

## **Report of the Audit and Risk Committee\* to the Board of Directors**

For the Year Ended 31 December 2007

The Audit and Risk Committee's roles and responsibilities are defined in the Audit and Risk Committee Charter approved by the Board of Directors. It provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to: a) the integrity of the financial statements and the financial reporting process; b) the internal and financial reporting principles and the system of internal controls; c) the enterprise risk management; d) the performance of internal audit and independent auditors; and e) the compliance with legal and regulatory matters and other reporting standards. In compliance with the Audit and Risk Committee Charter, we confirm that:

- An independent director chairs the Committee;
- We had four (4) meetings during the year;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the audited annual consolidated financial statements of Ayala Corporation and subsidiaries, including Management's Discussion and Analysis of Financial Condition and Results of Operations, with the management, internal auditors and SGV & Co., the independent auditor of Ayala Corporation. These activities were performed in the following context:
  - That management has the primary responsibility for the financial statements and the reporting process; and
  - That SGV & Co. is responsible for expressing an opinion on the conformity of Ayala Corporation's consolidated audited financial statements with Philippine Financial Reporting Standards;
- We have discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and SGV & Co. We have also discussed the results of their audits and their assessment of Ayala Corporation's internal controls and the overall quality of the financial reporting process;
- We have reviewed all audit, audit-related and permitted non-audit services provided by SGV & Co. to Ayala Corporation and the related fees for such services and concluded that the non-audit fees are not significant to impair their independence;
- We have reviewed the reports of the internal auditors and regulatory agencies, where applicable, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues;
- We have reviewed, approved and endorsed the revised Audit and Risk Committee Charter and the Enterprise Risk Management Policy to the Board;
- We have undergone, together with the Internal Audit and selected senior management representatives, an External Quality Assessment Review (QAR). We received and discussed the final report of the Institute of Internal Auditors Inc. where Ayala Corporation received a "Generally Conforms" rating, the highest possible rating in connection with a QAR. The rating attests that Internal Audit's activities are conducted in conformance with the International Standards for the Professional Practice of Internal Auditing;
- We have reviewed and discussed the adequacy of Ayala Corporation's enterprise risk management process, including the nature of significant risk exposures, and the related risk mitigation efforts and initiatives. This activity was reviewed in the context that management is primarily responsible for the risk management process.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit and Risk Committee recommends to the Board of Directors that the audited annual consolidated financial statements be included in the Annual Report for the year ended December 31, 2007 for filing with the Securities and Exchange Commission. We are also recommending to the Board of Directors the re-appointment of SGV & Co. as Ayala Corporation's independent auditor for 2008 based on the review of their performance and qualifications.

(Original Signed)  
14 February 2008

MENELEO J. CARLOS JR.  
Committee Chair

TOSHIFUMI INAMI  
Committee Member

XAVIER P. LOINAZ  
Committee Member

*\*Formerly known as Audit Committee*