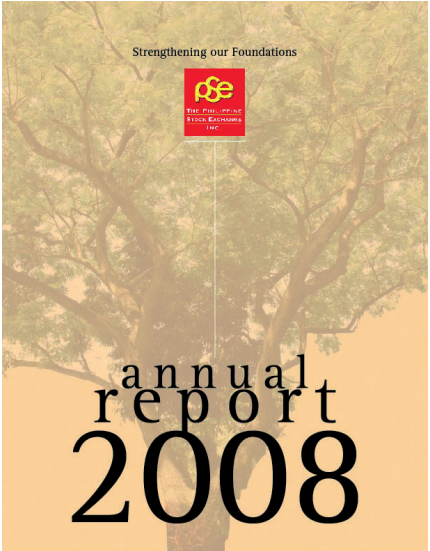


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A premier exchange with world-class standards for trading securities and raising capital that serves as a strong engine for a robust economy.

Our Cover



After more than eight decades, the Philippine Stock Exchange has survived and even thrived in various financial downturns that have challenged local and global markets. Like a hardy Narra tree after the typhoon season, we have always come out fundamentally stronger. Today, despite the severity of the ongoing crisis, we are confident in our resilience, thanks in no small part to the support of our members and investors and the continuing commitment of our Board to good governance and responsible stakeholdership. By focusing on strategy, innovation, and various initiatives to rebuild and sustain investor confidence, we in the PSE remain cautiously optimistic that the Philippine stock market will recover in due time and reach new heights in truly enhancing shareholder value.

Financial Highlights

(in thousand pesos)

	CONSOLIDATED			PARENT		
	2008	2007	% Change	2008	2007	% Change
RESULTS OF OPERATIONS:						
TOTAL REVENUES	729,112	993,406	(26.60)	774,500	755,630	2.50
Listing Fees, Maintenance and Processing Fees	340,548	458,925	(25.79)	340,548	458,925	(25.79)
Trading Fees	112,305	166,667	(32.62)	112,305	166,667	(32.62)
Service Fees	136,404	238,957	(42.92)	-	-	-
Interest Income	110,703	112,338	(1.46)	102,761	106,006	(3.06)
Other Income	29,152	16,519	76.48	218,886	24,032	810.81
TOTAL OPERATING EXPENSES	301,187	343,405	(12.29)	273,325	318,244	(14.11)
INCOME FROM OPERATIONS	423,910	650,001	(34.78)	501,175	437,386	14.58
NET INCOME AFTER TAX	291,479	433,419	(32.75)	407,394	297,903	36.75
YEAREND FINANCIAL CONDITIONS:						
TOTAL ASSETS	2,439,853	2,645,656	(7.78)	1,959,868	2,083,429	(5.93)
Cash and cash equivalents	132,489	185,125	(28.43)	60,133	149,177	(59.69)
Short-term Cash Investments and Available-for-Sale Securities	367,633	876,618	(58.06)	313,480	681,392	(53.99)
Long-term Available-for-Sale Securities	841,401	650,618	29.32	801,554	650,618	23.20
Property and Equipment	452,186	313,811	44.10	450,581	312,586	44.15
TOTAL LIABILITIES	532,810	621,074	(14.21)	110,848	232,011	(52.22)
Current Liabilities	124,488	257,256	(51.61)	108,374	232,011	(53.29)
Clearing and Trade Guarantee Fund	402,289	361,322	11.34	-	-	-
STOCKHOLDER'S EQUITY	1,907,043	2,024,582	(5.81)	1,849,021	1,851,417	(0.13)

Chairman's Message

Dear Shareholders and Friends,

A historic year it was indeed. The turbulence that shook the financial markets following the collapse of the US subprime housing market, graduating to a worldwide economic crisis, sent equity markets to low levels not seen in many years. The Philippine Stock Exchange was not spared from the contagion.

The PSE Board of Directors and Management, aware of the need to meet ever increasing challenges, have since embarked on new strategies. The Company has taken bold steps to prepare the Exchange for what it felt to be an emerging new order in the global financial community. These efforts complement the PSE's vision of employing world-class standards aimed at benefiting the market not only at this time but also during the years ahead.

In most cases, the stock market would reflect the state of an economy. Thus, it came as no surprise that global stock markets were the first to tumble in the wake of the economic turmoil in 2008. I am relieved to say that when the axe finally fell, the Exchange was two steps ahead with the circuit breaker rule. For the first time in its history, the Exchange had the occasion to use this rule on October 27, 2008, when the PSEi fell down by a steep 12 percent to close at 1,713.83. As applied with the same objective in other developed exchanges, the implementation of the circuit breaker rule helped limit the index's fall.

The challenges of 2009 would be no less daunting than what we had faced and overcome in the year that passed. It is the litmus test for all the efforts that had been intensified, the groundwork that had been laid, the policies that had been crafted, and the reforms and enhancements that had been instituted.

In order to further ensure that the investing public is amply protected, particularly during similar periods of uncertainty, your Board approved the recommendation of its broker-directors to raise the surety bond for brokers and dealers and, together with the SCCP Board of Directors, took steps to improve risk management practices particularly in the clearing and settlement system. The action proved to be both wise and timely.

Coming off from one of the fastest economic growth registered in 2007, the country's economy slowed to 4.6 percent last year. Our economy reeled from high crude oil prices in the international market before the economic meltdown with twin effects of double-digit inflation and a slowdown in business and consumption accompanying it. The peso weakened and closed at Php47.52 against the greenback, while our benchmark PSEi ended the year below the 2,000-level. Corporate profits suffered, with the combined net income of our listed companies decreasing by 19.8 percent to Php162.82 billion as of September 2008 from Php203.04 billion in the same period in 2007.

The Philippine Stock Exchange takes pride, nevertheless, in sustaining positive developments in 2008.

On June 26, 2008, the Exchange sealed a partnership with the New York Stock Exchange (NYSE) Euronext that established a strategic alliance to jointly develop and explore new opportunities in trading system architecture and technology, exchange-traded products, market participant connectivity, and market data management. The execution of the memorandum of understanding was done in a historic ceremony at the New York Stock Exchange witnessed by Her Excellency President Gloria Macapagal-Arroyo and many of our participants in PSE.

In the succeeding months, we signed up for a new trading system with the NYSE Euronext Technology SAS, a wholly-owned subsidiary of NYSE Euronext and a renowned provider of technology solutions for stock exchanges. Concomitantly, your Board approved a plan to extend the trading hours of the Exchange until the afternoon once the new system becomes operational hopefully by the second half of 2009.

Through a memorandum of understanding, the Exchange committed to establish a trading linkage project with the ASEAN countries and explore the possibility of building a technology linkage among the stock exchanges. We also began looking into the introduction of derivatives and commodities trading in the Exchange after tapping a financial consultancy firm to undertake a feasibility study for the plan.

The Exchange's officers, staff and employees have done a great job. In 2008, we have welcomed them as stockholders of the Company through the introduction of the PSE Employee Stock Purchase Plan.

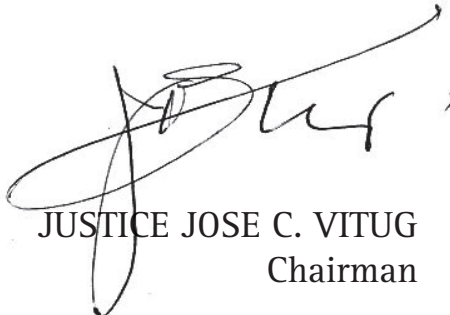
Landmark steps taken by your Board, together with the market-friendly legislations signed into law last year, provided strength for the market to stand firm amidst a challenging business environment.

The year 2008 carved in our history an unforgettable period not only of economic trials but also of stability and unity that fortified the Exchange as a pillar of the Philippine economy.

The challenges of 2009 would be no less daunting than what we had faced and overcome in the year that passed. It is the litmus test for all the efforts that had been intensified, the groundwork that had been laid, the policies that had been crafted, and the reforms and enhancements that had been instituted.

Armed with the experience carried over from previous years, we are confident that your Exchange will be able to weather the global economic slowdown and still have a positive 2009.

Our gratitude to everyone, and most of all for your trust and confidence.



JUSTICE JOSE C. VITUG
Chairman

President's Message

Dear Shareholders and Friends,

2008 marked the first year when your Exchange embarked on a bold endeavor to raise the level of the stock market to new heights. Under the guidance of the Board, we put in place a new five-year strategic plan that sets out the Company's direction to achieve its vision of becoming a premier stock exchange.

The plan, which we aptly call "LEVEL-UP", serves not only as our battle cry but also as our guide to the strategies we shall be undertaking in the next five years as each letter corresponds to each key strategic intervention of the Exchange. LEVEL UP stands for List more companies and securities; Expand and educate the investor base; Value and enforce corporate governance standards; Enhance shareholder value; Launch new products and services; Upgrade market infrastructure and human resources; and Partner with government and other stakeholders.

The goals we set out were ambitious. We embarked on these targets, however, with a firm grasp on the reality that the working environment can become very challenging and outright unkind. Market movements can be very volatile and the investment environment held hostage by numerous factors outside our control.



With our 2008 net income, the Board of Directors of your Exchange distributed a cash dividend of Php8.00 per share. This marked the sixth straight time since 2003 that the Exchange declared cash dividends.

The events that unfolded in 2008 could not have better portended us of this reality.

The global credit crisis which unraveled in 2008 shook equity and bond markets worldwide, causing even the oldest and biggest financial companies to close down. Job losses piled up one after the other and soon enough, developed economies were reported to be contracting. Stock markets, including ours, were not spared.

As a result, our main index, the PSEi, posted its biggest annual decline in history as it closed the year 48.3 percent lower than in 2007. Trading activity began to slow down as the total annual trading turnover in the Exchange diminished at Php763.90 billion, 42.9 percent lower than the previous year’s record-breaking mark of Php1.34 trillion.

Total proceeds raised from initial public offerings (IPO) and follow-on offerings, as well as other means of pooling capital for listed companies, amounted to Php31.55 billion, a 65 percent drop from Php90.13 billion in 2007.

Meanwhile, the yearend total market capitalization of all listed companies was reduced to almost half as it fell 49 percent to Php4.07 trillion from the yearend record high of Php7.98 trillion in 2007. Domestic market capitalization, likewise, dropped by 42 percent to Php2.47 trillion from Php4.27 trillion a year ago.

The past year has proven to be a very difficult one indeed. Despite this, your Management remained steadfast in ensuring that the tumultuous market environment does not interfere with our primary goal of attaining our vision. In fact, your Management was only emboldened to fast-track some of its initiatives to help cushion the impact of the global crisis in our local stock market.

We are glad to report that despite the adverse market environment, your Exchange still managed to post a net income of Php291.48 million for 2008, the second highest net income achieved by the Exchange next only to the time when it posted a record Php433.42 million in net profits in 2007. Operating income, however, suffered a 73.4 percent drop to Php729.11 million from Php993.41 million in 2007 due to a decrease in listing and trading-related and service fees. The Securities Clearing Corporation of the Philippines (SCCP), which is our wholly-owned subsidiary, experienced a 49 percent drop in its net income to Php74.1 million in 2008 from Php144.92 million in 2007 behind an overall slowdown in stock

market trading activity.

With our 2008 net income, the Board of Directors of your Exchange distributed a cash dividend of Php8.00 per share. This marked the sixth straight time since 2003 that the Exchange declared cash dividends.

To kick-start our LEVEL UP initiatives, the Exchange finally acquired a new trading system from no less than the New York Stock Exchange (NYSE) Euronext Technology SAS (NYXT), a wholly-owned subsidiary of the NYSE Euronext. This system called the NSC® Trading System Core Products (NSC®) shall pave the way for the introduction of new trading systems and strategies as well as new products and services in line with the various innovations undertaken globally.

In line with the implementation of the new trading system, the Exchange enhanced the Market Operations group and Information Technology Division by creating the Market Operations Division (MOD) and the Technology Division (TD). The MOD was created to spearhead the implementation of the new trading system that would exponentially improve the capacity of the Exchange to handle sophisticated capital market instruments, while the TD was restructured to focus on optimizing the Exchange’s IT solutions and services.

The Exchange also signed a memorandum of understanding with the NYSE Euronext for mutual cooperation to share information and explore opportunities to expand our respective markets through mutual links or strategic alliances, jointly develop exchange-traded products, explore new opportunities in trading system architecture and technology, and enhance market participant connectivity and data management.

Another critical development in 2008 was the decision of the Exchange to extend its trading hours in the afternoon to pool more investments into the local stock market. The extended trading hours, which is targeted to take effect following the implementation of the new trading system, would put us side-by-side with our peer exchanges, and hopefully attract more trading from Europe and our overseas Filipino workers especially in the Middle East.

The plan to have an integrated ASEAN market also gained momentum during the past year. In September, your Management received an approval from the Board to join alliances with the ASEAN economies that would support initiatives towards an integrated capital market

within the ASEAN to promote liquidity in the region. This ASEAN trading link framework aimed to increase intra-ASEAN trading of stocks listed in the six participating exchanges.

Your Management is also pleased to report that in 2008, we received the approval from the Securities and Exchange Commission to revise our listing rules that would allow listing by way of introduction for corporations where a public offering of securities is mandated by law or applicable regulation. The revised rule should allow more companies to list and enjoy the benefits of listing in the Exchange. Along this line, the Exchange fully implemented the Philippine Mineral Reporting Code to ensure transparency among our listed mining companies.

The Exchange intensified its proactive role in expanding and educating the investor base following a study that revealed that there are only around 400,000 accounts in the stock market, representing not even one half of one percent of the country's population. Challenged by these numbers, your Management strengthened further our partnership with the Commission on Higher Education (CHED) for the implementation of the CHED Memorandum Order (CMO) 39 to fast-track the implementation of a three-unit stand-alone subject on capital markets in business administration courses.

We are also proud to announce that our PSE Certified Securities Specialist Course, which began in 2007, has been successfully offered by more partner institutions, namely, the Ateneo Center for Continuing Education, Global City Innovative College and iAcademy. Moreover, the Ateneo Center for Continuing Education has agreed to credit the PSE Certified Securities Specialist Course as a six-unit elective subject for those who are taking MBA in the Ateneo Graduate School of Business.

Along with the support of CHED and our continuous market education programs came our lawmakers' support for the passage of various market-friendly legislations that would greatly contribute to realizing our market's growth potential. The Exchange stood as staunch advocates to both these laws and our efforts have been rewarded.

In 2008, the landmark Personal Equity and Retirement Account Law (PERA) and the Credit Information System Act (CISA) were finally enacted. The PERA law, which was introduced in Congress in 1999, puts in place generous incentives to encourage more Filipinos to set up voluntary retirement accounts to be invested in the local capital market.

Meanwhile, the passage of the CISA law gives rise to the establishment of an institutionalized system for credit history monitoring that will hopefully redound to lowering of borrowing costs and decreased default rates. This will benefit not only the financial sector, but also corporations, including our listed companies.

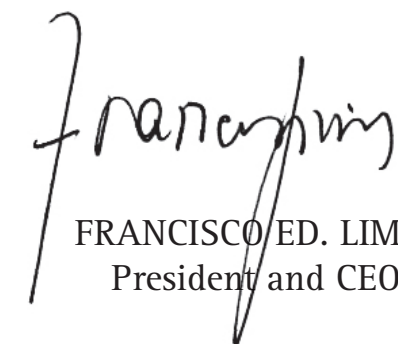
Lastly, just before the year ended, the UK Government, through the British Embassy, awarded the Exchange a funding support for a corporate governance project. The grant will be used to fund research studies and other activities that would determine the appropriate corporate governance standards, as well as the operational, structural and policy framework for the Special Corporate Governance Board envisioned to be launched in the Exchange. This runs parallel to our avowed mission to promote transparency and responsibility among all the stakeholders of the Exchange.

For sure, 2009 will not be wanting in challenges. The road to recovery will remain as bumpy as it were in 2008. We have to remain very mindful of this adverse landscape lest we lay to waste our concerted efforts towards our development agenda.

Yet with the same conviction with which we confronted the dire circumstances of 2008 and armed with the same resolve, I cannot see how we can fail to eke out a respectable performance under the present milieu.

I am confident that at the end of the year, your Philippine Stock Exchange will move another step closer, and ever closer, to becoming one of the best investment havens in the Asian region.

Thank you.



FRANCISCO D. LIM
President and CEO

Philippine Stock Market Performance in 2008

PSEi Performance

After enjoying several years of tremendous growth, the Philippine stock market's winning streak ended in 2008. The US financial crisis sent global financial markets on a downward spiral and precipitated a decline in the world economy. Gains made by the PSEi over the previous years were diminished as the main index went below the 2,000-level on October 23, 2008. The PSEi recorded a year-low on October 28 at 1,704.41 points, its lowest since September 20, 2004. The benchmark index lost 1,748.75 points by the end of 2008 to close at 1,872.85 points, 48.3 percent lower than its close in 2007.

Amidst the global financial crisis, the Philippine economy still managed to record modest growth in 2008 as gross domestic product grew by 4.6 percent. The high inflation environment adversely affected the performance of the services sector. Export growth declined considerably due to the economic downturn in the US and other developed economies, consequently posting negative growth levels towards the end of the year.

Realizing the need for additional spending to stimulate economic activity, the government deferred its target of a balanced budget. The country's fiscal performance in 2008 recorded a deficit of Php68.1 billion, a stark contrast from the Php12.4 billion fiscal deficit incurred in 2007. Despite a 5.8 percent increase in revenue collections, government disbursements grew at a faster pace of 10.6 percent.

The Bangko Sentral ng Pilipinas (BSP) played a major role in keeping the country's economy afloat amidst the global financial turmoil. While the US Federal Reserve cut its key interest rate six times, the central bank's actions over the past few years have given it flexibility to maneuver its own monetary policy. The BSP adjusted its key overnight borrowing and lending rates five times in 2008, increasing interest rates on three occasions to control accelerating inflation. As inflation rates started to ease, the BSP cut its key rates towards the end of the year with the borrowing rate closing at 5.5 percent, just slightly up from 5.25 percent in 2007; and the lending rate also a tad higher at 7.5 percent from 7.25 percent the previous year.

With the government rejecting most bids due to higher than acceptable rates, the 91-day Treasury bills managed only three successful auctions during the entire year. The

average interest rate of the 91-day T-bills rose to 5.39 percent from 3.41 percent in 2007, signaling the shift of investors to low-risk instruments as a result of the worldwide slump in equities.

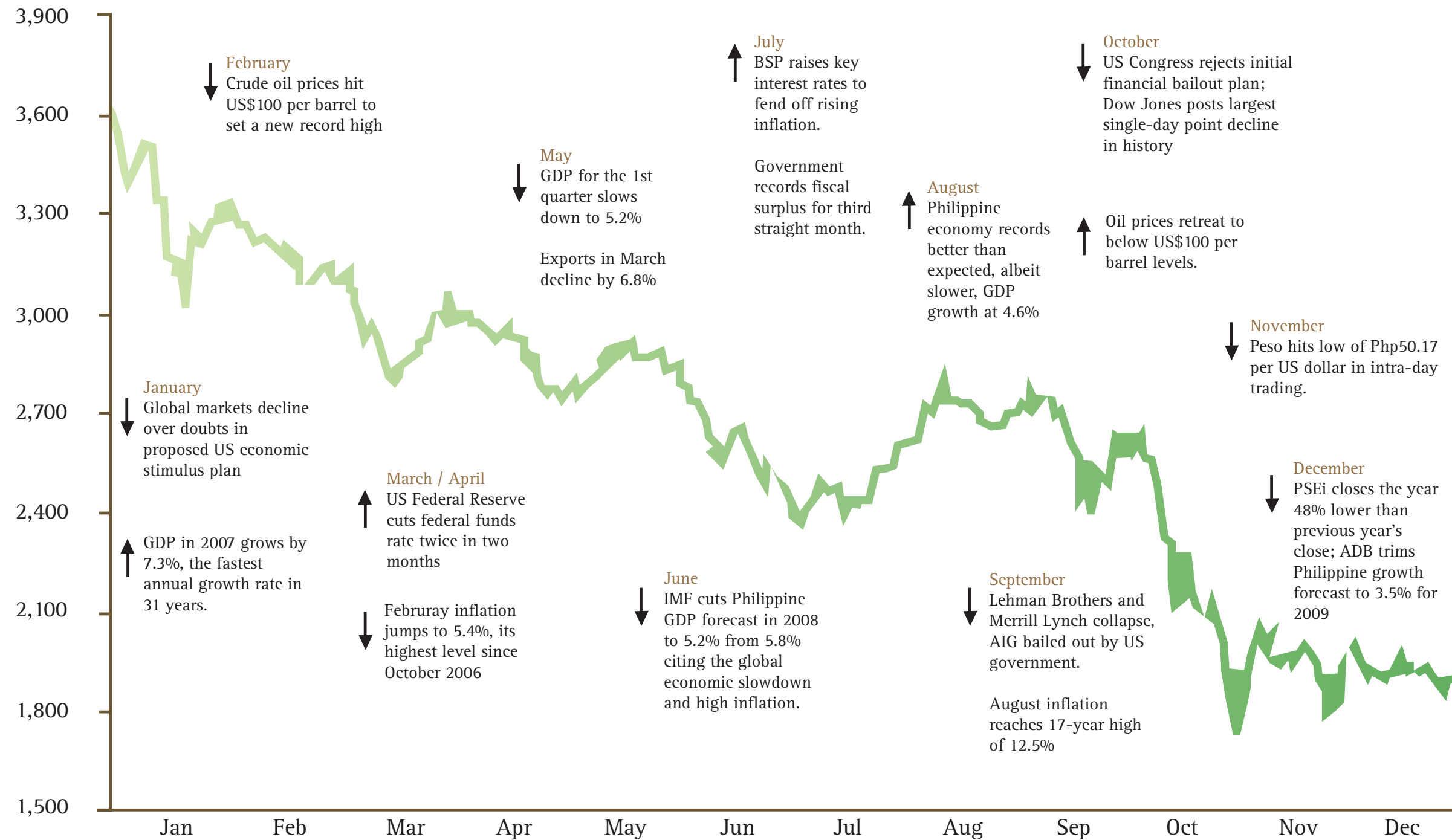
Reflecting the global trend in surging commodity prices, the country's headline inflation rate averaged 9.3 percent in 2008, its highest level in ten years since it posted the same average in 1998. Surging prices of major commodity groups, led by food and oil, pushed the monthly inflation rate to a 17-year high of 12.5 percent in August.

Meanwhile, the Philippine peso also reeled from the effects of negative developments abroad as it weakened to Php47.52 to the US dollar after closing at Php41.28 per US dollar the previous year. Among the Asian currencies in the region, the local currency had the fourth-highest rate of depreciation against the US greenback, trailing only the South Korean won, Indian rupee, and Indonesian rupiah. The consistent strong performance of remittances from overseas Filipinos, along with the country's stable level of dollar reserves, managed to stifle the peso's decline and provided a few silver linings in the gloomy business environment.

Corporate profits in 2008 were also adversely affected by the economic slowdown. The combined net income of listed companies during the first nine months went down by 19.8 percent despite a 13.5 percent increase in their aggregate revenues as rising costs bloated their expenses. The figures were collated from 231 out of the 246 domestic companies, whose interim financial reports for the said period were submitted to the Exchange as of November 27, 2008.

Along with stock exchanges around the world, the local stock market tracked developments on Wall Street, which suffered from persistent woes headlined by the financial sector crisis and the slowdown in the US economy. On October 27, 2008, the PSEi plunged by 12.3 percent or 239.66 points, marking its biggest single-day percentage drop in history and prompting the Exchange to use the "circuit breaker rule" for the first time. The circuit breaker rule temporarily halted trading for 15 minutes when the main index fell by at least 10 percent during intra-day trading.

Figure 1. Philippine Stock Market Performance in 2008



The bankruptcy of US investment bank Lehman Brothers, Inc., the takeover of Merrill Lynch, and the financial problems of insurance heavyweight American International Group (AIG) in September sparked a massive sell-down on Wall Street. After the US Congress rejected an earlier proposed US\$700 billion financial bailout plan, the Dow Jones Industrial Average plummeted by 7 percent or 777.68 points on September 29, 2008 to record its largest one-day point decline in history.

With the US economy considerably slowing, the US Federal Reserve and other central banks in countries hit hard by the global financial crash took active roles in pump-priming their respective economies and rescuing financially distressed firms. The US Fed cut its key federal funds rate six times, effectively reducing it to only 1 percent at year's end from 4.25 percent at the beginning of 2008. The US Fed also set a federal funds rate target of zero to 0.25 percent for 2009, citing that market conditions in the US have weakened significantly.

Crude oil prices rose to dizzying heights in 2008 over supply concerns and geopolitical tensions in several oil-producing countries. US crude oil futures traded on the New York Mercantile Exchange (NYMEX) hurdled the US\$100 per barrel barrier in February and proceeded to set a record high of US\$145.29 per barrel on July 3, 2008. With the economic slowdown prompting a similar decline in demand, oil prices eventually tapered off towards the latter part of the year, sinking to as low as US\$33.87 before finishing at US\$44.60 per barrel at the close of 2008.

Gold prices traded on the NYMEX also surged, going up to as high as US\$1,004.30 per ounce on March 18, 2008. Gold prices settled down to US\$874.60 per ounce at the end of 2008, 4.4 percent higher than its close of US\$838.00 per ounce in 2007.

New Listings

Two new companies, namely, Pepsi-Cola Products Philippines, Inc. (PIP) and San Miguel Brewery, Inc. (SMB), listed on the Exchange in 2008 through an initial public offering (IPO). Total capital raised from both IPOs amounted to Php1.95 billion.

Follow-on Offerings

Two listed companies conducted follow-on offerings to raise an additional capital of Php10.30 billion. First Philippine Holdings Corporation (FPH) and Ayala Corporation, which issued series "B" preferred shares (FPHP) and additional class "A" shares (ACPR), respectively, conducted the follow-on offerings.

Total capital raised in 2008 from initial and follow-on offerings, stock rights offerings and private placements reached Php31.55 billion, down by 65 percent from the Php90.13 billion recorded in 2007.

Trading Transactions

Trading activity slowed down in 2008 as total value turnover for the year reached Php763.90 billion, 42.9 percent lower than the previous year's record mark of Php1.34 trillion. Average daily turnover similarly declined to Php3.11 billion from the Php5.48-billion daily average registered in 2007.

Foreign Trading

The flight of foreign investors from equities all over the world severely affected the local stock market. Foreign investors were net sellers in 2008, cutting short a four-year streak of net buying. Net foreign selling for the year totaled Php22.16 billion, a huge reversal from the Php55.57 billion in net buying recorded in 2007. Total foreign buying transactions amounted to Php361.00 billion, while foreign selling was recorded at a higher Php383.17 billion. The share of foreign investor trades to total market trades was at 48.71 percent, slightly lower than the 48.76 percent share registered last year.

Market Capitalization

Yearend domestic market capitalization plunged by 42 percent to Php2.47 trillion from Php4.27 billion in 2007. Total market capitalization, which includes foreign companies Manulife Financial Corporation and Sun Life Financial Inc., plummeted by 49 percent to Php4.07 trillion from a yearend record high of Php7.98 trillion the previous year. The financials sector, which closed the year with a market capitalization of Php2.00 trillion, accounted for the largest share of total market capitalization at 49.2 percent.

Performance of Sector Indices

All PSE sector indices declined in 2008. The mining and oil sector posted the biggest drop of 61.5 percent. The property sector fell by 57.6 percent; holding firms sector, by 55.9 percent; industrial sector, by 51.5 percent; financials sector, by 47.1 percent; and services sector, by 39.9 percent.

Table 1. Select PSE Indicators (in Billion Php)

MARKET INDICATOR	2004	2005	2006	2007	2008	2008 vs. 2007 % change
PSE Index (PSEi), yearend close	1,822.83	2,096.04	2,982.54	3,621.60	1,872.85	-48.29
Total value traded	206.56	383.52	572.63	1,338.25	763.90	-42.92
Average daily value traded	0.84	1.56	2.32	5.48	3.11	-43.38
Foreign buying	121.88	206.88	348.97	680.33	361.00	-46.94
Foreign selling	104.05	183.35	280.48	624.76	383.17	-38.67
Net foreign buying/(selling)	17.84	23.53	68.49	55.57	(22.16)	-139.88
Total foreign	225.93	390.24	629.46	1,305.09	744.17	-42.98
Share of Foreign trading to Total Trading	54.70%	50.90%	55.00%	48.76%	48.71%	-0.11
Capital Raised	2.05	51.88	57.23	90.13	31.55	-64.99
Initial Public Offerings	1.11	29.83	19.02	18.91	1.95	-89.69
Additional Listings	0.94	22.06	38.20	71.23	29.60	-58.44
Market capitalization, yearend	4,766.67	5,948.74	7,173.19	7,977.61	4,069.23	-48.99
Domestic firms	1,629.52	2,129.95	3,352.35	4,266.82	2,474.05	-42.02
Foreign firms	3,137.15	3,818.79	3,820.84	3,710.79	1,595.17	-57.01
No. of Listed Companies, yearend	234	236	239	244	246	0.82
Domestic	232	234	237	242	244	0.83
Foreign	2	2	2	2	2	0.00
No. of Listed Issues, yearend	312	309	313	314	316	0.64
Domestic	310	307	311	312	314	0.64
Foreign	2	2	2	2	2	0.00

Table 2. Annual Growth Rate of Sector Indices

Indices	2007	2008	% change
All Shares	2,216.75	1,196.99	-46.0
Financials	864.37	456.89	-47.1
Industrial	4,422.22	2,145.65	-51.5
Holding Firms	2,036.59	897.45	-55.9
Property	1,470.57	623.77	-57.6
Services	1,901.40	1,143.59	-39.9
Mining and Oil	8,375.10	3,221.55	-61.5

Table 3. Domestic Market Capitalization and Trading Value by Sector (in billion Php)

	Market Capitalization				Value Traded			
	2007	2008	% change	% share	2007	2008	% change	% share
Financials Sector	684.54	405.66	-40.7	16.4	182.43	92.46	-49.3	3.7
Banks	626.66	372.11	-40.6	15.0	165.03	87.89	-46.7	3.6
Other Financial Institutions	58.24	33.93	-41.7	1.4	17.40	4.57	-73.7	0.2
Industrial Sector	860.98	631.74	-26.6	25.5	335.01	240.02	-28.4	9.7
Electricity, Energy, Power & Water	416.16	229.12	-44.9	9.3	242.79	167.94	-30.8	6.8
Food, Beverage & Tobacco	323.09	355.04	9.6	14.4	68.34	63.11	-7.7	2.6
Construction, Infrastructure & Allied Services	95.68	29.26	-69.4	1.2	13.31	7.04	-47.1	0.3
Chemicals	14.60	10.26	-29.7	0.4	4.65	0.73	-84.4	0.0
Diversified Industrials	11.52	8.07	-29.9	0.3	5.92	1.20	-79.8	0.0
Holding Firms Sector	793.32	326.04	-58.9	13.2	203.43	85.63	-57.9	3.5
Property Sector	638.26	319.22	-50.0	12.9	270.63	104.10	-61.5	4.2
Services Sector	1,162.77	738.51	-36.5	29.9	244.75	196.85	-19.6	8.0
Media	69.57	22.93	-67.0	0.9	24.69	6.26	-74.6	0.3
Telecommunications	912.91	590.04	-35.4	23.8	164.08	151.33	-7.8	6.1
Information Technology	19.96	11.18	-44.0	0.5	14.58	3.15	-78.4	0.1
Transportation Services	103.15	72.37	-29.8	2.9	23.79	21.62	-9.1	0.9
Hotel & Leisure	11.44	8.20	-28.3	0.3	4.05	3.07	-24.2	0.1
Education	10.05	10.49	4.4	0.4	0.71	0.29	-59.8	0.0
Diversified Services	39.85	25.15	-36.9	1.0	12.85	11.13	-13.4	0.5
Mining & Oil Sector	122.44	50.65	-58.6	2.0	101.73	44.84	-55.9	1.8
Mining	99.11	39.74	-59.9	1.6	96.53	41.89	-56.6	1.7
Oil	23.33	10.91	-53.2	0.4	5.20	2.95	-43.3	0.1
SME	4.51	2.23	-50.6	0.1	0.28	0.01	-95.0	0.0
Total Domestic Issues	4,266.82	2,474.05	-42.0	100.0	1,337.69	763.65	-42.9	30.9
Domestic Issues	4,266.82	2,474.05	-42.0	100.0	1,337.69	763.65	-42.9	30.9
Foreign Issues	3,710.79	1,595.17	-57.0	64.5	0.69	0.25	-64.5	0.01
Total Market	7,977.61	4,069.23	-49.0	164.5	1,338.25	763.90	-42.9	30.9

Table 4. Market Activity by Sector

Sector	No. of Issues	Actively Traded	Gainers	Losers	Unchanged
Financials	35	30	3	27	0
Industrial	75	57	8	47	2
Holding Firms	47	43	4	37	2
Property	44	38	3	35	0
Services	84	64	8	41	15
Mining & Oil	29	27	1	26	0
SME	2	2	0	2	0
Total Number of Issues	316	261	27	215	19

Table 5. Top 25 Price Gainers

Rank	Issue	Code	2008 close (in Php)	2007 close (in Php)	% change
1	Benguet Corporation - 8% Cumulative Convertible Pref. A	BCP	75.00	10.00	650.00
2	ATN Holdings, Inc. "A"	ATN	4.70	2.48	89.52
3	ATN Holdings, Inc. "B"	ATNB	4.70	2.80	67.86
4	Philippine Trust Company	PTC	78.00	50.00	56.00
5	A Brown Company, Inc.	BRN	3.25	2.10	54.76
6	CADP Group Corporation	CAC	2.75	1.88	46.28
7	Central Azucarera de Tarlac, Inc.	CAT	2.95	2.08	41.83
8	Grand Plaza Hotel Corporation	GPH	37.50	27.50	36.36
9	Aboitiz Transport System (ATSC) Corporation	ATS	1.64	1.26	30.16
10	Prime Gaming Philippines, Inc.	PGPI	7.50	5.94	26.32
11	Concrete Aggregates Corporation "A"	CA	45.00	36.00	25.00
11	UEM Development Philippines, Inc.	MK	2.50	2.00	25.00
13	San Miguel Pure Foods Company, Inc. "A"	PF	49.50	40.00	23.75
14	Active Alliance, Inc.	AAI	3.00	2.50	20.00
15	Transpacific Broadband Group International, Inc.	TBGI	2.80	2.36	18.64
16	Primex Corporation	PRMX	4.20	3.65	15.07
17	Keppel Philippines Holdings, Inc. "B"	KPHB	2.00	1.84	8.70
18	Citystate Savings Bank, Inc.	CSB	27.00	25.00	8.00
19	Far Eastern University, Inc.	FEU	620.00	575.00	7.83
20	Liberty Flour Mills, Inc.	LFM	28.00	26.00	7.69
21	Centro Escolar University	CEU	5.90	5.50	7.27
22	Highlands Prime, Inc.	HP	3.00	2.80	7.14
23	Keppel Philippines Marine, Inc.	KPM	2.12	2.00	6.00
24	Bogo-Medellin Milling Company, Inc.	BMM	37.00	35.00	5.71
25	I-Remit, Inc.	I	4.95	4.70	5.32

Table 6. Top 25 Price Losers

Rank	Issue	Code	2008 close (in PhP)	2007 close (in Php)	% change
1	Paxys, Inc.	PAX	0.60	5.90	-89.83
2	Lepanto Consolidated Mining Company "A"	LC	0.06	0.52	-88.36
3	Oriental Peninsula Resources Group, Inc.	ORE	0.44	3.30	-86.67
4	Lepanto Consolidated Mining Company "B"	LCB	0.07	0.51	-86.16
5	JG Summit Holdings, Inc.	JGS	1.70	11.50	-85.22
6	Dizon Copper-Silver Mines, Inc.	DIZ	1.20	8.00	-85.00
7	IPVG Corporation	IP	1.20	7.90	-84.81
8	Filinvest Development Corporation	FDC	0.77	4.90	-84.29
9	Apex Mining Company, Inc. "B"	APXB	1.12	6.90	-83.77
10	First Gen Corporation	FGEN	9.80	59.50	-83.53
11	Vista Land & Lifescapes, Inc.	VLL	1.02	6.00	-83.00
12	Apex Mining Company, Inc. "A"	APX	1.10	6.40	-82.81
13	Megaworld Corporation	MEG	0.66	3.75	-82.40
14	EEl Corporation	EEl	0.76	4.00	-81.00
15	Lodestar Investment Holdings Corporation	LIHC	3.10	16.00	-80.63
16	JTH Davies Holdings, Inc.	JTH	0.90	4.60	-80.43
17	Atlas Consolidated Mining & Development Corporation	AT	2.75	14.00	-80.36
18	NiHAO Mineral Resources International, Inc.	NI	3.70	18.75	-80.27
19	Manila Mining Corporation "B"	MAB	0.0065	0.0310	-79.03
20	First Philippine Holdings Corporation	FPH	15.25	72.50	-78.97
21	Benpres Holdings Corporation	BPC	0.97	4.60	-78.91
22	United Paragon Mining Corporation	UPM	0.0032	0.0150	-78.67
23	MRC Allied Industries, Inc.	MRC	0.10	0.46	-78.26
24	GEOGRACE Resources Philippines, Inc.	GEO	0.40	1.80	-77.78
25	Manila Mining Corporation "A"	MA	0.0065	0.0290	-77.59

Table 7. Top 25 Companies by Value Traded (Regular Market), in Php

Rank	Company Name	Code	Value Traded
1	Philippine Long Distance Telephone Company	TEL	113,928,344,800.00
2	Ayala Corporation	AC	37,384,947,345.00
3	Ayala Land, Inc.	ALI	33,135,688,665.00
4	Megaworld Corporation	MEG	26,920,547,470.00
5	Manila Electric Company	MER	26,699,860,900.00
6	Energy Development (EDC) Corporation	EDC	25,379,252,970.00
7	Globe Telecom, Inc.	GLO	23,859,399,900.00
8	Metropolitan Bank & Trust Company	MBT	23,163,686,075.00
9	Bank of the Philippine Islands	BPI	22,951,329,950.00
10	SM Investments Corporation	SM	16,952,720,870.00
11	Philex Mining Corporation	PX	15,916,252,340.00
12	SM Prime Holdings, Inc.	SMPH	15,809,430,805.00
13	Banco de Oro Unibank, Inc.	BDO	14,657,442,200.00
14	Manila Water Company, Inc.	MWC	13,346,735,825.00
15	Alliance Global Group, Inc.	AGI	11,647,087,660.00
16	Filinvest Land, Inc.	FLI	8,581,334,620.00
17	First Philippine Holdings Corporation	FPH	8,399,481,800.00
18	Jollibee Foods Corporation	JFC	8,367,628,550.00
19	International Container Terminal Services, Inc.	ICT	8,011,276,325.00
20	Petron Corporation	PCOR	7,317,037,300.00
21	Robinsons Land Corporation	RLC	6,616,248,755.00
22	First Gen Corporation	FGEN	6,301,670,425.00
23	Aboitiz Power Corporation	AP	6,147,825,650.00
24	Vista Land & Lifescapes, Inc.	VLL	6,135,718,880.00
25	GEOGRACE Resources Philippines, Inc.	GEO	5,592,085,870.00

Table 8. Top 25 Companies by Trading Frequency (Regular Market), in Number of Trades

Rank	Company Name	Code	Trading Frequency
1	Megaworld Corporation	MEG	89,519
2	GEOGRACE Resources Philippines, Inc.	GEO	56,921
3	Ayala Corporation	AC	51,231
4	Philippine Long Distance Telephone Company	TEL	50,969
5	Manila Electric Company	MER	42,079
6	Ayala Land, Inc.	ALI	39,095
7	Metropolitan Bank & Trust Company	MBT	38,992
8	Bank of the Philippine Islands	BPI	35,830
9	Filinvest Land, Inc.	FLI	35,389
10	Benpres Holdings Corporation	BPC	34,822
11	Philex Mining Corporation	PX	33,462
12	Energy Development (EDC) Corporation	EDC	33,089
13	First Philippine Holdings Corporation	FPH	31,059
14	Globe Telecom, Inc.	GLO	28,596
15	Alliance Global Group, Inc.	AGI	27,583
16	Atlas Consolidated Mining & Development Corporation	AT	23,532
17	SM Prime Holdings, Inc.	SMPH	22,558
18	SM Investments Corporation	SM	21,884
19	Banco de Oro Unibank, Inc.	BDO	21,826
20	Paxys, Inc.	PAX	21,402
21	A Brown Company, Inc.	BRN	21,212
22	First Gen Corporation	FGEN	19,599
23	Jollibee Foods Corporation	JFC	18,556
24	Manila Water Company, Inc.	MWC	18,356
25	Vista Land & Lifescapes, Inc.	VLL	18,255

Table 9. Top 25 Companies by Market Capitalization (Common Shares), in Php

Rank	Company Name	Code	Market Capitalization
1	Manulife Financial Corporation	MFC	1,119,428,300,250
2	Sun Life Financial Inc.	SLF	475,743,496,350
3	Philippine Long Distance Telephone Company "Common"	TEL	396,554,213,430
4	San Miguel Corporation	SMC	130,329,650,063
5	San Miguel Brewery, Inc.	SMB	127,906,975,368
6	Bank of the Philippine Islands	BPI	124,960,967,208
7	SM Investments Corporation	SM	117,316,423,296
8	Ayala Corporation	AC	103,681,876,606
9	Globe Telecom, Inc.	GLO	100,578,515,520
10	SM Prime Holdings, Inc.	SMPH	99,970,007,768
11	Ayala Land, Inc.	ALI	82,963,215,622
12	Pilipino Telephone Corporation	PLTL	80,903,572,191
13	Manila Electric Company	MER	66,317,467,755
14	Banco de Oro Unibank, Inc.	BDO	55,248,783,864
15	Petron Corporation	PCOR	47,813,032,935
16	Philippine Trust Company	PTC	45,240,000,000
17	Jollibee Foods Corporation	JFC	42,394,277,317
18	Metropolitan Bank & Trust Company	MBT	41,567,195,050
19	China Banking Corporation	CHIB	35,014,170,255
20	Aboitiz Equity Ventures, Inc.	AEV	31,219,675,878
21	Energy Development (EDC) Corporation	EDC	28,323,300,000
22	Aboitiz Power Corporation	AP	27,962,696,367
23	Manila Water Company, Inc.	MWC	26,560,260,550
24	International Container Terminal Services, Inc.	ICT	24,467,981,340
25	Philex Mining Corporation	PX	19,016,170,743

Highlights of Operations

The global financial hurricane which swept through global money and equities markets also whipped the Philippine stock market in 2008. The PSEi, the main barometer of local trading activity based on prices of 30 blue chip stocks, dipped below the 2,000-level and lost all its gains in the previous year.

The benchmark index recorded a year-low in October at 1,704.41 points, its weakest since 2004. It capped the year at 1,872.85 points, 48.3 percent lower than its close in 2007.

The total value of shares traded in the Exchange in 2008 plummeted to Php763.90 billion, 42.9 percent lower than the previous year’s record-breaking mark of Php1.34 trillion. Average daily turnover declined by 43.25 percent to Php3.11 billion from the Php5.48 billion daily average in 2007.

Yearend total market capitalization of all listed companies was halved as it fell 49 percent to Php4.07 trillion from the year-end record high of Php7.98 trillion in 2007. The market capitalization of domestic companies dropped by 42 percent to Php2.47 trillion from Php4.27 trillion a year ago.

Fresh capital raised through initial public offerings (IPO), follow-on offerings, and other capital raising activities hit only Php31.55 billion, a 65 percent drop from the Php90.13 billion gross proceeds of similar activities in 2007.

However, the Exchange was prepared to meet the challenges posed by the global financial crisis. It laid down its five-year strategic plan for 2008 up to 2012. It also implemented reforms and initiatives to keep the stock market afloat, boost investor confidence, and hasten the recovery of the market.

THE “LEVEL UP” STRATEGIC PLAN

Following its successful “LEAP-A-MILE” three-year market reforms roadmap, the Exchange embarked on a five-year strategic plan that is focused on raising the bar for the Exchange’s performance to new heights. Aptly called “LEVEL UP,” the strategic plan identified the seven key objectives of the Exchange for 2008 up to 2012, as follows:

- L**ist more companies and securities
- E**xpand and educate the investor base
- V**alue and enforce corporate governance standards
- E**nhance shareholder value
- L**aunch new products and services
- U**pgrade market infrastructure and human resources
- P**artner with government and other stakeholders

These key objectives seek to attain the Exchange’s goal of becoming a premier exchange in the region. The Exchange formulated the strategy to adapt to the ever-changing global investment environment. Amidst the global financial turmoil, the Exchange remains even more committed to pursue its role as an agent of development for a strong and robust economy.

L

List more companies and securities

The value proposition for listing must be continuously enhanced.

New Listings And Capital Raised

Initial Public Offering

In 2008, the Exchange welcomed Pepsi-Cola Products Philippines, Inc. and San Miguel Brewery, Inc. among the firms listed on the First Board. These companies conducted an IPO of their common shares in February and May, respectively. Their IPOs realized combined proceeds of Php1.95 billion.

required minimum public ownership within one year from its listing. The Exchange may extend the one-year period upon request by the company if it files for an extension at least 60 calendar days prior to the lapse of the one-year period. The company must secure from the relevant governmental agency a clearance for its listing by way of introduction.

If the company fails to publicly offer its securities within the prescribed period, the Exchange may (a) suspend the trading of the company’s securities, (b) double its annual listing maintenance fees or impose such other sanctions as the Exchange may see fit, and/or (c) require it to buy back its securities and delist the company.

Monitoring of Use of Proceeds Raised from Capital-Raising Activities

To promote transparency and accountability among the listed companies, the Exchange mandated listed companies, which raised capital through the Exchange from the year 2006 onwards, to submit a detailed report on the use of the proceeds of their respective capital-raising activities. Each of these companies should disclose to the Exchange (i) the disbursements made pursuant to the planned use of proceeds from the capital-raising activity; (ii) Quarterly Progress Report on the application of the proceeds on or before the first fifteen days of the following quarter; (iii) Annual Summary of the application of the proceeds on or before January 31 of the following year; and (iv) the approval by its board of directors of any reallocation of the proceeds. The Exchange requires a company to justify any deviation from the plan reported in the company’s offering prospectus.

Full Implementation of the Philippine Mineral Reporting Code

The SEC formally approved the Exchange’s adoption of the Philippine Mineral Reporting Code (PMRC) in the second quarter of 2008. The approval paved the way for the full implementation of the PMRC whereby the Exchange implemented provisions of the PMRC on the regulation of technical disclosures of listed and applicant mining companies. As an internationally accepted standard in the mining industry, the PMRC sets out the minimum requirements, recommendations, and guidelines for public reporting by mining companies of exploration results, mineral resources and ore reserves. The Exchange, together with the SEC, the Mines and Geosciences Bureau and the mining professional organizations, is currently in the process of completing the Implementing Rules and Regulations set to be released in mid-2009.



Pepsi-Cola Products, Philippines, Inc. IPO Listing Ceremony

Stock Rights Offering

Five listed companies completed their stock rights offering to their respective shareholders, as follows:

Revised Rules on “Listing By Way of Introduction”

On September 26, 2008, the Exchange obtained the approval by the Securities and Exchange Commission (SEC) of amendments to its listing rules which allow the listing by way of introduction of corporations mandated by law to publicly offer their securities. The amended listing rule would encourage these corporations, particularly the entities registered with the Board of Investments and the Philippine Economic Zone Authority as well as Congressional franchise grantees, to list their securities on the Exchange. The amended rule will be effective on April 6, 2009.

Follow-On Offering

Two listed companies offered new classes of securities to the public in 2008. The Exchange listed First Philippine Holdings Corporation Series “B” Perpetual Preferred Shares in April and the Ayala Corporation Preferred Class “A” Shares in November. These follow-on offerings raked in a total of Php10.3 billion in new capital.

A company listed by way of introduction need not raise capital upon listing. If the company is legally mandated to publicly offer its securities, however, the Exchange requires the company to conduct the public offering of its securities and attain the

Table 10. Initial Public Offerings

Company	Code	Listing Date	Offer Price (in Php)	No. of Shares Offered	Offer Proceeds (in Php)
Pepsi-Cola Products Philippines, Inc.	PIP	1-Feb-08	3.50	1,222,734,982	4,279,572,437.00
Primary Offering				380,782,893	1,332,740,125.50
Secondary Offering				841,952,089	2,946,832,311.50
San Miguel Brewery, Inc.	SMB	12-May-08	8.00	886,101,000	7,088,808,000.00
Primary Offering				77,052,000	616,416,000.00
Secondary Offering				809,049,000	6,472,392,000.00
TOTAL INITIAL PRIMARY OFFERING PROCEEDS				1,949,156,125.50	
TOTAL INITIAL SECONDARY OFFERING PROCEEDS				9,419,224,311.50	
TOTAL INITIAL OFFERING PROCEEDS					11,368,380,437.00

Table 11. Follow-On Offerings

Company	Code	Listing Date	Offer Price (in Php)	No. of Shares Offered	Offer Proceeds (in Php)
First Philippine Holdings Corporation (Preferred)					
Primary Offering	FPH	30-Apr-08	100.00	43,000,000	4,300,000,000.00
Ayala Corporation Preferred Class "A" Shares					
Primary Offering	ACPA	25-Nov-08	500.00	12,000,000	6,000,000,000.00
TOTAL FOLLOW-ON PRIMARY OFFERING PROCEEDS					10,300,000,000.00
TOTAL FOLLOW-ON SECONDARY OFFERING PROCEEDS					-
TOTAL FOLLOW-ON OFFERING PROCEEDS					10,300,000,000.00

Table 12. Stock Rights Offerings

Listed Company	Offer Ratio	Record Date	Listing Date
Empire East Land Holdings, Inc.	1:3	Dec. 20, 2007	Jan. 21, 2008
Abacus Consolidated Resources and Holdings, Inc.	1:4	Dec. 21, 2007	Jan. 28, 2008
Philippine Savings Bank	1:5	Jan. 18, 2008	Feb. 21, 2008
Lepanto Consolidated Mining Company	1:7	Mar. 25, 2008	May 6, 2008
Lepanto Consolidated Mining Company "B"	1:7	Mar. 25, 2008	May 6, 2008
ATR KimEng Financial Corporation	3:7	Nov. 19, 2008	Dec. 11, 2008

INDEX AND DATA MANAGEMENT

The Exchange introduced the use of free float levels in managing the various stock indices, including the PSEi. The use of free float levels affords investors a better grasp of the percentage of a company’s outstanding shares that are freely traded in the market. It also facilitates real-time adjustment of the public float shares when listed companies issue new shares.

The PSEi and the sector indices were rebalanced in May and November 2008. The Exchange regularly updates the indices to ensure that their constituents reflect the overall price movement of the market as well as the sectors they represent.

MARKETING SERVICES

Despite the downtrend in the global markets, the Exchange continued to nurture its relationship with both publicly-listed companies and potential companies for listing to strengthen the value proposition of listing at the Exchange and attract more companies to go public. The Exchange successfully established strategic alliances with different key organizations and industry associations, including the Business Processing Association of the Philippines (BPAP), Bacolod Business Club, Cebu Business Club, Chamber of Mines of the Philippines (Chamber of Mines), Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCCII), Financial Executives Institute of the Philippines (FINEX), GenSan Chamber of Commerce and Industries, Global News Network (GNN), Iloilo Business Club (IBC), and Oro Chamber.

The Exchange conducted joint seminars and conferences with both new and existing valued partners to increase public awareness on the role of the Exchange in helping elevate corporate valuations and enhance corporate governance. During these marketing activities, the Exchange pooled together in one occasion all parties involved in the entire listing process. The financial advisors, the underwriters, and the concerned government agencies were provided the opportunity to liaise with, and address the queries of, companies that wish to go public. Top officers of listed companies also shared testimonials of their listing experiences and the benefits their companies earned after listing on the Exchange.

In partnership with the Chamber of Mines, the Exchange conducted a seminar called “Going Public and Building Confidence – How to Undertake an IPO” in February and the Analyst Workshop on Mining Technical Valuation in March. In September, the Exchange partnered with the BPAP to hold the seminar entitled “On the Road to Going Public.”

The Exchange hosted breakfast gatherings to recognize listed companies under its Listing Anniversary Project. The recognitions went to Wellex Industries Corporation and Leisure & Resorts World Corp. (50th listing anniversary); Cityland Development Corporation (25th listing anniversary); Philippine Seven Corporation and Euro-Med Laboratories, Phil., Inc. (10th listing anniversary); and Makati Finance Corporation (5th listing anniversary).



Philippine Mining Industry Lecture Series

Table 13. PSEi Recomposition

Results of recomposition on May 26, 2008	
1	ABOITIZ EQUITY VENTURES, INC.
2	AYALA CORPORATION
3	AYALA LAND, INC.
4	BANCO DE ORO UNIBANK, INC.
5	BANK OF THE PHILIPPINE ISLANDS
6	ENERGY DEVELOPMENT (EDC) CORPORATION
7	FILINVEST LAND, INC.
8	FIRST GEN CORPORATION
9	FIRST PHILIPPINE HOLDINGS CORPORATION
10	GLOBE TELECOM, INC.
11	HOLCIM PHILIPPINES, INC.
12	INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.
13	JG SUMMIT HOLDINGS, INC.
14	JOLLIBEE FOODS CORPORATION
15	LEPANTO CONSOLIDATED MINING COMPANY
16	MANILA ELECTRIC COMPANY
17	MANILA WATER COMPANY, INC.
18	MEGAWORLD CORPORATION
19	METROPOLITAN BANK & TRUST COMPANY
20	PHILEX MINING CORPORATION
21	PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
22	PHILIPPINE NATIONAL BANK
23	RIZAL COMMERCIAL BANKING CORPORATION
24	ROBINSONS LAND CORPORATION
25	SAN MIGUEL CORPORATION
26	SM INVESTMENTS CORPORATION
27	SM PRIME HOLDINGS, INC.
28	UNION BANK OF THE PHILIPPINES
29	UNIVERSAL ROBINA CORPORATION
30	VISTA LAND & LIFESCAPES, INC.

Results of recomposition on November 14, 2008	
1	ABOITIZ EQUITY VENTURES, INC.
2	ABS-CBN BROADCASTING CORPORATION
3	ALLIANCE GLOBAL GROUP, INC.
4	AYALA CORPORATION
5	AYALA LAND, INC.
6	BANCO DE ORO UNIBANK, INC.
7	BANK OF THE PHILIPPINE ISLANDS
8	ENERGY DEVELOPMENT (EDC) CORPORATION
9	FILINVEST LAND, INC.
10	FIRST GEN CORPORATION
11	FIRST PHILIPPINE HOLDINGS CORPORATION
12	GLOBE TELECOM, INC.
13	INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.
14	JOLLIBEE FOODS CORPORATION
15	LEPANTO CONSOLIDATED MINING COMPANY
16	MANILA ELECTRIC COMPANY
17	MANILA WATER COMPANY, INC.
18	MEGAWORLD CORPORATION
19	METROPOLITAN BANK & TRUST COMPANY
20	PETRON CORPORATION
21	PHILEX MINING CORPORATION
22	PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
23	RIZAL COMMERCIAL BANKING CORPORATION
24	ROBINSONS LAND CORPORATION
25	SAN MIGUEL CORPORATION
26	SM INVESTMENTS CORPORATION
27	SM PRIME HOLDINGS, INC.
28	UNION BANK OF THE PHILIPPINES
29	UNIVERSAL ROBINA CORPORATION
30	VISTA LAND & LIFESCAPES, INC.

E

Expand and educate the investor base

The need to inform Filipinos of the value of investing does not diminish even under adverse market conditions.

MARKET EDUCATION

In 2008, the Exchange stepped up efforts to reach out to prospective investors and market participants. It completed 279 market education projects comprised of 191 workshops, seminars, orientations, symposia, and exchange tours for prospective individual investors and students; two economic briefings; four industry briefings; four exhibits and expositions; seven local roadshows; 11 continuing education seminars for trading participants; seven joint projects with trading participants; 18 projects with stock market interest groups; nine special exchange visits;

five special events; one “reverse roadshow”; and international roadshows in the United Arab Emirates, Hong Kong and US.

The Exchange likewise conducted special projects such as two batches of the PSE Certified Securities Specialist Course; the PSE Bull Run 2008; three runs of the PSE Short Course; 27 Stock Trading Tournaments; the PSE Awards Night; the PSE Open Best Thesis Competition; the PSE Student Awards Night; and the PSE-JCI Best Business Plan Competition.

In partnership with the Commission on Higher Education (CHED), the Philippine Council of Deans & Educators in Business (PCDEB), and the Business Education Industry Linkage composed of 14 professional and academic organizations, the Exchange conducted five Faculty Development Workshop Seminars to prepare educators for the implementation of CHED Memorandum Order 39 (CMO 39), which institutionalized a stand-alone “capital markets” subject in business administration courses.

These various market education projects and activities directly reached at least 25,762 individuals, a 48 percent increase from the number of individuals reached in 2007. Of these, 879 came from market participants; 9,249 from the government and private sector; 12,099 from the academe; and 3,535 from the overseas Filipino communities.

The significant increase in the number of Filipinos reached was mainly due to the Exchange’s strategy of involving trading participants and interest groups. The Exchange also maximized the use of free and “natural” media channels for information dissemination and event coverage.

Workshops, Seminars, Orientations, Symposia, and Tours

The Exchange continued its workshops, seminars, orientations, symposia, and exchange tours or visits. These activities typically include audio visual presentations, lectures on various stock market topics, trading simulations, games and learning activities, gallery tours, observation of the trading floor, and an open forum.

Armed Forces of the Philippines’ Exchange Visit



Stand-Alone Subject on Capital Markets

In 2006, the Exchange played a significant role in the successful institutionalization of a stand-alone subject on capital markets in business administration courses through CMO 39. As part of the CMO's implementation in 2008, the Exchange, together with CHED, PCDEB and the Business Education Industry Linkage, conducted faculty development programs in five locations covering the entire archipelago, to wit:

Inauguration of Southville International School and Colleges' Entrepreneurship and Capital Markets Center



1. May 22, 2008 at St. Louis University, Baguio City for Regions 1, 2, 3 and CAR
2. July 24, 2008 at Dominique Hotel, Tagaytay for Regions 4, 4A & 5
3. August 21, 2008 at University of San Carlos, Cebu City for the Visayan Region
4. October 2, 2008 at Lyceum of the Philippines, Manila for NCR
5. October 21, 2008 at the University of Mindanao for the Mindanao Region

About 700 finance professors were given pointers for the instruction of the new capital market subject. Public hearings and curriculum reviews were also conducted during these workshop conferences.

PSE Certified Securities Specialist Course

The Exchange established the PSE Certified Securities Specialist Course, a program envisioned to provide continuing education for market participants, to instill foundation knowledge for prospective stock market career professionals, and to provide serious investors with in-depth knowledge about the market. It charted and developed the course in cooperation with a composite team of noted academicians and market practitioners,

including the Association of Securities Analysts of the Philippines (ASAP) and the Chartered Financial Analysts Society of the Philippines (CFA).

The Exchange currently offers the course through its partner institutions, namely, the Ateneo Center for Continuing Education (Ateneo CCE), the Global City Innovative College (GCIC), and the iAcademy.

The PSE Certified Securities Specialist Course undergoes continuous improvement. From its original 69-hour program on financial market theories, valuation techniques and analysis, investment portfolio management and market dynamics, the course expanded into a 117.5-hour course to include segments on the Securities Regulation Code and ethics. The Ateneo CCE also added leadership and business math as special components of the course and, jointly with the Exchange, successfully developed a fully automated examination facility to be used in early 2009.

The Exchange is currently negotiating with the University of the Philippines (UP) Development Center for Finance for the possible launch of the course in UP Diliman in June 2009.

Enrollment in the PSE Certified Securities Specialist Course significantly increased and stabilized since its maiden run in December 2006. The number of enrollees increased to 126 in 2008 from only 16 in 2006.

Of the total 126 participants, 39 enrolled in GCIC; 38 in iAcademy; 33 in Ateneo CCE; and 16 in the PSE independent run.

The enrollees were a diverse mix of professionals, businessmen, and new college graduates. Of the 126 total participants, 60 were employed professionals mostly from banking institutions, brokerage firms, and other financial services companies. The others were fresh graduates.

The Exchange awarded the "Certified Securities Specialist" title to 47 course graduates from which, 23 are from GCIC; 16 from the PSE maiden run; and eight from iAcademy.

The PSE Bull Run 2008

As part of a program to promote health and stock market awareness, the Exchange held its annual fun run, the PSE Bull Run 2008: "Takbo Para sa Ekonomiya," in January at the Fort Bonifacio, Global City in Taguig City. Over 4,000 running enthusiasts, along with sports celebrities and prominent personalities from the government, the diplomatic community, and the business sector, joined the fun run. The year's turnout represented a significant 60 percent increase from the number of runners who joined the 2007 lap.

Economic Briefings

Aside from school-based projects, the Exchange also partnered with the Bangko Sentral ng Pilipinas (BSP) Investor Relations Office (IRO) to conduct economic briefings. The joint briefings were held on February 15 and September 17, 2008 at the Makati Shangri-la Hotel Rizal Ballroom. Around 3,000 participating sectoral leaders were given periodic performance reviews and forecasts about the Philippine economy. Through these activities, the Exchange promoted stock investments through the distribution of brochures from various trading participants, booth exhibition, live display of market activity, and a looped audio visual presentation.

Industry Briefings

For the year 2008, the Exchange conducted within its premises four industry briefings, namely:

- Business Process Outsourcing Industry Briefing held on March 13, 2008;
- Analyst Workshop on Mining Technical Valuation held on March 27 and 28, 2008;
- A Banking Industry Briefing entitled “Perspectives on the Global Economy and Philippine Banking” held on July 18, 2008; and
- The Capital Markets Industry Briefing entitled “Capital Markets Industry Outlook for 2009” held on November 27, 2008

The briefings featured distinguished experts on the subject industries and drew an average 200 attendees per event.

International Roadshows

The Exchange intensified its campaign to promote stock market investments among overseas Filipinos.

The Exchange conducted the PSE United Arab Emirates (UAE) Roadshow 2008 from January 25 to 27, 2008. Its contingent joined the business delegation of President Gloria Macapagal-Arroyo during her working visit to the UAE.

During the roadshow, the Exchange conducted seminars for close to a thousand Filipinos in Abu Dhabi. These seminars stressed the importance of stock market investments and its benefits to Filipinos and the Philippine economy. Among the resource persons were PSE President and Chief Executive Officer Francisco Ed. Lim, who emphasized the need to manage investment risks and to guard against fraudulent investment scams, and PSE Director and Philippine Association of Securities Brokers & Dealers, Inc. (PASBDI) Chairperson Vivian Yuchengco, who assured future investors of the transparency and integrity of trading participants and various market players.

The Exchange partnered with various companies in educating overseas Filipino investors.

Figure 2. Professional Profile of PSE CSSC Enrollees in Number of Participants per Profession

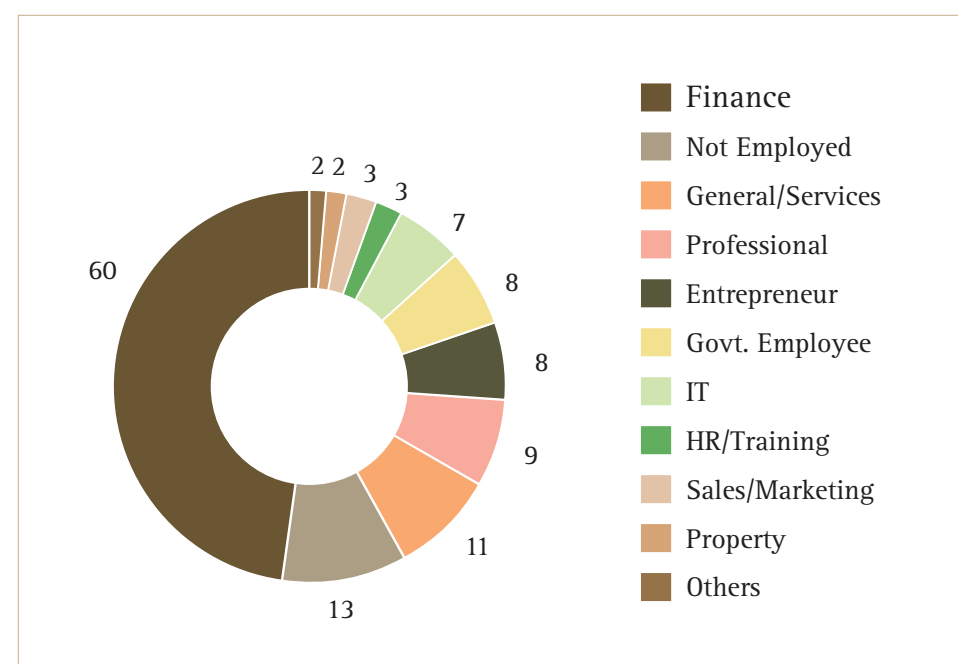
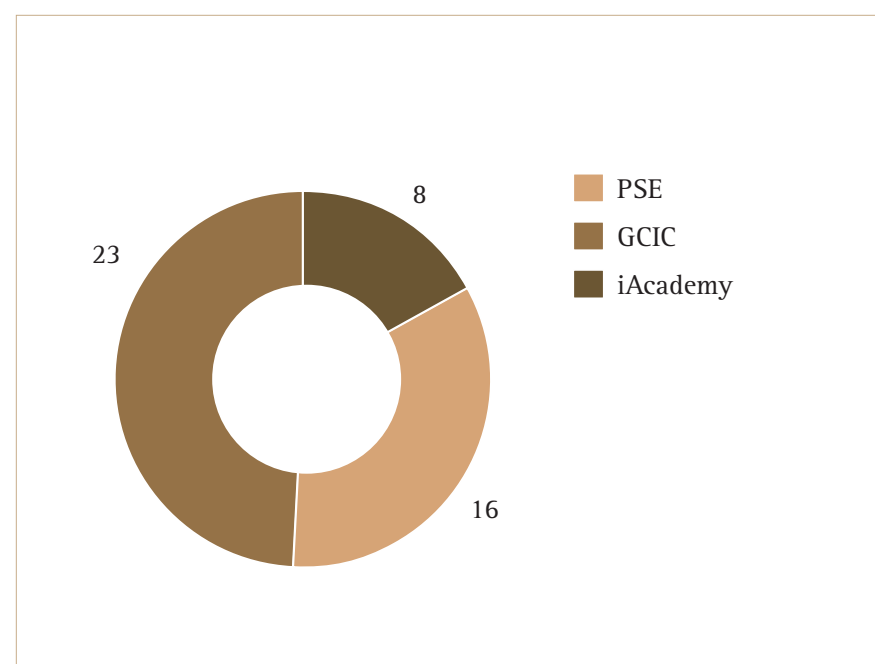


Figure 3. Total No. of PSE CSSC Title Holders in Number of Participants per School



RCBC Securities, Inc., an online broker, educated the attendees on the basics of investing in the Philippine stock market using the internet. The Mutual Fund Management Company of the Philippines apprised participants on the advantages of investing in mutual funds. STI, Exportbank, EIB Realty and Vicsal Securities, Inc. also assisted in the seminars.

The Exchange enlisted the support of listed companies for the UAE roadshow, namely, Ayala Corporation, Aboitiz Equity Ventures, Philippine Long Distance Telephone Company,



PSE Fun Run 2008

Megaworld Corporation, International Container Terminal Services, Inc., Philex Mining Corporation, Metro Pacific Investments Corporation, and IPVG Corporation. These companies made presentations to the top financial institutions from the UAE, Kuwait, and Jordan, namely, Arqaam Capital, Commercial Bank of Dubai, Abu Dhabi Investments Authority, Dubai Bank, Global Investments House, Al Aula Financial Services,

and Istithmar. Foreign institutional investors also participated in roundtable discussions with no less than President Arroyo, Finance Secretary Margarito B. Teves, Trade and Industry Secretary Peter B. Favila, Foreign Affairs Secretary Alberto G. Romulo, and Bangko Sentral Governor Amando M. Tetangco Jr.

The Exchange held its Hong Kong roadshow during the Credit Suisse Asian Investment Conference (AIC) and the working visit of President Arroyo in Hong Kong from March 29 to April 2, 2008. PSE President Lim used the opportunity to meet with prospective institutional investors from the Asia Pacific region.

An investment seminar for close to 200 Hong Kong-based Filipino community leaders highlighted the roadshow. The seminar informed the participants, who were mostly Filipino professionals, on investing in the Philippine stock market. The attendees expressed enthusiasm and eagerness to learn more about stock trading and committed to invest a portion of their savings in the local bourse soon. The attendees, who included victims of pyramiding scams, were looking for legitimate investment outlets that offer yields higher than bank-related investment products.

The Exchange completed its major roadshow in the United States of America from June 20 to 26, 2008. It joined the contingent of President Arroyo in her working visit in the US.

The US roadshow included four investment seminars held in Los Angeles and Fresno California, Washington D.C., and New York City for around 750 overseas Filipinos and Fil-Ams.

To augment the foreign roadshows at the least possible cost, the Exchange also pursued “reverse or inward roadshows” to attract foreign investors. In a reverse or inward roadshow, the Exchange invites foreign institutional investors to the Philippines for briefings. In partnership with JPMorgan, the Exchange held in May the “Philippine Corporate Access Days” briefing for about 50 foreign institutional investors.



PSE Certified Securities Specialist Course Graduation

Local Roadshows

The Exchange conducted local roadshows to inform local investors of the benefits of stock market investing. It extended these education campaigns among local investors beyond the confines of Metro Manila to the key cities of Pampanga, Tacloban, Cagayan De Oro, Iligan, Bacolod, Iloilo and Baguio. These campaigns provided stock market briefings and seminars to more than 1,000 prospective investors.

The Exchange had strategic partners for the roadshows, namely, the PSE Foundation, Inc., Alliance Tuna International, Inc., BusinessWorld, First Metro Asset Management, Inc.,

First Metro Investment Corporation, I-Remit, Inc., Pampanga Chamber of Commerce and Industry, Philippine Association of Securities Brokers Dealers, Inc, Phoenix Petroleum Philippines, Inc., Sun Life Asset Management Company, and Technistock Philippines, Inc.

The roadshows included broker representatives who conducted marketing and account opening campaigns for their firms to ensure that participants would get the full benefit of these roadshows.

Stock Trading Tournament

The Exchange familiarizes students and professionals with stock market investment strategies through the Stock Trading Tournament (STT). As an on-line simulation game, the STT allows participants to practice investment strategies, test theories, exercise portfolio management, and compete with other players.

An estimated 2,800 participants joined the 27 editions of the STT, including the PSE-Manila Times Equity Challenge mounted on a nationwide, inter-collegiate level. Unlike previous tilts, the PSE-Manila Times Equity Challenge followed a team competition format. Team Blime of University of Saint Louis Tuguegarao bagged the first prize. The team was composed of Financial Management students Marneli Sison Tagapan, Eunice Garcia, Rose Ann Pascual, Gladys Castillo, and Ma. Joy Bangalan. University of Saint Louis Tuguegarao, which also bagged the championship title in 2006 and 2007 tournaments, bested schools from top Manila-based universities with a 37 percent return on the Php1 million virtual capital.

The Exchange also conducted the second run of the “MBA Investment Challenge” in partnership with CitisecOnline.com, Inc. Other similar tournaments were launched throughout the year in partnership with various professional organizations and schools.

Best Thesis and Best Business Plan Competitions

Another school-based investor education project is the PSE Open Best Thesis Competition. It is a contest meant to recognize theses written by college students on the capital markets.

Eleven entries made it to the finals on October 1, 2008 after careful selection conducted by a PSE technical panel composed of select academicians and market participants. The winning entry “Evaluating Data Envelopment Analysis as an Alternative Fund Performance Appraisal Tool to Traditional Composite Measures of Portfolio Performance: A Philippine Mutual Fund Industry Risk-Return Analysis 2003-2007” was written by Erica Gail Chua, Norman Pena, Anne Giselle Yambao of De La Salle University-Manila.

The Exchange conducted the 2008 JCI-PSE Best Business Plan Competition in June at the PSE Ayala Boardroom in cooperation with JCI-Manila. The competition recognized notable business plans prepared by young entrepreneurs. A team from the University of

the Philippines-Diliman composed of Rosanno JC De Dios, Katrina Mae Magallanes, and Aileen Meriel Balderama won first place with their business plan entitled “IEM Solution, Inc.”

Expositions and Exhibits

Targeting specific sectors most likely to invest in the stock market, the Exchange set up marketing booths and participated in various expositions and exhibits, including the Philippine Franchising Congress held from July 6 to 8, 2008 at the World Trade Center; the Petron Stockholders’ Meeting held on July 26, 2008 at the Manila Hotel; the IARFC’s Financial Adviser’s Forum held on August 3, 2008 at the Makati Sports Club; the FINEX-CFA Inter-Collegiate Finance Competition NCR & Luzon Eliminations held on September 21, 2008 at the Meralco Theater; and the FINEX-CFA Inter-Collegiate Finance Competition Finals held on October 15, 2008 at the BSP Auditorium.

Continuing Education for Trading Participants

For the trading participants, the Exchange held eight continuing education seminars, namely, two runs of IPVG Corporation’s Investor Briefing; three sessions of Reuters Wealth Manager Training for trading participants; GSIS Forum with trading participants; Meralco Forum with trading participants; and an Alliance Tuna Investor Briefing.

PSE PUBLICATIONS

In 2008, the Exchange surveyed trading participants to determine their total number of client accounts. The survey results revealed a tally of 430,681 local accounts, less than half a percent of the country’s population. Of those accounts, only 103,412 or one-fourth of the local account tally are active.

The Exchange continues to provide investors with valuable and up-to-date market facts and figures through its regular publications. The weekly and monthly market reports offer useful information to a broad range of readers, which include brokers, analysts, business news writers, investors, and other stakeholders. The Exchange also published the 2007 Fact Book, which is a compilation of market trading statistics and other useful information about the operations of the Exchange.

The Exchange guides the investing public on their decision by providing basic yet unique and useful information through the PSE Weekly Market Watch and the Quarterly Top 50, which may be accessed free of charge at the PSE website. The PSE Weekly Market Watch provides information on the top gainers and losers on a weekly basis, while the PSE Quarterly Top 50 publishes the top performing companies in terms of income and revenues among other key corporate financial information.



The current crisis transforms corporate governance from being a mere by-word to an imperative for sustainable development.

CORPORATE GOVERNANCE

Corporate governance in the Exchange has evolved from a compliance-based to a performance-based initiative. The Exchange complied with the basic requirements of the Securities and Exchange Commission (SEC) Code of Corporate Governance such as the adoption of a Manual on Corporate Governance; election of independent directors; creation of board committees - audit, risk management and corporate governance; engagement of external auditor; conduct of stockholders' meetings; and disclosure policies.

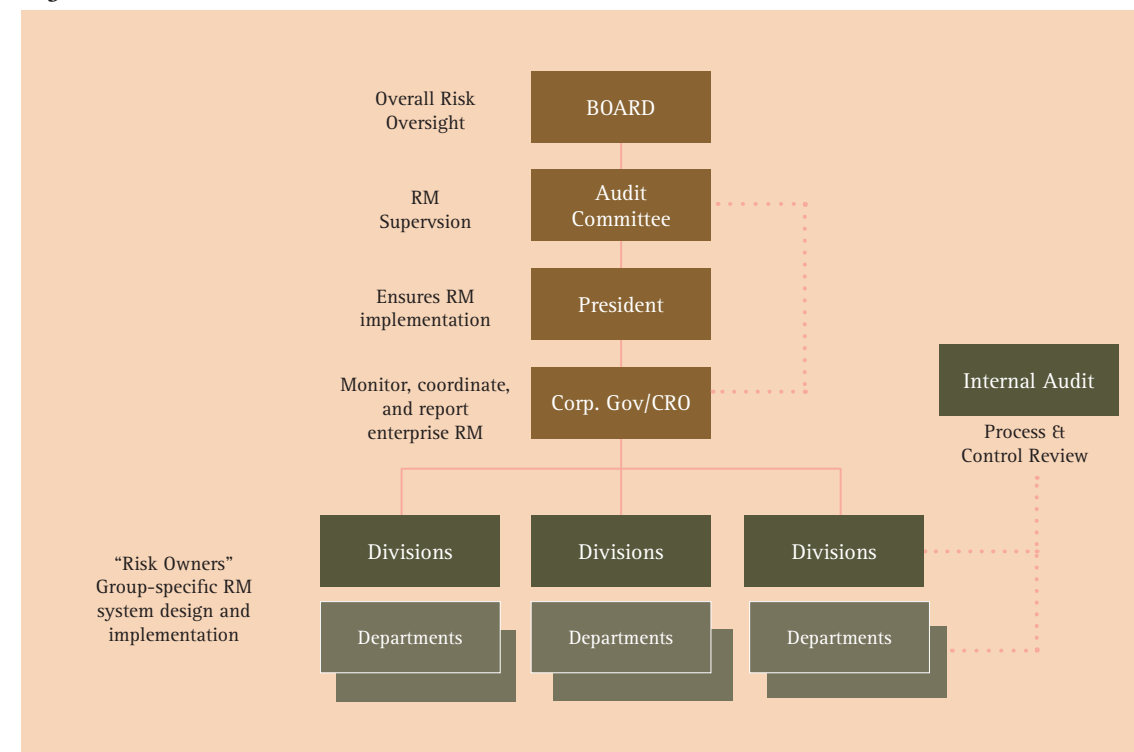
The Exchange launched the Corporate Governance Improvement Program (CGIP) in 2007. The CGIP seeks to enhance the Exchange's reputation and credibility by building long term shareholder value, providing stability and consistency, and promoting transparency and accountability.

The CGIP focuses on the following areas:

Risk Management and Controls

The Exchange gives paramount consideration to risk management. It created the Risk Management Department (RMD) under the Corporate Governance Office (CGO), and designated the Head of the CGO as the Chief Risk Officer (CRO). The RMD assists the CGO

Figure 4. PSE ERM Structure



in implementing the Enterprise Risk Management (ERM) Framework of the Exchange. The ERM Framework covers (a) the identification of risk, (b) the understanding of its nature and extent, (c) the definition of its limits, thresholds and likelihood of occurrence, and (d) the development and implementation of measures to reduce incidence and impact of a risk. The RMD continually monitors existing and emerging risks, and evaluates risk control measures.

The ERM Structure of the Exchange is described by this chart below:

In conjunction with the risk management initiatives, the Exchange develops and enhances its internal systems and policies. It updated its approvals manual, operations manual, procurement policies, and similar documents. The effort was meant to improve efficiency, set accountabilities, and execute strategy.

The Exchange also established the Internal Audit Department (IAD) to ensure the Exchange's compliance with laws, rules, and best practices. Under the direction of the Audit Committee, the IAD performs the internal audit of the Exchange.

Transparency and Disclosure

The Exchange initiated several projects to promote transparency and further strengthen its disclosure practices with the aim of better informing and assisting investors in their investment decisions. It began in 2008 the development of a more investor-friendly website with real-time information on listed companies, trading participants and the market. It will launch the new website in 2009. The Exchange also enhanced its audit of trading participants, market surveillance and enforcement of disclosures of listed companies.

Board Structure and Functioning

To align the actual practice of the Exchange with its corporate governance commitment, the Board of Directors, through its Governance Committee, initiated the development of a PSE Board Protocol, a Board Evaluation System, and a "List of Matters Reserved for the Board." Although still in its initial stages, these initiatives would strengthen and improve the Board's internal governance processes.

The Board Protocol will outline the practices the Directors of the Board commit to follow. It covers matters such as Board attendance, time commitment to Board matters, committee assignments, conflicts of interest, executive sessions, access to and working relationship with senior management, and any other matter that the PSE Board may deem necessary.

The Board Evaluation System will assess and measure the performance of the Board as a whole. It may also cover assessment of the performance of the Chairman or individual Directors, or the effectiveness of Board or committee meetings.

The “List of Matters Reserved for the Board” will guide both the Management and the Board on what issues can and should be raised to the Board for action. It will allow the Board to focus on strategic and policy issues, and, as much as practicable, delegate to the Management decisions on specific transactions.

Stakeholder Engagement

To help promote and encourage observance of corporate governance practices among listed companies, the Exchange continued its partnership with the Management Association of the Philippines (MAP) for the 2008 edition of the Best Annual Reports (BAR) Awards. For the year, the Exchange was part of the technical panel for the “Best in Corporate Governance Disclosure.”

As added support to the BAR Awards, the Exchange adopted a policy on the automatic inclusion in the BAR Awards of all listed companies in good standing.

The Exchange continued its partnership with the Securities and Exchange Commission (SEC), Ateneo Law School (ALS), and the Institute of Corporate Directors (ICD) for the Corporate Governance Scorecard of publicly-listed companies. The project aims to provide a tool for market participants and investors to approximate the companies’ corporate governance practices.

In June, the Exchange, together with the SEC, ICD and other listed companies, actively participated in the review of the SEC Code of Governance. The Exchange shared concrete recommendations to enhance the SEC CG Code.

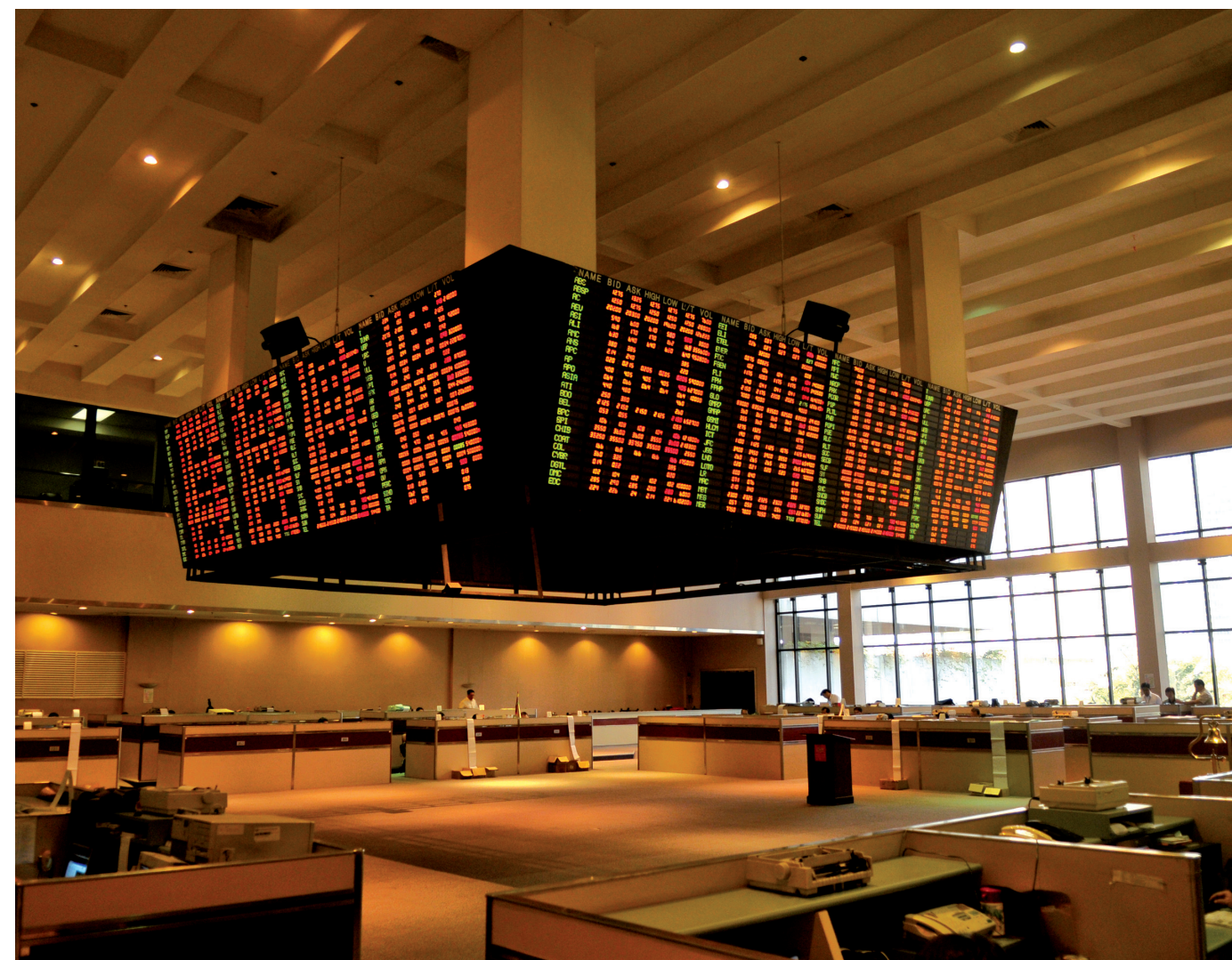
Strategy Management

In line with the focus on a performance-based corporate governance regime, the Exchange created the Strategy Management Office (SMO) under the Corporate Governance Office. It established a strategy management function to align core management processes and activities with its five-year LEVEL UP strategy and annual business plan. It institutionalized a quarterly review and evaluation of the implementation of its business plan. These quarterly reviews likewise track whether the activities of the Exchange are aligned with its LEVEL UP strategy. They also provide the venue to impart and reinforce key corporate governance themes identified under the CGIP. For 2008, the themes were: laying the conceptual foundation of CG; project management, risk management and controls; aligning strategy with operations focusing on strategy execution; and institutionalization and documentation of key operational processes consistent with good CG.

The SMO actively participated in the Operations Manual project which would document activities of all departments to ensure uniformity and efficiency in execution. The project reviewed existing policies and standard operating procedures (SOPs) of the Exchange and

would revise them accordingly to reflect new policies or to reconcile all policies on the same matter. It would also identify risks and resource requirements, and provide basis for performance evaluation.

Special Corporate Governance (CG) Segment in the PSE



In December, the Exchange forged a strategic partnership with the UK Government, through the British Embassy in Manila, and was awarded a £86,229 grant in support of the project “A Special Corporate Governance Board in the PSE.”

The project aims to create a board for listed companies substantively committed higher corporate governance best practices. The grant would be used to fund research studies, consultative meetings, working sessions, consultants, information materials, media placements, and other activities that would determine the appropriate corporate governance standards, as well as the operational, structural and policy framework for the Special Corporate Governance Board.



The World Bank and Organization for Economic Cooperation and Development's (OECD) Global Corporate Governance Forum expressed interest in supporting the project.

The UK Government and WB-OECD's support goes beyond purely financial. As an endorsement of the project, the support provides credence and international exposure to the Exchange's corporate governance efforts.

Involvement in International CG Initiatives

The Exchange intensified its efforts to increase its presence and profile in the international corporate governance arena, particularly in the ASEAN region. Through its close partnership with the OECD Task Force, the Exchange maximized its memberships in the OECD Asian Roundtable on Corporate Governance, the OECD Asian Task Force on Related Party Transactions, the OECD Asian Task Force on Privatization and CG for State-owned Enterprises, and the OECD Global Network on Privatization and CG for State-owned Enterprises, by participating actively in all its meetings, discussions, and other activities.

Due to its strong commitment and involvement in the OECD programs, the Exchange will host the meeting of the OECD Asian Task Force on Related Party Transactions in February

2009 and the Asian Roundtable on Corporate Governance in September 2009. It would be the first time that the Asian Roundtable, which gathers the most prominent, active and influential policy makers, practitioners and experts on CG in the region, will be held in Manila since its inception in 1999.

MARKET REGULATION

The Market Integrity Board (MIB), which exercises regulatory oversight and review powers over the Exchange's Market Regulation Division (MRD), resolved all appeals and matters submitted to it for action.

To further strengthen the financials of trading participants, the MIB proposed to raise the minimum unimpaired paid-up capital of all active trading participants and increase the surety bond of brokers that have yet to meet the required capitalization set out in the Securities Regulation Code.

The PSE Board approved these proposals in September 2008.

Under these rules, a trading participant should post a Php10 million surety bond as a broker and a Php1 million surety bond as a dealer if the trading participant deferred its compliance with the Php100 million minimum unimpaired paid-up capital requirement. The brokers and dealers are currently required to post surety bonds of Php5 million and Php1 million, respectively. These rules will also require the trading participants to increase their unimpaired capital to Php30 million over a period of two years.

Pursuant to the policies set by the MIB, the Exchange completed the annual regulatory audit of 89 trading participants. Of these 89 trading participants, 23 were found to have fully complied with the relevant provisions of the Securities Regulation Code, its implementing rules and regulations, and the Exchange rules covered by the audit. The Exchange also conducted spot audits of all active trading participants to periodically verify their compliance with specific provisions of said laws and rules.

The Exchange implemented the takeover orders issued by the SEC against failed trading participants.

The Exchange liquidated and allocated to the respective clients of Marino Olondriz y Cia and Asian Capital Equities their remaining trade-related assets pursuant to the SEC takeover orders. It will complete the distribution of these allocations to clients and the final accounting of the implementation of the takeover orders in early 2009.

In September, the Exchange suspended HK Securities, Inc. (HK) and obtained and implemented an SEC takeover order against HK based on its violations of the securities

laws and Exchange rules. Among other violations, HK failed to account and produce securities of its clients worth around Php106 million despite the undertaking of HK and its nominee, Rodolfo V. Cruz, to do so. In particular, the Exchange allocated the securities remaining with HK to its clients with validated claims and assisted in the filing of criminal cases against HK’s directors and officers.

The Exchange supervised the liquidation of the trading right of Pryce Securities, Inc. (Pryce) and the allocation of its remaining trade-related assets in payment of its liabilities to clients. Pryce’s remaining trade-related assets are expected to be paid to its clients during the early part of 2009 in accordance with the relevant orders of the SEC.

The Exchange accomplished its key activities for the year which are intended to improve compliance among trading participants. For instance, the Exchange published the list of rules which trading participants frequently violate together with recommendations to ensure their compliance therewith. The Exchange also conducted two compliance seminars for trading participants as part of its continuing compliance education and training.

The Exchange continues to actively coordinate with and assist the Department of Justice (DOJ) and the SEC in the prosecution of violations of the securities laws.

2008 Summary of Violations and Penalties

In line with the program to promote good corporate governance, the Exchange continues to strictly enforce the Disclosure Rules among the listed companies. At the same time, the Exchange strengthened its campaign to inform the listed companies about the proper observance of the Disclosure Rules. As a result, there was an 11.32 percent increase in the total number of violations penalized for non-compliance with structured reportorial requirements compared to its 2007 level. However, the total number of cases for non-compliance with unstructured reportorial requirements penalized decreased by 9.62 percent from its level in 2007.

Table 14. Summary of Violations

Violations	Number Of Cases	Amount (In Php)
Structured		
Annual	30	2,141,785.74
Quarterly	29	1,274,107.18
Unstructured	47	2,612,500.08
Total	106	6,028,393.00



Efficiency leads to more profits given to shareholders.

Shareholder issues

The Exchange ensures the distribution of its earnings by way of dividends to its stockholders. It has declared cash dividends for the past six consecutive years from its unrestricted retained earnings. It revised its dividend policy to enhance the direct and fair share of shareholders from its annual profits. The revised policy mandates the declaration of “a regular dividend equivalent to 50 percent of the previous year’s audited net income of the Company, subject to [the availability of] unrestricted retained earnings [and] without prejudice to

any special dividend that the Board may simultaneously declare on a case-to-case basis depending on the earnings and capital requirements of the Exchange on top of said regular dividend.”

New Accounting System

The Exchange adopted the Microsoft Dynamics AX 4.0 as its new financial accounting system effective September 1, 2008. The new system provides a comprehensive accounting, financial reporting and analysis capabilities. It automates and streamlines business processes and, thus, improves the productivity of the Exchange’s accounting personnel.

The Exchange partnered with Global Idealogy Corporation, a regional solutions provider of Microsoft and a subsidiary of Paxys Inc., the first Business Process Outsourcing (BPO) company listed on the Exchange, to implement the new accounting system.

L

Launch new products and services

Addressing the clamor of investors for more products and services cannot wait.

BUSINESS DEVELOPMENT

Real Estate Investment Trusts (REITs)

In October 2008, the Exchange co-sponsored with UBS Investments Philippines and the Asian Public Real Estate Association (APREA) the 2nd REIT Forum held at the Makati Shangri-la Hotel. Government officials, legislators, property companies, financial institutions, media representatives and other sectors participated in the event. Distinguished speakers and panelists included Senator Edgardo J. Angara, Representatives Juan Edgardo M. Angara and

Ramon H. Durano VI, SEC Chairperson Fe B. Barin, Mr. Mark Ebbinghaus of UBS Singapore, Mr. Peter Mitchell of APREA, Mssrs. Trent Frankum and Danny Mohr of CBRE, Mr. Ken Atchison of Atchison Consultants, Mr. Jaime Ayala of Ayala Land, Inc., Mr. Jeffrey Lim of SM Prime Holdings, Inc., and lawyers Mr. Tadeo Hilado and Ms. Veronica Santos.

Key Speakers on the 2nd REIT Forum



The forum addressed issues on investor protection guidelines, public and foreign ownership limits, external management, the risks considering the market condition, conflict of interests, role and scope of the authority of the SEC, and the tax issues related to REITs.

Exchange-Traded Fund (ETF)

The Exchange approved its ETF listing rules in April 2008 and submitted the same to the SEC for approval. Under the proposed ETF listing rules, it would allow both local and foreign ETFs with the minimum asset size of Php250 million (US\$5.5 million) and US\$10 million, respectively.

Securities Borrowing and Lending (SBL)

The Bureau of Internal Revenue (BIR) released Revenue Regulation No. 1-2008 allowing a multilateral system for securities borrowing and lending through the Exchange with tax benefits. A Multilateral Master Securities Lending Agreement (MSLA) is an agreement entered into by three or more borrowers and Lenders/Lending Agent to govern their SBL transactions.

The Exchange requested the Bangko Sentral ng Pilipinas (BSP) to allow with respect to SBL transactions (a) the conversion of sales proceeds of offshore participants into foreign currency through the banking system and (b) their remittance to offshore accounts. After a series of meetings with the BSP, the Department of Finance issued BSP Circular No. 611, Series of 2008, on May 30, 2008. The circular allows the borrowings by foreign entities of PSE-listed shares from local investors/lenders and authorizes the custodian banks to issue a special BSP Registration Document for the PSE-listed shares of stock borrowed by foreign entities from local investors/lenders. It further allows foreign borrowers to purchase foreign exchange from the banking system to remit abroad the peso sales proceeds of the borrowed shares.

The CBM Group, Inc.

The Exchange engaged the services of The CBM Group, Inc. (CBM), a foreign consultancy firm based in New York, USA, to study the feasibility of equity derivatives and commodities exchanges in the Philippines. The study is in line with the Exchange's strategy for organized markets to introduce new investment products in the market and attract more investments to increase trading activity.

PSE, SCCP, and The CBM Group MOU Signing Ceremony



The Exchange engaged the services of CBM to create and develop a blueprint and a strategic business plan for the introduction of derivatives and commodities trading at the Exchange. It mandated CBM to study and recommend the necessary legal and regulatory framework for a successful implementation of equity derivatives and commodities

exchanges in the country.

MARKET DATA BUSINESS

Market data revenues bucked the general downtrend in the economy by posting a modest growth of 10.3 percent to Php19.2 Million in 2008 from Php17.4 Million in 2007. This growth was due to the increase in the number of clients to 40 from 32, and the introduction of new data products.

The Exchange launched four new subscription-based market data products and services in 2008.

Broker Transaction Download Facility

The Broker Transaction Download Facility is a web-based system that generates the daily transactions of a trading participant in electronic form. It enables a trading participant to directly use the data as input to its backroom operations without the need to re-encode. The presence of the trader's ID further allows the trading participant to assess the performance and workload of its traders.

Website Ticker

This market data service displays the PSE ticker in a media website's homepage and/or business section. Aside from showing day-to-day trading activity, the website ticker allows the Exchange to partner with media organizations to promote investor awareness amongst the public.

Listed Companies Stock Quote

This facility assists a listed company to strengthen its investor relations program by providing in its website a view of its stock trading information and performance.

Foreign Ownership Level Report

The foreign ownership level report is a monthly electronic report-file that provides information on all stocks open to foreign ownership. The report includes the breakdown of both outstanding and foreign-owned shares across listed shares, whether common and/or preferred, and unlisted shares.

For the dealing terminals, trading participants responded to the softening of the market by closing the year with only eleven additional Marketworks subscription, or a total of 367 from 356 a year ago. Revenues from these subscriptions slightly increased by 1.6 percent to Php12.4 million in 2008 from Php12.2 million in 2007. On the other hand, revenues from dealing systems using the Communications Front End (CFE) data feed registered an increase of 6.3 percent to Php3.4 million in 2008 from Php3.2 million in 2007. Efforts to expand CFE clients were adversely affected by the New Trading System's strategy to replace the MakTrade CFE system.



The purchase of the new trading system is the single biggest signal yet of the Exchange's earnest desire to level up with its peers.

INFORMATION TECHNOLOGY

The Exchange increased the efficiency of the MakTrade System, which had a system availability of 99.89 percent in 2008 compared to 99.85 percent in 2007. Better hardware maintenance and positive innovations of the Exchange improved the trading system infrastructure and reduced the system downtime.

The Exchange upgraded its alternative power sources, particularly to ensure reliable power supply for its data centers and continuous trading operations. In September, it acquired a standby power generator equipment, the 625kva Genset Machine, as a 100 percent emergency backup power supply for its Tektite offices during power interruptions. The new power generator features an Automatic Transfer Switch allowing it to be an emergency backup power supply for the Tektite Data Center in case the main generator of the Tektite building fails. It can supply the Exchange with power for a maximum period of 15 hours. In July, the Exchange installed a brand new Uninterruptible Power Supply (UPS) Powerware 9390 for the Ayala Data Center to replace its 15-year-old Powerware 125 UPS.

New Trading System

The Exchange realized its plan to acquire and operate a new and modern trading system, which can process more trade transactions and handle more sophisticated capital market products, including fixed income and derivative instruments. On August 6, 2008, the Exchange entered into a memorandum of understanding (MOU) with NYSE Euronext, and signed the New Trading System License, Implementation and Maintenance Agreement with NYSE Euronext Technology SAS (NYXT). NYXT is a wholly-owned subsidiary of NYSE Euronext, the world's largest exchange



operator.

The New Trading System will use the NSC® Trading System Core Products (NSC®), the trading software product developed by NYXT. The NSC® will replace the Maktrade, the Exchange's current trading system. The NSC® will be customized by NYXT to include the Exchange's present trading rules and Philippine regulatory requirements. NYXT will render maintenance services for the New Trading System by means of diagnostic and intervention methods for a period of five years.

In line with the required infrastructure and services for the New Trading System, the Exchange engaged the services of Hewlett Packard Philippines, Inc. (HP). Pursuant to an agreement signed by the Exchange and HP on October 2, 2008, HP would provide the Exchange with computer servers, storage devices, and network components, including the set-up and installation in accordance with the recommended sizing for optimal use and security policies of the Exchange. HP would also do the site preparation and review of the current cabling and power setup at the main and backup data centers. The joint PSE-HP team completed the infrastructure project by the end of 2008.

The Exchange will launch the New Trading System within the second half of 2009. Upon customization of the NSC® and the installation of the required infrastructure and network, the New Trading System would be deployed on four environments, namely, development, user acceptance test, production, and disaster recovery. It would then undergo rigid acceptance testing procedures. The commercial operation of the New

Trading System would depend on the successful outcome of these tests and the readiness of all stakeholders, including the trading participants, the data vendors, and the Exchange personnel.

Technology Division and Market Operations Division

In preparation for the implementation of the New Trading System and to be more responsive to technological innovations, the Exchange reorganized its Information Technology Division and Market Operations group into two new divisions, the Technology Division (TD) and the Market Operations Division (MOD). The MOD focuses on the Exchange's key core function of ensuring orderly and fair trading operations, while the TD concentrates on the optimal use of IT solutions and services by the Exchange.

The MOD handles the Exchange's trading operation businesses and activities, including the maintenance and administration of the New Trading System and all other systems directly connected to the main trading system. It has the following functional departments:

Trading Operations and Control Department is responsible for the day-to-day operations of the trading system, including the startup, monitoring and shutdown of the trading system. In close coordination with the Technology Division, SCCP-IT Operations, and PDTC, it ensures compliance with and enforcement of all rules on trading. It has access to the trading halt/lifting of trading halt functions of the trading system for a particular listed company or security, a particular broker or trader, or the entire market.

PSE, NYSE Euronext Technology SAS MOU Signing Ceremony for New Trading System



The Broker Systems Support and Certification Department functions as the first line of support to trading participants, data vendors, and other users of the trading system. It conducts the system training of users and the certification and accreditation of a broker's front-end system.

The Trading Development Department is responsible for expanding the business of the Exchange in terms of new market products, changes in trading practices and rules. The department is primarily involved in the development of the market from the conceptualization, process flow definition and actual implementation.

Lastly, the Data Management Department ensures the availability and quality of trade-related information emanating from the trading system database. It executes and validates any change in the trading database. It works closely with the Trading Development Department in defining all trade-related data products, and with Market Data Business Department in marketing these products.

Circuit Breaker Rule

The Exchange adopted a circuit breaker rule for the stock market to allow investors time to digest the impact of an unusual market drop and help restore normalcy in the stock market after heavy selling activity. On September 24, 2008, it approved the implementation of a 15-minute trading halt in the event the PSEi declines by at least 10 percent based on the previous day's closing index value. The trading halt will be implemented only once in a trading day and not in case of a PSEi decline occurring within 30 minutes prior to market close.

Like global exchanges, the New York Stock Exchange and NASDAQ and other developed stock exchanges in the ASEAN region, the Exchange implemented the circuit breaker rule to ease any unusual volatility in the market that may cause investor panic. It will likewise give investors time to assimilate the impact of an unusual market drop and make informed investment decisions.

Oracle Database Vault

The TD acquired the Oracle Database Vault during the last quarter. The acquisition will assist the Exchange to address regulatory requirements such as separation-of-duties and other preventive controls to ensure data integrity. With Oracle Database Vault, the Exchange can prevent access of unauthorized users to application data stored in the Oracle database and restrict data available to specific users.

Network Security

The TD completed major enhancements in the overall network security to strengthen the PSE's network and system defense against virtual attacks. The enhancements include the implementation of perimeter protection by utilizing two-layered security firewall and

Intrusion Prevention Systems (IPS). This perimeter protection will block all malicious attacks to the PSE network.

HUMAN RESOURCES

Following the results of the job evaluation, compensation and benefits study conducted by the SGV & Co., the Exchange implemented in April a new salary scale at par with the top companies in the country. The move was aimed at keeping and attracting the best and the brightest human resource pool capable of supporting the numerous initiatives of the Exchange.

The Exchange upgraded the health care benefits by increasing the health coverage of all employees to include an additional dependent per employee in the health protection benefit program starting April 2009. It also approved a car interest subsidy scheme for managers and senior managers equivalent to five percent of Php350,000 and Php500,000 annually, respectively.

The Exchange approved in March the PSE Employee Stock Purchase Plan (ESPP). The ESPP grants all officers and regular employees with at least one year of service in the Exchange or its subsidiary, the Securities Clearing Corporation of the Philippines (SCCP), an option to subscribe to the Exchange's shares of stock. It requires the Exchange to offer to eligible employees a total of 150,000 shares for three consecutive years beginning in 2008, or 50,000 shares from July to December of each year. It fixes the offer price at an amount equal to the volume weighted average price (VWAP) of the shares during the month preceding the offer date less 10 percent. An Administrator, composed of the Chief Operating Officer (COO) as Chairman and the Head of the Corporate Services Division and the SCCP COO as members, implements the ESPP. On December 2, 2008, the Exchange offered 50,000 shares to eligible employees, who subscribed a total of 42,240 shares.

The Exchange began the development and update of its operations manual. The initiative would involve a review of the key activities of each department and division and the development of an operations manual of standard operating procedures, forms, and workflow processes. The Corporate Governance Office, Corporate Planning and Research Section and the Human Resources and Administration Department comprise the task force spearheading the initiative.

The Exchange conducted regular employee wellness programs, such as quarterly socials, health lecture series, and various sports activities. It held a series of teambuilding workshops for senior officers and staff to further enhance work relations and performance.

P

Partner with
government
and other
stakeholders

The setting up
of the enabling
regulatory
environment has
begun.

Personal Equity and Retirement Account Act (PERA)

The Exchange was at the forefront of the successful passage of the Personal Equity and Retirement Account (PERA) Act signed by President Arroyo into law on August 22, 2008. The PERA Law encourages savings through voluntary retirement funds for workers and provides an important savings and investment vehicle to attract much-needed local investments by resident and overseas Filipinos.

Aside from a Filipino citizen working or deriving income abroad, the law defines an eligible overseas Filipino to include a person who has retained or re-acquired Philippine citizenship under Republic Act No. 9225, or the Dual Citizenship Law. The eligible overseas Filipino also includes the legitimate spouse of an overseas Filipino, whether or not the said spouse is of Filipino ancestry, and the children of an overseas Filipino.

The Bangko Sentral ng Pilipinas (“BSP”), the SEC, and Office of the Insurance Commission (“OIC”) regulate the implementation of the PERA Law. Together with the Department of Finance, the Bureau of Internal Revenue (BIR), the SEC and the OIC, the BSP shall draft the implementing rules and regulations of the PERA Law. The BIR shall issue the rules on all tax aspects of the law.

Real Estate Investment Trust Bill

The Exchange is closely working with Congress for the passage of another capital-market friendly legislation on Real Estate Investment Trusts (“REITs”), a bill providing the legal and regulatory framework for REITs.

If enacted into law, the REIT bill will permit the establishment of a corporation, which will own income-generating real estate and related assets and whose shares of stock will be made accessible to small and large investors. It will require the REIT corporation to list its shares on a stock exchange to enable the general public to buy and trade its shares and promote transparency of the corporation.

A REIT corporation is proposed to be taxed on its gross income less allowable deductions and distributed dividends. To qualify as a REIT and enjoy the corresponding corporate tax incentives, the REIT corporation must declare as dividends at least 90 percent of its distributable income and maintain its status as a public company and as a listed company. The required dividend payout of at least 90 percent assures stockholders of a REIT corporation a rate of return on their investments.

A REIT corporation will be managed by an independent fund manager and property manager, thereby minimizing investment risks. At least 75 percent of its deposited property should be income-producing property located in the Philippines. The REIT corporation must observe limitations on ownership levels, borrowings, and property development activities. It should comply with the requirements for related party transactions, allowable investments, and reportorial and disclosure requirements.

The REIT Bill was approved on third reading by the Senate on March 2, 2009 and has been approved by the Economic Affairs Committee of the House of Representatives.

Signing of PERA into Law



Under the PERA Law, a PERA contributor will enjoy the following benefits:

- a tax credit equivalent to five percent of the member's PERA contribution of up to Php100,000 for an individual and Php200,000 for families. The maximum PERA contribution eligible for tax credit doubles to Php200,000 and Php400,000 for overseas Filipino investors and their families, respectively. A tax credit can be used to reduce or pay taxes due the government
- a tax exemption for the income from the PERA investments and re-investments in the local capital market. The allowable PERA investment products include shares of stock of listed companies, exchange-traded funds, unit investment trust fund, mutual funds, annuity contract, insurance pension products, and pre-need pension plans
- a tax deduction for employer contribution to the PERA account
- a tax exemption for all distributions upon retirement or death
- exclusion of PERA assets from the assets of the contributor for purposes of estate taxes

Credit Information System Act (CISA)

On October 31, 2008, President Arroyo signed into law Republic Act No. 9510, otherwise known as the Credit Information System Act (“CISA”).

The Exchange backed the passage of the CISA which seeks to enhance the reliability of credit information and facilitate credit investigation and rating. The Exchange recognizes that credit information is a critical data for banks and other financial institutions in assessing the credit-worthiness of applicants. Inaccurate credit information increases the credit risk of lenders and saddles borrowers with crippling interest rates.

The law seeks to establish a comprehensive and centralized credit information system to be administered by the Credit Information Corporation (“CIC”) which shall receive and consolidate basic credit data; act as a central registry or central repository of credit information; and provide access to reliable, standardized information on credit history and financial condition of borrowers that will be made available to submitting entities or any other entity authorized by the CIC to access a borrower’s credit history and financial condition.

Permanent Exemption from Documentary Stamp Tax for Stock Market Transactions

Republic Act No. 9243 exempted from the documentary stamp tax (“DST”) any sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years or until March 20, 2009.

House Bill No. 4900 seeks to exempt from DST the sale, barter or exchange of shares that are listed and traded through the local stock exchange. The Exchange has been advocating for the permanent abolition of the DST on secondary trading to create an enabling investment climate, enhance liquidity in the Philippine market and spur national economic development.

The bill was approved on second reading by the House of Representatives before it went on recess on March 3, 2009.

The counterpart bills, Senate Bill Nos. 2497 and 3006, have been referred to the Senate Committee on Ways and Means.

Collective Investments Schemes Law (CISL)

Senate Bill No. 1181, otherwise known as the Collective Investments Schemes Law (“CISL”), seeks to amend the Investment Company Act enacted in 1960 in order to establish a comprehensive regulatory framework for collective investment schemes as a means to develop the Philippine capital market. The proposal is in line with the policy of the State to promote investor protection, assist in the development of the capital markets, encourage participation by the best qualified asset management companies and investment advisers,

and broaden participation by Filipinos in securities ownership.

Corporate Reform Act (CRA)

The Exchange supports House Bill No. 3456 or the Corporate Reform Act (“CRA”) which seeks to ensure transparent and accountable auditing, and strengthen the adoption of good corporate governance standards among companies. The CRA is patterned after the US Sarbanes-Oxley Act that was enacted to address corporate governance and compliance issues which ultimately affect the sustainability of corporations.

Corporate Recovery and Insolvency Act (CRIA)

The Exchange supports the proposed Corporate Rehabilitation and Insolvency Act (“CRIA”) pending with Congress. CRIA seeks to revise the outdated Insolvency Act of 1909 and to provide a comprehensive and speedy process for insolvency and corporate rehabilitation proceedings. The bill includes provisions on court-supervised rehabilitation, pre-negotiated rehabilitation, and proceedings involving foreign registered corporations with assets in the Philippines.

Rules of Procedure on Corporate Rehabilitation of 2008

The Supreme Court approved the Rules of Procedure on Corporate Rehabilitation drafted by a committee of the Supreme Court with the assistance of private sector representatives, including the PSE. The new rules took effect on January 16, 2009 and replaced the interim rules of procedure on corporate rehabilitation.

To expedite the resolution of rehabilitation cases, the new rules allow debtors, by themselves or jointly with creditors, to file a petition for the approval of a pre-negotiated rehabilitation plan. The court is then given a maximum of 120 calendar days from the date of filing of the petition to render a decision. If the court fails to do so within this period, then the rehabilitation plan shall be deemed approved.

In the case of ordinary petitions for rehabilitation, the new rules require courts to approve or disapprove the petition within a period of one year in order to avoid delay in the disposition of rehabilitation cases.

The new rules also encourage infusion of new money in financially distressed companies by giving protection to investors that extend financial assistance to companies under rehabilitation proceedings.

The new rules also provide for recognition of foreign rehabilitation proceedings which cover cases whereby assistance is sought in a Philippine court by a foreign court or representative, or assistance is sought in a foreign state in connection with a domestic proceeding, or a foreign proceeding and domestic proceeding are concurrently taking place.

PSE-NYSE Memorandum of Understanding

The Exchange and the NYSE Euronext signed a memorandum of understanding (MOU) on June 26, 2008 to establish a strategic alliance to jointly develop new exchange-traded products, explore new opportunities in trading system architecture and technology, and enhance market participant connectivity and data management. The MOU was signed in a historic ceremony at the New York Stock Exchange in the presence of President Arroyo.



The Foundation supported local roadshows initiated by the Exchange in Pampanga, Tacloban, Cagayan De Oro, Iligan and Iloilo. It helped fund the PSE Bull Run 2008 that was participated in by about 3,000 runners from various sectors of society.

The Foundation appropriated funds to support the printing of the listing primer, a potent tool to help and guide potential candidates for initial public offering prepare for their listing in the Exchange.

Upon the initiative of the Philippine Association of Securities Brokers and Dealers Inc. (PASBDI), the Exchange, together with the Foundation and some brokers, donated funds to create livelihood programs for the victims of typhoon Reming in the province of Albay. The donation, which was coursed through the Philippine Business for Social Progress (PBSP), supported hollow block manufacturing activities and handicraft-making programs for the affected households.

In line with its social development program, the Foundation supported the Search for the Most Outstanding Public Officials and Employees of the Civil Service Commission that recognizes and rewards public officials and employees for their outstanding contributions to public service. It also sponsored a scholarship fund for the Children's Joy Foundation, Inc. to undertake feeding, clothing, and shelter programs.

Meanwhile, the Foundation continued its support for the Capital Market Development Council (CMDC) by shouldering part of its administrative expenses.

ASEAN Collaboration

The ASEAN Strategic Working Group went full swing in exploring the development of an ASEAN trading link framework. The framework seeks to increase intra-ASEAN trading of stocks listed in the six participating exchanges, i.e., Bursa Malaysia, Ho Chi Minh Stock Exchange, Indonesia Stock Exchange, Singapore Exchange Ltd., The Stock Exchange of Thailand, and the PSE.

SOCIAL RESPONSIBILITY

For the year 2008, the Exchange and the PSE Foundation Inc. ("Foundation") supported market education projects increasing public awareness about the stock market.

In October, the Exchange and the Foundation donated Php10 million to the Ateneo Law School-Center for Continuing Legal Education and Research (ALS-CCLER) to fund curriculum development, lectures and researches on the capital market as well as professorial chair grants to the ALS-CCLER.

SUBSIDIARY

SECURITIES CLEARING CORPORATION OF THE PHILIPPINES

The Securities Clearing Corporation of the Philippines (SCCP), a wholly owned subsidiary

of the Exchange, experienced a 49 percent drop in its net income to Php74.1 million in 2008 from Php144.92 million in 2007 behind overall slowdown in stock market trading activity. Due to its record earnings in 2007, the SCCP paid out to the Exchange on March 17, 2008 cash dividends of Php140.0 million, or Php148.94 per share. The dividends represented almost 96.6 percent of SCCP's record income in year 2007. On December 9, 2008, the SCCP approved the declaration of cash dividends of Php53.19 per share, or a total of Php50.0 million. On February 18, 2009, the SCCP approved the declaration of cash dividends of Php30.00 per share, or a total of Php28.2 million.

Clearing and Settlement Operations

As a result of the initiatives and reforms to enhance the clearing and settlement procedures of the SCCP, clearing members continued to improve on their adherence to the settlement requirements and procedures. For the full year 2008, clearing members set a compliance rate of 99.98 percent for the delivery of securities by 12:00 noon deadline of T+3, an improvement of the record 98.81 percent compliance rate set in 2007. For the delivery of cash payments, clearing members logged an impressive 99.97 percent compliance rate, significantly higher than the 97.53 percent compliance rate for the full year 2007.

As a further testament to the enhanced compliance by clearing members with settlement procedures, there were no citations against clearing members for incurring at least three late settlements during the year, a stark contrast from the 18 recorded in 2007. Moreover, there was no overnight settlement fail during the year; thus, SCCP did not need to tap its credit facility with any of its settlement banks to cover a potential cash fail.

In 2008, the SCCP added two large banks to its list of accredited settlements banks to provide its clearing members with more flexibility and convenience in meeting their cash obligations to SCCP, and enhance the efficiency in the clearing and settlement of PSE trades. Metrobank and Deutsche Bank AG, which started their settlement bank operations in April and October 2008, respectively, now join Banco de Oro and Rizal Commercial Banking Corporation in the growing list of accredited settlement banks.

In consideration of the 100 percent increase in the Clearing and Trade Guarantee Fund (CTGF) contributions effective August 1, 2007, the SCCP amended its rules to allow the full refund of the CTGF contributions of clearing members, which cease to operate as clearing members and to be members of the SCCP. The SEC still has to approve the amended rules. The SCCP approved the migration of the Central Clearing and Central Settlement (CCCS) system from the PSE database server to SCCP's own database server and set aside the necessary budget to purchase two database servers (production and backup) and the necessary Oracle software. This infrastructure enhancement will hasten the settlement process and enable investors to receive their cash proceeds at an earlier time. It will likewise pave the way for the implementation of the client sub-account project, which will promote investor protection.

Risk Management and Monitoring

For the year 2008, the SCCP focused its efforts towards strengthening its risk management and monitoring functions especially in the light of the global financial crisis. During the year, the SCCP approved the following enhancements to its current risk containment measures:

- a. The SCCP enhanced its fails management rules by rationalizing its sanctions for settlements fails. Under the proposed rules, the SCCP shall distinguish between late settlements and overnight fails particularly for purposes of imposing a higher penalty for overnight fails as compared to late settlements. Cash payments and securities deliveries will be considered as late settlements if they were received after 12:00 noon on T+3 but prior to settlement and delivery to the net selling and net buying brokers, respectively, during the CCCS settlement run on T+3. On the other hand, cash payments and securities deliveries will be considered to be overnight fails if they were received too late for processing on T+3, or if they were not received at all on T+3. The SCCP proposed to the SEC to lower the fines and penalties for late settlements and to retain the existing fines and penalties for overnight fails.

With respect to overnight fails, the SCCP shall give a defaulting clearing member up to 9:15 a.m. of T+4 to deliver cash or securities, instead of up to 9:00 a.m. of T+4, before imposing preventive suspension on the defaulting clearing member. Moreover, the SCCP shall publish on the PSE website and on the electronic board of both trading floors the notice of suspension of a defaulting clearing member.

Lastly, with regard to Fails Management, the SCCP shall have the discretion to accept cash as collateral no later than 5:00 p.m. on T+3 when a clearing member fails to deliver securities for reasons beyond the clearing member's control. Furthermore, the SCCP shall impose suspension only if said clearing member fails to deliver the securities on or before 10:00 a.m. on T+4. In case of failure to deliver the securities, the SCCP can use the cash submitted as collateral to purchase securities during the buy-in process. The proposed rules have been submitted to the SEC for approval.

- b. In October 2008, the SCCP approved the imposition of a 20 percent "haircut" on the securities submitted to it as collateral to cover the clearing member's negative exposures. Securities that are acceptable as collateral remain to be restricted to stocks comprising the PSEi and PSE shares. The SCCP implemented the rule on November 14, 2008 to coincide with the implementation of the revised composition of the PSEi. The collateral haircut serves as a buffer of value against any price change on the securities collateral delivered by the clearing members.

- c. The SCCP approved the criteria for categorizing stocks as “Designated Stocks” as well as the implementing guidelines for the treatment of “Designated Stocks.” This risk management procedure aims to protect the CTGF from the risk of trading in stocks that exhibit unusual price, volume and value changes.

Once the SEC approves the rules on Designated Stocks, the SCCP will notify the clearing members if any issue has been categorized as a Designated Stock at least one business day prior to its intended effectivity date. Issues comprising the PSEi are exempt from being categorized as Designated Stocks. Under the rules, net selling brokers of Designated Stocks shall be required to make an early delivery of the securities by 12:00 noon of T+1, or to deposit cash collateral of 100 percent equivalent by 12:00 noon of T+1 if the securities are not available for early delivery. Net buying brokers of Designated Stocks shall be required to deposit by 12:00 noon of T+1, collateral equivalent to 100 percent of their net buying position. Acceptable collaterals are limited to cash, the Top 15 index stocks based on tradability and liquidity, and PSE shares.

Pending SEC approval of the rules, the SCCP reviews the trades daily to determine if any stock not comprising the PSEi breaches the parameters for Designated Stocks.

- d. SCCP continues to monitor the trades of its clearing members on a daily basis and identifies clearing members which exhibit highly unusual and above-normal levels of settlement obligations, to mitigate possible settlement risks arising from these unusual obligation levels. Following a set formula that basically compares a clearing member’s current obligations from its historical average exposure, a clearing member that exceeds its allowable net obligation threshold is included in the “watch list.” The SCCP shall then enforce stricter monitoring procedures on companies under the “watch list” to ensure that there will be no settlement fails. A higher threshold is established to determine the clearing members with highly unusual levels of settlement obligations. When such limit is breached, SCCP may require the clearing member to give details, including client names, of the trades causing the unusual increase in net exposure to the clearing member.
- e. The SCCP closely monitors whether each clearing member is adequately capitalized to meet its daily average netted obligations (DANO). The SCCP works very closely with the Exchange’s Trading Participants Regulation Department, which calculates the net liquid capital (NLC) and RBCA ratios of trading participants. The NLC of each clearing member is compared with its DANO to determine whether the clearing member is capitalized adequately to support its trading activities. Clearing members with ratios of 0.50 and below are highlighted for further review. Results of the review are included in a Risk Management Report submitted to the SCCP Board.

- f. The SCCP also tapped the services of The CBM Group, Inc. to undertake a study on clearing house equity market risk management. Aside from conducting intensive in-house interviews to familiarize themselves with existing risk management policies and procedures of the SCCP, CBM conducted in-depth interviews with market participants, including brokers, settlement banks, foreign custodian, the central depository, the SEC and other regulatory bodies, and other exchanges and clearing houses in the region. The exercise aims to strengthen and institutionalize the risk management procedures at par with global standards and procedures.

CBM was engaged for a period of six and a half months ending in April 2009.

SCCP adds Metrobank as new settlement bank



Securities Borrowing and Lending

In December 2008, the SCCP submitted to the SEC its application as a Lending Agent under the Securities Borrowing and Lending (SBL) Program of the Exchange. The SCCP SBL is based on the mechanics of the SBL module of the Central Clearing and Central Settlement (CCCS) system, which allows SCCP as Lending Agent to assume a central counterparty role. As a Lending Agent, SCCP aims to provide its clearing members an effective tool to address or prevent securities settlement fails. A Multilateral Master Securities Lending Agreement (MSLA) will have to be executed between and among SCCP and interested clearing members availing of SCCP’s services as a Lending Agent. The SCCP system shall offer a more efficient SBL service because participants only need to register one multilateral MSLA with the Bureau of Internal Revenue (BIR) as against having several MSLAs executed and registered with the BIR. The SCCP facility will provide the BIR with the summary reports of the actual and liquidated SBL transactions between and among clearing members which are signatories to the multilateral MSLA.

Table 15. Listed Companies and Disclosure Status in Their Respective Websites

	Issuer	Website address	With Disclosure	Without Disclosure
1	A Brown Company, Inc.	www.xavierestates.com.ph	complete	
2	A. Soriano Corporation	www.anscor.com.ph	complete	
3	Abacus Consolidated Resources and Holdings, Inc.	www.abacusconsolidated.com	incomplete	
4	Aboitiz Equity Ventures, Inc.	www.aboitiz.com	incomplete	
5	Aboitiz Power Coporation	www.aboitizpower.com	complete	
6	Aboitiz Transport System (ATSC) Corporation	www.atsc.com.ph	complete	
7	ABS-CBN Broadcasting Corporation	www.abscbn-ir.com	complete	
8	ABS-CBN Holdings Corporation	www.abs-cbnpdr.com	incomplete	
9	Acesite (Phils.) Hotel Corporation	www.waterfronthotels.net	incomplete	
10	Active Alliance, Incorporated	www.activeallianceinc.com	complete	
11	AJO.net Holdings, Inc.	www.ajonet.com	incomplete	
12	Alaska Milk Corporation	www.alaskamilk.com.ph	complete	
13	Alcorn Gold Resources Corporation	www.alcorngold.com	complete	
14	Alliance Global Group, Inc.	www.allianceglobalinc.com	complete	
15	Alliance Tuna International, Inc.	www.alliancetuna.com.ph	complete	
16	Allied Banking Corporation	www.alliedbank.com.ph	incomplete	
17	Alsons Consolidated Resources, Inc.	www.acr.com.ph	incomplete	
18	Anchor Land Holdings, Inc.	www.anchorlandholdings.com	incomplete	
19	Anglo Philippine Holdings Corporation	www.anglophil.com	complete	
20	APC Group, Inc.	www.apcaragorn.com	complete	
21	Apex Mining Company, Inc.	www.apexmining.com	incomplete	
22	Araneta Properties, Inc.	www.aranetaproperties.com	incomplete	
23	Arthaland Corporation	www.arthaland.com	under construction	
24	Asian Terminals, Inc.	www.asianterminals.com.ph	complete	
25	AsiaTrust Development Bank, Inc.	www.asiustrustbank.com	incomplete	
26	Atlas Consolidated Mining and Development Corporation	www.atlasphilippines.com	incomplete	
27	ATN Holdings, Inc.	www.atnholdings.com	incomplete	
28	Atok-Big Wedge Co., Inc.	www.atokbigwedge.com	incomplete	
29	ATR KimEng Financial Corporation	www.atrkimengfinancial.com	incomplete	
30	Ayala Corporation	www.ayala.com.ph	complete	
31	Ayala Land, Inc.	www.ayalaland.com.ph	complete	
32	Bacnotan Consolidated Industries, Inc.	www.bcii.com.ph	complete	
33	Banco de Oro Unibank, Inc.	www.bdo.com.ph	incomplete	
34	Banco Filipino Savings Et Mortgage Bank	www.bancofilipino.com		✓
35	Bank of the Philippine Islands	www.bpiexpressonline.com	incomplete	
36	Bankard, Inc.	www.bankard.com	incomplete	

	Issuer	Website address	With Disclosure	Without Disclosure
37	Basic Energy Corporation	www.basicenergy.ph	complete	
38	BDO Leasing and Finance, Inc.	www.equitablepcib.com/ affiliates2003/ pci_leasing/corp_info.htm	incomplete	
39	Belle Corporation	www.bellecorp.com		✓
40	Benguet Corporation	www.benguetcorp.com	complete	
41	Benpres Holdings Corporation	www.benpres-holdings.com	complete	
42	BHI Holdings, Inc.	www.bhi-holdings.com		✓
43	Boulevard Holdings, Inc.	www.boulevardholdings.com	complete	
44	CADP Group Corporation	www.cadpgroup.com.ph	complete	
45	Cebu Holdings, Incorporated	www.cebuholdings.com	complete	
46	Cebu Property Ventures and Development Corp.	www.cpvdc.com	complete	
47	Centro Escolar University	www.ceu.edu.ph	complete	
48	Chemical Industries of the Philippines, Inc.	www.chemphil.com.ph	incomplete	
49	Chemrez Technologies, Inc.	www.chemrez.com	complete	
50	China Banking Corporation	www.chinabank.ph	complete	
51	Chinatrust (Philippines) Commercial Bank Corporation	www.chinatrust.com.ph	complete	
52	Citiseconline.com, Inc.	www.citiseconline.com	incomplete	
53	City & Land Developers, Inc.	www.citylandcondo.com	incomplete	
54	Cityland Development Corporation	www.citylandcondo.com	incomplete	
55	Citystate Savings Bank, Inc.	www.citystatesavings.com	incomplete	
56	Concrete Aggregates Corporation	www.cac.com.ph	complete	
57	Cosmos Bottling Corporation	www.cosmosbottling.com.ph	complete	
58	Digital Telecommunications Phils., Inc.	www.digitel.ph	complete	
59	Diversified Financial Network, Inc.	www.dfnn.com	complete	
60	DMCI Holdings, Inc.	www.dmciholdings.com	complete	
61	East Asia Power Resources Corporation	www.powr.com	incomplete	
62	EasyCall Communications Philippines, Inc.	www.easycall.com.ph	incomplete	
63	EEl Corporation	www.eei.com.ph	incomplete	
64	Empire East Land Holdings, Inc.	www.empire-east.com	complete	
65	Energy Development (EDC) Corporation	www.energy.com.ph	complete	
66	eTelecare Global Solutions, Inc.	www.etelecare.com	complete	
67	Eton Properties Philippines, Inc.	www.etonpropertiesphilippines.com		✓
68	Euro-Med Laboratories Phil., Inc.	www.euromedlab.com	incomplete	
69	Ever-Gotesco Resources and Holdings, Inc.	www.ever.ph		✓
70	Export and Industry Bank, Inc.	www.exportbank.com.ph	incomplete	
71	F & J Prince Holdings Corporation	www.fjprince.com	incomplete	
72	Far Eastern University, Inc.	www.feu.edu.ph	complete	
73	Federal Resources Investment Group, Inc.	www.federalchemicals.com.ph		✓

	Issuer	Website address	With Disclosure	Without Disclosure
74	Fil-Estate Corporation	www.fegc.brinkster.net/FEChome.htm	cannot be accessed	
75	Fil-Estate Land, Inc.	www.fil-estateland.com	complete	
76	Filinvest Development Corporation	www.filinvestgroup.com	complete	
77	Filinvest Land, Inc.	www.filinvestland.com	complete	
78	Filsyn Corporation	www.filsyncorp.com		✓
79	First Abacus Financial Holdings Corporation	www.firstabacusfinancial.com	incomplete	
80	First Gen Corporation	www.firstgen.com.ph	complete	
81	First Metro Investment Corporation	www.firstmetro.com.ph	incomplete	
82	First Philippine Holdings Corporation	www.fphc.com	complete	
83	GEOGRACE Resources Philippines, Inc	www.geograce.com	incomplete	
84	Ginebra San Miguel, Inc.	www.ginebrasanmiguel.com		✓
85	Globe Telecom, Inc.	www.globe.com.ph	complete	
86	GMA Holdings, Inc.	www.gmanetwork.com	complete	
87	GMA Network, Inc.	www.gmanetwork.com	complete	
88	Grand Plaza Hotel Corporation	www.grandplazahotelcorp.com	complete	
89	Highlands Prime, Inc.	www.highlandsprime.com	incomplete	
90	Holcim Philippines, Inc.	www.holcim.com.ph	incomplete	
91	House of Investments, Inc.	www.hoi.com.ph	incomplete	
92	Information Capital Technology Ventures, Inc.	www.ictv.ph	complete	
93	International Container Terminal Services, Inc.	www.ictsi.com	complete	
94	Interport Resources Corporation	www.interportresources.com	under construction	
95	Ionics, Inc.	www.ionic-ems.com		✓
96	iPeople, inc.	www.ipeople.com.ph	incomplete	
97	IPVG Corporation	www.ipvg.com	complete	
98	I-Remit, Inc.	www.myiremit.com	complete	
99	Island Information & Technology, Inc.	www.iiti.ph	incomplete	
100	ISM Communications Corporation	www.ismcomm.com	complete	
101	JG Summit Holdings, Inc.	www.jgsummit.com.ph	complete	
102	Jollibee Foods Corporation	www.jollibee.com.ph	complete	
103	Jollville Holdings Corporation	www.joh.ph		✓
104	JTH Davies Holdings, Inc.	www.jthdavies.com	complete	
105	Keppel Philippines Marine, Inc.	www.keppelphilippinesmarineinc.com	complete	
106	Keppel Philippines Properties, Inc.	www.keppelland.com.sg		✓
107	Lepanto Consolidated Mining Company	www.lepantomining.com	incomplete	
108	Liberty Telecoms Holdings, Inc.	www.libertytelecoms.com	cannot be accessed	
109	LMG Chemicals Corp.	www.chemphil.com.ph	incomplete	
110	Lodestar Investment Holdings Corporation	www.lodestarinvestment.com	complete	

	Issuer	Website address	With Disclosure	Without Disclosure
111	Lorenzo Shipping Corporation	www.lorenzoshipping.com		✓
112	Mabuhay Holdings Corporation	www.mabuhayholdingscorp.com/splash.html	complete	
113	Mabuhay Vinyl Corporation	www.mvc.com.ph	complete	
114	Macondray Plastics, Inc.	www.macplas.com.ph	under construction	
115	MacroAsia Corporation	www.macroasiacorp.com	complete	
116	Manchester International Holdings Unlimited Corporation	www.pharmaindustries.com	complete	
117	Manila Broadcasting Company	www.mbcsales.com.ph	complete	
118	Manila Bulletin Publishing Corporation	www.mb.com.ph		✓
119	Manila Electric Company	www.meralco.com.ph	complete	
120	Manila Jockey Club, Inc.	www.manilajockey.com		✓
121	Manila Mining Corporation	www.manilamining.com	incomplete	
122	Manila Water Company, Inc.	www.manilawater.com	complete	
123	Manulife Financial Corporation	www.manulife.com	incomplete	
124	Mariwasa Manufacturing, Inc.	www.mariwasa.com	incomplete	
125	MEDCO Holdings, Inc.	www.medco.com.ph	incomplete	
126	Megaworld Corporation	www.megaworldcorp.com	complete	
127	Metro Pacific Investments Corporation	www.mpic.com.ph	complete	
128	Metropolitan Bank & Trust Company	www.metrobank.com.ph	complete	
129	MIC Holdings Corporation	www.micholdings.com.ph	incomplete	
130	MUSX Corporation	www.musicsemicorp.com	complete	
131	National Reinsurance Corporation of the Philippines	www.nrcp.com.ph	incomplete	
132	NiHao Mineral Resources International, Inc.	www.nihaometals.com	complete	
133	Oriental Peninsula Resources Group, Inc.	www.orientalpeninsula.com		✓
134	Oriental Petroleum and Minerals Corporation	www.opmc.com.ph	under construction	
135	Pacific Online Systems Corporation	www.loto.com.ph	complete	
136	PAL Holdings, Inc.	www.philippineairlines.com	complete	
137	Panasonic Manufacturing Philippines Corporation	www.panasonic.com.ph	incomplete	
138	Pancake House, Inc.	www.pancakehouse.com.ph	complete	
140	Pepsi-Cola Products Philippines, Inc.	www.pepsiphilippines.com	complete	
141	PetroEnergy Resources Corporation	www.petroenergy.com.ph	complete	
142	Petron Corporation	www.petron.com	complete	
143	Philcomsat Holdings Corporation	www.philcomsat.com.ph		✓
144	Philex Mining Corporation	www.philexmining.com.ph	complete	
145	Philippine Bank of Communications	www.pbcom.com.ph	incomplete	
146	Philippine Estates Corporation	www.phes.net		✓
147	Philippine Long Distance Telephone Company	www.pldt.com.ph	complete	
148	Philippine National Bank	www.pnb.com.ph	complete	

	Issuer	Website address	With Disclosure	Without Disclosure
149	Philippine National Construction Corporation	www.pncc.com.ph		✓
150	Philippine Racing Club, Inc.	www.santa-ana-park.com	incomplete	
151	Philippine Realty and Holdings Corporation	www.philrlty.com		✓
152	Philippine Savings Bank	www.psbank.com.ph	complete	
153	Philippine Seven Corporation	www.7-eleven.com.ph	incomplete	
154	Philippine Telegraph and Telephone Corporation	www.ptt.com.ph		✓
155	Philippine Trust Company	www.philtrustbank.com	incomplete	
156	PhilWeb Corporation	www.philweb.com.ph	incomplete	
157	Phoenix Petroleum Philippines, Inc.	www.phoenixphilippines.com	complete	
158	Pilipino Telephone Corporation	www.piltel.com.ph	complete	
159	PNOC Exploration Corporation	www.pnoc-ec.com.ph		✓
160	Polar Property Holdings Corporation	www.polar.com.ph		✓
161	Premiere Entertainment Philippines, Inc.	www.pepinc.ph	complete	
162	Prime Gaming Philippines, Inc.	www.pgpi.com.ph	incomplete	
163	Prime Orion Philippines, Inc.	www.primeorion.com	complete	
164	Primex Corporation	www.primexcorp.com		✓
165	Republic Cement Corporation	www.lafargesemento.com/wps/portal		✓
166	Republic Glass Holdings Corporation	www.republicglass.net	incomplete	
167	RFM Corporation	www.rfm.com.ph	complete	
168	Rizal Commercial Banking Corporation	www.rcbc.com	incomplete	
169	Robinsons Land Corporation	www.robinsonsland.com	complete	
170	Roxas Holdings, Inc.	www.roxas.com.ph	complete	
171	San Miguel Corporation	www.sanmiguel.com.ph	complete	
172	San Miguel Properties, Inc.	www.sanmiguelproperties.com.ph	complete	
173	San Miguel Pure Foods Company, Inc.	www.sanmiguelpurefoods.com	incomplete	
174	Seafront Resources Corporation	www.seafrontresources.com	incomplete	
175	Security Bank Corporation	www.securitybank.com.ph	incomplete	
176	Semirara Mining Corporation	www.semiraramining.com	complete	
177	Shang Properties, Inc.	www.shangproperties.com	incomplete	
178	SM Development Corporation	www.smdevelopment.com	incomplete	
179	SM Investments Corporation	www.sminvestments.com	incomplete	
180	SM Prime Holdings, Inc.	www.smprime.com	incomplete	
181	Solid Group, Inc.	www.solidgroup.com.ph		✓
182	South China Resources, Inc.	www.southchinaresourcesinc.com.ph	complete	
183	Splash Corporation	www.splash.com.ph	complete	
184	Sun Life Financial, Inc.	www.sunlife.com	incomplete	
185	Suntrust Home Developers, Inc.	www.suntrusthomedevelopers.com	complete	

	Issuer	Website address	With Disclosure	Without Disclosure
186	Supercity Realty Development Corporation	www.supercity.com.ph	incomplete	
187	Swift Foods, Inc.	www.myswiftfoods.com.ph	incomplete	
188	Tanduay Holdings, Inc.	www.tanduay.com	complete	
189	The Philippine Stock Exchange, Inc.	www.pse.com.ph	complete	
190	The Philodrill Corporation	www.philodrill.com	complete	
191	TKC Steel Corporation	www.tkcsteel.com	incomplete	
192	Trans-Asia Oil and Energy Development Corporation	www.transasia-energy.com	complete	
193	Transpacific Broadband Group International Inc.	www.tbgi.net.ph	incomplete	
194	Union Bank of the Philippines, Inc.	www.unionbankph.com	incomplete	
195	United Paragon Mining Corporation	www.unitedparagon.com	complete	
196	Universal Robina Corporation	www.urc.com.ph	complete	
197	Uniwide Holdings, Inc.	www.uni-wide.com	incomplete	
198	Vantage Equities, Inc.	www.ivantage.ph	incomplete	
199	Victorias Milling Company, Inc.	www.victoriasmilling.com	incomplete	
200	Vista Land & Lifescapes, Inc.	www.vistaland.com.ph	complete	
201	Vitarich Corporation	www.vitarich.com	incomplete	
202	Waterfront Philippines, Inc.	www.waterfronthotels.net	incomplete	
203	Wellex Industries, Inc.	www.wellex.com.ph		✓
204	Zeus Holdings, Inc.	www.zeusholdingsinc.com	incomplete	

Table 16. Listed Companies With No Websites

1	Abra Mining and Industrial Corporation	17	Makati Finance Corporation	32	San Miguel Brewery, Inc.
2	AGP Industrial Corporation	18	Marsteel Consolidated, Inc.	33	Sanitary Wares Manufacturing Corporation
3	Asia Amalgamated Holdings Corporation	19	Metro Alliance Holdings & Equities Corp.	34	Sinophil Corporation
4	Bogo-Medellin Milling Company, Inc.	20	Minerales Industrias Corporation	35	Southeast Asia Cement Holdings, Inc.
5	Central Azucarera de Tarlac, Inc.	21	MJCI Investments, Inc.	36	SPC Power Corporation
6	Crown Equities, Inc.	22	Mondragon International Philippines, Inc.	37	Sta. Lucia Land, Inc.
7	Cyber Bay Corporation	23	MRC Allied Industries, Inc.	38	Steniel Manufacturing Corporation
8	Dizon Copper-Silver Mines, Inc.	24	NextStage, Inc.	39	UEM Development Phils., Inc.
9	Filipino Fund, Inc.	25	Omico Corporation	40	Unioil Resources & Holdings Company, Inc.
10	First Philippine Infrastructure, Inc.	26	Pacifica, Inc.	41	Universal Rightfield Property Holdings, Inc.
11	Forum Pacific, Inc.	27	Philippine Tobacco Flue-Curing & Redrying Corporation	42	Vivant Corporation
12	Gotesco Land, Inc.	28	Picop Resources, Inc.	43	Vulcan Industrial & Mining Corporation
13	Imperial Resources, Inc.	29	Prime Media Holdings, Inc.	44	Wise Holdings, Inc.
14	Keppel Philippines Holdings, Inc.	30	Primetown Property Group, Inc.		
15	Leisure & Resorts World Corporation	31	Pryce Corporation		
16	Liberty Flour Mills, Inc.				

* Table 15-16 are current as of March 20, 2009

Board of Directors



Justice Jose C. Vitug
Chairman

Executive Officers



Francisco Ed. Lim
President & Chief Executive Officer



Roy Joseph M. Rafols
Senior Vice President & Chief Operating Officer
Concurrent Head, Issuer Regulation Division



Jonathan Juan DC. Moreno
Vice President & Head,
Corporate Governance Office
Chief Risk Officer



Roel A. Refran
Vice President & General Counsel



Joseph P. San Pedro
Vice President & Head,
Market Regulation Division



Susan L. Serad
Vice President & Chief Technology Officer &
Head, Technology Division



Marietta U. Tan
Vice President & Head,
Finance & Investments Division



Enrico M. Trinidad
Vice President & Head,
Capital Markets Development Division
Concurrent Head, Corporate Services Division



Jinky A. Alora
Assistant Vice President & Head,
Trading Participants Regulation Department
Market Regulation Division



Rachelle C. Blanch
Assistant Vice President & Head,
Market Operations Division



Marsha Matilde R. Pepino
Assistant Vice President & Internal Audit
Officer

Department and Section Heads

Officers-in-Charge



From left to right: Armando T. Arturo - Head, Trading Operations Ayala; Precilla S. Sandoval - Head, Market Data Business Department; Maria Gina E. Valdez - Head, Applications Development; Tristan G. Gillego - Head, Infrastructure and System Administration; Carlos C. Luarte - Head, Trading Operations Tektite



From left to right: Cecille E. Ogabang - Assistant Head, Trading Participants Regulation Department; Leonardo G. Quinitio - Head, Market Education Department; Jo Ann G. Bautista - Assistant Head, Business Development Department; Marsha Angelyn M. Resurreccion - Head, Listings Department; Jose Antonio S. Vilar - Head, Marketing Services Department; Pedro M. Malabanan - Head, Disclosure Department



From left to right: Niña Kristi B. Zaballa - OIC, Public and Investor Relations Section; Josielyn S. Arellano - OIC, Human Resources Management Section; John Benette B. Mamañgun - Head, Corporate Planning & Research Section; Eliza S. Rodriguez - Head, Accounting Department; Edwin G. Oliveros - Head, Surveillance Department; Elisa L. Benavidez - Head, Budget & Treasury Department; Alfredo S. Jingco - OIC, Administration Section

Securities Clearing Corporation of the Philippines

Board of Directors and Officers



Justice Jose C. Vitug
Chairman

Information Required by the Securities Regulation Code

General Nature and Scope of Business of Registrant and its Subsidiary

The Philippine Stock Exchange, Inc. was incorporated on July 14, 1992 as a non-stock corporation. The Company became a stock corporation on August 3, 2001. On December 15, 2003, pursuant to the demutualization mandate of Republic Act No. 8799, or the Securities Regulation Code, the Company’s outstanding capital stock was listed by way of introduction. On February 18, 2004, the Company sold 6,077,505 shares from its unissued stock to five strategic investors by way of private placement that was approved by the Securities and Exchange Commission. The strategic investors were the PLDT Beneficial Trust Fund, SMC Retirement Fund, Government Service Insurance System, Kim Eng Investment Ltd., and KE Strategic Pte. Ltd.

The Company’s revenues are primarily derived from listing-related fees. The Company charges listing fees for initial and additional listings, and for annual listing maintenance. Other sources of revenues are membership, transaction, data feed, and miscellaneous fees, which include service fees. Membership and transaction fees are charged to trading participants while data feed fees are collected from data vendors.

Subsidiary and Affiliate

The Securities Clearing Corporation of the Philippines (SCCP) is a wholly-owned PSE subsidiary organized primarily as a clearing and settlement facility for SCCP-eligible trades executed through the PSE. SCCP is responsible for (a) synchronizing the settlement of funds for transactions of clearing members and the transfer of securities through Delivery versus Payment (DVP) mode of settlement; (b) the administration of the Clearing and Trade Guarantee Fund (CTGF) and guaranteeing the settlement of trades through the implementation of its fails management system in the event of a trading participant’s default; and (c) performance of risk management and monitoring to ensure final and irrevocable settlement.

The Company is also a shareholder of the Philippine Dealing System Holdings Corporation (“PDSHC”), the holding company of the Philippine Dealing & Exchange Corporation (“PDEx”), otherwise known as the Fixed Income Exchange (“FIE”); the Philippine Depository & Trust Corp. (“PDTC”) and the Philippine Securities Settlement Corporation (“PSSC”). As of December 31, 2008, the Company is a stockholder of record of 1,311,439 shares or 20.98 percent of all the issued and outstanding shares of PDSHC.

Properties

The Company is the registered owner of offices at the PSE Centre in Ortigas Center, Pasig City, and the PSE Plaza along Ayala Avenue, Makati City.

In addition, over a seven-year period beginning January 2005, the outstanding shares of Crescent West Development Corporation (“CWDC”), a subsidiary of Fort Bonifacio Development Corporation (“FBDC”) and the registered owner of a 2,182-square-meter lot in the Bonifacio Global City, will be transferred to the Company. In June of 2007, the donation of all remaining CWDC shares was deferred pending negotiations among the Company, FBDC and Ayala Land, Inc. for the joint development of an iconic office building in Bonifacio Global City for the relocation of the Company’s headquarters, majority of management offices and unified trading operations in equities securities for the National Capital Region.

MARKET INFORMATION

Principal market where the registrant’s common equity is traded

The common stock of the Company is listed in The Philippine Stock Exchange, Inc.

The high and low prices of the Company’s shares in the stock exchange for each quarter of fiscal years 2007 and 2008 are as follows:

2008	High	Low
Q1	Php 515.00	Php 275.00
Q2	Php 372.00	Php 275.00
Q3	Php 400.00	Php 290.00
Q4	Php 360.00	Php 109.00

2007	High	Low
Q1	Php 502.50	Php 142.50
Q2	Php 440.00	Php 265.00
Q3	Php 430.00	Php 345.00
Q4	Php 695.00	Php 380.00

The high and low prices of the Company’s shares in January-March 27, 2009 are Php174.00 and Php116.00, respectively. The stock price of the Company closed at Php173.00 on March 27, 2009.

Dividends

Dividends Per Share:

- Php 5.76 in 2006.
- Php 8.80 in 2007.
- Php 20.00 in 2008.
- Php 8.00 in 2009.

Dividend Policy

The Company adopts a policy for the declaration of regular cash dividend out of the unrestricted retained earnings equivalent to 50 percent of the Company’s audited net income. The declaration of dividends is dependent on the cash flow and financial condition of the Company.

Recent Sale of Unregistered Exempt Securities

- In 2008, the Company declared 100 percent stock dividend equivalent to 15,277,512 shares.
- On December 2, 2008, pursuant to the PSE Employee Stock Purchase Plan, the Company offered 50,000 shares to eligible employees. A total of 42,240 shares were actually subscribed by the employees.

Holder

The number of shareholders of record as of February 27, 2009 is 219. Total shares outstanding as of February 27, 2009 is 30,497,296 shares with a par value of P 1.00.

The top 20 holders as of February 27, 2009 are as follows:

Stockholder	Nationality	No. of Shares	Amount (Php)	Percentage (%)
PCD Nominee Corp. (Filipino)	Filipino	19,110,767	19,110,767	62.66
PCD Nominee Corp. (Non-Filipino)	Other Alien	4,396,154	4,396,154	14.41
Koo Kiao Go	Filipino	100,000	100,000	0.33
G.D. Tan & Company, Inc.	Filipino	100,000	100,000	0.33
Chia Kim Teck	Singaporean	100,000	100,000	0.33
Vicsal Sec. & Stock Brokerage, Inc.	Filipino	100,000	100,000	0.33
Christfund Securities (Phils.), Inc.	Other Alien	100,000	100,000	0.33
Rashid Hussain Securities (Phils.), Inc.	Other Alien	100,000	100,000	0.33
Nomura Securities Phils., Inc.	Dutch	100,000	100,000	0.33
Fortune Securities, Inc.	Filipino	100,000	100,000	0.33
Securities 2000, Inc.	Singaporean	100,000	100,000	0.33
DBS Vickers Securities (Phils.), Inc.	Filipino	100,000	100,000	0.33
HSBC Securities (Philippines), Inc.	Dutch	100,000	100,000	0.33
Apex Phils. Equities Corporation	Other Alien	100,000	100,000	0.33
Mandarin Securities Corp.	Filipino	100,000	100,000	0.33
Sincere Securities Corporation	Filipino	100,000	100,000	0.33
Benjamin Co Ca & Company, Inc.	Filipino	100,000	100,000	0.33
CLSA Philippines, Inc.	Dutch	100,000	100,000	0.33
Platinum Securities, Inc.	Filipino	100,000	100,000	0.33
Deutsche Regis Partners, Inc.	Filipino	100,000	100,000	0.33
TOTAL		25,306,921	25,306,921	82.98



Report of the Marketing Integrity Board

The Market Integrity Board (“MIB”) is pleased to report to the Exchange’s stockholders its oversight of the performance by the Market Regulation Division (MRD”) of its regulatory functions.

The MIB is the Exchange’s independent body exercising control and supervision over the MRD. The decisions and actions of the MIB are not subject to review by the Exchange’s board of directors but may be appealed to the Securities and Exchange Commission (“SEC”). It has five regular members, including the chairman and the vice chairman. Three of its members are not affiliated with trading participants and include an independent director of the Exchange. The two other members are trading participant representatives, who are not directors of the Exchange. Except for the chairman, all MIB members have alternates. The President of the Exchange is an ex officio, non-voting member of the MIB. Only persons with proven integrity, honesty and the relevant competence may be members of the MIB.

The MIB steadfastly enforces the relevant rules and regulations, which the Exchange qua self-regulatory organization (“SRO”) has adopted to maintain the integrity of the market and minimize the risk of the investing public.

1. The MIB guides the MRD in the reasonable, fair and consistent enforcement of the SRO rules of the Exchange. Last year, the MIB issued various directives and guidelines for the MRD to follow in discharging its regulatory functions, including its audit, compliance and surveillance activities.

In particular, the MIB issued appropriate directives on (a) the proper implementation of the takeover orders issued by the SEC against three failed trading participants and (b) the trading restrictions against two trading participants. When necessary to protect the interest of the market and the investing public, the MIB placed under MRD’s supervision the trading operations of certain trading participants.

2. The MIB reviews the decisions of the MRD upon appeal by the relevant party. In 2008, the MIB resolved 28 appeals on (a) the regulatory audit findings on, and (B) complaints of violation of the securities laws and Exchange rules by, certain trading participants. The resolution of these appeals led to the affirmation of sanctions imposed on the erring

trading participants.

3. The MIB ensures coordination by the Exchange with the SEC and other governmental agencies on market regulation. It directed the MRD to work with the SEC for the referral and handling of matters, which are beyond the Exchange’s jurisdiction as an SRO. These matters include the prosecution of the criminal violation of the securities laws by market players. It instructed the MRD to assist the Department of Justice and individual investors in the prosecution of criminal complaints against erring trading participants.

Aside from enforcing the Exchange rules, the MIB initiates policy and structural changes to better protect the investing public and the market. The MIB complements efforts of the Exchange’s Board of Directors and the SEC on these matters. In 2008, the MIB recommended to the Board of Directors and the SEC measures to reinforce the financial health of trading participants. It proposed an increase in (a) the minimum unimpaired paid up capital and (b) the surety bonds of brokers and dealers. It also suggested the implementation of the mandatory use of the Name on Central Depository by all trading participants to ensure the recording of securities of investors with the depository in their individual names.

The MIB appreciates the openness of, and assistance provided by, the MRD and President Francis Ed. Lim in realizing these accomplishments.

The MIB believes that the Exchange as an SRO still has a lot to do to keep its house in order, especially in light of the present economic difficulties. In fulfillment of its mandate from the Exchange, the MIB will continue to do its share in maintaining the integrity of the market and protecting the investing public.

CONCHITA L. MANABAT
Chairperson



Report of the Corporate Governance Committee

The PSE Board is fully committed to aligning the Exchange's corporate governance (CG) practices to internationally accepted standards. As such, it has designated the Corporate Governance Committee to assist on issues directly connected with:

- its internal processes, work procedures, and performance;
- the performance of the President and his Management team;
- compensation, benefits and incentives;
- succession planning; and
- the overall corporate governance of the Exchange.

Recognizing that genuine CG improvement could only be done through the partnership between the Board and Management, the Exchange created the Corporate Governance Office (CGO) to complement and support the Committee. The CGO is primarily tasked to direct and manage the fundamental functions of corporate governance, enterprise risk management, strategy management and responsible business practice in the Exchange.

In 2008, with Director Jose Luis S. Javier as Chairman, and Directors William L. Ang, Anabelle L. Chua, Amor C. Iliscupidez, Atty. Cornelio T. Peralta and Omelita J. Tiangco as members, the Committee acted on the following:

Internal Capacity-Building. To ensure that all major activities in the Exchange are consistent with good corporate governance practices, the Committee worked closely with the Audit Committee in its efforts to improve internal controls and processes. It supported the Audit Committee's oversight on key process improvement initiatives, such as Approvals Manual and Operations Manual, by making sure that such initiatives reinforced the basic CG objectives of enhanced strategy execution, increased transparency and clear accountabilities.

External Confidence-Building. The Committee started the process of helping build confidence on the PSE by increasing the Exchange's presence and profile in the regional corporate governance community. This was done through the Chairman's active participation in major CG events organized by the World Bank and the Organization for Economic Cooperation and Development (OECD).

Oversight on the Exchange's Human Resource Management. The Committee approved and endorsed the enhanced compensation, benefits, and incentive system of the Exchange; the hiring, promotion and transfer of key personnel; and the performance evaluation of the President and his team. It also deliberated and recommended the Employee Stock Purchase Plan (ESPP), the Dividend Policy, as well as the Policy on Handling and Release of Important Information.

Improving Board Functions. Guided by the PSE's vision of being "a premiere exchange with world class standards", the Committee is striving to set the example by having the internal governance practices of the PSE Board fully aligned with corporate governance principles and guidelines.

As a significant step toward achieving this objective, the Committee introduced for discussion and consideration, the PSE Board Protocol and the Board Evaluation System. The Board Protocol is a document that outlines the practices and procedures that the Board of Directors commit to following, while the Board Evaluation System is a mechanism of assessing the performance of the Board and the directors.

Finally, the Committee considers the 2008 accomplishments as going beyond just the development of frameworks, programs and systems. It observed actual improvements on the PSE personnel's level of understanding and acceptance of CG through their actions, decisions, as well as process enhancements.

However, while there are indications of improved CG practices, the Committee believes that much more can – and should – be done. Hence, it commits to work, on behalf of the Board, in further improving CG in the PSE through its active oversight on the Exchange's corporate governance and human resource function, as well in its efforts to improve the Board's functions and effectiveness.


JOSE LUIS S. JAVIER
Chairman

Report of the Audit Committee

For the Year Ended December 31, 2008

The Audit Committee's roles and responsibilities are defined in the Audit Committee Charter approved by the Board of Directors. The Audit Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the stockholders relating to:

- a. the Exchange's financial statements and the financial reporting process;
- b. the systems of internal controls and financial reporting controls;
- c. the internal audit activity;
- d. the annual independent audit of the Exchange's financial statements; and
- e. compliance with legal and regulatory matters.

In compliance with the Audit Committee Charter, the Committee confirms that:

- An independent director chairs the Audit Committee;
- The Committee had 16 meetings during the year; more than majority of the members were present in all these meetings;
- The Committee recommended to the Board of Directors the re-appointment of SyCip Gorres Velayo & Co. (SGV & Co.) as independent external auditors for 2008, based on the review of their performance and qualifications, including consideration of management's recommendation;
- The Committee reviewed and discussed the annual audited consolidated financial statements of the Exchange, and its subsidiary, Securities Clearing Corporation of the Philippines, including Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2008, with management and SGV & Co.;
- The Committee reviewed and strengthened the financial reporting and internal control processes.

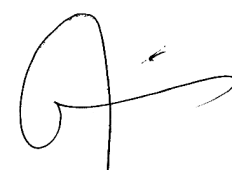
These activities were performed in the following context:

- Management has the primary responsibility for the financial statements and the reporting process;
- SGV & Co. is responsible for expressing an opinion on the conformity of the Exchange's annual audited consolidated financial statements with Philippine Financial Reporting Standards;
- The Committee discussed and approved the overall scope and the respective audit plans of the Exchange's Internal Auditors and SGV & Co. The Committee also discussed the results of their audits and their assessment of the Exchange's internal controls and the overall quality of the financial reporting process;

- The Committee reviewed and approved all audit services provided by SGV & Co. to the Exchange and the related fees for such services, and have concluded that such services do not impair their independence;
- The Committee reviewed the reports of the Internal Auditors, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance with legal and regulatory issues. The review included revenue, payroll, collection, purchases and other critical processes;
- Starting 2008, the Committee assumed the risk oversight function and is actively monitoring it through the Corporate Governance Office.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit Committee recommended to the Board of Directors the inclusion of the Exchange's audited consolidated financial statements as of and for the year ended December 31, 2008 in the Exchange's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

March 17, 2009.



CORNELIO T. PERALTA
Committee Chair



WILLIAM L. ANG
Member



SHIRLEY Y. BANGAYAN
Member



ANABELLE L. CHUA
Member



AMOR C. ILISCUPIDEZ
Member



JOSE LUIS S. JAVIER
Member



OMELITA J. TIANGCO
Member

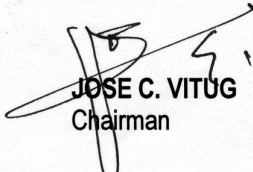
Statement of Management's Responsibility for Financial Statements

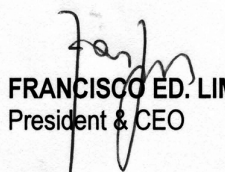
The management of The Philippine Stock Exchange, Inc. is responsible for all information and representations contained in the balance sheets of The Philippine Stock Exchange, Inc. and its Subsidiary (the Group) and of The Philippine Stock Exchange, Inc. (the Parent Company) as of December 31, 2008 and 2007, and the related statements of income, statements of changes in equity and statements of cash flows for the three years in the period ended December 31, 2008. The financial statements have been prepared in conformity with the Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized. The current management likewise discloses to the Audit Committee of The Philippine Stock Exchange, Inc. and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of The Philippine Stock Exchange, Inc.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, have audited the financial statements of the Group in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of presentation upon completion of such examination in its report to the Board of Directors and stockholders.


JOSE C. VITUG
Chairman


FRANCISCO ED. LIM
President & CEO


MARIETTA U. TAN
Vice President
Finance & Investments Division

REPUBLIC OF THE PHILIPPINES }
CITY OF MANILA }

SUBSCRIBED AND SWORN to before me this 27 day of MAR 2009 at MANILA affiant exhibiting before me their respective Community Tax Certificates:

JOSE C. VITUG
FRANCISCO ED. LIM
MARIETTA U. TAN

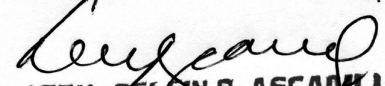
Doc. No. 298
Page No. 60
Book No. LV
Series of 2009.

Community Tax Certificate

16810614
20458430
00881381

Place/Date of Issue

Quezon City/02 March 2009
Mandaluyong City/18 February 2009
Parañaque City/18 February 2009


ATTY. DELE R. AGCAOILI JR.
NOTARY PUBLIC
ROLL NO. 24655
TIN NO. 144-519-066
PTR NO. 1174049-B-01-06-09
IBP NO. 754439-01-06-09
MCLE NO. II-0015473
COM. EXPIRED ON DEC. 09

Independent Auditor's Report

The Philippine Stock Exchange, Inc.
Philippine Stock Exchange Centre
Exchange Road, Ortigas Center, Pasig City

We have audited the accompanying financial statements of The Philippine Stock Exchange, Inc. and Subsidiary (the Group) and of The Philippine Stock Exchange, Inc. (the Parent Company), which comprise the consolidated and the parent company balance sheets as at December 31, 2008 and 2007, and the consolidated and the parent company statements of income, the consolidated and the parent company statements of changes in equity and the consolidated and the parent company statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as of December 31, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.


Marilou C. Bartolome

Marilou C. Bartolome
Partner
CPA Certificate No. 91634
SEC Accreditation No. 0659-A
Tax Identification No. 177-087-426
PTR No. 1566408, January 5, 2009, Makati City

February 25, 2009

Balance Sheets

	Consolidated		Parent Company	
	December 31			
	2008	2007	2008	2007
ASSETS				
Current Assets				
Cash and cash equivalents (Notes 4, 5 and 6)	₱132,488,824	₱185,125,388	₱60,132,769	₱149,176,998
Short-term investments (Notes 4, 5 and 7)	—	312,700,000	—	312,700,000
Short-term available-for-sale investments (Notes 4, 5 and 8)	367,632,653	563,918,275	313,479,536	368,691,542
Receivables - net (Notes 3, 4, 5 and 9)	65,077,459	182,542,961	101,378,132	165,140,036
Other current assets	19,300,575	7,564,463	19,244,840	7,463,088
Total Current Assets	584,499,511	1,251,851,087	494,235,277	1,003,171,664
Long-term Available-for-Sale Investments - net (Notes 3, 4, 5 and 8)	841,401,285	650,617,784	801,554,240	650,617,784
Property and Equipment - net (Notes 3 and 10)	452,186,356	313,811,287	450,581,422	312,586,177
Investment in a Subsidiary (Note 11)	—	—	69,580,532	69,545,393
Investment in an Associate - net (Note 11)	106,818,647	—	106,818,647	—
Investments of Clearing and Trade Guaranty Fund (Note 12)	402,288,607	361,322,116	—	—
Other Assets - net (Note 13)	52,658,270	68,054,122	37,098,165	47,507,602
	₱2,439,852,676	₱2,645,656,396	₱1,959,868,283	₱2,083,428,620
LIABILITIES AND EQUITY				
LIABILITIES				
Current Liabilities				
Accounts payable, accrued expenses and other current liabilities (Notes 4, 5 and 14)	₱102,794,022	₱148,152,963	₱96,056,414	₱140,773,903
Dividends payable (Notes 4 and 5)	—	4,416,782	—	4,416,782
Income tax payable	9,377,173	23,977,141	—	6,111,415
Deferred fees	12,317,389	80,709,342	12,317,389	80,709,342
Total Current Liabilities	124,488,584	257,256,228	108,373,803	232,011,442
Retirement Liability (Note 21)	6,032,793	2,495,354	2,473,635	—
Due to Clearing and Trade Guaranty Fund (Note 12)	402,288,607	361,322,116	—	—
	532,809,984	621,073,698	110,847,438	232,011,442
EQUITY				
Capital stock (Notes 1 and 16)	30,555,024	15,277,513	30,555,024	15,277,513
Additional paid-in capital (Note 16)	976,506,942	976,506,942	976,506,942	976,506,942
Treasury stock (Note 16)	(68,000,008)	(2)	(68,000,008)	(2)
Deposit for future stock subscription (Note 26)	5,702,400	—	5,702,400	—
Retained earnings				
Unappropriated (Note 16)	487,206,261	584,554,480	429,703,012	411,136,212
Donated capital (Note 15)	387,637,585	387,637,585	387,637,585	387,637,585
Appropriated (Note 16)	71,000,000	3,000,000	71,000,000	3,000,000
Net unrealized gain on available-for-sale investments (Note 8)	16,434,488	57,606,180	15,915,890	57,858,928
	1,907,042,692	2,024,582,698	1,849,020,845	1,851,417,178
	₱2,439,852,676	₱2,645,656,396	₱1,959,868,283	₱2,083,428,620

See accompanying Notes to Financial Statements.

Statements of Income

	Consolidated			Parent Company		
	Years Ended December 31					
	2008	2007	2006	2008	2007	2006
OPERATING INCOME						
Listing-related fees						
Listing	₱172,452,851	₱358,491,345	₱158,741,515	₱172,452,851	₱358,491,345	₱158,741,515
Listing maintenance	166,904,665	97,752,833	85,525,174	166,904,665	97,752,833	85,525,174
Processing	1,190,000	2,680,714	1,132,060	1,190,000	2,680,714	1,132,060
Service fees	136,404,494	238,956,952	102,370,005	—	—	—
Interest (Notes 17 and 23)	110,703,140	112,337,583	113,991,355	102,760,664	106,005,703	112,172,031
Trading-related fees (Note 23)						
Transaction	58,837,694	111,245,368	45,069,262	58,837,694	111,245,368	45,069,262
Block sales	17,552,424	22,579,875	12,194,680	17,552,424	22,579,875	12,194,680
Data feed	19,161,384	17,423,662	16,954,280	19,161,384	17,423,662	16,954,280
Subscription	16,754,391	15,418,514	13,480,762	16,754,391	15,418,514	13,480,762
Dividend income	33,250	26,750	—	190,032,900	9,426,750	—
Foreign exchange gain - net	16,697,591	—	—	16,697,591	—	—
Other income (Note 23)	12,420,375	16,492,324	14,061,533	12,155,627	14,605,413	13,456,350
	729,112,259	993,405,920	563,520,626	774,500,191	755,630,177	458,726,114
OPERATING EXPENSES						
Compensation and other related staff costs (Notes 18, 21 and 23)	128,965,716	144,148,927	117,145,243	116,315,810	131,521,851	110,678,146
Occupancy costs (Note 19)	41,400,935	38,328,510	36,009,435	38,318,344	37,961,100	35,122,403
Professional fees	33,367,156	18,165,602	11,328,627	27,721,913	17,460,849	10,248,346
Depreciation (Note 10)	29,249,503	29,280,536	21,682,055	28,531,764	27,972,115	20,585,006
Repairs and maintenance	11,702,342	7,747,275	12,484,880	9,572,565	5,615,466	10,424,417
Trading technology, computer maintenance and other trading-related costs	9,643,725	8,455,207	7,202,153	9,643,725	8,455,207	7,202,153
Travel and transportation	8,536,990	6,599,933	3,001,388	8,387,727	6,586,996	2,986,835
Taxes and licenses	5,978,986	4,875,234	4,601,607	4,154,004	4,070,567	4,068,883
Amortization of computer software (Note 13)	5,271,530	5,214,254	5,205,924	—	—	—
Membership development	4,701,691	7,832,872	3,770,148	4,701,691	7,832,872	3,770,148
Market development	3,879,037	7,656,545	3,672,932	3,879,037	7,656,545	3,672,932
Office expenses	3,281,973	3,074,064	3,297,450	3,146,262	2,921,784	3,155,815
Donation and contributions	2,200,000	15,600,000	3,450,000	2,200,000	15,600,000	3,450,000
Provision for impairment losses (Notes 8, 9 and 11)	1,945,170	10,120,044	9,923,355	5,959,859	10,120,044	9,923,355
Entertainment, amusement and recreation (Note 20)	681,708	676,062	561,414	618,140	660,785	539,977
Foreign exchange loss - net	—	21,105,029	11,065,752	—	21,105,029	11,065,752
Infrastructure fee	—	—	13,775,441	—	—	—
Other expenses	10,380,334	14,525,000	2,760,398	10,174,327	12,702,372	2,280,382
	301,186,796	343,405,094	270,938,202	273,325,168	318,243,582	239,174,550
EQUITY IN NET LOSS OF AN ASSOCIATE (Note 11)						
	4,014,689	—	—	—	—	—
INCOME BEFORE INCOME TAX	423,910,774	650,000,826	292,582,424	501,175,023	437,386,595	219,551,564
PROVISION FOR INCOME TAX (Note 20)	132,431,384	216,581,696	60,286,909	93,780,612	139,483,197	35,890,652
NET INCOME	₱291,479,390	₱433,419,130	₱232,295,515	₱407,394,411	₱297,903,398	₱183,660,912
Basic/Diluted Earnings Per Share (Note 22)						
	₱9.55	₱14.18	₱7.60			

See accompanying Notes to Financial Statements.

Statement of Charges in Equity

Consolidated									
	Capital Stock (Notes 1 and 16)	Additional Paid-in Capital (Note 16)	Treasury Stock (Note 16)	Deposit for Future Stock Subscription (Note 26)	Retained Earnings			Net Unrealized Gain on Available- for-Sale Investments (Note 8)	Total
					Unappropriated (Note 16)	Donated Capital (Note 15)	Appropriated (Note 16)		
Balance at January 1, 2008	₱15,277,513	₱976,506,942	(₱2)	₱—	₱584,554,480	₱387,637,585	₱3,000,000	₱57,606,180	₱2,024,582,698
Net unrealized loss for the year	—	—	—	—	—	—	—	(41,142,874)	(41,142,874)
Realized gain transferred to statement of income	—	—	—	—	—	—	—	(28,818)	(28,818)
Net income for the year	—	—	—	—	291,479,390	—	—	—	291,479,390
Total income and expense for the year	—	—	—	—	291,479,390	—	—	(41,171,692)	250,307,698
Acquisition of treasury stock	—	—	(68,000,006)	—	—	—	—	—	(68,000,006)
Appropriation during the year	—	—	—	—	(68,000,000)	—	68,000,000	—	—
Deposit for future stock subscription	—	—	—	5,702,400	—	—	—	—	5,702,400
Cash dividends	—	—	—	—	(305,550,098)	—	—	—	(305,550,098)
Stock dividends	15,277,511	—	—	—	(15,277,511)	—	—	—	—
Balance at December 31, 2008	₱30,555,024	₱976,506,942	(₱68,000,008)	₱5,702,400	₱487,206,261	₱387,637,585	₱71,000,000	₱16,434,488	₱1,907,042,692
Balance at January 1, 2007	₱15,277,513	₱976,506,942	(₱1)	₱—	₱285,577,394	₱387,637,585	₱3,000,000	₱78,150,920	₱1,746,150,353
Net unrealized loss for the year	—	—	—	—	—	—	—	(20,449,654)	(20,449,654)
Realized gain transferred to statement of income	—	—	—	—	—	—	—	(95,086)	(95,086)
Net income for the year	—	—	—	—	433,419,130	—	—	—	433,419,130
Total income and expense for the year	—	—	—	—	433,419,130	—	—	(20,544,740)	412,874,390
Acquisition of treasury stock	—	—	(1)	—	—	—	—	—	(1)
Cash dividends	—	—	—	—	(134,442,044)	—	—	—	(134,442,044)
Balance at December 31, 2007	₱15,277,513	₱976,506,942	(₱2)	₱—	₱584,554,480	₱387,637,585	₱3,000,000	₱57,606,180	₱2,024,582,698
Balance at January 1, 2006	₱15,277,513	₱976,506,942	(₱2)	₱—	₱144,280,308	₱382,404,823	₱—	₱22,530,388	₱1,540,999,972
Net unrealized gain for the year	—	—	—	—	—	—	—	55,620,532	55,620,532
Net income for the year	—	—	—	—	232,295,515	—	—	—	232,295,515
Total income for the year	—	—	—	—	232,295,515	—	—	55,620,532	287,916,047
Appropriation of retained earnings	—	—	—	—	(3,000,000)	—	3,000,000	—	—
Issuance of treasury stock	—	—	1	—	—	—	—	—	1
Cash dividends	—	—	—	—	(87,998,429)	—	—	—	(87,998,429)
Additional donated capital	—	—	—	—	—	5,232,762	—	—	5,232,762
Balance at December 31, 2006	₱15,277,513	₱976,506,942	(₱1)	₱—	₱285,577,394	₱387,637,585	₱3,000,000	₱78,150,920	₱1,746,150,353

See accompanying Notes to Financial Statements.

Parent Company									
	Capital Stock	Additional	Treasury	Deposit for	Retained Earnings			Net	
	(Notes 1 and 16)	Paid-in	Stock	Future Stock	Unappropriated	Donated	Appropriated	Unrealized	
		Capital	(Note 16)	Subscription	(Note 16)	Capital	(Note 16)	Gain on	Total
		(Note 16)		(Note 26)		(Note 15)		Available-	
								for-Sale	
								Investments	
								(Note 8)	
Balance at January 1, 2008	₱15,277,513	₱976,506,942	(₱2)	₱—	₱411,136,212	₱387,637,585	₱3,000,000	₱57,858,928	₱1,851,417,178
Net unrealized loss for the year	—	—	—	—	—	—	—	(41,943,038)	(41,943,038)
Net income for the year	—	—	—	—	407,394,411	—	—	—	407,394,411
Total income and expense for the year	—	—	—	—	407,394,411	—	—	(41,943,038)	365,451,373
Acquisition of treasury stock	—	—	(68,000,006)	—	—	—	—	—	(68,000,006)
Appropriation during the year	—	—	—	—	(68,000,000)	—	68,000,000	—	—
Deposit for future stock subscription	—	—	—	5,702,400	—	—	—	—	5,702,400
Cash dividends	—	—	—	—	(305,550,100)	—	—	—	(305,550,100)
Stock dividends	15,277,511	—	—	—	(15,277,511)	—	—	—	—
Balance at December 31, 2008	₱30,555,024	₱976,506,942	(₱68,000,008)	₱5,702,400	₱429,703,012	₱387,637,585	₱71,000,000	₱15,915,890	₱1,849,020,845
Balance at January 1, 2007	₱15,277,513	₱976,506,942	(₱1)	₱—	₱247,674,858	₱387,637,585	₱3,000,000	₱78,148,222	₱1,708,245,119
Net unrealized loss for the year	—	—	—	—	—	—	—	(20,194,208)	(20,194,208)
Realized gain transferred to statement of income	—	—	—	—	—	—	—	(95,086)	(95,086)
Net income for the year	—	—	—	—	297,903,398	—	—	—	297,903,398
Total income and expense for the year	—	—	—	—	297,903,398	—	—	(20,289,294)	277,614,104
Acquisition of treasury stock	—	—	(1)	—	—	—	—	—	(1)
Cash dividends	—	—	—	—	(134,442,044)	—	—	—	(134,442,044)
Balance at December 31, 2007	₱15,277,513	₱976,506,942	(₱2)	₱—	₱411,136,212	₱387,637,585	₱3,000,000	₱57,858,928	₱1,851,417,178
Balance at January 1, 2006	₱15,277,513	₱976,506,942	(₱2)	₱—	₱155,012,375	₱382,404,823	₱—	₱22,328,911	₱1,551,530,562
Net unrealized gain for the year	—	—	—	—	—	—	—	55,819,311	55,819,311
Net income for the year	—	—	—	—	183,660,912	—	—	—	183,660,912
Total income for the year	—	—	—	—	183,660,912	—	—	55,819,311	239,480,223
Appropriation of retained earnings	—	—	—	—	(3,000,000)	—	3,000,000	—	—
Issuance of treasury stock	—	—	1	—	—	—	—	—	1
Cash dividends	—	—	—	—	(87,998,429)	—	—	—	(87,998,429)
Additional donated capital	—	—	—	—	—	5,232,762	—	—	5,232,762
Balance at December 31, 2006	₱15,277,513	₱976,506,942	(₱1)	₱—	₱247,674,858	₱387,637,585	₱3,000,000	₱78,148,222	₱1,708,245,119

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Consolidated			Parent Company		
	Years Ended December 31					
	2008	2007	2006	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	₱423,910,774	₱650,000,826	₱292,582,424	₱501,175,023	₱437,386,595	₱219,551,564
Adjustments for:						
Interest income	(110,703,140)	(112,337,583)	(113,991,355)	(102,760,664)	(106,005,703)	(112,172,031)
Depreciation (Note 10)	29,249,503	29,280,536	21,682,055	28,531,764	27,972,115	20,585,006
Amortization of computer software (Note 13)	5,271,530	5,214,254	5,205,924	—	—	—
Equity in net loss of an associate (Note 11)	4,014,689	—	—	—	—	—
Provision for impairment losses (Notes 8 and 9)	1,945,170	10,120,044	9,923,355	5,959,859	10,120,044	9,923,355
Loss on disposal of property and equipment	422,754	—	—	422,754	—	—
Share based payment expense	285,186	—	—	250,047	—	—
Operating income before working capital changes	354,396,466	582,278,077	215,402,403	433,578,783	369,473,051	137,887,894
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Receivables	117,764,548	(45,493,081)	(30,815,550)	65,247,260	(44,729,066)	(20,308,276)
Other current assets	(11,736,112)	(4,655,450)	3,480,828	(11,781,752)	(4,660,286)	3,006,294
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	(113,750,900)	38,457,200	29,792,500	(113,109,447)	36,971,631	40,919,146
Net cash generated from operations	346,674,002	570,586,746	217,860,181	373,934,844	357,055,330	161,505,058
Interest received	113,312,408	114,926,535	107,550,664	104,183,622	106,410,685	106,414,522
Income taxes paid	(133,096,730)	(223,160,792)	(39,126,051)	(85,957,405)	(151,438,671)	(34,038,377)
Net cash provided by operating activities	326,889,680	462,352,489	286,284,794	392,161,061	312,027,344	233,881,203
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale/maturities of:						
Available-for-sale investments (Note 8)	542,350,696	361,975,659	1,462,961,312	347,292,234	338,475,612	1,412,563,947
Property and equipment (Note 10)	3,325,427	873,085	1	3,075,427	873,085	—
Decrease in short-term investments	312,700,000	—	—	312,700,000	—	—
Decrease (increase) in other assets	12,257	9,230,243	7,896,678	(1,051,551)	14,048,138	1,077,443
Acquisitions of:						
Available-for-sale investments (Note 8)	(659,642,273)	(319,701,250)	(1,595,402,122)	(566,581,728)	(119,892,904)	(1,541,037,322)
Property and equipment (Note 10)	(171,372,753)	(33,969,525)	(21,446,522)	(170,025,190)	(33,147,288)	(21,349,984)
Computer software (Note 13)	(285,116)	(128,116)	—	—	—	—
Short-term cash investments	—	(312,700,000)	—	—	(312,700,000)	—
Additional investment in an associate (Note 11)	(34,350,000)	—	—	(34,350,000)	—	—
Net cash used in investing activities	(7,261,762)	(294,419,904)	(145,990,653)	(108,940,808)	(112,343,357)	(148,745,916)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from deposit for future stock subscription (Note 26)	5,702,400	—	—	5,702,400	—	—
Acquisition of treasury stock (Note 16)	(68,000,000)	—	—	(68,000,000)	—	—
Dividend payments (Note 16)	(309,966,882)	(133,454,045)	(87,997,769)	(309,966,882)	(133,454,045)	(87,997,769)
Net cash used in financing activities	(372,264,482)	(133,454,045)	(87,997,769)	(372,264,482)	(133,454,045)	(87,997,769)

(Forward)

	Years Ended December 31					
	2008	2007	2006	2008	2007	2006
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(₱52,636,564)	₱34,478,540	₱52,296,372	(₱89,044,229)	₱66,229,942	(₱2,862,482)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	185,125,388	150,646,848	98,350,476	149,176,998	82,947,056	85,809,538
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱132,488,824	₱185,125,388	₱150,646,848	₱60,132,769	₱149,176,998	₱82,947,056

See accompanying Notes to Financial Statements.

Notes to Financial Statements

1. Corporate Information

The Philippine Stock Exchange, Inc. (the Parent Company or the Exchange) was incorporated in the Philippines on July 14, 1992 as a non-stock corporation primarily to provide and maintain a convenient and suitable market for the exchange, purchase and sale of all types of securities and other instruments.

On August 8, 2001, the Parent Company was converted from a non-stock corporation to a stock corporation (demutualization) with an authorized capital stock of ₱36.8 million divided into 36.8 million shares at a par value of ₱1.00 per share as prescribed by Republic Act (RA) No. 8799 entitled “Securities Regulation Code” (SRC) and pursuant to a conversion plan approved by the Securities and Exchange Commission (SEC).

The salient features of the demutualization plan approved by the SEC on August 3, 2001 include, among others, the following:

- a. Conversion of the Parent Company into a stock corporation by amending its Articles of Incorporation and by-laws;
- b. Subscription of each member of 50,000 shares at ₱1.00 per share. The remaining balance of the Membership Contributions account of ₱277.4 million shall be treated as additional paid-in capital;
- c. Issuance of trading rights to brokers in recognition of the existing seat ownership by the brokers;
- d. Separation of ownership of shares and right to operate as a trading participant in the Exchange. The trading rights shall be transferable without time limitation; and
- e. Imposition of a moratorium on the issuance of the new trading rights.

On December 15, 2003, the Parent Company’s shares of stock were listed by way of introduction of its outstanding shares to comply with the requirements mandated by the SRC, particularly the conversion of the Parent Company into a stock corporation.

On January 28, 2004, the Parent Company offered 6,077,505 unissued shares to the private sector as part of on-going efforts to comply with SRC’s mandate regarding the ownership of an Exchange (see Note 16). Gross proceeds from the private placement offering amounted to ₱726.3 million, inclusive of additional paid-in capital of ₱720.2 million representing premium over the par value of the common stock. Expenses related to the offering amounting to ₱21.1 million were recorded as a reduction of the additional paid-in capital.

Securities Clearing Corporation of the Philippines (SCCP), a 100% owned subsidiary of the Exchange, is a domestic corporation organized to carry out and strictly implement the following functions: (1) Delivery-versus-Payment trade settlement; (2) fails management and administration of the Clearing and Trade Guaranty Fund (CTGF); and (3) risk monitoring and management.

To ensure compliance of clearing members, SCCP is authorized by the SEC to impose fines and penalties and other sanctions as approved by SCCP’s board of directors (BOD).

SCCP was given a temporary license to operate by the SEC and started its commercial operations on January 3, 2000. On January 15, 2002, the SEC approved SCCP’s request for a permanent license as a clearing agency subject to its compliance with the requirements of Section 42 of the SRC entitled “Registration of Clearing Agency.”

The registered office address of the Parent Company is Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

The accompanying financial statements were authorized for issue by the BOD on February 25, 2009.

2. Summary of Significant Accounting Policies

Statement of Compliance
The consolidated financial statements of the Parent Company and SCCP (collectively referred to as the Group) and of the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) investments and the investments of CTGF that have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is also the functional currency of the Group.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and its wholly owned subsidiary, SCCP, and are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the Parent Company and ceased to be consolidated from the date on which control is transferred out of the Parent Company. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations which became effective on January 1, 2008, and amendments to existing standards that became effective on July 1, 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 a company. During the year, the Exchange has granted rights to its employees and its subsidiary’s employees of the Exchange’s equity instruments. The Group has accounted its share-based transaction in accordance with this interpretation.
- 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. This interpretation has no effect on the financial statements of the Group.
- Philippine Interpretation IFRIC 14, *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 scheme that can be recognized as an asset under Philippine Accounting Standard (PAS) 19 *Employee Benefits*. This interpretation has no effect on the financial statements of the Group.

- Amendments to Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures*, - *Reclassification of Financial Assets*, permit an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss (FVPL) by the entity upon initial recognition) out of the FVPL category in particular circumstances. The amendment also permits an entity to transfer from the AFS category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as AFS), if the entity has the intention and ability to hold that financial asset for the foreseeable future. These amendments have no effect on the financial statements of the Group as no reclassification of financial instruments was made.

Accounting Policies

Cash and Cash Equivalents

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition

The Group recognizes a financial asset or a financial liability on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases and sales are purchases or sales of financial assets that require delivery of assets within period generally established by regulation or convention in the market place.

Financial assets are classified into the following categories: financial asset at FVPL, held-to-maturity (HTM) investments, loans and receivables, and AFS investments. Financial liabilities are classified either as financial liabilities at FVPL or other financial liabilities at amortized cost. The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

Initial Recognition

Financial assets and liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial assets and liabilities measured at FVPL.

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, without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

Day 1 Profit

Where the transaction price in a non-active market is different from the fair value based on 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 statement of income 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 recognized in the statement of income only 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 and Liabilities at FVPL

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

Financial assets or liabilities are classified as held for trading if they are acquired or incurred for the purpose of selling or repurchasing in the near term.

Embedded derivatives that are bifurcated from the host financial and non-financial contracts are also accounted for at FVPL.

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

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host financial or non-financial asset contract and accounted for as a derivative if all of the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid or combined instrument is not recognized at FVPL.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in the statement of income.

HTM Investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management 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 subsequently 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.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Such assets are carried at cost or amortized cost in the balance sheet. Amortization is determined using the effective interest method and is included in the interest income in the statement of income. The losses arising from impairment of such financial assets are recognized in the statement of income.

AFS Investments

AFS investments are those which are designated as such or do not qualify to be classified or designated as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded from reported earnings and are reported under Net unrealized gain on AFS investments in the equity section of the balance sheets, until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gains or losses previously reported in equity is included in the statement of income. Interest earned on holding AFS debt securities are reported as interest income in the statement of income using effective interest method.

Other Financial Liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any related premium, discount and any directly attributable transaction costs.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial asset 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 has an impact on the estimated future cash flows of the financial asset or a 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.

Financial Assets Carried at Amortized Cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an 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 them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the current market rate of return for a similar financial asset. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is charged to the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the Allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the statement of income under Other income account. Any subsequent reversal of an impairment loss is recognized in the statement of income under Provision for (reversal of) impairment losses account, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Investments

In case of equity investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income – is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of Interest income in the statement of income. If subsequently, 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 statement of income, the impairment loss is reversed through the statement of income.

Derecognition of Financial Assets and Liabilities

Financial assets are derecognized when (a) the rights to receive cash flows from the asset have expired; (b) the Group retains the right to receive cash flows from the asset, but has assumed 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 rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all 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 liabilities are derecognized when the obligations under the liability is discharged, cancelled or expires. 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 statement of income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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 balance sheet.

Investments of CTGF

The CTGF represents contributions of the Exchange and the clearing members as well as interest income earned thereon. The funds are held in trust by the Company for the account of the clearing participants. For financial statements presentation, the fund assets and the corresponding fund liabilities are shown under the assets and liabilities sections, respectively, of the balance sheet.

The assets of the funds are invested in government securities, which are held for the purpose of investing in liquid funds. Investments in government securities are recorded and accounted for as AFS investments and are carried at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded from reported earnings and reported as a separate component of accumulated income of due to CTGF. Income and expenses related to the funds are credited to or charged against the fund balances.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The initial cost of property and equipment comprises of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are charged against current operations. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Depreciation is calculated on the straight-line method over the estimated useful life (EUL) of the depreciable assets. The EUL of the depreciable assets are as follows:

Buildings	25 years
Building improvements	10 years
Transportation equipment	5 years
Trading system equipment	3 years
Computer hardware and peripherals	3 to 5 years
Office furniture, fixtures and communication equipment	2 to 5 years
Utilities and others	2 years

The depreciation method and EUL are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Computer Software

Costs associated with developing or maintaining computer software programs are recognized as expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Group and will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets.

Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is capitalized and added to the original cost of the software. Computer software development costs recognized as assets are amortized using the straight-line method over their EUL, but not exceeding a period of seven (7) years.

Investment in a Subsidiary

Investment in SCCP in the parent company financial statements is carried at cost, less any impairment in value.

Investment in an Associate

The investment in an associate is accounted for using the equity method of accounting in the consolidated financial statements and accounted for at cost less any impairment in value in the parent company financial statements. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in an associate is carried in the balance sheet at cost plus post acquisition changes in the Group’s share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortized or separately tested for impairment. The statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the

associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the statement of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group’s investment in the associate. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the statement of income.

Impairment of Nonfinancial Assets

An assessment is made at each balance sheet date as to whether there is any indication of impairment of any property and equipment, computer software, and investment in subsidiary and associate, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset’s recoverable amount is estimated. An asset’s recoverable amount is calculated as the higher of the asset’s value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against operations in the year in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. Any reversal of an impairment loss is credited to current operations.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating units to which the asset belongs.

Deferred Fees

Deferred fees represent listing and data feed fees which are billed and collected but not yet earned as of balance sheet date. This account is reversed and recognized as listing income when services are rendered.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Listing Fees

Listing fees for initial public offering are recognized upon listing of an applicant. The annual listing fees are recognized on an accrual basis. The additional listing fees are recognized upon the listing of new securities issued by an applicant.

Listing Maintenance, Processing, Trading-related and Service Fees

Revenue is recognized when the related services are rendered.

Interest Income

Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend Income

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

Other Income

Revenue is recognized when the services are rendered or when penalties or fines are charged. This account mainly consists of trading and listing related fines and penalties such as late payment, late submission of requirements, noncompliance and nondisclosure of listed companies.

Retirement Cost

The Parent Company has a funded noncontributory defined benefit retirement plan, while SCCP has an unfunded noncontributory defined benefit retirement plan, administered by trustees, covering their permanent employees. The Group’s retirement cost is actuarially determined using the projected unit credit method.

The defined benefit liability is the aggregate of the present value of the benefits obligation and actuarial gains or losses not recognized, reduced by past-service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past-service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. This would not result in a gain being recognized as a result of an actuarial loss or past service cost in the current year or in a loss being recognized as a result of an actuarial gain in the current year. The Group recognizes immediately the net actuarial losses or gains of the current year and past service cost or reduction in the past service cost of the current year to the extent that they exceed any reduction or increase in the present value of the economic benefits; and if there is no change or an increase or decrease in the present value of the economic benefits, the entire net actuarial losses or gains of the current period and past service cost or reduction of past service cost of the current period is recognized immediately.

The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement liabilities. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses of the plan at the end of the previous reporting year exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains and losses are recognized over the average remaining working life of employees participating in that plan in the statement of income.

Experience adjustments and unrecognized actuarial gains or losses are amortized over the remaining working lives of employees. Retirement cost includes current service cost, amortization of past-service costs, experience adjustments and actuarial gains and losses.

Past-service costs are recognized immediately in the statement of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a Lessee

Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Group as a Lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Income Taxes

Current Tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the balance sheet date.

Deferred Tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investment in subsidiary.

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

Deferred tax assets and liabilities are measured at the tax rate applicable to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

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

Treasury Shares

The Parent Company’s own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at cost. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Parent Company’s own equity instruments.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the shareholders of the Parent Company. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingencies

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

Foreign Currency-Denominated Transactions and Translation

Transactions in foreign currencies are recorded using the exchange rate at the date of the transactions. Foreign exchange gains or losses arising from foreign currency denominated transactions and revaluation adjustments of foreign currency assets and liabilities are credited to or charged against current operations. Monetary assets and liabilities denominated in foreign currencies are translated using the Philippine Dealing & Exchange Corp. closing rate prevailing at balance sheet date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of transaction and non-monetary assets and liabilities that are measured at fair value are translated using the exchange rate when the fair value was determined.

Funds Held in Trust

Funds which are held in trust are not recognized in the financial statements since the Group has no economic benefits derived from and control over these funds.

Events after the Balance Sheet Date

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Material post-year-end events that are not adjusting events, if any, are disclosed in the notes to the financial statements.

New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2008

The Group will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2009

- **PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***
The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27, *Consolidated and Separate Financial Statements*; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.
- **PFRS 2, *Share-based Payment – Vesting Condition and Cancellations***
The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is

accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

- **PFRS 8, *Operating Segments***
PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and the Parent Company will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party.
- **Amendments to PAS 1, *Presentation of Financial Statements***
This amendment introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with other comprehensive income. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This amendment also requires additional requirements in the presentation of the balance sheet and statement of stockholders' equity as well as additional disclosures to be included in the financial statements.
- **PAS 23, *Borrowing Costs***
The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
- **Amendments to PAS 27, *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***
The amendment has changes in respect of the holding companies separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.
- **Amendment to PAS 32, *Financial Instruments: Presentation and PAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation***
These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets, (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation, (c) All instruments in the subordinate class have identical features (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets, and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.
- **Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes***
This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
This interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to PFRS

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to remove inconsistencies and clarify wordings. These are the separate transitional provisions for each standard:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
 - When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.
- PAS 1, *Presentation of Financial Statements*
 - Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.
- PAS 16, *Property, Plant and Equipment*
 - The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Asset*.
 - Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.
- PAS 19, *Employee Benefits*
 - Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
 - Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
 - Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
 - Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
 - Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.
- PAS 23, *Borrowing Costs*
 - Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.
- PAS 28, *Investment in Associates*
 - If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.
 - An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*
 - Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.
- PAS 31, *Interest in Joint Ventures*
 - If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- PAS 36, *Impairment of Assets*
 - When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- PAS 38, *Intangible Assets*
 - Expenditure on advertising and promotional activities is recognized as an expense when the Parent Company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
 - Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.
- PAS 39, *Financial Instruments: Recognition and Measurement*
 - Changes in circumstances relating to derivatives – specifically derivatives designated or de-designated as hedging instruments after initial recognition – are not reclassifications.
 - When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.
 - Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
 - Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.
- PAS 40, *Investment Properties*
 - Revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.
- PAS 41, *Agriculture*
 - Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
 - Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Effective in 2010

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*
The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to

a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

Amendment to PAS 39 addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Effective in 2012

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be determinable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates and assumptions, which have the most significant effect on the amounts recognized in the financial statements.

Fair Values of Financial Assets and Liabilities

The Group carries certain financial assets at fair value. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

Operating Lease Commitments – Group as Lessor

The Group entered into commercial property leases on its investment property. The Group determined that it retains all the significant risks and rewards of ownership of these properties thus accounts for them as operating leases.

Operating Lease Commitments - Group as Lessee

The Group entered into commercial property leases with various lessors. The Group determined that the lessors retain all the significant risks and rewards of ownership of the leased properties thus accounts for them as operating leases.

Estimates

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

Impairment of AFS Equity Investments

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

As of December 31, 2008 and 2007, allowance for impairment losses on AFS equity investments (included under Long-term AFS investments) amounted ₱2.8 million and ₱23.9 million, respectively. AFS equity investments are carried at ₱0.3 million and ₱81.9 million as of December 31, 2008 and 2007, respectively (see Note 8).

Impairment Losses on Receivables

The Group reviews its receivables portfolio to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of income, the Company makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers.

As of December 31, 2008 and 2007, allowance for impairment losses on receivables amounted to ₱5.6 million and ₱8.8 million, respectively, for the Group and the Parent Company. As of December 31, 2008 and 2007, receivables are carried at ₱96.4 million and ₱182.5 million, respectively, for the Group and ₱132.7 million and ₱165.1 million, respectively, for the Parent Company (see Note 9).

Impairment on Investment in Subsidiary and Associate

The Parent Company assesses impairment on its investments in subsidiary and associate whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Parent Company considers important which could trigger an impairment review on its investments in subsidiary and associate include the following:

- Deteriorating or poor financial condition;
- Recurring net losses; and
- Significant changes with an adverse effect on the subsidiary or associate have taken place during the period, or will take place in the near future, the technological, market, economic, or legal environment in which the subsidiary or associate operates.

The Parent Company recognized an impairment loss on its investment in an associate amounting to ₱9.2 million in 2008. The carrying value of the investment in an associate amounted to ₱106.8 million as of December 31, 2008; while the carrying value of the investment in subsidiary amounted to ₱69.6 million and ₱69.5 million as of December 31, 2008 and 2007, respectively (see Note 11).

Impairment of Other Nonfinancial Assets

The Group assesses impairment on its and other nonfinancial assets (e.g., property and equipment, computer software) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Group considers important which could trigger an impairment review on its nonfinancial assets include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined based on the asset's value in use computation which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset. The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

As of December 31, 2008 and 2007, the carrying value of property and equipment amounted to ₱452.2 million and ₱313.8 million, respectively, for the Group and ₱450.6 million and ₱312.6 million, respectively, for the Parent Company (see Note 10). As of December 31, 2008 and 2007, the carrying value of computer software amounted to ₱15.6 million and ₱20.5 million, respectively (see Note 13).

Estimation of Useful Lives of Property and Equipment and Computer Software

The Group estimated the useful lives of its property and equipment and computer software based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives based on factors that include asset utilization, internal technical evaluation, technological changes, and anticipated use of the assets. A reduction in the estimated useful lives of property and equipment and computer software would increase the recorded depreciation and amortization expense and decrease the related assets.

Recognition of Deferred Tax Assets

Deferred tax assets are recognized for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

As of December 31, 2008 and 2007, the Group and the Parent Company recognized net deferred tax asset amounting to ₱5.5 million and ₱19.5 million, respectively (see Notes 13 and 20).

Present Value of Retirement Obligation

The present value of the obligation depends on certain factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for retirement include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions will impact the carrying amount of retirement obligations.

The expected rate of return on assets of 10% was based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of balance sheet date.

As of December 31, 2008 and 2007, the present value of the defined benefit obligation amounted to ₱35.6 million and ₱20.8 million, respectively for the Parent Company and ₱4.1 million and ₱3.2 million, respectively for SCCP (see Note 21).

4. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash and cash equivalents, short-term investments, AFS investments, receivables and accounts payable, accrued expenses and other liabilities and dividends payable. It is the Group's policy not to engage in the trading of financial instruments.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk, interest rate risk and foreign currency risk. To further strengthen the management of risk, the Group formally created the Internal Audit and Risk Management positions under the Corporate Governance Office to specifically manage the enterprise-wide risks.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with the financial instruments. Liquidity risk may result from the inability to sell financial assets quickly at their fair values.

The Group seeks to manage its liquidity profile to be able to service its maturing liabilities 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 Group regularly evaluates its projected and actual cash flows.

To meet the requirement for liquidity, adequate cash flow is provided for administrative/operating expenditures and capital expenses based on projected funding requirements. All excess funds are invested in an organized investment mix of short-term and long-term investments to achieve maximum returns.

The table below summarizes the maturity profile of the Group's financial liabilities as of December 31, 2008 and 2007 based on contractual undiscounted payments.

	December 31, 2008			Total
	On demand	Less than 3 months	3 to 12 months	
Accounts payable, accrued expenses and other current liabilities	₱62,677,037	₱11,741,838	₱19,666,012	₱94,084,887
Total financial liabilities	₱62,677,037	₱11,741,838	₱19,666,012	₱94,084,887

	December 31, 2007			Total
	On demand	Less than 3 months	3 to 12 months	
Accounts payable, accrued expenses and other current liabilities	₱27,639,996	₱75,805,244	₱35,079,829	₱138,525,069
Dividends payable	4,416,782			4,416,782
Total financial liabilities	₱32,056,778	₱75,805,244	₱35,079,829	₱142,941,851

The table below summarizes the maturity profile of the Parent Company's financial liabilities as of December 31, 2008 and 2007 based on contractual undiscounted payments.

	December 31, 2008			Total
	On demand	Less than 3 months	3 to 12 months	
Accounts payable, accrued expenses and other current liabilities	₱62,677,037	₱6,535,760	₱19,666,012	₱88,878,809
Total financial liabilities	₱62,677,037	₱6,535,760	₱19,666,012	₱88,878,809

	As of December 31, 2007			
	On demand	Less than 3 months	3 to 12 months	Total
Accounts payable, accrued expenses and other current liabilities	₱23,219,773	₱75,535,074	₱35,079,828	₱133,834,675
Dividends payable	4,416,782	—	—	4,416,782
Total financial liabilities	₱27,636,555	₱75,535,074	₱35,079,828	₱138,251,457

Credit Risk

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. The Group's credit exposure arises mainly from receivables from brokers on clearing related services for securities transactions, membership fees and other fees, receivable from listed companies on listing maintenance fees and receivable from market data vendors for data feed charges. To minimize credit risk, the Group monitors the financial health of clearing participants and takes note of participants with potential default.

The Group's liabilities as a central counterparty are limited only to the extent of the value of the due to CTGF. In this regard, the Group continuously builds up the CTGF through the monthly contributions collected from the clearing participants and collection of initial contributions from new and returning trading participants. In addition, the Parent Company has policies in place where brokers, listed companies and market data vendors are penalized either monetary, suspension or termination of services for nonpayment of their accounts.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and investments, arises from default of the counterparty.

The table below shows the maximum exposure to credit risk.

	Consolidated		Parent Company	
	2008	2007	2008	2007
Loans and receivables:				
Cash and cash equivalents	₱132,358,508	₱184,945,119	₱60,028,269	₱149,114,498
Short-term investments	—	312,700,000	—	312,700,000
Receivables from				
Brokers	28,390,330	70,081,079	14,557,437	55,010,675
Listed companies	3,046,213	74,166,837	3,046,213	74,166,837
Data vendors	2,361,482	5,110,180	2,361,482	5,110,180
Dividend receivable	—	—	50,000,000	—
Accrued interest receivable	28,310,043	30,919,311	26,179,248	27,602,206
Other receivables	2,969,391	2,265,555	5,233,752	3,250,138
AFS investments:				
Government debt securities				
Short-term	367,632,653	563,918,275	313,479,536	368,691,542
Long-term	841,101,285	568,695,778	801,254,240	568,695,778
Unlisted equity securities	300,000	81,922,006	300,000	81,922,006
Total	₱1,406,469,905	₱1,894,724,140	₱1,276,440,177	₱1,646,263,860

The following table provides information regarding the credit risk exposure of the Group by classifying financial assets according to credit ratings of the counterparties:

	2008					
	Neither Past Due nor Impaired				Past Due but not Impaired	Total
	High Grade	Medium Grade	Low Grade	Total		
Loans and receivables:						
Cash and cash equivalents	₱132,358,508	₱—	₱—	₱132,358,508	₱—	₱132,358,508
Receivables from						
Brokers	28,390,330	—	—	28,390,330	—	28,390,330
Listed companies	1,204,463	—	—	1,204,463	1,841,750	3,046,213
Data vendors	2,361,482	—	—	2,361,482	—	2,361,482
Accrued interest receivable	28,310,043	—	—	28,310,043	—	28,310,043
Other receivables	2,942,391	27,000	—	2,969,391	—	2,969,391
AFS investments:						
Government debt securities						
Short-term	367,632,653	—	—	367,632,653	—	367,632,653
Long-term	726,877,452	114,250,833	—	841,101,285	—	841,101,285
Total financial assets	₱1,290,077,322	₱114,277,833	₱—	₱1,404,328,155	₱1,841,750	₱1,406,169,905

	2007					
	Neither Past Due nor Impaired				Past Due but not Impaired	Total
	High Grade	Medium Grade	Low Grade	Total		
Loans and receivables:						
Cash and cash equivalents	₱184,945,119	₱—	₱—	₱184,945,119	₱—	₱184,945,119
Short-term investments	312,700,000	—	—	312,700,000	—	312,700,000
Receivables from						
Brokers	41,950,871	24,720,611	—	66,671,482	3,409,597	70,081,079
Listed companies	50,095,116	—	—	50,095,116	24,071,721	74,166,837
Data vendors	3,625,570	—	—	3,625,570	1,484,610	5,110,180
Accrued interest receivable	30,919,311	—	—	30,919,311	—	30,919,311
Other receivables	2,114,951	—	—	2,114,951	150,604	2,265,555
AFS investments:						
Government debt securities						
Short-term	563,918,275	—	—	563,918,275	—	563,918,275
Long-term	451,709,002	116,986,776	—	568,695,778	—	568,695,778
Total financial assets	₱1,641,978,215	₱141,707,387	₱—	₱1,783,685,602	₱29,116,532	₱1,812,802,134

The following table provides information regarding the credit risk exposure of the Parent Company by classifying financial assets according to credit ratings of the counterparties:

	2008					
	Neither Past Due nor Impaired				Past Due but not Impaired	Total
	High Grade	Medium Grade	Low Grade	Total		
Loans and receivables:						
Cash and cash equivalents	₱60,028,269	₱—	₱—	₱60,028,269	₱—	₱60,028,269
Receivables from						
Brokers	14,557,437	—	—	14,557,437	—	14,557,437
Listed companies	1,204,463	—	—	1,204,463	1,841,750	3,046,213
Data vendors	2,361,482	—	—	2,361,482	—	2,361,482

(Forward)

	2008					
	Neither Past Due nor Impaired				Past Due but not Impaired	Total
	High Grade	Medium Grade	Low Grade	Total		
Dividend receivable	₱50,000,000	₱—	₱—	₱50,000,000	₱—	₱50,000,000
Accrued interest receivable	26,179,248	—	—	26,179,248	—	26,179,248
Other receivables	5,206,752	27,000	—	5,233,752	—	5,233,752
AFS investments:						
Government debt securities						
Short-term	313,479,536	—	—	313,479,536	—	313,479,536
Long-term	687,030,407	114,223,833	—	801,254,240	—	801,254,240
Total financial assets	₱1,160,047,594	₱114,250,833	₱—	₱1,274,298,427	₱1,841,750	₱1,276,140,177

	2007					
	Neither Past Due nor Impaired				Past Due but not Impaired	Total
	High Grade	Medium Grade	Low Grade	Total		
Loans and receivables:						
Cash and cash equivalents	₱149,114,498	₱—	₱—	₱149,114,498	₱—	₱149,114,498
Short-term investments	312,700,000	—	—	312,700,000	—	312,700,000
Receivables from						
Brokers	26,880,468	23,724,478	—	50,604,946	4,405,729	55,010,675
Listed companies	50,095,116	—	—	50,095,116	24,071,721	74,166,837
Data vendors	3,625,570	—	—	3,625,570	1,484,610	5,110,180
Accrued interest receivable	27,602,206	—	—	27,602,206	—	27,602,206
Other receivables	3,099,534	—	—	3,099,534	150,604	3,250,138
AFS investments:						
Government debt securities						
Short-term	368,691,542	—	—	368,691,542	—	368,691,542
Long-term	451,709,002	116,986,776	—	568,695,778	—	568,695,778
Total financial assets	₱1,393,517,936	₱140,711,254	₱—	₱1,534,229,190	₱30,112,664	₱1,564,341,854

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

Cash and cash equivalents, short-term investments - based on the nature of the counterparty. High grade pertains to cash and short-term investments deposited or invested in local banks belonging to the Top 10 rank.

AFS investments - the debt securities are based on the nature of the counterparty. High grade debt securities pertain to bonds and notes issued by the Philippine government, except for dollar denominated government bonds which are considered medium grade due to sovereign and foreign currency risk considerations. For unlisted equity securities, credit quality is based on the nature of the counterparty.

Receivables - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment; low grade pertains to receivables with more than 3 defaults in payment; and past due but not impaired pertains to receivables where payments are past due but the Group believes that impairment is not appropriate on the basis of status of collection of amounts owed to the Group.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instrument.

In the selection of investment instruments, capital preservation is the primary consideration of the Group. With this objective, funds are basically invested in government bonds and securities and duly registered with the Registry of

Scripless Securities under the name of the Group. For US dollar-denominated placements, the Group maintains a third party custodian bank.

The Treasury manager is responsible for the identification of investments that provide a relatively stable rate of return and submit these identified investments to the Vice President for Finance and Investments Division who endorses it to the Treasurer or President for approval. The Exchange is guided by a BOD approved investment policy guidelines. Any exemption to the set policy is subject to the approval of the BOD. In addition, on a monthly basis, the Treasurer reports the investment portfolio performance and management's performance associated with the investment portfolio to the BOD.

Market Risk

The Group's market risk (the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument) originates from its holdings of debt securities. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates and other market changes.

Fair Value Interest Rate Risk

The Group follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. There are no floating rate financial assets and financial liabilities. Term deposits with banks and debt securities carry fixed rates throughout the period of deposit or placement.

The table below sets forth the sensitivity to a reasonable possible change in interest rates with all other variables held constant, of the Group's and the Parent Company's equity (through the impact on unrealized gain/loss on AFS fixed rate debt securities). The impact on the Group's and the Parent Company's equity already excludes the impact on transactions affecting the statement of income.

Changes in interest rates	Consolidated		Parent Company	
	Effect on equity			
	2008	2007	2008	2007
+70 basis points	(P12,293,796)	(P13,564,737)	(P11,954,139)	(P12,881,290)
-70 basis points	12,293,796	13,564,737	P11,954,139	12,881,290

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Exchange's exposure to foreign currency risks arise primarily from US dollar transactions, mostly from cash and cash equivalents and investments in debt securities.

The Group's policy is to maintain foreign currency exposure within acceptable limits. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits.

The following table summarizes the Group and Parent Company's exposure to foreign currency exchange risk as of December 31, 2008 and 2007:

	2008		2007	
	In USD	In PhP	In USD	In PhP
Assets				
Cash and cash equivalents	\$273,783	₱13,010,147	\$325,597	₱13,440,644
Long-term AFS investments	2,393,899	113,758,083	2,401,602	116,986,776
Accounts receivable	35,934	1,764,522	112,088	4,626,993
	\$2,703,616	₱128,532,752	\$2,839,287	₱135,054,413

The table below indicates the effect of increase or decrease in US dollar exchange rate on income before income tax to which the Parent Company has substantial exposures on its financial assets. The result calculates the effect of a reasonably possible change in the spot rates, when all other variables are held constant. Negative values in the table reflect a potential reduction in income while a positive amount reflects a potential increase.

2008		2007	
Change in foreign exchange rate	Effect on income before tax	Change in spot rate	Effect on income before tax
+5%	₱6,423,792	+5%	₱5,860,288
-5%	(₱6,423,792)	-5%	(₱5,860,288)

The sensitivity of the statement of income is the effect of reasonably possible change in spot rates which comes from the revaluation of foreign currency-denominated assets to Philippine peso.

There is no other impact on the Parent Company's equity other than those already affecting the statement of income.

5. Fair Value Measurement

The table below presents a comparison of the carrying amounts and estimated fair values of the Group's financial instruments:

	Carrying Value		Fair Value	
	2008	2007	2008	2007
Financial assets:				
Loans and receivables:				
Cash and cash equivalents	₱132,488,824	₱185,125,388	₱132,488,824	₱185,125,388
Short-term investments	—	312,700,000	—	312,700,000
Receivables from:				
Brokers	28,390,330	70,081,079	28,390,330	70,081,079
Listed companies	3,046,213	74,166,837	3,046,213	74,166,837
Data vendors	2,361,482	5,110,180	2,361,482	5,110,180
Accrued interest receivable	28,310,043	30,919,311	28,310,043	30,919,311
Other receivable	2,969,391	2,265,555	2,969,391	2,265,555
AFS investments:				
Government debt securities				
Short-term	367,632,653	563,918,275	367,632,653	563,918,275
Long-term	841,101,285	568,695,778	841,101,285	568,695,778
Unlisted equity securities	300,000	81,922,006	300,000	81,922,006
	₱1,406,600,221	₱1,894,904,409	₱1,406,600,221	₱1,894,904,409
Financial liabilities:				
Accounts payable, accrued expenses and other current liabilities	₱94,084,887	₱138,525,069	₱94,084,887	₱138,525,069
Dividends payable	—	4,416,782	—	4,416,782
	₱94,084,887	₱142,941,851	₱94,084,887	₱142,941,851

The table below presents a comparison of the carrying amounts and estimated fair values of the Parent Company's financial instruments:

	Carrying Value		Fair Value	
	2008	2007	2008	2007
Financial assets:				
Loans and receivable:				
Cash and cash equivalents	₱60,132,769	₱149,176,998	₱60,132,769	₱149,176,998
Short-term investments	—	312,700,000	—	312,700,000
Receivables from:				
Brokers	45,922,168	55,010,675	45,922,168	55,010,675
Listed companies	3,046,213	78,166,837	3,046,213	74,166,837
Data vendors	2,361,482	5,110,180	2,361,482	5,110,180
Accrued interest receivable	26,179,248	27,602,206	26,179,248	27,602,206
Dividends receivable	50,000,000	—	50,000,000	—
Other receivables	5,233,752	3,250,138	5,233,752	3,250,138
AFS investments:				
Government debt securities				
Short-term	313,479,536	368,691,542	313,479,536	368,691,542
Long-term	801,254,240	568,695,778	801,254,240	568,695,778
Unlisted equity securities	300,000	81,922,006	300,000	81,922,006
	₱1,307,909,408	₱1,650,326,360	₱1,307,909,408	₱1,646,326,360
Financial liabilities:				
Accounts payable, accrued expenses and other current liabilities	₱62,677,037	₱133,834,675	₱62,677,037	₱133,834,675
Dividends payable	—	4,416,782	—	4,416,782
	₱62,677,037	₱138,251,457	₱62,677,037	₱138,251,457

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

Cash and cash equivalents - the fair value approximates the carrying amounts at initial recognition.

Short-term investments - the fair value approximates the carrying amounts at initial recognition.

Loans and receivables - due to short-term nature of the transactions, the carrying amounts approximate fair values.

AFS investments

Investments in government securities - fair values are generally based upon quoted market prices.

Investment in unquoted equity securities - carried at cost less allowance for impairment losses due to unpredictable nature of future cash flows and the lack of other suitable methods of arriving at a reliable fair value.

Accounts payable, accrued expenses and other current liabilities - due to short-term nature of the transactions, the carrying amounts approximate fair values.

Dividends payable - the carrying amount approximates fair value.

6. Cash and Cash Equivalents

This account consists of:

	Consolidated		Parent Company	
	2008	2007	2008	2007
Cash on hand and in banks	₱69,488,824	₱57,125,388	₱47,132,769	₱21,176,998
Cash equivalents	63,000,000	128,000,000	13,000,000	128,000,000
	₱132,488,824	₱185,125,388	₱60,132,769	₱149,176,998

Cash equivalents represent time deposits with original maturity of three months or less from dates of placement and earn interest rates ranging from 5.62% to 6.63% in 2008, from 4.50% to 6.25% in 2007 and from 4.75% to 5.88% in 2006.

7. Short-term Investments

This account includes investment in time deposit and investments made through a Directional Investment Management Account with a local bank where funds are invested in special deposit account facility of the Bangko Sentral ng Pilipinas with maturity of more than three months but less than one year from dates of placement and earns interest rates ranging from 5.31% to 6.50% in 2007.

8. AFS Investments - net

This account consists of:

	Consolidated		Parent Company	
	2008	2007	2008	2007
Short-term government debt securities	₱367,632,653	₱563,918,275	₱313,479,536	₱368,691,542
Long-term:				
Government debt securities				
Peso	726,877,452	451,709,002	687,030,407	451,709,002
US dollar	114,223,833	116,986,776	114,223,833	116,986,776
	841,101,285	568,695,778	801,254,240	568,695,778
Unlisted equity securities	3,078,000	105,778,657	3,078,000	105,778,657
Less allowance for impairment losses	2,778,000	23,856,651	2,778,000	23,856,651
	300,000	81,922,006	300,000	81,922,006
	841,401,285	650,617,784	801,554,240	650,617,784
	₱1,209,033,938	₱1,214,536,059	₱1,115,033,776	₱1,019,309,326

The short-term government debt securities earn annual interest rates ranging from 5.64% to 6.53% in 2008, from 5.20% to 11.88% in 2007 and from 6.10% to 8.60% in 2006.

Peso-denominated debt securities earn annual interest rates ranging from 5.50% to 12.00% in 2008, from 8.38% to 11.88% in 2007 and from 10.13% to 11.88% in 2006 while US dollar-denominated debt securities earn annual interest rates ranging from 8.25% to 9.88% in 2008 and 8.00% to 9.88% in 2007 and 2006.

As of December 31, 2008 and 2007, the net unrealized gain on AFS investments amounted to ₱16.4 million and ₱57.6 million, respectively, for the Group and ₱15.9 million and ₱57.9 million, respectively, for the Parent Company.

The maturity profile of the investment in debt securities follows:

	Consolidated		Parent Company	
	2008	2007	2008	2007
Within one year	₱367,632,653	₱563,918,275	₱313,479,536	₱368,691,542
1 - 2 years	841,101,285	216,037,046	801,254,240	216,037,046
More than two years	—	352,658,732	—	352,658,732
	₱1,208,733,938	₱1,132,614,053	₱1,114,733,776	₱937,387,320

The carrying value of the unlisted equity securities is detailed as follows:

	2008	2007
Acquisition cost		
The Manila Southwoods Golf Club	₱3,078,000	₱3,078,000
Philippine Dealing System Holdings Corporation (PDS Holdings) (Note 11)	—	102,700,657
	3,078,000	105,778,657
Less allowance for impairment losses	2,778,000	23,856,651
	₱300,000	₱81,922,006

Changes in the allowance for impairment losses follow:

	2008	2007
Balance at beginning of year	₱23,856,651	₱14,203,395
Reclassification to investment in an associate (Note 11)	(21,078,651)	—
Provision for impairment losses	—	9,653,256
Balance at end of year	₱2,778,000	₱23,856,651

In 2008, the Parent Company infused additional investment in PDS Holdings resulting to an increase in ownership to 20.98% which led to the assumption of significant influence on this investment (see Note 11)

As of December 31, 2007, the Parent Company recognized impairment loss on its investment in PDS Holdings based on the financial statements of the investee company as of the balance sheet dates, since the Parent Company cannot determine reliably the future estimated cash flows of the investee company.

The movement of AFS investments is as follows:

	Consolidated		Parent Company	
	2008	2007	2008	2007
Balance at beginning of year	₱1,214,536,059	₱1,287,008,464	₱1,019,309,326	₱1,267,834,584
Maturities	(542,350,696)	(361,975,659)	(347,292,234)	(338,475,612)
Acquisitions	659,642,273	319,701,250	566,581,728	119,892,904
Provision for impairment loss	—	(9,653,256)	—	(9,653,256)
Net change in fair value charged to equity	(41,171,692)	(20,544,740)	(41,943,038)	(20,289,294)
Transferred to investment in an associate	(81,622,006)	—	(81,622,006)	—
	₱1,209,033,938	₱1,214,536,059	₱1,115,033,776	₱1,019,309,326

9. **Receivables - net**

This account consists of:

	Consolidated		Parent Company	
	2008	2007	2008	2007
Receivables from:				
Brokers (Note 23)	₱30,042,988	₱74,510,236	₱16,210,095	₱59,439,833
Listed companies	6,997,691	78,535,315	6,997,691	78,535,315
Data vendors	2,361,482	5,110,180	2,361,482	5,110,180
Dividend receivable	—	—	50,000,000	—
Accrued interest receivable	28,310,043	30,919,311	26,179,248	27,602,206
Other receivables	2,969,391	2,265,555	5,233,752	3,250,138
Total	70,681,595	191,340,597	106,982,268	173,937,672
Less allowance for impairment losses	5,604,136	8,797,636	5,604,136	8,797,636
	₱65,077,459	₱182,542,961	₱101,378,132	₱165,140,036

Under the Parent Company's rule, all trading rights are pledged at its full value to secure the payment of debts due to the Parent Company and other brokers of the Parent Company arising out of or in connection with the present or future brokers' contracts. Based on the latest transaction in 2008 and 2007, the transacted price of a trading right amounted to ₱12.8 million and ₱8.0 million, respectively.

As of December 31, 2008, receivables from brokers and listed companies with carrying value of ₱5.6 million and ₱8.8 million, which were specifically identified to be impaired, were fully provided with allowance.

The aging analysis of receivables that are past due but not impaired follows:

Consolidated

	2008					
	Neither Past Due nor Impaired	30 to 60 days	60 to 120 days	120 to 180 days	Over 180 days	Total
Receivables from:						
Brokers	₱28,390,330	₱—	₱—	₱—	₱—	₱28,390,330
Listed companies	1,204,463	—	—	—	1,841,750	3,046,213
Data vendors	2,361,482	—	—	—	—	2,361,482
Accrued interest receivable	28,310,043	—	—	—	—	28,310,043
Other receivables	2,969,391	—	—	—	—	2,969,391
	₱63,235,709	₱—	₱—	₱—	₱1,841,750	₱65,077,459

	2007					
	Neither Past Due nor Impaired	30 to 60 days	60 to 120 days	120 to 180 days	Over 180 days	Total
Receivables from:						
Brokers	₱66,671,482	₱1,995,926	₱353,133	₱193,844	₱866,694	₱70,081,079
Listed companies	50,095,116	—	21,423,990	113,200	2,534,531	74,166,837
Data vendors	3,625,570	—	424,193	567,853	492,564	5,110,180
Accrued interest receivable	30,919,311	—	—	—	—	30,919,311
Other receivables	2,114,950	—	11,325	110,334	28,945	2,265,554
	₱153,426,429	₱1,995,926	₱22,212,641	₱985,231	₱3,922,734	₱182,542,961

Parent Company

	2008					
	Neither Past Due nor Impaired	30 to 60 days	60 to 120 days	120 to 180 days	Over 180 days	Total
Receivables from:						
Brokers	₱14,557,437	₱—	₱—	₱—	₱—	₱14,557,437
Listed companies	1,204,463	—	—	—	1,841,750	3,046,213
Data vendors	2,361,482	—	—	—	—	2,361,482
Accrued interest receivable	26,179,248	—	—	—	—	26,179,248
Dividends receivable	50,000,000	—	—	—	—	50,000,000
Other receivables	5,233,752	—	—	—	—	5,233,752
	₱99,536,382	₱—	₱—	₱—	₱1,841,750	₱101,378,132

	2007					
	Neither Past Due nor Impaired	30 to 60 days	60 to 120 days	120 to 180 days	Over 180 days	Total
Receivables from:						
Brokers	₱50,604,946	₱2,992,058	₱353,133	₱193,844	₱866,694	₱55,010,675
Listed companies	50,095,116	—	21,423,990	113,200	2,534,531	74,166,837
Data vendors	3,625,570	—	424,193	567,853	492,564	5,110,180
Accrued interest receivable	27,602,206	—	—	—	—	27,602,206
Other receivables	3,099,534	—	11,325	110,334	28,945	3,250,138
	₱135,027,372	₱2,992,058	₱22,212,641	₱985,231	₱3,922,734	₱165,140,036

Changes in the allowance for impairment losses follow:

	2008		
	Brokers	Listed Companies	Total
Balance at beginning of year	₱4,429,158	₱4,368,478	₱8,797,636
Provision for impairment losses	—	1,076,000	1,076,000
Recoveries	(2,776,500)	(1,493,000)	(4,269,500)
Balance at end of year	₱1,652,658	₱3,951,478	₱5,604,136

	2007			
	Brokers	Listed Companies	Data Vendors	Total
Balance at beginning of year	₱4,361,370	₱4,429,478	₱5,263,735	₱14,054,583
Provision for impairment losses	67,788	399,000	—	466,788
Accounts written off	—	—	(5,227,985)	(5,227,985)
Recoveries	—	(460,000)	(35,750)	(495,750)
Balance at end of year	₱4,429,158	₱4,368,478	₱—	₱8,797,636

10. Property and Equipment - net

The composition of and movements in property and equipment are as follows:

Consolidated

December 31, 2008									
	Buildings	Trading System Equipment	Building Improvements	Computer Hardware and Peripherals	Office Furniture, Fixtures and Communication Equipment	Transportation Equipment	Utilities and Others	Donated Shares in a Condominium Corporation	Total
Cost									
At beginning of year	₱224,895,034	₱182,862,915	₱120,417,033	₱132,448,727	₱57,679,968	₱13,386,251	₱1,900,027	₱155,690,154	₱889,280,109
Additions	–	120,735,001	3,295,134	23,451,316	12,859,967	10,415,645	615,690	–	171,372,753
Disposals	–	–	–	(6,623,441)	(344,020)	(7,045,497)	–	–	(14,012,958)
At end of year	224,895,034	303,597,916	123,712,167	149,276,602	70,195,915	16,756,399	2,515,717	155,690,154	1,046,639,904
Accumulated depreciation									
At beginning of year	116,994,252	164,787,338	117,893,772	115,063,599	53,712,312	5,655,654	1,361,895	–	575,468,822
Depreciation	8,995,801	5,008,367	901,822	10,548,828	1,608,599	2,106,600	79,486	–	29,249,503
Disposals	–	–	–	(6,623,441)	(344,020)	(3,297,316)	–	–	(10,264,777)
At end of year	125,990,053	169,795,705	118,795,594	118,988,986	54,976,891	4,464,938	1,441,381	–	594,453,548
Net book value	₱98,904,981	₱133,802,211	₱4,916,573	₱30,287,616	₱15,219,024	₱12,291,461	₱1,074,336	₱155,690,154	₱452,186,356

December 31, 2007									
	Buildings	Trading System Equipment	Building Improvements	Computer Hardware and Peripherals	Office Furniture, Fixtures and Communication Equipment	Transportation Equipment	Utilities and Others	Donated Shares in a Condominium Corporation	Total
Cost									
At beginning of year	₱224,895,034	₱169,014,382	₱120,248,730	₱120,536,311	₱55,087,016	₱9,575,274	₱1,997,196	₱155,690,154	₱857,044,097
Additions	–	13,848,533	168,303	11,912,416	2,592,952	5,356,250	91,071	–	33,969,525
Disposals	–	–	–	–	–	(1,545,273)	(188,240)	–	(1,733,513)
At end of year	224,895,034	182,862,915	120,417,033	132,448,727	57,679,968	13,386,251	1,900,027	155,690,154	889,280,109
Accumulated depreciation									
At beginning of year	107,998,451	163,269,399	117,124,697	99,957,442	52,365,421	5,025,472	1,307,832	–	547,048,714
Depreciation	8,995,801	1,517,939	769,075	15,106,157	1,346,891	1,490,610	54,063	–	29,280,536
Disposals	–	–	–	–	–	(860,428)	–	–	(860,428)
At end of year	116,994,252	164,787,338	117,893,772	115,063,599	53,712,312	5,655,654	1,361,895	–	575,468,822
Net book value	₱107,900,782	₱18,075,577	₱2,523,261	₱17,385,128	₱3,967,656	₱7,730,597	₱538,132	₱155,690,154	₱313,811,287

Parent Company

December 31, 2008									
	Buildings	Trading System Equipment	Building Improvements	Computer Hardware and Peripherals	Office Furniture, Fixtures and Communication Equipment	Transportation Equipment	Utilities and Others	Donated Shares in a Condominium Corporation	Total
Cost									
At beginning of year	₱224,895,034	₱182,862,915	₱116,754,593	₱121,462,056	₱56,887,616	₱12,704,433	₱1,900,027	₱155,690,154	₱873,156,828
Additions	–	120,735,001	3,295,134	23,247,655	12,787,494	9,344,216	615,690	–	170,025,190
Disposals	–	–	–	(6,623,441)	(344,020)	(6,363,679)	–	–	(13,331,140)
At end of year	224,895,034	303,597,916	120,049,727	138,086,270	69,331,090	15,684,970	2,515,717	155,690,154	1,029,850,878
Accumulated depreciation									
At beginning of year	116,994,252	164,787,338	114,231,345	104,884,808	52,984,905	5,326,108	1,361,895	–	560,570,651
Depreciation	8,995,801	5,008,367	901,822	10,034,537	1,578,854	1,932,897	79,486	–	28,531,764
Disposals	–	–	–	(6,623,441)	(344,020)	(2,865,498)	–	–	(9,832,959)
At end of year	125,990,053	169,795,705	115,133,167	108,295,904	54,219,739	4,393,507	1,441,381	–	579,269,456
Net book value	₱98,904,981	₱133,802,211	₱4,916,560	₱29,790,366	₱15,111,351	₱11,291,463	₱1,074,336	₱155,690,154	₱450,581,422

December 31, 2007									
	Buildings	Trading System Equipment	Building Improvements	Computer Hardware and Peripherals	Office Furniture, Fixtures and Communication Equipment	Transportation Equipment	Utilities and Others	Donated Shares in a Condominium Corporation	Total
Cost									
At beginning of year	₱224,895,034	₱169,014,382	₱116,586,290	₱110,298,127	₱54,368,414	₱8,893,456	₱1,997,196	₱155,690,154	₱841,743,053
Additions	–	13,848,533	168,303	11,163,929	2,519,202	5,356,250	91,071	–	33,147,288
Disposals	–	–	–	–	–	(1,545,273)	(188,240)	–	(1,733,513)
At end of year	224,895,034	182,862,915	116,754,593	121,462,056	56,887,616	12,704,433	1,900,027	155,690,154	873,156,828
Accumulated depreciation									
At beginning of year	107,998,451	163,269,399	113,462,270	90,941,884	51,646,838	4,832,290	1,307,832	–	533,458,964
Depreciation	8,995,801	1,517,939	769,075	13,942,924	1,338,067	1,354,246	54,063	–	27,972,115
Disposals	–	–	–	–	–	(860,428)	–	–	(860,428)
At end of year	116,994,252	164,787,338	114,231,345	104,884,808	52,984,905	5,326,108	1,361,895	–	560,570,651
Net book value	₱107,900,782	₱18,075,577	₱2,523,248	₱16,577,248	₱3,902,711	₱7,378,325	₱538,132	₱155,690,154	₱312,586,177

Buildings represent properties donated by Philippine Realty and Holdings Corporation (PRHC) and Ayala Land, Inc. (ALI) and a condominium unit at the Philippine Stock Exchange Centre in Pasig City.

Trading system equipment represents software and hardware costs. Software costs can no longer be separately classified as this is an integral part of the related hardware.

11. Investment in an Associate and a Subsidiary - net

This account consists of:

	Consolidated		Parent Company	
	2008	2007	2008	2007
Acquisition cost				
Wholly owned subsidiary				
SCCP	₱–	₱–	₱69,580,532	₱69,545,393
Associate				
PDS Holdings	137,050,657	–	137,050,657	–
	137,050,657	–	206,631,189	69,545,393
Impairment losses	(26,217,321)	–	(30,232,010)	–
	110,833,336	–	176,399,179	–
Share in net loss of investee	(4,014,689)	–	–	–
	₱106,818,647	₱–	₱176,399,179	₱69,545,393

On November 12, 2007 and April 8, 2008, the Parent Company infused additional capital into PDS Holdings amounting to ₱35.65 million and ₱34.35 million, respectively, equivalent to a total of 700,000 shares. The additional investments resulted to a 20.98% ownership in the said company. The carrying value of the investments was reclassified from AFS investmtns to Investment in an associate account.

The Group and the Parent Company provided an impairment loss for its investment in an associate amounting to ₱5.1 million and ₱9.2 million, respectively, for the year ended December 31, 2008.

12. Investment of Clearing and Trade Guaranty Fund

This account consists of:

	2008	2007
Principal contributions from:		
Brokers		
Balance at beginning of year	₱141,959,675	₱119,612,720
Contributions	26,138,009	22,346,955
Balance at end of year	168,097,684	141,959,675
The Exchange	80,000,000	80,000,000
	248,097,684	221,959,675
Accumulated income:		
Balance at beginning of year	138,702,518	122,691,996
Interest income - net of management fee of ₱404,102 in 2008 and ₱361,023 in 2007	16,897,925	16,010,522
Balance at end of year	155,600,443	138,702,518
Net unrealized gains (losses) on AFS investments	(1,409,520)	659,923
	154,190,923	139,362,441
	₱402,288,607	₱361,322,116

In order for the SCCP to effectively implement its Fails Management function, the CTGF must be adequate to cover any unsettled trade by any member on any settlement day. Fails Management aims to settle a failed trade due to nonpayment of cash and/or nondelivery of securities by clearing members.

The CTGF is a risk management tool designed to protect the market against the settlement risks of clearing members. Each member's monthly contribution is equivalent to 1/1,000 of 1% of its total turnover value, net of block sales and cross transactions of the same flag. In July 2007, the SEC approved the SCCP's request to implement the increase in monthly contributions to the CTGF by active clearing members to 1/500 of 1% of the members' trade value, net of block sales and cross transactions of the same flag. The SCCP implemented the increase effective August 1, 2007.

On January 28, 2003, the SCCP's BOD approved the amendment of its rules on CTGF providing for the non-recourse of all CTGF contributions to members. In July 2007, the BOD approved the full refund of contributions to the CTGF upon cessation of business of the clearing member and upon termination of its membership with the SCCP. This is subject to approval by the SEC.

As of December 31, 2008 and 2007, the assets of the CTGF (included under Investments of CTGF account in the consolidated balance sheet) consist of:

	2008	2007
Cash in bank	₱18,375,562	₱14,118,245
Accounts receivable	422,949	2,135,460
Accrued interest receivable	5,431,526	7,129,621
AFS investments - debt securities:		
Principal amount	373,332,383	333,385,160

(Forward)

	2008	2007
Net unamortized premium	₱6,539,810	₱4,254,730
Net unrealized gains (losses) on AFS investments	(1,409,520)	659,923
	402,692,710	361,683,139
Less accrued management fees	404,102	361,023
	₱402,288,608	₱361,322,116

For the management and administration of CTGF, the SCCP is entitled to a management fee computed at 0.1% of CTGF fund level as of the close of year.

As of December 31, 2008 and 2007, AFS investments with principal amounts of ₱311.00 million and ₱326.32 million, respectively, will mature within one year from balance sheet date.

Net unrealized gains (losses) on AFS investments follows:

	2008	2007
Balance at beginning of year	₱659,923	₱2,922,747
Net movement in unrealized loss	(2,069,443)	(2,262,824)
Balance at end of year	(₱1,409,520)	₱659,923

The CTGF is invested on the following:

- Securities issued or guaranteed by the Republic of the Philippines; and
- Such other investments as the SCCP's BOD may approve, taking into consideration the liquidity requirements of the clearing fund.

Any proceeds from the CTGF shall not be used for any purpose other than for:

- Payment of the net money obligations of a defaulting buying member in order to settle a failed trade;
- Buy-in of relevant securities due from a defaulting selling member in order to settle a failed trade;
- The satisfaction of losses, liabilities and expenses of the SCCP incidental to the operation of its clearing and settlement functions and the management of the CTGF;
- For use as collateral in securing credit facilities from the Settlement Banks for the purpose of settling a Failed Trade;
- For use as collateral in borrowing securities through the Securities Borrowing and Lending Facility; and
- Payment of premium on any insurance policy taken for the CTGF.

For financial statements presentation, the CTGF is presented in the asset section of the consolidated balance sheets under Investments of CTGF and in the liabilities section of the consolidated balance sheets under Due to CTGF.

13. Other Assets - net

This account consists of:

	Consolidated		Parent Company	
	2008	2007	2008	2007
Computer software - net	₱15,560,105	₱20,546,519	₱—	₱—
Deposits in bank	14,687,141	14,346,900	14,687,141	14,346,900
Other investments (Note 15)	10,480,181	10,480,181	10,480,181	10,480,181
Deferred tax assets - net (Note 20)	5,523,739	19,458,362	5,523,739	19,458,362
Prepaid tax	3,922,759	—	3,922,759	—
Retirement asset (Note 21)	—	3,045,635	—	3,045,635
Others	2,484,345	176,525	2,484,345	176,524
	₱52,658,270	₱68,054,122	₱37,098,165	₱47,507,602

The movements in the computer software follow:

	2008	2007
Cost		
Balance at beginning of year	₱36,183,925	₱36,055,809
Additions	285,116	128,116
Balance at end of year	36,469,041	36,183,925
Accumulated amortization		
Balance at beginning of year	15,637,406	10,423,152
Amortization	5,271,530	5,214,254
Balance at end of year	20,908,936	15,637,406
Net book value	₱15,560,105	₱20,546,519

As of December 31, 2008 and 2007, deposits in bank also include ₱14.7 million and ₱14.3 million, respectively, representing the aggregate security deposit for the surety bonds posted by the Parent Company in favor of the National Labor Relations Commission (NLRC) in connection with pending labor cases which are on appeal. Under the Rules of the NLRC, the said amount may not be withdrawn by the Parent Company until final disposition of the cases.

Other investments pertain to the donation of FBDC in favor of the Parent Company of 10,480,181 shares of Crescent West Development Corporation (CWDC). This is further discussed in Note 15.

14. Accounts Payable, Accrued Expenses and Other Current Liabilities

This account consists of:

	Consolidated		Parent Company	
	2008	2007	2008	2007
Due to SEC	₱37,967,320	₱68,278,264	₱37,967,320	₱68,278,264
Accounts payable	32,277,307	18,378,133	31,418,016	19,297,363
Accrued expenses	21,930,282	19,860,559	17,592,495	17,930,055
Taxes payable	5,823,337	9,627,894	4,291,807	6,939,228

(Forward)

	Consolidated		Parent Company	
	2008	2007	2008	2007
Grant	₱2,885,798	₱—	₱2,885,798	₱—
Accrued employee benefits	—	20,989,115	—	20,989,115
Others	1,909,978	11,018,998	1,900,978	7,339,878
	₱102,794,022	₱148,152,963	₱96,056,414	₱140,773,903

Due to SEC represents license fees to operate an exchange imposed under Section 35 of the SRC entitled “Additional Fees of Exchanges”, which are subsequently billed and collected from active trading participants.

15. Donated Capital

As of December 31, 2008 and 2007, this account consists of donations from:

ALI (Note 10)	₱235,690,154
PRHC (Note 10)	139,542,000
FBDC (Note 13)	10,480,181
United States Agency International Development	1,925,250
	₱387,637,585

On November 12, 2002, Fort Bonifacio Development Corporation (FBDC) and the Parent Company executed a Definitive Agreement with the following salient terms and conditions: (i) the Parent Company agrees to relocate its headquarters, majority of its management offices and its unified trading operations in equity securities for the National Capital Region to the Bonifacio Global City; (ii) CWDC shall be the corporate vehicle to which FBDC shall contribute the land as additional capital and the shares of which shall eventually be donated to the Parent Company; and (iii) the FBDC and the Parent Company agree to develop the land and construct the building that will house the Parent Company’s headquarters, majority of its management offices and its unified trading operations in equity securities for the National Capital Region.

Based on such agreement, all outstanding shares of stocks of CWDC shall be donated by FBDC to the Parent Company on the following dates:

Date of Donation	%/Number of Shares to be Donated
January 7, 2006	14.32% or 5,247,419 shares
January 7, 2007	14.28% or 5,232,762 shares
January 7, 2008	14.28% or 5,232,762 shares
January 7, 2008	14.28% or 5,232,762 shares
January 7, 2009	14.28% or 5,232,762 shares
January 7, 2010	14.28% or 5,232,762 shares
January 7, 2011	14.28% or 5,232,762 shares

Following the Definitive Agreement, on January 7, 2007 and 2006, FBDC executed a Deed of Conditional Donation in favor of the Parent Company, which covers the transfer of 5,232,762 shares and 5,247,419 shares of CWDC, respectively, for ₱10.5 million, such shares received were classified as Other investments (see Note 15).

In June 2008, the donation of all remaining CWDC shares was deferred pending negotiations among the Parent Company, FBDC and ALI for the joint development, pursuant to a Memorandum of Understanding dated April 26, 2008, of an iconic office building in Bonifacio Global City for the relocation of the Parent Company’s headquarters, majority of its management offices and unified trading operations in equities securities for the National Capital Region to the Bonifacio Global City.

16. Equity

Capital stock consists of:

	2008	2007
Capital stock - ₱1.00 par value		
Authorized - 36,800,000 shares		
Issued - 30,555,024 shares in 2008 and 15,277,513 shares in 2007	₱30,555,024	₱15,277,513
Additional paid-in capital	976,506,942	976,506,942
Treasury stock (100,008 shares in 2008 and 2 shares in 2007)	(68,000,008)	(2)
	₱939,061,958	₱991,784,453

The movements in capital stock follow:

	Shares		Amount	
	2008	2007	2008	2007
Balance at beginning of year	15,277,513	15,277,513	₱15,277,513	₱15,277,513
Issuance of stock dividends during the year	15,277,511	–	15,277,511	–
Balance at end of year	30,555,024	15,277,513	₱30,555,024	₱15,277,513

The movements in the treasury stock follow:

	Shares		Amount	
	2008	2007	2008	2007
Balance at beginning of year	2	1	₱2	₱1
Acquisitions	100,006	1	68,000,006	1
Balance at end of year	100,008	2	₱68,000,008	₱2

In 2008, the Parent Company's BOD appropriated portion of its retained earnings amounting to ₱68.0 million for purposes of acquiring its own stocks.

On September 10, 2008, the Parent Company's BOD approved the issuance of the 100% stock dividend declared by the Exchange on October 22, 2008 to stockholders of record as of September 26, 2008.

In 2007, the Parent Company's BOD appropriated portion of its retained earnings amounting to ₱3.0 million to cover cases filed against the Parent Company, its directors and officers (see Note 25).

Details of the Parent Company's dividend distribution follow:

Date of Declaration	Dividend		Record Date	Payment Date
	Per Share	Total Amount		
March 26, 2008	₱20.00	₱305,550,100	April 15, 2008	May 15, 2008
February 14, 2007	8.80	134,442,044	March 1, 2007	March 15, 2007
February 22, 2006	5.76	87,998,429	March 9, 2006	March 24, 2006

The SRC provides that no industry or business group may beneficially own or control, directly or indirectly, more than 20% of the voting rights of the Exchange. On August 13, 2007, the SEC imposed on the Exchange a penalty of ₱101,100 plus a daily fine of ₱100 for every day of delay of compliance because the total broker ownership in the Exchange exceeds the allowable limit. The Exchange is studying the alternative courses of action in order to comply with the SRC.

Capital Management

The Group's objectives when managing capital are (a) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders; (b) to support the Group's stability and growth; and (c) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group considers the following as capital:

	Consolidated		Parent Company	
	2008	2007	2008	2007
Capital stock	₱30,555,024	₱15,277,513	₱30,555,024	₱15,277,513
Additional paid-in capital	976,506,942	976,506,942	976,506,942	976,506,942
Deposit for future subscription	5,702,400	–	5,702,400	–
Retained earnings				
Unappropriated	487,206,261	584,554,480	429,703,012	411,136,212
Donated capital	387,637,585	387,637,585	387,637,585	387,637,585
Appropriated	71,000,000	3,000,000	71,000,000	3,000,000
Treasury stock	(68,000,008)	(2)	(68,000,008)	(2)
	₱1,890,608,204	₱1,966,976,518	₱1,833,104,955	₱1,793,558,250

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. No changes were made in the objectives, policies or processes as of December 31, 2008 and 2007.

The Group adopts a practice of providing shareholders with regular dividends.

17. Interest Income

This account consists of interest income from:

	Consolidated			Parent Company		
	2008	2007	2006	2008	2007	2006
AFS investments	₱100,624,186	₱106,120,160	₱112,777,808	₱93,999,853	₱100,218,306	₱111,555,808
Cash equivalents	8,702,603	824,134	303,048	7,815,240	824,134	303,048
Cash in bank	888,439	699,570	829,531	501,943	269,544	232,207
Short-term investments	22,142	4,112,746	–	–	4,112,746	–
Others	465,770	580,973	80,968	443,628	580,973	80,968
	₱110,703,140	₱112,337,583	₱113,991,355	₱102,760,664	₱106,005,703	₱112,172,031

18. Compensation and Other Related Staff Costs

This account consists of:

	Consolidated			Parent Company		
	2008	2007	2006	2008	2007	2006
Salaries and wages	₱95,205,235	₱82,653,272	₱76,529,053	₱87,485,106	₱75,802,382	₱70,484,377
Retirement and separation cost (Note 21)	6,583,074	8,970,849	3,720,225	5,519,270	7,989,992	3,076,344
Other employee benefits	27,177,407	52,524,806	36,895,965	23,311,434	47,729,477	37,117,425
	₱128,965,716	₱144,148,927	₱117,145,243	₱116,315,810	₱131,521,851	₱110,678,146

Other employee benefits include the share-based payment expense amounting to ₱0.3 million and ₱0.2 million for the Group and Parent Company, respectively (see Note 26).

19. Occupancy Costs

This account consists of:

	Consolidated			Parent Company		
	2008	2007	2006	2008	2007	2006
Utilities	₱22,171,291	₱20,316,436	₱18,683,889	₱19,088,700	₱19,949,025	₱17,796,857
Condominium dues	9,931,799	9,930,078	9,516,601	9,931,799	9,930,078	9,516,601
Security and janitorial services	9,297,845	8,081,996	7,808,945	9,297,845	8,081,997	7,808,945
	₱41,400,935	₱38,328,510	₱36,009,435	₱38,318,344	₱37,961,100	₱35,122,403

20. Income Taxes

RA No. 9337, An Act Amending National Internal Revenue Code, provides that effective July 1, 2006, the RCIT rate shall be 35% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30%.

The provision for (benefit from) income tax consists of:

	Consolidated			Parent Company		
	2008	2007	2006	2008	2007	2006
Corporate	₱96,981,788	₱204,459,332	₱35,206,404	₱59,919,511	₱128,627,209	₱17,993,248
Final	21,514,974	21,645,018	23,432,559	19,926,478	20,378,642	23,068,693
Deferred	13,934,622	(9,522,654)	1,647,946	13,934,623	(9,522,654)	(5,171,289)
	₱132,431,384	₱216,581,696	₱60,286,909	₱93,780,612	₱139,483,197	₱35,890,652

As of December 31, 2008 and 2007, the Group and the Parent Company did not recognize the deferred tax asset on the following temporary differences since management believes that these deductible temporary differences may not be realized in the future:

	Consolidated		Parent Company	
	2008	2007	2008	2007
Allowance for impairment losses	₱23,856,651	₱23,856,651	₱23,856,651	₱23,856,651
Retirement liability and other employee benefits	3,594,297	2,495,354	—	—
	₱27,450,948	₱26,352,005	₱23,856,651	₱23,856,651

The components of the net deferred tax assets (included under the Other assets account in the balance sheet) are as follows:

	Consolidated		Parent Company	
	2008	2007	2008	2007
Deferred tax asset on:				
Allowance for impairment losses	₱4,427,249	₱3,079,173	₱4,427,249	₱3,079,173
Accrued expenses	2,233,073	7,542,190	2,233,073	7,542,190
Unamortized past service costs	1,776,730	2,452,419	1,776,730	2,452,419
Retirement liability	742,090	—	742,090	—
Unrealized foreign exchange losses	—	7,450,552	—	7,450,552
	9,179,142	20,524,334	9,179,142	20,524,334
Deferred tax liability on:				
Unrealized foreign exchange gains	(3,655,403)	—	(3,655,403)	—
Retirement asset	—	(1,065,972)	—	(1,065,972)
	₱5,523,739	₱19,458,362	₱5,523,739	₱19,458,362

Current tax regulations defines expenses to be classified as entertainment, amusement and recreation (EAR) expenses and sets a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 1% of net revenue for sellers of services. EAR expenses incurred amounted to ₱0.7 million in 2008, ₱0.7 million in 2007 and ₱0.6 million in 2006 by the Group and ₱0.7 million in 2008, ₱0.7 million in 2007 and ₱0.5 million in 2006 by the Parent Company.

The reconciliation of provision for income tax computed at the statutory corporate income tax rate to provision for income tax shown in the statements of income follows:

	Consolidated			Parent Company		
	2008	2007	2006	2008	2007	2006
At statutory income tax rate	₱148,368,771	₱227,500,289	₱102,403,848	₱175,411,258	₱153,085,308	₱76,843,047
Adjustments for:						
Effect of change in tax rate	1,091,824	—	—	920,623	—	—
Change in unrecognized deferred tax assets	204,915	3,721,940	(25,652,524)	—	—	(24,760,877)
Tax-paid income	(17,234,126)	(17,673,136)	(16,464,415)	(16,039,754)	(16,723,354)	(16,191,518)
Nondeductible expenses	—	3,041,966	—	—	6,420,606	—
Dividend income	—	(9,363)	—	(66,511,515)	(3,299,363)	—
Provision for income tax	₱132,431,384	₱216,581,696	₱60,286,909	₱93,780,612	₱139,483,197	₱35,890,652

21. Retirement Plan

The Parent Company has a funded noncontributory defined benefit retirement plan, while SCCP has an unfunded noncontributory defined benefit retirement plan covering all their regular employees. The benefits are consolidated based on years of service and compensation per year of credited service.

The Parent Company's retirement fund is being managed by a local bank.

The principal actuarial assumptions used in determining retirement liability as of January 1, 2008 and 2007 are shown below:

	Parent Company		SCCP	
	2008	2007	2008	2007
Discount rate	7.42%	7.40%	10.33%	7.15%
Expected rate of return on assets	6.00%	10.00%	—	—
Future salary increases	8.00%	6.00%	8.88%	10.00%

As of December 31, 2008 and 2007, discount rates used are 11.60% and 7.42%, respectively, by the Parent Company and 10.35% and 10.33%, respectively by SCCP.

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

Actuarial valuation of the Parent Company is generally made every year. The latest actuarial valuation studies of the retirement plan of the Parent Company and SCCP was made on December 31, 2008.

The retirement liability as of December 31, 2008 and retirement asset (included under Other assets) recognized in the balance sheets of the Parent Company as of December 31, 2007 are as follows:

	2008	2007
Present value of the obligation	₱35,623,584	₱20,849,048
Fair value of plan assets	(14,509,085)	(16,009,167)
	21,114,499	4,839,881
Unrecognized actuarial losses	(18,640,864)	(7,885,516)
Net retirement (asset) liability	₱2,473,635	(₱3,045,635)

The movements of unrecognized actuarial losses as of December 31, 2008 and 2007 are as follows:

	2008	2007
Balance at beginning of year	₱7,885,516	₱8,320,665
Actuarial loss on obligation	10,411,037	2,766,943
Actuarial (gain) loss on plan assets	731,019	(251,244)
	19,027,572	10,836,364
Actuarial loss recognized	386,707	2,950,848
Balance at end of year	₱18,640,865	₱7,885,516

The net unfunded retirement obligation recognized in the balance sheets of SCCP as of December 31, 2008 and 2007 are as follows:

	2008	2007
Present value of the obligation	₱4,097,548	₱3,172,776
Unrecognized actuarial losses	(538,390)	(677,422)
Net unfunded retirement obligation	₱3,559,158	₱2,495,354

The movements in the retirement liability (asset) of the Parent Company as of December 31, 2008 and 2007 are as follows:

	2008	2007
Balance at beginning of year	(₱3,045,635)	(₱318,612)
Retirement expense	5,519,270	7,629,992
Contributions paid	—	(10,357,015)
Balance at end of year	₱2,473,635	(₱3,045,635)

The movements in the unfunded retirement obligation recognized in SCCP's balance sheets follow:

	2008	2007
Balance at beginning of year	₱2,495,354	₱1,514,497
Retirement cost	1,063,804	980,857
Balance at end of year	₱3,559,158	₱2,495,354

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

	Parent Company		SCCP	
	2008	2007	2008	2007
Balance at beginning of year	₱20,849,048	₱13,582,821	₱3,172,776	₱3,252,779
Actuarial loss (gain)	10,411,037	2,766,943	(124,626)	(966,660)
Current service cost	4,546,113	4,232,092	721,650	654,083
Interest cost	1,546,999	1,005,129	327,748	232,574
Benefits paid	(1,729,613)	(737,937)	—	—
Expected return on plan assets	—	—	—	—
Balance at end of year	₱35,623,584	₱20,849,048	₱4,097,548	₱3,172,776

The movements in the fair value of plan assets recognized by the Parent Company follow:

	2008	2007
Balance at beginning of year	₱16,009,167	₱5,580,768
Expected return on plan assets	960,550	558,077
Benefits paid	(1,729,613)	(737,937)
Actuarial gain (loss)	(731,019)	251,244
Contribution paid	—	10,357,015
Balance at end of year	₱14,509,085	₱16,009,167

The retirement expense included in Compensation and other related staff costs in the statements of income are as follows:

	Consolidated			Parent Company		
	2008	2007	2006	2008	2007	2006
Current service cost	₱5,267,763	₱4,886,175	₱2,512,575	₱4,546,113	₱4,232,092	₱2,049,267
Interest cost	1,874,747	1,237,703	1,553,307	1,546,999	1,005,129	1,387,172
Net actuarial loss recognized	401,113	3,045,048	14,438	386,707	2,950,848	–
Expected return on plan assets	(960,550)	(558,077)	(1,343,595)	(960,550)	(558,077)	(1,343,595)
	₱6,583,073	₱8,610,849	₱2,736,725	₱5,519,269	₱7,629,992	₱2,092,844

The actual return on the plan assets of the Parent Company amounted to ₱0.10 million in 2008, ₱0.5 million in 2007 and ₱1.6 million in 2006.

The major categories of the Parent Company's plan assets as a percentage of the fair value of total plan assets as of December 31, 2008 and 2007 are as follows:

	2008	2007
Debt instruments	93.41%	82.15%
Equity instruments	4.29%	16.01%
Other assets	2.30%	1.84%

Amounts for the current and previous year are as follows:

	Parent Company		SCCP	
	2008	2007	2008	2007
Present value of the obligation	₱35,623,584	₱20,849,048	₱4,097,548	₱3,172,776
Fair value of plan assets	(14,374,615)	(16,009,167)	–	–
Deficit	21,248,969	4,839,881	4,097,548	3,172,776
Experience adjustment on plan liabilities	19,205,036	(614,703)	229,566	733,041
Experience adjustment on plan assets	(813,601)	(35,825)	–	–

22. Basic/Diluted Earnings Per Share

Basic earnings per share are calculated by dividing the net income for the year by the weighted average number of common shares outstanding as of balance sheet date.

The basic and diluted earnings per share are the same as there were no dilutive potential common shares outstanding.

	2008	2007	2006
Net income (a)	₱291,479,390	₱433,419,130	₱232,295,515
Weighted average number of outstanding common shares (b)	30,521,687	30,555,025	30,555,026
Basic/diluted earnings per share (a/b)	₱9.55	₱14.18	₱7.60

23. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Related parties include brokers that are stockholders of the Parent Company. The Parent Company, in its normal course of business, has transactions with related parties. Transactions between related parties are based on terms similar to those offered to non-related parties.

The year-end balances in respect of brokers (stockholders of the Exchange) included in the balance sheets are as follows:

	2008	2007
Accounts and other receivable from brokers - net of allowance for impairment losses of ₱1,652,659 in 2008 and ₱4,429,158 in 2007	₱1,830,916	₱55,010,675

Other related party transactions include advance payments made by the Parent Company on certain administrative expenses of SCCP such as utilities, supplies, hardware and software maintenance, and other employee benefits, which are subsequently billed to and collected from SCCP. As of December 31, 2008 and 2007, accounts and other receivables of the Parent Company from SCCP are eliminated.

The income in respect of the brokers included in the statements of income follows:

	2008	2007	2006
Trading-related fees:			
Transaction	₱58,837,694	₱111,245,368	₱45,069,262
Block sales	17,552,424	22,579,875	12,194,680
Subscription	16,754,391	15,418,514	13,480,762
Interest income	–	566,187	–
Other income	1,971,321	2,344,080	2,528,562

Other income includes recoveries from printing of data transaction report, penalty on trading floor, cancellation of matched orders, and other fees.

Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) included under Compensation and other related staff costs in the statements of income follows:

	Consolidated			Parent Company		
	2008	2007	2006	2008	2007	2006
Short-term employee benefits	₱44,728,139	₱33,617,340	₱25,313,391	₱40,364,037	₱29,114,889	₱22,555,374
Separation benefits	–	–	2,675,527	–	–	2,031,646
Post-employment pension and medical benefits	376,082	569,038	362,645	376,082	569,038	362,645
	₱45,104,221	₱34,186,378	₱28,351,563	₱40,740,119	₱29,683,927	₱24,949,665

Short-term employee benefits include salaries, paid annual leave, vacation and sick leave, profit sharing and bonuses, and non-monetary benefits. Separation benefits pertain to special separation package as part of the continuation in 2007 and 2006 of the reorganization.

24. Segment Reporting

PAS 14, *Segment Reporting*, requires that a public business enterprise report financial and descriptive information about its reportable segments. Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources among operating segments. The Group has one reportable business segment which is the equity securities market. The equity securities market provides trading, clearing, depository and information services for the equity market. The Group also has one geographical segment and derives all its revenues from domestic operations. The financial information about the sole business segment is presented in the financial statements.

25. Contingencies

In 2007, the Parent Company's BOD appropriated a portion of its retained earnings amounting to ₱3.0 million to cover potential liability cases filed against the Parent Company, its directors and/or officers. As of December 31, 2008, the said cases are still pending before the courts and quasi-judicial agencies. The amount of the appropriation which is based on available relevant information as of December 31, 2008, will be reassessed periodically to reflect material developments made known to the Parent Company.

The SCCP, as the central counterparty to stock exchange transactions, has contingent liabilities pertaining to outstanding trades as of December 31, 2008 and 2007. Details of stock exchange transactions outstanding as of balance sheet dates are as follows:

	2008	2007
Value of shares not yet delivered (net selling)	₱1,939,127,351	₱5,429,937,492
Amount of purchases unpaid (due clearing)	904,920,114	1,760,301,559
	₱2,844,047,465	₱7,190,239,051

The settlement of trades of Manila Electric Company (MER) shares executed on December 12, 15 and 16, 2008 was suspended on December 17, 2008 (included in the outstanding trades on December 31, 2008) pending the downloading by Philippine Depository & Trust Corp. of broker balances due to a dispute over 42,002,750 MER shares in the name of Land Bank of the Philippines which were cancelled by the MER and thereafter issued in favor of Josefina Lubrica. On January 23, 2009, the December 12, 15 and 16, 2008 MER transactions were settled through the delivery of MER shares which did not form part of the disputed MER shares.

As of January 2009 and 2008, all transactions outstanding as of balance sheet date were settled. Accordingly, no failed trades occurred from these transactions.

26. Share-based Payments

On March 26, 2008, the BOD of the Exchange has approved the Employee Stock Purchase Plan (ESPP) for its employees and SCCP's employees, with the following terms and condition:

- number of shares allotted for the offering is 150,000 shares or about 1% of the outstanding capital stock of the Exchange. Each offering consists of 50,000 shares;
- all regular employees and directors in good standing of the Exchange and SCCP with at least 1 year of service is eligible;
- offer date is annual for a period of 3 years exercisable from July to December of each year;
- offer price is fixed based on Volume Weighted Average Price of PSE shares of the month preceding the offer date;

23. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Related parties include brokers that are stockholders of the Parent Company. The Parent Company, in its normal course of business, has transactions with related parties. Transactions between related parties are based on terms similar to those offered to non-related parties.

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- b. all regular employees and directors in good standing of the Exchange and SCCP with at least 1 year of service is eligible;
- c. offer date is annual for a period of 3 years exercisable from July to December of each year;
- d. offer price is fixed based on Volume Weighted Average Price of PSE shares of the month preceding the offer date;

- e. discount of 10% from the offer price; and
- f. cash payment is required during the exercise period.

In 2008, total of 50,000 shares of the Exchange were available for availment and the subscription period was from December 2 to 24, 2008 with an exercise price of ₱128.37 per share while the fair value at grant date is ₱135.00, which is based on quoted market price. The BOD also approved the share allocation on a per rank basis for the offer period.

Out of the 50,000 shares of the Exchange, 36,940 shares and 5,300 shares have been availed by Exchange’s and SCCP’s employees, respectively, resulting to an expense amounting to ₱0.3 million and ₱0.2 million for the Group and Parent Company, respectively and a credit to deposit for future stock subscription amounting to ₱5.7 million.

The Exchange processed and finalized the subscription of the availed shares in January 2009 and the stocks were transferred in the name of the employees on January 29, 2009.

27. Funds Held in Trust

Funds held in trust includes funds entrusted to the Parent Company of the assets of the suspended trading participants as directed by the SEC and proceeds of the sale of trading rights under an escrow agreement, whereby the Exchange is authorized by the SEC to hold the proceeds until approval by BOD evidenced by a Memorandum of Agreement on Contract to Buy and Sell of Exchange trading rights.

Movement in this account follows:

	2008	2007
Principal		
Balance at beginning of year	₱10,134,000	₱8,433,789
Proceeds from sale of PSE shares net of payment of obligation to client	66,331,612	1,636,486
Proceeds from sale of trading right	8,000,000	–
Balance at end of year	84,465,612	10,070,275
Accumulated interest income		
Balance at beginning of year	63,725	12,528
Interest earned	288,035	51,197
Balance at end of year	351,760	63,725
Total	₱84,817,372	₱10,134,000

28. Subsequent Event

On February 25, 2009, the BOD approved the declaration of regular cash dividends of ₱4.35 per share and special cash dividend of ₱3.65 per share totaling to ₱244.0 million out of the unrestricted retained earnings of the Parent Company as of December 31, 2008 in favor of stockholders of record as of March 12, 2009. The cash dividends will be paid on March 25, 2009.

[illegible]

NAME OF ISSUE	STOCK CODE	PAR VALUE
Banks		
Asiatrust Development Bank, Inc.	ASIA	10.00
Banco de Oro Unibank, Inc.	BDO	10.00
Banco Filipino Savings & Mortgage Bank	BF	100.00
Bank of the Philippine Islands	BPI	10.00
China Banking Corporation	CHIB	100.00
Chinatrust (Philippines) Commercial Bank Corporation	CHTR	10.00
Citystate Savings Bank, Inc.	CSB	10.00
Export and Industry Bank, Inc. "A"	EIBA	0.25
Export and Industry Bank, Inc. "B"	EIBB	0.25
Metropolitan Bank & Trust Company	MBT	20.00
Philippine Bank of Communications	PBC	100.00
Philippine National Bank	PNB	40.00
Philippine Savings Bank	PSB	10.00
Philippine Trust Company	PTC	10.00
Rizal Commercial Banking Corporation	RCB	10.00
Security Bank Corporation	SECB	10.00
Union Bank of the Philippines	UBP	10.00

NAME OF ISSUE	STOCK CODE	PAR VALUE
Other Financial Institutions		
ATR KimEng Financial Corporation	ATRK	1.00
Bankard, Inc.	BKD	1.00
BDO Leasing and Finance, Inc.	BLFI	1.00
Citiseconline.com, Inc.	COL	1.00
First Abacus Financial Holdings Corporation	FAF	1.00
Filipino Fund, Inc.	FFI	1.00
First Metro Investment Corporation	FMIC	10.00
I-Remit, Inc.	I	1.00
Medco Holdings, Inc.	MED	1.00
Manulife Financial Corporation	MFC	-
National Reinsurance Corporation of the Philippines	NRCP	1.00
The Philippine Stock Exchange, Inc.	PSE	1.00
Sun Life Financial Inc.	SLF	-
Vantage Equities, Inc.	V	1.00

List of Active Trading Participants

	A & A SECURITIES, INC. (Corporate Trading Participant) SHIRLEY Y. BANGAYAN (Nominee Trading Participant) Nationality: FILIPINO Trading Floor: AYALA Contact Information: 1906 Ayala Avenue Condominium 6776 Ayala Avenue, Makati City Office: 891-1008 to 10 Exchange: 891-1008 to 10 Telefax: 891-1010 Email: aasec@pldtdsl.net	101	AB CAPITAL SECURITIES, INC. (Corporate Trading Participant) LAMBERTO M. SANTOS, JR. (Nominee Trading Participant) Nationality: FILIPINO Trading Floor: AYALA Contact Information: 8th Floors, Phinma Plaza 39 Plaza Drive, Rockwell Center, Makati City Office: 898-7555 Exchange: 891-9135 Fax: 898-7597 Email: abcsi@abcapital.com.ph Website: www.abcapitalonline.com	112	Email: info@accordcapital.ph Website: www.accordcapital.ph	ALAKOR SECURITIES CORPORATION (Corporate Trading Participant) GERARD ANTON S. RAMOS (Nominee Trading Participant) Nationality: FILIPINO Trading Floor: TEKTITE Contact Information: 5/F, Quad Alpha Centrum 125 Pioneer Street, Mandaluyong City Office: 631-8173; 637-4496 Exchange: 634-6928 to 29 Fax: 631-5166	232	ANSALDO, GODINEZ & COMPANY, INC. (Corporate Trading Participant) MARIANO U. GODINEZ (Nominee Trading Participant) Nationality: FILIPINO Trading Floor: TEKTITE Contact Information: 340 Nueva Street, Binondo, Manila Office: 242-5124 to 25; 242-5127 to 31 Exchange: 634-5160 & 63; 634-6232 to 34; 634-6521 to 22 Fax: 242-5121	111
	A. T. DE CASTRO SECURITIES CORP. (Corporate Trading Participant) ALEJANDRO T. DE CASTRO (Nominee Trading Participant) Nationality: FILIPINO Trading Floor: AYALA Contact Information: 7/F, Tower One & Exchange Plaza Ayala Avenue cor. Paseo de Roxas, Makati City Office: 848-7160 to 63 Exchange: 848-7160 to 63 Telefax: 848-7163 Email: atcastro@info.com.ph	104	ABACUS SECURITIES CORPORATION (Corporate Trading Participant) PAULINO S. SOO (Nominee Trading Participant) Nationality: FILIPINO Trading Floor: TEKTITE Contact Information: 29/F, East Tower – PSE Centre Exchange Road, Ortigas Center, Pasig City Office: 634-5104 Exchange: 634-6993; 634-6842 Fax: Operations: 634-5206 Inst’l. Sales: 634-2107 Retail/Customer Svc.: 634-2109 Accounting: 634-2105 Email: customerservice@abacus-sec.com Website: www.abacus-sec.com	102	ALPHA SECURITIES CORPORATION (Corporate Trading Participant) ALBERTO L. YU (Nominee Trading Participant) Nationality: FILIPINO Trading Floor: TEKTITE Contact Information: 23/F, Orient Square Building Emerald Avenue, Ortigas Center, Pasig City Office: 638-2388 to 93; 638-3764 Exchange: 638-6692 to 93; 638-6689 Fax: 636-5108 Email: alphasec@pldtdsl.com.ph	106	APEX PHILS. EQUITIES CORPORATION (Corporate Trading Participant) JOSE ROBERTO DELGADO (Nominee Trading Participant) Nationality: MALAYSIAN Trading Floor: AYALA Contact Information: 2/F, Mary Bachrach Building, Port Area, Manila Office: 527-8888 loc. 219; 527-5291 Exchange: 891-8586 Fax: 527-8919; 527-8912	255	
	AAA SOUTHEAST EQUITIES, INC. (Corporate Trading Participant) D. ALFRED A. CABANGON (Nominee Trading Participant) Nationality: FILIPINO Trading Floor: AYALA Contact Information: G/F Fortune Life Building 162 Legaspi Street, Legaspi Village, Makati City Office: 816-2918; 892-9841 to 49 loc. 103 Exchange: 891-9570 to 72 Fax: 812-1831	237	ACCORD CAPITAL EQUITIES CORPORATION (Corporate Trading Participant) PAUL L. WEE (Nominee Trading Participant) Nationality: FILIPINO Trading Floor: TEKTITE Contact Information: G/F, Unit EC-05B, PSE Centre-East Tower, Exchange Rd., Ortigas Center, Pasig City Office: (TL) 687-5071; 687-3224; 687-3733 Exchange: 687-0911; 687-0936 Fax: 687-3738	103	ANGPING & ASSOCIATES SECURITIES, INC. (Corporate Trading Participant) WILMA C. CRISOSTOMO (Nominee Trading Participant) Nationality: FILIPINO Trading Floor: AYALA Contact Information: Suite 2003-2004, The Peak 107 L. P. Leviste Street, Salcedo Village, Makati City Office: 848-2915 Office of the President: 810-0930 Office of the EVP: 848-2564 Exchange: 891-9115 Fax: 848-2572	110	ARMSTRONG SECURITIES, INC. (Corporate Trading Participant) TONY O. KING (Nominee Trading Participant) Nationality: FILIPINO Trading Floor: AYALA Contact Information: 20/F, Equitable PCI Tower I Makati Avenue cor. H. V. dela Costa Street, Makati City Office: 878-4043 Exchange: 891-8534; 891-8542; 891-8563 Fax: 878-4552	388	

Corporate Information

Annual Meeting

The annual meeting of shareholders will be held on Saturday, 09 May 2009, 7:30 a.m. at the PSE Centre, Exchange Road, Ortigas Center, Pasig City.

Corporate Offices

Principal Office:

Philippine Stock Exchange Centre
Exchange Road, Ortigas Centre, Pasig City
1605 Philippines
Tel. No.: (632) 688-7600
Fax No.: (632) 634-5113

Philippine Stock Exchange Plaza
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1226 Philippines
Tel. No.: (632) 819-4100
Fax No.: (632) 891-9004
Website: www.pse.com.ph

External Counsels

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ACCRA Building, 122 Gamboa St.
Legaspi Village, Makati City

D.P. Arce Law Office
Unit 612, 6/F, Tower 1, Cityland Condominium 10
6815 Ayala Avenue, Makati City

Quasha Ancheta Peña & Nolasco
Don Pablo Building, 114 Amorsolo Street
1229 Makati City

Rodrigo Berenguer & Guno
4th Floor, Phil. First Building
6764 Ayala Avenue, Makati City

Tan Venturanza Valdez
2704 East Tower, Philippine Stock Exchange Centre
Exchange Road, Ortigas Center, Pasig City

Zamora Poblador Vasquez & Bretaña
5th Floor, Montepino Building
138 Amorsolo St., Legaspi Village, Makati City

External Auditor

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Stock Transfer Agent

Rizal Commercial Banking Corp.
Stock Transfer Department
G/F West Wing, 211 Grepalife Building
Sen. Gil Puyat Ave., Makati City

For inquiries, please contact:

Public and Investor Relations Section
Tel. No.: (632) 688-7600
E-mail : pirs@pse.com.ph

