



14 May 2009

**Securities & Exchange Commission**

Attn.: Director Justina F. Callangan  
Corporation and Finance Department  
S.E.C. Building EDSA  
Mandaluyong City

**Philippine Stock Exchange**

Attn.: Ms. Janet A. Encarnacion  
Head - Disclosure Department  
4F PSE Center Exchange Road  
Ortigas Center Pasig City

**Philippine Dealing & Exchange Corporation**

Attn.: Mr. Cesar B. Crisol  
President and Chief Operating Officer  
37/F Tower 1 The Enterprise Center  
6766 Ayala Avenue corner Paseo de Roxas  
Makati City

Subject: **AYALA'S CORE BUSINESS UNITS DRIVE 1Q09 EARNINGS TO P2.2B**

Gentlemen:

Ayala Corporation's consolidated net income reached P2.2 billion in the first quarter, the highest in the past four quarters, excluding capital gains, but 18% lower than the same period last year. Its core business units in telecom and banking registered double-digit expansion in earnings with sustained business volume growth in its key markets. Equity earnings from these units expanded by 7% and 86%, respectively, a reversal of the 35% and 55% decline in the fourth quarter of 2008 and three consecutive quarters of contraction. Equity earnings from its real estate unit, however, declined by 51% as earnings dipped in the absence of one-time gains and slower demand particularly in its residential business.

Ayala President and Chief Operating Officer, Mr. Fernando Zobel de Ayala said, "We are pleased to see some degree of resiliency in domestic demand despite the slowdown in the global economy. This continues to drive the growth of our core business units. However, consumer confidence continues to be tempered relative to pre-crisis levels, but we expect this to eventually turn as macro economic conditions stabilize moving forward."

Ayala's telecom unit, Globe, sustained its growth momentum with net income up 17% to P4 billion. Excluding an after-tax gain of P398 million arising from an equipment exchange transaction with an equipment supplier and foreign exchange and mark-to-market gains and

losses, core net income was up 5% to ₱3.7 billion. This quarter's net income was the highest in the past five quarters. The steady performance of its wireless business and the strong growth of its broadband and wireline data business resulted in net service revenue growth of 3% to ₱16 billion. Globe's wireless SIM base continued to expand, reaching 25.7 million subscribers as of end-March. To further gain subscribers, it recently introduced Globe DUO, an innovative service that combines a mobile and wireless landline service into one handset.

Meanwhile, its broadband and wireline data business gained traction. Globe broadband subscribers more than doubled year-on-year with subscribers of the fully mobile broadband service under *Tattoo* accounting for the bulk of the net additions. Globe has commercially launched its WiMAX (802.16e) service on the 2.5Ghz band, which is one of the first and largest in Southeast Asia. The service is currently available in selected key areas in South Luzon, Visayas, and Mindanao. WiMAX is a leading edge technology solution that provides higher capacity and a dedicated access system that can deliver superior customer experience for Globe's broadband subscribers. Globe plans to introduce more service innovations that will deliver superior value to its customers and further reinforce its competitive edge in the market.

Its banking unit, Bank of the Philippine Islands (BPI), posted ₱2.9 billion in net income. This was 86% higher year-on-year, the highest in the past five quarters, and exceeded fourth quarter 2008's net income by more than 2.6 times. Strong growth in core market segments, better net interest spreads, and trading opportunities amidst a falling interest rate environment drove earnings growth.

Lending activity was strong and broad based with net loans expanding by 12%. Both corporate and consumer loans grew by 13.8% and 18.9%, respectively. Despite the healthy loan expansion, credit quality remained stable with net 30-day non-performing loans ratio at 3.26%, better than the 3.94% a year ago. Total resources as of end-March reached ₱643 billion, 8% ahead of last year, while deposits expanded by 8.8%. The bank's remittance inflows increased by over 20%, outpacing industry growth. The bank's better than expected performance affirms the resilience of the domestic economy and validates the strength of BPI's banking franchise. BPI maintains the largest market capitalization in the industry at ₱110.3 billion with a capital adequacy ratio of 14.6% at end-March.

Ayala's real estate unit, Ayala Land, posted a net income of ₱907 million. Excluding gains in the first quarter of 2008, net income was 21% lower year-on-year. Consolidated revenues declined by 10% to ₱7.4 billion as revenues in the first quarter included gains from the said transaction. Overall, most of its core product lines registered healthy revenue growth. Revenues from shopping centers rose by 6%, while corporate business revenues increased by 67%. These were offset by lower residential sales with combined bookings across its three residential brands down by 48% due to slower demand. However, monthly trends show signs that sales are beginning to stabilize with take-up in the first three months significantly better than the prior quarter.

Ayala Land maintains its capital expenditure plan of ₱17.4 billion this year and is looking to tap more aggressively opportunities where it can expand its geographic footprint in other parts of the country and cater to a broader base of customers.

From its portfolio of companies under AC Capital, Manila Water continued to deliver double-digit earnings growth with net income up 14% to ₱622 million. Cumulative water sales in the first three months of 2009 was stable and, combined with the partial impact of the inflation rate adjustment, pushed revenues up 6%. The company maintains strong operational

efficiencies with non-revenue water down to 20.7% as of March, 2.5 percentage points better than the 23.2% achieved in March 2008.

Manila Water was recently granted a renewal of its concession agreement covering the East Zone for another 15 years. This is expected to benefit all its stakeholders as well as ensure Manila Water's long-term growth. Beyond this, Manila Water continues to pursue growth opportunities outside of its concession area. Last April, it signed a Memorandum of Agreement with the Philippine Tourism Authority for the management and operation of the wastewater and water distribution facility in Boracay.

Ayala's export-oriented units, particularly in electronics manufacturing and business process outsourcing, which are more exposed to the global downturn, faced lower volumes.

Integrated Microelectronics, Inc.'s (IMI) sales contracted by 26% as world demand for electronic products remained muted. While various cost management programs partly cushioned the impact and kept operating income positive, lower volumes and pricing pressures resulted in a net loss of P21 million during the period. IMI maintains a solid balance sheet with cash of US\$59 million and first-quarter net cash flow from operations at US\$5 million. IMI will continue to pursue its cost and risk management programs as well as its marketing initiatives to expand its customer base with high revenue-generating customers.

Ayala's BPO companies generated US\$82 million in revenues, 3% lower than last year, with operating income excluding depreciation and amortization flat year-on-year at US\$7 million. However, interest expense and non-cash charges resulted in a combined net loss for Ayala of P307 million.

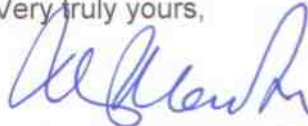
Ayala continues to believe in the medium to long term growth potential of the BPO sector in the Philippines as companies worldwide intensify cost cutting initiatives. Ayala is expanding its geographic and service capabilities in this space through its investee companies. Recently, eTelecare acquired The Phone House, a South African contact center company, as it eyes opportunities to tap the strategic U.K. market. Integreon also launched in January its first U.K. onshore shared-services center for the legal sector with Osborne Clarke, a top 50 U.K. law firm, as its anchor client. This was followed by the acquisition of Onsite, a leading global provider of electronic evidence solutions for law firms and corporations, based in Arlington, Virginia.

Ayala ended the quarter with close to P30 billion in cash and net debt of P8.7 billion. Mr. Zobel added, "Ayala's strong financial and cash position give the group the flexibility to pursue growth initiatives at both the holding company level and at the level of the operating units. These initiatives will continue to build on the strong market position we have achieved in our key markets and allow us to achieve a stronger growth trajectory as the economic cycle turns."

Attached are Ayala Corporation's unaudited consolidated financial statements for your reference.

The above information is being submitted in compliance with the disclosure rules of the Securities and Exchange Commission and the Philippine Stock Exchange.

Very truly yours,



**RUFINO LUIS MANOTOK**  
Senior Managing Director and CFO  
Corporate Information Officer



**AYALA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in Thousands)

	March 31, 2009	Dec. 31, 2008
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	50,053,483	42,885,792
Short-term investments	1,388,230	1,008,924
Accounts and notes receivable - net	24,077,527	23,284,010
Inventories	9,789,090	10,011,355
Other current assets	6,740,776	7,090,394
Total Current Assets	92,049,106	84,280,475
<b>Noncurrent Assets</b>		
Noncurrent accounts and notes receivable	6,146,878	6,694,021
Land and improvements	16,347,486	15,756,894
Investments in associates and jointly controlled entities - net	67,907,313	68,140,394
Investments in bonds and other securities	3,898,841	3,064,502
Investment properties - net	27,361,264	21,058,577
Property, plant and equipment - net	8,774,379	13,886,560
Deferred tax assets - net	942,240	1,132,847
Pension assets	118,574	117,388
Intangible assets - net	4,062,927	4,014,136
Other noncurrent assets	1,990,568	1,906,172
Total Noncurrent Assets	137,550,470	135,771,491
Total Assets	229,599,576	220,051,966
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	25,624,255	27,283,536
Short-term debt	2,985,070	2,755,447
Income tax payable	279,658	214,697
Current portion of long-term debt	1,449,680	1,478,871
Other current liabilities	1,545,193	1,753,530
Total Current Liabilities	31,883,856	33,486,081
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion	57,203,524	50,250,151
Deferred tax liabilities	159,819	185,536
Pension liabilities	549,854	490,744
Other noncurrent liabilities	8,046,322	7,588,080
Total Noncurrent Liabilities	65,959,519	58,514,511
Total Liabilities	97,843,375	92,000,592
<b>Equity</b>		
Equity attributable to equity holders of Ayala Corporation		
Paid-up capital	37,281,966	37,251,714
Share-based payments	710,596	705,457
Cumulative translation adjustments	(723,405)	(968,778)
Retained earnings	63,490,681	61,604,466
Net unrealized gain on available-for-sale-investments	(43,474)	(631,127)
Parent Company preferred shares held by a subsidiary	(100,000)	(100,000)
Treasury stock	(550,541)	(550,540)
	100,065,823	97,311,192
Minority interests	31,690,378	30,740,182
Total Equity	131,756,201	128,051,374
Total Liabilities and Equity	229,599,576	220,051,966

**XX** AYALA CORPORATION AND SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF INCOME**  
 (Amounts in Thousands)

	Quarters Ended March 31	
	2009	2008
<b>REVENUE</b>		
Sales and services	14,560,792	15,042,504
Equity in net earnings of associates and jointly controlled entities	2,358,393	2,069,498
Interest Income	730,656	450,798
Other Income	379,390	1,193,450
	<b>18,029,231</b>	<b>18,756,250</b>
<b>COSTS AND EXPENSES</b>		
Costs of sales and services	11,689,854	11,574,099
General and administrative	2,221,741	1,943,664
Interest expense and other charges	971,043	964,204
	<b>14,882,638</b>	<b>14,481,967</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>3,146,593</b>	<b>4,274,283</b>
<b>PROVISION FOR INCOME TAX</b>	<b>458,926</b>	<b>599,443</b>
<b>NET INCOME</b>	<b>2,687,667</b>	<b>3,674,840</b>
<b>ATTRIBUTABLE TO:</b>		
Equity holders of Ayala Corporation	2,156,554	2,620,901
Minority interests	531,113	1,053,939
	<b>2,687,667</b>	<b>3,674,840</b>