702,209	798,470	7,009,636
Accumulated Depreciation and Amortization							
January 1	231,313	683,811	617,576	187,613	1,850,516	–	3,570,829
Depreciation and amortization	11,439	138,419	113,247	50,051	177,105	–	490,261
Disposals	(4,842)	(40,575)	(6,290)	(23,312)	(25,453)	–	(100,472)
Transfers	–	–	–	–	(676,017)	–	(676,017)
December 31	237,910	781,655	724,533	214,352	1,326,151	–	3,284,601
Net Book Value	₱186,852	₱1,150,089	₱98,143	₱115,423	₱1,376,058	₱798,470	₱3,725,035

In 2006, property and equipment of MPVI amounting to ₱1,679.2 million were reclassified from hotel property and equipment to noncurrent assets held for sale (see Note 19).

Consolidated depreciation and amortization of property and equipment (included under various consolidated statements of income accounts) amounted to ₱451.6 million in 2007, ₱490.3 million in 2006, and ₱489.5 million in 2005.

As of December 31, 2007, the Group has commitments of ₱1.9 billion relating to the completion its construction-in-progress projects.

13. Accounts and Other Payables

This account consists of:

	2007	2006
	(In Thousands)	
Accounts payable (see Note 20)	**₱9,310,065**	₱7,540,155
Accrued expenses	**3,304,330**	1,928,036
Taxes payable	**1,630,478**	1,339,495
Accrued project costs	**540,618**	443,569
Dividends payable	**456,052**	328,540
Accrued salaries and employee benefits	**196,262**	225,865
Accrued rentals	**141,140**	73,679
Interest payable	**135,459**	171,359
Retentions payable	**44,412**	75,985
	₱15,758,816	₱12,126,683

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

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

The short-term debt of ₱1,613.0 million in 2007 and ₱1,556.0 million in 2006 represents unsecured peso-denominated bank loans of the Company's subsidiaries with interest rates ranging from 5.5% and 7.9% per annum (p.a.) in 2007 and 6.1% to 7.6% p.a. in 2006.

Long-term debt consists of:

	2007	2006
	(In Thousands)	
Company:		
Bonds		
Due 2007	**₱–**	₱3,000,000
Due 2008	**2,000,000**	2,000,000
Due 2009	**80,470**	42,960
Fixed rate corporate notes (FXCNs)	**3,580,000**	3,580,000
	5,660,470	8,622,960
Subsidiaries:		
Bank loans		
Philippine peso	**2,866,004**	2,658,451
	8,526,474	11,281,411
Less current portion	**2,376,600**	3,563,593
	₱6,149,874	₱7,717,818

The Company

Philippine Peso 5-Year Bonds due 2007
The Company issued in 2002 ₱3.0 billion bonds due 2007 with interest at 200 bps over benchmark 91-day T-Bills based on secondary market bids (PDST-F). The bonds were fully paid when it matured in April 2007.

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

The Philippine Rating Services Corporation (PhilRatings) assigned a PRS Aaa rating on the bonds due 2007 and 2008 indicating that the issues have the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS Aaa is the highest credit rating possible on PhilRatings' rating scales for long-term issuances.

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

applied as downpayment. As of end 2007 and 2006, outstanding Homestarter Bonds amounted to ₱80.5 million and ₱43.0 million, respectively.

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

Philippine Peso 10-Year FXCNs due 2012
The Company also has an outstanding ₱580.0 million 10-year FXCNs with fixed interest rate of 14.875% p.a. issued in 2002 and due 2012. The Company may redeem all (but not part only) of the FXCNs on the 7th anniversary.

Subsidiaries
The subsidiaries' loans will mature on various dates up to 2014 with floating interest rates at 100 bps to 150 bps spread over benchmark 91-day PDST-F or PDST-R1 and fixed interest rates of 7.75% to 12.69% p.a.. Certain subsidiaries' loans are secured by mortgages on real estate properties, hotel properties and equipment and leasehold rights with a total carrying value of ₱612.2 million and ₱653.0 million as of 2007 and 2006, respectively.
The Company pledged its investment in shares of stock of SSECC with a carrying value of ₱1.5 billion as of 2007 and 2006, as collateral to secure the latter's bank loans.

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

Total interest paid amounted to ₱820.9 million in 2007, ₱1,133.8 million in 2006 and ₱1,354.7 million in 2005.

Interest capitalized amounted to ₱3.4 million in 2007 and ₱186.5 million in 2006. The average capitalization rates are 0.14% and 8.19% in 2007 and 2006, respectively.

15. **Deposits and Other Noncurrent Liabilities**

Deposits and other noncurrent liabilities consist of:

	2007	2006
	(In Thousands)	
Deposits	**₱2,301,681**	₱2,286,010
Retentions payable	**1,070,491**	715,475
Other liabilities	**1,003,635**	780,796
	₱4,375,807	₱3,782,281

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

16. **Equity**

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

	2007		2006	2005
	Preferred	**Common**	Common	Common
Authorized	**15,000,000**	**20,000,000**	12,000,000	12,000,000
Issued	**13,034,604**	**13,002,821**	10,809,675	10,794,539
Subscribed	**–**	**31,811**	34,587	1,116
Treasury	**–**	**(24)**	(24)	(24)
Outstanding	**13,034,604**	**13,034,608**	10,844,238	10,795,631

Preferred Shares
In August 2007, the BOD approved the increase in authorized capital stock by ₱1.5 billion by creating 15 billion preferred shares with a par value of ₱0.1. Subsequently in October 2007, 13,034,603,880 preferred shares were issued through a stock rights offer with the following features: (a) non-voting; (b) dividend rate of 4.64% p.a., payable annually, non-cumulative; (c) non-participating; (d) convertible at the option of the holder at a ratio of one (1) preferred share to one (1) common share commencing on the 10th year from issue date at an exercise price equivalent to the higher of (i) the 30-day average closing price or (ii) closing price of common shares immediately preceding the exercise date less the par value of the preferred shares, (e) no pre-emptive rights; (f) non-redeemable, (g) non-listed; and, (h) preferred in liquidation to the extent of par value.

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

	2007	2006	2005
At beginning of year	**10,844,238**	10,795,631	10,775,346
Issuance of stock dividends	**2,172,398**	–	–
Exercise of stock options	**17,972**	14,065	20,285
Additional subscriptions	**–**	34,542	–
At end of year	**13,034,608**	10,844,238	10,795,631

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

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

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

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

The BOD further agreed to secure the 2/3 vote of the stockholders for the allotment and subsequent issuance of the shares for the above-mentioned purposes and for the further amendment of the Amended Articles of Incorporation of the Company to exclude the issuance of shares from the pre-emptive rights of the stockholders pursuant to Section 39 of the Philippine Corporation Code.

Retained Earnings

The BOD approved the declaration of 20 percent stock dividends in 2007 which is equivalent to 2.1 billion shares based on 10.8 billion shares as of December 31, 2006.

The BOD approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱0.06 per share in 2007, ₱0.17 per share in 2006 and ₱0.30 per share in 2005.

Retained earnings of ₱6.0 billion are appropriated for future expansion. Retained earnings also include undistributed net earnings amounting to ₱6,166.2 million, ₱5,612.4 million and ₱5,411.4 million as of December 31, 2007, 2006 and 2005, respectively, representing accumulated equity in the net earnings of subsidiaries, associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the investees.

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

Capital Management

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

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. It monitors capital using leverage ratios on both a gross debt and net debt basis. As of December 31, 2007 and 2006, the Group had the following ratios:

	2007	2006
Debt to equity	**22.0%**	31.6%
Net debt to equity	**(8.0%)**	8.0%

Debt consists of short-term and long-term debt. Net debt includes short-term and long-term debt less cash and cash equivalents, short-term investments and FVPL financial assets. The Group considers as capital the equity attributable to equity holders of the Company less unrealized gain (loss) on available-for-sale financial assets.

17. Other Income and Costs and Expenses

Other income consists of:

	2007	2006	2005
		(In Thousands)	
Gain on sale of investments and others - net	**₱1,212,022**	₱739,330	₱2,706,318
Management and marketing fees	**215,285**	272,094	147,953
Fair value gain on derivative asset (see Note 8)	**59,026**	–	–
	₱1,486,333	₱1,011,424	₱2,854,271

On December 13, 2007, the Company sold 16,758 of its preferred shares in KAMI to Kingdom Manila B.V., which resulted in a gain of ₱1,004.0 million. Gain on disposal of investments amounted to ₱758.6 million in 2006 and ₱2,354.6 million in 2005.

Manpower costs included in consolidated statements of income are as follows:

	2007	2006	2005
		(In Thousands)	
Included in:			
Cost of:			
Real estate	**₱720,217**	₱596,866	₱488,337
Hotel operations	**199,664**	237,833	232,131
General and administrative expenses	**1,459,474**	1,512,769	1,237,720
	₱2,379,355	₱2,347,468	₱1,958,188

Depreciation and amortization expense included in consolidated statements of income are as follows:

	2007	2006	2005
		(In Thousands)	
Included in:			
Cost of:			
Real estate	**₱1,040,753**	₱844,976	₱711,555
Hotel operations	**111,231**	74,659	65,945
General and administrative expenses	**158,473**	147,645	140,375
	₱1,310,457	₱1,067,280	₱917,875

Hotel operations expenses consist of:

	2007	2006	2005
		(In Thousands)	
Food and beverage	**₱245,912**	₱206,866	₱204,201
Property operations, maintenance and energy costs	**147,667**	84,203	83,593
Depreciation and amortization	**111,231**	74,659	65,945
Rooms	**79,480**	104,525	90,469

(forward)

Notes to Consolidated Financial Statements

	2007	2006	2005
Telephone and other department costs	**₱14,518**	₱16,781	₱18,752
Entertainment, amusement and recreation	**6,335**	5,150	2,461
Others	**307,887**	229,340	244,231
	₱913,030	₱721,524	₱709,652

General and administrative expenses included in the consolidated financial statements are as follows:

	2007	2006	2005
		(In Thousands)	
Manpower cost (see Notes 21 and 23)	**₱1,459,474**	₱1,512,769	₱1,237,720
Professional fees	**181,902**	113,428	102,827
Depreciation and amortization	**158,473**	147,645	140,375
Transportation and travel	**112,821**	93,364	93,494
Utilities	**105,707**	98,216	78,645
Entertainment, amusement and recreation	**87,161**	74,039	59,206
Advertising	**66,449**	86,753	63,084
Supplies	**34,798**	38,481	33,252
Others	**508,355**	441,359	508,632
	₱2,715,140	₱2,606,054	₱2,317,235

Interest expense and other financing charges consist of:

	2007	2006	2005
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱210,472**	₱102,187	₱137,469
Long-term debt	**663,392**	692,902	643,077
Other financing charges	**18,907**	18,139	138,013
	₱892,771	₱813,228	₱918,559

Other charges consist of:

	2007	2006	2005
		(In Thousands)	
Provision for impairment losses on:			
Receivables	**₱89,150**	₱13,367	₱153,000
Property and equipment	**–**	–	316,130
Land and improvements	**–**	217,580	1,523,438
Investment properties	**–**	–	181,562
Write-offs and other charges	**669,949**	–	–
Others	**144,221**	49,623	219,904
	₱903,320	₱280,570	₱2,394,034

Write-offs and other charges include the write-down of investment properties damaged by the Glorietta 2 explosion and related expenses incurred, and demolition and relocation costs as part of the Company's Ayala Center redevelopment program amounting to a total of ₱213.9 million (see Note 11).

18. Income Taxes

The components of deferred taxes as of December 31, 2007 and 2006 are as follows:

Net deferred tax assets:

	2007	2006
	(In Thousands)	
Deferred tax assets on:		
Allowance for probable losses	**₱662,727**	₱660,985
Difference between tax and book basis of accounting for real estate transactions	**391,709**	248,256
Retirement benefits	**184,483**	187,983
Outstanding share-based payments	**47,541**	104,679
NOLCO	**59,016**	34,759
MCIT	**12,403**	1,946
Others	**57,070**	230,886
	1,414,949	1,469,494
Deferred tax liabilities on:		
Capitalized customs duties, interest and other expenses	**(723,404)**	(686,616)
Unrealized gain on forward contracts	**(20,659)**	–
	(744,063)	(686,616)
Net deferred tax assets	**₱670,886**	₱782,878

Net deferred tax liabilities:

	2007	2006
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱59,352**	₱58,070
NOLCO	**49,026**	47,967
Retirement benefits	**7,591**	6,416
Allowance for probable losses	**1,236**	4,977
MCIT	**–**	1,904
	117,205	119,334
Deferred tax liabilities on:		
Capitalized customs duties, interest and other expenses	**(122,576)**	(290,728)
Excess of financial realized gross profit over taxable realized gross profit	**(109,072)**	(244,112)
	(231,648)	(534,840)
Net deferred tax liabilities	**(₱114,443)**	(₱415,506)

Certain subsidiaries of the Company have NOLCO amounting to ₱431.8 million and ₱752.8 million as of December 31, 2007 and 2006, respectively, which were not recognized. Further, a subsidiary also has deductible temporary differences arising from unrealized gain on real estate sales amounting to ₱4.8 million and ₱143.3 million as of December 31, 2007 and 2006, respectively, which were also not recognized. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The subsidiaries will recognize previously unrecognized deferred tax assets to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As of December 31, 2007, carryover NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities are as follows:

NOLCO:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
2004	₱536,322	₱536,322	₱–	2007
2005	304,867	–	304,867	2008
2006	333,493	–	333,493	2009
2007	102,083	–	102,083	2010
	₱1,276,765	₱536,322	₱740,443	

MCIT:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
2004	₱5,023	₱5,023	₱–	2007
2005	9,886	7,709	2,177	2008
2006	1,363	–	1,363	2009
2007	8,863	–	8,863	2010
	₱25,135	₱12,732	₱12,403	

At December 31, 2007 and 2006, deferred income tax liabilities have not been recognized on the undistributed earnings of certain subsidiaries, associates or joint ventures since such amounts are not taxable.

There are no income tax consequences attaching the payment of dividends by the Company and its subsidiaries to the shareholders of the Company.

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

	2007	2006	2005
Statutory income tax rate	**35.00%**	35.00%	32.50%
Tax effect of:			
Interest income and capital gains taxed at lower rates	**(8.39)**	(6.44)	(15.64)
Income subjected to lower income tax rates (see Note 26)	**(1.86)**	(1.91)	(0.68)
Equity in net earnings of investees	**(3.52)**	(1.81)	(1.60)
Effect of change in statutory income tax rate	**–**	–	(1.99)
Others - net	**4.48**	3.47	0.07
Effective income tax rate	**25.71%**	28.31%	12.66%

Republic Act (RA) No. 9337

RA No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA, which became effective on November 1, 2005, are as follows:

- Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
- Increases in value-added tax (VAT) rate from 10% to 12% effective February 1, 2006 as authorized by the Philippine President pursuant to the recommendation of the Secretary of Finance;
- Revised invoicing and reporting requirements for VAT;
- Expanded scope of transactions subject to VAT; and
- Provide thresholds and limitations on the amounts of VAT credits that can be claimed.

19. **Noncurrent Assets Held for Sale**

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

The results of MPVI for 2006 and 2005 are presented below:

	2006	2005
	(In Thousands)	
Revenue from hotel operations	₱733,261	₱673,147
Interest, fees and other investment income	12,871	12,177
	746,132	685,324
Hotel cost and expenses	339,457	304,054
Depreciation	102,446	102,673
General administrative expenses	23,475	42,661
Interest and other financing charges	39,527	47,283
Provision for income tax	85,969	57,974
	590,874	554,645
Income associated with assets held for sale	₱155,258	₱130,679

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

ASSETS	
Cash	₱324,362
Accounts and notes receivable	44,382
Inventories	4,407
Prepaid items and other current assets	5,446
Hotel property and equipment	1,679,153
Deferred tax assets	22,672
Other assets	3,895
Assets classified as held for sale	₱2,084,317

(forward)

LIABILITIES	
Accounts and other payables	₱145,269
Income tax payable	45,167
Current portion of long-term debt	139,821
Long-term debt	138,843
Liabilities directly attributable to assets held for sale	₱469,100

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

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

	2007	2006	2005
Income associated with noncurrent assets held for sale	**₱598,666**	₱155,258	₱130,679
Less income associated with noncurrent assets held for sale attributable to minority interests	**299,333**	108,681	91,475
	299,333	46,577	39,204
Weighted average number of common shares for basic EPS	**13,026,949**	12,988,994	12,945,635
Dilutive shares arising from stock options and preferred shares	**150,916**	56,410	39,150
Adjusted weighted average number of common shares for diluted EPS	**13,177,865**	13,045,404	12,984,785
Basic EPS	**₱0.023**	₱0.004	₱0.003
Diluted EPS	**₱0.023**	₱0.004	₱0.003

20. **Related Party Transactions**

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

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

	2007	2006	2005
		(In Thousands)	
Revenue			
Associates and jointly controlled entities	**₱944,073**	₱426,005	₱212,323
Other related parties	**12,968**	38,245	203,500
	₱957,041	₱464,250	₱415,823

	2007	2006
	(In Thousands)	
Receivable from Related Parties		
Parent Company	**₱29,171**	₱16,744
Associates and jointly controlled entities	**1,575,531**	1,290,413
Other related parties	**87,004**	24,347
	₱1,691,706	₱1,331,504

	2007	2006
	(In Thousands)	
Payable to Related Parties		
Parent Company	**₱945**	₱3,019
Associates and jointly controlled entities	**360,660**	534,391
Other related parties	**688**	1,101
	₱362,293	₱538,511

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

Compensation of key management personnel by benefit type follows:

	2007	2006	2005
		(In Thousands)	
Short-term employee benefits	**₱114,379**	₱113,427	₱94,132
Share-based payments (see Note 23)	**59,586**	85,963	31,577
Post-employment benefits (see Note 21)	**3,308**	3,587	3,413
	₱177,273	₱202,977	₱129,122

21. **Retirement Plan**

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

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

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

	2007	2006	2005
		(In Thousands)	
Current service cost	**₱120,836**	₱129,798	₱170,744
Interest cost on benefit obligation	**41,704**	82,231	61,143
Expected return on plan assets	**(53,210)**	(53,356)	(7,175)
Net actuarial losses (gains)	**(346)**	9,775	(1,134)
Past service cost	**98,539**	–	2,706
Total pension expense	**₱207,523**	₱168,448	₱226,284
Actual return on plan assets	**₱104,177**	₱50,045	₱11,025

The funded status and amounts recognized in the consolidated balance sheets for the pension plan as of December 31, 2007 and 2006 are as follows:

	2007	2006
	(In Thousands)	
Benefit obligations	**₱1,574,083**	₱1,389,916
Plan assets	**(1,428,976)**	(1,382,179)
	145,107	7,737
Unrecognized net actuarial gains	**69,051**	84,191
Unrecognized past service cost	**(38,321)**	–
Liability recognized in the consolidated balance sheets	**₱175,837**	₱91,928

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

	2007	2006	2005
		(In Thousands)	
Balance at January 1	**₱1,389,916**	₱1,489,168	₱1,213,067
Interest cost	**41,704**	82,231	61,143
Current service cost	**120,836**	129,798	170,744
Past service cost	**136,860**	–	2,706
Curtailments	**1,369**	–	–
Benefits paid	**(180,994)**	(111,454)	(75,277)
Actuarial losses (gains)	**64,392**	(199,827)	116,785
Balance at December 31	**₱1,574,083**	₱1,389,916	₱1,489,168

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

	2007	2006	2005
		(In Thousands)	
Balance at January 1	**₱1,382,179**	₱1,281,464	₱731,209
Expected return	**53,210**	53,356	7,175
Contributions	**123,614**	162,124	614,507
Benefits paid	**(180,994)**	(111,454)	(75,277)
Actuarial gains (losses)	**50,967**	(3,311)	3,850
Balance at December 31	**₱1,428,976**	₱1,382,179	₱1,281,464

The Group expects to make contributions of ₱41.9 million to its retirement fund in 2008.

The allocations of the fair value of plan assets are as follows:

	2007	2006	2005
Investments in government instruments	**61.14%**	55.53%	66.93%
Investments in equity securities	**29.37**	32.74	30.09
Others	**9.49**	11.73	2.98

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

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

The assumptions used to determine pension benefits for the Group for the years ended December 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Discount rate	**7 to 9%**	7%	11%
Salary increase rate	**8 to 10**	5 to 10	5 to 10
Expected rate of return on plan assets	**7**	7 to 10	7 to 10

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

	2007	2006	2005	2004
		(In Thousands)		
Defined benefit obligation	**₱1,574,083**	₱1,389,916	₱1,489,168	₱1,213,067
Plan assets	**(1,428,976)**	(1,382,179)	(1,281,464)	(731,209)
Deficit	**₱145,107**	₱7,737	₱207,704	₱481,858

Experience adjustments on plan liabilities amounted to ₱83,292 loss in 2007 and ₱21,294 loss in 2006. Experience adjustments on plan assets amounted to ₱50,967 gain in 2007 and ₱3,311 loss in 2006.

22. Earnings Per Share

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

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

	2007	2006	2005
Net income	**₱4,386,362**	₱3,865,602	₱3,616,673
Weighted average number of common shares for basic EPS	**13,026,949**	12,988,994	12,945,635
Dilutive shares arising from stock options and preferred shares	**150,916**	56,410	39,150
Adjusted weighted average number of common shares for diluted EPS	**13,177,865**	13,045,404	12,984,785
Basic EPS	**₱0.34**	₱0.30	₱0.28
Diluted EPS	**₱0.33**	₱0.30	₱0.28

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

	2007	2006	2005
Income before income associated with noncurrent assets held for sale	**₱4,496,882**	₱4,078,594	₱3,854,752
Less income before income associated with noncurrent assets held for sale associated to minority interests	**409,853**	259,569	277,283
	₱4,087,029	₱3,819,025	₱3,577,469
Weighted average number of common shares for basic EPS	**13,026,949**	12,988,994	12,945,635
Dilutive shares arising from stock options and preferred shares	**150,916**	56,410	39,150
Adjusted weighted average number of common shares for diluted EPS	**13,177,865**	13,045,404	12,984,785
Basic EPS	**₱0.31**	₱0.29	₱0.28
Diluted EPS	**₱0.31**	₱0.29	₱0.28

23. Stock Option and Ownership Plans

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

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

ESOP

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

Pre-PFRS 2 Options

	2007	**Weighted average exercise price**	2006	Weighted average exercise price
At January 1	**25,914,997**	**₱4.89**	38,628,537	₱4.84
Additions	**4,413,205**	**4.10**	–	–
Exercised	**(6,019,491)**	**4.68**	(12,713,540)	4.74
Cancelled	**(461,709)**	**3.82**	–	–
At December 31	**23,847,002**	**₱4.14**	25,914,997	₱4.89

PFRS 2 Options

	2007	**Weighted average exercise price**	2006	Weighted average exercise price
At January 1	**23,349,898**	**₱4.89**	34,080,099	₱4.84
Additions	**4,520,159**	**4.10**	–	–
Exercised	**(7,107,360)**	**4.68**	(10,730,201)	4.74
Cancelled	**(742,747)**	**3.82**	–	–
At December 31	**20,019,950**	**₱4.14**	23,349,898	₱4.89

The additions during the year pertain to the 20% stock dividend earned on the outstanding stock options.

The options exercised had a weighted average exercise price of ₱4.68 per share or ₱61.4 million in 2007 and ₱4.74 per share or ₱111.1 million in 2006. The average fair market value of the shares at the exercise date was ₱16.73 per share or about ₱219.6 million in 2007 and ₱11.84 per share or about ₱277.6 million in 2006.

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

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

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

Notes to Consolidated Financial Statements

ESOWN

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

In 2005, the Company introduced a revised ESOWN and granted to qualified officers wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of 10 years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of the Company or any of its subsidiaries during the 10-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Company's Right to Repurchase.

For the unsubscribed shares, the employee still has the option to subscribe within seven years. Movements in the number of options outstanding under ESOWN are as follows:

	2007	**Weighted average exercise price**	2006	Weighted average exercise price
At January 1	**8,290,674**	**₱9.11**	3,094,213	₱7.03
Granted	**494,400**	**12.00**	5,196,461	10.35
Cancelled	**(284,039)**	**7.89**	–	–
At December 31	**8,501,035**	**9.34**	8,290,674	₱9.11

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

	Grant Dates		
	September 20, 2007	June 5, 2006	November 16, 2005
Weighted average share price	**₱14.24**	₱12.83	₱8.36
Exercise price	**₱12.00**	₱10.35	₱7.03
Expected volatility	**34.67%**	46.03%	46.32%
Dividend yield	**0.41%**	1.56%	0.77%
Interest rate	**6.93%**	10.55%	11.30%

Total expense recognized in 2007, 2006 and 2005 in the consolidated statements of income arising from share-based payments amounted to ₱104.7 million, ₱148.0 million and ₱68.4 million.

24. **Financial Assets and Liabilities**

Fair value information

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2007 and 2006:

	2007		2006	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FVPL Financial Assets				
Financial assets through profit and loss	**₱318,018**	**₱318,018**	₱1,951,090	₱1,951,090
Derivative asset	**59,026**	**59,026**	–	–
Total FVPL financial assets	**377,044**	**377,044**	1,951,090	1,951,090
Loans and Receivables				
Cash and cash equivalents	**11,271,906**	**11,271,906**	4,630,591	4,630,591
Short-term investments	**2,035,606**	**2,035,606**	2,927,928	2,927,928
Accounts and notes receivable				
Trade				
Residential development	**7,374,149**	**7,613,864**	5,273,262	5,960,168
Shopping centers	**974,771**	**974,771**	1,089,744	1,089,744
Construction contracts	**820,485**	**820,485**	385,539	385,539
Management fees	**189,381**	**189,381**	140,487	140,487
Corporate business	**159,007**	**159,007**	445,020	445,020
Others	**156,014**	**156,014**	582,927	582,927
	9,673,807	**9,913,522**	7,916,979	8,603,885
Related parties	**1,691,706**	**1,691,706**	1,331,504	1,331,504
Advances to other companies	**478,213**	**463,583**	652,431	652,431
Accrued receivable	**88,952**	**88,952**	109,471	109,471
Receivable from employees	**268,121**	**236,035**	200,071	200,071
Others	**1,630,095**	**1,607,152**	2,008,675	2,008,675
	4,157,087	**4,087,428**	4,302,152	4,302,152
Total loans and receivables	**27,138,406**	**27,308,462**	19,777,650	20,464,556
Available-for-sale financial assets				
Unquoted shares of stocks	**202,489**	**202,489**	281,475	281,475
Quoted shares of stocks	**162,356**	**162,356**	96,161	96,161
Total available-for-sale financial assets	**364,845**	**364,845**	377,636	377,636
Total financial assets	**₱27,880,295**	**₱28,050,351**	₱22,106,376	₱22,793,282
Other Financial Liabilities				
Current				
Accounts payable	**₱9,310,065**	**₱9,310,065**	₱7,540,155	₱7,540,155
Accrued expenses	**3,304,330**	**3,304,330**	1,703,136	1,928,036
Accrued project cost	**540,618**	**540,618**	443,569	443,569
Dividends payable	**456,052**	**456,052**	328,540	328,540
Accrued salaries and employee benefits	**196,262**	**196,262**	450,765	225,865
Accrued rentals	**141,140**	**141,140**	73,679	73,679
Interest payable	**135,459**	**135,459**	171,359	171,359
Retentions payable	**44,412**	**44,412**	75,985	75,985
Short-term debt	**1,613,000**	**1,613,000**	1,556,000	1,556,000
Current portion of long-term debt	**2,376,600**	**2,376,600**	3,563,593	3,563,593
Noncurrent				
Long-term debt	**6,149,874**	**6,952,606**	7,717,818	8,549,132
Deposits and other noncurrent liabilities	**4,375,807**	**4,381,898**	3,782,281	3,776,605
Total other financial liabilities	**₱28,643,619**	**₱29,452,442**	₱27,406,880	₱28,232,518

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

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

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

Noncurrent accounts and notes receivables - The fair values of residential accounts and notes receivable, advances to other companies, receivable from employees and other accounts receivable, are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 4.19% to 6.04% and 5.0% to 6.7% as of December 31, 2007 and 2006, respectively.

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

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

Liabilities - The fair value of noncurrent unquoted instruments (long-term debt and deposits) are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used ranged from 4.19% to 6.04% and 5.0% to 6.7% as of December 31, 2007 and 2006, respectively. The fair value of noncurrent unquoted instruments with floating rates approximate their carrying amounts due to the regular repricing of the instruments. The fair values of accounts and other payables and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

<u>Financial Risk Management and Objectives</u>
The Group's principal financial instruments comprise of AFS financial assets, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, short-term investments, AFS financial assets, trade receivables and payables which arise directly from the conduct of its operations.

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

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

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

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

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

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

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

Year ended December 31, 2007

	< 1 year	>1 to < 5 years	> 5 years	Total
Accounts and other payables	₱15,758,816	₱–	₱–	₱15,758,816
Other current liabilities	623,294	–	–	623,294
Short-term debt	1,613,000	–	–	1,613,000
Long-term debt	2,376,600	4,778,507	1,371,367	8,526,474
Deposits and other noncurrent liabilities	3,031,680	1,214,741	129,386	4,375,807
	₱23,403,390	₱5,993,248	₱1,500,753	₱30,897,391

	< 1 year	>1 to < 5 years	> 5 years	Total
Interest payable	₱672,114	₱1,369,180	₱295,190	₱2,336,484

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

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

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

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants. For existing

Notes to Consolidated Financial Statements

tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

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

Balance sheet items	**2007**	2006
Cash and cash equivalents	**₱11,271,906**	₱4,630,591
Short-term investments	**2,035,606**	2,927,928
FVPL financial assets	**318,018**	1,951,090
Accounts and notes receivable		
Trade		
Shopping centers	**974,771**	1,089,744
Corporate business	**159,007**	445,020
Residential	**7,374,149**	5,273,262
Construction contracts	**820,485**	385,539
Management fees	**189,381**	140,487
Others	**156,014**	582,927
Advances to related parties	**1,691,706**	1,331,504
Advances to other companies	**478,213**	652,431
Accrued receivable	**88,952**	109,471
Receivables from employees	**268,121**	200,071
Others	**1,630,095**	2,008,675
	₱27,456,424	₱21,728,740

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

2007

	Neither Past Due nor Impaired	Past Due but not Impaired						Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
					(In Thousands)				
Trade									
Shopping centers	₱589,173	₱240,484	₱4,774	₱4,250	₱103,062	₱23,227	₱375,797	₱9,801	₱974,771
Corporate business	50,009	107,600	127	143	23	1,105	108,998	–	159,007
Residential	7,076,363	53,829	118,251	60,198	14,400	41,553	288,231	9,555	7,374,149
Construction contracts	201,676	344,769	80,040	38,280	93,432	59,987	616,508	2,301	820,485
Management fees	78,128	36,476	22,820	10,632	8,911	29,248	108,087	3,166	189,381
Others	36,734	78,866	14,151	6,456	5,310	7,142	111,925	7,355	156,014
Related parties	1,453,342	8,062	15,765	22,033	28,952	163,552	238,364	–	1,691,706
Advances to other companies	264,089	36,618	35,504	52,276	69,669	19,982	214,049	75	478,213
Accrued receivable	70,965	14,485	399	363	248	2,492	17,987	–	88,952
Receivable from Employees	223,179	12,118	15,045	6,286	8,402	3,091	44,942	–	268,121
Others	1,309,442	10,831	18,501	27,150	36,200	126,651	219,333	101,320	1,630,095
Total	₱11,353,100	₱944,138	₱325,377	₱228,067	₱368,609	₱478,030	₱2,344,221	₱133,573	₱13,830,894

The table below shows the credit quality of the Company's financial assets as of December 31, 2007:

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱11,271,906	₱–	₱–	₱11,271,906	₱–	₱–	₱11,271,906
Short-term investments	2,035,906	–	–	2,035,906	–	–	2,035,906
FVPL financial assets	318,018	–	–	318,018	–	–	318,018
Accounts and notes receivables							
Trade							
Shopping centers	281,538	97,147	210,488	589,173	375,797	9,801	974,771
Corporate business	44,766	5,243	–	50,009	108,998	–	159,007
Residential	4,989,547	1,583,052	503,764	7,076,363	288,231	9,555	7,374,149
Construction contracts	143,190	30,251	28,235	201,676	616,508	2,301	820,485
Management fees	31,672	33,064	13,392	78,128	108,087	3,166	189,381
Others	36,734	–	–	36,734	111,925	7,355	156,014
Related parties	1,453,270	72	–	1,453,342	238,364	–	1,691,706
Advances to other companies	235,523	28,566	–	264,089	214,049	75	478,213
Receivable from employees	54,301	16,664	–	70,965	17,987	–	88,952
Accrued receivable	220,978	2,201	–	223,179	44,942	–	268,121
Others	995,715	209,373	104,354	1,309,442	219,333	101,320	1,630,095
Available-for-sale financial assets							
Unquoted	–	202,489	–	202,489	–	–	202,489
Quoted	–	162,356	–	162,356	–	–	162,356
	₱22,113,064	₱2,370,478	₱860,233	₱25,343,775	₱2,344,221	₱133,573	₱27,821,569

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

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

Receivables - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment; and low grade pertains to receivables with more than 3 defaults in payment.

Available-for-sale financial assets - the unquoted financial assets are unrated

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

The Group manages its interest rate risk by leveraging on its premier credit rating and maintaining a debt portfolio mix of both fixed and floating interest rates. The portfolio mix is a function of historical, current trend and outlook of interest rates, volatility of short-term interest rates, the steepness of the yield curve, and degree of variability of cash flows.

The Company's ratio of fixed to floating rate debt stood at 62:38 and 47:53 as of December 31, 2007 and 2006, respectively.

The following tables demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates on December 31, 2007, with all variables held constant, (through the impact on floating rate borrowings and changes in fair value of financial assets through FVPL):

	Change in basis points	
	+ 100 basis points	
	Effect on income before income tax	**Effect on equity**
FVPL financial assets	(₱9,975)	(₱9,975)
Company - floating rate borrowings	(10,000)	(6,500)
Subsidiaries - floating rate borrowings	(28,976)	(18,834)
	(₱48,951)	(₱35,309)

	Change in basis points	
	- 100 basis points	
	Effect on income before income tax	**Effect on equity**
FVPL financial assets	₱10,348	₱10,348
Company - floating rate borrowings	10,000	6,500
Subsidiaries - floating rate borrowings	28,976	18,834
	₱49,324	₱35,682

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

2007

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱11,271,906	₱11,271,906	–	–	₱11,271,906
Short-term investments	Fixed at the date of investment or revaluation cut-off	Balance date	2,035,606	2,035,606	–	–	2,035,606
FVPL financial assets	Fixed at the date of investment or revaluation cut-off	Balance date	318,018	318,018		–	318,018
Accounts and notes receivables	Fixed at the date of sale	Date of sale	13,656,785	10,181,479	3,475,306		13,656,785
Company							
Long-term debt							
Fixed							
Peso	Fixed at 7.25% to 7.75%	5, 7 and 10 years	3,000,000	-	1,830,000	1,170,000	3,000,000
Peso	Fixed at 10.75%	5 years	1,000,000	1,000,000	–	–	1,000,000
Peso	Fixed at 14.88%	10 years	580,000	-	580,000	–	580,000
Peso	Fixed at 5%	3 years	80,470	-	80,470	–	80,470
Floating							
Peso	Variable at 1.25% over 91-day PDST-F	3 months	1,000,000	1,000,000	–	–	1,000,000
Subsidiaries							
Short-term debt	Variable ranging from 5.5% to 7.9%	Monthly	1,613,000	1,613,000	–	–	1,613,000
Long-term debt							
Fixed							
Peso	Fixed at 7.75% to 12.69%	5 to 7 years	1,585,760	167,460	1,408,625	5,295	1,581,380
Floating							
Peso	Variable at 1.00% to 1.50% over 91-day PDST-F or PDST-R1	3 months	1,288,840	209,140	879,412	196,072	1,284,624

2006

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱4,630,591	₱4,630,591	–	–	₱4,630,591
Short-term investments	Fixed at the date of investment or revaluation cut-off	Balance date	2,927,928	2,927,928	–	–	2,927,928
FVPL financial assets	Fixed at the date of investment or revaluation cut-off	Balance date	1,951,090		–	–	
Receivables	Fixed at the date of sale	Date of sale	12,771,196	10,644,524	2,126,672	–	12,771,196
Company							
Long-term debt							
Fixed							
Peso	Fixed at 7.25% to 7.75%	5, 7 and 10 years	3,000,000	–	1,830,000	1,170,000	3,000,000
Peso	Fixed at 10.75%	5 years	1,000,000	–	1,000,000	–	1,000,000
Peso	Fixed at 14.88%	10 years	580,000	–	–	580,000	580,000
Peso	Fixed at 5.00%	3 years	42,960	–	42,960	-	42,960
Floating							
Peso	Variable at 2.00% over 91-day Mart1	3 months	3,000,000	3,000,000	–	–	3,000,000
Peso	Variable at 1.25% over 91-day Mart1	3 months	1,000,000	–	1,000,000	–	1,000,000
Subsidiaries							
Short-term debt	Variable ranging from 6.1% to 7.6%	Monthly	1,556,000	1,556,000	-	-	1,556,000
Long-term debt							
Fixed							
Peso	Fixed at 8.25% to 12%	4 to 8 years	1,319,608	175,100	1,137,886	–	1,312,986
Floating							
Peso	Variable at 1.50% to 2.50% over 91-day T-Bill or 91-day Mart1	3 months	1,352,333	388,493	956,972	–	1,345,465

Foreign Currency Risk
Financial assets and credit facilities of the Group are mainly denominated in Philippine Peso. Any foreign exchange holdings are matched with foreign currency requirements to fund equity commitments and new projects. As such, the Group's foreign currency risk is minimal.

The following table shows the Group's consolidated foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2007 and 2006:

	In Thousands			
	2007		2006	
	US Dollar	**Php Equivalent**	US Dollar	Php Equivalent
Financial Assets				
Cash and cash equivalents	**$13,291**	**₱555,210**	$15,771	₱770,882
Financial Liabilities				
Current portion of long-term debt	**–**	**–**	2,852	139,821
Long-term debt, net of current portion	**47**	**1,961**	2,879	141,154
Total	**47**	**1,961**	5,731	280,975
Net foreign currency denominated assets	**$13,244**	**₱553,249**	$10,040	₱489,907

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine peso-US dollar exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity on December 31, 2007.

Increase (decrease) in exchange rate	Effect on profit before tax	Effect on equity
₱1.00	₱13,244	₱8,609
(1.00)	(13,244)	(8,609)

25. **Segment Information**

The industry segments where the Group and its associates and joint ventures operate are as follows:

Core business:
- Shopping centers - development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; management and operation of malls which are co-owned with partners
- Corporate business - development and lease or sale of office buildings; sale of industrial lots and lease of factory building
- Residential developments - sale of high-end and upper middle-income residential lots and units, affordable housing units and lots, and leisure community developments; lease of residential developments under joint venture

- Strategic landbank management - acquisition, development and sale of large-scale, mixed-use, masterplanned communities; sale of override units or Ayala Land's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center
- Visayas-Mindanao - development, sale and lease of the Group's product offerings in key cities in the Visayas and Mindanao regions. This consists of shopping centers and residential developments

Support Businesses:

- Construction - land development and construction of the Group and third-party projects
- Hotels - development and management of hotels/serviced apartments and lease of land to hotel tenants
- Property management - facilities management of the Group and third-party projects

Others - other income from investment activities and sale of non-core assets.

The Group and its associates and joint ventures generally account for inter-segment sales and transfers as if the sales and transfers were to third parties at current market prices.

Business segments
The following tables regarding business segments present assets and liabilities as of December 31, 2007 and 2006 and revenue and profit information for each of the three years in the period ended December 31, 2007 (in millions).

Notes to Consolidated Financial Statements

2007

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱4,175	₱993	₱12,918	₱414	₱176	₱4,171	₱–	₱–	₱22,847
Intersegments sales	360	–	197	–	–	4,334	–	(4,891)	–
Equity in net earnings of investees	125	–	–	420	138	–	104	–	787
Total revenue	4,660	993	13,115	834	314	8,505	104	(4,891)	23,634
Operating expenses	2,389	597	10,820	383	205	7,828	865	(5,229)	17,858
Operating profit	2,271	396	2,295	451	109	677	(761)	338	5,776
Interest income									586
Interest expense									(893)
Other income									1,486
Other expenses									(903)
Provision for income tax									(1,556)
Net income before income associated with noncurrent assets held for sale									4,496
Income associated with noncurrent assets held for sale, net of tax (previously included in Support Businesses segment)									599
Net income									₱5,095

(Forward)

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Net income attributable to:									
Equity holders of Ayala Land, Inc.									₱4,386
Minority interests									709
									₱5,095
Other Information									
Segment assets	₱16,937	₱9,071	₱44,039	₱9,806	₱1,449	₱8,627	₱8,304	(₱24,961)	₱73,272
Investment in associates and jointly controlled entities	2,176	238	–	4,497	1,810	–	318	–	9,039
Deferred tax assets	10	–	(164)	32	–	54	738		670
Total assets	₱19,123	₱9,309	₱43,875	₱14,335	₱3,259	₱8,681	₱9,360	(₱24,961)	₱82,981
Segment liabilities	5,815	626	11,889	1,808	99	5,726	11,873	(5,715)	32,121
Deferred tax liabilities	–	–	114	–	–	–	–	–	114
Total liabilities	₱5,815	₱626	₱12,003	₱1,808	₱99	₱5,726	₱11,873	(₱5,715)	₱32,235
Segment additions to property and equipment and investment properties	1,127	321	89	–	4	247	80	–	1,868
Depreciation and amortization	863	97	51	–	1	213	86	–	1,311
Non-cash expenses other than depreciation and amortization	₱213	₱–	₱–	₱–	₱–	₱–	₱54	₱–	₱267

Notes to Consolidated Financial Statements

2006

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱3,973	₱1,329	₱13,965	₱707	₱168	₱3,450	₱–	₱–	₱23,592
Intersegments sales	446	–	60	–	–	2,911	–	(3,417)	–
Equity in net earnings of investees	85	5	–	118	98	–	–	–	306
Total revenue	4,504	1,334	14,025	825	266	6,361	–	(3,417)	23,898
Operating expenses	1,988	861	11,636	449	172	5,530	1,339	(3,200)	18,775
Operating profit	2,516	473	2,389	376	94	831	(1,339)	(217)	5,123
Interest income									435
Interest expense									(813)
Other income									1,225
Other expenses									(281)
Provision for income tax									(1,610)
Net income before income associated with noncurrent assets held for sale									4,079
Income associated with noncurrent assets held for sale, net of tax (previously included in Support Businesses segment)									155
Net income									₱4,234

(Forward)

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Net income attributable to:									
Equity holders of Ayala Land, Inc.									₱3,866
Minority interests									368
									₱4,234
Other Information									
Segment assets	₱14,707	₱9,091	₱42,954	₱9,101	₱1,489	₱8,824	₱9,499	(₱27,065)	₱68,600
Investment in associates and jointly controlled entities	1,595	130	–	4,045	1,724	–	1,297	–	8,791
Deferred tax assets									805
Total assets									₱78,196
Segment liabilities	4,881	806	18,976	1,031	147	3,503	10,223	(8,971)	30,596
Deferred tax liabilities									416
Total liabilities									₱31,012
Segment additions to property and equipment and investment properties	₱1,311	₱112	₱50	₱–	₱1	₱381	₱417	₱–	₱2,272
Depreciation and amortization	649	131	39	4	1	174	69	–	1,067
Non-cash expenses other than depreciation and amortization	₱–	₱–	₱118	₱–	₱–	₱–	₱113	₱–	₱231

Notes to Consolidated Financial Statements

2005

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱3,557	₱632	₱9,654	₱499	₱183	₱2,667	₱–	₱–	₱17,192
Intersegments sales	342	–	118	–	–	3,036	–	(3,496)	–
Equity in net earnings of investees	75	–	2	100	52	–	(2)	–	227
Total revenue	3,974	632	9,774	599	235	5,703	(2)	(3,496)	17,419
Operating expenses	1,962	422	7,922	354	178	4,879	1,206	(3,274)	13,649
Operating profit	2,012	210	1,852	245	57	824	(1,208)	(222)	3,770
Interest income									662
Interest expense									(918)
Other income									3,294
Other expenses									(2,394)
Provision for income tax									(559)
Net income before income associated with noncurrent assets held for sale									3,855
Income associated with noncurrent assets held for sale, net of tax (previously included in Support Businesses segment)									131
Net income									₱3,986

(Forward)

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Net income attributable to:									
Equity holders of Ayala Land, Inc.									₱3,617
Minority interests									369
									₱3,986
Other Information									
Segment assets	₱13,382	₱10,792	₱41,979	₱8,772	₱1,383	₱7,504	₱7,258	(₱26,839)	₱64,231
Investment in associates and jointly controlled entities	1,550	–	–	3,559	1,703	–	–	–	6,812
Deferred tax assets									767
Total assets									₱71,810
Segment liabilities	4,806	888	20,496	2,387	82	4,462	8,421	(15,344)	26,198
Deferred tax liabilities									273
Total liabilities									₱26,471
Segment additions to property and equipment and investment properties	1,324	326	8	–	–	176	86	–	1,920
Depreciation and amortization	547	80	59	–	2	168	62	–	918
Non-cash expenses other than depreciation and amortization	₱–	₱182	₱1,523	₱–	₱–	₱–	₱469	₱–	₱2,174

26. Registration with Philippine Economic Zone Authority (PEZA)

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

27. Leases

Operating leases - as lessor
The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rental receivables under non-cancellable operating leases of the Group are as follows:

	2007	2006
	(In Thousands)	
Within one year	**₱653,150**	₱586,617
After one year but not more than five years	**1,485,316**	2,083,551
More than five years	**245,132**	300,048
	₱2,383,598	₱2,970,216

28. Long-term Commitments and Contingencies

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

As part of the bid requirement, the Company procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, the Company obtained surety bonds to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement. The surety bonds are secured by a mortgage on a property of certain subsidiary with a carrying value of ₱48.6 million in 2004.

On April 15, 2003, the Company entered into a Joint Development Agreement (JDA) with BCDA for development of another lot inside Fort Bonifacio with a gross area of 11.6 hectares for residential purposes. Pursuant to the agreement, BCDA shall contribute all its title and interest to the lot and the Company in turn shall provide the necessary cash and expertise to undertake and complete the implementation of the residential development. The Company commits to invest sufficient capital to complete the residential development.

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

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

Contingencies
The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

One of the court cases pending against the Group is the Avida case which involves a patent infringement suit brought by plaintiffs Edgardo Vasquez and Vasquez Building Systems Corporation against Avida. The plaintiffs allege that Avida infringed on Vasquez's modular housing unit patent. Avida had raised a number of defenses, including (a) it makes use of patented technology licensed from United Kingdom and French Companies, and not Vasquez's modular housing unit patent; (b) the Vasquez patent claim is overboard, since the patent does not protect the H-shaped column and the wall panel installation system; and (c) the H-shaped column and the wall panel installation system cannot be covered by the Vasquez patent, because these are not patentable as they do not qualify on "novelty."

In a decision dated December 18, 2007, the Regional Trial Court of Quezon City found in favor of the plaintiffs and rendered the following awards against Avida: (a) ₱90.0 million as temperate damages or reasonable royalty with interest at the rate of six percent (6%) per annum reckoned from the date of filing of the verified Complaint, December 19, 1999, until the same is fully paid: (b) ₱5.0 million as moral damages; (c) ₱1.0 million as exemplary damages; (d) ₱ 0.5 million as reasonable attorney's fees and expenses of litigation; (e) costs of suit.

Although the decision was against the Company, the overwhelming strength of the Company's defenses which were arbitrarily disregarded by the Trial Court has prompted the Company's management to seek relief from a higher court. Hence, on 4 January 2008, the Company filed an appeal to contest this Decision, intending to elevate this case to the Court of Appeals.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. No provisions were made during the year. The information usually required by PAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

29. Subsequent Events

As a result of the explosion which occurred on October 19, 2007 at the basement of the Makati Supermarket Building, the Philippine National Police (PNP) has recommended to the Department of Justice (DOJ), in its report dated January 11, 2008, the prosecution of certain officers/employees of Makati Supermarket Corporation, the owner of the building, as well as some officers/employees of the Company's subsidiary, APMC, among other individuals, for criminal negligence. No criminal case has been filed by the Department of Justice at this time. No civil case has likewise been filed by any of the victims. In the event that the DOJ decides to file a criminal case against certain officers/employees of APMC as recommended by the PNP, the accused, if convicted after final judgment, can be held not only criminally but also civilly liable. In the event the accused will not be able to pay for the civil award, APMC will be held subsidiarily liable for such sums (the amount of which cannot be estimated). The Company and APMC believe, however, that the facts surrounding the incident do not show any negligence.

Subsidiaries and Affiliates

	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*	4.3	50.4
Fort Bonifacio Development Corp.**		55.0
Berkshires Holdings, Inc.	50.0	
Columbus Holdings, Inc.		30.0
Bonifacio Land Corporation*	4.3	50.4
Fort Bonifacio Development Corp.**		55.0
Regent Time International Limited	100.0	
Bonifacio Land Corporation*	4.3	3.9
Streamwood Property, Inc.	100.0	
Piedmont Property Ventures, Inc.	100.0	
Stonehaven Land, Inc.	100.0	
Buendia Landholdings, Inc.	100.0	
Red Creek Properties, Inc.	100.0	
Crimson Field Enterprises, Inc.	100.0	
Crans Montana Property Holdings Corp.	100.0	
Amorsedia Development Corporation	100.0	
HLC Development Corporation		100.0
RESIDENTIAL DEVELOPMENT		
Avida Land Corporation	100.0	
Buklod Bahayan Realty and Development Corp.		100.0
First Communities Realty, Inc.		100.0
Avida Sales Corp.		100.0
Community Innovations, Inc.	100.0	
Serendra, Inc.	28.1	38.9
Roxas Land Corporation	50.0	
Amorsedia Development Corporation	100.0	
OLC Development Corporation		100.0
Ayala Greenfield Development Corp.		50.0
Ayala Land Sales, Inc.	100.0	
Ayala Land International Sales, Inc.	100.0	
SHOPPING CENTERS		
Northbeacon Commercial Corporation	100.0	
Station Square East Commercial Corporation	69.0	
ALI-CII Development Corporation	50.0	
Alabang Commercial Corporation	50.0	
North Triangle Depot Commercial Corporation	49.0	
Lagoon Development Corporation	30.0	
Ayala Theatres Management, Inc.	100.0	
South Innovative Theater 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	
Glensworth Development, Inc.	100.0	
ALI Property Partners Holdings Corp.	60.0	
ALI Property Partners Corp.		60.0
One Dela Rosa Property Development Inc.		100.0
First Gateway Real Estate Corp.		100.0
UP North Property Holdings, Inc.		100.0
VISAYAS-MINDANAO		
Cebu Holdings, Inc.	47.2	
Cebu Property Ventures & Development Corp.	8.0	76.0
Cebu Leisure Company, Inc.		100.0
CBP Theatre Management Inc.		100.0
Cebu Insular Hotel Company, Inc.		37.1
INTERNATIONAL		
First Longfield Investments Limited	100.0	
Green Horizons Holdings Limited		100.0
ARCH Capital Management Co. Ltd.		17.0
ARCH Capital Partners L.P.		8.0
SUPPORT BUSINESSES		
CONSTRUCTION		
Makati Development Corporation	100.0	
MG Construction Ventures Holdings, Inc.		66.0
PROPERTY MANAGEMENT		
Ayala Property Management Corporation	100.0	
HOTELS		
Ayala Hotels, Inc.	50.0	
Enjay Hotels, Inc.		100.0
Cebu Insular Hotel Company, Inc.		62.9
OTHERS		
KHI-ALI Manila, Inc.	82.0	
KHI Manila Property, Inc.	20.0	
Astoria Investment Ventures, Inc.***	100.0	
ALInet.com, Inc.	100.0	
CMPI Holdings, Inc.	60.0	
CMPI Land, Inc.		60.0

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

Key Officers and Consultants

As of 1 January 2008

President

Jaime I. Ayala	Chief Executive Officer
	Group Head, Ayala Malls

Executive Vice Presidents

Miriam O. Katigbak*	Head, Strategic Landbank Management – Signature Projects
Vincent Y. Tan	Group Head, Planning
	Group Head, Strategic Landbank Management

Senior Vice Presidents

Ma. Victoria E. Añonuevo	Group Head, Corporate Business Group
	Group Head, Hotels
Raul M. Irlanda	Group Head, Construction
Angela DV Lacson**	Group Head, Innovation and Design
Rex Ma. A. Mendoza	Group Head, Corporate Sales and Marketing
	Head, Residential Sales
John Philip S. Orbeta***	Group Head, Human Resources
Emilio J. Tumbocon	Group Head, Property Management
Jaime E. Ysmael	Chief Finance Officer
	Group Head, Finance

Vice Presidents

Ruel C. Bautista	Head, Construction Management
Dinna G. Bayangos	Group Head, International Business
	Head, International Sales
Augusto D. Bengzon	Head, Treasury
Manny A. Blas II	Mind Museum Head, BAFI
Arturo G. Corpuz	Head, Urban/Regional Planning and Land Acquisition
Ma. Corazon G. Dizon	Head, Asset Management/Finance, Ayala Malls
Anna Margarita B. Dy	Head, Corporate Planning
Bernard Vincent O. Dy	Group Head, Residential Business
Jose Emmanuel H. Jalandoni	Head, Special Projects
Joselito N. Luna	Head, Innovation and Design
Joseph V. Mendoza	Exec. Vice Pres & Chief Operating Officer, Makati Development Corporation
Francis O. Monera	Head, Visayas-Mindanao; President, CHI
Rosaleo M. Montenegro	President, AVIDA Land Corp.
Ma. Teresa S. Palma	Head, Development & Acquisition, Ayala Malls
Rowena M. Tomeldan	Deputy Group Head, Ayala Malls
Ma. Teresa T. Ruiz	Group Head, Human Resource & Public Affairs
Eliezer C. Tanlapco***	Head, Employee Services

Consultants

Michael Spence	Consultant to the Management Committee
Marcelo M. Casillan, Jr.	
Juanito P. Rosales	

*Retired effective January 1, 2008
**Consultancy from January 1, 2007- December 31, 2007
***Transferred to Ayala Corporation effective January 1, 2008

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