

Embarking on New Growth Platforms The Chairman's Message to Stockholders

It was, by all accounts, a positive year for the Ayala group. The fundamental drivers of the domestic economy remained intact despite uncertainties facing global financial markets in the latter part of the year. The steady flow of overseas Filipino workers' remittances combined with low interest rates and the sustained improvement in the country's fiscal position, continued to fuel domestic consumption. Moreover, increased activity in developing industries, such as power generation and transmission, infrastructure, and mining, as well as the emergence of high-growth industries like business process outsourcing, has helped reinvigorate foreign and local investments.

Delivering Record Earnings and Increased Value for Shareholders

The improvement in the domestic business environment underpinned the growth of our key businesses. Over the years, we have constantly aimed to nurture our businesses into positions of strength structurally, operationally and financially. We have consistently adjusted our strategies, even through challenging economic periods. Having repositioned our companies appropriately within defined industry structures, we were able to seize market opportunities as the economy began to turn around. As a result, our current portfolio has been able to generate above-average returns, deliver improved profitability, and create value for our shareholders.

In 2007 we posted a consolidated net income of P16.2 billion, 33% higher than the prior year and the highest ever recorded by the company. Return-on-equity was at its highest at 19.7%. Our share price performance partly reflected these positive fundamentals as it gained nearly 15% by year-end, following an 87% surge the prior year. Combined with the aggregate regular and special cash dividends of P8 per share, we generated a total return to shareholders of 16.5% for the year or a return of 38.9% in dollar terms. We paid a total of P7.3 billion in cash and stock dividends to our shareholders, nearly two and half times the level paid out in 2006 and equivalent to 60% of our earnings the prior year. Over the past six years, Ayala's market capitalization has grown by three and half times to P234 billion from only P67 billion back in 2001.

Unlocking Values and Completing an Investment Cycle

Over the past two years we focused more actively on creating and realizing values from the investments we made in the past decade as market values became attractive for value realization. A substantial part of our net income was driven by P7.3 billion in capital gains from the sale of our shares in our property, banking, and telecom units. This puts total gains realized to over P12 billion in the past two years alone. These value creation efforts round out the last phase of the business-building cycle we started in the Nineties.

Committed Long-Term Partner in the Philippines

We remain anchored and focused on the Philippines as we begin to develop new platforms for future growth. Despite challenges typical to a developing economy with young democratic and political institutions, we continue to be optimistic about potential growth opportunities in the country, particularly in the services sector, as we begin to develop our capabilities in business process outsourcing (BPO). We believe the Philippines' natural competitive advantages in this space can be a significant source of growth not only for Ayala, but for the broader national economy, given the right support, and coupled with a cohesive industry strategy. This year we continued to nurture our early-stage investments in the BPO space as we expanded capacity for our newly acquired companies and further increased our stake in eTelecare Global Solutions to 22% towards the end of the year.

Our businesses in real estate, telecom, banking, water distribution, and automotive also continue to expand their franchise in the country. Collectively, the group companies have set close to P56 billion in planned capital expenditures for 2008, which is 43% higher than the actual capital spending in 2007.

We believe that Ayala, as an investment company, continues to play a significant role in an emerging market setting like the Philippines, given our unique capability to bring resources to bear on opportunities and our proven track record in nurturing companies and creating value. Our experience in Globe Telecom and Manila Water over the past decade not only underscores our confidence in our ability to embark on significant, scalable projects and investments, but also highlights our role in the private sector as a critical partner in the national development cycle of the country. We continue to monitor sectors that are beginning to open up to private sector participation and carefully consider opportunities in these areas.

Looking beyond the Philippines

Our focus on the Philippines, however, does not preclude efforts to explore growth opportunities overseas. Our experience these past 173 years has taught us that we too must also constantly change and re-invent ourselves if we are to remain relevant and successful as an investment driven institution. We have taken important steps through our co-sponsorship and investment in ARCH Capital, a property fund focused mainly in Asia, which has begun to develop three live projects in Macau and Thailand. This, we believe, is an ideal vehicle to tap the high-growth property market in Asia and a creative way of exporting our expertise and competencies in the field of real estate development within similar emerging market settings. Individually, our operating units, particularly Manila Water and Integrated Microelectronics, have also begun exploring opportunities overseas where they can apply their management competencies and seek a new competitive advantage.

Corporate Governance as Foundation for Value Creation

While we continue to find ways to reinvent ourselves, our core values keep us focused on maintaining the trust we have built with our many stakeholder communities. Apart from our direct investment activities, we continue to institutionalize measures to improve our corporate governance standards, and enhance our internal systems and processes at the holding company level. This year an expanded Enterprise Risk Management Policy was adopted to enhance the risk management process and institutionalize a focused and disciplined approach to managing the Company's business risks.

We are delighted to have been recognized for our efforts in our area of governance. Ayala Corporation, together with our listed units Ayala Land, Bank of the Philippine Islands, and Globe Telecom received four of the top five awards in Best in Corporate Governance among publicly listed companies. This award was based on a corporate governance scorecard implemented by the *Institute of Corporate Directors*, together with the Philippine Stock Exchange, and the Securities and Exchange Commission that assessed the quality of corporate governance practices among publicly listed companies in the Philippines.

Growth Aspirations

The coming years will be focused on efforts to develop new platforms for future growth as we once again begin a new investment cycle. This will have challenges amidst the growing uncertainties in the global economy and their effects on domestic economic growth.

In order to continue our growth momentum, we will need to be more rigorous in implementing our current growth strategies and imaginative in pursuing new business initiatives. We intend to balance these challenges by focusing on the long-term and developing progressive ideas.

Recognizing Stakeholders

I deeply appreciate the contributions and guidance of the Board members, the management and staff of Ayala who, individually and as a team, have contributed tirelessly to achieving the goals and vision of Ayala. I likewise thank the management team at each of our portfolio companies who continue to have the passion to innovate and deliver sustainable results. I thank our business partners and our customers for their unwavering support and loyalty. Last but certainly not least, I thank our shareholders for their continued faith and trust in Ayala.

(Original Signed)

Jaime Augusto Zobel de Ayala

Chairman and Chief Executive Officer

Ayala Corporation