



SEC No. \_\_\_\_\_  
File No. \_\_\_\_\_

**AYALA CORPORATION**

(Company's Full Name)

**Tower One, Ayala Triangle  
Ayala Avenue, Makati City**

(Company's Address)

**848-56-43**

(Telephone Number)

**September 30, 2008**

(Quarter Ending)  
(Month & Day)

**SEC Form 17- Q Quarterly Report**

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: **September 30, 2008**
2. SEC Identification No.: **34218**
3. BIR Tax Identification No. **000-153-610-000**
4. Exact name of the registrant as specified in its charter: **AYALA CORPORATION**
5. Province, country or other jurisdiction of incorporation or organization: **Makati City, Philippines**
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of principal office: **34<sup>th</sup> Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City**  
Postal Code: **1226**
8. Registrant's telephone number: **(632) 848-5643**
9. Former name, former address, former fiscal year: **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA:

Title of each class	Number of shares outstanding
Preferred B	58,000,000
Common*	496,983,794

\*Net of 1,378,044 treasury shares

Amount of debt outstanding as of September 30, 2008: **P53,020,193K**

11. Are any of these securities listed on the Philippine Stock Exchange? Yes  No
12. Check whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports): Yes  No
  - (b) has been subject to such filing requirements for the past 90 days: Yes  No

## TABLE OF CONTENTS

### **PART – I FINANCIAL INFORMATION**

<b>Item 1</b>	<b>Financial Statements</b>	
	Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007	1
	Consolidated Statements of Income For the Periods Ended September 30, 2008 and 2007	2
	Consolidated Statements of Changes in Stockholders' Equity For the Periods Ended September 30, 2008 and 2007	3
	Consolidated Statements of Cash Flow for the Periods Ended September 30, 2008 and 2007	4
	Notes to Consolidated Financial Statements	5
<b>Item 2</b>	<b>Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	29

### **PART II – OTHER INFORMATION** 36

### **SIGNATURES**

**PART I – FINANCIAL INFORMATION**  
**Item I - Financial Statements**



**AYALA CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

As of September 30, 2008  
(With Comparative Figures as of December 31, 2007)  
(Amounts in Thousands)

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited) (As Restated-Note 2)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	45,246,849	36,835,549
Short-term investments (Note 5)	1,361,461	3,687,606
Accounts and notes receivable - net (Note 6)	21,681,454	17,295,926
Inventories	10,156,459	8,842,535
Other current assets	6,115,084	3,097,620
<b>Total Current Assets</b>	<b>84,561,307</b>	<b>69,759,236</b>
<b>Noncurrent Assets</b>		
Noncurrent accounts and notes receivable	2,910,214	4,010,373
Land and improvements - net	17,545,619	16,200,601
Investments in associates and jointly controlled entities-net (Note 8)	68,173,759	71,271,631
Investment in bonds and other securities (Note 9)	3,733,873	2,492,913
Investment properties - net	17,037,349	17,416,173
Property, plant and equipment - net	11,227,259	8,492,845
Deferred tax assets - net	1,330,270	983,565
Pension assets	156,116	140,576
Intangible assets - net	4,176,805	3,275,697
Other noncurrent assets	2,226,159	2,087,249
<b>Total Noncurrent Assets</b>	<b>128,517,423</b>	<b>126,371,623</b>
<b>Total Assets</b>	<b>213,078,730</b>	<b>196,130,859</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 10)	27,055,701	22,261,167
Short-term debt (Note 11)	3,076,458	2,634,148
Income tax payable	136,308	286,050
Current portion of long-term debt (Note 11)	5,511,003	9,512,760
Other current liabilities (Note 12)	1,587,620	1,550,482
<b>Total Current Liabilities</b>	<b>37,367,090</b>	<b>36,244,607</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Note 11)	44,432,732	37,884,705
Deferred tax liabilities	324,734	155,756
Pension liabilities	626,311	531,552
Other noncurrent liabilities (Note 12)	7,851,557	6,817,643
<b>Total Noncurrent Liabilities</b>	<b>53,235,334</b>	<b>45,389,656</b>
<b>Total Liabilities</b>	<b>90,602,424</b>	<b>81,634,263</b>
<b>Equity</b>		
Equity attributable to equity holders of the parent		
Paid-up capital (Note 13)	31,152,177	26,855,394
Share-based payments	655,266	603,949
Cumulative translation adjustment	(306,329)	(2,374,361)
Retained earnings	62,409,713	60,172,620
Unrealized gain on available -for-sale financial assets	(542,671)	1,789,300
Treasury stock	(550,540)	(159,693)
	<b>92,817,616</b>	<b>86,887,209</b>
<b>Minority Interest</b>	<b>29,658,690</b>	<b>27,609,387</b>
<b>Total Equity</b>	<b>122,476,306</b>	<b>114,496,596</b>
<b>Total Liabilities and Equity</b>	<b>213,078,730</b>	<b>196,130,859</b>

See accompanying Notes to Condensed Consolidated Financial Statements.



**AYALA CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
For the Three Months and Nine Months Ended September 30, 2008 and September 30, 2007  
(Amounts in Thousands, Except Earnings per Share Figures)

	2008		2007	
	July to Sept	Jan to Sept	July to Sept	Jan to Sept
<b>REVENUE</b>				
Sales and services	16,565,346	46,505,956	14,175,267	41,249,879
Equity in net earnings of associates and jointly controlled entities	1,410,548	5,835,354	2,023,649	6,894,911
Interest income	522,675	1,346,733	491,034	1,136,714
Other income (Note 19)	229,835	4,324,550	328,747	8,119,638
	<b>18,728,404</b>	<b>58,012,593</b>	<b>17,018,697</b>	<b>57,401,142</b>
<b>COSTS AND EXPENSES</b>				
Costs of sales and services	13,278,918	36,356,099	10,772,908	31,484,219
General and administrative	1,981,320	6,218,792	1,949,915	6,145,924
Interest expense and other financing charges (Note 20)	846,869	4,071,928	982,600	3,252,354
	<b>16,107,107</b>	<b>46,646,819</b>	<b>13,705,423</b>	<b>40,882,497</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>2,621,297</b>	<b>11,365,774</b>	<b>3,313,274</b>	<b>16,518,645</b>
<b>PROVISION FOR INCOME TAX</b>	<b>537,568</b>	<b>1,693,542</b>	<b>572,294</b>	<b>1,610,273</b>
<b>INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE</b>	<b>2,083,729</b>	<b>9,672,232</b>	<b>2,740,980</b>	<b>14,908,372</b>
<b>INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE</b>		-	-	624,788
<b>NET INCOME</b>	<b>2,083,729</b>	<b>9,672,232</b>	<b>2,740,980</b>	<b>15,533,160</b>
Net Income Attributable to:				
Equity holders of the parent	1,489,351	7,782,739	2,068,676	13,559,756
Minority interests	594,378	1,889,493	672,304	1,973,404
	<b>2,083,729</b>	<b>9,672,232</b>	<b>2,740,980</b>	<b>15,533,160</b>
<b>Earnings Per Share</b>				
Basic				
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Corporation		14.84		25.49
Net income attributable to equity holders of Ayala Corporation		14.84		26.47
Diluted				
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Corporation		14.79		25.37
Net income attributable to equity holders of Ayala Corporation		14.79		26.34



**AYALA CORPORATION AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

For the Nine Months ended September 30, 2008 and 2007

(Amounts in thousands)

	Paid-up Capital	Share-based Payments	Cumulative Translation Adjustments	Retained Earnings	Net Unrealized Gain on Available for Sale-Financial Assets	Treasury Stock	Minority Interest	Total Equity
At December 31, 2007	26,855,394	603,949	(2,374,361)	60,461,246	1,712,016	(159,693)	27,609,387	114,707,938
Effect of adoption of Philippine Interpretation IFRIC 12, Service Concession Arrangements	-	-	-	(288,626)	-	-	-	(288,626)
<b>At January 1, 2008, as restated</b>	<b>26,855,394</b>	<b>603,949</b>	<b>(2,374,361)</b>	<b>60,172,620</b>	<b>1,712,016</b>	<b>(159,693)</b>	<b>27,609,387</b>	<b>114,419,312</b>
Adjustments to foreign currency translation	-	-	1,891,435	-	-	-	-	1,891,435
Changes in fair value of available-for-sale investments	-	-	-	-	(2,078,090)	-	-	(2,078,090)
Net income for the period	-	-	-	7,782,739	-	-	1,889,492	9,672,231
Issuance of shares	556	-	-	-	-	-	-	556
Exercise of ESOP/ESOWN	157,511	-	-	-	-	-	-	157,511
Cost of share-based payments	-	51,317	-	-	-	-	-	51,317
Acquisition of treasury shares	-	-	-	-	-	(390,847)	-	(390,847)
Dividends on common shares	-	-	-	(995,516)	-	-	-	(995,516)
Dividends on preferred shares	-	-	-	(411,414)	-	-	-	(411,414)
Stock dividends	4,138,716	-	-	(4,138,716)	-	-	-	-
Increase in minority interests	-	-	-	-	-	-	159,811	159,811
<b>At September 30, 2008</b>	<b>31,152,177</b>	<b>655,266</b>	<b>(482,926)</b>	<b>62,409,713</b>	<b>(366,074)</b>	<b>(550,540)</b>	<b>29,658,690</b>	<b>122,476,306</b>
At January 1, 2007, as restated	23,137,948	558,416	(298,310)	51,659,261	2,078,522	(310)	24,698,735	101,834,262
Effect of adoption of Philippine Interpretation IFRIC 12, Service Concession Arrangements	-	-	-	(339,489)	-	-	-	(339,489)
<b>At January 1, 2007, as restated</b>	<b>23,137,948</b>	<b>558,416</b>	<b>(298,310)</b>	<b>51,319,772</b>	<b>2,078,522</b>	<b>(310)</b>	<b>24,698,735</b>	<b>101,494,773</b>
Adjustments to foreign currency translation	-	-	(995,547)	-	-	-	-	(995,547)
Changes in fair value of available-for-sale investments	-	-	-	-	(351,235)	-	-	(351,235)
Net income for the period	-	-	-	13,559,756	-	-	1,301,100	14,860,856
Exercise of ESOP/ESOWN	58,160	-	-	-	-	-	-	58,160
Cost of share-based payments	-	44,534	-	-	-	-	-	44,534
Adjustment during the period	-	-	-	-	-	(61,736)	-	(61,736)
Increase in minority interests	-	-	-	-	-	-	2,384,378	2,384,378
Dividends on common shares	-	-	-	(2,895,103)	-	-	-	(2,895,103)
Dividends on preferred shares	-	-	-	-	-	-	-	-
Stock dividends	3,449,584	-	-	(3,449,584)	-	-	-	-
<b>Balances of September 30, 2007</b>	<b>26,645,692</b>	<b>602,950</b>	<b>(1,293,857)</b>	<b>58,534,841</b>	<b>1,727,287</b>	<b>(62,046)</b>	<b>28,384,213</b>	<b>114,539,080</b>

**XX AYALA CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2008 and 2007**  
(In Thousand Pesos)

	Sept. 30, 2008	Sept. 30, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	11,365,774	16,518,645
Adjustments for:		
Interest and other financing charges	4,071,928	3,252,354
Depreciation and amortization	1,773,078	1,757,910
Cost of share-based payments	131,789	44,534
Equity in net earnings of associates and joint ventures	(5,835,354)	(6,894,911)
Other investment income	(390,239)	(415,059)
Gain on sale of assets	(3,481,801)	(7,777,732)
Interest income	(1,346,733)	(1,136,714)
Operating income before changes in working capital	6,288,442	5,349,027
Decrease (increase) in:		
Accounts and notes receivable	(3,340,008)	(1,698,276)
Inventories	(1,313,924)	(536,816)
Other current assets	(3,017,464)	780,217
Increase (decrease) in:		
Accounts payable and accrued expenses	6,028,137	1,669,142
Net pension liabilities	79,219	17,127
Other current liabilities	37,138	137,965
Cash generated from operations	4,761,540	5,718,386
Interest received	1,401,372	1,130,524
Interest paid	(4,476,804)	(3,383,854)
Income tax paid	(2,021,011)	(1,695,041)
Total cash provided by (used in) operating activities	(334,904)	1,770,015
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from:		
Sale of investments	5,521,847	15,020,392
Disposal of property, plant and equipment	117,695	662,122
Additions to:		
Short-term investments	2,326,145	(2,888,941)
Investments	(4,624,557)	(4,692,539)
Property, plant and equipment	(3,058,266)	(1,997,734)
Dividends received from associates and joint ventures	8,263,033	5,782,445
Decrease (increase) in other noncurrent assets	(1,040,018)	(308,429)
Net cash provided by investing activities associated with noncurrent assets held for sale, including cash balance	0	624,788
Net cash provided by (used in) investing activities	7,505,879	12,202,104
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Short-term and long-term debt	11,299,981	10,463,200
Issuance of common shares	303,655	11,279
Proceeds from collection of (additions to) subscription receivable	(209,447)	46,881
Payment of short and long-term debt	(8,376,375)	(16,459,901)
Dividends paid	(2,563,753)	(3,406,336)
Redemption of preferred shares	0	(2,500,000)
Acquisition of treasury shares	(390,847)	(61,736)
Increase (decrease) in:		
Other noncurrent liabilities	1,033,914	1,296,146
Minority interest in consolidated subsidiaries	143,197	2,384,378
Net cash provided by (used in) financing activities	1,240,325	(8,226,089)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,411,300	5,746,030
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	36,835,549	20,391,301
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>45,246,849</b>	<b>26,137,331</b>

# AYALA CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Financial Statement Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and disclosures required in the December 31, 2007 annual audited consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2007.

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

The unaudited condensed consolidated financial statements include the accounts of Ayala Corporation (herein referred to as "the Company") and its subsidiaries collectively referred to as "Group."

The unaudited condensed consolidated financial statements are presented in Philippine peso (Php), and all values are rounded to the nearest thousands except when otherwise indicated.

On November 11, 2008, the Audit Committee approved and authorized the release of the accompanying unaudited condensed financial statements of Ayala Corporation and Subsidiaries.

### 2. Significant Accounting Policies

#### Changes in Accounting Policies

The accounting policies adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2007, except for new Standards and Interpretations effective in 2008.

- Philippine Interpretation IFRIC 11, *PFRS 2, Group and Treasury Share Transactions*, requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. Adoption of this Interpretation has no impact on the unaudited condensed consolidated financial statements.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. The Interpretation prescribes the accounting for the rights which the Operator receives from the Grantor using either:

Financial asset model wherein the Operator shall recognize a financial asset to the extent that it has an unconditional contractual right to receive cash from the Grantor. The Operator has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Operator;

Intangible asset model wherein the Operator shall recognize an intangible asset to the extent that it receives a right to charge the users (not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service);

Mixed model if the Operator is paid by the users, but the Grantor guarantees a certain minimum amount to be paid to the Operator, the Financial Asset Model is used to the extent of such amount.

Based on Manila Water Company Inc.'s (MWCI) assessment, its service concession agreement with Metropolitan Water Works and Sewerage System would qualify under the Intangible asset model. The effect of the adoption of the Interpretation required MWCI to recognize the fair value of its right to charge its customers, which resulted in the following consequential effects:

- a. Increase in total assets with a corresponding increase in total liabilities. The rehabilitation works performed by MWCI (previously recognized as property, plant and equipment) and the present value of the total estimated concession fee payments were recognized as intangible assets in accordance with PAS 38, *Intangible Assets*. The intangible asset is amortized using the straight-line method over the life of the concession agreement. Previously, the asset recognized under the concession agreement was amortized based on the ratio of the nominal value of total estimated concession fee payments to the remaining projected billable water volume over the remaining concession period.
- b. As the related service concession obligation is now recognized, this resulted in additional finance cost to MWCI due to the accretion of the obligation. The increase in intangible assets, together with the change in amortization method described above, also resulted in an increase in amortization expense.
- c. In connection with the rehabilitation works performed, MWCI also recognized revenue and costs in accordance with PAS 11, *Construction Contracts*. It measures the revenue from rehabilitation works at the fair value of the consideration received or receivable. Given that MWCI has subcontracted the rehabilitation works to outside contractors, the recognized revenue from rehabilitation works is equal to the related cost.
- d. As the service concession obligations are denominated in foreign currencies these were restated to their peso equivalent using the exchange rate at balance sheet date. The related foreign currency differential adjustment under the concession agreement provided only for a reimbursement of an amount in excess of the base rate agreed during the rate rebasing exercise with MWSS. As the two amounts are not equal, the difference (between the foreign currency differentials arising from the restatement of the obligation and the reimbursable amount) affected the profit and loss. The related revenue to recover the unreimbursed portion will be recognized only upon delivery of service to customers.

The adoption of the Interpretation resulted in a decrease in MWCI's retained earnings by ₱962.2 million and ₱1,159.0 million as of January 1, 2008 and 2007, respectively. The impact on the Company is a decrease in the retained earnings and investments in associates and jointly controlled entities balance as of January 1, 2008 and 2007 by ₱288.6 million and ₱347.8 million, respectively. Management has restated the audited December 31, 2007 consolidated balance sheet to reflect the effect of MWCI's adoption of the Interpretation.

- Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, provides guidance on how to assess the limit on the amount of surplus in a defined benefit plan that can be recognized as an asset under PAS 19, *Employee Benefits*. Adoption of this Interpretation has no impact on the unaudited condensed consolidated financial statements.

## Financial Instruments

### *Date of recognition*

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

### *Initial recognition of financial instruments*

All financial assets and financial liabilities are recognized initially at fair value. Except for securities at Fair Value through Profit or Loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and Available-for-Sale (AFS) financial assets. The Group also classifies its financial liabilities into FVPL and other liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets 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 methodologies. Valuation methodologies 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 to 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" or "Interest expense and other financing charges" account 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" or "Other charges" account. Interest earned or incurred is recorded in "Interest income" or "Interest expense and other financing charges" account while dividend income is recorded when the right of payments has been established.

Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as 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 the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (ii) 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 strategy; or (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

The Group's financial assets at FVPL pertain to government securities and other investment securities and derivatives not designated as hedges.

#### *HTM investments*

HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Where the Group sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. 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 when the HTM investments are derecognized or impaired, as well as through the amortization process. The losses arising from impairment of such investments shall be recognized in the consolidated statement of income under "Other charges" account.

The Group's HTM investments pertain to bonds included under the "Investments in bonds and other securities" account in the consolidated balance sheet.

#### *Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments 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 asset at FVPL. This accounting policy relates both to the balance sheet captions "Short-term investments" which arise primarily from unquoted debt securities, and "Accounts and notes receivable" (except for Advances to contractors).

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment losses. 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" account in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized under "Provision for doubtful accounts" account in the consolidated statement of income.

The Group's loans and receivables are included under the "Accounts and notes receivable" account in the consolidated balance sheet. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date.

#### *AFS financial assets*

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

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as "Net unrealized gain on available-for-sale financial assets" (net of tax where applicable) 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 the "Other income" 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 the AFS financial assets is reported as interest income using the effective interest rate. Dividends earned are recognized under "Other income" account in the consolidated statement of income when the right to receive payment is established. The losses arising from impairment of such investments are recognized under "Other charges" account in the consolidated statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

The Group's AFS financial assets pertain to investments in quoted and unquoted equity securities included under the "Investment in bonds and other securities" account in the consolidated balance sheet. AFS financial assets are included in current assets if expected to be realized within 12 months from balance sheet date.

#### *Other financial liabilities*

Other financial liabilities include short-term and long-term debts. All loans and borrowings are initially recognized at cost, being 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. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized or impaired, as well as through the amortization process.

#### *Deposits and Retention Payable*

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

For deposits, the difference between the cash received and its fair value is deferred (included in the "Deferred credits" in the consolidated balance sheet) and amortized using the straight-line method under the "Sales and services" 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 assets have expired;
- b. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a “pass-through” arrangement; or
- c. the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred 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 the 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 or 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 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 and HTM investments*

For loans and receivables and HTM investments 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 estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is charged to the consolidated statement of income under “Provision for doubtful accounts”.

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 period, 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 profit or loss, 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 as industry, 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.

#### *Assets carried at cost*

If there is an objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

#### *AFS financial assets*

In case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income under "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" account 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 sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

### 3. Principles of Consolidation

The unaudited condensed consolidated financial statements included the financial statements of the Company and the following wholly and majority owned domestic and foreign subsidiaries:

	<b>Effective Percentages of ownership</b>	
	30-Sep-08	31-Dec-07
<b>Real Estate and Hotels:</b>		
Ayala Land, Inc. (ALI) and subsidiaries	53.5	53.2
Ayala Hotels, Inc. (AHI) and subsidiaries	76.8	76.6
<b>Electronics, Information Technology and Business Process Outsourcing Services:</b>		
Azalea Technology Investments, Inc. and subsidiaries (Azalea Technology)	100.0	100.0
Azalea International Venture Partners, Limited (AIVPL) (British Virgin Islands Company)	100.0	100.0
LiveIT Investments, Ltd. (LIL) and subsidiaries	100.0	100.0
Technopark Land, Inc.	78.8	78.8
Integrated Microelectronics, Inc. (IMI) and subsidiaries**	67.8	67.9
<b>Automotive:</b>		
Ayala Automotive Holdings Corporation (AAHC) and subsidiaries	100.0	100.0
<b>International and Others:</b>		
Bestfull Holdings Limited (incorporated in HongKong) and subsidiaries (BHL Group)	100.0	100.0
AC International Finance Limited (ACIFL) and subsidiary (Cayman island Company)	100.0	100.0
AYC Finance Ltd. (AYC) (British Virgin Islands Company)	100.0	100.0
Michigan Holdings, Inc. and subsidiary	100.0	100.0
Ayala Aviation Corporation	100.0	100.0
Darong Agricultural and Development Corporation	100.0	100.0
PFC Properties, Inc. (PPI) and subsidiary	-	99.9

*\*The Company owns 75.25% of the total common and preferred shares of ALI.*

*\*\* a subsidiary of ACIFL through AYC Holdings, Ltd.*

In February 2008, PPI, which is 99.85% owned by the Company and 0.15% owned by other shareholders, was merged into the Company. This was executed via a share swap. The PFC Properties shares held by the other shareholders which were valued at ₱2.62 per share were exchanged for the appropriate number of newly issued Company shares valued at ₱560 per share.

AIVPL was previously a wholly owned subsidiary of Azalea Technology. In May 2008, the Company converted US\$164 million of its deposits on future subscriptions in AIVPL into equity, increasing the Company's ownership from 68.71% to 96.56%. Consequently, Azalea Technology's ownership in AIVPL was diluted from 31.29% to 2.44%.

On May 1, 2008, AIVPL converted its US\$124 million deposits on future subscription in LIL giving it 99.99% ownership interest in LIL. LSI, which previously held 100% of LIL, now holds 0.01% stake in LIL. LIL carries the Group's investments in Integreon Managed Solutions Inc. (Integreon), Affinity Express Inc. and Newbridge International Investments.

On March 1, 2008, the Company entered into a Deed of Assignment with AIVPL to transfer the Company's shares of Bayantrade in exchange for AIVPL's shares of stocks.

On August 13, 2008, ALI issued ₱4.0 billion bonds that bear fixed interest rate of 8.75% per annum and will mature on November 14, 2013.

On September 19, 2008, NewBridge International Investments, Ltd., a subsidiary of the Company through LIL, together with Providence Equity Partners entered into a Definitive Agreement to acquire up to all of the outstanding shares of eTelecare common shares, and up to all of the outstanding eTelecare American Depository Shares, for US\$9.00 per share in cash.

**4. Cash and Cash Equivalents** (in Thousand Pesos):

	September 2008	December 2007
Cash on hand and in banks	5,837,097	5,419,829
Cash equivalents	39,409,752	31,415,720
	<u>45,246,849</u>	<u>36,835,549</u>

Cash in bank earns interest at the prevailing 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** (in Thousand Pesos):

	September 2008	December 2007
Money market placements	1,334,708	2,287,606
Investment Management Account	26,753	1,400,000
	<u>1,361,461</u>	<u>3,687,606</u>

**6. Accounts and Notes Receivable** (in Thousand Pesos):

	September 2008	December 2007
Trade:		
Real estate	9,611,719	9,412,522
Electronics manufacturing	3,588,839	2,972,599
Automotive	695,387	779,768
Information technology & business process outsourcing	638,756	362,238
International and others	63,004	66,943
Advances and others	4,894,296	4,364,903
Related parties	3,170,543	2,395,624
Advances to contractors	2,406,068	1,394,106
	<u>25,068,612</u>	<u>21,748,703</u>
Less allowance for doubtful accounts	476,944	442,404
	<u>24,591,668</u>	<u>21,306,299</u>
Less noncurrent portion	2,910,214	4,010,373
	<u>21,681,454</u>	<u>17,295,926</u>

**7. Inventories** (in Thousand Pesos):

	September 2008	December 2007
Real estate inventories:		
Subdivision for sale	3,446,822	3,942,950
Condominium and commercial units for sale	3,557,055	2,341,030
Materials, supplies and others - at NRV (cost of P2,079,972 in 2008 and P1,301,195 in 2007)	1,960,226	1,196,332
Vehicles - at cost	454,144	719,766
Work in process - at cost	371,096	294,558
Finished Goods - at cost	261,729	228,151
Parts and accessories - at NRV (cost of P132,106 in 2008 and P146,468 in 2007)	105,387	119,748
	10,156,459	8,842,535

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

Investments in associates and joint ventures are accounted for under the equity method of accounting. Major associates and joint ventures and the related percentages of ownership as of September 30, 2008 are as follows:

	Percentage of ownership		Carrying Amounts	
	30-Sep-08	31-Dec-07	30-Sep-08	31-Dec-07
	(In Millions)			
Domestic:				
Bank of the Philippine Islands and Subsidiaries (BPI)	33.5*	33.5**	P 28,274	P 30,852
Globe Telecom, Inc. and Subsidiaries (Globe) *	30.5	33.3	17,182	21,461
Manila Water Company, Inc. (MWCI)*	30.0*	30.0**	2,980	2,712
eTelecare Global Solutions, Inc. (eTelecare)	22.2*	22.2**	2,846	2,753
Emerging City Holdings, Inc. *	50.0	50.0	2,699	2,485
Cebu Holdings, Inc. and Subsidiaries	47.2	50.0	1,823	1,810
North Triangle Depot Commercial Corporation	48.0	49.0	1,547	1,541
Berkshire Holdings, Inc. *	50.0	50.0	1,157	1,065
Philwater Holdings Company, Inc. *	60.0	60.0	1,044	1,030
Bonifacio Land Corporation	8.0	8.0	1,091	934
Asiacom Philippines, Inc. *	60.0	60.0	801	794
Alabang Commercial Corporation *	50.0	50.0	623	573
ALI Property Partners Holdings Corporation *	36.0	60.0	573	238
Foreign:				
Arch Asian Partners L.P.	19.2**	19.4**	1,035	894
Others	Various	Various	4,499	2,130
			68,174	71,272

\* *Jointly controlled entities.*

\*\* *Effective ownership interest of the Company.*

Below is BPI's balance sheet information (in Million Pesos):

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Total Resources	<u>611,658</u>	<u>637,285</u>
Total Liabilities	548,385	566,154
Capital Funds for Equity Holders	62,353	70,011
Minority Interest	920	1,120
Total Liabilities and Capital Funds	<u>611,658</u>	<u>637,285</u>

Below is BPI's income statement information (in Million Pesos Except EPS Figures):

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Interest Income	24,049	32,415
Other Income	<u>7,894</u>	<u>13,604</u>
Total Revenues	<u>31,943</u>	<u>46,019</u>
Operating expenses	13,128	18,311
Interest expense	9,950	13,465
Impairment losses	1,553	1,250
Provision for Income Tax	<u>1,887</u>	<u>2,767</u>
Total Expenses	<u>26,518</u>	<u>35,793</u>
Net Income for the period	<u>5,425</u>	<u>10,226</u>
Attributable to:		
Equity holders of BPI	5,323	10,012
Minority Interest	<u>102</u>	<u>214</u>
	<u>5,425</u>	<u>10,226</u>
EPS:	1.64	3.78
Based on 3,245,726K common shares as of September 30, 2008 and 2,704,400K common shares as of December 31, 2007		

Below is Globe's balance sheet information (in Million Pesos):

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Total Current Assets	15,881	18,740
Non-current Assets	99,998	97,880
<b>Total Assets</b>	<b><u>115,879</u></b>	<b><u>116,621</u></b>
Current Liabilities	31,145	27,600
Non-current Liabilities	37,180	33,604
Stockholders' Equity	47,554	55,417
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b><u>115,879</u></b>	<b><u>116,621</u></b>

Below is Globe's income statement information (in Million Pesos Except EPS Figures):

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Net Operating Revenues	47,968	65,509
Other Income	941	2,524
<b>Total Revenues</b>	<b><u>48,909</u></b>	<b><u>68,033</u></b>
Operating Expenses	17,039	21,304
Depreciation and amortization	12,460	17,189
Cost of sales	2,088	3,323
Financing costs	2,631	5,225
Impairment losses and others	919	941
Provision for Income Tax	5,000	6,773
<b>Total Expenses</b>	<b><u>40,137</u></b>	<b><u>54,756</u></b>
<b>Net Income</b>	<b><u>8,772</u></b>	<b><u>13,277</u></b>
EPS:		
Basic	65.95	100.07
Diluted	65.79	99.58

As of September 30, 2008

    Basic based on 132,336K common shares  
    Diluted based on 133,342K common shares

As of December 31, 2007

    Basic based on 132,184K common shares  
    Diluted based on 133,324K common shares

Below is Manila Water's balance sheet information (in Million Pesos):

	<b>September 30, 2008</b>	<b>December 31, 2007</b> (As Restated)
Total Current Assets	4,007	4,122
Total Non-current Assets	25,497	23,861
<b>Total Assets</b>	<b><u>29,504</u></b>	<b><u>27,983</u></b>
Current Liabilities	3,146	4,373
Non-current Liabilities	12,794	11,208
Stockholders' Equity	13,563	12,402
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b><u>29,504</u></b>	<b><u>27,983</u></b>

Below is Manila Water's income statement information (in Million Pesos Except EPS Figures):

	<b>September 30, 2008</b>	<b>December 31, 2007</b> (As Restated)
Operating Revenues	6,596	5,297
Interest and Other Income	38	89
<b>Total Revenues</b>	<b><u>6,634</u></b>	<b><u>5,386</u></b>
Operating Expenses	2,392	1,836
Depreciation and amortization	1,385	1,036
Provision for income tax	867	728
	<b><u>4,644</u></b>	<b><u>3,600</u></b>
<b>Net Income</b>	<b><u>1,990</u></b>	<b><u>1,786</u></b>
EPS:		
Basic	0.87	1.06
Diluted	0.89	1.06

As of September 30, 2008

    Basic based on 2,016,859K common shares

    Diluted based on 2,019,976K common shares

As of December 31, 2007

    Basic based on 2,016,054K common shares

    Diluted based on 2,018,636K common shares

### Investment in Globe

In June 2008, the Company sold 3.8 million shares to SingTel decreasing its direct ownership interest in Globe from 33.3% to 30.5%.

### Investment in MWCI

Beginning January 1, 2008, MWCI adopted Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (see Note 2). The impact on the Company is a decrease in the retained earnings and investments in associates and jointly controlled entities balance as of January 1, 2008 and 2007 by ₱288.6 million and ₱347.8 million, respectively.

## **9. Investments in Bonds and Other Securities** (in Thousand Pesos):

	September 2008	December 2007
Available-for-sale equity investments		
-shares of stocks	3,732,802	2,424,966
Held to maturity investments-bonds	1,071	67,947
	<u>3,733,873</u>	<u>2,492,913</u>

## **10. Accounts Payable and Accrued Expenses** (in Thousand Pesos):

	September 2008	December 2007
Accounts payable	17,664,648	13,289,481
Accrued expenses	8,115,270	6,558,775
Dividends payable	274,405	1,213,727
Interest payable	179,360	579,886
Related parties	7,867	297,786
Accrued personnel costs	533,040	223,887
Taxes payable	95,876	38,682
Retention payable	166,156	32,577
Accrued utilities	19,079	26,366
	<u>27,055,701</u>	<u>22,261,167</u>

Accounts payable and accrued expenses pertain to taxes payable, payable to contractors, retention payables, trade payables and accrual of various expenses incurred.

**11. Short-term Debt and Long-term Debt** (in Thousand Pesos):

	September 2008	December 2007
<b>Short-term debt:</b>		
Philippine Peso with various interest rates	2,028,350	2,243,900
Foreign Currency with various interest rates	1,048,108	390,248
	<u>3,076,458</u>	<u>2,634,148</u>
<b>Long-term debt:</b>		
<b>Company:</b>		
Bank loans with various interest rates	10,495,000	7,129,091
Syndicated term loans	1,500,000	-
Fixed Rate Corporate Notes (FXCNs)	7,170,000	10,680,000
Bonds, due 2012	6,000,000	6,000,000
	<u>25,165,000</u>	<u>23,809,091</u>
<b>Subsidiaries:</b>		
<b>Loans fr banks &amp; other financial institutions:</b>		
Foreign currency with various interest rates	11,130,568	9,639,934
Philippine Peso with various interest rates	3,969,277	2,866,532
Bonds due 2008	2,000,000	2,000,000
Bonds due 2009	98,890	80,470
Bonds due 2013	4,000,000	-
Fixed Rate Corporate Notes	3,580,000	3,580,000
<b>Other US dollar denominated obligations:</b>		
8.125% Guaranteed Medium Term Notes	-	5,421,438
	<u>24,778,735</u>	<u>23,588,374</u>
	49,943,735	47,397,465
<b>Less current portion</b>	<u>5,511,003</u>	<u>9,512,760</u>
	<u>44,432,732</u>	<u>37,884,705</u>

In the first quarter of 2008, the Company availed of a syndicated term loan amounting to P1.5 billion which bears fixed interest rate of 6.75% per annum and will mature in 2018.

The loan agreement provides for certain restrictions with respect to maintenance of financial ratios at a certain level.

In 2008, the outstanding balance of a wholly owned subsidiary's 8.125% Guaranteed Medium Term Notes was fully settled.

**12. Other Current/Noncurrent Liabilities**

Other Liabilities consists of deposits from commercial center tenants and sale of condominium/subdivision lots and long-term retention payables. A detailed breakdown is unavailable since the Company's consolidation process is based only on the various group companies' financial statements and not on their trial balances. Obtaining said details would involve an unreasonable effort and/or expense since the accounts' changes since the end of the most recent calendar year are not significant.

**13. Equity**Preferred shares

On January 31, 2008, the Board of Directors (BOD) approved the reissuance and reclassification of 1.2 billion redeemed Preferred A and AA shares with a par value of P1.00 per share into 12 million new Preferred A shares with a par value of P100 per share with the same features as the existing Preferred B shares except on the issue price and dividend rate and the amendment of the Company's amended Articles of Incorporation to reflect the reclassification of the redeemed Preferred shares into new Preferred A shares.

On April 4, 2008, the Company's stockholders ratified the reissuance and reclassification.

On July 9, 2008, the Securities Exchange Commission (SEC) approved the amendments to the Company's Articles of Incorporation embodying the reclassification of redeemed Preferred shares.

#### Common shares

On September 10, 2007, the BOD approved the creation of a share buyback program involving P2.5 billion worth of common capital stock. As of June 30, 2008 and December 31, 2007, the Company acquired 987,369 and 319,243 common shares, respectively, at a total cost of P373.3 million and P159.4 million, respectively.

### **Details of the Company's paid-up capital (in Thousand Pesos):**

#### Details of the Company's paid-up capital follow:

	<b>Preferred B</b>	<b>Common Stock</b>	<b>Subscribed</b>	<b>Additional Paid in Capital</b>	<b>Subscriptions Receivable</b>	<b>Total Paid-up Capital</b>
As of December 31, 2007	5,800,000	20,633,667	100,685	657,422	(336,380)	26,855,394
Exercise of ESOP/ESOWN			44,913	322,045	(209,447)	157,511
Stock dividends		4,138,716				4,138,716
Issuance of shares		111		445		556
Collection fo subscriptions receivable					-	-
<b>As of September 30, 2008</b>	<b>5,800,000</b>	<b>24,772,494</b>	<b>145,598</b>	<b>979,912</b>	<b>(545,827)</b>	<b>31,152,177</b>
As of December 31, 2006	5,800,000	17,166,964	75,754	335,343	(240,113)	23,137,948
Exercise of ESOP/ESOWN	-	13,333	(3,612)	1,558	46,881	58,160
Stock dividends		3,449,584				3,449,584
<b>As of September 30, 2007</b>	<b>5,800,000</b>	<b>20,629,881</b>	<b>72,142</b>	<b>336,901</b>	<b>(193,232)</b>	<b>26,645,692</b>

#### Dividends

	<b>Nine months ended September 30</b>	
	<b>2008</b>	<b>2007</b>
	(In thousands, except dividends per share)	
Dividends to common shares		
Cash dividends declared during the period	995,516	2,483,689
Cash dividends per share	P2.00	P6.00
Stock dividends	4,138,716	3,449,584
Dividends to equity preferred declared during the period	411,414	411,414

On April 4, 2008, the Company's stockholders ratified the declaration of the 20% stock dividends to all stockholders.

On June 13, 2008, the Company's BOD declared cash dividends of P2.00 per share on the outstanding common shares payable to stockholders of record as of July 2, 2008 to be paid on July 21, 2008 and quarterly cash dividends of 9.4578% per annum per share on the outstanding Preferred Class "B" shares.

### **14. Business Combination**

In May 2008, Integreon Managed Solutions, Inc., a wholly owned subsidiary of Integreon Inc. which in turn is a subsidiary of LIL, acquired 100% of Datum Legal, Inc.

The purchase price allocation has been prepared on a preliminary basis and reasonable changes are expected as additional information becomes available.

**15. The following table presents information necessary to calculate EPS:**

	<b>Sep-08</b>	<b>Sep-07</b>
	(In thousands except EPS figures)	
Net income applicable to common	7,782,739	13,559,756
Less Dividends on Preferred stocks	(411,414)	(411,414)
Net Income Applicable to Common	7,371,325	13,148,342
Weighted average number of common shares	496,756	496,736
Dilutive shares arising from stock options	1,706	2,384
Adjusted wieghted average number of common shares for diluted EPS	498,462	499,120
Basic EPS	14.84	26.47
Diluted EPS	14.79	26.34

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

	<b>Nine months ended September 30</b>	
	2008	2007
	(In thousands, except dividends per share)	
Income before income associated with noncurrent assets held for sale	9,672,232	14,908,372
Less income before income associated with noncurrent assets held for sale associated to minority interests	(1,889,493)	(1,833,422)
Less dividends on preferred stock	(411,414)	(411,414)
	7,371,325	12,663,536
Weighted average number of common shares for basic EPS	496,756	496,737
Dilutive shares arising from stock options	1,706	2,384
Adjusted weighted average number of common shares for diluted EPS	498,462	499,121
Basic EPS	14.84	25.49
Diluted EPS	14.79	25.37

**16. Stock Option Purchase Plans**

The Company has an ESOWN granted to qualified officers and employees wherein grantees may subscribe in whole or in part to the shares awarded to them based on the 10% discounted market price as offer price set at grant date. 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.

In June 2008, the Company granted 1,015,200 shares under its ESOWN of which 898,260 were subscribed at a price of P284.96 per share. Subscriptions receivable from the stock option plans covering the Company's shares are presented under equity.

## 17. Segment Information

Business segment information is reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources among operating segments. Accordingly, the primary segment reporting format is by business segment. Secondary information is reported geographically.

The industry segments where the Group operates are as follows:

- Real estate and hotels - planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of upper middle-income and affordable housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.
- Financial services and bancassurance - universal banking operations, including savings and time deposits in local and foreign currencies; commercial, consumer, mortgage and agribusiness loans; leasing; payment services, including card products, fund transfers, international trade settlement and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; fully integrated bancassurance operations, including life, non-life, pre-need and reinsurance services; internet banking; on-line stock trading; corporate finance and consulting services; foreign exchange and securities dealing; and safety deposit facilities.
- Telecommunications - provider of digital wireless communications services, wireline voice communication services, consumer broadband services, other wireline communication services, domestic and international long distance communication or carrier services and mobile commerce services.
- Electronics, information technology and business process outsourcing services - electronics manufacturing services provider for original equipment manufacturers in the computing, communications, consumer, automotive, industrial and medical electronics markets; venture capital for technology businesses; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; and technology infrastructure hardware and software sales and technology services; and onshore- and offshore-business process outsourcing services.
- Water utilities - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery services and sewerage services in the East Zone Service Area.
- Automotive - manufacture and sale of passenger cars and commercial vehicles.
- International - investments in overseas property companies and projects.
- Others - air-charter services, agri-business and others.

The Group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices.

The following tables present revenue and net income information regarding business segments for the periods ended September 30, 2008 and 2007 and total assets and total liabilities for the business segments as of September 30, 2008 and December 31, 2007 :

**Business Segments**  
(amounts in Thousands)

**September 30, 2008**

	Parent Company	Real Estate and Hotels	Electronics, Information Technology and Business Process Outsourcing Services	International	Automotive and Others	Consolidated
<b>Revenue</b>						
Sales to external customers	-	22,025,252	16,457,202	-	8,023,502	46,505,956
Equity in net earnings of associates and jointly controlled entities	5,199,753	645,941	5,736	(82,179)	66,103	5,835,354
Interest Income	770,480	474,330	36,673	64,008	1,242	1,346,733
Other Income	2,921,217	901,292	156,283	207,427	138,331	4,324,550
<b>Total revenue</b>	<b>8,891,450</b>	<b>24,046,815</b>	<b>16,655,894</b>	<b>189,256</b>	<b>8,229,178</b>	<b>58,012,593</b>
Operating expenses	922,077	17,689,610	15,827,318	193,331	7,942,555	42,574,891
<b>Operating profit</b>	<b>7,969,373</b>	<b>6,357,205</b>	<b>828,576</b>	<b>(4,075)</b>	<b>286,623</b>	<b>15,437,702</b>
Interest expense and other charges	1,658,197	757,981	1,625,702	2,573	27,475	4,071,928
Provision for Income tax	122,142	1,430,434	115,508	35	25,423	1,693,542
<b>Net income (loss)</b>	<b>6,189,034</b>	<b>4,168,790</b>	<b>(912,634)</b>	<b>(6,683)</b>	<b>233,725</b>	<b>9,672,232</b>
Net income (loss) attributable to:						
Equity holders of Ayala Coporation	6,189,100	2,129,112	(760,202)	(7,052)	231,781	7,782,739
Minority interests	(66)	2,039,678	(152,432)	369	1,944	1,889,493
	<b>6,189,034</b>	<b>4,168,790</b>	<b>(912,634)</b>	<b>(6,683)</b>	<b>233,725</b>	<b>9,672,232</b>
<b>Other Information</b>						
Segment assets	29,926,919	87,068,804	21,040,218	3,309,633	2,229,127	143,574,701
Investment in associates and jointly controlled entities	49,925,138	10,805,732	3,185,686	3,756,258	500,945	68,173,759
Deferred tax assets	-	1,271,863	33,621	-	24,786	1,330,270
<b>Total assets</b>	<b>79,852,057</b>	<b>99,146,399</b>	<b>24,259,525</b>	<b>7,065,891</b>	<b>2,754,858</b>	<b>213,078,730</b>
Segment liabilities	36,979,530	42,987,163	9,216,164	133,573	961,260	90,277,690
Deferred tax liabilities	-	297,501	13,363	6,911	6,959	324,734
<b>Total liabilities</b>	<b>36,979,530</b>	<b>43,284,664</b>	<b>9,229,527</b>	<b>140,484</b>	<b>968,219</b>	<b>90,602,424</b>

**September 30, 2007**

	Parent Company	Real Estate and Hotels	Electronics, Information Technology and Business Process Outsourcing Services	International	Automotive and Others	Consolidated
<b>Revenue</b>						
Sales to external customers	-	16,572,989	16,073,145	-	8,603,745	41,249,879
Equity in net earnings of associates and jointly controlled entities	6,383,785	506,610	(44,765)	-	49,281	6,894,911
Interest Income	621,540	425,990	42,089	46,127	968	1,136,714
Other Income	7,397,254	225,352	(25,939)	362,477	160,494	8,119,638
<b>Total revenue</b>	<b>14,402,579</b>	<b>17,730,941</b>	<b>16,044,530</b>	<b>408,604</b>	<b>8,814,488</b>	<b>57,401,142</b>
Operating expenses	1,215,440	12,609,012	15,151,831	183,927	8,469,933	37,630,143
<b>Operating profit</b>	<b>13,187,139</b>	<b>5,121,929</b>	<b>892,699</b>	<b>224,677</b>	<b>344,555</b>	<b>19,770,999</b>
Interest expense and other charges	2,320,545	704,899	204,476	8,661	13,773	3,252,354
Provision for Income tax	89,518	1,249,718	134,804	81,462	54,771	1,610,273
Net income before income associated with noncurrent assets held for sale	10,777,076	3,167,312	553,419	134,554	276,011	14,908,372
Income associated with noncurrent assets held for sale, net of tax	-	598,666	-	26,122	-	624,788
<b>Net income (loss)</b>	<b>10,777,076</b>	<b>3,765,978</b>	<b>553,419</b>	<b>160,676</b>	<b>276,011</b>	<b>15,533,160</b>
Net income (loss) attributable to:						
Equity holders of Ayala Coporation	10,777,668	2,121,467	225,460	160,528	274,633	13,559,756
Minority interests	(592)	1,644,511	327,959	148	1,378	1,973,404
	<b>10,777,076</b>	<b>3,765,978</b>	<b>553,419</b>	<b>160,676</b>	<b>276,011</b>	<b>15,533,160</b>

December 31, 2007

	Parent Company	Real Estate and Hotels	Electronics, Information Technology and Business Process Outsourcing Services	International	Automotive and Others	Consolidated
Segment assets	26,294,889	75,485,434	16,357,982	3,127,404	2,609,954	123,875,663
Investment in associates and jointly controlled entities	55,854,122	9,033,861	3,142,881	2,805,925	434,842	71,271,631
Deferred tax assets	-	929,129	29,933	-	24,503	983,565
<b>Total assets</b>	<b>82,149,011</b>	<b>85,448,424</b>	<b>19,530,796</b>	<b>5,933,329</b>	<b>3,069,299</b>	<b>196,130,859</b>
Segment liabilities	41,522,259	31,899,710	6,571,917	1,333,773	150,848	81,478,507
Deferred tax liabilities	-	114,443	26,496	6,554	8,263	155,756
<b>Total liabilities</b>	<b>41,522,259</b>	<b>32,014,153</b>	<b>6,598,413</b>	<b>1,340,327</b>	<b>159,111</b>	<b>81,634,263</b>

## 18. Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

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

Financial assets at FVPL - These are investments in government securities and TRG fund Fair value is based on quoted prices.

Noncurrent trade and nontrade receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments.

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

AFS unquoted shares - The fair value of unquoted shares are not reasonably determinable due to the unpredictable nature or future cash flows and the lack of suitable methods of arriving at a reliable fair value.

HTM investments - The fair value of bonds is based on quoted market prices.

Liabilities - The fair values of accounts payable and accrued expenses and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

The fair value of noncurrent other financial liabilities (fixed rate and variable rate loans repriced on a semi-annual/annual basis and deposits) are estimated using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

The fair value of forward currency contracts is based on counterparty valuation except for forward transactions with a nonbank counterparty where valuation was calculated by reference to currency forward exchange rates for contracts with similar maturity profiles. The fair value of the outstanding structured currency option was derived from the mark-to-market valuations as provided by counterparty banks.

## **Risk Management and Financial Instruments**

### General

In line with the corporate governance infrastructure of the Company, the Company has adopted a group-wide enterprise risk management framework in 2002. An Enterprise Risk Management Policy was approved by the Audit Committee (the Committee) in 2003 and subsequently revised and approved on February 14, 2008. The policy was designed primarily to enhance the risk management process and institutionalize a focused and disciplined approach to managing the Company's business risks. By understanding and managing risks, the Company provides greater certainty and confidence to its shareholders, employees, customers and for the communities where the Company operates.

The risk management framework encompasses the following:

- identification and assessment of business risks;
- development of risk management strategies;
- assessment, design and implementation of risk management capabilities;
- monitoring and evaluating the effectiveness of risk mitigation strategies and management performance; and,
- identification of areas and opportunities for improvement in the risk management process.

A Chief Risk Officer is the ultimate champion of enterprise wide risk management and oversees the entire risk management function and is responsible for overall continuity. Beginning 2008, under its expanded charter, the Committee will provide a more focused oversight role over the risk management function. A quarterly report on the risk portfolio of the Group and the related risk mitigation efforts and initiatives are provided to the Committee. The Company's internal audit monitors the compliance with the Group's risk management policies in order to ensure that an effective control environment exists within the Group as a whole.

### Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of financial assets at FVPL, AFS financial assets, HTM investments, 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, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The main purpose of the Group's financial instruments is to fund its operational and capital expenditures. The main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, liquidity risk and credit risk. The Group also enters into derivative transactions, the purpose of which is to manage the currency and interest rate risk arising from its financial instruments.

The Group's risk management policies are summarized below:

#### *Interest Rate Risk*

The Group's exposure to market risk for changes in Interest rates relates primarily to the Company's and its subsidiaries' long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

#### *Foreign Exchange Risk*

The Group's foreign exchange risk results primarily from movements of the Philippine Peso (PHP) against the United States Dollar (USD). The Company may enter into foreign currency forwards and foreign currency swap contracts in order to hedge its USD obligations.

The table below summarizes the Group's exposure to foreign exchange risk as of September 30, 2008. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by currency.

	<b>Sep-08</b>	
	<b>USD</b>	<b>Php Equivalent</b>
	(In thousands)	
<b>Assets</b>		
Cash and cash equivalents	286,902	13,496,562
Accounts and notes receivables	134,258	6,324,543
Other current assets	2,726	128,362
Investment in bonds and other securities	49,063	2,310,996
Other noncurrent assets	85,087	4,021,527
<b>Total assets</b>	<b>558,036</b>	<b>26,281,990</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	92,519	4,353,640
Other current liabilities	98,085	4,635,622
Short-term debt	22,271	1,048,108
Long-term debt	233,047	10,964,611
Other noncurrent liabilities	2,092	98,575
<b>Total liabilities</b>	<b>448,014</b>	<b>21,100,556</b>
<b>Net foreign currency denominated assets</b>	<b>110,022</b>	<b>5,181,434</b>

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar 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 (in thousands).

	US\$ depreciates (appreciates)	Effect on profit before tax	Effect on Equity
September 2008	P1.00 (P1.00)	<b>(110,022)</b> 110,022	<b>(71,514)</b> 71,514

#### *Liquidity Risk*

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues both on-shore and off-shore.

#### *Credit Risk*

The Group's holding of cash and short-term investments exposes the Group to credit risk of the counterparty. Credit risk management involves dealing only with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. Given the Group's diverse base of counterparties, it is not exposed to large concentration of credit risk.

## 19. Other Income

In 2008, this account includes the Company's gain arising from the sale of investment in Globe shares which amounted to ₱2.7 billion.

In March 2008, ALI sold its shares of stock in Streamwood Property, Inc., Piedmont Property Ventures, Inc. and Stonehaven Land, Inc. Total consideration received from the sale amounted to P903.0 million. Gain on sale of the said subsidiaries amounted to ₱762.0 million included under "Other income" account in the unaudited condensed consolidated statements of income.

For the period ended September 30, 2008, this account includes the Company's gain arising from the sale of investment in listed subsidiary, associate and jointly controlled entities amounting to P7.3 billion.

## 20. Interest Expense and Other Charges

During the first half of 2008, IMI entered into additional structured currency options for economic hedges. The economic turn-around during the second quarter of 2008 led to a weaker peso which resulted to an unfavorable position on IMI's derivative transactions. In May 2008, the Board of Directors of IMI approved the unwinding of four major derivative contracts and IMI incurred unwinding cost amounting to \$33.36 million.

As of September 30, 2008, IMI has the following outstanding derivative with general contract terms as follow:

Contract	Trade date	Maturity/ Settlement dates	Notional amount	Strike rate	Market value (In thousand US\$)
FX Forward	8-Apr-08	6-Oct-08	EUR 200,000	US\$1.5195/EUR1	US\$14.813 loss

## 21. Commitments and Contingencies

### Commitments

On April 15, 2008, the Company acted as guarantor to a US\$50 million transferable term loan facility between AYC, a subsidiary, as borrower and several lenders who are also the lead arrangers of the Agreement.

Repayment dates for advances made to AYC are in six month intervals from 2011 to 2013. The Company unconditionally guaranteed the due and punctual payment of advances if for any reason AYC does not make timely payment.

The Company waived all rights of subrogation, contribution, and claims of prior exhaustion of remedies. The Company's obligation as guarantor will remain in full force until no sum remains to be lent by the lenders, and the lenders recover the advances.

### Contingencies

In December 1999, plaintiffs Edgardo Vasquez and Vazquez Building Systems Corporation filed a patent infringement case against Avida, a wholly-owned subsidiary of ALI. Avida has raised a number of defenses, including the following: (i) Avida is utilizing the Tex system, a British technology patented in the Philippines of which Avida is a licensee, and not the Vasquez modular housing patent; (ii) patent claim is overbroad; and (iii) the H-shaped column and the wall panel installation system being claimed as the infringed component cannot be covered by the Vasquez patent because these are not patentable as they do not qualify as a "novelty".

In a decision dated December 18, 2007, the RTC of Quezon City ruled in favor of plaintiffs, requiring Avida to compensate the plaintiffs in the amount of ₱90 million as temperate damages or reasonable royalty with interest at the rate of 6% p.a. from the date of filing of the complaint as well as moral and exemplary damages and reasonable attorney's fees and cost of suit. Avida filed a notice of appeal to contest this decision with the Court of Appeals.

Since then, Avida has entered into a compromise agreement with Edgardo Vasquez and Vazquez Building Systems Corporation to resolve the patent infringement case filed by the latter against Avida. The compromise became effective upon the approval of the Court of Appeals last March 17, 2008. The agreement paves the way for the final settlement of the case. In September 2008, Avida fully settled all of its obligations under said agreement.

## **22. Subsequent Events**

On October 30, 2008, the Company entered into a Memorandum of Agreement with BPI and Globe to form a mobile microfinance bank, the purpose of which is to extend microfinance loans and other related products to microfinance institutions, through the use of mobile technology. The bank, which the Company, BPI and Globe will own 20%, 40% and 40%, respectively, will have an authorized capitalization of ₱500.0 million and a subscribed capitalization of ₱350.0 million.

On October 16, 2008, the Securities and Exchange Commission ("SEC") approved the registration of up to twelve million (12,000,000) Class "A" Preferred Shares (the "Shares") of the Company. On October 29, 2008, the Philippine Stock Exchange ("PSE") approved the Company's application to list the Shares at the Exchange.

On November 11, 2008, the SEC issued an Order rendering effective the registration and public offer of eight million (8,000,000) of the Company's Class "A" Preferred Shares (the "Shares"), with an Oversubscription Option of four million (4,000,000) Shares, at an offer price of P500 per Share. On even date, the SEC issued a Certificate of Permit to Offer Securities for Sale authorizing the sale of the Shares to the public.

The offer period for the Shares is from November 12, 2008 to November 18, 2008. Listing of the Shares in the PSE will follow on November 25, 2008. The dividend rate for the Shares is fixed at 8.88% per annum.

## Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Ayala Corporation's consolidated net income in the first nine months of 2008 reached P7.8 billion, 43% lower than the same period last year on lower equity earnings and substantially lower capital gains. However, Ayala's liquidity position remains strong with cash of P47 billion at the end of the first nine months of the year and net debt at its lowest in the past five years. It maintains a low gearing with net debt to equity ratio at 0.07 to 1.

Ayala Corp. Chairman and CEO, Jaime Augusto Zobel de Ayala also said "our efforts to aggressively reduce debt levels and lengthen our maturities at the holding company level, coupled with the value realization initiatives we have undertaken the past two years, have allowed us to take advantage of the favorable market conditions last year and significantly strengthen our financial position. These efforts have given us both strength and flexibility in the face of the ongoing external shocks and volatility in the market. The treasury and funding strategies we have undertaken in past years have sufficiently mitigated fund sourcing risks, and have given us the flexibility to pursue our growth platforms."

Earnings of Ayala's operating units were muted in the first nine months, with mainly the property and water distribution businesses registering double-digit growth.

Ayala's property unit posted a 23% growth in net income to P3.8 billion with a 37% expansion in revenues underpinned by sustained demand for its residential projects, particularly the middle income and affordable residential brands. Sales of Alveo rose by 29% while Avida's increased by 45%, offsetting the slight decline on its high-end Ayala Land Premier brand. Demand for middle-income and affordable residential products, particularly from overseas-based Filipinos, remained robust in the first nine months, making up 70% of sales to this market. Ayala Land's revenues from its Shopping Centers were flat, while revenues from its Corporate Business declined by 15% in the absence of lot sales this year, despite growing revenues from its BPO and headquarter buildings. While overall margins were under pressure from rising construction costs, Ayala Land posted an 11% growth in net operating income.

Ayala's banking unit, Bank of the Philippine Islands saw its core business resilient amidst the volatility in the financial markets. Its net loans grew by 21% in the first nine months, with all market segments posting double-digit growth. The bank's remittance volume was up 38%, surpassing industry's 17% growth and despite the expansion in loans, the bank's NPL ratio improved to 3.3% by the end of September, better than industry's 3.9%. BPI does not have any collateralized debt obligation in its books and has no direct exposure to any major US investment bank. It is well capitalized with risk-adjusted CAR at 13.2%. The bank announced plans to issue P10 to P15 billion of Tier 2 capital to further strengthen its capital base and position itself for possible acquisition opportunities. However, due mainly to the absence of securities trading gains, revenues contracted by 9% which put net income at P5.3 billion, 30% lower than the prior year.

Telecom unit Globe posted steady revenues although wireless subscriber base grew by 24%, putting total wireless subscribers at 23.7 million. Wireless revenues slipped by 2% as consumers tempered usage. This was offset by a 5% growth in its wireline revenues, which was driven by the broadband and corporate data businesses. Globe introduced a prepaid version of *Visibility*, its fully mobile internet service, resulting in broadband subscriber growth of 51% year-on-year. Globe's WiMax service is also expected to boost broadband revenues with roll-out on track. EBITDA margins remained healthy at 61% but lower than last year's driven by an 8% increase in operating expenses and subsidy. Net income reached P8.8 billion, 9% lower year-on-year as reductions in interest expense in 2008 coupled with non-recurring charges related to the bond prepayment in 2007, helped offset the impact of the lower operating earnings.

Ayala's portfolio of companies under AC Capital contributed P125 million in equity earnings driven largely by its water distribution business, Manila Water Company. Manila Water registered a 13% growth in net earnings as operating efficiencies continued to improve. Its capital investments resulted in new connections, thus adding to the sustained growth in billed volume, while system losses were brought down to only 20.2% from 25% at the beginning of the year. Manila Water continues to pursue its projects to improve and expand its network,

and has intensified its efforts to implement sewerage and sanitation programs. The Company is also looking at other water and wastewater projects outside of its current concession area. Earlier, it completed a highly successful peso bond issue which raised a total of P4.0 billion for the company.

The company's electronics subsidiary, Integrated Microelectronics, Inc. saw an 11% growth in revenues fuelled by higher sales volumes from key customers. The company, however, registered a net loss of P373 million in the first nine months due to a one-time loss incurred in the second quarter of this year from currency hedging-related transactions. Excluding these losses, however, IMI's underlying business remained strong, as earnings would have grown by 15% year-on-year.

Ayala's direct investments in the business process outsourcing space continue to ramp up. The company recently announced it will pursue a tender offer, together with Providence Equity Partners, to acquire up to 100% of the outstanding common shares of eTelecare. eTelecare provided guidance of US\$9-US\$11 million in net income in 2008. Ayala remains positive in the long term growth prospects of the BPO industry. While the current global economic slowdown may impact volumes in the interim, there remains an overall global trend to cut cost and favor outsourcing alternatives.

"The impending slowdown in global economic growth coupled with inflation pressures on basic goods in recent months have had a dampening effect on consumer spending. This, to some extent, has impacted topline growth of some of our key businesses," said Ayala Corporation President Fernando Zobel de Ayala. "But despite the prevailing challenges, each of our business units remains fundamentally sound, with sufficient liquidity and capitalization to keep them on track with their respective growth plans moving forward."

*Key Performance indicators:*

For the balance sheet items (current ratio and debt to equity ratios), the company aims to maintain for its current ratio not to be lower than 0.5:1 and for its debt to equity ratio not to exceed 3:1. The company and its subsidiaries' ratios are considered better than these levels as a result of prudent debt management policies.

The key performance indicators (consolidated figures) that the Company monitors are the following:

	<u>YTD Sept. 30, 2008</u>	<u>YTD Sept. 30, 2007</u>
Revenue	58,013million	57,401 million
Net income	7,783 million	13,560 million
Basic earnings per share 1/	14.84	26.47
	<u>As of Sept. 30, 2008</u>	<u>As of December 31, 2007</u>
Current Ratio 2/	2.26	1.92
Debt-to-Equity Ratio 3/	0.57	0.58

1/ Net income applicable to common shareholders / weighted average number of common shares

2/ Current assets / current liabilities

3/ Short-term debt, current & non-current long-term debt, current & non-current cumulative redeemable preferred shares / equity attributable to equity holders of the parent

- 2.1 Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. The following conditions shall be indicated: whether or not the registrant is having or anticipates having within the next twelve (12) months any cash flow or liquidity problems; whether or not the registrant is in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments; whether or not a significant amount of the registrant's trade payables have not been paid within the stated trade terms.

The company does not expect any liquidity problems and is not in default of any financial obligations.

- 2.2 Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation:

None

- 2.3 All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period:

None

- 2.4 Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.

For year 2008, Ayala Land's consolidated budget for project and capital expenditures amount to P24.3 billion. About 42% is earmarked for residential developments, 30% for corporate business, 14% for shopping centers, and the balance for strategic landbank management, Visayas-Mindanao, and support businesses. This will be financed through a combination of internally-generated funds, borrowings, pre-selling and with proceeds from sale of non-core assets.

For the first nine months of 2008, consolidated project and capital expenditures amounted to P12.2 billion, about 50% of the P24.3 billion budget for the whole year. About 52% was spent for residential projects, 22% for corporate business, 18% for shopping centers, and the balance for Visayas-Mindanao, strategic landbank management and support businesses.

- 2.5 Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described.

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

- 2.6 Any significant elements of income or loss that did not arise from the registrant's continuing operations

None

2.7 **Causes for any material changes**  
**(Increase or decrease of 5% or more in the financial statements)**

**Balance Sheet items**  
**(September 30, 2008 Vs December 31, 2007)**

Cash and cash equivalents – 23% increase from P36,836mln to P45,247mln

Increase is attributable to cash dividends received net of cash dividends paid, proceeds from sale of shares and new loans availed net of repayments by the parent company, proceeds from sale of shares by the real estate group and deposits from subscriptions of preferred shares of the electronics, information technology and business process outsourcing services group. Cash and cash equivalents decreased is at 19% and 21% of the total assets as of December 31, 2007 and September 30, 2008, respectively.

Short-term investments – 63% decrease from P3,688mln to P1,361mln

Mainly lower money market placements with maturity of more than 3 months up to 6 months by the parent company. As a percentage to total assets, short-term investments decreased from 2% to 1% of the total assets as of December 31, 2007 and September 30, 2008, respectively.

Accounts and notes receivable – 25% increase from P17,296mln to P21,681mln

Higher construction receivables by the real estate group, advances to project companies by the international group and increase in revenues by the electronics, information technology and business process outsourcing services group. Accounts and notes receivable increased from 9% of the total assets as of December 31, 2007 to 10% as of September 30, 2008.

Inventories – 15% increase from P8,843mln to P10,156mln

Largely due to push out of shipments and additional prototyping projects by electronics, information technology and business process outsourcing services group due, set-up of additional development costs by the real estate group, partly offset by the reduction in the automotive group inventories which was built-up in 2007 due to year-end reservations. As of December 31, 2007 and September 30, 2008, inventories remained at 5% of the total assets.

Other current assets – 97% increase from P3,098mln to P6,115mln

Increase is largely due to government securities and deferred charges representing costs on new and future projects, higher disbursements for business taxes, commissions and other expenses by the real estate group and marked to market valuation of investment partly offset by lower prepaid expenses by the international group. As a percentage to total assets, other current assets remained at 2% as of December 31, 2007 and 3% as of September 30, 2008.

Noncurrent accounts and notes receivable – 27% decrease from P4,010mln to P2,910mln

Due to change in classification of receivables by the real estate group. Noncurrent accounts and notes receivable slightly decreased from 2% of the total assets as of December 31, 2007 to 1% as of September 30, 2008.

Land and improvements – 8% increase from P16,201mln to P17,546mln

Mainly due to new development phases by the estate group. Land and improvements account remained at 8% the total assets as of December 31, 2007 and September 30, 2008.

Investments in associates and joint ventures – 4% decrease from P71,272,mln to P63,174mln

Investments in associates, joint ventures and others includes the Company's and its subsidiaries' investments in various affiliates which are being accounted for under the equity method. These associates are Bank of the Philippine Islands, Globe Telecom and Manila Water Corporation, among others.

The decrease is largely due to sale of shares, dividend income received from associates, share in the decrease in unrealized gain on available for sale securities partly offset by the 2008 share in

equity earnings and additional infusion in some associates. This account decreased from 36% of the total assets as of December 31, 2007 to 32% as of September 30, 2008.

Investment in bonds and other securities – 50% increase from P2,493mln to P3,734mln

Largely due to investments in listed shares. Investment in bonds and other securities account is at 1% and 2% of the total assets as of December 31, 2007 and September 30, 2008.

Property, plant and equipment – 32% increase from P8,493mln to P11,227mln

Disbursements for the construction of Greenbelt 5 Phase 2, San Lazaro BPO and Glorietta 5 by the real estate group, capex for office equipment and construction-in-progress of a foreign facility by the electronics, information technology, business process outsourcing services group. As of September 30, 2008 and December 31, 2007, the group's property, plant and equipment is at 5% and 4% of the total assets, respectively.

Deferred tax assets – 35% increase from P984mln to P1,330mln

Due to higher recognized sales by the real estate group. As of September 30, 2008 and December 31, 2007, the group's deferred tax asset is at .6% and .5% of the total assets, respectively.

Pension assets – 11% increase from P141mln to P156mln

Due to higher pension assets by the electronics, information technology, business process outsourcing services group. As of September 30, 2008 and December 31, 2007, the group's pension assets is at .07% of the total assets.

Intangible assets – 28% increase from P3,276mln to P4,177mln

Provisional goodwill arising from the acquisition of a BPO company, higher forex rate partly offset by the 2008 amortization of intangible assets by the electronics, information technology, business process outsourcing services group. As a percentage to total assets, this account remained at 2% as of December 31, 2007 and September 30, 2008.

Other noncurrent assets – 7% increase from P2,087mln to P2,226mln

Due to disbursements for future projects by the real estate group. As a percentage to total assets, this account is at 1% as of December 31, 2007 and September 30, 2008.

Accounts payable and accrued expenses – 22% increase from P22,261mln to P27,056mln

Due to higher trade payables relative to ongoing construction projects, increase in accrual of salaries, equipment rental and cost of materials by the real estate group and increased trade payables by the electronics, information technology, business process outsourcing services group partly offset by the payment of interest and dividends payable by the parent company. As a percentage to total liabilities, this account increased from 27% to 30% as December 31, 2007 and September 30, 2008, respectively.

Short-term debt – 17% increase from P2,634mln to P 3,076mln

Additional loans availed by the information technology, business process outsourcing services and real estate groups partly offset by reduced loan balance of the automotive group. As of December 31, 2007 and June 30, 2008, this account is at 3% of the total liabilities.

Current portion of long-term debt – 42% decrease from P9,513mln to P 5,511mln

Decrease is due to the partial payment of loans by the parent company, real estate and the electronics, information technology, business process outsourcing services groups. As of December 31, 2007 and September 30, 2008, this account is at 12% and 6% of the total liabilities, respectively.

Income tax payable – 52% decrease from P286mln to P136mln

Higher creditable withholding tax recognized by the real estate group. As a percentage to total liabilities, this account is at 0.4% and 0.2% as of December 31, 2007 and September 30, 2008, respectively.

Long-term debt – 17% increase from P37,885mln to P44,433mln

Issuance of fixed rate bonds by the real estate group and new loans availed by the parent company net of repayments. As a percentage to total liabilities, this account is at 46% as of December 31, 2007 and 49% as of September 30, 2008.

Deferred tax liabilities – 108% increase from P156mln to P325mln

Due to timing differences in tax recognition by the real estate group. As a percentage to total liabilities, this account is at 0.2% as of December 31, 2007 and 0.4% September 30, 2008.

Other noncurrent liabilities – 15% increase from P6,818mln to P7,852mln

Increase in customer and security deposits, deferred interest income on advances and unearned management fees by the real estate group. This account is at 8% and 9% of the total liabilities as of December 31, 2007 and September 30, 2008, respectively.

Cumulative translation adjustment – 87% increase from (P2,374mln) to (P306mln)

Mainly due to forex rate changes.

Net unrealized gain on available-for-sale financial assets – 130% decrease from P1,789mln to (P543mln)

Due to lower revaluation of available for sale securities.

Treasury shares – 245% increase from P160mln to P551mln

Due to buy-back of shares.

**Income Statement items**

**(YTD September 30, 2008 Vs YTD September 30, 2007)**

Sales and services – 13% increase from P41,250mln to P46,506mln

Higher revenues from residential developments, construction business, strategic landbank management, property management and Visayas-Mindanao operations by the real estate group, and higher dollar revenue of the electronics, information technology and business process and outsourcing group. The increase was partly offset by lower revenue generated by the automotive group.

Sales and services contributed 80% of the total revenue in 2008 and 72% in 2007.

Equity in net earnings of associates and joint ventures – 15% decrease from P6,895mln to P5,835mln

Due to lower equity in earnings from associates of the parent company partly offset by higher share in the income from the real estate group's associates.

This account is 10% and 12% of the total revenue in 2008 and in 2007, respectively.

Interest income – 18% increase from P1,137mln to P1,347mln

Due to higher investible funds and interest rates in 2008.

This account is 2% of the total revenue in 2008 and in 2007.

Other income – 47% decrease from P8,120mln to P4,325mln

Lower capital gains in 2008 by the parent company partly offset by the sale of 3 subsidiaries by the real estate group.

This account is 7% and 14% of the total revenue in 2008 and in 2007, respectively.

Cost of sales and services – 15% increase from P31,484mln to P36,356mln

Relative to higher sales.

Cost of sales and services is 78% and 77% of the total costs and expenses in 2008 and 2007, respectively.

Interest expense and other financing charges – 25% decrease from P3,252mln to P4,072mln

Charges on unwinding of hedge contracts by the electronics, information technology and business process and outsourcing group partly offset by lower interest expense due to lower loan levels and prudent debt management by the parent company. This account is 9% and 8% of the total costs and expenses for the periods September 30, 2008 and 2007, respectively.

Provision for income tax – 5% increase from P1,610mln to P1,694mln

Higher taxable income by the real estate group.

Income associated with noncurrent assets held for sale – 100% decrease from P625mln to P-0-

Due to sale of Oakwood and Hermill in 2007

2.8 Any seasonal aspects that had a material effect on the financial condition or results of operations.

Ayala Corporation being a holding company has no seasonal aspects that will have any material effect on its financial condition or operational results. However, ALI's leasing portfolio generates a fairly stable stream of revenues throughout the year, with higher sales experienced in the fourth quarter from shopping centers due to holiday spending.

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

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

## PART II – OTHER INFORMATION

1. Mr. Renato O. Marzan, duly appointed, qualified and incumbent compliance officer of Ayala Corporation executed a certification on compliance of the corporation to the Corporate Governance Manual.
2. Ayala Corporation reported Net Income of P16.2B for the year 2007, 33% higher than 2006.
3. At the Regular Annual Stockholders' meeting held 04 April 2008 the stockholders considered and approved the following:
  - Election of the following Directors for the ensuing year:  
Jaime Augusto Zobel de Ayala  
Fernando Zobel de Ayala  
Mercedita S. Nolleto  
Delfin Lazaro  
Xavier P. Loinaz  
Toshifumi Inami  
Meneleo J. Carlos, Jr. (independent director)
  - Ratification of the re-issuance and reclassification of the redeemed 1.2 Billion Preferred "A" and "AA" shares with par value of P1.00 per share into 12 Million new Preferred "A" shares with par value of P100.00 per share, and the amendment of Article Seventh of the Corporation's Amended Articles of Incorporation to reflect the same.
  - Ratification of the declaration of the 20% stock dividend to all stockholders.
  - Appointment of Sycip, Gorres, Velayo & Co. as the external auditors of the Company for the ensuing year.

In its Organizational Meeting held thereafter, the newly elected Board of Directors approved the following:

- a. Board Committees and memberships:
  - Executive Committee:  
Jaime Augusto Zobel de Ayala - Chairman  
Fernando Zobel de Ayala - Member  
Toshifumi Inami - Member
  - Audit Committee:  
Meneleo J. Carlos, Jr. - Chairman  
Xavier P. Loinaz - Member  
Toshifumi Inami - Member
  - Nomination Committee:  
Meneleo J. Carlos, Jr. - Chairman  
Jaime Augusto Zobel de Ayala - Member  
Fernando Zobel de Ayala – Member
  - Compensation Committee:  
Meneleo J. Carlos, Jr. - Chairman  
Delfin Lazaro - Member  
Toshifumi Inami - Member

- b. Corporate Officers and Mancom Members:
- |                              |   |
|------------------------------|---|
| Jaime Augusto Zobel de Ayala | - Chairman of the Board & CEO   |
| Fernando Zobel de Ayla       | - Vice Chairman of the Board, President & COO                                     |
| Mercedita S. Nollado         | - Senior Managing Director, Senior Counsel,<br>Corporate Secretary, ManCom Member |
| Delfin L. Lazaro             | - Senior Managing Director, ManCom Member   |
| Gerardo C. Ablaza, Jr.       | - Senior Managing Director, ManCom Member   |
| Antonino T. Aquino           | - Senior Managing Director, ManCom Member   |
| Jaime I. Ayala               | - Senior Managing Director, ManCom Member   |
| Rufino Luis T. Manotok       | - Senior Managing Director, CFO<br>Chief Information Officer, ManCom Member       |
| Arthur R. Tan                | - Senior Managing Director, ManCom Member   |
| Charles H. Cosgrove          | - Senior Managing Director, ManCom Member   |
| Aurelio R. Montinola III     | - ManCom Member   |
| Victoria P. Garchitorena     | - Managing Director, ManCom Member  |
| Ramon G. Opulencia           | - Managing Director & Treasurer   |
| Renato O. Marzan             | - Managing Director, General Counsel<br>& Compliance Officer                      |
| John Philip S. Orbeta        | - Managing Director, Head of SHROD  |

4. Ayala Corporation posted a net income of P2.6 billion for the first quarter of 2008. Excluding the gains from sale of shares in 2007, net income was up 11% year-on-year.
5. The Board of Directors of Ayala Corporation at its meeting held 13 June 2008 approved the following:
  - The declaration of a regular cash dividend of P2.00 per share corresponding to the first semester ending 30 June 2008, to all outstanding common shares of the Corporation's capital stock as of record date 02 July 2008, payable on 21 July 2008.
  - The declaration and payment from the unappropriated retained earnings of the Corporation as of 31 December 2007, of the quarterly cash dividends of 9.4578% per annum, to all shareholders of the Corporation's outstanding Preferred Class "B" shares with record date of 02 July 2008 and payable on 21 July 2008.
6. The Securities and Exchange Commission (SEC) approved on 09 July 2008 the Company's application for an amendment of the Amended Articles of Incorporation to reclassify the redeemed 1.2 Billion Preferred "A" and "AA" shares with a par value of P1.00 per share into 12 Million new Preferred "A" shares with a par value of P100.00 per share.
7. Ayala Corporation's net income in the second quarter of 2008 reached P3.7 billion, 38% higher than previous quarter's net income, but 38% lower than net income in the second quarter of 2007.
8. Ayala Corporation has budgeted \$200 million for investment in the BPO sector and has spent \$120 million to date. However, there is no set timeline when the remaining \$80 million will be invested.
9. Ayala Corporation and Ayala Land, Inc. listed their respective peso Bond issues with the Phil. Dealing and Exchange Corp. (PDex) on 22 August 2008.
10. On 18 September 2008, the Board of Directors of Ayala Corporation ratified the resolution of the Executive Committee authorizing the issuance and offering of Preferred "A" shares of the Corporation in the amount of P6 billion. The preferred "A" shares will be offered at P500.00 per shares with a fixed quarterly dividend rate based on a 5-year PDST-R2 benchmark plus spread.

11. The Board of Directors of Ayala Corporation at its meeting on 18 September 2008, approved the declaration and payment from the unappropriated retained earnings of the Corporation as of 31 December 2007, of the quarterly cash dividends of 9.4578% per annum, to all shareholders of the Corporation's outstanding Preferred class "B" with record date of 07 October 2008 and payable 21 October 2008.
12. Ayala Corporation through its 100% indirect subsidiary, Newbridge International Investments Ltd. and Providence Equity Partners commenced a tender offer in the Philippines and the United States to acquire up to all of the outstanding shares of eTelecare common shares, and up to all of the outstanding eTelecare American Depositary shares, for US\$9.00 per share in cash. Newbridge and Providence equity Partners have each committed to contribute up to US\$ 150 million in cash to the BidCo.

Material Developments in Subsidiaries/Affiliates:

1. The private equity real estate fund ARCH Capital Asian Partners, L.P., managed by ARCH Capital Management Company Ltd., an Ayala affiliate, has formed a joint venture with the Mahindra Group of India for the development of an exclusive residential community within the 1,500 acre Mahindra World City in Chennai, India.
2. Integrated Microelectronics, Inc. (IMI), a subsidiary of Ayala Corporation has booked US\$33.5 million in losses as of 30 September 2008 arising from losses in currency hedging contracts. Ayala owns 68% of IMI. Ayala's pro-rata share of the losses is reflected in the financial statements of the Company as of 30 September 2008.

## SIGNATURES

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

Registrant

**AYALA CORPORATION**

By:



RENATO O. MARZAN  
Compliance Officer

Date: November 13, 2008



RUFINO F. MELO III  
Managing Director  
(Principal Accounting Officer)

Date: November 13, 2008



**AYALA CORPORATION AND SUBSIDIARIES**  
**AGING OF RECEIVABLES (Based on Unaudited Figures)**  
**As of September 30, 2008**  
**(In Thousand Pesos)**

	<b>Up to 6 months</b>	<b>Over 6 Mos. to One year</b>	<b>Over One Year</b>	<b>Past Due</b>	<b>TOTAL</b>
Trade Receivables	9,815,085	2,053,605	1,651,252	791,000	14,310,942
Non-Trade Receivables	5,644,097	3,377,667	1,258,962	-	10,280,726
Total	15,459,182	5,431,272	2,910,214	791,000	24,591,668