Ayala

2010 Annual Report

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We are the moving force behind the Ayala group. Working together with our subsidiaries and partners, we create products and services that serve a wide band of sectors and markets. This diversity is key to an investment strategy that strengthens our value to our stakeholders. This also allows us to pioneer innovative and sustainable solutions that contribute to meaningful change through nation-building.

OUR MISSION

Ayala Corporation, a holding company with a diverse business portfolio, has a legacy of pioneering the future. Founded in 1834, it has achieved its position of leadership by being values oriented, goals driven, and stakeholder focused. Anchored on values of integrity, long-term vision, empowering leadership, and with a strong commitment to national development, it fulfills its mission to ensure long-term profitability and value creation. Ayala provides career opportunities and creates synergies as it builds mutually beneficial partnerships and alliances with those who share its philosophy and values. With entrepreneurial strength, it continues to create a future that nurtures to fruition its business endeavors and its aspirations for sustainable national development.

Ayala

Ayala Corporation is one of the largest conglomerates in the Philippines with businesses in real estate, financial services, telecommunications, water and wastewater services, electronics manufacturing services, automotive dealership, and business process outsourcing. Its corporate social responsibility arm, Ayala Foundation, has programs that focus on education, entrepreneurship, the environment, and arts, history and culture.

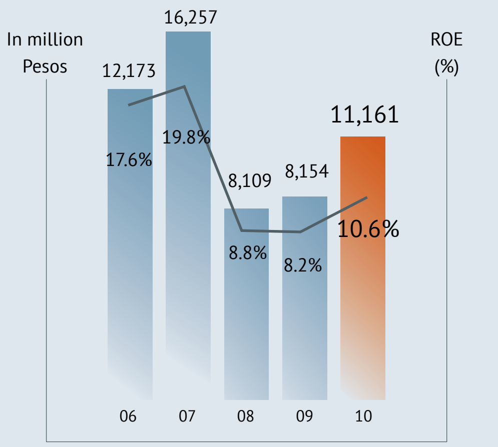
AyalaLand

Ayala Land Inc. is the country's largest fully integrated property developer and one of the most successful operators of prime commercial spaces in the Philippines. It is engaged in masterplanning and developing growth centers with a mix of residential, shopping center, office, hotel, and leisure components.

2010 Highlights

- 37% growth in consolidated net income
- 31% total return to shareholders
- Increased stake in Manila Water from 31.5% to 43.1% in light of potential for domestic and regional expansion
- Entered joint venture with Mitsubishi Corporation for testing and development of solar energy platform
- Repurchased 12.8 million shares under its ₱10 billion buy-back program

NET INCOME AND RETURN ON EQUITY (ROE)

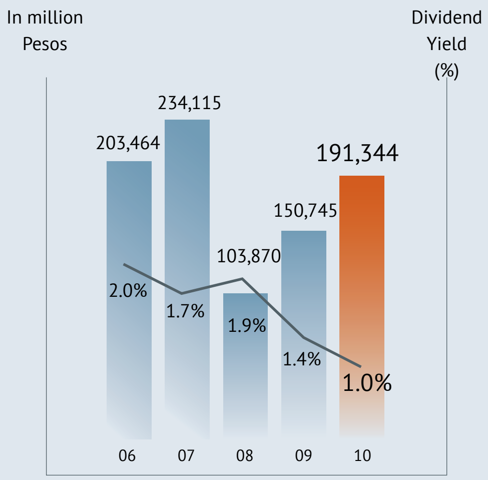


13.9%
5-year average net income growth

13.0%
5-year average return on equity

13.4%
5-year TSR CAGR

MARKET CAPITALIZATION AND DIVIDEND YIELD

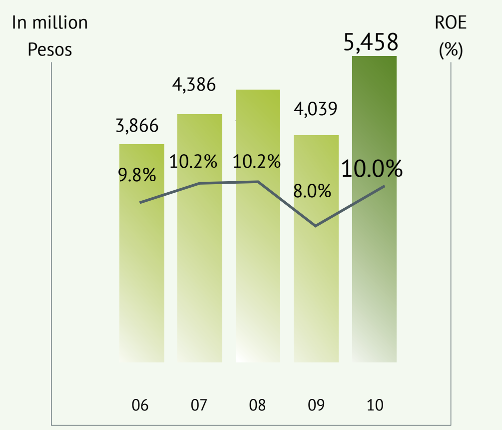


Market Capitalization based on year-end closing price

2010 Highlights

- Record net income of ₱5.5 billion
- Launched record number 10,115 residential units, with corresponding record take-up and sales booking across all brands
- Entered the economic housing segment via *AmaiaScapes* in Laguna
- Made initial foray into eco-tourism through partnership with Ten Knots Group for a 60% stake in El Nido Resorts
- Launched its first businessman's hotels in Bonifacio Global City and Davao

NET INCOME AND RETURN ON EQUITY (ROE)

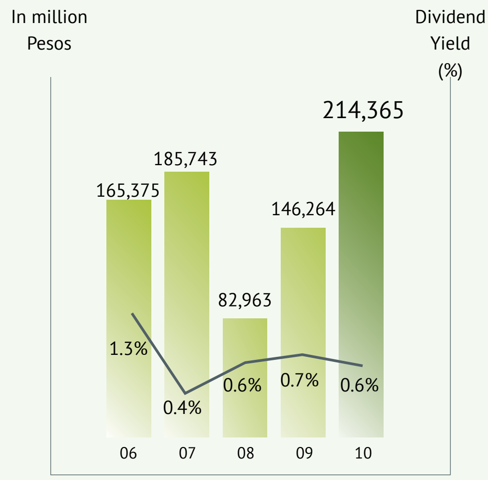


9.8%
5-year average net income growth

9.6%
5-year average return on equity

26.6%
5-year TSR average

MARKET CAPITALIZATION AND DIVIDEND YIELD



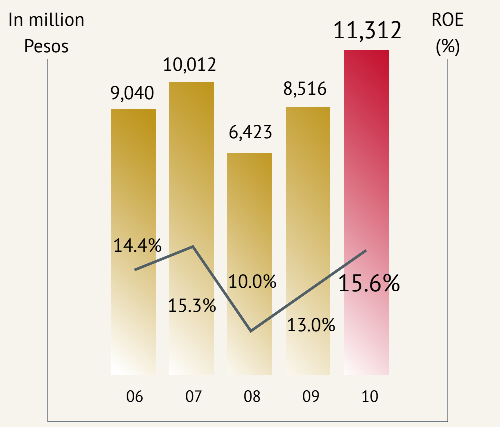
TSR: Total Shareholder Return CAGR: Compounded Annual Growth Rate

Bank of the Philippine Islands is the country's largest bank in terms of market capitalization and the third largest in terms of total assets. It has a lead position in intermediation capacity, corporate and consumer lending, remittances, and electronic banking. The bank offers peso and foreign currency deposits, corporate and consumer loans, leasing, loan syndication, securities underwriting and distribution, foreign exchange, cash management, credit cards, payments and settlements, remittances, asset management services, life and general insurance.

2010 Highlights

- Posted net income of ₱11.3 billion, up by 33% from last year, with a return on equity of 15.6%
- Publicly launched BPI Globe BanKO, the country's first mobile micro-focused savings bank
- Raised ₱10 billion worth of capital through a Stock Rights Offer
- Deployed Customer Transaction Assist (CTA) machines for paperless in-branch transactions in 100 branches
- Signed an agreement with ING Bank, N.V. Manila branch to acquire the latter's trust and investment management business in the Philippines

NET INCOME AND RETURN ON EQUITY (ROE)

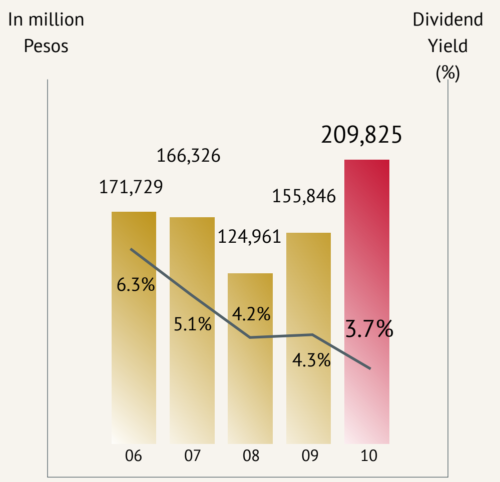


9.6%
5-year average net income growth

13.6%
5-year average return on equity

18.3%
5-year TSR CAGR

MARKET CAPITALIZATION AND DIVIDEND YIELD

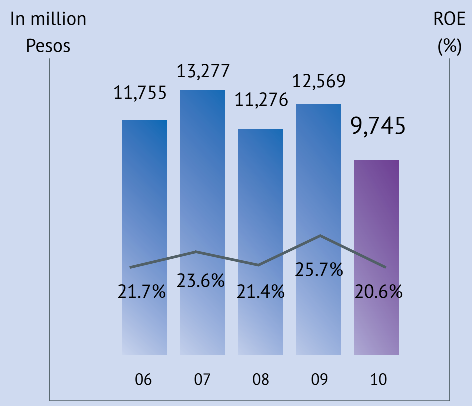


Globe Telecom Inc. is a major provider of telecommunications services in the Philippines, servicing 26.5 million mobile subscribers, 1.1 million wired and wireless broadband customers, and over 600,000 landline subscribers. Formed out of a partnership between Ayala Corporation and Singapore Telecom, the company operates one of the largest and most technologically-advanced mobile, fixed line, and broadband networks in the country, and maintains a distributor and over-the-air reload network spanning over 750,000 retailers nationwide.

2010 Highlights

- Net income of ₱9.7 billion below last year's ₱12.6 billion; return on equity of 20.6%
- Consolidated service revenues of ₱62.6 billion, slightly higher than 2009, with robust performance of broadband and fixed line business
- Mobile SIM base grew by 14% to 26.5 million
- Postpaid subscribers reached 1 million mark; 4Q net additions at 7-year high
- Broadband subscribers grew by 50% to 1.1 million; broadband revenues up 75%

NET INCOME AND RETURN ON EQUITY (ROE)

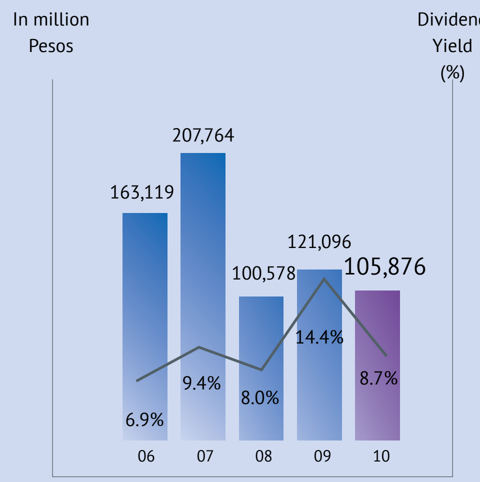


0.2%
5-year average net income growth

22.6%
5-year average return on equity

11.9%
5-year TSR CAGR

MARKET CAPITALIZATION AND DIVIDEND YIELD



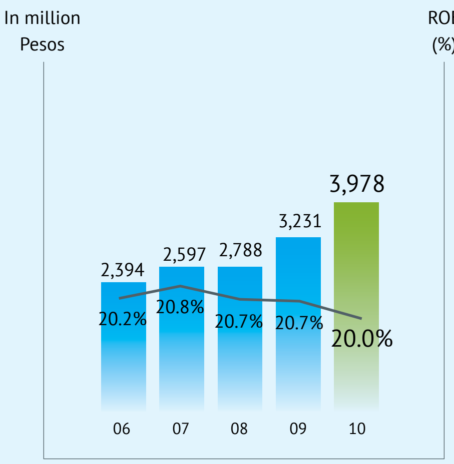
Manila Water Company Inc. is the sole provider of water and wastewater services for six million people in the East Zone of Metro Manila, which includes Pasig, Mandaluyong, Makati, San Juan, Taguig, Pateros, Antipolo, San Mateo, Rodriguez, Marikina, most of Quezon City, and parts of Manila. Building on its success in the East Zone, Manila Water now has existing operations in Laguna and Boracay in the Philippines; and Ho Chi Minh City, Vietnam.

Ayala Automotive Holdings Corporation is a leading vehicle dealership network of both Honda and Isuzu brands with 7% share of Philippine auto industry sales. Its products in the passenger car category include *Honda City*, *Jazz*, *Civic,* and *Accord*. In the commercial vehicle segment, it has the *Honda CR-V,* and the *Isuzu Crosswind, D-Max, Alterra,* and *Isuzu* trucks.

2010 Highlights

- Net income growth of 23% to ₱3.9 billion
- Billed volume growth of 3.5% year-on-year
- Non-revenue water reduction of five percentage points to an all-time low of 11%
- Took over the concession for water and wastewater services in Boracay Island
- Awarded "*Water Efficiency Project of the Year*" by Global Water Intelligence

NET INCOME AND RETURN ON EQUITY (ROE)

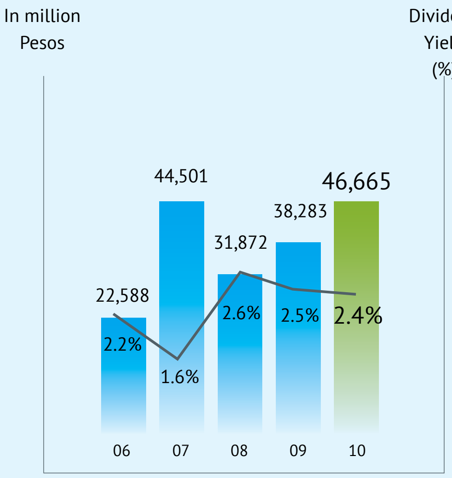


14.8%
5-year average net income growth

20.5%
5-year average return on equity

35.3%
5-year TSR CAGR

MARKET CAPITALIZATION AND DIVIDEND YIELD

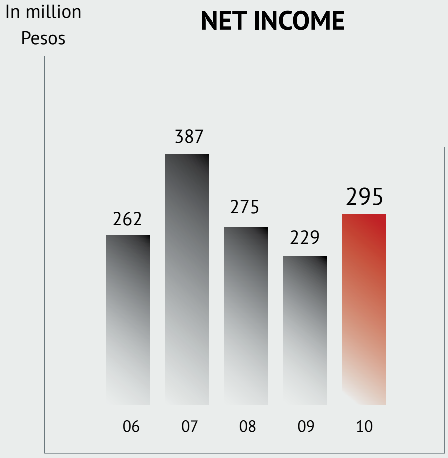


2005-2006 Based on prior year's Financial Statement before restatement
2007-2008 Based on the first time adoption of IFRIC 12
Market Capitalization based on year-end closing price and includes preferreds

2010 Highlights

- Net income attributable to dealership and equity in assembly operations of ₱295 million, up 29%
- Honda held a strong second position in the passenger car segment; Isuzu ranked third in commercial vehicle segment
- Honda and Isuzu brands have a combined market share of 16%
- Ayala's Honda dealerships accounted for 50% of Honda's Philippine unit sales
- Ayala's Isuzu dealerships accounted for 30% of Isuzu's Philippine unit sales

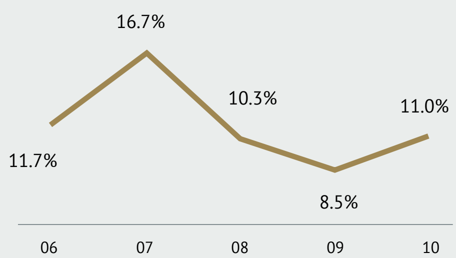
NET INCOME



9.8%
5-year average net income growth

11.7%
5-year average return on equity

RETURN ON EQUITY



TSR: Total Shareholder Return
CAGR: Compounded Annual Growth Rate

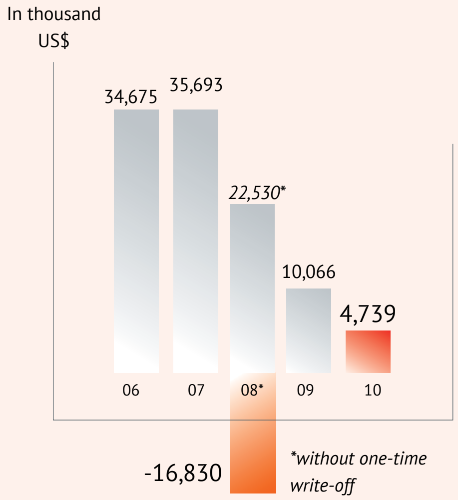
Integrated Micro-Electronics Inc. is a leading electronics manufacturing services (EMS) provider in the region that offers flexible solutions including design and product development, process and product engineering, test development, logistics, and manufacturing solutions for the computing, communications, consumer, automotive, industrial, medical, and renewable energy industries.

LiveIt Investments Ltd. is the holding company for Ayala Corporation's investments in the business process outsourcing (BPO) sector. It has invested approximately US$200 million in four companies in the Voice (Stream), Knowledge (Integreon), Ad/Marketing Production (Affinity Express), and HR (HRMall) spaces with total employees of over 30,000.

2010 Highlights

- Revenues up 4% to US$412.3 million
- China operations sustained its strong performance
- Listed on the Philippine Stock Exchange
- Acquired majority shares of PSi Technologies Inc.
- Opened 6th manufacturing facility in China
- Established IMI Energy Solutions

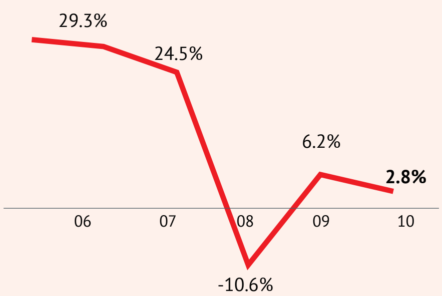
NET INCOME



24.4%
5-year average revenue growth

10.4%
5-year average return on equity

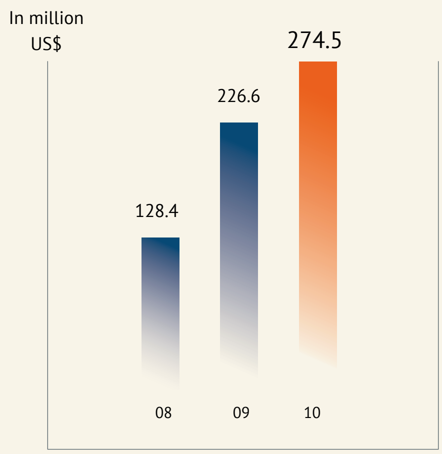
RETURN ON EQUITY



2010 Highlights

- Combined revenues of investee companies increased by 84% to US$906 million; combined EBITDA up by 55% to US$63 million primarily due to the eTelecare and Stream merger in October 2009
- Net income improved to US$4.9 million versus last year's loss due to net gain of US$37 million from the revaluations of Integreon and Stream
- Appointed Kathryn Marinello as new CEO for Stream; formerly CEO of Ceridian, a US$1.4 billion HR outsourcing company, and previously senior executive at General Electric
- Integreon signed the legal industry's largest outsourcing contract with CMS Cameron McKenna LLP, the U.K. member firm of CMS, the leading European provider of legal and tax services

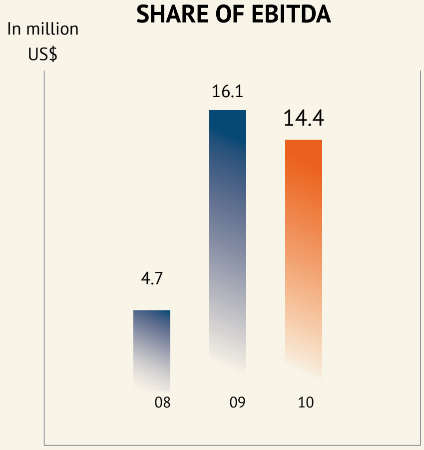
SHARE OF REVENUES



29%
3-year Revenue CAGR

102%
3-year EBITDA CAGR

SHARE OF EBITDA



AG Holdings

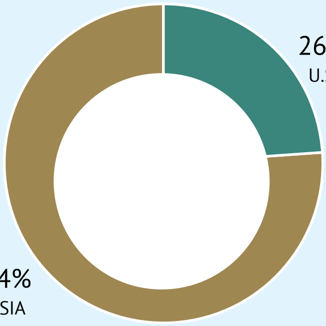
A member of the Ayala group of companies

AG Holdings Limited is the holding company for the Ayala group's international property investments in the United States and Asia.

2010 Highlights

- Restructured investments in North America and took a ₱1.7 billion provision to focus on more lucrative markets
- Successfully opened the *Seasons Marketplace* in Milpitas, California in May
- Asian portfolio yielded healthy returns; fully divested investment in Foshan, China achieving substantial return ahead of plan
- Successfully closed its first investment in a condominium project in a prestigious residential district in Singapore, achieving 50% lease-out rate by end 2010
- Launched Phase 1 of Concordia residential project in Macau in April and sold 97% of units by year-end

GROSS ASSET VALUE
US$ 128.8 million



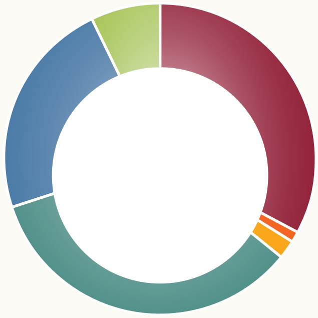
Ayala Foundation

Ayala Foundation Inc. is the social development arm of the Ayala group. It is a non-stock, non-profit organization committed to improving the quality of life of Filipinos through its programs in education, the environment, entrepreneurship, social development, and art, history and culture.

2010 Highlights

- Organized programs focused on education, leadership, environment, technology, entrepreneurship, community development, and art and culture
- Raised ₱45 million for various AFI projects through the newly-formed Resource Development Department
- Connected 523 public high schools to the Internet bringing the total to 3,040 under the *Gearing up Internet Literacy and Access for Students (GILAS)* consortium
- Transformed Ayala Foundation USA to Philippine Development Foundation (PhilDev), a U.S.-based organization committed to promoting science, technology, business, and education for the social and economic development of the Philippines
- Launched through the *Ayala Museum* programs in various art forms, including design and music
- Launched *MyLibrary* through the Filipinas Heritage Library, to engage various stakeholders in rebuilding community libraries all over the country

2010 USE OF FUNDS



Financial Highlights

	2010	2009	2008
FOR THE YEAR (in million pesos)			
Revenues	98,071	76,294	79,109
Net Income Attributable to Equity Holders	11,161	8,154	8,109
Cash Dividends to Common Shares	1,946	1,994	1,989
Cash Dividends to Equity Preferred Shares	944	2,026	549
Stock Dividends	-	-	4,139
Stock Dividends (%)	-	-	20%
AT YEAR END (in million pesos)			
Total Assets	315,588	232,149	220,188
Cash and Cash Equivalents	53,143	45,657	42,886
Short-Term Investments	3,994	4,561	1,009
Total Borrowings	82,836	56,523	54,484
Equity Attributable to Equity Holders	107,541	102,260	97,311
PER SHARE (in pesos)			
Earnings - Basic 1/	20.56	14.23	15.22
Earnings - Diluted 1/	20.47	14.19	15.17
Book Value of Common Shares 1/	197.24	181.73	172.26
Cash Dividends to Common Shares	4.00	4.00	4.00
FINANCIAL RATIOS			
Current Ratio	1.89	2.56	2.52
Debt-to-Equity Ratio	0.77	0.55	0.56

1/ Adjusted to include retroactive effect of the 20% stock dividends in 2008.

Consolidated Financial Highlights

	AYALA CORPORATION					AYALA LAND				
	2010	2009	2008	2007 1/	2006	**2010**	2009	2008	2007	2006
FOR THE YEAR (in million pesos)										
Revenues	**98,071**	76,294	79,109	78,767	70,162	**37,814**	30,455	33,749	25,707	25,559
Net Income Attributable to Equity Holders	**11,161**	8,154	8,109	16,257	12,173	**5,458**	4,039	4,812	4,386	3,866
Cash Dividends to Common Shares	**1,946**	1,994	1,989	3,312	2,757	**1,211**	780	780	782	1,843
Cash Dividends to Equity Preferred Shares	**944**	2,026	549	549	274	**60**	60	66	-	-
Stock Dividends	**-**	-	4,139	3,450	-	**-**	-	-	2,172	-
Stock Dividends (%)	**-**	-	20%	20%	-	**-**	-	-	20%	-
AT YEAR END (in million pesos)										
Total Assets	**315,588**	232,149	220,188	196,131	181,984	**122,302**	107,742	100,453	82,981	78,250
Cash and Cash Equivalents	**53,143**	45,657	42,886	38,836	20,391	**18,019**	10,529	12,655	11,272	4,631
Short-Term Investments	**3,994**	4,561	1,009	3,688	2,928	**1,434**	4,561	1,009	2,036	2,928
Total Borrowings	**82,836**	56,523	54,484	50,032	52,881	**20,971**	18,812	16,752	10,139	12,837
Equity Attributable to Equity Holders	**107,541**	102,260	97,311	86,887	76,788	**56,857**	52,392	49,028	45,705	40,651
PER SHARE (in pesos)										
Earnings - Basic 2/	**20.56**	14.23	15.22	31.62	24.01	**0.41**	0.31	0.36	0.34	0.30
Earnings - Diluted 2/	**20.47**	14.19	15.17	31.47	23.89	**0.41**	0.31	0.36	0.33	0.30
Book Value of Common Shares 2/	**197.24**	181.73	172.26	163.08	142.95	**4.26**	3.93	3.68	3.41	3.75
Cash Dividends to Common Shares	**4.00**	4.00	4.00	8.00	8.00	**0.09**	0.06	0.06	0.06	0.17
FINANCIAL RATIOS										
Current Ratio	**1.89**	2.56	2.52	1.92	1.71	**1.70**	1.95	1.89	1.65	1.64
Debt-to-Equity Ratio	**0.77**	0.55	0.56	0.58	0.69	**0.37**	0.36	0.34	0.22	0.32

1/ Restated to reflect effect of adopting Philippine Interpretation IFRIC 12, Service Concession Arrangements

2/ Adjusted to include retroactive effect of the 20% stock dividends in 2008.

BPI					GLOBE					MANILA WATER				
2010	2009	2008	2007	2006	**2010**	2009	2008	2007	2006	**2010**	2009	2008	2007	2006
38,997	34,395	29,784	32,554	29,837	**65,548**	63,861	64,818	65,509	59,949	**11,013**	9,533	8,914	7,332	6,785
11,312	8,516	6,423	10,012	9,040	**9,745**	12,569	11,276	13,277	11,755	**3,978**	3,231	2,788	2,597	2,394
6,122	5,844	5,842	7,573	7,573	**10,588**	15,087	16,542	15,339	6,600	**934**	811	787	605	420
-	-	-	-	-	**50**	61	49	65	68	**224**	200	180	132	148
-	-	5,409	-	4,507	**-**	-	-	-	-	**-**	-	-	-	-
-	-	20%	-	20%	**-**	-	-	-	-	**-**	-	-	-	-
878,146	724,420	666,612	637,285	583,133	**130,628**	127,644	119,743	116,621	124,580	**43,620**	43,758	36,368	27,942	24,263
146,638	81,524	70,788	86,121	68,354	**5,869**	5,940	5,782	6,191	7,506	**2,413**	4,038	3,989	1,537	6,455
123,972	124,962	98,228	112,758	104,841	**-**	3	-	2,850	7,307	**1,546**	3,724	3,368	1,388	177
31,868	38,942	16,430	6,678	6,722	**50,371**	47,477	40,588	30,373	39,207	**14,134**	14,361	13,352	6,236	8,058
81,031	66,798	62,934	70,011	64,439	**46,869**	47,709	50,092	55,417	56,948	**19,815**	16,817	14,458	12,479	11,874
3.38	2.62	1.98	3.09	2.79	**73.63**	94.59	84.75	100.07	88.56	**1.85**	1.31	1.13	1.06	1.05
3.38	2.62	1.98	3.09	2.79	**73.12**	94.31	84.61	99.58	88.32	**1.85**	1.31	1.13	1.06	1.05
22.78	20.56	19.39	25.89	23.83	**348.15**	354.50	372.52	412.78	425.16	**9.39**	7.92	6.70	5.88	5.48
1.80	1.80	1.80	2.80	2.80	**80.00**	114.00	125.00	116.00	50.00	**0.46**	0.40	0.35	0.30	0.21
-	-	-	-	-	**0.60**	0.55	0.52	0.68	0.94	**1.09**	1.76	2.03	0.93	1.61
-	-	-	-	-	**1.07**	1.00	0.81	0.55	0.69	**0.71**	0.85	0.92	0.51	0.68

Chairman's Message

FELLOW SHAREHOLDERS:
Let me start by saying that we are encouraged by the positive developments in the Philippine economic and political landscape during this past year. Our GDP grew by its highest rate in over three decades, supported by robust domestic consumption and rising private investments. Consumer and business confidence was high and rose further after the leadership transition in government.

These conditions encouraged revenue growth in our domestic businesses as our various industries captured the uptrend in the early stage of this growth cycle. This was reflected in their strong operating and financial performance in 2010, which our President will elaborate on in his report.

At this stage, we see a sustainable pattern in this growth, particularly in our real estate, banking, telecom, and water businesses. There are opportunities in each of these sectors as we seek to tap a much larger base of customers, at all levels, including those at the base of the economic pyramid that remain unserved or underserved. Meeting the needs of this broader community in ways that encourage social and economic development ultimately expand economic value not just for ourselves, but for society as a whole. While we have been quite successful in our traditional markets, which continue to grow, we believe there is also opportunity in creating value by addressing the needs of customers beyond the mainstream market. This segment defines a market with unique needs that, when met by innovative and creative business solutions, can present a compelling economic proposition. We believe that, as a group, we are in a position to put our resources to work to address this market effectively. Our overarching view is that our long-term economic success as an enterprise is closely linked with the well-being of the communities within which we operate.

While we continue to work with our traditional markets, I thought it was worth highlighting a number of initiatives we have developed in the less traditional side of our group.

Let me start with the launch of BPI Globe BanKo Savings Bank, the first mobile microfinance bank in the country. Since its launch in February 2010, it has established six branches, three of which are in Luzon, two in the Visayas, and one in Mindanao. We have extended around ₱1.1 billion in loans to micro-entrepreneurs and BanKo is now able to reach 40 microfinance institutions that, in turn, reach out to 200,000 customers. Our goal is to expand our business reach to this new market segment, while also creating a more inclusive developmental business proposition by providing access to financial services to many of those who previously could not open a bank account.

In real estate, Ayala Land Inc. also attracted new customers this year through its latest venture in the economic housing segment under the Amaia brand. While growth in the top-end and mid-range segments continued to drive our residential development business, we saw Amaia making an initial contribution to residential sales this year. We believe that this new segment has strong potential for growth.

In our water distribution business, Manila Water, through its *Tubig Para Sa Barangay* program, is serving more than 1.6 million people from low-income communities, including informal settlers. This program has also been key to reducing the incidence of water leakage and pilferage. It has contributed to the decline in non-revenue water to an all-time low of 11% this year, aside from generating savings for customers in this segment.

Our development of these new customer segments runs parallel to our growth objectives in the traditional markets we serve. As we see growth spreading outside Metro Manila, we are also expanding our presence in high growth provinces and cities and have locked in a pipeline of projects in these areas. The opportunities we see have led us to increase our group's capital expenditure program in 2011 to ₱79 billion, 21% higher than what was spent in 2010. A significant part of this is allotted for investments in the domestic market as we strengthen our group's capacity to address these opportunities.

The current momentum in the domestic economy has also ushered a renewed interest to invest in sectors that are critical to sustaining and raising the country's growth trajectory, particularly with the government's emphasis on increased private sector participation in the infrastructure and power sectors.

We believe there are value propositions in these sectors. We have made initial investments in the power sector in 2010 and, over the medium term, we aim to assemble a portfolio of power assets comprising both renewable and traditional energy sources. We are in the process of developing focused platforms across various technologies, such as solar, wind, both large-scale and mini hydro, as well as thermal energy with the intent of balancing cost of energy delivery with sustainable practices. We also remain engaged in the transportation infrastructure space and continue to evaluate opportunities that allow us to enhance the business proposition of our other business units.

In the end, we hope to broaden our customer reach and diversify our portfolio in a manner that creates developmental impact and economic value both for our corporation and society as a whole. We have always taken pride in aligning ourselves with national development goals and this year is no exception.

We thank our board of directors, management team, business partners, and fellow shareholders for their continued support and trust in Ayala. We hope to remain partners with you all in our quest to build sustainable long-term growth and value for the institution.

JAIME AUGUSTO ZOBEL DE AYALA

WHILE WE HAVE BEEN QUITE SUCCESSFUL IN OUR TRADITIONAL MARKETS, WHICH CONTINUE TO GROW, WE BELIEVE THERE IS ALSO OPPORTUNITY IN CREATING VALUE BY ADDRESSING THE NEEDS OF CUSTOMERS BEYOND THE MAINSTREAM MARKET. THIS SEGMENT DEFINES A MARKET WITH UNIQUE NEEDS THAT, WHEN MET BY INNOVATIVE AND CREATIVE BUSINESS SOLUTIONS, CAN PRESENT A COMPELLING ECONOMIC PROPOSITION.

President's Report to Stockholders

FELLOW SHAREHOLDERS:

We are pleased to report that our consolidated net income in 2010 reached ₱11.2 billion, a 37% improvement over last year. We achieved a 10.6% return on equity and delivered a 31% total return to shareholders. Ayala's net portfolio value increased by 24% this year. This performance was driven by the strong operating results of our domestic businesses, lifted further by revaluation gains from some of our domestic and international investments.

RECORD PERFORMANCE OF DOMESTIC BUSINESSES AND REVALUATION GAINS DRIVE EARNINGS

The strong recovery of the Philippine economy created a very positive business environment. Philippine gross domestic product grew at a record high of 7%. This was underpinned by healthy domestic consumption fueled by strong overseas Filipino workers' remittance flows, benign inflation and low interest rates. Consumer and business confidence likewise soared, particularly following the success of the national elections, resulting in a marked increase in private sector investments.

With our domestic businesses well-positioned early on to capture this growth cycle, our key business units posted strong operating and financial results, with some achieving record earnings.

Our real estate business, Ayala Land Inc. (ALI), achieved all-time high consolidated revenues of ₱37.8 billion, 24% higher than last year, and record high net income of ₱5.5 billion or a 35% growth year-on-year. Residential development and leasing revenues increased at double-digit rates with profitability improving as margins expanded across all major business lines.

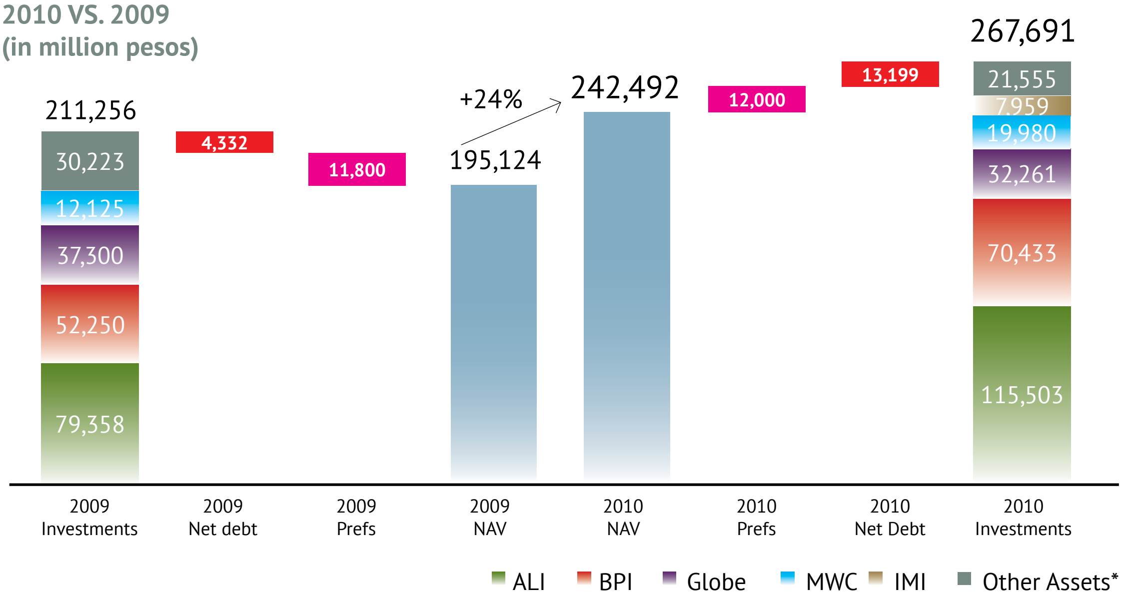
We remain bullish on the domestic real estate market as fundamental trends continue to support the growth of the sector. ALI plans to double the number of residential launches in 2011 and pursue a steady expansion of its shopping center and office leasing portfolio. It is also increasing its presence in the hotels and resorts sector with the planned launch of business hotels in the coming year. ALI is increasing capital expenditure in 2011 to ₱32.6 billion from ₱20.1 billion in 2010.

Our banking unit, Bank of the Philippine Islands (BPI), also had another strong year with consolidated revenues up 13% to ₱38.9 billion and net income at a record ₱11.3 billion, up 33% for the second consecutive year. Robust business growth and strong trading gains fuelled earnings. Loans grew by 16% with double-digit increases in all segments on the back of robust consumption trends.

We remain excited about BPI's growth strategy which is centered on more aggressive customer acquisition, prudent lending, and deeper cross-selling penetration. In 2010, BPI formally launched its mobile microfinance platform under BPI Globe BanKO, which we expect to further gain momentum as it expands reach. BPI also acquired ING's trust and investment management business in Manila, further solidifying its position as the second largest asset management and trust group in the Philippines.

Our telecom unit, Globe, exhibited positive signs of a turnaround in the latter part of 2010 but full year consolidated revenues and earnings remained sluggish due to intense market competition and a maturing mobile

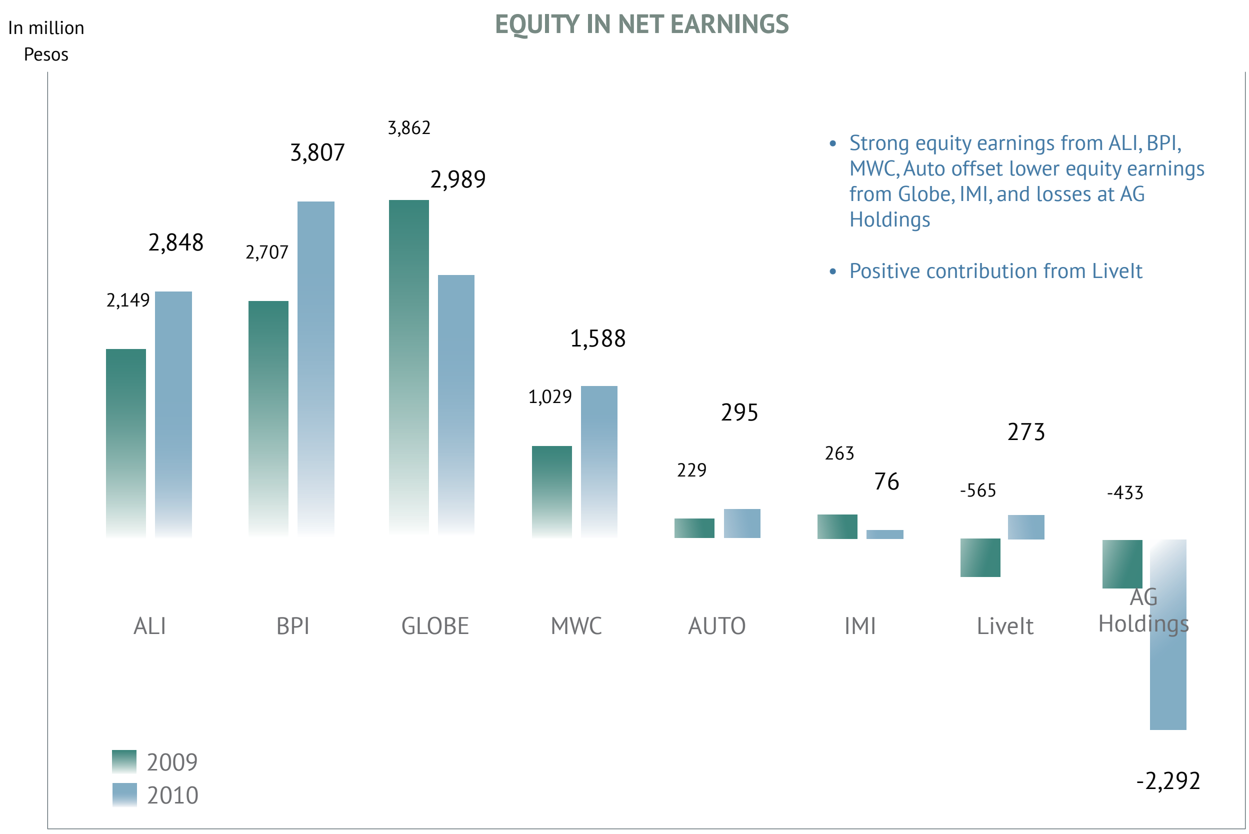
AYALA NET PORTFOLIO VALUE 2010 VS. 2009 (in million pesos)



2009 values for ALI, BPI, Globe, MWC based on market price as of 12/29/09; 2010 values based on market prices as of 12/30/10

**Other Assets in 2009 includes IMI, as it was not yet listed on the PSE*

WE LOOK TO EXPAND OUR PRESENCE IN THE DOMESTIC MARKET AS WE REACH OUT TO A BROADER MARKET BASE, EXPAND OUR PRESENCE ACROSS THE COUNTRY, AND MAKE NEW INVESTMENTS IN SECTORS THAT ARE CRITICAL ENABLERS FOR BROADER ECONOMIC DEVELOPMENT.



market. Consolidated service revenues were slightly higher than prior year at ₱62.6 billion, while net income declined by 22% to ₱9.7 billion. Performance in the fourth quarter of 2010, however, was encouraging with one of the highest quarterly results on record. We expect competition to remain intense given the high level of mobile penetration, rising incidence of multi-SIM usage, and shifting of consumers to unlimited and bulk offers. Meanwhile, counterbalancing the maturing mobile business was the broadband and corporate data businesses, which continued to grow at an impressive rate.

Our water business, Manila Water Company Inc., also achieved record earnings. Revenues grew by 16% to ₱11.0 billion while net income reached ₱3.9 billion, 23% higher than prior year. Continuous improvement in operational efficiencies enabled the company to deliver 24/7 water service to all its customers in its concession area, despite the El Niño condition that negatively impacted Metro Manila's water supply. Billed volume continued to grow while non-revenue water further declined to 11%.

In 2010 we increased our stake in Manila Water, from 31.5% to 43.1% as we believe in the potential of the company to become a dominant player in water infrastructure services in the Philippines as well as a key player in Asia's emerging markets. There are vast opportunities outside the East Zone where reliable water service is needed. Its operations have commenced in Laguna and Boracay and it has also started to establish presence in the international arena. Manila Water invested ₱9.6 billion in 2010 to further improve reliability and expand coverage of its water and wastewater networks. It aims to invest more than ₱10 billion annually for the next two years for the expansion and the development of new water sources.

Our automotive business posted strong earnings on the back of robust local auto industry sales. Ayala Automotive's revenues reached ₱11.5 billion with net income up 29% to ₱295 million. Ayala Auto remains one of the significant players in the local auto industry, accounting for half of Honda car sales and a third of Isuzu sales nationwide. To further its growth objectives, the company is actively exploring opportunities to add new brands to its already solid portfolio.

Apart from the strength of our domestic businesses, our earnings this year were boosted further by a ₱3.6 billion net gain due to the revaluation of the Company's stake in Manila Water following the purchase of an additional 11% stake in the water company and its BPO holding company, LiveIt, after the buy-in of a private equity firm in one of its investee companies. These revaluation gains were in turn partly offset by impairment provisions and restructuring costs at our international real estate unit, AG Holdings.

INTERNATIONAL BUSINESSES POSITIONED FOR GLOBAL RECOVERY

As the global economic environment remained tenuous, the lingering effects of the downturn continued to impact our international businesses. However, we believe our businesses are well-positioned as global economic conditions gradually improve.

In electronics, Integrated Micro-Electronics Inc. (IMI) saw revenues improve by 4% to US$412 million on strong performance of its China operations. However, net income declined by 53% to US$4.7 million due to a one-off expense. Excluding this, net income would have registered a 27% growth. Over the past years IMI made acquisitions that enabled the company to differentiate itself and meet the demands of the changing technology landscape. This year, IMI acquired 56% of PSi Technologies Inc. to further build on its existing capabilities and develop expertise for smart power devices and convergent technology. IMI will continue to focus on seizing similar opportunities that will strengthen its capacity for higher-value design and manufacturing services.

Our international real estate investment vehicle AG Holdings recorded a net loss of ₱2.3 billion. Its Asian portfolio generated revenues of US$11.6 million from equity earnings and valuation gains but this was offset by impairment provisions for certain assets in North America and restructuring costs. As we have streamlined our holdings in the U.S., realigned our organization to current market conditions, and stablized operations in this market, we are in a better position to realize values from these investments particularly when property markets gradually recover.

LiveIt, our holding company for our business process outsourcing (BPO) investments contributed positive earnings of US$4.9 million in 2010. This was primarily due to the net revaluation gain of Integreon and Stream amounting to US$37 million. However, excluding the revaluation gain, LiveIt had an operating net loss of US$15.7 million compared to last year's US$2.5 million net loss. This decline was mainly due to the weakness in Stream's revenues in the second quarter of the year, exacerbated by a weak Euro and higher attrition. Integreon likewise experienced weaker revenues from its electronic data discovery business. However, momentum improved in the second half of the year which is expected to continue driven by Stream and the commencement of Integreon's 10-year agreement with CMS Cameron McKenna LLP, the leading European provider of legal and tax services. This partnership will provide Integreon with a first-mover advantage in its industry and will serve as a springboard for better profitability going forward.

PREPARED FOR A FRESH INVESTMENT CYCLE

We maintain a highly flexible funding position that allows us to undertake value-enhancing initiatives for our current businesses and make sizable investments in new sectors moving forward. We are actively exploring the power and infrastructure sectors given a renewed push for increased private sector participation in these areas.

In 2010 we commenced initiatives in the power sector through a joint venture between our subsidiary Michigan Power Inc. and Diamond Generating Asia Ltd., a wholly-owned subsidiary of Mitsubishi Corporation. The joint venture under PhilNewEnergy Inc. will explore solar power opportunities in the Philippines. We also initiated talks with potential partners in other renewable energy technologies such as wind and mini hydro.

Similarly, we remain engaged in the public-private sector partnership projects in the infrastructure space. We are looking at participating in a few select opportunities, particularly those which may have strategic value with our other business units.

Looking ahead to 2011, we are optimistic about the growth prospects in the Philippines as we enter the early stage of another investment cycle. While competition remains intense, we are encouraged by the positive trends. We look to expand our presence in the domestic market as we reach out to a broader market base, expand our presence across the country, and make new investments in sectors that are critical enablers for broader economic development. Certainly, the global economy will remain challenged but we believe that as the advanced economies improve moderately, we should begin to see positive impact on our international businesses.

We appreciate the recognitions and awards given by various international institutions to several of our business units individually and as a group. In 2010 Ayala ranked 1st overall in the Philippines in the *FinanceAsia* Best Managed Companies Poll, as well as 1st for Best in Corporate Governance, 1st for Best Corporate Social Responsibility, and 2nd for Investor Relations. Our leadership in Corporate Governance was also acknowledged by the *Asiamoney* Corporate Governance Poll, and *Corporate Governance Asia*. These awards reaffirm our commitment to providing our shareholders an investment they can trust and believe in.

The accomplishments this year are without a doubt a result of the dedication of our senior management team, executives, and staff. We appreciate their contributions to the success of the group. We also thank our Board of Directors for their guidance. Lastly, we thank our fellow shareholders for their continued trust and confidence in our ability to create value for years to come.

FERNANDO ZOBEL DE AYALA

AyalaLand

Real Estate

CONSOLIDATED FINANCIAL HIGHLIGHTS
(in million pesos except per share amounts and ratios)

	2010	2009
Total assets	**122,302**	107,742
Stockholders' equity*	**56,857**	52,392
Revenues	**37,814**	30,455
Net income attributable to equity holders	**5,458**	4,039
Earnings per share	**0.41**	0.31
Ratios		
Current ratio	**1.71**	1.95
Debt-to-equity ratio	**0.37**	0.36
Return on equity	**10%**	8%
Top Shareholders		
Ayala Corporation	**53.2%**	53.3%
Aberdeen Asset Management Asia Ltd	**8.99%**	8.25%

*Stockholders' equity excludes noncontrolling interests

Launched
10,115
residential units
worth ₱49 billion

Ayala Land had an exceptionally good year in 2010 as the company achieved record financial results and gained significant traction in our "5-10-15" Plan. The company achieved record residential sales and improved occupancy and lease rates across its major properties, which resulted in a record net income after tax of ₱5.5 billion. This was 35% higher than what was achieved in 2009 and 13% more than the previous record of ₱4.8 billion reported in 2008.

Consolidated revenues grew to ₱37.8 billion, 24% higher than the previous year. The company also spent a record ₱21.0 billion in capital expenditures for the year, 24% higher than in 2009.

OPERATING HIGHLIGHTS AND "FIRSTS"

2010 was the first year in the implementation of our five year plan. Faced with the challenge to achieve ₱10.0 billion in earnings and a 15% return on equity within five years (or by 2014), we launched a total of 57 projects all over the country. These had a total investment value of more than ₱62.0 billion, a level which was unprecedented in the company's history.

In the residential segment, we launched 10,115 new units worth ₱49.0 billion and achieved very strong sales take-up across all our residential brands. This was also significant in that it included our initial foray into the economic housing segment through *AmaiaScapes* in Laguna. While we will continue to focus on our traditional higher-end segments where we have been dominant, we feel that there is also a very attractive opportunity in the more affordable segments. This is where we can have a very positive impact on uplifting the living standards of many more Filipino households and we expect this to contribute more significantly to our residential portfolio in the coming years.

For our commercial leasing portfolio, we started construction on 267,500 square meters of gross leasable area (GLA) in 2010. These included our first neighborhood center in the *Ayala Triangle Gardens*, a number of strategically located retail centers across the country, and new BPO offices in Cebu, Bacolod, Iloilo and NUVALI. These areas have all been identified as "Next Wave BPO Cities" under the Business Processing Association of the Philippines Roadmap.

With improving prospects for tourism and tourism-related infrastructure development, we also began a strategic build up of our hotels and resorts portfolio in 2010. We launched our first businessman's hotels in Bonifacio Global City and Davao under our own *Kukun* brand and completed our acquisition of a 60% stake in the El Nido Resorts in Palawan. We feel that both of these offer significant opportunities for growth in the coming years.

We also expanded into new geographies and began to build our presence in five new growth centers outside Mega Manila—Subic, Baguio, Iloilo, Cagayan de Oro, and Palawan. These are in addition to the expansion in our existing growth centers, all of which are being strengthened either through continued build-out or through redevelopment efforts. We also acquired parcels of land in Fairview in Quezon City, Mandaluyong City and Laguna where we plan to develop future mixed-use communities and provide growth platforms for our businesses.

Finally, we also embarked on our first direct international investment last year. Through an equity joint venture agreement with an entity owned by the Chinese and Singaporean governments, we are developing 19 residential towers inside Tianjin Eco-City, China. Apart from the prestige of being among the best developers in the region to be part of this new eco-city, the engagement also offers plenty of opportunities for us to learn and adopt best practices in construction management and procurement, which will enable us to be even more efficient in our domestic operations.

A DIFFERENT APPROACH

Our commitment to deliver more products, in more segments, and in more areas around the country is a complex organizational challenge. That we are well on track with respect to our "5-10-15" Plan is a testament to the success of new corporate and process-oriented initiatives that have been implemented over the past 12 months.

Across the organization, we have also been pursuing business transformation initiatives along key areas and processes. We have successfully completed the initial phase of the transformation of our subsidiary Makati Development Corporation into a full service construction, engineering and contracting company. We have also reorganized our hotels and resorts business through the creation of AyalaLand Hotel and Resorts Corporation to provide more focus and define the lines between the operational, developmental and landholding functions of the business. We have also instituted process changes that enable us to make decisions faster, shortened project planning cycles by streamlining building designs and reusing building design-templates where possible, and explored alternative building technologies to lower our costs and increase speed-to-market.

We also continued to integrate and embed sustainability principles and practices in our various projects. One of the areas we have focused on, in partnership with many of our suppliers, is green procurement where our purchasing practices have been recognized with the Green Procurement Practices Award at the *Greening the Supply Chain Conference and Exhibit* held last year at Bonifacio Global City. Our efforts have also been recognized internationally as *One Evotech* in NUVALI earned the prestigious Leadership in Energy and Environmental Design (LEED) Green Building Silver Certification for its sustainable location, efficiency in energy and water usage, use of sustainable construction materials and efficient design of its indoor environment.

We are fully committed to maintaining our current trajectory and building on this higher base of product delivery and performance. Our growth expectations for 2011 remain high across all segments and we are optimistic that our residential development, commercial leasing, and hotels and resorts businesses will continue to outperform and gain in market share. We also remain fully committed to continuous innovation in products, building technologies, processes improvements and sustainability as these will be critical to the successful delivery of our financial targets.

ANTONINO T. AQUINO
President and CEO

One Evotech in NUVALI is the first office building to earn a LEED Silver Certification

94%
average occupancy rate across all malls

24%
increase in consolidated revenues

OPERATIONS REVIEW

Ayala Land Inc. posted a record net income of ₱5.5 billion in 2010, 35% higher than in 2009. Consolidated revenues reached ₱37.8 billion, up 24% year-on-year.

Corporate cost control also improved with the continued drop in the ratio of General and Administrative Expenses (GAE) to revenues, from 9% to 8%. This resulted in better net income margin to 14% from 13% the prior year.

Residential revenues contributed the biggest share to total revenues, amounting to ₱16.6 billion in 2010, 16% higher year-on-year, as the combined value of bookings for all residential brands more than doubled to ₱24.0 billion. Ayala Land Premier generated revenues of ₱7.2 billion, up 10% and accounted for 43% of total residential revenues following the strong sales of *Park Terraces* (Makati) and *Serendra West Tower* (Bonifacio Global City) condominium units as well as *Santierra* lots in NUVALI.

Alveo and Avida also posted year-on-year revenue growth of 26% and 15%, respectively, with higher bookings from the success of new launches such as *Meranti* (BGC) and *Venare* (NUVALI) for Alveo and *Avida Towers* Cebu and Alabang for Avida.

Together with newly launched fourth brand Amaia, the company's four residential brands put a total of 10,115 units into market in 2010, more than three times the total in 2009.

In the leasing business, shopping center revenues amounted to ₱4.6 billion, 3% higher than the previous year. This was driven by the expansion in occupied gross leasable area (GLA) as the continued ramp-up of *MarQuee Mall* in Pampanga and the improved occupancy rate at Greenbelt 5 more than offset the closure of Glorietta 1. The impact of higher average occupancy rates across all malls, which rose to 94% from 92% in 2009, was partly tempered by the slight decline in average rental rates due to product mix, with lower lease rates in *MarQuee Mall* and Glorietta 5 relative to Glorietta 1.

Last year, 165,000 square meters of new retail GLA broke ground in various areas around the country in line with the expansion of the company's shopping center portfolio across a wider geography.

Meanwhile, revenues from the office leasing business amounted to ₱2.4 billion last year, 21% higher than in 2009. This was driven by the significant increase in occupied business process outsourcing (BPO) office GLA, which increased by 34% year-on-year, as the outlook and demand for BPO space continued to improve. An additional 102,500 square meters of new BPO office GLA were launched last year in anticipation of the improved outlook for the BPO sector.

The completion of BPO buildings in Baguio and Ilolio brought the company's total available BPO GLA to 272,676 as of end-2010, with an average occupancy rate of 70% compared with 55% a year ago (year-end lease-out rate at 88%). Average BPO lease rates also improved due to programmed escalations.

The company's hotels and resorts operations recorded ₱1.6 billion in revenues last year—33% higher than in 2009 mainly as a result of the consolidation of the El Nido resort operations in Palawan. With an increase in business travelers and tourist arrivals, blended revenue per available room (REVPAR) for InterContinental Manila and Cebu City Marriott Hotel also improved. Two new businessman's hotels were also launched in Bonifacio Global City and Davao to take advantage of the increasing number of business travelers into the country.

The Strategic Landbank Management Group (SLMG) and the Visayas-Mindanao group recorded ₱3.2 billion in revenues last year, 34% higher than in 2009, largely due to overrides on the successful sales performance of *Park Terraces* in Makati and *Santierra* in NUVALI, as well as some commercial lot sales in NUVALI.

The company's construction and property management services generated combined revenues of ₱7.2 billion in 2010, 94% higher than the ₱3.7 billion posted the previous year mainly due to strong contribution from third-party construction contracts.

The company spent a total of ₱20.1 billion for project and capital expenditures last year, 24% higher than prior year. This was mainly for residential development, which accounted for 48% of the total, followed by SLMG and the Visayas-Mindanao group with 17%. Shopping centers and hotels and resorts each spent 14% of the total, while corporate business accounted for the balance of 7%.

AmaiaScapes Laguna is Ayala Land's first economic housing project

launched 102,500sqm new BPO office GLA

Artist's rendition of Iloilo Technohub

CONSOLIDATED FINANCIAL HIGHLIGHTS
(in million pesos except per share amounts and ratios)

	2010	2009
Total assets	**878,146**	724,420
Stockholders' equity*	**81,031**	66,798
Revenues	**38,997**	34,395
Net income attributable to equity holders	**11,312**	8,516
Per share		
Earnings	**3.38**	2.62
Book Value	**22.78**	20.56
Return on equity	**15.6%**	13.0%
Top Shareholders		
Ayala Corporation	**33.6%**	33.5%
Ayala DBS Holdings, Inc.	**21.31%**	**21.32%**

*Stockholders' equity excludes noncontrolling interests

BPI

Financial Services

We began 2010 with cautious optimism amidst an uncertain global banking environment. In the face of this, we pursued our strategy of going *"Back to Basics"* focusing on deposits taking and lending, supplemented by our thrust towards *"Redefining Opportunities."* We are happy to report solid business results in our identified priority areas in 2010.

Our diversified and prudent lending approach delivered a 16% growth in loans, surpassing the industry growth of 8.9%. All market segments registered double-digit growth rates. Notwithstanding this strong performance, our non performing loans fell to a ten year low of 2%.

We encouraged our customers to save and invest in BPI. Hence, our deposits and trust assets increased by 24% and 11%, respectively, for a total funds growth of 18%. To entice customers to invest, BPI Asset Management lowered the minimum investment from ₱50,000 to ₱10,000. Furthermore, for our customers' convenience, Investment Funds can be viewed online through the Investment Account Inquiry of BPI Express Online.

Our strategic partnership in bancassurance through BPI-Philam produced two investment-linked products and six traditional life insurance products. These products were offered to our depositor base except for the *Credit Assist* product which is offered to our credit card holders. Total first year and single premium income amounted to ₱4.6 billion, 84% more than the previous year.

We continued to pioneer banking products and services to delight our customers. To augment our Bank Anywhere 24/7 Channels, we deployed Customer Transaction Assist (CTA) machines to 100 branches. This queue system with touch screen technology for entering transactions effectively cut queuing time by 30%. Moreover, we trained 842 Financial Advisors and 89 Lending Officers to respond to our varied and increasingly sophisticated customer base.

To support our strategic growth initiatives, we raised ₱10.0 billion in common shares through a stock rights issue to further solidify our capital adequacy ratio (CAR) to 15%. We also submitted the second version of our Internal Capital Adequacy Assessment Process (ICAAP) and held a second dialogue with the Bangko Sentral ng Pilipinas (BSP). Our ICAAP document defined an internal CAR of 10.25% and an 11% Management Action Trigger (MAT) which is 100 basis points above the current regulatory CAR of 10%.

In our thrust towards *Redefining Opportunities*, we successfully increased our number of customers by 700,000, to include overseas Filipinos. We have reached a milestone as the number of our overseas depositors hit the one million mark.

Moreover, we effectively broadened our market geographically and increased our penetration of small and medium scale enterprises (SME) in the provincial areas. Both our retail loans and corporate loans in these areas grew at a faster rate of 20%. To specially cater to the micro and small entrepreneurs, we introduced the *Ka-Negosyo* Business Loans with minimum loan amounts of ₱500,000 at BPI Family Savings Bank (BFSB). This product helped increase SME loan releases by 27% and doubled accounts at BFSB.

BPI Globe BanKO, our joint venture mobile microfinance bank with Globe Telecom and Ayala Corporation was officially launched in early 2010 and ended the year with ₱1.1 billion loans and 40 wholesale microfinance institutions.

BPI's *Sustainable Energy Financing* (SEF) program, in partnership with the International Finance Corporation (IFC), continued to be the forerunner in green financing with a portfolio of ₱2 billion. In August 2010, the SEF program was hailed as one of the winners in the prestigious *Group of 20 (G-20) SME Finance Challenge*, a global online competition launched by the G-20 leaders in Toronto, Canada.

To ensure BPI's sustainability, we continued to make BPI more accessible, more convenient and more cost-effective for more Filipinos. We are also proud that we are the only bank which published a sustainability report for two years in a row. Our second sustainability report for 2009, "*Banking on Sustainability*", was a self declared B level report, an upgrade from the C level report of 2008.

Finally, we closed the year with the signing of a Business Sale and Purchase Agreement with ING Bank, N.V. Manila (ING) to acquire ING's trust and investment management business and other related assets here in the Philippines.

The past year proved to be a good year for the banking industry and for BPI in particular. We had solid business results, as evidenced by our double-digit business volume growth and our second consecutive 33% net income growth. We approach 2011 with a positive outlook for the country, but remain watchful of new challenges and potential global economy contagion effects on the Philippine banking industry.

AURELIO R. MONTINOLA III
President

BPInoy provides banking services specifically for Overseas Filipinos and their families nationwide

OPERATIONS REVIEW

BPI delivered a record net income of ₱11.3 billion in 2010, a 33% increase for the second consecutive year. The profitability ratios mirrored this improvement with return on equity up from 13.0% to 15.6% and return on assets higher at 1.5% from 1.3%.

Net interest income grew by 10%, despite a five-basis point drop in spreads, with the expansion of ₱80 billion in average asset base. Non-interest revenues likewise increased significantly by 18% buoyed by the improvement in securities trading gain of ₱1.9 billion. With the exception of gains from asset sales, most major components of non-interest income likewise showed improvement including various fees and commissions, foreign exchange income, and rental income.

Operating costs were up by 7% on increased premises, regulatory, and transaction-related expenses. Together with the strong revenue streams, operating efficiency improved to a 53.8% cost-to-income ratio from 57.2% in 2009. Impairment losses amounted to ₱3.4 billion, 36% above the previous year, inclusive of ₱274 million set aside for the goodwill on the Prudential Bank acquisition.

Total resources stood at ₱878 billion, 21% more than last year as deposits grew by 24% to ₱720 billion. Intermediated funds totaled ₱1.2 trillion, 18% higher as assets under management likewise expanded by 11%. Net loans reached ₱379 billion with asset quality improving to 2.1% non-performing loan ratio from 2.8%.

The bank's market capitalization of ₱210 billion remained to be the highest in the industry, with its shares trading at a price-to-book multiple of 2.6x. Total cash dividends declared for the year was ₱6.1 billion at ₱1.80 per share, equivalent to a payout ratio of 54%.

In line with the bank's sustainability framework, BPI launched a unified campaign "*Let's Make It Easy*" and implemented a number of products and initiatives along this theme.

In addition to the CTA machines which made Branch Banking easy, the foreign currency offering of the bank was expanded to eight currencies with the addition of the Chinese Yuan. The Chinese Yuan product line-up includes interest-earning passbook savings and time deposit accounts. Foreign currency deposits are available in over 50 BPI branches nationwide.

Banking services were also brought closer to the clients. Overseas Filipinos were provided with additional access points for their remittance transactions with the opening of two new offices, one in Madrid and another in California. In addition, BPI participated in the Philpass system to enable access to other banks and lower remittance fees.

The Financial Markets Group expanded its geographic coverage of corporate clients with the creation of satellite offices. Specifically, an office in Davao was set up to service the foreign exchange requirements of Mindanao customers.

To make clients' investing experience more convenient, Investment Funds with BPI Asset Management can now be securely viewed online through the *My Portfolio* page of BPI Express Online, the bank's internet banking platform. This new facility provides investors with the latest market value of their investments, composition and details of their investment portfolio, and details and status of their transactions, as well as transaction history for the past 90 days.

Furthermore, BPI Asset Management was recognized as the Best Wealth Management House in the Philippines in *The Asset Triple A Investment Awards 2010* and the Best Onshore Funds House in the Philippines in *Asian Investor's 2010 Investment Performance Awards.* It had consistently earned the Gold distinction in the *Reader's Digest Asia's Trusted Brands* for the past four years. BPI extends convenience banking beyond the confines of the bank to its business partners. BPI 24/7 Banking launched the *Cashierless Payment System Program*, which allows BPI Depositors who are Globe Telecom Subscribers to pay their bills in any of the 24/7 Banking Channels, such as *BPI Express Online*, *BPI Express Mobile,* and *BPI Express Phone*. This program also services other Globe transactions such as reloading Globe, *Globe Tattoo* Broadband, *TM Prepaid* accounts, and *GCash* loading. BPI was awarded the Excellence in Best Mobile Phone Banking for 2009 by *The Asian Banker*.

BPI Capital, the bank's investment banking arm, scored another first as the Issue Manager for the Ayala Corporation Putable Bond. This seven-year bond allows investors to redeem their principal before the maturity date, a structure which was a first in the peso bond market.

BPI Family Savings Bank's *"Biz Clinics"* provide access to financing to microentrepreneurs

Telecommunications

CONSOLIDATED FINANCIAL HIGHLIGHTS
(in million pesos except per share amounts and ratios)

	2010	2009
Total assets	**130,628**	127,644
Stockholders' equity	**46,869**	47,709
Revenues	**65,548**	63,861
Net income attributable to equity holders	**9,745**	12,569
Per share		
Earnings	**73.63**	94.59
Book Value	**348.15**	354.50
Ratios		
Current ratio	**0.60**	0.55
Debt-to-equity ratio	**1.07**	1.00
Return on equity	**20.6%**	25.7%
Top Shareholders		
Ayala Corporation	**30.5%**	30.5%
Singapore Telecom International Pte Ltd	**47.3%**	47.3%

Globe Telecom ended 2010 with a strong fourth quarter performance, which was the highest in the company's history. This was highlighted by record postpaid revenue and subscriber additions of our core mobile business. Our prepaid brands improved across all key metrics, increasing in top-up and usage levels. Counterbalancing the maturing mobile business was our broadband and corporate data businesses, which continued to grow at an impressive rate.

This strong performance was a result of initiatives that instilled a more service-centric mindset as well as the execution of strategic imperatives and programs throughout 2010.

To recover revenue market share and grow our mobile telephony business, we revitalized the *Globe Prepaid* brand, and sustained the growth of *TM* and *Globe Postpaid*. We enhanced the appeal of our product promos such as *SuperAllTxt 20*, *SuperUnli* and *TM UnliCombo*, increased their accessibility, and improved the way our brands' propositions were communicated to their respective target markets. We intensified product promotions by shortening product development cycles and got products out to market faster. We were thus able to grow our active subscriber base, reduce churn, and gain share of wallet even amidst the challenge of a multi-SIM environment.

For our postpaid subscribers, we launched *My Super Plan* and *My Fully Loaded Plan*, the first and only personalized plans in the market, giving subscribers the power to pick and choose the services that are most relevant to them, and to change their plan choices every month. With the ever-increasing popularity and convenience of mobile internet surfing, we also introduced various mobile surfing promos, and add-on data plans for both personal and corporate *Blackberry* users to drive usage among our smartphone subscribers. Finally, last September, we introduced the *Apple iPhone 4* to the market. This has been our biggest and most successful device launch ever, with ongoing demand outpacing supply.

With our intent to provide a unique customer shopping experience with a differentiated level of customer service, we opened our flagship store in Greenbelt 4 in Makati last June. This full-service outlet is a one-stop-shop for our mobile, broadband, and landline customers. The new format aims to transform our store front from being essentially an after-sales payment center, to one that comprehensively attends to our customers' needs.

To ensure an end-to-end consistency of our customer service, we also introduced more ways for customers to get real-time support through *Talk2Globe* via *Twitter* to complement our 24/7 on-line chat service, *Globe Chat Assist*. We also recently improved our Hotline Interactive Voice Response system to simplify the call flow. Callers are now greeted by a new set of options that is clearer and allows faster assistance. Moreover, we upgraded our outsourced call center providers to ensure a higher level of service.

In recognition of our subscribers' loyalty to Globe and also to reduce churn, we launched *My Rewards, My Globe*, the industry's first rewards program for loyal prepaid and postpaid customers. Our customers earn points based on tenure, reload, and usage profile, which can then be used to redeem rewards.

To ensure better availability of our products and services, we strengthened our distribution set-up to enhance the focus of our distributors in developing their respective territories, and to improve their profitability. We also modified our sales force structures to ensure that our sales teams are properly sized, trained, and incentivized for performance. Last March, we launched the country's first loyalty club for telco retailers. The *KaGlobe Retailer Club* entitles qualified *Globe AMAX* retailers to various freebies and discounts from top merchants nationwide, in recognition of their outstanding sales performance.

With the proliferation of unlimited and bucket offers and the increase in voice and data traffic, we continued to upgrade and modernize our mobile networks to improve our network quality metrics. Simultaneous to the measurement of our network metrics, we also conducted customer surveys to know and improve our customers' experience.

On broadband, we continued our coverage builds and quality upgrades, while pursuing various revenue enhancing and cost-reduction initiatives to maximize utilization of existing capacities. The objective is to improve the profitability of the broadband business across all technologies.

A critical part of our transformation was the reiteration of our vision and mission which we now call as *The Globe Way*. This is the root of our transformation initiatives because it encompasses everything we want to be as an institution, and how we will remain relevant to our customers now and in the future. *The Globe Way* serves as our guide in building that unique culture that pushes us forward as one team, and makes us all proud to be in Globe.

Cognizant of our role in nation-building, we continue to be proactive in our corporate social responsibility and sustainability initiatives through *Globe BridgeCom* in such fields as education, environmental conservation and sustainability, micro-entrepreneurship, healthcare services and democratizing technology.

Related to democratizing technology, the Philippine Government now uses *Globe's GCash Remit* mobile money transfer service to disburse funds to families in remote areas under the government's *Conditional Cash Transfer Program*, which is a key component of the government's poverty alleviation agenda. Through *GCash Remit*, families in remote areas now collect their cash assistance immediately, in line with our vision to provide financial services to the unbanked and underbanked markets.

Through mobile and internet technology-enabled programs, our efforts to leverage our core businesses to advance the social and economic conditions in communities where we operate not only create value for our shareholders but for the broader community.

Going forward, our key priorities for our consumer business will continue to revolve around unique product offers that will drive usage and increase our share of spend among multi-SIM users, differentiate customer service, and improve network quality experience for our subscribers.

For broadband, our primary goal is to increase the scale of the business, lower churn through an improved network, drive higher ARPUs through more cross-selling, and lower costs through process re-engineering and better operating models. We will be selective in new capacity builds for broadband, putting greater emphasis on maximizing utilization of existing capacities.

Meanwhile, for our corporate data business, we aim to sustain the double-digit growth of that segment through customized, value-adding solutions, competitive pricing, and continued engagement with our enterprise partners.

Though our strong fourth quarter results provide good momentum, we see no let-up in the competitive intensity in 2011. Aggressive unlimited and bucket service pricing will continue to drive yields down and erode margins. Traffic will continue to grow but will not create a significant uplift in revenues, similar to what we see today. Competition remains very formidable, and will be made even more challenging with the expected entry of a fourth player. The broadband industry, meanwhile, will not grow as fast due to increasing market penetration.

Moving forward, count on Globe to keep a customer-centric focus, maintain the challenger mindset as we grow market share, and to consistently deliver attractive returns and value for our stakeholders.

ERNEST L. CU
President and CEO

Globe's launch of the iPhone4 was met with strong consumer interest

26.5M

mobile subscriber base, 14% higher than previous year

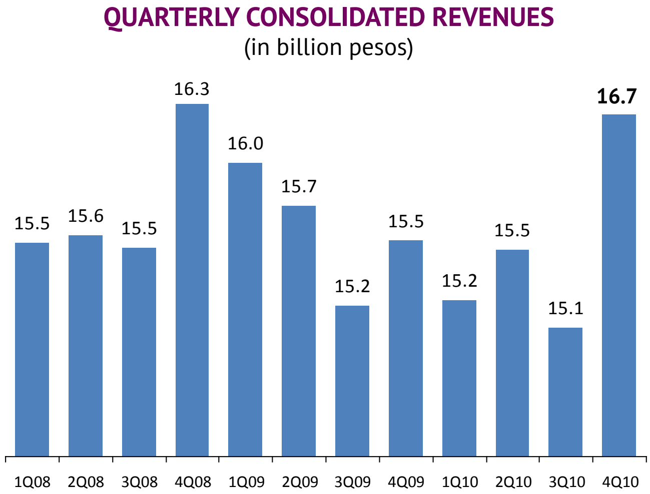
OPERATIONS REVIEW

Globe Telecom Inc. ended 2010 with consolidated service revenues of ₱62.6 billion, slightly higher than last year's ₱62.4 billion. This year's results include the impact of a one-time, upward adjustment of ₱526 million representing prepaid load credits that have either expired or have already been used up. Excluding this upward adjustment, consolidated service revenues for 2010 would have been ₱62 billion, just slightly below last year's level. The company's fixed line and broadband business continued to show strong growth, with service revenues rising 32% from last year. Mobile revenues, on the other hand, declined 5% from last year given the intense price competition in the market, the market's shift towards unlimited and value offers, and the impact of the strong peso on US-dollar-linked revenues.

Globe's broadband business achieved a milestone when it hit 1.1 million subscribers by year-end from only about 715,000 in 2009. This enabled the business to post record high revenues of ₱5.7 billion during the period, 75% higher than prior year's level. Meanwhile, revenues from the company's fixed line data business rose 15% as it continued to benefit from the strong demand from the offshoring and outsourcing industry as well as the trade, retail, and services sectors.

1.1M broadband subscribers

Ernest Cu welcomes guests at the opening of the Globe flagship store in Greenbelt 4



Service revenues for 4Q10 include a one-time upward adjustment of ₱526 million representing prepaid load credits that have either expired or have already been used up.

In order to stay competitive, Globe introduced innovative and pioneering services for its postpaid and prepaid customers. The company's breakthrough offerings, *My Super Plan* and *My Fully Loaded Plan*, which allow subscribers to customize their plans, have both contributed to the surge in Globe's postpaid clients. Full year net additions were at a record high with about 215,000 new subscribers in 2010, bringing total postpaid subscribers to nearly 1.1 million. The company revitalized its prepaid brands by offering a range of bucket and all-you-can voice and data services. Combined with the clean-up of lower-quality subscribers, these efforts translated to net subscriber gains for both *Globe Prepaid* and *TM* which closed the year with a SIM base of 13.8 million and 11.6 million, respectively. As a result, Globe's cumulative mobile subscriber base surpassed last year's mark of 23.2 million by 14% to end the period with 26.5 million SIMs.

With the growth of operating expenses outpacing the rise in revenues, consolidated EBITDA declined by 8% from ₱36.5 billion in 2009 to ₱33.5 billion in 2010. Mobile margins remained healthy at 63%, but the fast-growing albeit lower-margin fixed line and broadband business diluted consolidated EBITDA margin to 54% compared to prior year's 58%. Coupled with higher depreciation charges arising from the company's continued expansion of its mobile and broadband networks, full year net income declined by 22% to ₱9.7 billion from last year's ₱12.6 billion. Excluding foreign exchange and mark-to-market gains and losses, as well as non-recurring items, core net income stood at ₱9.1 billion compared to prior year's ₱12.0 billion.

Capital spending amounted to ₱19.5 billion in 2010. This included investments to upgrade and modernize the mobile and broadband networks, increase capacities to meet the surge in traffic as well as improve the company's customer service capabilities. At the end of the year, Globe had a total of 11,660 base stations and 6,698 cell sites to support its 2G, 3G and *WiMAX* services.

Globe's balance sheet remains strong. Its leverage profile remains conservative with well spread-out maturities and gearing levels well within debt covenants. Gross debt-to-equity ratio of 1.07 and debt-to-EBITDA ratio of 1.5 were in line with targets.

The strong financial position enabled Globe to support capital and operating investment requirements while sustaining its dividend payout to shareholders. During the year, Globe paid out a total of ₱10.6 billion in regular cash dividends, equivalent to 84% of 2009's net income and in line with its regular payout policy of distributing 75% to 90% of prior year's net income.

Water and Wastewater Services

Manila Water

CONSOLIDATED FINANCIAL HIGHLIGHTS
(in million pesos except per share amounts and ratios)

	2010	2009
Total assets	**48,620**	43,758
Stockholders' equity*	**19,815**	16,817
Revenues	**11,013**	9,533
Net income attributable to equity holders	**3,978**	3,231
Per share		
Earnings	**1.85**	1.31
Book Value	**9.39**	7.92
Ratios		
Current ratio	**1.09**	1.76
Bank debt-to-equity ratio	**0.71**	0.85
Return on equity	**20.0%**	19.0%
Top Shareholders		
Ayala Corporation	**43.1%**	31.5%
Mitsubishi Corporation	**8.31%**	8.32%

*Stockholders' equity excludes noncontrolling interests

The year 2010 was remarkable for Manila Water when new records were achieved, corporate objectives were met and significant shareholder value was built.

24/7 WATER DESPITE EL NIÑO

The onset of the 2010 El Niño reduced the company's water source allocation by 30%. Despite this, Manila Water continued to provide 24/7 water availability to 99.9% of its piped network. This was achieved through a reduction in non-revenue water (NRW) to an all-time low of 11% versus 15.8% the previous year. As a result, the East Zone concession did not have a single waterless barangay during the El Niño.

Despite water reductions at the source, Manila Water achieved sustained growth, resulting in the addition of 93,889 new households to its customer base, and a billed volume growth of 3.5% to 409.8 million cubic meters (mcm) from 396.0 mcm the previous year.

STRONG FINANCIAL PERFORMANCE

Our success in operations also translated to strong financial performance, with revenues increasing by 16% to ₱11 billion and net income growing by 23% to ₱3.9 billion, its highest level since we commenced operations in 1997. Consequently, we achieved a return on equity of 20% in 2010. Collection efficiency remained at 100% while accounts receivable days improved to 16 days in 2010, from 18 days in 2009.

DELIVERING ON COMMITMENTS

In line with our commitment to development, growth and sustainability, we invested ₱9.6 billion in total capital programs in the East Zone for 2010. This total capex investment resulted in the expansion and rehabilitation of 329 kilometers of pipelines all over the East Zone; increased wastewater treatment capacity by 114 million liters per day (mld) or a 7% increase year-on-year; and increased water supply capacity via reservoirs and pumping stations by 130 mld or 13% year-on-year.

Moving forward, we are looking to invest at least ₱10 billion per year to further improve the reliability of our overall operations, expand our water and wastewater networks, and develop new water sources to minimize the risks posed by relying on a single raw water supply source. These investments will also allow us to sustain our ability to meet, if not exceed, our regulatory targets set by the Metropolitan Waterworks and Sewerage System.

PURSUING WASTEWATER MANAGEMENT

As we continue to improve our water service levels, we are mindful of the need to contribute to the rehabilitation of water bodies in the metropolis. In line with the Three River Masterplan, which aims to revive Metro Manila's major water bodies—the Pasig, Marikina and San Juan Rivers, Manila Water operates 36 sewerage and septage treatment plants with a total treatment capacity of 135 mld.

Moving forward, other initiatives will include the commissioning of two new sewage treatment plants (STP), contributing an additional 15 mld in 2011. Manila Water expects to increase treatment capacity by 200 mld by commissioning three more STPs within the next three years.

23%

increase in net income reaching ₱3.9 billion

Manila Water continues to upgrade its facilities in the East Zone

NEW BUSINESSES BEYOND THE EAST ZONE

Building on our accomplishments, we are currently developing our growth platform beyond the East Zone concession. After the first full year in operation, Boracay and Laguna reported revenue growth of 12% and 17% respectively. Overall, the collective revenues of ₱223.9 million for Laguna Water and Boracay Island Water accounted for 2% of the 16 percentage-point increase in total revenues in 2010.

In Vietnam, our Leakage Reduction operations in Saigon Water Co. (SAWACO) Zone 1 have exceeded contract targets by 7,000 cu.m/day. In fact, our recovered 17,000 cu.m./day by the end of 2010 is impressively 3,000 cu.m./day within reach of our August 2011 target. Due to this performance, we have gained increased trust and confidence from our partner, SAWACO, paving the way for more business opportunities in Vietnam. We are also currently working with REE Corporation and Mitsubishi Corporation for the development of other projects in Vietnam.

Manila Water has secured a partnership with Jindal Water Infrastructure Limited, one of India's largest conglomerates, which will work with us for future projects in the states of Maharashtra, Rajasthan, and Gudjarat in India. Apart from this partnership, we have disclosed our participation in a bid to handle NRW reduction services for the city of Bangalore.

TALENT DEVELOPMENT

We have identified talent development as key to further accelerating our current and new business initiatives. Hence, we have been investing on our manpower base by upgrading the skills of our workforce. This in turn, will be complemented by partnerships with reputable organizations and external hiring of key personnel. This approach to talent development allows us to strengthen our capability to deliver our current commitments and at the same time prepare the organization and our people for the challenges ahead.

PURSUING GROWTH HERE AND BEYOND

Looking forward, we remain committed to deliver results as a key player in the region's water industry. As we capitalize on our success in the East Zone, we shall continue finding opportunities to replicate our business model in other areas outside the concession. Key to this strategy is our ability to develop partnerships in key cities in the Philippines as well as in select emerging markets in the region.

On a final note, all these efforts are constantly guided by our unwavering commitment towards the principle of the triple bottom line—perfectly aligning economic viability, social responsibility and environmental sustainability. Through our consistent focus, skills and core competencies, Manila Water is well positioned to meet the challenges of today and tomorrow.

GERARDO C. ABLAZA, JR.
President and CEO

Manila Water provided uninterrupted water service to 99.9% its customers despite El Niño

Tubig Para sa Barangay now serves 1.6 million people in low-income communities

OPERATIONS REVIEW

Despite challenges brought about by El Niño, Manila Water met its targets in 2010. The prolonged dry season reduced the company's raw water allocation by more than 300 million liters per day (mld). Nonetheless, the company maintained normal operations and provided 24/7 potable water service to its customers.

Continued improvements in network efficiency as evidenced by the drop in non-revenue water (NRW) to an all-time low of 11% allowed the company to maintain its service levels. Together with Manila Water's expansion initiatives, water sales grew by 3% on the back of an incremental 94,000 new households connected, most of which came from the expansion areas in Rizal, Taguig, Marikina, and Pasig. Billed volume reached a total of 409.8 million cubic meters (mcm) by year-end.

Net income in 2010 reached ₱3.9 billion and grew by 23% versus last year. This was supported by steady sales volume, which increased total revenues by 16% to ₱11.0 billion. A decline in depreciation costs further strengthened net income growth.

The company spent ₱9.6 billion in new capex investments in 2010, bringing cumulative investments in the East Zone to ₱42 billion since 1997. The company also closed a US$150 million loan agreement with four international banks which was guaranteed by Nippon Export and Investment Insurance (NEXI), a Japanese export credit agency under the supervision of Japan's Ministry of Economy, Trade and Investment. The guarantee, which is the first of its kind in the world to be issued for a water project, affirms NEXI's belief in Manila Water's sustainability efforts and in its financial capacity. The loan will be used to finance the company's capital expenditure plans for the expansion and further improvement of the water supply facilities and distribution network in the East Zone.

Manila Water continued to grow the business beyond the East Zone. Building on the acquisition of a concession in Laguna, Manila Water formed Boracay Island Water Company. Combined, these concessions currently account for around 2% of revenues but with a potential to expand moving forward. Overseas, in addition to operations in Vietnam, the company envisions to build a dominant position in the Asian region through partnerships with key regional players.

The company's achievements were recognized by prestigious international award-giving organizations. The International Water Association awarded the company the grand prize for operations/management in their Project Innovation Awards for implementing creative approaches in reducing system losses, resulting in huge benefits to its customers. The "Water Efficiency Project of the Year" was bestowed by the subscribers of *Global Water Intelligence and Water Desalination Report*. Top finance publication *FinanceAsia* honored the company as the Best-Managed Mid-Cap Company for the Philippines for the second time, while *Coporate Governance Asia* recognized the company as the Best in Corporate Governance in the country.

ISUZU AUTOMOTIVE DEALERSHIP, INC.
ALABANG • CAVITE • CEBU • MANDAUE • PASIG
A member of the Ayala group of companies

HONDA
Honda Cars Makati, Inc.
MAKATI • PASIG • ALABANG • SHAW • GLOBAL CITY
A member of the Ayala group of companies

Automotive

Arnold J. Victorio and Joffry R. Buniel,
champions of the 5th Isuzu Service Skills Olympics

CONSOLIDATED FINANCIAL HIGHLIGHTS
(in million pesos)

	2010	2009
Revenues	**11,460**	10,817
Consolidated net income	**295**	229
Car unit sales	**11,440**	11,394
Return on equity	**11.0%**	8.5%

Ayala dealerships account for 7% of nationwide car sales

The Philippine automotive industry had a banner year in 2010 as new vehicle sales soared to an all-time high of 169,972 units. Ayala Automotive Holdings Corporation (AAHC) accounted for 7% of total industry sales and is one of the country's largest vehicle retail companies. Its strong dealership network continues to deliver quality leadership and service excellence, affirming its commitment to total customer satisfaction.

The Philippine automotive market is expected to be more challenging and competitive in 2011. With the entry of new brands in the local industry, we expect a more extensive range of product offerings, more aggressive pricing, and intensified promotional activities. Moreover, the full impact of the recent natural calamity that hit Japan on March 11, 2011 will have yet to be assessed given the dominance of Japanese auto brands in the country. But our view at this early stage is that any supply gap that may arise as a result of manufacturing disruptions may be filled, as most of the Japanese automotive players have integrated facilities within the ASEAN region with complementary component suppliers.

We are likewise encouraged by the government's move to support the auto industry. The government's new Motor Vehicle Development Plan (MVDP) under Executive Order 877-A, demonstrates its efforts to strengthen the local automotive industry and curb pre-owned vehicle importations into the country. While discussions on the implementing guidelines have created some differences between assemblers and pure completely built-up unit importers, we are confident that they will come to an agreement that will ultimately lead the country towards a higher level of competitiveness in this liberalized business environment.

Ayala Automotive is ideally positioned to take full advantage of the opportunities from the expected take-off of the local auto industry. The Honda and Isuzu brands have a strong franchise and continue to enjoy high market acceptance. As we approach the 20th year of our Honda dealership operations and the 15th year of our Isuzu dealerships, we reaffirm our commitment to work closely with our principals, Honda Cars Philippines Inc. and Isuzu Philippines Corporation to better position our current line of products and services.

As we continue to fortify and grow our current businesses, we also look into building on our current portfolio of auto brands to enhance our competitiveness in the market. In the same manner, we remain steadfast in our commitment to our customers and stakeholders as we look ahead to achieve more milestones. Drawing from our financial and organizational strength and the strong brand equity of our strategic partners, AAHC will continue to be a key player in the Philippine automotive industry.

RUFINO LUIS T. MANOTOK
Chairman and CEO

OPERATIONS REVIEW

Total automotive industry sales in 2010 reached a record 169,972 units. This was 28% higher than the prior year and surpassed the previous record of 162,000 units set in 1996. The growth was largely fuelled by the launch of new models and variants, affordable financing options, and intensive marketing activities and advertising campaigns.

Commercial vehicles (CV) accounted for 65% of industry sales or 110,672 units. This was 28% better than the 86,346 units in 2009. Asian Utility Vehicles and Sports Utility Vehicles dominated the CV segment, each taking up a 36% market share.

Passenger cars (PC) grew by 29% and accounted for 35% of the total automotive market as the market continued to shift to smaller displacement engines.

Honda Cars Philippines Inc. (HCPI) slipped to fourth place in the local automotive market but retained its strong position at second in the PC segment. It registered sales of 16,604 units for the year, 3% behind 2009 level. Its market share contracted from last year's 13% to 10% as a result of inadequate supply in the first half of the year and end-of-cycle design of most of its vehicle models. Sales of *Honda City* reached 8,914 units and accounted for 54% of Honda sales. *Civic* and *CR-V* models had a 17% and 14% share in total network sales. The Ayala Honda dealerships accounted for 50% of total HCPI unit sales and captured four out of the top six positions among the dealers in the country with Honda Cars Alabang as the leading dealer in the network. Honda Cars Cebu Inc. sustained leadership in the provincial network.

Isuzu Philippines Corporation (IPC) sold 10,695 units, 16% higher than last year. This was driven by the strong sales of the *Crosswind* with 5,772 units sold in 2010, 19% higher than 2009 sales. Isuzu's market share, however, declined to 6% from 7% the prior year. The Ayala Isuzu outlets recorded lower market share of 30% but remained the largest Isuzu dealership group in the country.

Combined, the Ayala dealerships accounted for 7% of total auto industry unit sales. Ayala Automotive Holdings Corporation's consolidated income reached ₱295 million, up 29% from prior year.

In support of local automotive industry players, the government crafted and issued Executive Order (EO) 877-A or The Comprehensive Motor Vehicle Development Program (MVDP). The new MVDP aims to strengthen the local industry in light of the heightened competition as a result of the elimination of car and part tariffs from trade pacts under the ASEAN Free Trade Agreement and the Japan-Philippines Economic Partnership Agreement. The MVDP ultimately hopes to bring assemblers and importers together and steer the Philippine auto industry towards regional competitiveness amidst a highly liberalized trade environment.

The year 2011 will be increasingly challenging. Industry players are expected to expand their product lines and launch more aggressive marketing and sales promotions. In view of this competitive landscape, AAHC will continue to widen its reach and improve access for customers through more service outlets in strategic locations, an expanded scope of services, and continuous upgrade of existing facilities and service equipment in order to be more responsive to customers' needs.

Electronics

The electronics manufacturing services (EMS) industry rebounded in 2010 from a contraction in 2009 despite unusual levels of uncertainty in the supply and demand for raw materials and end-products. Instability in the global economy dragged the market demand for electronic products in the first half of 2010 but production volumes began to rise in the latter half as end-consumers gained more buying confidence.

Under these operating conditions, IMI posted US$412.3 million in consolidated revenues, a 4% growth year-on-year bolstered by the sustained strong performance of its China operations and incremental revenues from its acquisition of PSi Technologies Inc. The combined China and Singapore operations generated revenues of US$248.8 million, accounting for 60.4% of total revenues. This represents a 25% year-on-year growth due mainly to larger orders from major customers in the telecommunication infrastructure, industrial, and consumer electronics markets. Our acquisition of a 56% stake in PSi Technologies in October 2010 generated incremental sales of US$19.3 million in the fourth quarter of the year. This acquisition places IMI at the forefront of the growing convergence of power semiconductor assembly and test services (SATS) and EMS as it allows IMI to offer optimized power solutions in multichip modules (MCMs) and serve emerging markets like electric vehicle, smart power, and smart sensor technologies.

While diversification across regions and market segments shielded our revenues from the impact of isolated business downturns in 2010, our net income after taxes declined to US$4.7 million from the previous year's US$10.1 million. However, operating income was at US$7 million excluding non-recurring items, a 27% growth over the 2009 level of US$5.5 million.

CONSOLIDATED FINANCIAL HIGHLIGHTS
(in million U.S. dollars except per share amounts and ratios)

	2010	2009
Total assets	**342**	302
Stockholders' equity*	**171**	167
Revenues	**412**	396
Net income attributable to equity holders	**5**	10
Per Share		
Earnings	**0.002**	0.006
Book Value	**0.10**	0.11
Ratios		
Current ratio	**1.2**	1.9
Debt-to-equity ratio	**0.33**	0.29
Return on equity	**2.8%**	6%
Top Shareholders		
Ayala Corporation	**67.8%**	67.8%
Resins, Inc.	**16.81%**	16.93%

*Stockholders' equity excludes noncontrolling interests

IMI delivers customized test equipment to its strategic customers

Our Philippine operations continued to suffer from declining consignment or captive business with Japanese original equipment manufacturers (OEMs), resulting in lower factory and equipment utilization. The rising costs of materials and labor in China and the appreciation of the Philippine peso also adversely affected earnings.

In response to these challenges, we intensified our cost-cutting and operational streamlining initiatives, and entered into a simple dollar forward hedging. Thus we managed to post a positive net income after taxes with a return on equity of 3% and an EBITDA margin of US$27.8 million or 7%.

IMI ended the year with a cash balance of US$40.0 million. Debt-to-equity ratio remained at a healthy level of 0.33:1.0 with adequate credit facilities to support funding requirements for its expansion program.

Market instability will remain a major industry concern in 2011. Tight supply chains will continue to affect the activities of OEMs and EMS providers alike. Moreover, intense competition among OEMs will negatively affect the market projections and pricing strategies of EMS providers.

On the other hand, the growth of emerging sectors particularly in renewable energy, automotive, industrial, and medical electronics provide much optimism for OEMs and EMS firms in 2011. Quite a number have started to explore alternative low-cost locations beyond China. Some have also begun to manufacture closer to their markets in industrialized nations to reduce product-transit time and expense as well as improve responsiveness to customers. As these trends come into play, however, China continues to represent a huge consumer market given its large and growing consuming middle class.

Given these challenges and opportunities, EMS providers like IMI are compelled to continuously re-engineer businesses in order to thrive. For our part, we are restructuring our business processes and retooling our workforce in order to seize opportunities in diverse markets amid the evolving business environment. We have embarked on an organizational structure that utilizes cross-functional customer-focused teams. This is intended to make each region, division, section and individual accountable and empowered to create a customer experience that will define IMI's uniqueness relative to its peers in the industry.

While we continue to engage in complex high-volume manufacturing, we are strengthening our capability to serve low-volume, high-mix, high-margin programs prevalent in the automotive, industrial and medical electronics markets. After establishing IMI Energy Solutions' facility in Fremont, California in 2010 for the development and prototyping of solar or photovoltaic (PV) modules, we are forging ahead with PV module and panel assembly in 2011.

In 2010, we expanded to Chengdu in southwestern China. This was part of our strategy to bring our services closer to OEMs requiring greater capacity in China to supply a large domestic market as well as to manufacture for export markets. As regional manufacturing picks up, we seriously consider expanding our operations to locations near our customers in Europe and the United States for cost and responsiveness advantages.

We are establishing the IMI University to enhance leadership and technical skills needed to better serve our target markets. Its core and functional courses will enhance competencies of our workforce and ultimately empower them to make work improvements and increase productivity. Likewise we remain focused on creating an environment where employees are empowered to work together to respond more briskly to the ever shifting market environment.

After our listing by way of introduction on the Philippine Stock Exchange in January 2010, we have also strengthened our commitment to good governance and prudent execution of our growth strategies. This is equally an integral component of our strategy to respond appropriately in the face of opportunities and challenges brought by a global economy that increasingly depends on electronic devices to meet lifestyle needs and choices.

ARTHUR R. TAN
President and CEO

OPERATIONS REVIEW

SURVIVING A DIFFICULT YEAR

Unstable end-market demand, tight materials supply, and rising costs of doing business continued to put pressure on IMI's operations in 2010. Notwithstanding these conditions, IMI managed to post revenue growth and positive income.

The increase in total revenues was due largely to higher revenues generated from a key European OEM as a result of steady improvement in demand in the automotive and consumer electronics industries.

The strong performance of the China operations compensated for the contraction in sales of the Philippine operations. A leading Chinese OEM in telecommunications continued increasing its orders for infrastructure devices from IMI as it retained its dominant position in the Chinese market and increased its market share in regions outside China. Likewise, a customer in smart grid products dramatically increased its volume requirement as its proprietary technology gained accelerated market acceptance.

IMI Laguna, on the other hand, was set back by the closure of the liquid crystal display assembly operations for a Japanese customer after the latter sold its interest to another company with its own international manufacturing operations.

Materials supply continuity and assurance remained erratic. In dealing with the tight materials supply situation, we have created a Demand Management Team to consolidate several front-end materials activities (order loading, planning, and production control) to allow us to streamline the entire demand management process into a seamless activity, thus affording us speed in buying execution.

To cushion the impact of the lower sales volumes in the Philippines and the rising cost of labor in China, we intensified our company-wide cost-cutting initiatives which included Lean Manufacturing, Manpower Rationalization, and Energy Conservation. While the Philippine operations had to grapple with the peso appreciation against the U.S. dollar, our decision to engage in dollar forward hedging in 2009 resulted in a US$2.3 million foreign exchange gain in 2010. All these efforts resulted in IMI achieving a net income of US$4.7 million for the year.

President Benigno S. Aquino III visits the IMI Energy Solutions facility in California.

IMI ensures that quality control is enforced in its operations

SEEDING THE FUTURE

IMI's Design and Development Group undertook the following platform development activities in 2010. The Singapore team developed a grid-connected solar panel inverter platform. Built for high-reliability and high-efficiency, the inverter is suitable for homes and small establishments. The Philippine team developed its second-generation rear-view and front-view automotive cameras for driver assistance. Capitalizing on our expertise in bare die mount and optical test development, these platforms allow us to deliver a complete, cost-effective camera solution to automotive OEMs. Several automotive suppliers have started to engage IMI in automotive camera development projects.

IMI's Global Test and Systems Development Group delivered in 2010 customized test equipment to virtually all of IMI's strategic customers. Moving forward, IMI plans to leverage the engineering capabilities of the group and combine it with a low-volume high-mix manufacturing team to form a new business unit to provide manufacturing solutions for OEMs with large, complex products such as semiconductor manufacturing and test equipment.

IMI USA in Tustin, California has expanded its development and prototyping capabilities, specifically in MCM (Multichip Module) packaging and MEMS (Micro-Electro-Mechanical Systems) technology. Both MCM and MEMS are important facets of modern electronic miniaturization. The Tustin team will be working with the different design groups of IMI and PSi to come up with leading edge platform solutions for diverse markets.

The IMI Energy Solutions in Fremont has been working with several customers on prototyping PV panels for customized applications like the top of golf carts and alternative roofing materials. The Fremont team will be involved in setting up IMI's first solar panel production facility. They will also be working closely in supporting IMI's Design and Development team in developing platforms for controlling the power generated by solar panels.

Business Process Outsourcing

Our strategy is to acquire or invest in global business process outsourcing (BPO) companies that have the potential to become a Global Top Five leader in attractive sectors and can leverage the Philippines.

All of our investee companies made progress with their growth objectives. Stream grew its revenues by 37% to US$800 million, as it completed the first full year of its merger with eTelecare, and became one of the largest global voice BPO companies. Integreon grew its revenues by 41% to US$87 million and is now the leading global provider of legal support, research and business services to law firms, financial institutions and corporations. Affinity Express grew its revenues by 15% to US$15 million and continues to be the multi-shore leader in the emerging advertising and marketing production services sector. HRMall grew its revenues by 24% to US$2.6 million and has become a leading provider of outsourced HR services in the Philippine market.

Although the global environment remained challenging in 2010, economic activity in our main target markets of the U.S. and Europe improved in the second half of the year, and LiveIt's BPO companies experienced an improving trend in both revenues and EBITDA. On a combined basis, revenues grew to US$473 million in the second half of 2010, up 47% over second half of 2009 and 9% over first half of 2010, and EBITDA grew to US$39 million in second half of the year, up 41% over the same period the prior year and 65% over first semester of 2010.

Looking ahead to 2011, we are cautiously optimistic that the advanced economies will continue to improve moderately, which should benefit our companies. Although we expect competition to remain strong, and consider a weakening dollar to be a real risk, we expect that, overall, we will experience a continuing improvement in revenues and profitability as our companies reap the benefits of greater scale and efficiency.

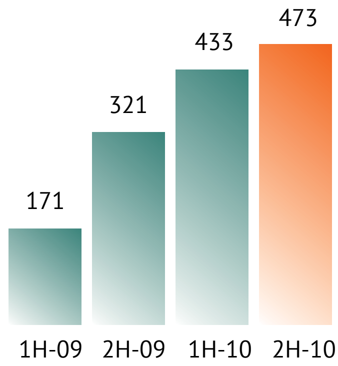
Finally, we expect the ongoing trend of consolidation in the BPO sector to continue, which may result in attractive opportunities for our companies. We are also looking carefully at opportunities in the Healthcare, Finance and Accounting sectors, which are both experiencing high-growth rates and are well suited to the Philippines.

ALFREDO I. AYALA
Chief Executive Officer

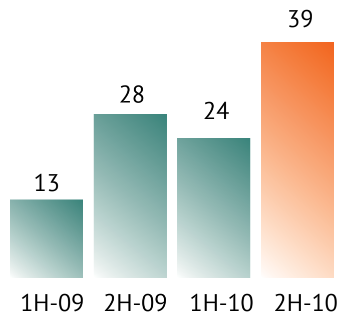
US$906M

combined revenues of BPO businesses in 2010

COMBINED REVENUES
(In million US$)



COMBINED EBITDA
(In million US$)



OPERATIONS REVIEW

In 2010, combined revenues of the BPO businesses increased by 84% to US$906 million, and combined EBITDA increased by 55% to US$63 million, primarily because of the merger between eTelecare and Stream in October 2009.

LiveIt's share of revenues was US$274.5 million, 21% higher than in 2009, and its share of EBITDA was US$14.4 million, 11% lower than in 2009. LiveIt's share of revenues and EBITDA was reduced in Stream because of the merger between eTelecare and Stream, and in Integreon because of the investment by Actis.

LiveIt's net income improved to US$4.9 million versus last year's loss due primarily to the net revaluation gain of US$37 million from Integreon and Stream.

STREAM GLOBAL SERVICES

In 2010, Stream's revenues grew by 37% to US$800 million, reflecting the full year impact of the merger with eTelecare, which was completed in October 2009. The combination created a leading customer relationship management ("CRM") BPO company.

Stream provides sales, customer care and technical support services to Fortune 1000 companies. Its service programs are delivered by a highly skilled multilingual workforce of over 30,000, capable of supporting over 35 languages across 50 locations in 22 countries, including the Philippines, its largest delivery location with over 10,000 employees.

Stream serves leading companies in its target markets of North America, Latin America, Asia, Europe, Africa, and the Middle East. In the past year, it won several new logo clients in the computing, telecommunications, media distribution, healthcare, and travel industries.

Stream's commitment to quality and value has been recognized throughout the industry, making Stream one of the most honored call center service providers in the world. In 2010, Stream received recognition and awards from several of the most influential associations and media sources in the outsourcing industry, including the International Association of Outsource Professionals (IAOP), International Quality and Productivity Center (IQPC), Customer Interactions Solutions Magazine and the Asian-Oceania Computing Industry Organization (ASOCIO).

Stream's financial results improved significantly in the second half of 2010 versus the same period last year and relative to the first half of 2010. As the global economy recovered, Stream achieved higher revenues as the transaction volumes of its existing clients increased and new clinets ramped.

INTEGREON, INC.

Integreon's revenues grew by 41% to US$87 million in 2010. This was mainly due to the full year impact of its contract with Osborne Clarke, which is the first U.K. onshore shared services center for the legal sector launched in March 2009, its acquisition of ONSITE3 ™ in April 2009, and its acquisition of Grail Research in October 2009. These complemented its organic growth.

Integreon continues to be the leading global provider of legal support, research and business services to law firms, financial institutions and corporations with close to 2,000 associates in its U.S., U.K., India, and Philippine sites. Integreon expanded its global footprint, with new offices in Japan and China and an expanded facility in Bristol, U.K. The company also opened a state-of-the-art electronic evidence laboratory in Los Angeles that augments the company's existing industry-leading labs in New York and Washington, D.C.

Integreon achieved several key customer wins in 2010, including a 10-year multi-service contract with U.K. law firm CMS Cameron McKenna which will commence in 2011 and is the legal industry's largest outsourcing agreement ever. Other marquee customer engagements won include deals with leading U.S. software firm Microsoft for legal support services; major U.K. law firms Foot Anstey for library and information services; Lewis Silkin

Integreon is a leading knowledge process outsourcing provider

for IT project consulting; and professional research services engagements with mobile communications industry organization GSMA and leading beauty company Estée Lauder.

Integreon garnered further industry recognition in 2010. Leading analyst firm Gartner recognized the company as a "Cool Vendor" in business process services; Indian research organization ValueNotes ranked the company as a pacesetter among Legal Process Outsourcing (LPO) providers; and *The Black Book of Outsourcing* recognized Integreon as the leading provider of Knowledge Process Outsourcing (KPO) for the fourth consecutive year. Integreon was also winner of the *2010 LPO Awards* and achieved a *LexisNexis Concordance Partners in Excellence* Award.

In February 2010, Actis Partners, an emerging markets private equity specialist, invested US$50 million to acquire a 37.68% stake in Integreon which diluted LiveIt's ownership stake to 56.36%.

AFFINITY EXPRESS

In 2010, Affinity Express's revenues grew by 15% to US$15 million and margins improved. It achieved leading provider status in outsourced advertising production of both print and interactive services for multi-media publishers. This was based on the company's innovative "cloud computing" (Internet-based) workflow, bundled with speed of delivery, support, scalability and predictable client return on investments. It also expanded its roster of recognizable North American clients in all segments, with agreements that have recurring revenues and high switching costs.

To increase its market reach, Affinity Express expanded its service offerings by introducing new interactive, pre-media and editorial support services. In order to support its service expansions, it completed the first phase of its relocation into a world-class special economic zone campus in Pune, India, which complements its new facilities in UP TechnoHub in Quezon City, Philippines.

Affinity Express was also named in to the *2010 Global Services 100,* which identifies the companies that define outsourcing. It is the only provider on the list which is 100% dedicated to advertising and marketing production services.

HRMALL, INC.

In 2010, HRMall grew revenues by 24% to US$2.6 million in 2010 largely due to the increase in employee-users from 20,000 to 27,000. HRMall also achieved improved margins.

HRMall currently provides outsourced HR services to clients across a wide variety of industry sectors. These include telecommunications, banking and financial services, utilities, BPO, real estate, retail, construction, property management, management services and high-tech manufacturing, with clients ranging from 100 to 12,000 employees, with either full-scale Enterprise Resource Planning (ERP) implementations or pre-configured Software-as-a-Service (SaaS) type solutions.

In 2010, HRMall won its first overseas contract, with one of the largest shopping mall developers, owners and managers in Asia, based in Singapore. In addition, its new *HRisReady* package, a pre-configured HR and Payroll solution, was piloted in two new local logo accounts.

LiveIt companies continue to be competitive in the outsourcing business

AG Holdings

A member of the Ayala group of companies

International Real Estate

NET ASSET VALUE
(in million U.S. dollars)

	Value as of December 31, 2010
Asia	98.1
USA	30.7
Net Other Assets/ (Liabilities)	(37.9)
TOTAL	90.9

The year 2010 was a significant crossroad for AG Holdings. During the past year, we refined our overall strategy to reflect the realities and opportunities in the international property markets.

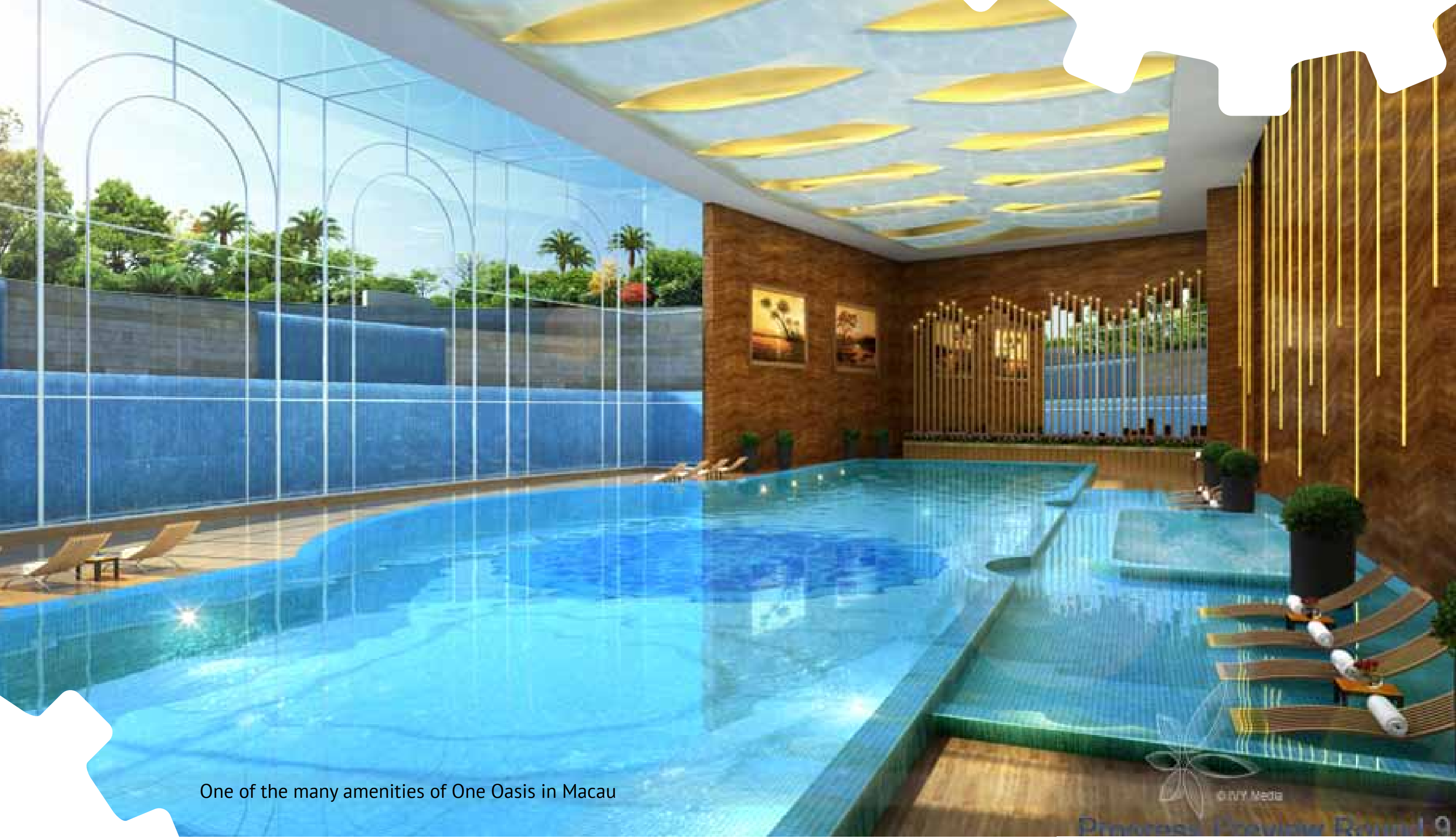
In the United States, we intend to continue to build on the success of our recently-inaugurated project—the *Seasons Marketplace* at Landess Avenue Neighborhood Center in Milpitas, California. The Center has proven the marketing viability of the Asian community center concept and we look to build on the early success by adding more tenants and increasing patronage and traffic in the coming year.

Additionally, we assessed the remaining intrinsic values of three other US projects. The carrying values of these investments were reduced to a level that best reflects what can be realized from these projects. We aligned our sales and marketing efforts with current market conditions. Furthermore, we have also injected the necessary management and financial resources. These actions will enable us to realize the value that remains in these projects.

In Asia, AG Holdings took a significant step in reorienting its role to fully capitalize on the growth opportunities in the region. In a 2010 transaction, done in early 2011, we exchanged our ownership interests in the management company and general partnership of ARCH Capital for an increased investment stake in The Rohatyn Group (TRG). We believe that we will benefit from the combination of the scale and global investment expertise that TRG can contribute and the regional know-how of ARCH Capital. Moving forward, we are now among the largest investors in TRG funds and we will be working with TRG to realize significant value from these interests. We continue to be an anchor investor in ARCH Fund I and expect to realize attractive returns from the ongoing projects in China, Macau, Singapore, India, and Thailand.

As we have streamlined our portfolio and stabilized operations, we are ready to face the opportunities as well as the challenges in the global real estate markets.

DELFIN C. GONZALEZ, JR.
Managing Director



One of the many amenities of One Oasis in Macau

OPERATIONS REVIEW

The year 2010 continued to be challenging for AG Holdings' business in the U.S. with Asia providing a silver lining. In line with this, AG Holdings initiated efforts to rationalize its operations in the U.S. and Asia to better position itself from a cost and management perspective. Moving forward, AG Holdings is in a better position to continue managing its existing investments and capitalize on selected opportunities that may come its way.

ASIA

ARCH Capital Management, our Asian regional property fund management business fully divested in 2010 the investment in Foshan, China—a 1,211-unit residential development in one of the more affluent cities in Guangdong province. Upon exit, the investment enjoyed a substantial return, achieved over an investment period of 16 months from closing. The exit occurred eight months ahead of plan.

Moving quickly to capitalize on opportunities, ARCH successfully closed its first investment in Singapore in 2010—an exclusive two-tower, 34-unit fully–developed, freehold condominium project in one of the most prestigious residential districts in the island nation. ARCH has moved quickly and as of the end of 2010, has already leased out more than half of the available units.

The *Concordia* venture in Macau continues to be well received and has sold 97% of the Phase 1 residential units that were launched in April 2010. The sales launch for Phase 2 is now being targeted for the first quarter in 2011. The ARCH projects in India and Thailand also continue to register consistent and steady sales and construction progress is on schedule.

Finally, in addition to the investment in Singapore, ARCH also committed to another investment in China, which will result in participation in two development projects in the provinces of Shenzen and Chengdu.

NORTH AMERICA

AG Holdings, through its U.S. subsidiary, successfully opened and inaugurated the *Seasons Marketplace* at Landess Avenue Neighborhood Center located in Milpitas, California in May 2010. Located near a large Filipino and other Asian communities in the Silicon Valley, *Seasons* has attracted locators that address its needs.

Its other investments however continued to experience the weakness in the U.S. real estate market. Its residential and retail projects continued to be affected by slow sales as a result of credit contraction and high unemployment. Property values have also declined significantly since the launch of these projects. However, as more residential units have been launched, more sales have been booked in 2010. Leasing activity was also muted as the weak consumer spending continued to affect business prospects in the retail commercial space. As a result of these factors, AG Holdings booked further provisions on its U.S. investments to reflect the realizable values of these investments.

OUTLOOK FOR 2011

The year 2011 will continue to be challenging but with better opportunities in Asia. AG Holdings will seek to recover the value of its remaining U.S. investments as the property market enters the recovery phase. Modest improvements in the economy will help generate sales. In Asia, AG Holdings will be looking to continue to benefit from the growth story of the region. To this end, AG Holdings will look to capitalize on the most effective and strategic avenues available, through ARCH and other vehicles, to crystallize the value of its investments.

Ayala Foundation

Social Commitment

The strong sense of optimism and hope that permeated the country in 2010 following the orderly turnout of the national elections gave us additional impetus to accelerate our programs to reach an even greater number of Filipinos, especially those at the base of the economic pyramid. The success of this national exercise elucidated the capacity of Filipinos to work in unity toward a common goal and indicated their hope for positive change for their country.

Ayala Foundation Inc. (AFI) shares this hope and this same desire for social transformation through unified action and this has fueled all of the Foundation's activities. Our pioneering efforts in the field of consortium-building reached several high points—proving that all sectors of society, even business competitors, could work together harmoniously, and bring about positive change in society.

President Benigno Aquino III was the keynote speaker of the Philippine Development Forum Gala. With him are BPI president Aurelio Montinola III, AFI and PhilDev president Victoria P. Garchitorena, and Ayala president and COO Fernando Zobel de Ayala.

In particular, the *Gearing up Internet Literacy and Access for Students (GILAS)* consortium successfully connected 45 percent of the country's public high schools to the World Wide Web—exposing millions of Filipino high school students to the wealth of knowledge and educational materials available online, and at the same time giving them the opportunity to hone their computer skills.

This milestone would not have been reached without the commitment of the *GILAS* stakeholders—the Department of Education; provincial, municipal, and city governments; community members; various business organizations; nongovernment and private groups; overseas Filipinos; and teachers and students.

Partnerships also made it possible for Ayala Foundation USA (AF USA) to transform itself into the Philippine Development Foundation (PhilDev), under the leadership of Filipino-Americans. While still "passionately committed to sustainable and equitable development in the Philippines," PhilDev will give special attention to the country's need to improve its human resources and physical facilities in science and technology to address the global market for its products and services. The end goal is to attract investors and entrepreneurs in order to create value and generate jobs.

This year, we reached another high point in our quest to foster unity and collaboration among various stakeholders. *MyLibrary,* a project initiated by the Filipinas Heritage Library, aims to build or rehabilitate community libraries across the country, and to promote a culture of reading among Filipinos, particularly the youth. In its first year, *MyLibrary* received the active support of business organizations, local government units, and communities for the rehabilitation of two community libraries—in Tiwi, Albay, and San Pascual, Batangas. More community libraries are in the process of development.

As AFI enters its 50th year in 2011, we take pride in our successes, and look forward to the challenges of development still awaiting us. The vision of improving the quality of life of Filipinos is a lofty one and sometimes seems unattainable. We are, however, convinced that in harnessing the power of partnerships, we have made a significant difference in the lives of millions of Filipinos. We therefore continue to commit ourselves to building and strengthening our partnerships for the next 50 years.

VICTORIA P. GARCHITORENA
President

GILAS has connected 3,040 public high schools to the Internet since 2005

OPERATIONS REVIEW

In 2010, Ayala Foundation Inc. (AFI) intensified its work in its key program areas: education and leadership development; community development; technology and entrepreneurship; environment and sustainability; and art, history, and culture.

EDUCATION AND LEADERSHIP DEVELOPMENT

On its fifth year, the *Gearing up Internet Literacy and Access for Students (GILAS)* consortium connected 523 public high schools to the Internet and facilitated the training of teachers in the use and care of the donated equipment. As of 2010, 3,040 or 45% of the 6,786 public high schools all over the country were connected to the Internet. This benefits over 3.5 million students and provides training to more than 12,000 teachers.

Text2Teach was launched in seven cities and municipalities in three provinces in 2010, reaching a total of 83 public elementary schools, with a student population of nearly 10,000. To date, *Text2Teach* has reached over 29,000 students from 406 schools in 27 provinces, cities, and municipalities. For 2011, *Text2Teach* will be implemented in 149 more schools, so the project can reach its cumulative total of 555 schools.

The *Center of Excellence in Public Elementary Education (CENTEX)* remained true to its mission of providing high-quality basic education to bright students from poor communities. The *CENTEX* public schools in Manila and Batangas remain committed to molding well-rounded young individuals, who are not only excellent in academics, but also have moral integrity and a high potential for leadership. In addition, *CENTEX* also promotes the continued professional growth of teachers. In 2010, 63 teachers from Manila and Batangas participated in its annual teacher-training workshop, while three other teachers received scholarships to attend training workshops in Singapore and Hawaii.

CENTEX introduced *A Class of Your Own,* a program that encourages companies and individuals to support a class of kindergarten students, in the hope that the donors will continue supporting the same class until it graduates from grade school. In 2010, Thomson Reuters adopted a class of 25 students in *CENTEX* Manila, while an anonymous donor adopted a class in *CENTEX* Batangas. In addition, the Philippine Development Foundation (PhilDev) gala raised a total of ₱1.5 million, enough to cover four classes. In addition, JP Morgan Chase donated ₱1.6 million to cover three classes of 25 pupils each, teacher training and enhancement activities for *CENTEX*.

AFI's efforts in nurturing servant leaders from among the brightest students in the country saw the successful holding of the 2010 *Ayala Young Leaders Congress,* which attracted 81 student leaders from 52 colleges and universities nationwide.

Meanwhile, the AYLC-inspired *Leadership Communities (LeadComm)* was pilot-tested in Catanduanes with 79 student leader participants. The goal of LeadComm is to bring AYLC to the provinces.

COMMUNITY DEVELOPMENT

With the continuing threat of natural calamities facing the country, AFI joined the pioneering Our Lighthouse Alliance, which has set up *Project Noah's Ark*. *Noah's Ark* seeks to prepare high-risk communities for natural calamities, through proper training, setting up appropriate disaster-response protocols, and identifying and developing potential evacuation areas. In 2010, AFI brought the project to two pilot sites.

AFI also continued to implement various community development projects in the *Buklod Bahayan Day Care Center* in Cavite; Puerto Galera, Oriental Mindoro; and Baclayon and Dauis, Bohol.

ENTREPRENEURSHIP

AFI's entrepreneurship programs managed by the Ayala Technology Business Incubator (Ayala TBI) conducted five *TechBootCamps* in 2010 in collaboration with public and private sector partners. *TechBootCamp* is a rigorous training program that helps start-ups launch their business ideas into profitable ventures. A wide range of business concepts were presented at these *TechBootCamps*, providing innovative solutions to challenges in such fields as information and communication technology, access to clean water, robotics, and food production. A total of 77 business ideas were pitched in five *TechBootCamps*.

In addition, Ayala TBI held six *Kape + Teknolohiya* forums and six Innovation Forums. These forums serve as a platform for interaction among stakeholders in science and technology, funding, and entrepreneurship, as well as a venue to discuss innovations and trends in technology and entrepreneurship.

ENVIRONMENT AND SUSTAINABILITY

The solid waste management program under the Environment and Sustainability Division continues to contribute to the diversion of solid waste for recycling. The 280 buildings within the Makati Central Business District yielded 1,682 assorted recyclables amounting to ₱12.88 million.

On the other hand, the *Ayala Recyclables Fair* (ARF) being implemented in seven Ayala Malls, two estate development project areas, one University and Taguig barangay recovered 81 tons and 3,000 pieces of assorted recyclables worth almost ₱600,000. Close to 900 individuals and companies participated in ARF by selling various recyclables.

Aside from solid-waste management, the environment and sustainability division also implemented programs in energy efficiency, clean air, and clean water. AFI partnered with the International Finance Corporation for a public awareness campaign in energy efficiency. The foundation also participated in a series of organizational meetings geared toward the establishment of a Sustainable Energy Network. In addition, AFI gathered baseline data for a study on smoke emission in three public utility jeepney routes in Makati City.

ART, HISTORY, AND CULTURE

The Ayala Museum showed noteworthy and memorable exhibitions in 2010, including a tribute to the art patron Purita Kalaw-Ledesma, National Artist Vicente Manansala, and the figurative expressionist Onib Olmedo. In addition, the museum exhibited the works of contemporary artists such as Olivia d'Aboville, Claude Tayag, and the winners of the *43rd Shell National Student Art Competition*. It also intensified its educational programs through such lecture series as *Design Talks*, which featured some of the leading design professionals in the country and abroad; and *History Comes Alive!*, which featured the renowned historian Ambeth Ocampo.

To bring art closer to the public, the museum partnered with the Ayala Malls in hosting six *Art Park* exhibitions. Also, an exhibition of the latest works of National Artist Arturo Luz was brought to the *Ayala Triangle Gardens*.

Meanwhile, the Filipinas Heritage Library (FHL), in cooperation with the Ayala group of companies, started 2010 by spearheading *Bravo! Celebrating the Filipino*, a festival that honored the achievements of Filipinos in the fields of music, dance, photography, fashion, and cinema. Later in the year, FHL partnered with the National Book Development Board in holding *Future of the Book: The First Digital Publishing Conference*; and *Lit Out Loud,* the first Philippine International Literary Festival.

To support the continuing professional education of librarians, FHL organized the second *LibraryLink* conference, which served as a venue for the discussion of issues related to digital archiving and the preservation of library materials.

FHL also started the *MyLibrary project*, which aims to build or rehabilitate community libraries all over the country, and to encourage young people to read. In partnership with Chevron Philippines, FHL facilitated the rehabilitation of libraries and the training of librarians in Tiwi, Albay, and San Pascual, Batangas. FHL also organized a reading campaign and story-telling sessions in these areas. More community libraries will be established or rehabilitated in the coming months.

DIASPORA PHILANTHROPY

In 2010, Ayala Foundation USA (AF USA) was transformed into the Philippine Development Foundation (PhilDev), which was envisioned as an organization focused on promoting and supporting science, technology, business, and education for the social and economic development of the Philippines. AF USA/PhilDev raised almost US$2 million in funds (cash and in kind) for various development projects in the Philippines.

The *Ayala Museum* welcomed 111,913 visitors in 2010

Ayala Foundation: 50 Years of Continued Faith in the Filipino

Envision, empower, excel.

These three imperative words epitomize the goals and ideals that Ayala Foundation has championed in the last 50 years.

Envisioning a Philippines free from poverty, Col. Joseph McMicking and Mercedes Zobel-McMicking established Filipinas Foundation, the forerunner of Ayala Foundation, in 1961. One of the pioneering corporate foundations in the country, Ayala Foundation has since benefited well over five million Filipinos from more than 5,000 communities and schools across the country.

Today, as the corporate social responsibility arm of the Ayala group of companies, Ayala Foundation develops, implements, and sustains programs in education and leadership development; environment and sustainability; technology and entrepreneurship; community development; and art, history, and culture. It is also a pioneer in the fields of public-private partnerships and consortium building, as well as diaspora philanthropy.

In all of its endeavors, Ayala Foundation helps transform the lives of individuals and empower communities and organizations. It believes that investing in programs with significant reach and impact translates to remarkable gains to be enjoyed not only by current beneficiaries, but by future generations as well.

Inspired by the vision and example set by its founders, and with the support of partners, benefactors, and friends who share its faith in the Filipino, Ayala Foundation remains committed to uplifting lives and contributing to nation building.

Top to bottom: Ayala Foundation founders Col. Joseph McMicking and Mercedes Zobel McMicking; Sumilao Cattle Ranch Research Program, first FFI/AFI project in 1964; The Ayala Museum's Gold of Ancestors exhibition features pre-colonial treasures in the Philippines

Sustainable Development in Ayala

Through *EngageAyala* an Ayala employee can sign up to be a volunteer in any of the companies' programs

Ayala is committed to Sustainable Development and strives to embed these practices into its business operations, products, and services. The Ayala group is presently the only conglomerate in the Philippines to publish a set of sustainability reports for all its major companies using the Global Reporting Initiatives (GRI) standard. In 2009, six GRI reports were issued covering Ayala Corporation, Ayala Land, Bank of the Philippine Islands, Globe Telecom, Manila Water, and Cebu Holdings. These reports covered a wide range of triple-bottom-line reporting on the group's economic, social and community investments, and environmental practices, reflecting the group's concern for People, Planet, and Profits.

For 2010, the group will issue eight GRI-compliant Sustainability Reports, adding Integrated Micro-Electronics Inc. (IMI) and Ayala Automotive to its list of self-disclosed reports. Ayala will also move up in GRI levels of reporting, covering more performance indicators.

Following the release of Sustainability Reports, the Ayala group will run a series of *Sustain+Ability* workshops to share best practices among companies and employees in such key areas as energy management, climate change adaptation and business continuity, and environmental practices.

EMPLOYEE VOLUNTEERISM THROUGH *EngageAyala*.
Aside from its work on sustainability reporting, Ayala also engages in various environmental and sustainability efforts through its group-wide employee volunteerism program. While each company within the group engages its employees in volunteer efforts, through *EngageAyala*, any Ayala employee can sign up to be a volunteer in any of the companies' programs.

Some activities of volunteers at work include:

- The team up of the entire Ayala group with Habitat for Humanity to develop a low-cost housing site in Calauan, Laguna, a resettlement area for the displaced flood victims from along the Pasig River, Marikina and Pasig Cities in Metro Manila. The resettlement site has space for over 1,000 units, with the first 175 built with the help of employee-volunteers. Resources have been raised to build over 450 houses thus far. Adjacent to the resettlement site, Ayala has set aside a 17-hectare company-owned property to build a community center and livelihood area for the community's residents. This community center will include a church, vocational school, community clinic, transportation terminal, gas station, vegetable gardens, and spaces for light industry and small businesses which will be set up in partnership with other corporations and religious orders.
- Ayala employee volunteers participating in efforts as diverse as tree-planting, *Earth Day* painting of pedestrian underpass entrances with air-cleaning paint, and *Earth Hour* (in partnership with the World Wildlife Fund).
- Ayala Land's promotion of LEED-certified construction of office buildings at NUVALI and environmentally-oriented master planning at its NUVALI and *Anvaya* developments. Ayala Land has also bolstered its commitment towards developing sustainable communities by mobilizing volunteers in the planting of pine trees in Baguio City in an effort to maintain and cultivate the natural landscape of the City of Pines.

Ayala group CEOs help build homes with Habitat for Humanity in Calauan, Laguna

Ayala group employees take part in *Earth Day* activities

Biking enthusiasts from all over the Philippines joined Globe's Cordillera Challenge

- Partnership between Ayala Automotive, through Honda Cars Makati Inc. (HCMI), and ABS-CBN Foundation Inc. - *Bantay Kalikasan* to support and participate in forest protection efforts. HCMI's support goes towards the protection of the forest area in the La Mesa Watershed for a period of three years. The effort is geared towards the prevention of soil erosion and flood control, and promotion of La Mesa Watershed as a bio-diversity nature park destination for the general public.
- Globe Telecom's integrated environmental program called *Globe Goes Green,* a program designed to integrate key environmental initiatives into Globe's business strategy. In partnership with Blacksmith Institute, the Department of Environment and Natural Resources and the MMO Water Quality Management Board, Globe has organized separate bamboo and mangrove planting activities in Bulacan to help revive the Marilao-Meycauayan-Obando River System. Volunteers from public and private sectors participated in planting 10,500 bamboo and mangrove seedlings in San Jose Del Monte and Obando, Bulacan. Globe also spearheaded an annual environment signature event called the *Globe Cordillera Challenge*.
- IMI employees have participated in marathons to raise funds for various causes, from the *Ayala Run for Home* for the benefit of Habitat for Humanity Foundation to its own *IMI Fun Run for A Cause* inside the IMI plant for the benefit of the *IMI Children's Fund*, which raised more than ₱2 million from 131 runners and pledges and donations from more than 2,700 employees. IMI employees also participated in the *10.10.10 Run for Pasig* marathon and the *ING marathon* to raise resources for Habitat for Humanity.
- BPI's partnership with World Wide Fund for Nature on a *Climate Risk Adaptation* project. WWF's research is focused on generating city-specific socio-economic baseline data for selected cities most likely to be adversely affected by climate change. The four cities covered in the study are Cebu, Davao, Baguio and Iloilo. Results of the study will be shared with the sectors at risk in each of the cities selected so they can better prepare for climate change disasters. The data from the study will also give the cities a more comprehensive basis for the policies and actions they will craft to mitigate the effects of and to adapt to climate change.

Ayala Land leads a tree planting activity of the group

Corporate Governance

Ayala remains at the forefront of good corporate governance.

The company has established leadership in good corporate governance in the local and regional setting. This is attested by the recognitions given by various reputable institutions. In 2010, Ayala was cited as Best in Corporate Governance by *FinanceAsia* and *AsiaMoney* in their regional polls. *Corporate Governance Asia* also named Ayala as among the Best in Asia for its adherence to good corporate governance. These citations strengthen our commitment to keep the trust of our stakeholders.

BOARD STRUCTURE AND PROCESS

Key Role and Responsibilities

The Board represents the company and the shareholders and is accountable to them for creating and delivering value, as well as protecting their best interests through effective and good governance.

The Board establishes the vision, strategic objectives, key policies, and procedures of the company, as well as the mechanism to properly monitor and evaluate management performance. The Board also ensures that internal control mechanisms for good governance are adequate.

Composition

The Board is composed of seven directors elected annually by the stockholders.

The Board represents a mix disciplines in the area of business, finance, and legal competencies, with each director capable of adding value and exercising independent judgment. Decision-making at the Board level adheres to a process that fosters the independence and integrity of judgment of each director. The Board structure provides a clear division of responsibilities between the Board and Management.

None of the independent directors owns two or more percent of the outstanding capital stock. The name and profile of each director are found in the Board of Directors section of this annual report on pages 58 and 59. All the directors have attended training on corporate governance.

Independent Directors

Ayala complies with the rules of the Securities and Exchange Commission (SEC) on the qualifications, nomination, and election of independent directors. The seven-member Board includes three independent directors who can effectively exercise their best judgment for the company. The three make up more than 40% of Board membership.

Each of our independent directors has no interest or relationship with the company that may hinder his independence from the company or management or interfere with his exercise of judgment in carrying out his responsibilities as a director. Ramon R. del Rosario, Jr., Xavier P. Loinaz and Antonio Jose U. Periquet sit as the independent directors. Nobuya Ichiki, general manager of Mitsubishi Corporation's Manila Branch, is a non-executive director.

Chairman and Vice Chairman

The Chairman of the Board is Jaime Augusto Zobel de Ayala, who assumed the position in 2006. Fernando Zobel de Ayala holds the position of Vice Chairman.

Board Performance

Board meetings are held quarterly or as often as necessary. The Board has separate and independent access to the Corporate Secretary, who oversees the adequate flow of information to the Board prior to meetings and advises directors about their duties. Discussions during board meetings are open and independent views are given due consideration. Average attendance in the Board's seven meetings last year was more than 90%. Five directors, namely, Jaime Augusto Zobel de Ayala, Meneleo J. Carlos, Jr., Xavier P. Loinaz, Ramon R. del Rosario, Jr. and Antonio Jose

U. Periquet had perfect attendance during their incumbency. Fernando Zobel de Ayala, Mercedita S. Nolledo and Nobuya Ichiki were absent from one board meeting last year.

Board Committees

The Board has established committees to assist in exercising its authority in monitoring the performance of the business. Four committees, namely, Executive, Compensation, Nomination and the Audit and Risk Committee—provide organized and focused means for directors to achieve specific goals and address issues, including those related to corporate governance.

Executive Committee (ExCom). The ExCom exercises the Board's powers during the periods between board meetings. The ExCom cannot approve: 1) actions requiring shareholders' approval; 2) distribution of cash dividends; 3) filling of vacancies in the Board or in the ExCom; 4) amendment or repeal of By-Laws or the adoption of new By-Laws; 5) amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable; and 6) the exercise of powers delegated by the Board exclusively to other committees.

Compensation Committee. The Compensation Committee establishes a policy for a formal and transparent procedure for determining the salaries of officers and directors. It also oversees the pay of senior management and other key personnel. The Compensation Committee had one meeting in 2010, where it approved: 1) the performance bonus for 2009; 2) the 2010 compensation of officers and managers; and 3) the 2010 Executive Stock Option Plan (ESOP); and 3) the compensation of CEO and COO.

Nomination Committee. The Nomination Committee ensures that all nominees to the Board have all the qualifications and none of the disqualifications under the Company's By-Laws and the Manual of Corporate Governance, as well as under the rules of SEC. The Nomination Committee also reviews the qualifications of all persons nominated to positions requiring appointment by the Board.
At two meetings in 2010, the Nomination Committee: 1) approved the final list of nominees for directors for election at the 2010 annual stockholders' meeting; and 2) endorsed for board approval the appointment of Mr. Delfin C. Gonzalez, Jr., as the company's Chief Finance Officer and the promotion of Ginaflor C. Oris as Managing Director.

Audit and Risk Committee. The Audit and Risk Committee oversees the internal control, financial reporting and risk management processes of the company. The Committee held four meetings in 2010, where it reviewed and approved the 2009 consolidated audited financial statements of Ayala as audited by the external auditors Sycip Gorres Velayo & Co. (SGV), the unaudited financial statements of the company for January to September 2010 and the 2010 Internal Audit Plan. The Committee also approved the revisions on the company's Manual of Corporate Governance pursuant to SEC Memorandum Circular No. 6, series of 2009, the issuance of the ₱10 Billion Putable Bonds and the SGV work plan for 2010 with the new accounting and auditing standards applied. The Committee likewise recommended the appointment of SGV as the company's external auditor for 2010 and the approval of the proposed fee of SGV. The activities of the Audit and Risk Committee are further discussed in the Accountability and Audit section on page 53 and the Report of the Audit and Risk Committee to the Board of Directors on page 66.

Committee	Executive	Compensation	Nomination	Audit and Risk
Jaime Augusto Zobel de Ayala	C		C	
Fernando Zobel de Ayala	M		M	
Nobuya Ichiki**	M	M		M
Ramon R. del Rosario, Jr.*		C	M	M
Delfin L. Lazaro		M		
Xavier P. Loinaz*				C
Number of Meetings held in year 2010	6	1	2	4

C - Chairman M - Member * Independent Director ** Non-executive Director

Director and Senior Executive Compensation

Non-executive directors are Board members who are not officers or consultants of the company and who receive remuneration consisting of a retainer fee of ₱500,000.00 and per diem of ₱100,000.00 for each board meeting and ₱20,000.00 per board committee meeting attended. The remuneration of non-executive directors was ratified during the annual stockholders' meeting in 2003. None of the non-executive directors has been contracted and compensated by Ayala for services other than services provided as a director.

Ayala adopts a performance-based compensation scheme for its senior executives. As additional incentive to Management, the Board approved stock option plans for officers covering 3% of the company's authorized capital stock. The grantee is selected based on performance over a three-year period.

The total compensation paid to non-executive directors and officers is disclosed yearly in the Definitive Information Statement sent to shareholders at least 15 business days before the annual stockholders' meeting. The total annual compensation includes basic salary, guaranteed bonus, and variable pay (i.e., performance-based bonus and gains from exercise of stock options).

MANAGEMENT

Management is accountable to the Board of Directors for the operations of the company. It puts the company's targets in concrete terms and formulates the basic strategies for achieving the targets. Jaime Augusto Zobel de Ayala is the chief executive officer (CEO) and concurrently serves as chairman of the board, while Fernando Zobel de Ayala is the president and chief operating officer (COO).

The respective roles of the CEO and the President/COO are complementary and ensure a strategic distribution of leadership roles with defined accountability. The CEO takes the lead on company strategy, visioning, and developing business partnerships in close coordination with the President/ COO who is primarily responsible for the day-to-day operations, new business initiatives, corporate policy and resource allocation. In all functions and critical issues, both coordinate closely with each other. The Chairman/CEO and President/COO are supported by a management committee composed of key executives who meet twice a month to discuss business performance and other issues critical to the growth of the company. This operating structure with permeable boundaries speeds the flow of strategic and operational information among executive decision makers.

A culture of good governance is fostered throughout the organization, with Management and Board equally responsible in ensuring that the mechanisms and structure for good governance are in place.

The Chairman/CEO, President/COO, and members of the management committee attend the annual stockholders' meetings.

Members of the management teams of Ayala group companies meet with the board of directors of Ayala Corporation

Enterprise Risk Management
In line with its corporate governance infrastructure, Ayala adopted a group-wide enterprise risk management framework in 2002. The Audit and Risk Committee approved the Enterprise Risk Management Policy in 2003 and regularly reviews and updates it. The policy enhances the risk management process and institutionalizes a focused and disciplined approach to managing the company's business risks. The risk management policy was updated in 2008 following the framework and standards recommended by the Committee of Sponsoring Organization.

The risk management framework covers the following:
- Identification and assessment of business risks;
- Development of risk management strategies;
- Assessment, design, and implementation of risk management capabilities;
- Monitoring and evaluation of risk mitigation strategies and management performance; and
- Identification of areas and opportunities for improvement in the risk management process.

The Audit and Risk Committee provides oversight of the risk management function.

In 2008, a more focused enterprise risk management framework was rolled out with the help of an external consultant. This included a formal risk-awareness session and self-assessment workshops with the functional units of the company. The Audit and Risk Committee has initiated efforts to institutionalize an enterprise risk management function across all the subsidiaries and affiliates.

In May 2010, the Chief Finance Officer was appointed as the Chief Risk Officer (CRO) in concurrent capacity.

The CRO oversees the risk management function and provides periodic reports on risk management initiatives and mitigation efforts to the Audit and Risk Committee.

At present, the policy, procedures and processes are under study for further enhancement and a review of the assessment done in 2008 will be undertaken in 2011. The work is in progress and the company shall continue to engage external technical support as it deems necessary to strengthen its Enterprise Risk Management expertise and capabilities.

Ayala's internal auditors monitor the compliance with risk management policies to ensure that an effective control environment exists within the entire Ayala group.

ACCOUNTABILITY AND AUDIT
The Audit and Risk Committee oversees the performance of external and internal auditors. The roles and responsibilities of the Committee are outlined in the expanded Audit and Risk Committee Charter on the company's website. The internal audit function is governed by a separate Internal Audit Charter.

Independent Public Accountants
The external auditor of the company is SGV & Co., a member of Ernst and Young. Lucy L. Chan has been the partner-in-charge since 2007.

The Audit and Risk Committee reviews Ayala's financial reporting to ensure its integrity and oversees the work of the external auditor.

The Committee recommends to the Board and stockholders the appointment of the external auditor and appropriate audit fees.

The company paid or accrued the following fees, including VAT, to its external auditor in the past two years:

	Audit & Audit-related Fees (in pesos)	Other Fees
2010	3.18 M	4.86 M
2009	3.02 M	1.95 M

SGV & Co. was engaged by the company to audit its annual financial statements.

In 2010, SGV & Co. billed the company for an aggregate fee of ₱4.86 million for the following services:
(i) Post review and other procedures to issue the comfort letter for the company and the underwriters for the issuance of the Seven-Year Put Corporate Bonds
(ii) Due diligence for a potential acquisition
(iii) Financial review of operations of a foreign subsidiary

In 2009, SGV & Co. billed an aggregate fee of ₱1.95 million for the following services:
(i) Completion of the Enterprise-Wide Risk Management;
(ii) Performance of due diligence work related to possible investment; and
(iii) Conduct of seminar on major differences between International Financial Reporting Standards and U.S. Generally Accepted Accounting Principles

No tax consultancy services were secured from SGV &Co.

Internal Audit
The Internal Audit unit independently reviews Ayala's organizational and operational controls and risk management policies, and compliance. The audit team, consisting of certified public accountants and a certified internal auditor, reports to the Audit and Risk Committee. Business and support units are regularly audited according to annual audit programs approved by the Audit and Risk Committee.

In 2010, the Audit and Risk Commitee received, noted, and/or approved audit reports from Internal Audit Management according to the approved Internal Audit Plan. The Internal Audit function was rated "Generally Conforms" after a thorough third-party quality assessment review (QAR) by the Institute of Internal Auditors Inc. (USA) in May 2007. The rating, considered the highest possible score in connection with the QAR, confirmed that Internal Audit's activities conformed with the International Standards for the Professional Practice of Internal Auditing. The QAR has to be undertaken every five (5) years. The company continues to improve the internal audit function by using a risk-based audit approach and by benchmarking against best practices.

Compliance Officer
The Compliance Officer ensures that Ayala adheres to sound corporate governance and best practices. Solomon M. Hermosura, managing director and general counsel, is the Compliance Officer.

The Compliance Officer identifies and manages compliance risks, implements and monitors compliance with the Manual of Corporate Governance; and certifies yearly the extent of Ayala's compliance with the Manual.

The Compliance Officer conducts a yearly performance assessment of each member of the Board to assess the level of the Board's compliance with leading practices and principles of good corporate governance. This is a formal self-rating system that takes into account factors such as independence, effectiveness, experience, judgment, knowledge, time commitment and team work, and identifies clear areas for improvement.

DISCLOSURE AND TRANSPARENCY
Ayala is committed to the high standards of disclosure and transparency to give the investing community a true picture of the company's financial condition and the quality of its corporate governance.

Ayala highly conforms to the best practices set by the Philippine Stock Exchange (PSE) in its Corporate Governance Guidelines which were released in November 2010.

Ownership Structure
Ayala has a transparent ownership structure. It discloses quarterly the Top 100 shareholders of the company. The Definitive Information Statement sent to shareholders discloses the stock ownership of directors and management, as well as of record and beneficial owners of more than 5%. As of December 31, 2010, Mermac Inc. held 253.1 million common shares representing 52.11% of Ayala's total outstanding common shares. PCD Nominee Corporation held 146.1 million common shares or 30.09% and Mitsubishi Corporation held 52.6 million common shares or 10.82%. Out of the total 486 million outstanding common shares, 165.93 million or 34.17% were beneficially owned by non-Filipinos.

There were 12 million outstanding listed Preferred A shares, 95.78% of which were owned by various holders registered under the PCD Nominee Corporation. Of the outstanding Preferred A shares, 0.16% were beneficially owned by non-Filipinos.

Out of the 58 million outstanding listed Preferred B shares, 30 million shares or 51.65% were owned by various owners registered under the PCD Nominee Corporation and about 0.34% were owned by foreigners.

Of the 756 million total issued and outstanding common and preferred shares of the company, 200.4 million common and preferred shares or 26.53% were owned by foreigners.

As of the end of the fiscal year December 2010, 44.02% of Ayala's listed common and preferred shares were owned by the public.

There were no cross or pyramid shareholdings.

Content and Timing of Disclosures
Ayala updates the investing public with strategic, operating, and financial information through adequate and timely disclosures filed with the SEC and PSE which are readily available on the company's website. www.ayala.com.ph

Aside from compliance with periodic reportorial requirements, Ayala punctually discloses major and market-sensitive information such as dividend declarations, joint ventures and acquisitions, the sale and disposition of significant assets, as well as other material information that may affect the decision of the investing public.

In 2010, the company filed unstructured disclosures involving the amendment of the company's Articles of Incorporation on the reclassification of shares; the interest in the participation in the privatization of the Angat Hydroelectric Power Plant; SEC approval of bonds; election of an additional independent director; participation in the BPI stock rights offer; results of the voting preferred shares offered to the common shareholders; the share buy-back program; and senior executive movements.

Consolidated audited financial statements for the latest financial year were submitted to the SEC by the April 15 deadline, while the audited annual report was submitted at least 15 working days before the annual stockholders' meeting.

In 2010, the audited financial statements as contained in the Definitive Information Statement were submitted to the SEC and PSE on March 17, 2010 and to the PSE on the same day, more than three weeks before the April 16, 2010 annual stockholders' meeting.

Interim or quarterly financial statements were released between 30 to 45 days from the end of the financial period. The results were disclosed to the regulators within 24 hours from the time the Audit Committee met to accept the results. The results were also provided to financial and stock market analysts during an analysts' briefing, where members of senior management presented the results personally, as well as through the company website as soon as the SEC received the statements.

Financial Reporting
Ayala's financial statements comply with Philippine Accounting Standards and Philippine Financial Reporting Standards.

The annual consolidated financial statements break down total assets, total liabilities and equity, revenues, costs and expenses, income before income tax, net income attributable to equity holders of Ayala and noncontrolling interests, and earnings per share.

A more comprehensive disclosure of business segment results is provided to help shareholders appreciate the various businesses and their impact on overall value enhancement. The following are disclosed in the note on Business Segments, pages 149 to 151: 1) total revenue, 2) operating profit, 3) net income, 4) segment assets, 5) investments in associates and jointly controlled entities, 6) segment liabilities, and 7) depreciation and amortization.

A section on Geographical Segment includes the following information: 1) Revenue, 2) Segment Assets, and 3) Investment Properties.

Transactions entered into with associates and other related parties are on an arm's length basis. Sales and purchases of goods and services to and from related parties are in accordance with market prices. Related party transactions are discussed and quantified in the Notes to the Consolidated Financial Statements on pages 153 to 155.

Information on Ayala's financial instruments is guided by the company's risk management objectives and policies to allow a better assessment of financial performance and cash flows. Significant accounting judgments and estimates are also disclosed.

DEALINGS IN SECURITIES

Ayala has adopted a policy on stock transactions to ensure compliance with the government regulations against insider trading.

Reporting of Transactions
Ayala complies with the requirement for directors and principal officers to report to the SEC and the PSE within five trading days any acquisition or disposal, or change in their shareholdings in the company.

Ayala has expanded coverage of this requirement to include members of the Management Committee and all the managing directors. All other officers must submit a quarterly report on their trades of company shares to the Compliance Officer.

Trading Blackouts
The company has adopted a policy on insider trading, which covers directors, officers and employees, consultants, members of key officers' immediate families, and all other employees who have knowledge of material facts or changes in the affairs of Ayala which have not been disclosed to the public. Covered persons are prohibited from buying or selling the company's securities during trading blackouts. The policy covers the company's shares of stock, options to purchase stocks, bonds, and other evidence of indebtedness.

During the year, notices of trading blackouts for structured disclosures were issued for a period covering ten (10) trading days before and three (3) trading days after the disclosure of quarterly and annual financial results. The company strictly enforces compliance with these trading blackout periods and there have been no violations of the company's policy on insider trading.

STAKEHOLDER RELATIONS

Ayala adheres to a high level of moral standards and fairness in dealing with all its shareholders, customers, employees, and business partners to lay down the foundation for long-term, beneficial relationships.

Shareholder Meeting and Voting Procedures

Stockholders are informed at least fifteen (15) business days in advance of the scheduled date of their meetings. The notice of regular or special meetings contains the agenda and sets the date, time and place for validating proxies, which must be done at least five business days prior to the annual stockholders' meeting.

Each outstanding common and voting preferred shares of stock entitles the registered holder to one vote.

Shareholder and Investor Relations

Ayala believes that open and transparent communication is needed to sustain growth and build investor confidence. Our investor communications program promotes greater understanding of the company's long-term proposition to create value.

The company, through its Investor Relations Unit under Corporate Strategy and Development, addresses the various information requirements of the investing public and minority shareholders by fully disclosing these in a timely manner to the local bourse, as well as via quarterly briefings, annual stockholders' meetings, one-on-one meetings, conference calls, road shows and investor conferences, website, and e-mails or telephone calls.

The company holds regular briefings and meetings with analysts, including financial analysts from the banking community. In 2010, four briefings were held announcing the 2009 year-end results and 2010 first quarter, first semester, and third quarter results. Analysts were also given access to senior management during these briefings.

Ayala has updated the Investor Relations section of its website to include the organizational structure, performance, ownership and governance of the company. The section is updated as disclosures to the regulators are made, while presentations at analysts' briefings are immediately made available on the Web to provide easy access for the investing community.

Employee Relations

Ayala is committed to promoting the safety and welfare of its employees. It believes in inspiring its employees, developing their talents, and recognizing their needs as business partners. Strong and open lines of communication are maintained to relay the company's concern for their welfare and safety, and deepen their understanding of the company's business directions. The company encourages employees to participate in various company-sponsored interest groups, sports programs, volunteerism opportunities and social events to foster camaraderie and engagement.

CODE OF ETHICAL BEHAVIOR

Ayala strongly believes in, and adopts as part of its basic operating principles, the primacy of the person, shared values and the empowerment of people. The company and its employees are guided by four core values: integrity, long-term vision, empowering leadership, and commitment to national development. These values are expressed in the company's Code of Ethical Behavior, which outlines the general expectations of, and sets standards for employee behavior and ethical conduct. It is in conjunction with the company's human resources policies, which includes the Code of Conduct governing acceptable behavior to ensure orderly company operations and protect the rights, safety, and work for the benefit of the employee force. Company employees are required to disclose any business- and family-related transactions to ensure that potential conflicts of interest are brought to management attention.

Recognitions
In 2010, various organizations recognized the company's governance practices. *FinanceAsia* ranked Ayala 1st overall in the Philippines in its Best Managed Companies Poll, as well as Best in Corporate Governance, 1st for Best for Corporate Social Responsibility, and 2nd for Investor Relations. The company also topped *Asiamoney's* Corporate Governance Poll, while *Corporate Governance Asia* cited Ayala as the Best in Asia for the sixth consecutive year.

OTHERS
Anti-Money Laundering. As a holding company, Ayala does not face issues on anti-money laundering. The company strictly complies with the provisions of the Anti-Money Laundering law.

WEBSITE
Additional information on the company's corporate governance initiatives may be viewed at www.ayala.com.ph.

OUR CORE VALUES
Values drive behavior in an organization. Over the years, the corporate character of Ayala has not substantially changed in nature and orientation. It has evolved only to become stronger. These are the four core values that guide the way Ayala citizens work in all aspects of the business and this interaction with various stakeholders:

Integrity
Integrity means "doing the right thing" - being held accountable for all our actions. Doing the right thing has earned Ayala a position of trust among its stakeholders.

Long-Term Vision
Ayala's track record of success was built by looking to the future. In banking, real estate, telecommunications, and utilities, our CEOs had a vision that they transformed into reality by fostering the spirit of entrepreneurship, excellence and synergy and by rewarding intelligent risk-taking while holding each one accountable for doing the best thing today in order to reap tomorrow's rewards.

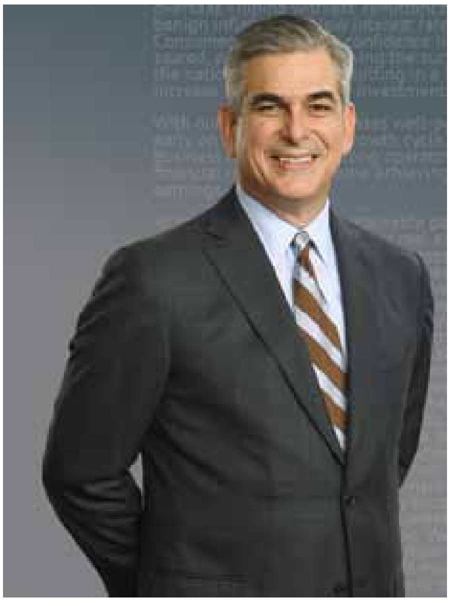
Empowering Leadership
At Ayala, we realize that leaders today need to manage a whole range of issues in increasingly complex situations. These challenges can only be met by empowering people at all levels of the organization to make decisions and to take action, within the framework of a shared vision and a shared corporate culture of innovation, responsibility and accountability.

Commitment to National Development
We take seriously our responsibilities as corporate citizens over and above compliance with the rule of law. We believe that beyond our business objectives, we must also do our share in nation building through programs in corporate social responsibility that help develop individuals, communities, and the country as a whole.

By remaining true to these values, keeping them vibrant and relevant, and using them to bring out the best in its people, partners and other stakeholders, Ayala can count on keeping its position of trust and leadership for years to come.

Board of Directors

JAIME ZOBEL DE AYALA
Chairman Emeritus



JAIME AUGUSTO ZOBEL DE AYALA

Director of Ayala Corporation (since 1987). Chairman and CEO of Ayala Corporation; Chairman of Globe Telecom, Inc., Bank of the Philippine Islands, and Integrated Micro-Electronics, Inc., Vice Chairman of Ayala Land, Inc., and Manila Water Co., Inc.; Co-Vice Chairman of Mermac, Inc., and Ayala Foundation, Inc. Director of BPI PHILAM Life Assurance Corp., Alabang Commercial Corporation, Ayala International Pte Ltd., and Ayala Hotels, Inc.; Member of the Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, and Toshiba International Advisory Group. Philippine Representative to the Asia Pacific Economic Council; Chairman of Harvard Business School Asia-Pacific Advisory Board; Vice Chairman of the Asia Business Council; Member of the Harvard University Asia Center Advisory Committee; Member of the Board of Trustees of the Eisenhower Fellowships, the Singapore Management University, and Asian Institute of Management; Member of The Asia Society, and the International Business Council of the World Economic Forum; Chairman of the World Wildlife Fund Philippine Advisory Council; Vice Chairman of The Asia Society Philippines Foundation, Inc.; Co-Vice Chairman of the Makati Business Club; and Member of the Board of Trustees of the Children's Hour Philippines, Inc.

NOBUYA ICHIKI

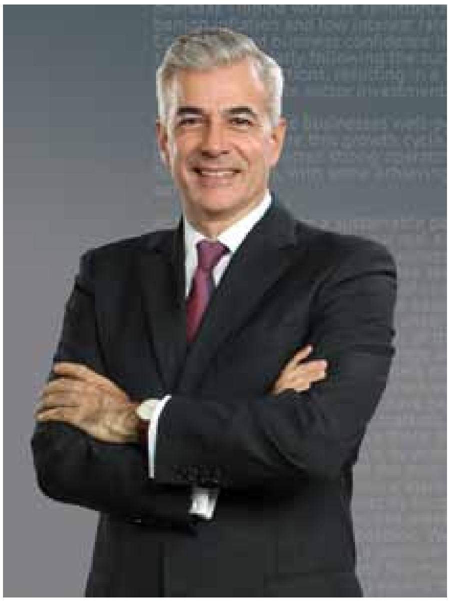
Director of Ayala Corporation (since 2009). General Manager of Mitsubishi Corporation - Manila Branch. Chairman of International Elevator & Equipment, Inc.; Chairman and President of MCPL (Philippines), Inc.; President of Japanese Chamber of Commerce & Industry of the Philippines, Inc., Director of The Japanese Association Manila, Inc., Isuzu Philippines Corporation, Imasen Philippines Manufacturing Corp., Kepco Ilijan Corporation, Team Diamond Holdings, UniCharm Philippines, Inc., Robinsons Convenience Stores, Inc., Trans World Agro-Products Corp., Laguna Technopark, Inc., West of Laguna Development Corporation and Seneca Holdings, Inc.

ANTONIO JOSE U. PERIQUET

Independent Director of Ayala Corporation (since September 2010). Chairman of Pacific Main Holdings, Inc. Director of the Development Bank of the Philippines, DBP Leasing Corporation, DBP Insurance Brokerage, Inc., Metro Rail Transit Corporation, Capstone Technologies, Inc., and the Straits Wine Company, Inc. Independent Director of BPI Capital Corporation, DMCI Holdings, Inc., and the Philippine Seven Corp. Member of the Board of Trustees, Lyceum of the Philippines University, and the Beacon International School. Member of the Dean's Global Advisory Council (GEMBA), Darden Graduate School of Business, University of Virginia.

DELFIN L. LAZARO

Director of Ayala Corporation (since 2007). Chief Finance Officer since 2003 to 2006 and member of the Management Committee of Ayala Corporation since 1996. Chairman of Philwater Holdings Company, Inc., Atlas Fertilizer & Chemicals, Inc., and Azalea International Venture Partners Limited; Chairman and President of Michigan Power, Inc., Purefoods International, Ltd., and A.C.S.T. Business Holdings, Inc.; President of Azalea Technology Investments, Inc.; Director of Globe Telecom, Inc., Ayala Land, Inc., Integrated Micro-Electronics, Inc., Manila Water Co., Inc., Ayala DBS Holdings, Inc., AYC Holdings, Ltd., Ayala International Holdings, Ltd., Bestfull Holdings Limited, AG Holdings, AI North America, Inc., Probe Productions, Inc., and Empire Insurance Company; and Trustee of Insular Life Assurance Co., Ltd.



FERNANDO ZOBEL DE AYALA

Director of Ayala Corporation (since 1994). Vice Chairman, President and COO of Ayala Corporation; Chairman of Ayala Land, Inc., Manila Water Company, Inc., Ayala DBS Holdings, Inc. and Alabang Commercial Corporation; Vice Chairman of Azalea Technology Investments, Inc.; Co-Vice Chairman of Ayala Foundation, Inc., and Mermac, Inc.; Director of Bank of the Philippine Islands, Globe Telecom, Inc., Integrated Micro-Electronics, Inc., Asiacom Philippines, Inc., Ayala Hotels, Inc., AC International Finance Limited, and Ayala International Pte, Ltd., Member of The Asia Society, World Economic Forum, INSEAD East Asia Council, and the World Presidents' Organization; Director of the Board of Habitat for Humanity International, and Chairman of the Habitat for Humanity's Asia-Pacific Steering Committee; Trustee, International Council of Shopping Centers; Member of the Board of Directors of Caritas Manila, *Kapit Bisig para sa Ilog Pasig* Advisory Board, Pilipinas Shell Corporation, and Pilipinas Shell Foundation.

MERCEDITA S. NOLLEDO

Director of Ayala Corporation (since 2004 until September 2010). Senior Managing Director and Corporate Secretary of Ayala Corporation, and Senior Counsel of the Ayala Group of Companies. Chairman of BPI Investment Management, Inc., and FEB Management, Inc., Director and Corporate Secretary of Ayala Land, Inc.; Director of Anvaya Cove, Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings Corporation, HCMI Insurance Agency, Inc., Bank of the Philippine Islands, BPI Capital Corporation, and BPI Family Savings Bank; Member of the Board of Trustees of Ayala Foundation, Inc., and BPI Foundation, Inc.; and Treasurer of Philippine Tuberculosis Society, Inc., Sonoma Properties, Inc., and JMY Realty Development Corp.

XAVIER P. LOINAZ

Independent Director of Ayala Corporation (since 2009). Independent Director of Bank of the Philippine Islands, BPI Family Savings Bank, Inc., BPI Capital Corporation, BPI Direct Savings Bank, Inc., BPI/MS Insurance Corporation, and Globe Telecom, Inc.; Trustee of BPI Foundation, Inc., and E. Zobel Foundation; Chairman of the *Alay Kapwa Kilusan Pangkalusugan*.

RAMON R. DEL ROSARIO, JR.

Independent Director of Ayala Corporation (since 2010). President and Chief Executive Officer of Philippine Investment Management (PHINMA), Inc.; President of Bacnotan Consolidated Industries, Inc., and Microtel Development Corp.; Chairman and CEO of AB Capital and Investment Corporation. Chairman of Paramount Building Management, United Pulp and Paper Co., Inc., Microtel Inns and Suites (Pilipinas), Inc., CIP II Power Corp., Trans-Asia Gold and Minerals Development Corp., and Stock Transfer Services, Inc.; Director of Trans-Asia Oil & Energy Development Corporation, Trans-Asia Power Generation Corp., PHINMA Property Holdings Corp., Roxas Holdings, Inc., Holcim (Phils.), Inc., Bacnotan Industrial Park Corp., PHINMA Foundation, Inc., and Union Galvasteel Corp. He served as the Philippines' Secretary of Finance in 1992-1993. He is the current chairman of the Makati Business Club. He is the Management Association of the Philippines' Management Man of the year for 2010.

Ayala Group of Companies

Management Committee

Jaime Augusto
Zobel de Ayala

Gerardo C. Ablaza, Jr.

Antonino T. Aquino

John Eric T. Francia

Victoria P. Garchitorena

Rufino Luis T. Manotok

Aurelio R. Montinola III

Fernando
Zobel de Ayala

Charles H. Cosgrove
Retired as of December 31, 2010

Alfredo I. Ayala

Ernest L. Cu

Delfin C. Gonzalez, Jr.

Solomon M. Hermosura

John Philip S. Orbeta

Arthur R. Tan

Senior Leadership Team

JAIME AUGUSTO ZOBEL DE AYALA
Chairman and Chief Executive Officer

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

GERARDO C. ABLAZA, JR.
*Chief Executive Officer, AC Capital**
President and Chief Executive Officer
*Manila Water Company, Inc.***

ANTONINO T. AQUINO
President and Chief Executive Officer
Ayala Land, Inc.

JOSE RENE D. ALMENDRAS***
President, Manila Water Company, Inc.

ALFREDO I. AYALA
Chief Executive Officer
LiveIt Investments, Ltd.

CHARLES H. COSGROVE****
President, AG Holdings, Ltd.

ERNEST L. CU
President and Chief Executive Officer
Globe Telecom, Inc.

JOHN ERIC T. FRANCIA
Group Head
Corporate Strategy and Development

VICTORIA P. GARCHITORENA
President
Ayala Foundation, Inc.

DELFIN C. GONZALEZ, JR.
Chief Finance Officer

SOLOMON M. HERMOSURA
General Counsel
Group Head, Legal and Compliance

RUFINO LUIS T. MANOTOK
Chairman and Chief Executive Officer
Ayala Automotive Holdings Corporation

AURELIO R. MONTINOLA III
President
Bank of the Philippine Islands

JOHN PHILIP S. ORBETA
Group Head
Corporate Resources

ARTHUR R. TAN
President and Chief Executive Officer
Integrated Micro-Electronics, Inc.

MANAGING DIRECTORS

Ramon G. Opulencia
Treasurer

Gil B. Genio
Ronald Luis S. Goseco
Ricardo Nicanor N. Jacinto
Jose Teodoro K. Limcaoco
Rufino F. Melo III
Sherisa P. Nuesa
Luis Juan B. Oreta
Ginaflor C. Oris
Virgilio C. Rivera, Jr.
Jaime E. Ysmael
Ramon M. Zialcita

ASSOCIATE DIRECTORS
Wilfrido A. Atienza****
Ruby P. Chiong
Alexander T. Cordero
Emily C. De Lara
Rosallie A. Dimaano
Felipe Antonio P. Estrella
Romualdo L. Katigbak
Erwin P. Locsin
Guillermo M. Luz
Monina C. Macavinta
Rafael Nestor V. Mantaring
Constantino A. Marcaida***
Jenara Rosanna F. Ong
Renan R. Osero****
Ma. Teresa S. Palma
Rene D. Paningbatan
Antonio J. Pineda
Maria Angelica B. Rapadas
Alfonso Javier D. Reyes
Ma. Victoria P. Sugapong
Sheila Marie U. Tan
Norma P. Torres
Jaime P. Villegas

CONSULTANTS/ADVISERS
Delfin L. Lazaro
Mercedita S. Nolledo, *Corporate Secretary and Senior Counsel*

Patrice René Clausse
Carlos C. Reyes
Eliezer C. Tanlapco

*	Up to June 30, 2010
**	Effective July 1, 2010
***	Retired as of June 30, 2010
****	Retired as of December 31, 2010

Management Report

2010

Ayala Corporation generated consolidated revenues of ₱98.1 billion in 2010, 28% higher than the prior year's ₱76.3 billion. This was mainly driven by significantly higher sales and service revenues, which rose by 30% to ₱82.1 billion from ₱63.2 billion as a result of the strong performance of its real estate and automotive units, as well as the impact of the full consolidation of its water distribution business after Ayala increased its ownership stake in the water company. Consolidated net income reached ₱11.2 billion, up 37% year-on-year.

Ayala's real estate unit, Ayala Land Inc. (ALI) achieved record high performance in 2010 as revenues reached an all-time high of ₱37.8 billion, a 24% growth from prior year's level. Net income also reached a record ₱5.5 billion, 35% higher than net income in 2009. Ayala Land's growth was driven by all its business lines with residential development revenues comprising the bulk and growing by 19%. The robust demand in the domestic property sector resulted in strong take-up of its residential projects. Take-up values of ALI's residential units across all brands grew significantly with incremental contribution from its fourth residential brand, Amaia. Its leasing revenues also rose by 13%. Revenues from shopping centers grew by 3% while the office segment rose by 21%. Occupied gross leasable area expanded for commercial center and offices by 5% and 35%, respectively, while rental rates increased slightly. In the meantime, revenues from its new foray in hotels and resorts also rose by 33% reflecting the consolidation of the acquisition of 60% of El Nido Resort in Palawan.

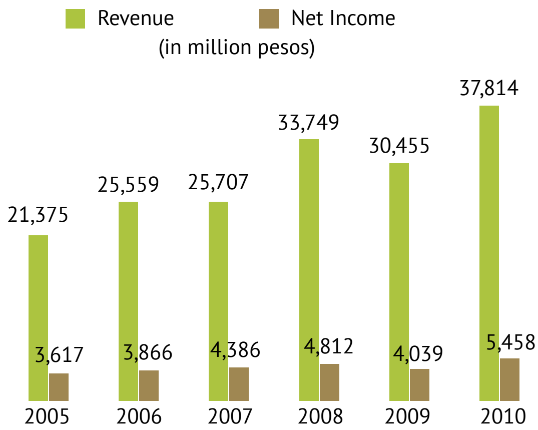
Ayala's automotive business also contributed to consolidated sales and service revenues. Ayala Automotive posted a 6% growth in revenues to ₱11.5 billion mainly from better service and parts sales, improved performance of collateral business, and higher equity share from Honda Cars Philippines Inc. Ayala Auto registered a 29% growth in net income to ₱295 million in 2010 from ₱229 million in 2009.

Manila Water Co. Inc. (MWC) revenues grew 16% year-on-year to ₱11.0 billion. This was due to the steady growth in water volume sales as billed volume grew by 3.5% despite the El Niño condition, coupled with the impact of a downward adjustment in depreciation expense. Continued improvements in operating efficiency further improved non-revenue water to 11% in 2010 from 15.8% the prior year. Manila Water registered a net income of almost ₱3.9 billion in 2010, 23% higher than prior year.

While the electronics manufacturing unit, Integrated Micro-Electronics Inc. was impacted by the lingering effects of the global downturn, it contributed to the group's revenue growth with a 4% increase in dollar revenues during the year driven by the sustained strong performance of its China operations. Net income, however declined by 53% versus the prior year but excluding one-off expenses earnings were up by 27%.

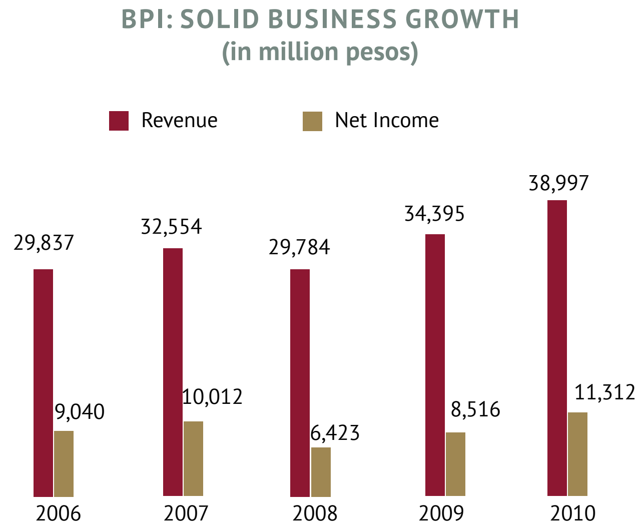
The robust revenue performance were partly tempered by the effect of the deconsolidation of Integreon, a subsidiary

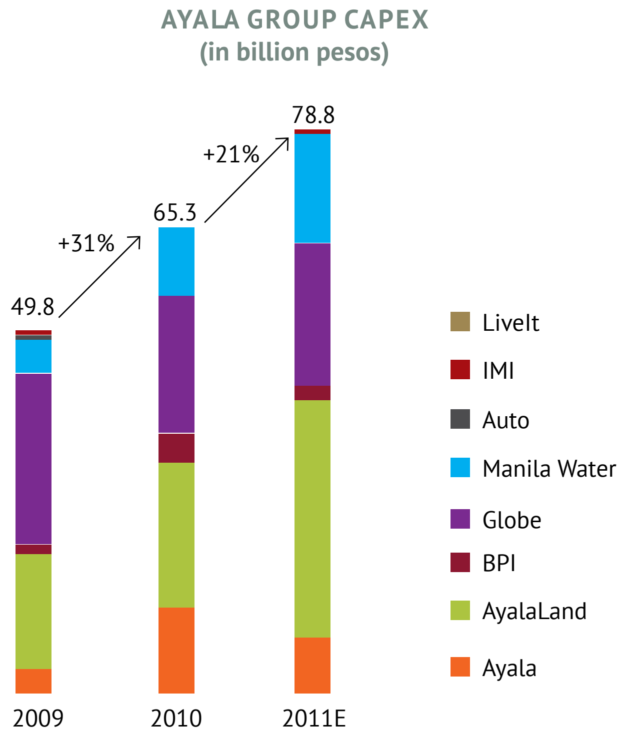
AYALA LAND: RECORD HIGH PERFORMANCE AND ON TRACK WITH EXPANSION PLANS



MANILA WATER: FINANCIAL AND OPERATING RESULTS

(in million pesos)	2009	2010	% Change
Revenue	9,533	11,047	+16%
Operating Expenses	2,764	3,412	+23%
EBITDA	6,817	7,634	+12%
Net Income	3,231	3,987	+23%
Billed volume (in million cubic meters)	396	410	+3.5%
Household Connections ('000)	1,086	1,185	+9%
NRW	15.8%	11.0%	4.8% pts.





of LiveIt, Ayala's holding company for its investments in business process outsourcing (BPO).

Ayala's equity in net earnings of associates and jointly controlled entities declined by 17% to ₱6.1 billion from ₱7.4 billion the prior year. The decline mainly reflects the company's shift in the accounting for its investment in Manila Water from equity method to full consolidation method, following its increased stake in the water company and impairment provisions on one of its BPO investments. In addition, the company also booked an impairment provision on AG Holdings for certain real estate investments in North America.

Intense competition in the telecommunications sector weighed on earnings of its telecom unit, Globe Telecom. While Globe's net income of ₱9.7 billion was 22% lower than prior year, performance in the fourth quarter of 2010 was strong as quarter-on-quarter service revenues were up by 7%. This was led by the surge in postpaid plan subscriptions and the increased usage and top-ups in both the Globe Prepaid and TM brands. As a result, Globe expanded total SIM base by 14% to 26.5 million by year-end. On the other hand, the momentum of its broadband business remains strong with revenues up 75% year-on-year. Further improvements in broadband's profitability will also improve consolidated EBITDA margins, which ended the year at 53%.

The decline in equity earnings at the telecom unit were cushioned by the robust growth of Ayala's banking and financial services unit. The Bank of the Philippine Islands (BPI) had another strong year with net income reaching a record ₱11.3 billion, up 33% for the second consecutive year. Solid business growth and trading gains both fuelled the rise in its earnings. Revenues rose by 13% with net interest income up 10% to ₱24 billion driven by a 12% increase in its average asset base. Non-interest income was up 18% due to higher gains from securities trading as well as fee-based income. Loan growth was strong across all segments, sustaining double-digit expansion. The bank's total resources reached ₱878 billion, up 21% while deposits grew by 24% to ₱720 billion as the bank introduced new deposit products to address the needs of its various customers.

Other Income rose by 140% to ₱7.4 billion in 2010 from ₱3.1 billion in 2009. This was mainly due to the revaluation gain on Ayala's investments in Manila Water after it increased its stake in the company. In addition, LiveIt also recognized a revaluation gain after the buy-in of a private equity investor in Integreon. These revaluations are in accordance with Philippine Financial Reporting Standards (PFRS).

Consolidated costs and expenses increased by 24% to ₱79.2 billion, mainly because of a 22% increase in consolidated cost of sales and services. This mainly reflects the impact of the consolidation of Manila Water and expansion of new projects in the real estate group. General and administrative expenses increased by 31% while interest and other financing charges increased by 24%, also largely reflective of the impact of the full consolidation of the water unit.

Other charges were up 44% to ₱2.1 billion primarily due to the impairment provisions taken by AG Holdings for certain investments in North America.

Over-all, Ayala maintains a very strong financial condition. Consolidated cash reached ₱57.1 billion by year-end 2010 with consolidated net debt-to-equity of 0.24 to 1. Return on equity was at 10.6%. On a group-wide basis, capital expenditures are expected to reach ₱79 billion in 2011, 21% higher than capex in 2010, reflecting the group's optimism on the country's growth prospects.

Financial Statements

Report of the Audit and Risk Committee to the Board of Directors
For the Year Ended 31 December 2010

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

In compliance with the Audit and Risk Committee Charter, we confirm that:

- An independent director chairs the Committee;
- We had four (4) regular meetings during the year;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Ayala Corporation and Subsidiaries, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, with the management, internal auditors and SGV & Co., the independent auditor of Ayala Corporation. These activities were performed in the following context:
  - That management has the primary responsibility for the financial statements and the financial reporting process; and
  - That SGV & Co. is responsible for expressing an opinion on the conformity of the Ayala Corporation's audited consolidated financial statements with Philippine Financial Reporting Standards;
- We have discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and SGV & Co. We have also discussed the results of their audits and their assessment of the Company's internal controls and the overall quality of the financial reporting process including their management letter of comments;
- We have reviewed and approved all audit, audit-related and permitted non-audit services provided by SGV & Co. to Ayala Corporation and the related fees for such services. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence;
- We have 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 issues; All the activities performed by Internal Audit were conducted in accordance with the Standards for the Professional Practice of Internal Auditing;
- The Company's enterprise risk management procedures and processes are currently under review for further enhancement and a follow up risk assessment is planned for next year. We will review the adequacy of the risk management process and the effectiveness of the control environment in succeeding periodic reviews.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit and Risk Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2010 for filing with the Securities and Exchange Commission and the Philippine Stock Exchange. We are also recommending to the Board of Directors the re-appointment of SGV & Co. as Ayala Corporation's independent auditor for 2011 based on the review of their performance and qualifications.

10 March 2011

XAVIER P. LOINAZ
Chairman

NOBUYA ICHIKI
Member

RAMON R. DEL ROSARIO JR.
Member

Statement of Management's Responsibility for Financial Statements

The management for Ayala Corporation is responsible for all information and representations contained in the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010, and the summary of significant accounting policies and other explanatory notes. The consolidated financial statements have been prepared in accordance with 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 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 management likewise discloses to the Company's Audit Committee 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 consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the Board of Directors and stockholders, had audited the consolidated financial statements of the Company and its Subsidiaries in accordance with Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the stockholders and Board of Directors dated March 14, 2011.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors and Chief Executive Officer

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

DELFIN C. GONZALEZ, JR.
Chief Finance Officer

Report of Independent Auditors

The Stockholders and the Board of Directors
Ayala Corporation
Tower One, Ayala Triangle
Ayala Avenue, Makati City

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ayala Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information. In the consolidated financial statements, the Group's investment in Bank of the Philippine Islands and Subsidiaries is stated at ₱29,406 million as of December 31, 2009 and the Group's equity in the net income of Bank of the Philippine Islands and Subsidiaries is stated at ₱2,707 million in 2009 and ₱2,145 million in 2008. The consolidated financial statements of Bank of the Philippine Islands and Subsidiaries as at December 31, 2009 and 2008, in which the Group has a 33.5% effective interest, were audited by other auditors whose report has been furnished to us, and our opinion on the consolidated financial statements, insofar, as it relates to the amounts included for Bank of the Philippine Islands and Subsidiaries, is based solely on the report of the other auditors.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained and the report of other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Ayala Corporation and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-2
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641512, January 3, 2011, Makati City

March 14, 2011

Consolidated Statements of Financial Position
(Amounts in Thousands)

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 30 and 31)	**₱53,142,777**	₱45,656,889
Short-term investments (Notes 5 and 31)	**3,993,533**	4,560,976
Accounts and notes receivable - net (Notes 6, 30 and 31)	**26,184,128**	25,232,799
Inventories (Note 7)	**18,374,656**	10,225,114
Other current assets (Notes 8 and 31)	**6,911,634**	6,789,323
Total Current Assets	**108,606,728**	92,465,101
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 6 and 31)	**4,793,315**	2,657,623
Land and improvements (Note 9)	**16,433,698**	17,582,562
Investments in associates and jointly controlled entities - net (Note 10)	**72,004,879**	71,556,952
Investments in bonds and other securities (Notes 11 and 31)	**4,854,337**	3,543,458
Investment properties - net (Note 12)	**29,488,275**	28,123,982
Property, plant and equipment - net (Note 13)	**11,698,923**	8,737,611
Service concession assets - net (Note 14)	**59,097,769**	–
Intangible assets - net (Note 15)	**3,083,089**	4,611,884
Pension assets (Note 26)	**190,658**	132,419
Deferred tax assets - net (Note 24)	**2,749,148**	1,395,992
Other noncurrent assets (Note 16)	**2,587,255**	1,341,836
Total Noncurrent Assets	**206,981,346**	139,684,319
Total Assets	**₱315,588,074**	₱232,149,420
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 17, 30 and 31)	**₱37,896,575**	₱27,664,537
Short-term debt (Notes 19, 30 and 31)	**4,519,287**	2,638,658
Income tax payable	**440,834**	506,114
Current portion of:		
Long-term debt (Notes 19, 30 and 31)	**11,237,343**	2,453,144
Service concession obligation (Notes 14 and 31)	**794,473**	–
Other current liabilities (Note 18)	**2,631,344**	2,821,932
Total Current Liabilities	**57,519,856**	36,084,385
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 30 and 31)	**67,079,948**	51,431,583
Service concession obligation - net of current portion (Notes 14 and 31)	**7,025,751**	–
Deferred tax liabilities - net (Note 24)	**5,893,442**	207,425
Pension liabilities (Note 26)	**340,903**	228,312
Other noncurrent liabilities (Note 20)	**10,942,291**	8,779,565
Total Noncurrent Liabilities	**91,282,335**	60,646,885
Total Liabilities	**148,802,191**	96,731,270
Equity		
Equity attributable to equity holders of Ayala Corporation		
Paid-up capital (Note 21)	**37,855,466**	37,477,875
Share-based payments (Note 27)	**1,243,055**	1,059,588
Retained earnings (Note 21)	**74,011,144**	65,739,096
Cumulative translation adjustments	**(1,763,471)**	(1,351,334)
Net unrealized gain on available-for-sale financial assets (Note 11)	**1,128,734**	123,916
Parent Company preferred shares held by subsidiaries (Note 21)	**(250,000)**	(100,000)
Equity reserve	**148,302**	–
Treasury stock (Note 21)	**(4,832,262)**	(688,714)
	107,540,968	102,260,427
Non-controlling interests	**59,244,915**	33,157,723
Total Equity	**166,785,883**	135,418,150
Total Liabilities and Equity	**₱315,588,074**	₱232,149,420

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2010	2009	2008
INCOME			
Sales and services revenue (Notes 12 and 30)	**₱82,079,916**	₱63,236,789	₱64,383,252
Equity in net income of associates and jointly controlled entities	**6,124,137**	7,361,015	7,396,180
Interest income	**2,520,658**	2,634,533	2,579,263
Other income (Note 22)	**7,346,589**	3,061,478	4,749,958
	98,071,300	76,293,815	79,108,653
COSTS AND EXPENSES			
Costs of sales and services (Notes 7, 12, 22 and 30)	**60,261,687**	49,318,294	50,014,366
General and administrative (Notes 22, 26 and 30)	**12,096,200**	9,214,570	9,485,514
Interest expense and other financing charges (Notes 19 and 22)	**4,755,989**	3,822,342	4,937,108
Other charges (Note 22)	**2,071,909**	1,435,038	1,595,422
	79,185,785	63,790,244	66,032,410
INCOME BEFORE INCOME TAX	**18,885,515**	12,503,571	13,076,243
PROVISION FOR INCOME TAX (Note 24)			
Current	**3,057,133**	2,010,214	2,442,789
Deferred	**(157,543)**	(311,530)	(25,234)
	2,899,590	1,698,684	2,417,555
NET INCOME	**₱15,985,925**	₱10,804,887	₱10,658,688
Net Income Attributable to:			
Equity holders of Ayala Corporation	**₱11,161,092**	₱8,154,345	₱8,108,597
Non-controlling interests	**4,824,833**	2,650,542	2,550,091
	₱15,985,925	₱10,804,887	₱10,658,688
EARNINGS PER SHARE (Note 25)			
Basic	**₱20.56**	₱14.23	₱15.22
Diluted	**₱20.47**	₱14.19	₱15.17

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income
(Amounts in Thousands)

	Years Ended December 31		
	2010	2009	2008
NET INCOME	**₱15,985,925**	₱10,804,887	₱10,658,688
OTHER COMPREHENSIVE INCOME			
Exchange differences arising from translations of foreign investments	**(443,925)**	(260,419)	1,805,405
Changes in fair values of available-for-sale financial assets	**292,075**	431,329	(751,054)
	(151,850)	170,910	1,054,351
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES			
Exchange differences arising from translations of foreign investments	**(100,530)**	(226,115)	(203,276)
Changes in fair values of available-for-sale financial assets	**800,644**	322,448	(1,586,875)
	700,114	96,333	(1,790,151)
TOTAL COMPREHENSIVE INCOME	**₱16,534,189**	₱11,072,130	₱9,922,888
Total Comprehensive Income Attributable To:			
Equity holders of Ayala Corporation	**₱11,753,773**	₱8,526,832	₱7,093,753
Non-controlling interests	**4,780,416**	2,545,298	2,829,135
	₱16,534,189	₱11,072,130	₱9,922,888

See accompanying Notes to Consolidated Financial Statements.

Ayala Corporation and Subsidiaries

Consolidated Statements of Changes in Equity

(Amounts in Thousands)

	EQUITY ATTRRIBUTABLE TO THE EQUITY HOLDERS OF AYALA CORPORATION									
	Paid-up Capital (Note 21)	Share-based Payments (Note 27)	Cumulative Translation Adjustments	Retained Earnings (Note 21)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 11)	Equity Reserve	Parent Company Preferred Shares Held by Subsidiaries (Note 21)	Treasury Stock (Note 21)	Non-controlling Interests	Total Equity
	For the year ended December 31, 2010									
At January 1, 2010	₱37,477,875	₱1,059,588	(₱1,351,334)	₱65,739,096	₱123,916	₱–	(₱100,000)	(₱688,714)	₱33,157,723	₱135,418,150
Net income	–	–		11,161,092	–	–	–	–	4,824,833	15,985,925
Other comprehensive income	–	–	(412,137)		1,004,818	–	–	–	(44,417)	548,264
Total comprehensive income	–	–	(412,137)	11,161,092	1,004,818	–	–	–	4,780,416	16,534,189
Issuance/subscription of shares	377,591	–	–	–	–	–	–	–	–	377,591
Cost of share-based payments of Ayala Corporation	–	107,874	–	–	–	–	–	–	–	107,874
Cost of share-based payments of investees	–	75,593	–	–	–	–	–	–	58,190	133,783
Parent Company preferred shares held by a Subsidiary	–	–	–	–	–	–	(150,000)	–	–	(150,000)
Acquisition of treasury stock	–	–	–	–	–	–	–	(4,143,548)	–	(4,143,548)
Cash dividends	–	–	–	(2,889,044)	–	–	–	–	(1,641,817)	(4,530,861)
Increase in non-controlling interests	–	–	–	–	–	–	–	–	22,553,530	22,553,530
Effect of change in ownership interests in subsidiaries	–	–	–	–	–	148,302	–	–	336,873	485,175
At December 31, 2010	₱37,855,466	₱1,243,055	(₱1,763,471)	₱74,011,144	₱1,128,734	₱148,302	(₱250,000)	(₱4,832,262)	₱59,244,915	₱166,785,883

	EQUITY ATTRRIBUTABLE TO THE EQUITY HOLDERS OF AYALA CORPORATION								
	Paid-up Capital (Note 21)	Share-based Payments (Note 27)	Cumulative Translation Adjustments	Retained Earnings (Note 21)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 11)	Parent Company Preferred Shares Held by a Subsidiary (Note 21)	Treasury Stock (Note 21)	Non-controlling Interests	Total Equity
	For the year ended December 31, 2009								
At January 1, 2009	₱37,251,714	₱705,457	(₱968,778)	₱61,604,466	(₱631,127)	(₱100,000)	(₱550,540)	₱30,876,103	₱128,187,295
Net income	–	–	–	8,154,345	–	–	–	2,650,542	10,804,887
Other comprehensive income	–	–	(382,556)	–	755,043	–	–	(105,244)	267,243
Total comprehensive income	–	–	(382,556)	8,154,345	755,043	–	–	2,545,298	11,072,130
Issuance/subscription of shares	226,161	(1,708)	–	–	–	–	–	–	224,453
Cost of share-based payments of Ayala Corporation	–	4,429	–	–	–	–	–	–	4,429
Cost of share-based payments of investees	–	351,410	–	–	–	–	–	63,398	414,808
Acquisition of treasury stock	–	–	–	–	–	–	(138,174)	–	(138,174)
Cash dividends	–	–	–	(4,019,715)	–	–	–	(537,017)	(4,556,732)
Increase in non-controlling interests	–	–	–	–	–	–	–	209,941	209,941
At December 31, 2009	₱37,477,875	₱1,059,588	(₱1,351,334)	₱65,739,096	₱123,916	(₱100,000)	(₱688,714)	₱33,157,723	₱135,418,150

	EQUITY ATTRRIBUTABLE TO THE EQUITY HOLDERS OF AYALA CORPORATION								
	Paid-up Capital (Note 21)	Share-based Payments (Note 27)	Cumulative Translation Adjustments	Retained Earnings (Note 21)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 11)	Parent Company Preferred Shares Held by a Subsidiary (Note 21)	Treasury Stock (Note 21)	Non-controlling Interests	Total Equity
			For the year ended December 31, 2008						
At January 1, 2008	₱26,855,394	₱603,949	(₱2,297,077)	₱60,172,621	₱1,712,016	₱–	(₱159,693)	₱27,609,387	₱114,496,597
Net income	–	–	–	8,108,597	–	–	–	2,550,091	10,658,688
Other comprehensive income	–	–	1,328,299	–	(2,343,143)	–	–	279,044	(735,800)
Total comprehensive income	–	–	1,328,299	8,108,597	(2,343,143)	–	–	2,829,135	9,922,888
Issuance/subscription of shares	6,322,349	(20,801)	–	–	–	–	–	–	6,301,548
Additions to subscriptions receivable	(64,745)	–	–	–	–	–	–	–	(64,745)
Cost of share-based payments of Ayala Corporation	–	4,018	–	–	–	–	–	–	4,018
Cost of share-based payments of investees	–	118,291	–	–	–	–	–	27,446	145,737
Parent Company preferred shares held by a subsidiary	–	–	–	–	–	(100,000)	–	–	(100,000)
Acquisition of treasury stock	–	–	–	–	–	–	(390,847)	–	(390,847)
Cash dividends	–	–	–	(2,538,036)	–	–	–	(552,592)	(3,090,628)
Stock dividends	4,138,716	–	–	(4,138,716)	–	–	–	–	–
Increase in non-controlling interests	–	–	–	–	–	–	–	962,727	962,727
At December 31, 2008	₱37,251,714	₱705,457	(₱968,778)	₱61,604,466	(₱631,127)	(₱100,000)	(₱550,540)	₱30,876,103	₱128,187,295

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
(Amounts in Thousands)

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱18,885,515**	₱12,503,571	₱13,076,243
Adjustments for:			
Depreciation and amortization (Note 22)	**5,228,394**	3,345,985	2,940,216
Interest and other financing charges - net of amount capitalized (Note 22)	**4,755,989**	3,822,342	3,481,156
Provision for impairment loss (Note 22)	**1,149,232**	1,435,038	1,259,085
Cost of share-based payments (Note 27)	**374,956**	471,572	342,919
Equity in net income of associates and jointly controlled entities	**(6,124,137)**	(7,361,015)	(7,396,180)
Remeasurement gain arising from business combinations - net	**(3,790,864)**	–	–
Interest income	**(2,520,658)**	(2,634,533)	(2,579,263)
Gain on deemed disposal of a subsidiary (Note 22)	**(2,110,272)**	–	–
Other investment income (Note 22)	**(306,601)**	(227,015)	(264,495)
Gain on sale of other assets (Note 22)	**(162,156)**	(168,063)	(45,409)
Bargain purchase gain (Note 22)	**(53,327)**	(235,851)	–
Gain on sale of investments (Note 22)	**(13,972)**	(1,698,820)	(3,554,679)
Operating income before changes in working capital	**15,312,099**	9,253,211	7,259,593
Decrease (increase) in:			
Accounts and notes receivable	**(405,287)**	559,916	(8,896,301)
Inventories	**(499,974)**	(863,784)	(1,248,050)
Other current assets	**(499,632)**	394,741	(1,197,782)
Increase (decrease) in:			
Accounts payable and accrued expenses	**4,492,023**	(297,145)	4,169,567
Net pension liabilities	**(161,471)**	(277,463)	(17,620)
Other current liabilities	**(1,068,210)**	977,354	(38,164)
Cash generated from operations	**17,169,548**	9,746,830	31,243
Interest received	**2,348,631**	2,500,661	2,519,747
Interest paid	**(4,585,346)**	(3,921,315)	(3,655,908)
Income tax paid	**(3,122,413)**	(1,407,267)	(2,514,143)
Net cash provided by (used in) operating activities	**11,810,420**	6,918,909	(3,619,061)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale of investments	**1,986,544**	2,782,910	9,777,713
Sale of available-for-sale financial assets	**303,408**	775,353	139,095
Disposals of:			
Property, plant and equipment (Note 13)	**289,942**	685,882	130,757
Investment properties (Note 12)	**3,685**	665,475	45,409
Land and improvements (Note 9)	**4,756**	–	–
Maturities of (additions to) short-term investments	**2,445,576**	(3,552,052)	2,678,683
Additions to:			
Service concession asset (Note 14)	**(7,056,261)**	–	–
Investments	**(4,886,283)**	(1,872,563)	(6,117,884)
Property, plant and equipment (Note 13)	**(3,534,412)**	(2,489,030)	(5,965,432)
Investment properties (Note 12)	**(2,909,517)**	(3,512,459)	(773,616)
Land and improvements (Note 9)	**(2,372,740)**	(3,396,777)	(145,544)
Available-for-sale financial assets	**(485,869)**	(926,982)	(2,220,736)
Intangible assets (Note 15)	**(33,394)**	(241,653)	–
Dividends received from associates and jointly controlled entities	**6,703,464**	7,679,136	8,326,390
Acquisitions through business combinations - net of cash acquired (Note 23)	**2,040,154**	(800,312)	(891,935)
Decrease in other noncurrent assets	**414,621**	583,436	292,557
Net cash provided by (used in) investing activities	**(7,086,326)**	(3,619,636)	5,275,457

(Forward)

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term and long-term debt	**₱18,107,926**	₱13,303,049	₱13,045,651
Issuance of preferred shares	**199,000**	–	5,958,307
Collections of (additions to) subscriptions receivable	**67,156**	31,198	(64,745)
Payments of short-term and long-term debt	**(8,312,516)**	(11,826,486)	(12,025,905)
Dividends paid	**(4,569,050)**	(3,626,165)	(2,925,409)
Acquisition of treasury shares (Note 21)	**(4,143,548)**	(138,173)	(390,848)
Service concession obligation paid (Note 14)	**(186,213)**	–	–
Increase in:			
Other noncurrent liabilities	**630,993**	1,518,460	396,915
Non-controlling interests in consolidated subsidiaries	**968,046**	209,941	399,881
Net cash provided by (used in) financing activities	**2,761,794**	(528,176)	4,393,847
NET INCREASE IN CASH AND CASH EQUIVALENTS	**7,485,888**	2,771,097	6,050,243
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**45,656,889**	42,885,792	36,835,549
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱53,142,777**	₱45,656,889	₱42,885,792

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

Ayala Corporation (the Company) is incorporated in the Republic of the Philippines. The Company's registered office address and principal place of business is Tower One, Ayala Triangle, Ayala Avenue, Makati City. The Company is a publicly listed company which is 52.11% owned by Mermac, Inc., 10.82% owned by Mitsubishi Corporation and the rest by the public.

The Company is the holding company of the Ayala Group of Companies, with principal business interests in real estate and hotels, financial services and bancassurance, telecommunications, electronics, information technology and business process outsourcing services, utilities, automotives, international and others.

The consolidated financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 were endorsed for approval by the Audit and Risk Committee on March 10, 2011 and authorized for issue by the Board of Directors (BOD) on March 14, 2011.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱) and all values are rounded to the nearest thousand pesos (₱000) unless otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
Basis of consolidation from January 1, 2010
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly-owned and are presented separately in the consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of changes in equity and within equity in the consolidated statements of financial position, separately from the Company's equity.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity as "Equity reserve" and attributed to the owners of the Company.

If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences, recorded in equity.
- Recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss (included under gain/loss on disposal of subsidiary).
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to January 1, 2010
Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognized in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at January 1, 2010 have not been restated.

The consolidated financial statements comprise the financial statements of the Company and the following wholly- and majority-owned domestic and foreign subsidiaries:

	Effective Percentages of Ownership	
	2010	2009
Real Estate and Hotels:		
Ayala Land, Inc. (ALI) and subsidiaries (ALI Group)	**53.2***	53.3*
Ayala Hotels, Inc. (AHI) and subsidiaries	**76.6**	76.7
Technopark Land, Inc.	**78.8**	78.8
Electronics, Information Technology and Business Process Outsourcing Services:		
Azalea Technology Investments, Inc. and subsidiaries (Azalea Technology)	**100.0**	100.0
Azalea International Venture Partners, Limited (AIVPL) (British Virgin Islands Company) and subsidiaries	**100.0**	100.0
LiveIt Solutions, Inc. (LSI) and subsidiaries	**100.0**	100.0
Integrated Microelectronics, Inc. (IMI) and subsidiaries**	**67.2**	67.8
Automotive:		
Ayala Automotive Holdings Corporation (AAHC) and subsidiaries	**100.0**	100.0
Water Utilities:		
Manila Water Company, Inc. (MWC) and subsidiaries (MWC Group) (Note 23)	**43.1**	–
Philwater Holdings Company, Inc. (Philwater) (Note 23)	**100.0**	–
Water Capital Works, Inc. (WCW) (Note 23)	**100.0**	–

(Forward)

	Effective Percentages of Ownership	
	2010	2009
International and Others:		
Bestfull Holdings Limited (incorporated in Hong Kong) (BHL) and subsidiaries (BHL Group)	**100.0**	100.0
AC International Finance Limited (ACIFL) (Cayman Island Company) and a subsidiary	**100.0**	100.0
AYC Finance Ltd. (Cayman Island Company) (AYCFL)	**100.0**	100.0
Michigan Holdings, Inc. (MHI) and subsidiary	**100.0**	100.0
Ayala Aviation Corporation	**100.0**	100.0
Darong Agricultural and Development Corporation	**100.0**	100.0
Purefoods International, Ltd. (PFIL)	**100.0**	100.0
Michigan Power, Inc.	**100.0**	100.0
AG Counselors Corporation	**100.0**	100.0
MPM Noodles Corporation	**100.0**	100.0

**The Company owns 75.25% and 75.33% of the total common and preferred shares of ALI as of December 31, 2010 and 2009, respectively.*

*** A subsidiary of AYC Holdings, Ltd. which is a subsidiary of ACIFL.*

On March 2, 2010, Azalea Technology and AIVPL entered into a deed of return of deposits for future subscription wherein AIVPL returned the amount of ₱8.2 million to Azalea Technology.

On June 25, 2010, AIVPL repurchased all the shares held by Azalea Technology representing 2.22% ownership interest in AIVPL amounting to US$4.1 million. This resulted in AIVPL becoming a wholly-owned subsidiary of the Company.

On February 18, 2010, AIVPL and LiveIt Investments Ltd. (LIL) entered into a deed of return of deposits for future subscription wherein LIL returned the amount of US$21.6 million to AIVPL.

On February 19, 2010, AIVPL and the Company entered into a deed of return of deposits for future subscription wherein AIVPL returned the amount of US$17.4 million to the Company.

On September 27, 2010, AIVPL and the Company entered into a subscription agreement wherein the Company subscribed to 35.8 million shares of AIVPL and paid US$1 per share (equivalent to the par value) for a total of US$35.8 million. Consequently, AIVPL and LIL entered into a subscription agreement wherein AIVPL subscribed to 3.6 million shares of LIL and paid US$10 per share (equivalent to the par value) for a total of US$35.8 million. On the same date, LIL and NewBridge International Investments, Ltd. (NewBridge) entered into a subscription agreement wherein LIL subscribed to 3.6 million shares of NewBridge and paid US$10 per share (equivalent to the par value) for a total of US$35.8 million.

On December 22, 2010, AIVPL and the Company entered into a subscription agreement wherein the Company subscribed to 1.0 million shares of AIVPL and paid US$1 per share (equivalent to par value) for a total of US$1.0 million which AIVPL used to invest in Preferred C units of Victoria 1522 Investments, LP (see Note 11).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) which became effective beginning January 1, 2010. Except as otherwise stated, the adoption of these new and amended Standards and Philippine Interpretations did not have any impact on the consolidated financial statements.

PFRS 2 (Amendment), *Share-based Payment-Group Cash-settled Share-based Payment Transactions*

The Amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions.

PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amendment), *Consolidated and Separate Financial Statements*
PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss.

Furthermore, the Amendment changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
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. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the Amendment will have no impact on its financial position or performance as it has not entered into any such hedges.

Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*
This Philippine Interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to PFRS
Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Improvements to PFRSs 2008

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations:* clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The Amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

Improvements to PFRSs 2009

- PFRS 2, *Share-based Payment*: the Amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8, *Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*: the Amendment clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*: states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*: the Amendment now requires that leases of land are classified as either ‘finance’ or ‘operating’ in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*: the Amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*: the Amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*: the Amendment clarifies the following:
  i. that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
  ii. that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
  iii. that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*: the Amendment clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*: the Amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

<u>Future Changes in Accounting Policies</u>
The Group will adopt the following new and amended Standards and Philippine Interpretations enumerated below 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 the consolidated financial statements.

Effective 2011

PAS 24 (Amended), *Related Party Disclosures*
The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

PAS 32 (Amendment), *Financial Instruments: Presentation - Classification of Rights Issues*
The Amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010. It amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*
The Amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The Amendment provides guidance on assessing the recoverable amount of a net pension asset and permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
This Philippine Interpretation is effective for annual periods beginning on or after July 1, 2010. The Philippine Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRS
The omnibus amendments to PFRSs issued in May 2010 were issued primarily with a view to removing inconsistencies and clarifying wordings. The amendments are effective for annual periods beginning January 1, 2011, except as otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effects on the consolidated financial statements.

- PFRS 3 (Revised), *Business Combination*
  This Amendment clarifies that the Amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32 and PAS 39 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

  It also limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interest are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS.

  The Amendment also requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post-combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. It further specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of non-controlling interest and measured at their market- based measure; if unvested - they are measured at market-based value as if granted at acquisition date, and allocated between non-controlling interest and post-combination expense.

- PFRS 7, *Financial Instruments: Disclosures*
  This Amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendments to quantitative and credit risk disclosures are as follows:

  a. Clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk.
  b. Requires, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk).
  c. Remove disclosure of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired.
  d. Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired.
  e. Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

- PAS 1, *Presentation of Financial Statements*
  This Amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- PAS 27, *Consolidated and Separate Financial Statements*
  This Amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This Amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Effective 2012

Philippine Interpretation IFRIC 15, *Agreement for the Construction of Real Estate*
This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a 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. The adoption of this Philippine Interpretation will be accounted for retrospectively, and will result to restatement of prior period financial statements. The adoption of this Philippine Interpretation may significantly affect the determination of revenue for real estate sales and the corresponding cost, and the related trade receivables, deferred tax liabilities and retained earnings accounts. The Group is in the process of quantifying the impact of adoption of this Philippine Interpretation when it becomes effective in 2012.

PAS 12 (Amendment), *Income Taxes - Deferred Tax: Recovery of Underlying Assets*
The Amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

PFRS 7 (Amendments), *Financial Instruments: Disclosures - Disclosures - Transfers of Financial Assets*
The Amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Effective 2013

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The Standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a more comprehensive picture.

<u>Cash and Cash Equivalents</u>
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 acquisition and which are subject to an insignificant risk of change in value.

<u>Short-term Investments</u>
Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.

<u>Financial Instruments</u>
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments
All financial assets and financial liabilities are recognized initially at fair value. Except for securities at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The Group also classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, option 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 from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of income under "Interest income" or "Interest expense and other financing charges" unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

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

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Fair value gains or losses on investments held for trading, net of interest income accrued on these assets, are recognized in the consolidated statement of income under "Other income" or "Other charges". Interest earned or incurred is recorded in "Interest income" or "Interest expense and other financing charges" while dividend income is recorded when the right of payments has been established.

Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and financial liabilities may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) 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 (ii) the assets or liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

The Group's financial assets at FVPL pertain to government securities and other investment securities and derivatives not designated as hedges. The Group's financial liabilities at FVPL pertains to the embedded derivative arising from the acquisition of PSi.

Derivative financial instruments
Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

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 of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

HTM investments
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "Interest income" in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the consolidated statement of income under "Other charges" account.

As of December 31, 2010 and 2009, the Group has no outstanding HTM investments.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial asset at FVPL. This accounting policy relates both to the statement of financial position captions "Short-term investments" and "Accounts and notes receivable" (except for Advances to contractors).

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the "Interest income" account in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized under "Provision for doubtful accounts" in the consolidated statement of income.

Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, they are classified as noncurrent assets.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS financial assets are recognized in the consolidated statement of comprehensive income and are reported as "Net unrealized gain (loss) on available-for-sale financial assets" (net of tax where applicable) in equity. The Group's share in its associates'/jointly controlled entities' net unrealized gain (loss) on AFS is likewise included in this account.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under "Other income" or "Other charges". Where the Group holds more than one investment in the same security, the cost is determined using the weighted average method. Interest earned on AFS financial assets is reported as interest income using the effective interest rate. Dividends earned are recognized under "Other income" in the consolidated statement of income when the right to receive payment is established. The losses arising from impairment of such investments are recognized under "Provision for impairment losses" in the consolidated statement of income (see Note 22).

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

The Group's AFS financial assets pertain to investments in debt and equity securities included under "Investments in bonds and other securities" in the consolidated statement of financial position. AFS financial assets are included under "Other current assets" if expected to be realized within 12 months from reporting date.

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 its own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. 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 discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to the Group's short-term and long-term debt, accounts payable and accrued expenses, and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

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

For deposits, the difference between the cash received and its fair value is deferred (included in the "Deferred credits" account in the consolidated statement of financial position) and amortized using the straight-line method with the amortization included under the "Sales and services revenue" account in the consolidated statement of income.

Customers' Guaranty and Other Deposits
Customers' guaranty and other deposits are initially measured at fair value. After initial recognition, these deposits are subsequently measured at amortized cost using the effective interest rate method. Amortization of customers' guaranty and other deposits are included under "Interest expense and other financing charges" in the consolidated statement of income. The difference between the cash received and its fair value is recognized as "Deferred credits". Deferred credits are amortized over the remaining concession period using the effective interest rate method.

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the assets have expired;
- 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
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or, has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for 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 for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is charged to the consolidated statement of income under "Provision for doubtful accounts" (see Note 22). Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

AFS financial assets
In the case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. “Significant” is to be evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from other comprehensive income and recognized in the consolidated statement of income under “Other charges.” Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of “Interest income” account in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position 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.

Inventories
Inventories are carried at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and conditions are generally accounted for as follows:

Real estate inventories - cost includes land cost, amounts paid to contractors for construction, capitalized borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs. The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

Vehicles - purchase cost on specific identification basis.

Finished goods and work-in-process - determined on a moving average basis; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Parts and accessories, materials, supplies and others - purchase cost on a moving average basis.

NRV for real estate inventories, vehicles, finished goods and work-in-process and parts and accessories is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale, while NRV for materials, supplies and others represents the related replacement costs.

An allowance for inventory losses is provided for slow-moving, obsolete and defective inventories based on management’s physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged against operations.

Prepaid Expenses
Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for commissions, marketing fees, advertising and promotions, taxes and licenses, rentals and insurance.

Land and Improvements
Land and improvements consist of properties for future development and are carried at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale. Cost includes cost of purchase and those costs incurred for improvement of the properties.

Investments in Associates and Jointly Controlled Entities
Investments in associates and jointly controlled entities (investee companies) are accounted for under the equity method. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

An investment in an associate or joint venture is accounted for using the equity method from the day it becomes an associate or joint venture. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and neither amortized nor individually tested for impairment. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the investees.

Under the equity method, investments in associates and jointly controlled entities are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value. The Group's share in the investee's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the investee's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies and to the extent that for unrealized losses, there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when its investment in an investee company is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee company. When the investee company subsequently reports profits, the Group resumes recognizing its share of the profits only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the investee companies and the Group are identical and the investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Beginning January 1, 2010, upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Interest in a Joint Venture
Makati Development Corporation (MDC), an ALI subsidiary, has an interest in a joint venture, whereby the venturers have a contractual arrangement that establishes joint control. MDC recognizes its interest in the joint venture using proportionate consolidation. MDC combines its share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies into line with those of MDC.

Adjustments are made in the consolidated financial statements to eliminate the Group's share of unrealized gains and losses on transactions between the Group and the joint venture. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the NRV of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Investment Properties
Investment properties comprise completed property and property under construction or re-development that are held to earn rentals, and are not occupied by the companies in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Construction-in-progress are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, regardless of utilization. The estimated useful lives and the depreciation method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

The estimated useful lives of buildings range from 20-40 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.

Property, Plant and Equipment
Property, plant and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property, plant and equipment consists of its construction cost or purchase price and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use.

Construction-in-progress is stated at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use and computed on a straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

Buildings and improvements	3-40 years
Machinery and equipment	3-10 years
Furniture, fixtures and equipment	2-10 years
Transportation equipment	3-5 years
Hotel property and equipment	20-50 years

The assets' residual values, useful lives and depreciation and amortization methods are reviewed periodically to ensure that the amounts, periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When property, plant and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Service Concession Assets and Obligations
MWC Group accounts for its concession arrangements with Metropolitan Waterworks and Sewerage System (MWSS), Province of Laguna (POL) and Tourism Infrastructure and Enterprise Zone authority (TIEZA), under the Intangible Asset model as it receives the right (license) to charge users of public service. Under these concession agreements, MWC Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services. The legal title to these assets shall remain with MWSS, POL and TIEZA at the end of the concession period.

The "Service concession assets" (SCA) pertain to the fair value of the service concession obligations at drawdown date and construction costs related to the rehabilitation works performed by the Group. The SCA are amortized using the straight-line method over the life of the concession.

In addition, MWC recognizes and measures revenue from rehabilitation works in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. The useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized over their useful lives on a straight line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The estimated useful lives of intangible assets follow:

Customer relationships	2-5 years
Order backlog	6 months
Unpatented technology	5 years
Developed software	2 years
Licenses	3 years
Technical service agreement	3 years

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible assets and is recognized in the consolidated statement of income when the intangible asset is derecognized.

Business Combinations and Goodwill

Business combinations from January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss included under "Remeasurement gain/loss arising from business combination."

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of comprehensive income any excess remaining after reassessment.

Business combinations prior to January 1, 2010
In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

<u>Impairment of Nonfinancial Assets</u>
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments in associates and jointly controlled entities
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee company. The Group determines at each reporting date whether there is any objective evidence that the investment in the investee company is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the investee company and the carrying cost and recognizes the amount as a reduction of the "Equity in net income of associates and jointly controlled entities" account in the consolidated statement of income.

Impairment of goodwill
For assessing impairment of goodwill, a test for impairment is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Equity
When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue and Cost 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.

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee (PIC), Q&A 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished, and the costs incurred or to be incurred can be measured reliably). Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included under “Other current liabilities” in the liabilities section of the consolidated statement of financial position.

If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the “Other current liabilities” account in the liabilities section of the consolidated statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group’s in-house technical staff.

Revenue from construction contracts are recognized using the percentage-of-completion method, measured principally on the basis of the estimated physical completion of the contract work.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Rooms revenue from hotel and resort operations are recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place.

Water and sewer revenue are recognized when the related water and sewerage services are rendered. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. Twelve percent of the water revenue are recognized as environmental charges as provided for in the concession agreement. Other customer related fees such as reconnection and disconnection fees are recognized when these services have been rendered.

Revenue from rehabilitation works is recognized and measured by MWC in accordance with PAS 11 and PAS 18 for the services it performs. Costs related to rehabilitation works is recorded as part of SCA.

When MWC provides construction or upgrade services, the consideration received or receivable is recognized at its fair value. MWC accounts for revenue and costs relating to operation services in accordance with PAS 18.

Revenue from sales of electronic products and vehicles are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received excluding discounts, returns, rebates and sales taxes.

Revenue from business process outsourcing services is recognized based on per employee, per transaction or per hour basis and when services are rendered.

Marketing fees, management fees from administrative and property management are recognized when services are rendered.

Interest income is recognized as it accrues using the effective interest method.

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

Gain/loss on sale of investments
Prior to January 1, 2010, gain or loss is recognized in the consolidated statement of income if the Group disposes some of its investment in a subsidiary or associate. Gain or loss is computed as the difference between the proceeds of the disposal and its carrying amount, including the carrying amount of goodwill, if any.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of 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. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the consolidated asset are classified as operating leases. Fixed lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Group as lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rent is recognized as revenue in the period in which it is earned.

Commission Expense
Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage-of-completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included under “Costs of sales and services” in the consolidated statement of income.

Expenses
Direct operating expenses and general and administrative expenses, except for lease agreements, are recognized as they are incurred.

Borrowing Costs
Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets (included in “Real estate inventories”, “Investment properties”, “Property, plant and equipment” and “Service concession assets” accounts in the consolidated statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized as from the commencement of the development work until the date of practical completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

<u>Pension Cost</u>
Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, recognized actuarial gains and losses and the effect of any curtailments or settlements.

The net pension liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related pension liabilities or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

The net pension asset is the lower of the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in future periods, or the total of any 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 the future contributions to the plan.

Actuarial gains and losses are recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

<u>Income Tax</u>
Current tax
Current tax assets and liabilities for the current and prior periods 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 substantively enacted as of reporting date.

Deferred tax
Deferred income tax is provided, using the liability method, on all temporary differences, with certain exceptions, at the reporting 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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in jointly controlled entities. With respect to investments in foreign subsidiaries, associates and interests in jointly controlled entities, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

Income tax relating to items recognized directly in equity is recognized in equity.

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 the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign Currency Transactions
The functional and presentation currency of Ayala Corporation and its Philippine subsidiaries (except for AYCFL, ACIFL, PFIL, BHL, AIVPL and IMI), is the Philippine Peso (₱). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in the consolidated statement of comprehensive income until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currency of AYCFL, ACIFL, PFIL, BHL, AIVPL and IMI is the US Dollar (US$). As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and their statement of income accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in the consolidated statement of income.

The Group's share in the associates' translation adjustments are likewise included under the "Cumulative translation adjustments" account in the consolidated statement of comprehensive income.

MWC
As approved by the MWSS Board of Trustees (BOT) under Amendment No. 1 of the Concession Agreement, the following will be recovered through billings to customers:

a. Restatement of foreign currency-denominated loans;

b. Excess of actual Concession Fee payment over the amounts of Concession Fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱44.0:US$1.0 based on the last rate rebasing exercise effective on January 1, 2008.

c. Excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and

d. Excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

In view of the automatic reimbursement mechanism, MWC recognizes deferred foreign currency differential adjustment (FCDA) (included as part of "Other noncurrent assets" in the consolidated statement of financial position) for both the realized and unrealized foreign exchange gains and losses. Other water revenue-FCDA is credited (debited) upon recovery (refund) of realized foreign exchange losses (gains). The write-off or reversal of the deferred FCDA pertaining to concession fees will be made upon determination of the rebased foreign exchange rate, which is assumed in the business plan approved by MWSS-RO during the latest Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

Share-based Payments
The Group have equity-settled, share-based compensation plans with its employees.

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will ultimately vest. Fair value is determined by using the Black-Scholes model, further details of which are provided in Note 27 to the consolidated financial statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the awards ('vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pre-PFRS 2 Options
For options granted before November 7, 2002 that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 25).

Employee share purchase plans
The Company and some of its subsidiaries have employee share purchase plans (ESOWN) which allow the grantees to purchase the Company's and its respective subsidiaries' shares at a discounted price. The Group recognizes the difference between the market price at the time of subscription and the subscription price as stock compensation expense over the holding period.

Where the subscription receivable is payable over more than one year, the subscription price is adjusted for the time value and treated as additional stock compensation expense. For the unsubscribed shares where the employees still have the option to subscribe in the future, these are accounted for as options.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the period. Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. The calculation of diluted EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share.

Assets Held in Trust
Assets which are owned by MWSS, POL and TIEZA but are operated by MWC under the concession agreements are not reflected in the consolidated statement of financial position but are considered as Assets Held in Trust (see Note 37).

Operating Segments
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 28 to the consolidated financial statements.

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

Events after the Reporting Period
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

3. Significant Accounting Judgments and Estimates

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

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Service concession arrangement
In applying Philippine Interpretation IFRIC 12, MWC has made a judgment that its concession agreements qualify under the Intangible Asset model. Refer to the accounting policy on SCA for the discussion of Intangible Asset model (see Note 2).

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of these properties as the Group considered among others the length of the lease term as compared with the estimated useful life of the assets.

A number of the Group's operating lease contracts are accounted for as noncancellable operating leases and the rest are cancellable. In determining whether a lease contract is cancellable or not, the Group considers among others, the significance of the penalty, including the economic consequence to the lessee.

Operating lease commitments - Group as lessee
The Group has entered into a contract with various parties to develop commercial or retail properties. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessor.

Classification of property
The Group determines whether a property is classified as investment property or inventory property as follows:

- Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.

- Inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential and industrial property that the Group develops and intends to sell before or on completion of construction.

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property is not occupied substantially for use by, or in operations of the Group, not for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciations and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Distinction between real estate inventories and land and improvements
The Group determines whether a property will be classified as real estate inventories or land and improvements. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (Real estate inventories) or whether it will be retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (Land and improvements).

Collectibility of the sales price
For real estate sales, in determining whether the sales prices are collectible, the Group considers that initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

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 6 months for quoted equity securities. 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.

Financial assets not quoted in an active market
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's financial position (see Note 36).

Management's Use of Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting 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.

Revenue and cost recognition
The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from real estate, pipeworks, construction and management contracts are recognized based on the percentage of completion measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project.

Estimating allowance for impairment losses
The Group maintains allowance for doubtful accounts based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. Factors considered in individual assessment are

payment history, past due status and term. The collective assessment would require the Group to group its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

As of December 31, 2010 and 2009, allowance for impairment losses amounted to ₱1,160.2 million and ₱373.0 million, respectively. Accounts and notes receivable, net of allowance for doubtful accounts, amounted to ₱31.0 billion and ₱27.9 billion as of December 31, 2010 and 2009, respectively (see Note 6).

Evaluation of net realizable value of inventories
Inventories are valued at the lower of cost or NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, cost of completion and costs necessary to make a sale to determine the NRV. For real estate inventories, the Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. In determining the recoverability of the inventories, management considers whether those inventories are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. In the event that NRV is lower than the cost, the decline is recognized as an expense. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. Inventories carried at cost amounted to ₱16.2 billion and ₱8.4 billion as of December 31, 2010 and 2009, respectively. Inventories carried at NRV amounted to ₱2.1 billion and ₱1.8 billion as of December 31, 2010 and 2009 (see Note 7).

Evaluation of impairment of nonfinancial assets
The Group reviews investments in associates and jointly controlled entities, land and improvements, investment properties, property, plant and equipment, service concession assets and intangible assets for impairment of value. Impairment for goodwill is assessed at least annually. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, plans in the real estate projects, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

The Group estimates the recoverable amount as the higher of the net selling price and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments in associates and jointly controlled entities, investment properties, property, plant and equipment, service concession assets and intangible assets.

For goodwill, this requires an estimation of the recoverable amount which is the net selling price or value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

The IMI's impairment tests for goodwill are based on value in use and fair value less cost to sell calculations. The value in use calculations in 2010 and 2009 used a discounted cash flow model. The cash flows are derived from the budget for the next five years and assume a steady growth rate. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The fair value less cost to sell calculation in 2009 considered the enterprise value of the CGU based on a recent tender offer to which the goodwill is allocated.

Investments in associates and jointly controlled entities, investment properties, property, plant and equipment, service concession asset and intangible assets amounted to ₱175.4 billion and ₱113.0 billion as of December 31, 2010 and 2009, respectively (see Notes 10, 12, 13, 14 and 15).

Estimating useful lives of investment properties, property, plant and equipment, and intangible assets
The Group estimated the useful lives of its investment properties, property, plant and equipment and intangible assets with finite useful lives based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property, plant and equipment and intangible assets are reviewed at least

annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives would increase depreciation and amortization expense and decrease noncurrent assets.

Investment properties, property, plant and equipment, and intangible assets with finite useful lives amounted to ₱33.4 billion and ₱41.5 billion as of December 31, 2010 and 2009, respectively (see Notes 12, 13, and 15).

Deferred FCDA and Deferred Credits
Under Amendment No. 1 of the Comcession Agreement, MWC is entitled to recover (refund) foreign exchange losses (gains) arising from MWSS loans and any concessionaire loans. For the unrealized foreign exchange losses, MWC recognized deferred FCDA as an asset since this is a resource controlled by MWC as a result of past events and from which future economic benefits are expected to flow to MWC. Unrealized foreign exchange gains, however, which will be refunded to the customers, are presented as deferred credits.

Deferred tax assets
The Group reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

As of December 31, 2010 and 2009, the Group has net deferred tax assets amounting to ₱2,749.1 million and ₱1,396.0 million, respectively, and net deferred tax liabilities amounting to ₱5,893.4 million and ₱207.4 million, respectively (see Note 24).

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Group.

Total expense arising from share-based payments recognized by the Group amounted to ₱375.0 million, ₱471.6 million and ₱342.9 million in 2010, 2009 and 2008, respectively.

Estimating pension obligation and other retirement benefits
The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 26 to the consolidated financial statements and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions materially affect retirement obligations. See Note 26 to the consolidated financial statements for the related balances.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at fair values by using the discounted cash flow methodology. See Note 31 for the related balances.

Purchase price allocation
2010 Acquisition
As of December 31, 2010, the purchase price allocation relating to the Group's acquisition of PSi Technologies, Inc. (PSi) and Ten Knots have been prepared on a preliminary basis. The provisional fair values of the assets acquired and liabilities assumed as of date of acquisition were based on the net book values of the identifiable assets and liabilities since these approximate the fair values. For PSi, the difference between the total consideration and the net assets amounting to ₱413.0 million was initially allocated to goodwill as of December 31, 2010. The acquisition of Ten Knots resulted in the recognition of a bargain purchase gain amounting to ₱0.5 million as of December 31, 2010.

2009 Acquisition
As of December 31, 2009, the purchase price allocation relating to the Group's acquisition of Grail Research has been prepared on a preliminary basis. The provisional fair values of the assets acquired and liabilities assumed as of date of acquisition were based on the net book values of the identifiable assets and liabilities since these approximate the fair values. The difference between the total consideration and the net assets amounting to ₱550.5 million was initially allocated to goodwill as of December 31, 2009.

4. Cash and Cash Equivalents

This account consists of the following:

	2010	2009
	(In Thousands)	
Cash on hand and in banks	**₱8,822,040**	₱3,960,792
Cash equivalents	**44,320,737**	41,696,097
	₱53,142,777	₱45,656,889

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term rates.

5. Short-term Investments

Short-term investments pertain to money market placements made for varying periods of more than three months and up to six months and earn interest at the respective short-term investment rates. The ranges of interest rates of the short-term investments follow:

	2010	2009
PHP	**3.5% to 4.8%**	4.0% to 4.8%
USD	**1.5% to 2.3%**	1.9% to 4.8%

6. Accounts and Notes Receivable

This account consists of the following:

	2010	2009
	(In Thousands)	
Trade:		
Real estate	**₱13,898,871**	₱12,332,325
Electronics manufacturing	**4,215,059**	3,881,439
Water utilities	**1,006,082**	–
Automotive	**869,557**	849,301
Information technology and business process outsourcing (BPO)	**67,227**	877,188
International and others	**2,770**	3,803
Related parties (Note 30)	**2,367,653**	3,390,161
Advances to other companies	**3,842,838**	2,888,665
Advances to contractors and suppliers	**3,586,985**	2,604,816
Receivable from officers and employees	**568,865**	328,935
Investment in bonds classified as loans and receivables	**200,000**	200,000
Others	**1,511,765**	906,771
	32,137,672	28,263,404
Less allowance for doubtful accounts	**1,160,229**	372,982
	30,977,443	27,890,422
Less noncurrent portion	**4,793,315**	2,657,623
	₱26,184,128	₱25,232,799

The classes of trade receivables of the Group follow:

Real estate
Real estate receivables are receivables relating to residential development which pertain to receivables from the sale of high-end, upper middle-income and affordable residential lots and units, economic housing development and leisure community developments; construction contracts which pertain to receivables from third party construction projects; shopping centers which pertain to lease receivables of retail space; corporate business which pertain to lease receivables of office and factory buildings and receivables from the sale of office buildings and industrial lots; and management fees which pertain to facility management fees receivable.

The sales contracts receivable, included in real estate receivables, are collectible in monthly installments over a period of one to ten years and bear annual interest rates ranging from 2.5% to 18.0% computed on the diminishing balance of the principal. Titles to real estate properties are not transferred to the buyers until full payment has been made. Receivables from construction contracts, shopping centers and management fee are due within 30 days upon billing. Corporate business receivables are collectible on a monthly or quarterly basis depending on the terms of the lease.

Electronics manufacturing
Electronics manufacturing receivables pertain to receivables arising from manufacturing and other related services for electronic products and components and billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These are collectible within 30- to 60- days from invoice date.

Water utilities
Water utilities receivable arise from water and sewer services rendered to residential, commercial, semi-business and industrial customers of MWC Group and are collectible within 30 days from bill generation.

Automotive
Automotive receivables are receivables relating to manufacture and sale of passenger cars and commercial vehicles and are collectible within 30- to 90- days from date of sale.

Information technology and BPO
Information technology and BPO receivables arise from venture capital for technology businesses; provision of value-added content for wireless services, online business-to-business and business-to-consumer services; electronic commerce; technology infrastructure sales and technology services; and onshore- and offshore-BPO services and are normally collected within 30- to 60- days of invoice date.

International and others
International and other receivables arose from investments in overseas property companies and projects, charter services, agri-business and others and are generally on 30- to 60- day terms.

The nature of the Group's other receivables follows:

Receivables from related parties and advances to other companies
Receivables from related parties include notes receivable issued to related parties which are interest-bearing and payable based on the terms of the notes. Advances to other companies are due and demandable.

Advances to contractors and suppliers
Advances to contractors and suppliers are recouped every progress billing payment date depending on the percentage of accomplishment.

Receivables from officers and employees
Receivable from officers and employees pertain to loans granted to the Group's officers and employees which are collectible through salary deduction, interest bearing and has various maturity dates.

Investment in bonds classified as loans and receivables
Investment in bonds classified as loans and receivables pertain to ALI's investment in Land Bank of the Philippines' (LBP's) 7.3% unsecured subordinated notes due 2019, callable with step-up interest in 2014. Fitch Ratings assigned a National Long-term rating of AA (phl) to LBP.

Others
Other receivables include accrued interest receivable and other nontrade receivables.

Movements in the allowance for doubtful accounts follow (in thousands):

	2010							
	Real Estate	**Electronics Manufacturing**	**Automotive**	**Information Technology and BPO**	**Water Utilities**	**International and Others**	**Others**	**Total**
At January 1	**₱202,810**	**₱14,436**	**₱30,451**	**₱77,405**	**₱–**	**₱103**	**₱47,777**	**₱372,982**
Additions through business combinations (Note 23)	**14,264**	**–**	**–**	**–**	**573,827**	**–**	**88,404**	**676,495**
Deconsolidation (Note 33)	**–**	**–**	**–**	**(45,372)**	**–**	**–**	**–**	**(45,372)**
Provisions during the year (Note 22)	**57,206**	**11,998**	**5,927**	**3,248**	**–**	**1,607**	**376,233**	**456,219**
Write-offs	**(27,209)**	**(21,184)**	**–**	**–**	**–**	**–**	**(222,182)**	**(270,575)**
Reversals	**(2,012)**	**–**	**–**	**–**	**(27,508)**	**–**	**–**	**(29,520)**
At December 31	**₱245,059**	**₱5,250**	**₱36,378**	**₱35,281**	**₱546,319**	**₱1,710**	**₱290,232**	**₱1,160,229**
Individually impaired	**₱221,715**	**₱5,250**	**₱36,378**	**₱35,281**	**₱128,269**	**₱1,710**	**₱250,668**	**₱679,271**
Collectively impaired	**23,344**	**–**	**–**	**–**	**418,050**	**–**	**39,564**	**480,958**
Total	**₱245,059**	**₱5,250**	**₱36,378**	**₱35,281**	**₱546,319**	**₱1,710**	**₱290,232**	**₱1,160,229**
Gross amount of loans and receivables individually determined to be impaired	**₱331,280**	**₱5,250**	**₱36,378**	**₱35,281**	**₱128,269**	**₱1,710**	**₱250,668**	**₱788,836**

	2009						
	Real Estate	Electronics Manufacturing	Automotive	Information Technology and BPO	International and Others	Others	Total
At January 1	₱136,729	₱36,277	₱26,324	₱19,120	₱61,160	₱78,221	₱357,831
Provisions during the year (Note 22)	84,492	7,625	4,127	58,886	25,491	36,587	217,208
Write-offs	(5,878)	(18,323)	–	(85)	(58,322)	(9,778)	(92,386)
Reversals	(12,533)	(11,143)	–	(516)	(28,226)	(57,253)	(109,671)
At December 31	₱202,810	₱14,436	₱30,451	₱77,405	₱103	₱47,777	₱372,982
Individually impaired	₱178,618	₱14,436	₱30,451	₱77,405	₱103	₱36,033	₱337,046
Collectively impaired	24,192	–	–	–	–	11,744	35,936
Total	₱202,810	₱14,436	₱30,451	₱77,405	₱103	₱47,777	₱372,982
Gross amount of loans and receivables individually determined to be impaired	₱310,810	₱14,436	₱30,451	₱77,405	₱103	₱36,033	₱469,238

As of December 31, 2010 and 2009, certain receivables with a nominal amount of ₱13,066.2 million and ₱12,502.9 million, respectively, were recorded initially at fair value. The fair value of the receivables was obtained by discounting future cash flows using the applicable rates of similar types of instruments. The unamortized discount amounted to ₱1,272.3 million and ₱1,766.0 million as of December 31, 2010 and 2009, respectively. Additions during the year amounted to ₱1,250.5 million while amortization amounted to ₱601.4 million.

In April 2009 and November 2008, ALI Group entered into agreements with certain financial institutions for the sale of real estate receivables without recourse amounting to ₱1,193.9 million and ₱1,537.0 million at average discount rates ranging from 8.3% to 9.8% and 6.4%, respectively. The discount on these receivables amounting to ₱40.6 million and ₱103.8 million as of December 31, 2009 and 2008, respectively, has been included under “Other charges” in the consolidated statement of income.

Other receivables include IMI’s insurance claim amounting to US$1.9 million (₱81.5 million) and US$5.6 million (₱258.7 million) as of December 31, 2010 and 2009, respectively, for damages to equipment and inventories caused by a fire incident in IMI’s plant in Cebu, Philippines in May 2009. The gain from the insurance claim is included under “Other income” in the 2009 consolidated statement of income (see Note 22). In 2010, insurance claim amounting to US$1.2 million (₱53.0 million) were provided with allowance.

7. Inventories

This account consists of the following:

	2010	2009
	(In Thousands)	
At cost:		
Subdivision land for sale	**₱7,706,164**	₱3,900,448
Condominium, residential and commercial units	**6,984,154**	3,521,952
Vehicles	**621,358**	398,849
Finished goods	**333,591**	175,964
Work-in-process	**232,021**	194,477
Materials, supplies and others	**355,905**	230,341
	16,233,193	8,422,031
At NRV:		
Subdivision land for sale	**524,158**	524,158
Finished goods	**12,120**	46,483
Work-in-process	**80,688**	59,145
Parts and accessories	**143,453**	96,691
Materials, supplies and others	**1,381,044**	1,076,606
	2,141,463	1,803,083
	₱18,374,656	₱10,225,114

The cost of the inventories carried at NRV amounted to ₱2.1 billion and ₱1.8 billion as of December 31, 2010 and 2009, respectively. Inventories recognized as cost of sales amounted to ₱38.5 billion, ₱34.3 billion and ₱34.4 billion in 2010, 2009 and 2008, respectively, and were included under "Costs of sales and services" in the consolidated statement of income (see Note 22).

The Group recorded no provision for impairment in 2010 while ₱78.1 million and ₱136.6 million was provided in 2009 and 2008, respectively, for the development cost of real estate inventories which may no longer be recovered. The provision is included under "Other charges" in the consolidated statement of income (see Note 22).

In May 2009, IMI lost inventories amounting to US$0.6 million (₱27.7 million), due to a fire incident in its plant in Cebu, Philippines. The loss is included under "General and administrative expenses - others" in the consolidated statement of income (see Note 22).

8. Other Current Assets

This account consists of the following:

	2010	2009
	(In Thousands)	
Prepaid expenses	**₱1,989,109**	₱1,808,812
Value-added input tax	**1,801,747**	1,426,839
Creditable withholding tax	**1,201,204**	914,243
Financial assets at FVPL	**872,080**	926,860
Investments in bonds and other securities (Note 11)	**357,129**	1,168,014
Deposits in escrow	**317,597**	212,520
Derivative asset (Note 31)	**74,226**	–
Others	**298,542**	332,035
	₱6,911,634	₱6,789,323

Prepaid expenses mainly include prepayments for commissions, marketing fees, advertising and promotion, taxes and licenses, rentals and insurance.

The value-added input tax is applied against value-added output tax. The remaining balance is recoverable in future periods.

Financial assets at FVPL consist of:

	2010	2009
	(In Thousands)	
Held for trading:		
Government securities	**₱404,008**	₱433,821
Designated as at FVPL:		
Investment securities	**468,072**	493,039
	₱872,080	₱926,860

Government securities pertain to treasury bonds and treasury bills that have yields to maturity of 1.3% in 2010 and 4.2% to 4.8% in 2009. The Group recognized unrealized loss on these financial assets at FVPL amounting to ₱9.3 million, ₱0.7 million and ₱4.0 million in 2010, 2009 and 2008, respectively. The Group recognized realized loss amounting to ₱0.5 million in 2010 and gain of ₱25.2 million and ₱1.1 million in 2009 and 2008, respectively. The loss is included under "Gain on sale of investments" (see Note 22).

Investment securities pertain mostly to the Group's investment in The Rohatyn Group (TRG) Allocation LLC and TRG Management LP, which have a combined fair value of US$10.5 million as of December 31, 2010 and 2009. In 2009, management evaluated the continued application of prior year's valuation technique on the TRG investment. It was concluded that there is no reliable measure of fair value for the TRG investments as of December 31, 2009 and it should be stated at cost with its last obtainable fair value as the new cost basis. Unrealized gains recognized on this investment in prior years amounted to US$0.3 million (₱14.7 million) and US$2.9 million (₱119.5 million) in 2009 and 2008, respectively (see Note 22).

Deposits in escrow pertain to the proceeds from the sale of real estate project of a subsidiary without permanent license to sell. Under its temporary license to sell, all payments, inclusive of down payments, reservation, and monthly amortization, among others, made by the buyer within the selling period shall be deposited in an escrow account.

9. Land and Improvements

The rollforward analysis of this account follows:

	2010	2009
	(In Thousands)	
Cost		
Balance at beginning of the year	**₱18,363,314**	₱15,974,474
Additions	**2,372,740**	3,396,777
Additions through business combination (Note 23)	**1,361,645**	–
Transfers*	**(5,149,120)**	(804,954)
Disposals	**(4,756)**	–
Write-offs (Note 22)	**–**	(202,983)
Balance at end of the year	**16,943,823**	18,363,314
Allowance for decline in value		
Balance at beginning of the year	**780,752**	217,580
Additions	**–**	568,672
Transfers*	**(270,627)**	(5,500)
Balance at end of the year	**510,125**	780,752
	₱16,433,698	₱17,582,562

**Transfers pertain to land to be developed for sale and included under "Real estate inventories" account.*

In 2009, the Group recorded provision for impairment amounting to ₱568.7 million included under "Other charges" in the consolidated statement of income (see Note 22).

On August 27, 2009, ALI and the National Housing Authority (NHA) signed a Joint Venture Agreement to develop a 29.1-hectare North Triangle Property in Quezon City as a priming project of the government and the private sector. The joint venture represents the conclusion of a public bidding process conducted by the NHA which began last October 3, 2008.

ALI's proposal, which has been approved and declared by the NHA as compliant with the Terms of Reference of the public bidding and the National Economic Development Authority (NEDA) Joint Venture Guidelines, features the development of a new Central Business District (CBD) in Quezon City. The CBD will be developed as the Philippines' first transit-oriented mixed-use central business district that will be a new nexus of commercial activity. The proposal also aims to benefit the NHA in achieving its mandate of providing housing for informal settlers and transforming a non-performing asset in a model for urban renewal. The development will also generate jobs and revenues both for the local and national governments.

ALI's vision for the property is consistent with the mandate of the Urban Triangle Development (TriDev) Commission to rationalize and speed up the development of the East and North Triangles of Quezon City into well-planned, integrated and environmentally balanced, mixed-use communities. The joint venture also conforms to NHA's vision of a private sector-led and managed model for the development of the property, similar to the development experience in Fort Bonifacio.

The total project cost is estimated at ₱22.0 billion, inclusive of future development costs and the current value of the property, which ALI and the NHA will contribute as their respective equity share in the joint venture. ALI expects to start the development within the next two years.

10. Investments in Associates and Jointly Controlled Entities

This account consists of the following:

	2010	2009
	(In Thousands)	
Acquisition cost	**₱60,400,933**	₱54,906,614
Accumulated equity in earnings	**10,946,945**	15,991,568
Cumulative translation adjustments and equity reserves	**657,001**	658,770
	₱72,004,879	₱71,556,952

Details of the Group's investment in associates and jointly controlled entities and the related percentages of ownership are shown below:

	Percentage of Ownership		**Carrying Amounts**	
	2010	2009	**2010**	2009
Domestic:			(In Millions)	
Bank of the Philippine Islands and subsidiaries (BPI)	**23.9**	23.9	**₱24,645**	₱21,155
Globe Telecom, Inc. and subsidiaries (Globe)*	**30.5**	30.5	**17,053**	17,313
Ayala DBS Holdings, Inc. (ADHI)*	**45.5**	45.5	**9,649**	8,251
Emerging City Holdings, Inc. (ECHI)*	**50.0**	50.0	**3,492**	3,371
Cebu Holdings, Inc. and subsidiaries (CHI)	**47.0**	47.2	**2,105**	1,972
Berkshires Holdings, Inc. (BHI)*	**50.0**	50.0	**1,496**	1,445
North Triangle Depot Commercial Corporation (NTDCC)	**49.3**	49.3	**1,436**	1,417
Bonifacio Land Corporation (BLC)	**10.0**	10.0	**1,133**	1,465
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	**918**	887
Alabang Commercial Corporation (ACC)*	**50.0**	50.0	**617**	609
MWC and subsidiaries (Note 23)	**–**	31.5**	**–**	4,308
Philwater (Note 23)	**–**	60.0	**–**	1,430
Foreign:				
Stream Global Services, Inc. (Stream)	**25.8**	25.7	**4,612**	4,879
Integreon, Inc. (Integreon)*	**56.4**	–	**2,804**	–
ARCH Asian Partners L.P.	**19.2****	19.2**	**2,022**	1,437
Others	**Various**	Various	**23**	1,618
			₱72,005	₱71,557

** Jointly controlled entities.*
*** Effective ownership interest of the Company.*

The fair value of investments in listed associates and jointly controlled entities for which there are published price quotations amounted to ₱107,303.2 million and ₱104,803.2 million as of December 31, 2010 and 2009, respectively.

Financial information on significant associates and jointly controlled entities (amounts in millions, except earnings per share figures) follows:

BPI	**2010**	2009
Total resources	**₱878,146**	₱724,420
Total liabilities	**795,871**	656,655
Non-controlling interest	**1,244**	967
Net interest income	**23,628**	21,402
Other income	**15,369**	12,993
Other expenses	**20,954**	19,676
Net income attributable to:		
Equity holders of the bank	**11,312**	8,516
Non-controlling interests	**167**	149
Earnings per share:		
Basic	**3.38**	2.62
Diluted	**3.38**	2.62

Globe	**2010**	2009
Current assets	**₱21,585**	₱18,415
Noncurrent assets	**109,043**	109,228
Total assets	**130,628**	127,643
Current liabilities	**35,309**	33,576
Noncurrent liabilities	**48,450**	46,359
Total liabilities	**83,759**	79,935
Net operating revenue	**66,676**	65,807
Costs and expenses	**52,638**	47,834
Net income	**9,744**	12,569
Earnings per share:		
Basic	**73.63**	94.59
Diluted	**73.12**	94.31

Stream	**2010**		2009	
	In US$	**In Php***	In US$	In Php**
Current assets	**US$218**	**₱9,551**	US$227	₱10,505
Noncurrent assets	**421**	**18,462**	453	20,949
Total assets	**639**	**28,013**	680	31,454
Current liabilities	**119**	**5,200**	115	5,329
Noncurrent liabilities	**261**	**11,427**	262	12,108
Total liabilities	**380**	**16,627**	377	17,437
Revenue	**800**	**36,089**	585	27,016
Costs and expenses	**818**	**36,871**	590	27,273
Net loss	**(56)**	**(2,528)**	(28)	(1,320)
Loss per share:				
Basic	**(0.67)**	**(29.37)**	(3.46)	(159.85)
Diluted	**(0.67)**	**(29.37)**	(3.46)	(159.85)

**Translated using the closing exchange rate at the reporting date (US$1:₱43.84).*

***Translated using the closing exchange rate at the reporting date (US$1:₱46.20).*

In 2009, the financial information of Stream is based on US Generally Accepted Accounting Principles which is different in some aspects from PFRS. Stream's long-lived assets, goodwill and intangible assets (included as part of noncurrent assets) have been reviewed for impairment in accordance with these standards.

Integreon	2010	
	In US$	In Php*
Current assets	US$25	₱1,096
Noncurrent assets	50	2,192
Total assets	75	3,288
Current liabilities	24	1,052
Noncurrent liabilities	3	132
Total liabilities	27	1,184
Revenue	87	3,815
Costs and expenses	57	2,499
Net loss	(21)	(721)

**Translated using the closing exchange rate at the reporting date (US$1:₱43.84).*

MWC	2009
Current assets	₱5,900
Noncurrent assets	42,721
Total assets	48,621
Current liabilities	5,422
Noncurrent liabilities	23,221
Total liabilities	28,643
Revenue	11,013
Costs and expenses	5,030
Other expense	(749)
Net income	3,987
Earnings per share:	
Basic	1.85
Diluted	1.85

The following significant transactions affected the Group's investments in its associates and jointly controlled entities:

Investment in BPI
In August 2010, BPI offered for subscription a total of 307.7 million of its common shares to eligible shareholders on a pre-emptive right basis of ₱32.5 per share. The Group participated in the stock rights offering of BPI by subscribing to 104.9 million common shares for a total consideration of ₱4,571.1 million.

Investment in ADHI
As of December 31, 2010 and 2009, ADHI owns 757.8 million and 692.2 million common shares, respectively, of BPI. ADHI's direct ownership in BPI is equal to 21.3% as of December 31, 2010 and 2009.

Investment in Globe
In June 2008, the Company sold 3.8 million shares to Singapore Telecom, Inc. (SingTel) decreasing its ownership interest in Globe's common shares from 33.3% to 30.5%. The Company's gain arising from the sale of investments in Globe shares amounted to ₱2.7 billion (see Note 22). The Company also holds 60% of Asiacom, which owns 158.5 million Globe preferred shares. The Company does not exercise control over Asiacom since it is a joint venture with SingTel.

Investment in NTDCC
In 2004, ALI acquired additional 30.89% interest in NTDCC in exchange for the ALI's interest in two companies valued at ₱320.1 million and cash amounting to ₱280.0 million. ALI infused additional cash to NTDCC amounting to ₱112.0 million for an additional 1.85% equity interest in the latter.

A series of capital calls was made by NTDCC with the ALI infusing a total of ₱484.8 million in 2007 in additional investment, thus increasing the Company's overall invested capital to ₱1,450.0 million or a 49.29% stake.

NTDCC was assigned development rights over certain areas of the MRT Depot in Quezon City by MRT Development Co. to construct and operate a commercial center under certain terms and conditions until the end of a 50-year development period renewable for another 25 years. NTDCC was primarily organized to own and operate the commercial center atop the MRT Depot. NTDCC officially started the construction of the shopping center, now known as TriNoma, in 2005 and became operational on May 16, 2007.

Investment in ECHI and BHI
On April 17, 2003, the following transactions were consummated pursuant to the terms and conditions of the Assignment Agreement (Agreement), dated February 8, 2003, among ALI, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among ALI, EHI and Metro Pacific Investment Corporation (MPIC) as amended:

(a) The assignment to ALI and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPIC, pursuant to which, Larouge extended MPIC a loan in the principal amount of US$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by ALI and EHI for such assignment was approximately US$90 million, subject in part to foreign exchange adjustment.

(b) The assignment to ALI and EHI (acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus)) of the controlling interest in BLC representing 50.38% of BLC's outstanding capital stock. This assignment was effected by MPIC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.55% of its outstanding capital stock.

    The Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.

    ALI and EHI jointly hold the 50.38% equity interest in BLC through ECHI and BHI. ALI and EHI assigned the notes receivable from MPIC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

    Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method, resulting in a negative goodwill of ₱1.4 billion.

    Subsequent to this, ALI and EHI acquired additional shares of BLC through a combination of direct acquisition and through its associates at varying dates as follows:

    On July 31, 2008, the Group acquired, through ALI, Regent and Columbus, additional 4,360,178 shares of BLC from FBDC amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC.

In January and October 2009, a total of 2,295,207 BLC shares were acquired from Development Bank of the Philippines and MPIC, pertaining to the pledged shares, through Columbus amounting to ₱362.6 million.

This resulted in an increase in the Group's effective interest in BLC to 45.05% as of December 31, 2009.

ALI's 5.32% direct investment in BLC and 4.78% through Regent are accounted for using the equity method because ALI has significant influence over BLC.

Investment in eTelecare Global Solutions (eTelecare) and Stream
On September 19, 2008, NewBridge, a subsidiary of the Company through LIL, together with Providence Equity Partners (Providence), entered into a Definitive Agreement to acquire up to all of the outstanding shares of eTelecare common shares and American Depository Shares (ADS) for US$9.0 per share. New Bridge and Providence formed a 50-50 joint venture company, EGS Corporation to own 100% of EGS Acquisition Corp.

On December 12, 2008, EGS Acquisition Corp. acquired through a tender offer, 98.7% of the outstanding eTelecare common shares and ADS for a total consideration of US$285.3 million plus US$9.4 million in transactions costs. The 22.2% eTelecare shares owned by Newbridge were tendered and included in the purchase.

On August 14, 2009, a Share Exchange Agreement (the Agreement) was entered into by Stream, EGS, EGS Dutchco B.V. (EGS Dutchco), and NewBridge to combine in a stock-for-stock exchange. Under the Agreement:

- NewBridge shall contribute all its rights with respect to the US$35.8 million advances from EGS (see Note 30). These advances were originally borrowed by EGS from AYC Holdings. AYC Holdings assigned the advances to NewBridge;
- NewBridge shall transfer to Stream all the shares of EGS that it owns including shares that would result from the conversion of the US$35.8 million advances; and

- Stream shall issue and deliver to NewBridge an aggregate of 20,192,068 common shares with US$0.001 par value per share provided that at the election of Stream, Stream may pay an aggregate of US$5,994 in cash for an aggregate of 1,131 shares (at US$5.3 per share) of Stream Common Stock otherwise issuable to NewBridge.

On October 1, 2009 (the Closing Date), NewBridge received a total of 20,190,937 shares of Stream's capital stock representing 25.5% interest in Stream and cash amounting to US$5,994 in lieu of 1,131 shares. As a result of the transaction, NewBridge:

- derecognized its Investment in and Loan receivable from EGS amounting to US$61.5 million and US$35.8 million, respectively;
- recognized an Investment in Stream amounting to US$107.0 million; and,
- recognized a gain from the transaction amounting to US$8.8 million.

After the Closing Date, Newbridge acquired additional 320,146 common shares of Stream at a total cost of US$1.9 million.

As of December 31, 2009, Newbridge's effective ownership in Stream is 25.8%.

In 2010, the Group recorded an adjustment for the excess of the carrying value over the fair value of its investment in Stream amounting to ₱365.6 million. The adjustment was recorded mainly due to the decline in the quoted share price of Stream. The recoverable amount of the investment in Stream is based on its quoted share price as of December 31, 2010. The adjustment is netted against the equity in net income of associates and jointly controlled entities in the consolidated statement of income.

<u>Investment in Integreon</u>
On February 16, 2010, Actis LLP, an emerging markets private equity specialist, invested US$50.0 million to acquire a 37.68% stake in Integreon, a subsidiary of LIL. The transaction resulted in the Group losing control over Integreon. Integreon became a jointly controlled entity by LIL and Actis although LIL owns 56.36% of Integreon. LIL recorded gain on deemed disposal amounting to US$44.7 million (₱2.1 billion) which primarily arose from recognizing the retained investment in Integreon at fair value at the date when control was lost. The gain on deemed disposal is recorded as part of "Other income" in the consolidated statement of income (see Note 22).

<u>Investment in ARCH Fund</u>
In 2006, the Company and ALI entered into a Shareholders' Agreement with ARCH Capital Management Co. Ltd. (ARCH Capital) and Great ARCH Co. Limited, wherein the Company and ALI committed to invest a total of US$75.0 million in a private equity fund that will explore property markets in Asia, excluding Japan and the Philippines. In the same year, an Amendment and Adherence Agreement was entered into by the same parties, together with Fine State Group Limited (Fine State) and Green Horizons Holdings Limited (Green Horizons), transferring the interests of the Company and ALI in ARCH Capital into Fine State and Green Horizons, respectively. Fine State and Green Horizons are effectively 100% owned Hong Kong based subsidiaries of the Company and ALI, respectively.

The Company (through Fine State) and ALI (through Green Horizons) both have interests in the fund management company, ARCH Capital, which is tasked to raise third party capital and pursue investments for the Fund. As of December 31, 2009 and 2008, the Company (through Fine State) and ALI (through Green Horizon) owned a combined interest in ARCH Capital of 50%.

In 2007, the private equity fund, called ARCH Asian Partners, L.P. (Fund) was established. As of December 31, 2007, the Fund achieved its final closing, resulting in a total investor commitment of US$330.0 million. As a result, a portion of the funds disbursed by the Company and ALI which were invested into the Fund has been returned in 2007, reducing the Company and ALI's overall invested capital to ₱580.3 million as of December 31, 2007. In various dates in 2010, 2009 and 2008, the Fund made capital calls where the Company and ALI's share amounted to US$27.4 million, US$9.6 million and US$3.9 million as of December 31, 2010, 2009 and 2008, respectively.

As of December 31, 2010, the Company and ALI's remaining capital commitment with the Fund amounted to US$20.2 million.

The Company and ALI exercise significant influence over the Fund by virtue of their interest in the general partner and in ARCH Capital. Accordingly, the Company and ALI account for their investments in the Fund using the equity method of accounting.

Interest in Limited Partnerships of Ayala International North America (AINA)
Other investments include AINA's interest in various Limited Partnerships with a carrying value of ₱462.0 million and ₱1,164.4 million as of December 31, 2010 and 2009, respectively. These investments are all incorporated in the United States of America (USA) and are mainly involved in developing properties in different states in the USA. Although the interest of AINA in certain limited partnerships exceeds 50%, these limited partnerships are accounted for under the equity method of accounting because AINA does not have control over the financial and operating policies of these partnerships.

In 2009, impairment loss amounting to ₱574.0 million were provided for property development projects of certain limited partnerships with projected negligible residual values after deducting amount of repayment on loans drawn for the support and costs incurred for the projects and those that have been served with notices of default by banks. In 2010, additional impairment loss amounting to ₱191.4 million was recorded for a property development of a certain limited partnership. The impairment loss is based on the property development's fair value less cost to sell. The impairment loss is netted against the equity in net income of associates and jointly controlled entities in the consolidated statement of income.

The excess of cost of investments over the Group's equity in the net assets of its associates and jointly controlled entities accounted for under the equity method amounted to ₱10.5 billion and ₱10.8 billion as of December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, the Group has no capital commitments with its jointly controlled entities.

11. Investments in Bonds and Other Securities

This account consists of investments in:

	2010	2009
	(In Thousands)	
AFS financial assets		
Quoted equity investments	**₱1,737,361**	₱1,119,829
Unquoted equity investments	**2,658,151**	2,392,489
	4,395,512	3,512,318
Quoted debt investments	**288,007**	1,199,154
Unquoted debt investments	**527,947**	–
	5,211,466	4,711,472
Less current portion (Note 8)	**357,129**	1,168,014
	₱4,854,337	₱3,543,458

The unquoted equity investments include investments in TRG Global Opportunity Fund (GOF) and TRG Special Opportunity Fund (SOF). The GOF is a multi-strategy hedge fund which invests primarily in emerging markets securities. The SOF focuses on less liquid assets in emerging markets (Latin America, Asia, Emerging Europe, Middle East and Africa) such as distressed debt, NPLs, corporate high yield, mid and small cap stocks, real estate (debt and equity) and private equity.

Unquoted equity investments also include the Group's investment in Red River Holdings in 2008. The Red River Holdings is a fund that seeks to achieve a balanced and diversified portfolio of Vietnamese companies. In 2009, capital calls amounting to US$4.6 million were made, bringing the total investment in Red River Holdings to US$8.1 million as of December 31, 2009. As of December 31, 2009, the remaining capital commitment of the Group relating to its investment in Red River Holding amounted to US$1.9 million. In 2010, a final capital call was made amounting to US$1.9 million bringing the total investment in Red River Holdings to US$10.0 million.

In 2010, AIVPL invested US$0.5 million out of US$1.0 million commitment to invest in Preferred C units of Victoria 1522 Investments, LP (Victoria). Victoria is an investment management firm exclusively focused on the emerging markets of Asia, Latin America, Europe, the Middle East and Africa. The investment in Victoria is included as part of unquoted equity investments.

Unquoted equity investments also include unlisted preferred shares in public utility companies which the Group will continue to carry as part of the infrastructure that it provides for its real estate development projects and other operations. These are carried at cost less impairment, if any.

As of December 31, 2010, the Group recorded impairment on its investment in a company engaged in the manufacture of broadband devices amounting to ₱235.1 million included under "Other charges" in the consolidated statement of income (see Note 22). The provision is primarily due to poor financial results and liquidity problems.

As of December 31, 2010 and 2009, the Net unrealized gain on AFS financial assets as reflected in the equity section is broken down as follows:

	2010	2009
	(In Thousands)	
Net unrealized gain on AFS financial assets of the Company and its consolidated subsidiaries	**₱676,094**	₱463,852
Share in the net unrealized loss on AFS financial assets of associates and jointly-controlled entities	**452,640**	(339,936)
	₱1,128,734	₱123,916

The rollforward of unrealized gain on AFS financial assets of the Company and its consolidated subsidiaries is as follows:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱463,852**	₱78,320
Changes in fair value recognized in equity	**239,536**	409,245
Recognized in profit and loss	**(27,294)**	(23,713)
Balance at end of year	**₱676,094**	₱463,852

12. Investment Properties

The movements in investment properties follow:

2010

	Land	**Building**	**Construction-in-Progress**	**Total**
		(In Thousands)		
Cost				
Balance at beginning of the year	**₱5,320,385**	**₱27,268,941**	**₱2,178,395**	**₱34,767,721**
Additions	**365,769**	**209,741**	**2,334,007**	**2,909,517**
Transfers	**(391,119)**	**1,288,753**	**(1,288,753)**	**(391,119)**
Retirements	**–**	**(15,294)**	**–**	**(15,294)**
Balance at end of the year	**5,295,035**	**28,752,141**	**3,223,649**	**37,270,825**
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	**26,616**	**6,617,123**	**–**	**6,643,739**
Depreciation and amortization (Note 22)	**–**	**1,150,420**	**–**	**1,150,420**
Retirements	**–**	**(11,609)**	**–**	**(11,609)**
Balance at end of the year	**26,616**	**7,755,934**	**–**	**7,782,550**
Net book value	**₱5,268,419**	**₱20,996,207**	**₱3,223,649**	**₱29,488,275**

2009

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	₱5,046,888	₱20,950,191	₱–	₱25,997,079
Additions	273,744	3,016,847	221,868	3,512,459
Transfers (Note 13)	–	–	5,944,984	5,944,984
Transfers of completed portions	–	3,988,457	(3,988,457)	–
Retirements	(247)	(686,554)	–	(686,801)
Balance at end of the year	5,320,385	27,268,941	2,178,395	34,767,721
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	152,589	5,484,608	–	5,637,197
Depreciation and amortization (Note 22)	–	962,415	–	962,415
Reversals of impairment loss	(125,973)	–	–	(125,973)
Transfers	–	191,426	–	191,426
Retirements	–	(21,326)	–	(21,326)
Balance at end of the year	26,616	6,617,123	–	6,643,739
Net book value	₱5,293,769	₱20,651,818	₱2,178,395	₱28,123,982

Certain parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove all improvements (such as buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its own use and benefit.

The aggregate fair value of the Group's investment properties amounted to ₱167.8 billion in 2010 and ₱168.9 billion in 2009. The fair values of the investment properties were determined based on valuations performed by independent professional qualified appraisers.

As of December 31, 2010 and 2009, total commitments for investment properties amounted to ₱8.9 billion and ₱7.9 billion, respectively.

Consolidated rental income from investment properties amounted to ₱7.5 billion in 2010, ₱7.2 billion in 2009 and ₱6.0 billion in 2008. Consolidated direct operating expenses arising from the investment properties amounted to ₱2.5 billion in 2010 and 2009 and ₱3.1 billion in 2008.

13. Property, Plant and Equipment

The movements in property, plant and equipment follow:

	2010						
	Land, Buildings and Improvements (Note 19)	**Machinery and Equipment**	**Hotel Property and Equipment** (Note 19)	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Construction-in-Progress**	**Total**
			(In Thousands)				
Cost							
At January 1	**₱5,821,509**	**₱7,455,305**	**₱2,922,440**	**₱2,518,254**	**₱1,522,672**	**₱92,717**	**₱20,332,897**
Additions	**914,166**	**1,271,895**	**353,210**	**584,145**	**389,253**	**21,743**	**3,534,412**
Additions through business combination (Note 23)	**904,006**	**805,265**	**870,197**	**827,740**	**403,617**	**–**	**3,810,825**
Deconsolidation (Note 33)	**(228,433)**	**(461,271)**	**–**	**(52,081)**	**(804)**	**(17,567)**	**(760,156)**
Disposals	**(72,560)**	**(321,190)**	**(51,237)**	**(127,125)**	**(208,653)**	**–**	**(780,765)**
Transfers	**6,773**	**64,538**	**–**	**–**	**–**	**(71,311)**	–
Exchange differences	**(119,476)**	**(238,190)**	**–**	**(40,373)**	**(2,925)**	**(3,839)**	**(404,803)**
At December 31	**7,225,985**	**8,576,352**	**4,094,610**	**3,710,560**	**2,103,160**	**21,743**	**25,732,410**

(Forward)

	2010						
	Land, Buildings and Improvements (Note 19)	**Machinery and Equipment**	**Hotel Property and Equipment** (Note 19)	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Construction-in-Progress**	**Total**
	(In Thousands)						
Accumulated depreciation and amortization and impairment loss							
At January 1	**₱2,600,711**	**₱4,880,684**	**₱1,538,265**	**₱1,846,267**	**₱729,359**	**₱–**	**₱11,595,286**
Depreciation and amortization for the year (Note 22)	**389,857**	**983,176**	**127,930**	**313,393**	**275,901**	**–**	**2,090,257**
Additions through business combination (Note 23)	**110,038**	**268,332**	**376,869**	**614,006**	**206,473**	**–**	**1,575,718**
Deconsolidation (Note 33)	**(105,175)**	**(316,753)**	**–**	**(31,823)**	**(804)**	**–**	**(454,555)**
Disposals	**(29,538)**	**(245,673)**	**(2,382)**	**(79,162)**	**(134,068)**	**–**	**(490,823)**
Exchange differences	**(72,397)**	**(184,587)**	**–**	**(24,649)**	**(763)**	**–**	**(282,396)**
At December 31	**2,893,496**	**5,385,179**	**2,040,682**	**2,638,032**	**1,076,098**	**–**	**14,033,487**
Net book value	**₱4,332,489**	**₱3,191,173**	**₱2,053,928**	**₱1,072,528**	**₱1,027,062**	**₱21,743**	**₱11,698,923**

	2009						
	Land, Buildings and Improvements (Note 19)	Machinery and Equipment (Note 30)	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
	(In Thousands)						
Cost							
At January 1	₱5,000,655	₱7,641,214	₱2,927,132	₱1,999,690	₱1,409,698	₱5,965,847	₱24,944,236
Additions	716,056	473,065	90,058	587,372	545,770	76,709	2,489,030
Additions through business combination (Note 23)	65,576	136,376	–	–	–	–	201,952
Disposals	(31,375)	(688,579)	(94,750)	(41,855)	(431,027)	(2,588)	(1,290,174)
Transfers (Note 12)	140,500	–	–	–	–	(5,963,123)	(5,822,623)
Exchange differences	(69,903)	(106,771)	–	(26,953)	(1,769)	15,872	(189,524)
At December 31	5,821,509	7,455,305	2,922,440	2,518,254	1,522,672	92,717	20,332,897
Accumulated depreciation and amortization and impairment loss							
At January 1	2,291,487	4,065,995	1,499,952	1,594,811	735,350	–	10,187,595
Depreciation and amortization for the year (Note 22)	366,842	1,205,873	125,105	306,969	142,894	–	2,147,683
Impairment loss for the year	(113,374)	–	–	–	–	–	(113,374)
Disposals	(1,622)	(333,996)	(86,792)	(33,975)	(147,907)	–	(604,292)
Transfers	101,567	–	–	–	–	–	101,567
Exchange differences	(44,189)	(57,188)	–	(21,538)	(978)	–	(123,893)
At December 31	2,600,711	4,880,684	1,538,265	1,846,267	729,359	–	11,595,286
Net book value	₱3,220,798	₱2,574,621	₱1,384,175	₱671,987	₱793,313	₱92,717	₱8,737,611

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱2,090.3 million in 2010, ₱2,147.7 million in 2009 and ₱1,832.6 million in 2008 (see Note 22).

PSi has a Mortgage Trust Indenture (MTI) with the Trust and Investment Division of a local bank, as Trustee. The mortgaged properties securing the Mortgage Obligations under the MTI are composed of machinery and equipment. The holders of the Mortgage Participation Certificates (MPC) under the MTI includes a creditor bank and a major supplier of PSi, with a participation of US$3.0 million each. As of December 31, 2010, the carrying value of mortgaged machinery and equipment amounted to US$2.0 million (₱92.0 million).

The carrying value of IMI's office equipment classified under finance lease amounted to US$1.89 million (₱82.0 million) and US$0.5 million (₱22.2 million) as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, total commitments for property and equipment amounted to ₱1,409.6 million.

14. **Service Concession Assets and Obligations**

Service Concession Assets (SCA)

The movements in this account in 2010 follow (amounts in thousands):

Cost	
Acquired through business combination (Note 23)	₱62,470,092
Additions during the year	7,056,261
Balance at end of year	69,526,353
Accumulated amortization	
Acquired through business combination (Note 23)	8,632,857
Amortization (Note 22)	1,795,727
Balance at end of year	10,428,584
Net book value	₱59,097,769

SCA consist of the present value of total estimated concession fee payments, including regulatory maintenance cost, pursuant to the MWC Group's concession agreements and the costs of rehabilitation works incurred.

MWC and its subsidiaries (MWC Group) has concession agreements with MWSS, Province of Laguna (POL) and Tourism and Infrastructure Enterprise Zone Authority (TIEZA). These concession agreements set forth the rights and obligations of MWC Group throughout the concession period.

Service Concession Obligations

<u>MWSS Concession Fees</u>
Under the concession agreement with MWSS, MWC is granted (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone for a period of 25 years commencing on August 1, 1997 (the Commencement Date) to May 6, 2022 (the Expiration Date). While the MWC has the right to manage, operate, repair and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to the existing MWSS system by MWC during the Concession remains with MWC until the Expiration Date (or an early termination date) at which time all rights, titles and interest in such assets will automatically vest in MWSS.

On April 16, 2009, the MWSS Board of Trustees passed Resolution No. 2009-072 approving the fifteen (15) year extension of the Agreement (the Extension) from May 7, 2022 to May 6, 2037. This resolution was confirmed by the Department of Finance (by authority from the office of the President of the Republic of the Philippines) on October 19, 2009. With the approval of the Extension, the recovery period for the MWC investment is now extended to another 15 years from 2022 to 2037.

The aggregate concession fee of MWC pursuant to the Agreement is equal to the sum of the following:

a. 10% of the aggregate peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray Angat Transbasin Project (UATP), on the prescribed payment date;

b. 10% of the aggregate peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date, on the prescribed payment date;

c. 10% of the local component costs and cost overruns related to the UATP;

d. 100% of the aggregate peso equivalent due under MWSS loans designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or elected by the MWC Group for continuation;

e. 100% of the local component costs and cost overruns related to existing projects; and

f. MWC's share in the repayment of MWSS loan for the financing of the Project.

The schedule of undiscounted future concession fee payments follows (amounts in thousands):

	In Original Currency		
Year	Foreign Currency Denominated Loans (Translated to US Dollars)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2011	US$25,613	₱410,715	₱1,533,602
2012	12,519	415,715	964,537
2013	12,126	415,715	947,315
2014	11,724	415,715	929,679
2015	7,350	415,715	737,917
2016 onwards	84,660	8,690,013	12,401,503
	US$153,992	₱10,763,588	₱17,514,553

**Peso equivalent is translated using the closing rate as of December 31, 2010 amounting to ₱43.84 to US$1.*

Estimated concession fee payments, excluding MWC's share in current operating budget, related to the Extension is still not determinable. It is only determinable upon loan drawdown of MWSS and their actual construction of the related concession projects.

POL Concession Fees
The Concession Agreement with POL grants Laguna AAA Water Corporation (LAWC), a subsidiary of MWC, (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services to specific areas for an operational period of 25 years. Legal title to all assets procured by LAWC in the performance of its obligations under the agreement shall remain with LAWC and shall not pass to POL.

Under LAWC's concession agreement with POL, LAWC is required to pay concession fees to POL as percentage of water sales as follows:

Operational Period	Percentage of Water Sales
Years 1 to 5	4%
Years 6 to 10	3%
Years 11 to 25	2%

Advance payment to POL was made for the said concession fees and seventy percent (70%) of the annual concession fees is applied against the said advances. The remaining thirty percent (30%) of the annual concession fees is expensed in the period they are incurred.

Boracay Island Water Company, Inc. (BIWC) Concession Fees
The Concession Agreement with TIEZA is for a period of 25 years, with commencement date on January 1, 2010 and renewable at any time prior to expiration for another 25 years, without necessity of bidding. Concession fees shall be computed at 5% of the annual gross water of the concessionaire.

The aggregate concession fee pursuant to the Agreement is equal to the sum of the following:

a. Servicing the aggregate peso equivalent of all liabilities of Boracay Water and Sewerage System as of commencement date;

b. 5% of the monthly gross revenue of the Concessionaire, inclusive of all applicable taxes which are for the account of the Concessionaire.

c. Payment of annual operating budget of the TIEZA Regulatory Office starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.0 million. For the year 2012 and beyond, the Concessionaire shall pay not more than ₱20.0 million, subject to annual CPI adjustments.

In addition, advanced payment of ₱60.0 million was provided to TIEZA which shall be offset against the annual concession fees pertaining to the 5% annual gross revenue of BIWC, within a period of 10 years from the signing of the concession agreement or until fully paid. Any amount payable after application of the advanced payment will be expensed in the period this is incurred.

15. Intangible Assets

The movements in intangible assets follow:

	2010							
	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Technical Service Agreement	Total
				(In Thousands)				
Cost	**₱4,434,307**	**₱1,682,570**	**₱4,128**	**₱4,620**	**₱47,032**	**₱180,345**	**₱–**	**₱6,353,002**
At January 1								
Additions through business combination (Note 23)	**1,724,039**	**–**	**–**	**–**	**–**	**–**	**84,733**	**1,808,772**
Additions during the year	**–**	**–**	**–**	**–**	**–**	**33,394**	**–**	**33,394**
Deconsolidation (Note 33)	**(1,456,615)**	**(731,172)**	**–**	**–**	**(40,045)**	**–**	**–**	**(2,227,832)**
Exchange differences	**(248,297)**	**(105,033)**	**–**	**(236)**	**(6,987)**	**(1,646)**	**–**	**(362,199)**
At December 31	**4,453,434**	**846,365**	**4,128**	**4,384**	**–**	**212,093**	**84,733**	**5,605,137**
Accumulated amortization and impairment loss								
At January 1	**662,591**	**959,314**	**4,128**	**3,570**	**28,012**	**83,503**	**–**	**1,741,118**
Amortization (Note 22)	**–**	**118,451**	**–**	**831**	**1,061**	**42,924**	**28,723**	**191,990**
Deconsolidation (Note 33)	**–**	**(199,562)**	**–**	**–**	**(12,581)**	**–**	**–**	**(212,143)**
Impairment loss	**914,118**	**–**	**–**	**–**	**–**	**–**	**–**	**914,118**
Exchange differences	**(26,854)**	**(42,585)**		**(17)**	**(16,492)**	**(27,087)**	**–**	**(113,035)**
At December 31	**1,549,855**	**835,618**	**4,128**	**4,384**	**–**	**99,340**	**28,723**	**2,522,048**
Net book value	**₱2,903,579**	**₱10,747**	**₱–**	**₱–**	**₱–**	**₱112,753**	**₱56,010**	**₱3,083,089**

	2009						
	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Total
				(In Thousands)			
Cost							
At January 1	₱3,982,256	₱1,226,469	₱4,128	₱4,752	₱20,312	₱161,582	₱5,399,499
Additions through business combination (Note 23)	317,119	500,957	–	–	27,365	–	845,441
Additions during the year	221,931	–	–	–	–	19,722	241,653
Exchange differences	(86,999)	(44,856)	–	(132)	(645)	(959)	(133,591)
At December 31	4,434,307	1,682,570	4,128	4,620	47,032	180,345	6,353,002
Accumulated amortization and impairment loss							
At January 1	662,591	795,908	4,128	2,727	20,312	48,436	1,534,102
Amortization (Note 22)	–	191,711	–	957	7,938	35,281	235,887
Exchange differences	–	(28,305)	–	(114)	(238)	(214)	(28,871)
At December 31	662,591	959,314	4,128	3,570	28,012	83,503	1,741,118
Net book value	₱3,771,716	₱723,256	₱–	₱1,050	₱19,020	₱96,842	₱4,611,884

Goodwill mainly comprises the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Company, IMI and Integreon. In 2010, the amounts pertaining to Integreon were deconsolidated (see Note 10).

Impairment testing of goodwill for IMI

Goodwill acquired through business combinations have been allocated to four individual CGUs of IMI for impairment testing as follows:

	2010		2009	
	In US$	**In Php***	In US$	In Php**
		(In Thousands)		
Speedy Tech Electronics, Ltd. (STEL)	**US$45,128**	**₱1,978,412**	US$45,128	₱2,084,916
PSi	**9,493**	**416,173**	–	–
IMI USA and Trixell	**657**	**28,803**	657	30,353
IMI Philippines	**441**	**19,333**	441	20,374
	US$55,719	**₱2,442,721**	US$46,226	₱2,135,643

**Translated using the closing exchange rate at the statement of financial position date (US$1:₱43.84).*

***Translated using the closing exchange rate at the statement of financial position date (US$1:₱46.20).*

STEL and IMI USA and Trixell
The recoverable amounts of the CGUs have been determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a 5-year period. The pre-tax discount rate applied to cash flow projections for STEL and IMI USA are 12.4% and 11.0%, respectively in 2010 and 12% in 2009. Cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1% which does not exceed the compounded annual growth rate for the global EMS industry.

Key assumptions used in value-in-use calculations
The calculations of value-in-use for the CGUs are most sensitive to assumptions on budgeted gross margins, growth rates and pre-tax discount rates.

Gross margins are based on the mix of business model arrangements with the customers whether consigned or turnkey. The forecasted growth rate is based on a steady growth rate which does not exceed the compounded annual growth rate for the global EMS industry. Discount rates reflect management's estimate of the risks specific to each CGU. This is the benchmark used by management to assess operating performance.

With regard to the assessment of value-in-use of the two CGUs, IMI management believes that a 72.1% and 45.3% increase in the discount rate during the 5-year period for STEL and IMI USA, respectively, with all other key assumptions held constant, would give a value-in-use equal to the carrying amount of the CGU.

IMI Philippines
The value in use methodology was used in determining the recoverable amount of IMI Philippines in 2009. In 2010, the recoverable amount was based on the market price of its shares at valuation date less estimated cost to sell. The comparison of the recoverable amount and the carrying amount resulted in no impairment.

PSi
As discussed in Note 23, provisional accounting has been adopted for the acquisition of PSi. As a result, the goodwill recognized is still subject to finalization.

Impairment testing of goodwill for Integreon in 2009
The Goodwill of Integreon arose from the acquisition of the following companies:

	In US$	In Php*
Grail	US$11,557	₱533,933
CBF Group, Inc.	10,153	469,069
Integreon Managed Solutions, Inc.	8,770	405,174
Datum Legal, Inc.	5,374	248,279
Contentscape	370	17,094
	US$36,224	₱1,673,549

**Translated using the closing exchange rate at the reporting date (US$1:₱46.20).*

Goodwill has been allocated to the Integreon CGU for purposes of impairment testing.

In 2009, the recoverable amount of the CGU has been determined based on fair value less cost to sell. The fair value less cost to sell calculation considered the enterprise value of the CGU based on a recent tender offer to which the goodwill is allocated.

Customer relationships
Customer relationships pertain to noncontractual master agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business.

Unpatented technology
Unpatented technology pertains to products which are technologically feasible. IMI Group's patents were applied for the following technologies, both of which are unique, difficult to design around and which meet the separability criteria:

- Self bias double-ended switching circuit; and
- A zero power consumption switch circuit to simplify the energy star solution for external power adapter.

16. **Other Noncurrent Assets**

This account consists of the following:

	2010	2009
	(In Thousands)	
Deferred FCDA	**₱725,873**	₱–
Deposits	**664,017**	471,096
Deferred charges	**317,063**	207,102
Derivative asset (Note 31)	**214,610**	–
Others	**665,692**	663,638
	₱2,587,255	₱1,341,836

Deferred FCDA refers to the unrecovered amounts from/or amounts for refund to customers of MWC for realized gains/losses from loan payments of foreign loans. This is the difference between the drawdown or rebased rate versus the closing rate at payment date. This account also covers the unrealized gains/losses from loan valuations, accrual of interest and accretion of transaction and related costs.

As of December 31, 2010, "Others" also includes leasehold right (₱126.8 million) of a subsidiary pertaining to the right to use an island property expiring on December 31, 2029. The cost amounted to ₱127.4 million and amortization expense for 2010 amounted to ₱0.5 million.

17. **Accounts Payable and Accrued Expenses**

This account consists of the following:

	2010	2009
	(In Thousands)	
Accounts payable	**₱15,944,506**	₱13,859,257
Accrued expenses	**9,958,115**	6,152,842
Taxes payable	**4,310,932**	1,470,295
Accrued project costs	**2,808,045**	2,136,700
Dividends payable	**2,226,117**	2,264,306
Related parties (Note 30)	**1,399,199**	830,419
Interest payable	**572,921**	402,278
Accrued personnel costs	**557,589**	427,502
Retentions payable	**119,151**	120,938
	₱37,896,575	₱27,664,537

Accounts payable and accrued expenses are noninterest-bearing and are normally settled on 15- to 60-day terms. Other payables are noninterest-bearing and are normally settled within one year.

Accrued expenses consist mainly of accruals for utilities, marketing costs, film share, professional fees, postal and communication, supplies, repairs and maintenance, transportation and travel, security, insurance, and representation.

Trade payables include PSi's liability to a certain supplier amounting to US$3.39 million (₱148.6 million) as of December 31, 2010, which is covered by an MPC amounting to US$3.0 million under PSi's MTI with a local bank (see Note 19). In addition, all overdue accounts from July 1, 2010 to December 31, 2010 with the supplier are subject to 0.50% interest per month.

18. Other Current Liabilities

This account consists of:

	2010	2009
	(In Thousands)	
Customers' deposits	**₱2,204,010**	₱2,374,457
Derivative liability (Note 31)	**168,016**	–
Installment payable	**7,090**	6,308
Others	**252,228**	441,167
	₱2,631,344	₱2,821,932

Customers' deposits pertain to deposits received from customers of AAHC, AIVPL, ALI and IMI.

19. Short-term and Long-term Debt

Short-term debt consists of:

	2010	2009
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 3.5% to 8.0% per annum in 2010 and 4.75% to 9.5% per annum in 2009	**₱2,483,413**	₱1,669,875
Foreign currency debt - with interest rates ranging from 1.16% to 3.72% per annum in 2010 and 1.87% to 3.86% per annum in 2009	**2,035,874**	968,783
	₱4,519,287	₱2,638,658

Philippine Peso Debt
ALI Group
The Philippine peso debt of ALI's and its subsidiaries' pertain to bank loans amounting to ₱2,247.0 million and ₱1,423.0 million as of December 31, 2010 and 2009, respectively. These are unsecured short-term borrowings with interest rates of 3.50% to 5.78% per annum in 2010 and 4.75% to 8.50% per annum in 2009.

AAHC Group
The Philippine peso debt of AAHC's and its subsidiaries' pertain to short-term loans with various banks amounting to ₱171.4 million and ₱145.5 million as of December 31, 2010 and 2009, respectively. These loans are unsecured and bear interest rates ranging from 4.0% to 8.0% per annum in 2010 and 5.63% to 6.75% per annum in 2009.

AIVPL Group
The Philippine peso debt of AIVPL's and its subsidiaries' pertain to short-term loans with various banks amounting to ₱65.0 million and ₱100.0 million as of December 31, 2010 and 2009, respectively. These loans are unsecured and bear interest rates ranging from 7.0% to 8.0% per annum in 2010 and 8.0% to 9.5% per annum in 2009.

Foreign Currency Debt
The foreign currency debt consists mainly of BHL's and IMI's and its subsidiaires' loans from various banks.

BHL's loans are unsecured and bear interest rate of 2.86% in 2010 and 1.87% in 2009.

In 2010, IMI has two 90-day term loans amounting to US$5.0 million each and subject to fixed interest rates of 1.18% and 1.16%.

In December 2010, PSi obtained a short-term loan with a local bank amounting to US$5.0 million that bear interest rate of 2.56%.

PSi has an existing short-term credit facility with a local bank until April 2011. The credit facility is secured by trade receivables from certain customers and MTI on machinery and equipment (see Note 13). The interest rates in 2010 ranged from 3.16% to 3.72%.

Under the terms of the Credit Facility Agreement with the local bank, PSi shall ensure that the collection of eligible receivables under the Borrowing Base (equivalent to 95% of the value of the outstanding eligible receivables) will be deposited with PSI's bank account with the local bank. Furthermore, PSi shall maintain a Borrowing Base to cover the outstanding principal drawn under the Credit Facility Agreement at all times.

The undrawn credit facility amounted to US$1.37 million (₱60.1 million) as of December 31, 2010.

The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities amounting to US$1.3 millon and US$2.3 million as of December 31, 2010 and 2009, respectively. These loans bear interest rates ranging from 3.52% to 3.70% and 1.94% to 3.86% in 2010 and 2009, respectively, and have maturities of 30- to 240-days from the date of issue with renewal options.

Long-term debt consists of:

	2010	2009
	(In Thousands)	
The Company:		
Bank loans - with interest rates ranging from 1.7% to 1.8% per annum in 2010 and 4.7% to 4.8% per annum in 2009 and varying maturity dates up to 2013	**₱6,730,000**	₱6,985,000
Fixed Rate Corporate Notes (FXCNs) with interest rates ranging from 6.7% to 8.4% per annum and varying maturity dates up to 2016	**11,432,500**	11,485,000
Bonds due 2012	**6,000,000**	6,000,000
Bonds due 2017	**9,800,000**	–
Syndicated term loan	**1,496,667**	1,498,333
	35,459,167	25,968,333
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 0.8% to 13.5% per annum in 2010 and 3.3% to 15.0% per annum in 2009	**18,041,456**	10,724,816
Philippine peso - with interest rates ranging from 5.0% to 9.7% per annum in 2010 and 7.0% to 9.7% per annum in 2009	**11,020,041**	7,759,743
Bonds:		
Due 2012	**194,600**	41,835
Due 2013	**8,212,027**	4,000,000
Floating Rate Corporate Notes (FRCNs)	**10,000**	10,000
FXCNs	**5,380,000**	5,380,000
	42,858,124	27,916,394
	78,317,291	53,884,727
Less current portion	**11,237,343**	2,453,144
	₱67,079,948	₱51,431,583

The Company

Generally, the Company's long-term loans are unsecured. Due to certain regulatory constraints in the local banking system regarding loans to directors, officers, stockholders and related interest, some of the Company's credit facilities with a local bank are secured by shares of stock of a consolidated subsidiary with fair value of ₱6,691.3 million as of December 31, 2010 and ₱6,712.9 million as of December 31, 2009 in accordance with BSP regulations.

All credit facilities of the Company outside of this local bank are unsecured, and their respective credit agreements provide for this exception. The Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions.

In 2007, the Company issued ₱3.5 billion FXCNs consisting of 5- and 7-year notes to a local bank with fixed interest rates of 6.73% and 6.70% per annum, respectively.

In 2007, the Company issued 6.83% Fixed Rate Bonds with an aggregate principal amount of ₱6.0 billion to mature in 2012. Prior to maturity, the Company may redeem in whole the outstanding bonds on the twelfth and sixteenth coupon payment date. The bonds have been rated "PRS Aaa" by the Philippine Ratings Services Corporation (PhilRatings).

In the first quarter of 2008, the Company availed of a syndicated term loan amounting to ₱1.5 billion which bears fixed interest rate of 6.75% per annum and will mature in 2018.

In February 2009, the Company issued ₱4.0 billion FXCNs consisting of two 5-year notes and a 6-year note to various financial institutions with fixed interest rates of 7.75% and 7.95% per annum for the 5-year notes and 8.15% per annum for the 6-year note.

In March 2009, the Company issued ₱1.0 billion FXCNs consisting of 7-year note to a local financial institution with fixed interest rate of 8.40% per annum.

In August 2009, the Company issued ₱3.0 billion FXCNs consisting of a 5-year note to various institutions with fixed interest rate of 7.45% per annum.

In April 2010, the Company issued 7.2% Fixed Rate Bonds with an aggregate principal amount of ₱10.0 billion to mature in 2017. On the twentieth (20th) Coupon Payment Date (the "Put Option Date"), each Bondholder shall have the option (but not the obligation) to require the Issuer to redeem the outstanding Bonds. The bonds have been rated "PRS Aaa" by PhilRatings.

Subsidiaries
<u>Foreign Currency Debt</u>
In 2008, the Company, through a wholly-owned subsidiary, entered into a 5-year syndicated term loan with a foreign bank, with the Company as guarantor, for US$50.0 million at a rate of 52 points over the 1-, 3- or 6- month LIBOR at the Company's option.

In 2007, the Company, through a wholly-owned subsidiary, entered into a 5-year syndicated loan for US$150.0 million at a rate of 71.4 basis points over the 1-month, 3-month or 6-month LIBOR at the Company's option.

In 2006, IMI obtained a US$40.0 million 5-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. IMI may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty. The interest is repriced quarterly at the rate of 3-month LIBOR plus margin of 0.80% and is payable quarterly. In 2007, IMI prepaid a portion of the loan amounting to US$10.0 million.

In 2006, STEL, a wholly-owned subsidiary of IMI, obtained a US$40.0 million variable rate 5-year loan, repayable in 10 equal semi-annual installments of US$4.0 million commencing on May 29, 2007 and maturing on November 29, 2011. The interest is repriced semi-annually at the LIBOR rate plus 0.75% quoted by the bank and is payable semi-annually. As of December 31, 2010 and 2009, the outstanding balance of the loan amounted to US$8.0 million and US$16.0 million, respectively.

On July 1, 2002, MWC entered into a loan agreement with Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG) to partially finance capital expenditures required to expand water supply and sanitation services and improve the existing facilities of MWC. The loan was made available in US Dollars in the aggregate principal amount of US$20.0 million and is payable in 10 years, inclusive of the 3-year grace period. As of December 31, 2010, the outstanding balance amounted to US$4.1 million.

On March 28, 2003, MWC entered into a loan agreement with IFC (the "First IFC Loan") to partially finance MWC's investment program from 2002-2005 to expand water supply and sanitation services, improvement on the existing facilities of the MWC, and concession fee payments. The First IFC Loan will be made available in Japanese Yen (JPY¥) in the aggregate principal amount of JPY¥3,591.6 million equivalent to US$30.0 million and shall be payable in 25 semi-annual installments, within 12 years starting on July 15, 2006. As of December 31, 2010, the outstanding balance amounted to JPY¥2,155.0 million.

On May 31, 2004, MWC entered into a loan agreement with IFC (the "Second IFC Loan") comprising of regular loan in the amount of up to US$20.0 million and a standby loan in the amount of up to US$10.0 million to finance the investment program from 2004 to 2007 to expand water supply and sanitation services, improvement of existing facilities of MWC, and concession fee payments. This loan was subsequently amended on November 22, 2006, when MWC executed the Amended and Restated Loan Agreement for the restructuring of the Second IFC Loan.

The terms of the second loan were amended to a loan in the aggregate amount of up to US$30.0 million, no part of which shall consist of a standby loan. On December 12, 2008, MWC has made a full drawdown on the said facility. As of December 31, 2010, the outstanding balance amounted to US$22.0 million.

On October 20, 2005, MWC entered into a Subsidiary Loan Agreement with Land Bank of the Philippines (LBP Loan) to finance the improvement of the sewerage and sanitation conditions in the East Zone. The loan has a term of 17 years, and was made available in Japanese Yen in the aggregate principal amount of JPY¥6.59 billion payable via semi-annual installments after the 5-year grace period. As of December 31, 2010, the outstanding balance amounted to JPY¥3,125.4 million.

On June 20, 2007, MWC entered into a Finance Contract (the "EIB Loan") with the European Investment Bank (EIB) to partially finance the capital expenditures of MWC from 2007 to 2010, as specified under Schedule 1 of the Finance Contract. The loan, in the aggregate principal amount of EUR€60 million, having a term of 10 years, is subject to the Relevant Interbank Rate plus a spread to be determined by EIB, and may be drawn in either fixed-rate or floating-rate tranches. The loan has two tranches as described below:

- Sub-Credit A: In an amount of EUR€40 million to be disbursed in US Dollars or Japanese yen payable via semi-annual installments after the two and a half-year grace period. This loan tranche is guaranteed against all commercial risks by a consortium of international commercial banks composed of ING Bank, Development Bank of Singapore and Sumitomo-Mitsui Banking Corporation under a Guaranty Facility Agreement; and

- Sub-Credit B: In an amount of EUR€20 million to be disbursed in US Dollars, European Euro or Japanese Yen payable via semi-annual installments after the two and a half-year grace period. This loan tranche is guaranteed against all commercial risks by ING Bank under a Guaranty Facility Agreement.

The outstanding balance of the EIB loan amounted to JPY¥4,700.7 million and US$24.4 million in 2010.

Philippine Peso Debt

The Philippine Peso loans include ALI subsidiaries' loans that will mature on various dates up to 2017 with floating interest rates at 65 basis points to 200 basis points spread over benchmark 91-day PDST-R1/R2 and fixed interest rates of 5.50% to 9.72% per annum. The term loan facility of a subsidiary is secured by a Mortgage Trust Indenture over land and building with a total carrying value of ₱911.3 million and ₱811.2 million as of December 31, 2010 and 2009, respectively.

On August 22, 2006, MWC entered into a Credit Facility Agreement with five banks and four financial institutions to finance the capital expenditures of MWC pursuant to the Concession Agreement. This 7-year term loan with an aggregate principal amount of ₱2.0 billion consists of the following:

- Tranche 1: 7-year term loan amounting to ₱1.5 billion (the Tranche 1 Loan). Such loan shall be subject to a yearly amortization of ₱10.0 million at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year; and

- Tranche 2: 7-year term loan, with a Put Option at the end of the fifth (5th) year, amounting to ₱500.0 million (the Tranche 2 Loan). Such loan shall be subject to a bullet repayment at the end of the 5th year if the lenders exercise their Put Option. If the Put Option is not exercised, the loan will be subject to a yearly amortization of ₱10.0 million at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year.

On June 16, 2008, MWC prepaid a portion of the loan from one financial institution amounting to ₱600.0 million. As of December 31, 2010, the outstanding balance for this loan amounted to ₱1.4 billion.

On October 9, 2006, MWC entered into a Credit Facility Agreement with three banks and a financial institution to finance the capital expenditures of MWC pursuant to the Agreement. This 7-year term loan with an aggregate principal amount of ₱1.5 billion consists of the following:

- Tranche 1: 7-year term loan amounting to ₱950.0 million (the Tranche 1 Loan). Such loan shall be subject to a yearly amortization of one percent (1%) of the Tranche 1 Loan at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year; and

- Tranche 2: 7-year term loan, with a Put Option at the end of the fifth (5th) year, amounting to ₱550.0 million (the Tranche 2 Loan). Such loan shall be subject to a bullet repayment at the end of the 5th year if the lenders exercise

- their Put Option. If the Put Option is not exercised, the loan will be subject to a yearly amortization of one percent (1%) of the Tranche 2 Loan at the end of the 5th and 6th years, and bullet repayment of the balance at the end of the 7th year.

On June 16, 2008, MWC prepaid a portion of the loan from one financial institution amounting to ₱400.0 million. As of December 31, 2010, the outstanding balance for this loan amounted to ₱1.1 billion.

On September 7, 2010, LAWC entered into a loan agreement with two local banks for the financing of its construction, operation, maintenance and expansion of facilities in its servicing area. Pursuant to the loan agreement, the lenders have agreed to provide loans to LAWC up to ₱500.0 million, principal payments of which will be made in 30 consecutive equal quarterly installments starting August 2013. First draw of the loan was made in November 2010 amounting to ₱250.0 million. The carrying value of this loan as of December 31, 2010 amounted to ₱246.0 million.

<u>Homestarter Bond due 2012</u>
ALI launched a new issue of the Homestarter Bond in October 2009. The bond is to be issued over a series of 36 issues, once every month which commenced on October 16, 2009, up to ₱14.0 million per series or up to an aggregate issue amount of ₱504.0 million over a 3-year period. The bond carries an interest rate of 5% per annum, payable on the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by ALI or its affiliates. In the event of application of the bond to partial or full payment for property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond (the "bonus credit"). The bonus credit is subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2010 and 2009, bond issued amounted to ₱194.6 million and ₱41.8 million, respectively.

<u>Homestarter Bond due 2013</u>
ALI launched another new issue of the Homestarter Bond in April 2010. The bond is to be issued over a series of 36 issues, once every month which commenced on April 16, 2010, up to ₱28.0 million per series or up to an aggregate issue amount of ₱1,008.0 million over a 3-year period. The bond carries an interest rate of 5% per annum, payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by ALI or its affiliates. In the event of application of the bond to partial or full payment for property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2010, bond issued amounted to ₱204.0 million.

<u>5-Year Bonds due 2013</u>
In 2008, ALI issued ₱4.0 billion bonds due 2013 with fixed rate equivalent to 8.75% per annum. The PhilRatings assigned a "PRS Aaa" rating on the bonds indicating that it has the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS Aaa is the highest credit rating possible on PhilRatings' rating scales for long-term issuances.

On October 22, 2008, MWC issued ₱4.0 billion having a term of five years from the issue date with a fixed interest rate equivalent to 8.25% payable quarterly. Prior to maturity, MWC may redeem in whole, and not in part only, the relevant outstanding bonds on the twelfth interest payment date. The amount payable to the bondholders in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the bonds on the optional redemption date.

<u>5-,7- and 10-year FXCNs due in 2011, 2013 and 2016</u>
In 2006, ALI issued ₱3.0 billion FXCNs consisting of 5-, 7- and 10-year notes issued to various financial institutions and will mature on various dates up to 2016. The FXCNs bear fixed interest rates ranging from 7.3% to 7.8% per annum depending on the term of the notes.

<u>5-, 7- and 10-year FXCN due 2014, 2016 and 2019</u>
In 2009, ALI issued an aggregate ₱2.38 billion in 5-, 7- and 10-year notes to various financial institutions and retail investors. The notes will mature on various dates up to 2019. The FXCNs bear fixed interest rates ranging from 7.76% to 8.90%.

7-year FRCN due 2016
In 2009, ALI executed a ₱1.0 billion committed FRCN facility with a local bank, of which an initial ₱10.0 million was drawn on October 12, 2009. The FRCN bears a floating interest rate based on the 3-month PDST-R1 plus a spread of 0.96%, repriceable quarterly. The initial note drawn, together with any future drawings, will mature on the seventh anniversary of the initial drawdown date.

The loans of MWC were secured by way of first ranking charge over all assigned interests, including the right to receive payments or other consideration under the Agreement, all receivables and bank accounts, interests over all fixed assets (subject to the limitations under the Agreement) and assignment of proceeds of insurance policies. The agreement for the signing of these rights and interests were signed with the lenders at various dates of the loan signing.

On July 17, 2008, MWC, together with all of its Lenders signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Under the Omnibus Amendment Agreement, the lenders effectively released MWC from the assignment of its present and future fixed assets, receivables and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where MWC is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, MWC agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either MWC or MWSS. Currently, all lenders of MWC (including the bondholders) are considered Concessionaire Lenders and are on *pari passu* status with one another.

The loan agreements on long-term debt of the Company and certain subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Group as of December 31, 2010 and 2009.

Total interest paid amounted to ₱4.0 billion in 2010, ₱3.9 billion in 2009 and ₱3.7 billion in 2008.

Interest capitalized by subsidiaries amounted to ₱239.6 million in 2010 and ₱76.3 million in 2009. The average capitalization rate is 3.7% to 7.06% in 2010 and 7.15% in 2009.

20. **Other Noncurrent Liabilities**

This account consists of the following:

	2010	2009
	(In Thousands)	
Deposits and deferred credits	**₱7,219,372**	₱5,150,182
Retentions payable	**2,630,344**	1,967,042
Others	**1,092,575**	1,662,341
	₱10,942,291	₱8,779,565

Deposits are initially recorded at fair value, which was obtained by discounting future cash flows using the applicable rates of similar types of instruments. The difference between the cash received and its fair value is recorded as deferred credits.

Other liabilities mainly include nontrade payables, subscription payable and others (see Note 30). It also includes liabilities arising from PSi's Subcontracting Service Agreement (SSA) with a local customer.

On June 28, 2010, PSi and a local customer entered into a SSA for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA.

The SSA shall take effect upon the execution thereof and effective until August 14, 2020, unless mutually terminated by both parties. However, the subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received noninterest-bearing cash advances amounting to US$3.0 million from a foreign customer, an affiliate of the local customer.

On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the local customer. The local customer and PSi agree that the full cash advances amounting to US$3.0 million will be applied to prepay and cover any, and all of the fees payable under Annex B of the SSA for the facilities support services that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, upon termination of the SSA, for any reason, the cash advances less any amount applied to pay the fees as detailed in the SSA.

As of December 31, 2010, the current and noncurrent portion of the advances from the foreign customers is as follows (amounts in thousands):

	In US$	In Php*
Total outstanding advances	US$2,829	₱124,023
Less current portion	264	11,574
Noncurrent portion	US$2,565	₱112,449

**Translated using the closing exchange rate at the statement of financial position date (US$1:₱43.84).*

The current portion is included under “Accounts payable and accrued expense”.

21. Equity

The details of the Company’s common and equity preferred shares follow:

Common shares

	2010	2009	2008
	(In Thousands, except par value figures)		
Authorized shares	**596,000**	600,000	600,000
Par value per share	**₱50**	₱50	₱50
Issued and subscribed shares	**500,322**	500,176	498,362
Treasury shares	**14,677**	1,844	1,378

On December 7, 2006, the BOD approved the increase of the authorized common stock from ₱19.0 billion divided into 380,000,000 shares to ₱30.0 billion divided into 600,000,000 shares with a par value of ₱50 per share. The BOD likewise approved the declaration of a 20% stock dividend to all common stockholders to be issued from the increased authorized capital stock.

On April 30, 2007, the Company’s application for increase in authorized common stock and stock dividends were approved by the SEC.

The common shares may be owned or subscribed by or transferred to any person, partnership, association or corporation regardless of nationality, provided that at anytime at least 60% of the outstanding capital stock shall be owned by citizens of the Philippines or by partnerships, associations or corporations 60% of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

Preferred shares

	Preferred A shares			Preferred B shares			Voting Preferred shares		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
	(In Thousands, except par value figures)								
Authorized shares	**12,000**	12,000	12,000	**58,000**	58,000	58,000	**200,000**	–	–
Par value per share	**₱100**	₱100	₱100	**₱100**	₱100	₱100	**₱1**	₱–	₱–
Issued and subscribed shares	**12,000**	12,000	12,000	**58,000**	58,000	58,000	**200,000**	–	–

Preferred B shares
In February 2006, the BOD approved the reclassification of the unissued preferred shares and redeemed preferred shares of the Company into 58 million new class of Preferred B shares with a par value of ₱100 per share or an aggregate par value of ₱5,800 million. The Preferred B shares have the following features: (a) optional redemption by the Company; (b) issue value, dividend rate and declaration thereof to be determined by the BOD; (c) cumulative in payment of current dividends as well as any unpaid back dividends and non-participating in any other further dividends; (d) nonconvertible into common shares; (e) preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation of the Company and in the payment of the dividend at the rate specified at the time of issuance; (f) nonvoting except in those cases specifically provided by law; (g) no pre-emptive rights to any issue of shares, common or preferred; and (h) reissuable when fully redeemed.

In July 2006, the Company filed a primary offer in the Philippines of its Preferred B shares at an offer price of ₱100 per share to be listed and traded on the Philippine Stock Exchange (PSE). The Preferred B shares are cumulative, nonvoting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 9.5% per annum. The Preferred B shares may be redeemed at the option of the Company starting in the fifth year.

Preferred A shares
On January 31, 2008, the BOD approved the reissuance and reclassification of 1.2 billion redeemed Preferred A and AA shares with a par value of ₱1.0 per share into 12.0 million new Preferred A shares with a par value of ₱100 per share with the same features as the existing Preferred B shares, except on the issue price and dividend rate and the amendment of the Company's amended Articles of Incorporation to reflect the reclassification of the redeemed Preferred shares into new Preferred A shares. On April 4, 2008, the Company's stockholders ratified the reissuance and reclassification.

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

In November 2008, the Company filed a primary offer in the Philippines of its Preferred A shares at an offer price of ₱500 per share to be listed and traded on the PSE. The Preferred A shares are cumulative, nonvoting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 8.9% per annum. The Preferred A shares may be redeemed at the option of the Company starting in the fifth year.

Voting Preferred shares
On March 15, 2010, the BOD approved the reclassification of 4.0 million unissued common shares with a par value of ₱50 per share into 200.0 million Voting Preferred shares with a par value of ₱1 per share and the amendment of the Company's amended Articles of Incorporation to reflect the reclassification of the unissued common shares into new Voting Preferred shares. On April 16, 2010, the Company's stockholders ratified the reclassification.

On April 22, 2010, the SEC approved the amendments to the Company's Articles of Incorporation embodying the reclassification of the unissued common shares to new Voting Preferred shares.

The Voting Preferred shares are cumulative, voting and redeemable at the option of the Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 5.3% per annum.

The details of the Company's paid-up capital follow:

2010

	Preferred Stock - A	Preferred Stock - B	Preferred Stock - Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-up Capital
				(In Thousands)				
As of January 1, 2010	**₱1,200,000**	**₱5,800,000**	**₱–**	**₱24,773,540**	**₱235,251**	**₱6,080,755**	**(₱611,671)**	**₱37,477,875**
Exercise/Cancellation of ESOP/ESOWN	**–**	**–**	**–**	**11,440**	**(4,137)**	**163,628**	**7,660**	**178,591**
Issuance of shares	**–**	**–**	**200,000**	**–**	**–**	**(1,000)**	**–**	**199,000**
As of December 31, 2010	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱24,784,980**	**₱231,114**	**₱6,243,383**	**(₱604,011)**	**₱37,855,466**

2009

	Preferred Stock - A	Preferred Stock - B	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-up Capital
				(In Thousands)			
As of January 1, 2009	₱1,200,000	₱5,800,000	₱24,772,493	₱145,598	₱5,734,748	(₱401,125)	₱37,251,714
Exercise of ESOP/ESOWN	–	–	1,047	89,653	346,007	(210,546)	226,161
As of December 31, 2009	₱1,200,000	₱5,800,000	₱24,773,540	₱235,251	₱6,080,755	(₱611,671)	₱37,477,875

2008

	Preferred Stock - A	Preferred Stock - B	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-up Capital
				(In Thousands)			
As of January 1, 2008	₱–	₱5,800,000	₱20,633,667	₱100,685	₱657,422	(₱336,380)	₱26,855,394
Exercise/cancellation of ESOP/ESOWN	–	–	–	44,913	319,151	(64,745)	299,319
Issuance of shares	1,200,000	–	110	–	4,758,175	–	5,958,285
Stock dividends	–	–	4,138,716	–	–	–	4,138,716
As of December 31, 2008	₱1,200,000	₱5,800,000	₱24,772,493	₱145,598	₱5,734,748	(₱401,125)	₱37,251,714

The movements in the Company's outstanding number of common shares follow:

	2010	2009	2008
		(In Thousands)	
At January 1	**498,332**	496,984	414,363
Stock dividends	**–**	–	82,774
Exercise of ESOP/ESOWN	**146**	1,814	898
Issuance of shares	**–**	–	3
Treasury stock	**(12,833)**	(466)	(1,054)
At December 31	**485,645**	498,332	496,984

On September 10, 2007, the BOD approved the creation of a share buyback program involving ₱2.5 billion worth of common capital stock. On May 28, 2010, the BOD approved to increase the share buyback program from ₱2.5 billion to ₱5.0 billion. In 2010 and 2009, the Company acquired 12,832,860 and 466,360 common shares, respectively, at a total cost of ₱4,832.3 million and ₱138.2 million, respectively. As of December 31, 2010 and 2009, treasury stock amounted to ₱4,832.3 million and ₱688.7 million, respectively.

In addition, ₱250.0 million Preferred A shares of the Company have been acquired by ALI (₱100.0 million) and MWC (₱150.0 million). This has been accounted for as "Parent Company Preferred shares held by subsidiaries" and presented as a reduction in equity.

Retained Earnings
Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries, associates and jointly controlled entities accounted for under the equity method amounting to ₱41,655.3 million, ₱33,990.7 million and ₱30,308.0 million as of December 31, 2010, 2009 and 2008, respectively.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the common shares held in treasury.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2010 and 2009 amounted to ₱27,523 million and ₱31,060.0 million, respectively.

Dividends consist of the following:

	2010	2009	2008
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	**₱1,944,830**	₱1,994,148	₱1,989,484
Cash dividends per share	**₱4.00**	₱4.00	₱4.00
Stock dividends	**₱–**	₱–	₱4,138,716
Dividends to equity preferred shares declared during the year	**₱944,214**	₱2,025,567	₱548,552

On December 10, 2010, the BOD approved the declaration and payment of cash dividends out of the unappropriated retained earnings of the Company amounting to ₱971.4 million or ₱2 per share, payable to all common shares shareholders of record as of January 7, 2011. The said dividends are payable on February 2, 2011. Also on the same date, the BOD approved the declaration and payment of the quarterly dividends to all shareholders of the Company's Preferred A for the calendar year 2011 and the declaration and payment of the quarterly dividends for the first three quarters of 2011 to all Preferred B shareholders for calendar year 2011.

On December 10, 2009, the BOD approved the declaration and payment of cash dividends out of the unappropriated retained earnings of the Company amounting to ₱996.7 million or ₱2 per share, payable to all common shares shareholders of record as of January 8, 2010. The said dividends are payable on February 2, 2010. Also on the same date, the BOD approved the declaration and payment of the quarterly dividends to all shareholders of the Company's Preferred A and Preferred B shares for calendar year 2010.

On January 31, 2008, the BOD approved the declaration of a 20% stock dividend to all common shares shareholders of the Company as of April 24, 2008. On April 4, 2008, the Company's stockholders ratified the declaration of the 20% stock dividends to all stockholders.

On December 11, 2008, the BOD approved the declaration and payment of cash dividends out of the unappropriated retained earnings of the Company amounting to ₱994.0 million or ₱2 per share, payable to all common shares shareholders of record as of January 9, 2009. The said dividends are payable on February 3, 2009. Also on the same date, the BOD approved the declaration and payment of the quarterly dividends to all shareholders of the Company's Preferred A and Preferred B shares for calendar year 2009.

Capital Management

The primary objective of the Company's capital management policy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2010 and 2009.

The Company is not subject to externally imposed capital requirements.

The Company monitors capital using a gearing ratio of debt to equity and net debt to equity. Debt consists of short-term and long-term debt. Net debt includes short-term and long-term debt less cash and cash equivalents and short-term investments. The Company considers as capital the equity attributable to equity holders of the Company.

	2010	2009
	(In Thousands)	
Short-term debt	**₱4,519,287**	₱2,638,658
Long-term debt	**78,317,291**	53,884,727
Total debt	**82,836,578**	56,523,385
Less:		
Cash and cash equivalents	**53,142,777**	45,656,889
Short-term investments	**3,993,533**	4,560,976
Net debt	**₱25,700,268**	₱6,305,520
Equity attributable to equity holders of the Company	**₱107,540,968**	₱102,260,427
Debt to equity	**77%**	55%
Net debt to equity	**24%**	6%

22. **Other Income and Costs and Expenses**

Other income consists of:

	2010	2009	2008
		(In Thousands)	
Remeasurement gain arising from business combination (Note 23)	**₱4,386,789**	₱–	₱–
Gain on deemed disposal of a subsidiary (Note 10)	**2,110,272**	–	–
Gain on sale of other assets	**162,156**	168,063	45,409
Dividend income	**146,962**	204,691	148,914
Bargain purchase gain (Note 23)	**53,327**	235,851	–
Foreign exchange gain (loss) (Note 31)	**39,105**	(64,974)	181,858
Gain on sale of investments (Note 10)	**13,972**	1,698,820	3,554,679
Insurance claim (Note 6)	**–**	280,100	–
Others	**434,006**	538,927	819,098
	₱7,346,589	₱3,061,478	₱4,749,958

Gain on sale of investments consists mostly of gain arising from the sale of the Company's investments in a listed subsidiary, an associate and jointly controlled entities. Mark-to-market gain which pertains to fair value gains on financial assets at FVPL and derivatives are included under "Others".

In March 2008, ALI sold its shares of stock in Streamwood Property, Inc., Piedmont Property Ventures, Inc. and Stonehaven Land, Inc. Total consideration received from the sale amounted to ₱902.0 million. Gain on sale amounted to ₱762.0 million included under "Gain on sale of investments".

Other income includes income derived from ancillary services of consolidated subsidiaries.

Costs of sales and services included in the consolidated statement of income are as follows:

	2010	2009	2008
		(In Thousands)	
Cost of sales (Note 7)	**₱38,529,912**	₱34,281,857	₱34,440,421
Cost of rehabilitation works	**5,695,373**	–	–
Personnel costs (Notes 26, 27 and 30)	**4,988,756**	5,279,394	6,782,659
Depreciation and amortization (Notes 12, 13 , 14 and 15)	**3,116,006**	2,474,988	1,821,069
Rental and utilities	**2,840,316**	2,339,382	2,725,843
Professional and management fees	**1,650,949**	1,037,461	961,649
Repairs and maintenance	**857,542**	614,205	555,272
Taxes and licenses	**800,542**	770,138	588,714
Contract labor	**175,976**	101,587	423,156
Transportation and travel	**169,215**	531,087	118,911
Insurance	**153,236**	163,801	172,498
Others	**1,283,864**	1,724,394	1,424,174
	₱60,261,687	₱49,318,294	₱50,014,366

General and administrative expenses included in the consolidated statement of income are as follows:

	2010	2009	2008
		(In Thousands)	
Personnel costs (Notes 26, 27 and 30)	**₱5,948,038**	₱4,661,710	₱4,753,473
Depreciation and amortization (Notes 12, 13, 14 and 15)	**2,112,388**	870,997	1,119,147
Taxes and licenses	**771,534**	428,525	454,387
Professional fees	**593,636**	817,167	616,969
Provision for doubtful accounts (Note 6)	**456,219**	217,208	88,871
Transportation and travel	**261,659**	264,030	338,855
Donations and contributions	**245,674**	67,129	123,312
Advertising and promotions	**236,992**	182,492	420,620
Rental and utilities	**229,798**	384,790	298,472
Repairs and maintenance	**201,046**	128,511	116,317
Entertainment, amusement and recreation	**170,805**	124,712	129,273
Postal and communication	**162,493**	179,638	157,226
Contract labor	**113,482**	125,750	39,677
Insurance	**86,135**	106,841	73,342
Supplies	**81,024**	89,420	137,599
Research and development	**45,600**	29,339	48,685
Dues and fees	**35,867**	55,041	66,365
Others	**343,810**	481,270	502,924
	₱12,096,200	₱9,214,570	₱9,485,514

Depreciation and amortization expense included in the consolidated statement of income follows:

	2010	2009	2008
		(In Thousands)	
Included in:			
Costs of sales and services	**₱3,116,006**	₱2,474,988	₱1,821,069
General and administrative expenses	**2,112,388**	870,997	1,119,147
	₱5,228,394	₱3,345,985	₱2,940,216

Personnel costs included in the consolidated statement of income follow:

	2010	2009	2008
		(In Thousands)	
Included in:			
Costs of sales and services	**₱4,988,756**	₱5,279,394	₱6,782,659
General and administrative expenses	**5,948,038**	4,661,710	4,753,473
	₱10,936,794	₱9,941,104	₱11,536,132

Interest expense and other financing charges consist of:

	2010	2009	2008
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱236,906**	₱271,057	₱244,466
Long-term debt	**4,378,874**	3,474,892	3,213,475
Amortization of discount on investment in bonds	**10,683**	405	2,542
Hedging losses	**–**	–	1,455,952
Others	**129,526**	75,988	20,673
	₱4,755,989	₱3,822,342	₱4,937,108

Other charges consist of:

	2010	2009	2008
		(In Thousands)	
Impairment loss on goodwill (Note 23)	**₱914,118**	₱–	₱–
Remeasurement loss arising from business combination (Note 23)	**595,925**	–	–
Provision for impairment losses			
AFS financial assets (Note 11)	**235,114**	–	1,106,451
Land and improvements (Note 9)	**–**	568,672	–
Inventories (Note 7)	**–**	78,091	136,630
Property, plant and equipment (Note 13)	**–**	–	73,403
Write-offs and other charges	**221,306**	350,265	–
Others	**105,446**	438,010	278,938
	₱2,071,909	₱1,435,038	₱1,595,422

In 2009, write-offs and other charges include the write-down of ALI's inventory from purchase of steel bars which amounted to ₱350.3 million.

23. Business Combinations

PFRS 3 provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

2010 Acquisitions

<u>PSi</u>
On June 25, 2010, IMI and Narra Venture Capital II, LP (Narra VC) (collectively referred to as the "New Investors") entered into an Investors' Agreement (the Agreement) with PSi Technology Holdings, Inc. (PSiH) and Merrill Lynch Global Emerging Markets Partners, LLC (MLGEMP) (collectively referred to as the "Old Investors"), to take on 55.8% and 11.2% equity share in PSi, respectively.

Under the Agreement, IMI subscribed to 13.2 billion common shares or 55.8% of PSi's outstanding common shares in exchange for a cash consideration of US$8.3 million.

The Agreement also provided for the following:

1) The grant of Put and Call Options as follows:

Put Option	Option to require the New Investors to purchase all but not some of the shares held by the Old Investors (Option Shares) at the time of exercise, at anytime during the Put Option Period.
Put Option Period	The period from acquisition date up to 24 months from completion date, with 7-day exercise notice.
Put Option Strike Price	The higher of (a) US$1.0 and (b) value of the shares calculated based on 5.5x trailing 12-month Earnings before interest, taxes, depreciation and amortization (EBITDA) of PSi as of receipt of the exercise notice less net debt.

Call Option	Option to require the Old Investors to sell all but not some only of the shares held by the Old Investors at the time of exercise, at anytime during the Call Option Period.
Call Option Period	The period commencing 6 days prior to the lapse of the Put Option Period and ending 30 days after the lapse of the Put Option Period.
Call Option Strike Price	The higher of (a) US$1.0 and (b) value of the shares calculated based on 6.0x trailing 12-month EBITDA of PSi as of the date of receipt of the exercise notice less net debt.

2) The assumption of the Old Investors of certain pre-completion liabilities of PSi. However, payment of such liabilities would come from and is limited to any proceeds from the exercise of either the Put Option or the Call Option.

3) The New Investors agreed to proportionately assume one-third (1/3) of the initial US$3.0 million of the pre-completion liabilities assumed by the Old Investors.

The equity subscription of the New Investors was finalized on October 6, 2010. On that date, IMI paid the US$8,325,000 subscription price and four (4) of its officers were appointed as members of PSi's BOD. As of this date, IMI effectively obtained control of PSi.

The purchase price allocation has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The following is a summary of the provisional fair values of the assets acquired and liabilities assumed as of the date of the acquisition.

	In US$	In Php*
	(In Thousands)	
Assets		
Cash	US$10,528	₱458,018
Accounts receivable - net	18,420	801,356
Inventories - net	6,581	286,306
Property, plant and equipment - net (Note 13)	9,210	400,698
Other assets	1,312	57,076
	46,051	2,003,454
Liabilities		
Accounts payable and accrued expenses	35,783	1,556,761
Loans payable	2,348	102,133
Deferred revenue	2,923	127,163
Accrued rental noncurrent	902	39,243
Other long-term benefits	372	16,188
	42,328	1,841,488
Net assets	3,723	161,966
IMI's share in the fair value of net assets acquired (55.78%)	2,077	90,344
Goodwill	9,493	413,010
Acquisition cost	US$11,570	₱503,354

**Translated using the exchange rate at the transaction date (US$1:₱43.51).*

The cost of the acquisition is determined as follows:

	In US$	In Php*
	(In Thousands)	
Cash paid	US$8,325	₱362,180
IMI's share in acquisition-date fair value of Call Option granted to New Investors	(1,404)	(61,081)
IMI's share in acquisition-date fair value of Put Option granted to Old Investors	3,816	166,015
IMI's share in Pre-Completion liabilities assumed from the Old Investors	833	36,240
Cost of acquisition	US$11,570	₱503,354

**Translated using the exchange rate at the transaction date (US$1:₱43.51).*

Cash on acquisition follows:

	In US$	In Php*
	(In Thousands)	
Cash acquired from Psi	US$10,528	₱458,018
Cash paid	8,325	362,180
Net cash flow	US$2,203	₱95,838

**Translated using the exchange rate at the transaction date (US$1:₱43.51).*

The non-controlling interest amounted to US$1.6 million (₱71.6 million) and is measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

Acqusition related costs which consists of professional fees, representation and travel expenses amounting to US$0.2 million were recognized as expense in 2010.

From the date of acquisition, the Group's share in PSi's revenue and net loss amounted to ₱486.8 million and ₱20.8 million, respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱83.3 billion, while the Group's net income before tax would have been ₱18.84 billion.

Ten Knots

ALI entered into an agreement with Asian Conservation Company and ACC Resorts, Inc. (the ACC Group) to create a new company which will serve as a holding vehicle for Ten Knots Phils, Inc. (TKPI) and Ten Knots Development Corp (TKDC) (wholly-owned subsidiaries of the ACC Group before ALI's entry). TKPI/TKDC are mainly involved in the development of parcels of land and islands into resorts in Miniloc, Lagen, Pangulasian and Apulit islands in the municipalities of El Nido and Taytay in Northern Palawan.

The agreement will eventually result in ALI obtaining 60% interest in the new company and ACC Group acquiring 40%. ALI will infuse ₱2.0 billion cash to obtain the 60% stake.

As of December 31, 2010, ALI has subscribed to 60% of the shares of TKPI and TKDC, thereby providing ALI with the ability to exercise control over TKPI and TKDC effective April 23, 2010. Accordingly, TKPI and TKDC financial statements are consolidated on a line-by-line basis with that of the Group as of December 31, 2010.

The purchase price allocation has been prepared on a preliminary basis as the fair values are being finalized. Based on the preliminary fair values, negative goodwill is computed as follows (amounts in thousands):

Assets	
Cash and cash equivalents	₱365,652
Trade and other receivables	1,455,940
Inventories	16,393
Other current assets	25,401
Land and improvements - net (Note 9)	1,361,645
Deposit on land purchase	444,622
Property and equipment - net (Note 13)	493,328
Other assets	140,640
	4,303,621
Liabilities	
Accounts and other payables	310,177
Deposits and other current liabilities	21,446
Due to related parties	89,232
Loans payable	81,621
Income tax payable	18,630
Deferred tax liabilities	399,155
	920,261
Net assets	₱3,383,360

ALI's share in the fair value of the net assets amounted to ₱2.0 billion, which resulted in a negative goodwill amounting to ₱0.5 million included under "Other income" in the consolidated statement of income (see Note 22).

The fair value of the trade receivables and other receivables approximate their carrying amounts since these are short-term in nature. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interest has been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

From the date of acquisition, TKDC and TKPI contributed ₱260.0 million of revenue and ₱10.6 million to the net income of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been ₱82.3 billion and the net income of the Group would have been ₱16.0 billion.

Transaction costs of ₱1.0 million have been expensed and are included in administrative expenses.

Water Capital Works (WCW)

On November 11, 2009, the Company and United Utilities Pacific Holdings, BV (UU) entered into a share sale and purchase agreement whereby UU will sell to the Company its 28% interest (0.2 million common shares) in WCW. On January 18, 2010, the Company completed the acquisition of UU's interest in the common shares of WCW resulting in the Company obtaining 100% control in WCW. In prior years, WCW was treated as a jointly controlled entity of the Company.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands).

Assets	
Cash and cash equivalents	₱22,828
Receivable - net	90
	22,918
Liabilities	
Accounts payable and accrued expenses	63
Income tax payable	1,219
Deferred tax liability	25,420
	26,702
Net assets	(3,784)
Intangible asset (Note 15)	84,733
Bargain purchase gain	(52,811)
Acquisition cost	₱28,138

In accordance with PFRS 3, the bargain purchase gain is recognized as part of "Other income" in the consolidated statement of income (see Note 22).

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	₱8,490
Fair value of the Company's equity interest in WCW held before the business combination	19,648
	₱28,138

The Company recognized a gain of ₱3.0 million as a result of remeasuring to fair value its 72% equity interest in WCW held before the business combination. The gain is included as part of remeasurement gain under the "Other income" account in the consolidated statement of income (see Note 22).

Cash on acquisition follows (amounts in thousands):

Cash acquired from WCW	₱22,828
Cash paid	8,490
Net cash flow	₱14,338

From the date of acquisition, the Group's share in WCW's revenue and net income amounted to ₱51.4 million and ₱35.5 million, respectively.

MWCI and Philwater

On November 11, 2009, the Company and UU entered into a share sale and purchase agreement whereby UU will sell to the Company its interest in: a) 81.9 million common shares of MWC representing 3.4% interest in MWC and b) 133.4 million common shares of Philwater representing 40% interest in Philwater. On the same date, UU and Philwater entered into a share sale and purchase agreement for the sale of UU's interest in 666.7 million participating preferred shares of MWC to Philwater.

On March 4, 2010, the Company completed the acquisition of UU's interest in the common shares of MWC and Philwater and participating preferred shares in MWC resulting in the Company increasing its ownership interest in MWC to 43.1% and obtaining control to more than one-half (1/2) of the voting power in MWC and Philwater becoming a subsidiary. In prior years, MWC and Philwater were treated as jointly controlled entities of the Company.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands).

Assets	
Cash and cash equivalents	₱6,106,284
Short-term investments	1,854,763
Receivables - net	578,522
Materials and supplies	16,664
Other current assets	736,509
Property and equipment - net (Note 13)	1,341,081
Service concession asset - net (Note 14)	53,904,778
AFS financial assets	1,978,644
Other noncurrent assets	1,331,605
	67,848,850
Liabilities	
Accounts payable and accrued expenses	₱3,006,485
Long-term debt	15,761,983
Service concession obligation	8,006,437
Income tax payable	375,994
Payable to related parties	806,781
Customers' guaranty and other deposits	1,279,315
Pension liabilities	216,775
Deferred tax liability	5,014,393
Deferred credits	196,984
	34,665,147
Net assets	33,183,703
Positive goodwill	393,777
Acquisition cost	₱33,577,480

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	₱2,614,687
Fair value of the Company's equity interest in MWC and Philwater held before the business combination	10,317,101
Fair value of the non-controlling interest in MWC	20,645,692
	₱33,577,480

The non-controlling interest has been measured at fair value based on the share price of the MWC common shares as of acquisition date.

The Company recognized a gain of ₱4.4 billion as a result of remeasuring to fair value its equity interest in MWC and Philwater held before the business combination. The gain is included as part of remeasurement gain under the "Other income" account in the consolidated statement of income (see Note 22).

Cash on acquisition follows (amounts in thousands):

Cash acquired from MWC and Philwater	₱6,106,284
Cash paid	2,614,687
Net cash flow	₱3,491,597

From the date of acquisition, the Group's share in the revenue and net income of MWC and Philwater amounted to revenue and net income amounted to ₱13.7 billion and ₱2.5 billion, respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱84.9 billion, while the Group's net income before tax would have been ₱19.4 billion.

Wardley/WDF-AY, LLC (Wardley)
AY Saratoga, Inc. (AY Saratoga), a subsidiary of AINA, executed a settlement agreement and mutual general release and assignment of member interest in January 2010 whereby the 75% remaining interest owned by the other partner was transferred to AY Saratoga for US$2.4 million. As a result of the acquisition, Wardley became a subsidiary of WDF-AY, LLC.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands).

	In US$	In Php*
Assets		
Cash and cash equivalents	US$183	₱8,554
Short-term investments	500	23,371
Receivables - net	17	795
Real estate inventory	9,118	426,203
	9,818	458,923
Liabilities		
Loans payable	18,407	860,398
Net liability	8,589	401,475
Goodwill	10,989	513,659
Consideration paid	US$2,400	₱112,184

**Translated using the exchange rate at the transaction date (US$1:₱46.74).*

The cost of the acquisition is determined as follows (amounts in thousands):

	In US$	In Php*
Cash paid	US$2,400	₱112,184
Fair value of AINA's equity interest in Wardley held before the business combination	–	–
	US$2,400	₱112,184

**Translated using the exchange rate at the transaction date (US$1:₱46.74).*

AINA recognized remeasurement loss amounting to US$4.4 million (₱201.9 million) on its previously owned 25% equity interest in Wardley. The loss is included as part of remeasurement loss under "Other charges"account in the consolidated statement of income (see Note 22).

Cash on acquisition follows (amounts in thousdands):

	In US$	In Php*
Cash acquired from Wardley	US$183	₱8,554
Cash paid	2,400	112,183
Net cash flow	(US$2,217)	(₱103,629)

**Translated using the exchange rate at the transaction date (US$1:₱46.74).*

From the date of acquisition, the Group's share in Wardley's revenue and net loss amounted to US$2.8 million (₱126.3 million) and US$17.1 million (₱771.6 million), respectively.

Given the net liability position of Wardley, the goodwill arising from the acquisition amounting to US$10.9 million was fully impaired (see Note 22).

One Park Place, Inc. (OPPI)
On December 6, 2010, OPPI, one of the limited liability company investees of AINA, redeemed some of the limited partners' interests and paid a nominal amount of US$5 and recognized a loss on redemption amounting to US$8.7 million (₱394.0 million) included as part of remeasurement loss under "Other charges" account in the consolidatd statement of income. The redemption of the limited partners' interests resulted in new equity interests for the remaining partners with AINA having a 57.1% equity share in OPPI.

The following is a summary of the fair values of the assets acquired and liabilities assumed as of the date of the acquisition (amounts in thousands).

	In US$	In Php*
Assets		
Cash and cash equivalents	US$4,706	₱205,888
Receivables – net	8	350
Real estate inventory	37,739	1,651,081
	42,453	1,857,319
Liabilities		
Loans payable	57,886	2,532,513
Net liability before redemption	15,433	675,194
Share in the net liability of redeemed shares	8,672	379,400
Net liability after redemption	6,761	295,794
Partners' deficit from consolidation	2,464	107,800
Goodwill	US$9,225	₱403,594

**Translated using the exchange rate at the transaction date (US$1:₱43.75).*

The fair value of the non-controlling interest has been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

From the date of acquisition, the Group's share in OPPI's revenue and net loss amounted to US$0.4 million (₱18.0 million) and US$9.5 million (₱426.4 million), respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱83.0 billion, while the Group's net income before tax would have been ₱17.6 billion.

Given the net liability position of OPPI, the goodwill arising from the acquisition of US$9.2 million was fully impaired (see Note 22).

2009 Acquisitions

<u>On-Site Sourcing, Inc.</u>
On April 30, 2009, Integreon acquired On-Site Sourcing, Inc. (Onsite) for a total consideration of US$6.8 million.

Following is a summary of the fair values of the assets acquired and liabilities assumed of Onsite as of the date of the acquisition:

	Fair Value Recognized on Acquisition	
	In US$	In Php*
	(In Thousands)	
Cash and cash equivalents	US$282	₱13,635
Current assets	5,882	284,395
Property and equipment - net	3,640	175,994
	9,804	474,024
Current liabilities	1,875	90,656
Deferred tax liability	2,396	115,847
	4,271	206,503
Net assets	5,533	267,521
Intangible assets arising on acquisition:		
Customer relationships	5,800	280,340
Software	300	14,505
Bargain purchase gain (Note 22)	(4,878)	(235,851)
Total consideration paid in cash	US$6,755	₱326,515

**Translated using the exchange rate at the transaction date (US$1:₱48.35).*

Cash flow on acquisition follows:

	In US$	In Php*
	(In Thousands)	
Net cash acquired with the subsidiary	US$282	₱13,635
Cash paid	6,755	326,515
Net cash outflow	US$6,473	₱312,880

Translated using the exchange rate at the transaction date (US$1:₱48.35).

From the date of acquisition, Onsite has contributed US$6.3 million (₱299.6 million) to the net income of the Group. If the contribution had taken place at the beginning of the year, the net income of the Group would have increased to US$0.7 million (₱31.9 million) and revenue would have increased to US$7.8 million (₱373.4 million) in 2009.

In accordance with PFRS 3, the bargain purchase gain is recognized in the consolidated statement of income (see Note 22).

Grail Research, Inc.
On October 30, 2009, Integreon acquired the assets of Grail, along with the share capital of its subsidiaries, from the Monitor Group for a total consideration of US$11.8 million.

The following is a summary of the provisional fair values of the assets acquired and liabilities assumed as of the date of the acquisition. The purchase price allocation has been prepared on a preliminary basis and reasonable changes are expected as additional information becomes available.

	Fair Value Recognized on Acquisition	
	In US$	In Php*
	(In Thousands)	
Cash and cash equivalents	US$155	₱7,396
Trade and other receivables	798	38,012
Other current assets	273	13,008
Property and equipment - net	545	25,958
Other noncurrent assets	401	19,100
	2,172	103,474
Accounts payable and accrued expenses	1,850	88,106
Other current liabilities	8	390
Other noncurrent liabilities	55	2,640
	1,913	91,136
Net assets	259	12,338
Goodwill arising on acquisition	11,558	550,506
Total consideration	US$11,817	₱562,844

Translated using the exchange rate at the transaction date (US$1:₱47.63).

Cost of the acquisition follows:

	In US$	In Php*
	(In Thousands)	
Cash paid	US$10,389	₱494,828
Shares issued	1,022	48,678
Transaction costs	406	19,338
	US$11,817	₱562,844

Translated using the exchange rate at the transaction date (US$1:₱47.63).

Cash flow on acquisition follows:

	In US$	In Php*
	(In Thousands)	
Net cash acquired with the subsidiary	US$155	₱7,396
Cash paid	10,389	494,828
Net cash outflow	US$10,234	₱487,432

Translated using the exchange rate at the transaction date (US$1:₱47.63).

From the date of acquisition, Grail has contributed US$0.4 million (₱20.0 million) to the net income of the Group. If the contribution had taken place at the beginning of the year, the net income of the Group would have increased to US$0.5 million (₱21.9 million) and revenue would have increased to US$7.0 million (₱334.8 million) in 2009.

In January 2010, Integreon completed the valuation of the intangible assets which were part of the business combination. The fair values of the intangible assets are as follows:

	In US$	In Php*
	(In Thousands)	
Customer relationships	US$2,620	₱124,790
Customer contracts	2,010	95,736
Trade name	270	12,860
	US$4,900	₱233,386

**Translated using the exchange rate at the transaction date (US$1:₱47.63).*

The 2009 consolidated financial statements were not restated to reflect the adjustment since the adjustment was deemed immaterial.

24. Income Tax

The components of the Group's deferred taxes as of December 31, 2010 and 2009 are as follows:

Net deferred tax assets

	2010	2009
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱1,352,511**	₱326,055
Allowance for probable losses	**779,823**	914,010
Service concession obligation	**429,032**	–
Share-based payments	**115,147**	82,784
Unrealized foreign exchange loss	**110,107**	–
Retirement benefits	**109,924**	100,466
Advanced rental	**52,907**	28,215
NOLCO	**24,375**	19,052
MCIT	**523**	27,323
Others	**240,723**	343,265
	3,215,072	1,841,170
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(422,390)**	(402,896)
Excess of financial realized gross profit over taxable realized gross profit	**(29,504)**	–
Revaluation increment on acquisition of a subsidiary	**–**	(42,282)
Others	**(14,030)**	–
	(465,924)	(445,178)
Net deferred tax assets	**₱2,749,148**	₱1,395,992

Net deferred tax liabilities

	2010	2009
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱170,507**	₱–
Fair value adjustments on:		
Long-term debt	**223,760**	–
Available for sale financial asset	**1,116**	–
Derivative asset	**3,751**	–
Others	**5,961**	826
	405,095	826

(Forward)

	2010	2009
	(In Thousands)	
Deferred tax liabilities on:		
Fair value adjustments on;		
Property and equipment	**(₱74,419)**	₱–
Service concession asset	**(5,363,892)**	–
Service concession obligation	**(34,091)**	–
Customers' guaranty and other deposits	**(18,691)**	–
Intangible asset	**(16,803)**	–
Land and improvements	**(392,194)**	–
Excess of financial realized gross profit over taxable realized gross profit	**(213,618)**	(147,368)
Prepaid expenses	**(163,740)**	–
Others	**(21,089)**	(60,882)
	(6,298,537)	(208,250)
Net deferred tax liabilities	**(₱5,893,442)**	(₱207,424)

The Group has NOLCO amounting to ₱6.3 billion and ₱5.6 billion in 2010 and 2009, respectively, which were not recognized. Further, deferred tax assets from the excess MCIT over regular corporate income tax amounting to ₱119.7 million in 2010 and ₱38.6 million in 2009 and ₱41.2 million in 2008, respectively, were also not recognized, since management believes that there would not be sufficient taxable income against which the benefits of the deferred tax assets may be utilized.

As of December 31, 2010, NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities are as follows:

Year incurred	Expiry Date	NOLCO	MCIT
		(In Thousands)	
2008	2011	₱2,282,936	₱17,482
2009	2012	1,336,734	28,197
2010	2013	2,692,048	74,591
		₱6,311,718	₱120,270

As of December 31, 2010 and 2009, deferred tax liabilities have not been recognized on the undistributed earnings and cumulative translation adjustment of foreign subsidiaries, associates and jointly controlled entities since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future. The undistributed earnings and cumulative translation adjustment amounted to ₱1,245.6 million and ₱1,626.7 million as of December 31, 2010 and 2009, respectively.

The reconciliation between the statutory and the effective income tax rates follows:

	2010	2009	2008
Statutory income tax rate	**30.00%**	30.00%	35.00%
Tax effects of:			
Nontaxable equity in net earnings of associates and jointly controlled entities	**(9.73)**	(17.67)	(19.80)
Interest income subjected to final tax at lower rates	**(1.98)**	(0.97)	(2.45)
Income under income tax holiday	**(0.98)**	(0.16)	(0.22)
Gain on sale of shares and capital gains tax	**(0.45)**	(3.20)	(7.43)
Effect of change in tax rate	**–**	–	0.90
Others	**(1.50)**	5.59	12.49
Effective income tax rate	**15.36%**	13.59%	18.49%

Revenue Regulations (RR) No. 16-2008
RR No. 16-2008 provided the implementing guidelines for Section 34 of RA No. 9504 on the use of the Optional Standard Deduction (OSD) for corporations. The OSD allowed shall be an amount not exceeding 40% of the gross income. This became effective on July 1, 2008 and was applied by MWC for transactions for the year ended December 31, 2010.

The OSD results in an effective tax rate of 18% for MWC for the years in which OSD is projected to be utilized. This rate was used in computing the deferred income taxes on the net service concession obligation and capitalized borrowing costs starting 2009 that are considered in determining gross income for income tax purposes.

The availment of OSD affected the recognition of several deferred tax assets and liabilities, in which the related income and expenses are not considered in determining gross income for income tax purposes. MWC forecasts that it will continue to avail of the OSD, such that the manner by which it will recover or settle the underlying assets and liabilities, for which the deferred tax assets to and liabilities were initially recognized, would not result to any future tax consequence under OSD.

25. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Company:

	2010	2009	2008
	(In Thousands, except EPS figures)		
Net income	**₱11,161,092**	₱8,154,345	₱8,108,597
Less dividends on preferred stock	**1,081,352**	1,081,352	548,552
	₱10,079,740	₱7,072,993	₱7,560,045
Weighted average number of common shares	**490,290**	496,984	496,756
Dilutive shares arising from stock options	**2,125**	1,541	1,719
Adjusted weighted average number of common shares for diluted EPS	**492,415**	498,525	498,475
Basic EPS	**₱20.56**	₱14.23	₱15.22
Diluted EPS	**₱20.47**	₱14.19	₱15.17

26. Retirement Plan

The Company and certain subsidiaries have their respective funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on defined formula with minimum lump-sum guarantee of 1.5 months effective salary per year of service. The consolidated retirement costs charged to operations amounted to ₱415.6 million in 2010, ₱344.4 million in 2009 and ₱195.6 million in 2008.

The principal actuarial assumptions used to determine the pension benefits with respect to the discount rate, salary increases and return on plan assets were based on historical and projected normal rates. The Company's and certain subsidiaries' annual contributions to their respective plans consist of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

The components of retirement expense in the consolidated statement of income are as follows:

	2010	2009	2008
		(In Thousands)	
Current service cost	**₱349,035**	₱261,116	₱263,055
Interest cost on benefit obligation	**349,672**	307,200	215,771
Expected return on plan assets	**(341,339)**	(255,016)	(247,462)
Net actuarial gain	**54,944**	30,401	(29,573)
Past service cost	**3,292**	2,532	2,796
Curtailment loss (gain)	**–**	382,296	(11,447)
Settlement gain	**–**	(384,170)	–
Effect of ceiling limit	**30**	–	2,504
Total retirement expense	**₱415,634**	₱344,359	₱195,644
Actual return (loss) on plan assets	**₱862,727**	₱453,834	(₱410,372)

The funded status and amounts recognized in the consolidated statement of financial position for the pension plans as of December 31, 2010 and 2009 are as follows:

	2010	2009
	(In Thousands)	
Benefit obligation	**(₱5,254,419)**	(₱3,774,239)
Plan assets	**4,837,187**	3,655,919
	(417,232)	(118,320)
Unrecognized net actuarial loss (gains)	**218,728**	(11,721)
Unrecognized past service cost	**48,259**	34,148
Net pension obligation	**(₱150,245)**	(₱95,893)

The net pension obligation is presented in the consolidated statement financial position as follows:

	2010	2009
	(In Thousands)	
Pension assets	**₱190,658**	₱132,419
Pension liabilities	**(340,903)**	(228,312)
Net pension obligation	**(₱150,245)**	(₱95,893)

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

	2010	2009
	(In Thousands)	
Balance at January 1	**₱3,774,239**	₱3,442,841
Interest cost on benefit obligation	**349,672**	307,200
Current service cost	**349,035**	261,116
Benefits paid	**(366,604)**	(282,615)
Actuarial loss on obligations	**556,473**	180,934
Addition arising from business combination	**604,250**	125
Curtailments	**8,914**	281,525
Settlements	**(25,615)**	(416,887)
Past service cost	**17,403**	–
Benefits obligation from deconsolidated subsidiary	**(13,348)**	–
Balance at December 31	**₱5,254,419**	₱3,774,239

Changes in the fair value of the combined plan assets are as follows:

	2010	2009
	(In Thousands)	
Balance at January 1	**₱3,655,919**	₱3,014,124
Fair value of plan assets from acquired subsidiary	**171,593**	–
Expected return	**341,339**	255,016
Contributions by employer	**559,716**	652,516
Benefits paid	**(366,604)**	(282,615)
Settlements	**(2,118)**	(181,940)
Actuarial gains on plan assets	**477,342**	198,818
Balance at December 31	**₱4,837,187**	₱3,655,919

The assumptions used to determine pension benefits for the Group are as follows:

	2010	2009
Discount rates	**6.3% to 15%**	9.5% to 15.0%
Salary increase rates	**6.0% to 10%**	6.0% to 10.0%
Expected rates of return on plan assets	**4.0% to 11%**	4.0% to 11.0%

The allocation of the fair value of plan assets of the Group follows:

	2010	2009
Investments in debt securities	**52.2%**	69.0%
Investments in equity securities	**44.4%**	23.5%
Others	**3.4%**	7.5%

Amounts for the current and previous annual periods are as follows:

	2010	2009	2008	2007	2006
			(In Thousands)		
Defined benefit obligation	**(₱5,254,419)**	(₱3,774,239)	(₱3,442,841)	(₱3,708,898)	(₱4,012,650)
Plan assets	**4,837,187**	3,655,919	3,014,124	3,734,339	3,508,563
Excess (deficit)	**(₱417,232)**	(₱118,320)	(₱428,717)	₱25,441	(₱504,087)

Gains (losses) on experience adjustments are as follows:

	2010	2009	2008	2007	2006
			(In Thousands)		
Defined benefit obligation	**₱69,045**	₱19,482	(₱566,144)	₱136,564	(₱41,750)
Plan assets	**(521,388)**	198,818	(657,834)	30,727	131,790

The Company does not expect to contribute to the retirement fund in 2011 since the fair value of its plan assets exceeds the present value of its obligations.

As of December 31, 2010 and 2009, the plan assets include shares of stock of the Company with total fair value of ₱577.5 million and ₱456.1 million, respectively.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

27. Stock Option Purchase Plans

The Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 3.0% of the Company's authorized capital stock. The grantees are selected based on certain criteria like outstanding performance over a defined period of time.

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

ESOP

A summary of the Company's stock option activity and related information for the years ended December 31, 2010, 2009 and 2008 follows:

	2010		2009		2008	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, at beginning of year	**3,340,118**	**₱141.17**	3,352,018	₱141.18	2,837,102	₱170.30
Exercised	**(304,838)**	**(152.77)**	(11,900)	(143.51)	(52,499)	(150.99)
Grants	**1,230,849**	**273.03**				
Adjustment due to 20% stock dividends (Note 21)	**–**	**–**	–	–	567,415	–
Outstanding, at end of year	**4,266,129**	**₱179.36**	3,340,118	₱141.17	3,352,018	₱141.18

The options have a contractual term of 10 years. As of December 31, 2010 and 2009, the weighted average remaining contractual life of options outstanding is 4.01 and 3.16 years, respectively, and the range of exercise prices amounted from ₱107.29 to ₱273.03.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model. The fair values of stock options granted under ESOP at each grant date and the assumptions used to determine the fair value of the stock options are as follows:

	April 16, 2010	June 30, 2005	June 10, 2004
Weighted average share price	₱303.70	₱327.50	₱244.00
Exercise price	₱273.03	₱295.00	₱220.00
Expected volatility	41.31%	46.78%	46.71%
Option life	10 years	10 years	10 years
Expected dividends	0.92%	1.27%	1.43%
Risk-free interest rate	8.56%	12.03%	12.75%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

The Company also has ESOWN granted to qualified officers and employees wherein grantees may subscribe in whole or in part to the shares awarded to them based on the 10% discounted market price as offer price set at grant date. To subscribe, the grantee must be an employee of the Group during the 10-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Company's Right to Repurchase.

Shares granted and subscribed under the ESOWN in 2009 follows:

Granted	1,831,782
Subscribed	1,813,994
Exercise price	₱180.13

Subscriptions receivable from the stock option plans covering the Company's shares are presented under equity.

For the unsubscribed shares, the employee still has the option to subscribe from the start of the fifth year but not later than on the start of the seventh year from date of grant. Movements in the number of options outstanding under ESOWN as of December 31, 2010 and 2009 follow:

	2010		2009	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
At January 1	**160,150**	**₱252.34**	190,795	₱251.39
Granted	**–**	**–**	17,788	180.13
Exercised/cancelled	**(56,944)**	**253.64**	(48,433)	(222.07)
At December 31	**103,206**	**₱251.63**	160,150	₱252.34

The fair value of stock options granted in April 30, 2009 is estimated on the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation. The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

Number of unsubscribed shares	17,788
Fair value of each option	₱112.87
Weighted average share price	₱263.38
Exercise price	₱180.13
Expected volatility	49.88%
Dividend yield	1.59%
Interest rate	7.49%

Total expense arising from share-based payments recognized by the Group in the consolidated statement of income amounted to ₱375.0 million in 2010, ₱471.6 million in 2009 and ₱342.9 million in 2008.

28. Operating Segment Information

For management purposes, the Group is organized into the following business units:

- Real estate and hotels - planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of upper middle-income and affordable housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

- Financial services and bancassurance - universal banking operations, including savings and time deposits in local and foreign currencies; commercial, consumer, mortgage and agri-business loans; leasing; payment services, including card products, fund transfers, international trade settlement and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; fully integrated bancassurance operations, including life, non-life, pre-need and reinsurance services; internet banking; on-line stock trading; corporate finance and consulting services; foreign exchange and securities dealing; and safety deposit facilities.

- Telecommunications - provider of digital wireless communications services, wireline voice communication services, consumer broadband services, other wireline communication services, domestic and international long distance communication or carrier services and mobile commerce services.

- Electronics - electronics manufacturing services provider for original equipment manufacturers in the computing, communications, consumer, automotive, industrial and medical electronics markets, service provider for test development and systems integration and distribution of related products and services.

- Information technology and BPO services - venture capital for technology businesses and emerging markets; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; technology infrastructure hardware and software sales and technology services; and onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, IT support, graphics, advertising production, marketing and communications, human resources, sales, retention, technical support and customer care areas.

- Water utilities - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery services and sewerage services in the East Zone Service Area.

- Automotive - manufacture and sale of passenger cars and commercial vehicles.

- International - investments in overseas property companies and projects.

- Others - air-charter services, agri-business and others.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment results include transfers between operating segments. Those transfers are eliminated in consolidation.

In 2010, the Company re-organized AC Capital to focus on asset management and business development initiatives. The group was also subsequently renamed and re-assigned to report to the Chief Financial Officer. Segments formerly under AC Capital's purview, including, Water Utilities, Electronics, Information Technology and BPO Services, International, and Automotive are now presented, monitored, and analyzed independently. This has no impact on the 2009 and 2008 presentation of operating segment information.

The following tables regarding operating segments present assets and liabilities as of December 31, 2010 and 2009 and revenue and profit information for each of the three years in the period ended December 31, 2010 (amounts in millions).

2010

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱522	₱35,352	₱–	₱–	₱14,748*	₱18,611	₱1,129	₱22	₱11,696	₱–	₱82,080
Intersegment	–	454	–	–	–	–	13	–	60	(527)	–
Equity in net earnings of associates and jointly controlled entities	(85)	906	3,807	2,989	222	–	(1,603)	(161)	49	–	6,124
Interest income	1,152	1,044	–	–	244	16	53	41	2	(31)	2,521
Other income	4,748	27	–	–	416	199	2,111	35	251	(440)	7,347
Total income	6,337	37,783	3,807	2,989	15,630	18,826	1,703	(63)	12,058	(998)	98,072
Operating expenses	1,700	28,193	–	–	10,751*	18,417	1,502	958	11,832	(995)	72,358
Operating profit	4,637	9,590	3,807	2,989	4,879	409	201	(1,021)	226	(3)	25,714
Interest expense and other financing charges	2,353	1,539	–	–	720	41	50	61	12	(21)	4,755
Other charges	349	221	–	–	(15)	5	–	1,512	11	(11)	2,072
Provision for income tax	209	1,562	–	–	948	155	(37)	2	61	–	2,900
Net income	₱1,726	₱6,268	₱3,807	₱2,989	₱3,226	₱208	₱188	(₱2,596)	₱142	₱29	₱15,987
Other information											
Segment assets	₱108,856	₱112,036	₱–	₱–	₱70,665	₱15,502	₱2,419	₱4,630	₱3,073	(₱76,347)	₱240,834
Investments in associates and jointly controlled entities	51,347	10,846	–	–	6	–	7,152	2,323	331	–	72,005
Deferred tax assets	–	2,917	–	–	32	5	–	–	27	(232)	2,749
Total assets	₱160,203	₱125,799	₱–	₱–	₱70,703	₱15,507	₱9,571	₱6,953	₱3,431	(₱76,579)	₱315,588
Segment liabilities	₱54,377	₱56,234	₱–	₱–	₱30,106	₱7,488	₱353	₱2,939	₱1,655	(₱10,243)	₱142,909
Deferred tax liabilities	–	598	–	–	4,900	–	4	7	5	–	5,514
Total liabilities	₱54,377	₱56,832	₱–	₱–	₱35,006	₱7,488	₱357	₱2,946	₱1,660	(₱10,243)	₱148,423
Segment additions to property, plant and equipment and investment properties	₱94	₱4,056	₱–	₱–	₱1,063	₱1,055	₱93	₱3	₱119	(₱39)	₱6,444
Depreciation and amortization	₱100	₱1,814	₱–	₱–	₱–	₱994	₱204	₱46	₱2,070	₱–	₱5,228
Non-cash expenses other than depreciation and amortization	₱498	₱279	₱–	₱–	₱–	₱22	₱369	₱1,249	₱6	₱–	₱2,423

2009

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱376	₱28,593	₱–	₱–	₱–	₱18,937	₱4,041	₱9	₱11,281	₱–	₱63,237
Intersegment	–	318	–	–	–	–	(22)	–	(43)	(253)	–
Equity in net earnings of associates and jointly controlled entities	4	968	2,707	3,862	1,029	–	(809)	(394)	(6)	–	7,361
Interest income	1,618	959	–	–	–	35	5	111	3	(96)	2,635
Other income	1,611	254	–	–	–	323	701	118	259	(205)	3,061
Total income	3,609	31,092	2,707	3,862	1,029	19,295	3,916	(156)	11,494	(554)	76,294
Operating expenses	1,795	21,857	–	–		18,536	4,575	284	11,452	34	58,533
Operating profit	1,814	9,235	2,707	3,862	1,029	759	(659)	(440)	42	(588)	17,761
Interest expense and other financing charges	2,381	1,345	–	–	–	82	69	22	19	(96)	3,822
Other charges	13	1,407	–	–	–	4	–	2	9	–	1,435
Provision for income tax	236	1,165	–	–	–	240	1	(18)	50	25	1,699
Net income	(₱816)	₱5,318	₱2,707	₱3,862	₱1,029	₱433	(₱729)	(₱446)	(₱36)	(₱517)	₱10,805
Other information										–	
Segment assets	₱102,302	₱98,370	₱–	₱–	₱–	₱14,019	₱6,248	₱4,276	₱2,862	(₱68,881)	₱159,196
Investments in associates and jointly controlled entities	52,517	10,798	–	–	–	–	5,341	2,531	370	–	71,557
Deferred tax assets	–	1,523	–	–	–	10	40	–	45	(222)	1,396
Total assets	₱154,819	₱110,691	₱–	₱–	₱–	₱14,029	₱11,629	₱6,807	₱3,277	(₱69,103)	₱232,149
Segment liabilities	₱45,248	₱48,396	₱–	₱–	₱–	₱6,241	₱3,098	₱893	₱1,627	(₱8,979)	₱96,524
Deferred tax liabilities	–	151	–	–	–	5	41	5	5	–	207
Total liabilities	₱45,248	₱48,547	₱–	₱–	₱–	₱6,246	₱3,139	₱898	₱1,632	(₱8,979)	₱96,731
Segment additions to property, plant and equipment and investment properties	₱77	₱4,895	₱–	₱–	₱–	₱387	₱407	₱23	₱414	₱–	₱6,203
Depreciation and amortization	₱–	₱1,794	₱–	₱–	₱–	₱997	₱339	₱4	₱109	₱–	₱3,243
Non-cash expenses other than depreciation and amortization	₱116	₱1,287	₱–	₱–	₱–	₱67	₱75	₱–	₱3	₱–	₱1,548

2008

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	₱–	₱30,679	₱–	₱–	₱–	₱20,306	₱2,611	₱–	₱10,787	₱–	₱64,383
Intersegment	–	63	–	–	–	–	(15)	–	–	(48)	–
Equity in net earnings of associates and jointly controlled entities	7	885	2,145	3,643	907	–	(122)	(144)	75	–	7,396
Interest income	1,234	925	–	–	–	53	8	92	337	(70)	2,579
Other income	3,131	1,331	–	–	–	261	4	178	–	(155)	4,750
Total income	4,372	33,883	2,145	3,643	907	20,620	2,486	126	11,199	(273)	79,108
Operating expenses	1,429	24,591	–	–	–	19,387	3,391	271	10,566	(137)	59,498
Operating profit	2,943	9,292	2,145	3,643	907	1,233	(905)	(145)	633	(136)	19,610
Interest expense and other financing charges	2,298	1,050	–	–	–	1,607	12	8	34	(72)	4,937
Other charges	999	376	–	–	–	79	16	117	9	–	1,596
Provision for income tax	197	2,065	–	–	–	109	7	(2)	32	11	2,419
Net income	(₱551)	₱5,801	₱2,145	₱3,643	₱907	(₱562)	(₱940)	(₱268)	₱558	(₱75)	₱10,658
Other information											
Segment assets	₱102,725	₱92,462	₱–	₱–	₱–	₱14,603	₱4,442	₱3,577	₱2,226	(₱69,121)	₱150,914
Investment in associates and jointly controlled entities	50,857	9,916	–	–	–	–	3,906	2,952	510	–	68,141
Deferred tax assets	–	795	–	–	–	1	53	–	36	248	1,133
Total assets	₱153,582	₱103,173	₱–	₱–	₱–	₱14,604	₱8,401	₱6,529	₱2,772	(₱68,873)	₱220,188
Segment liabilities	₱47,720	₱45,248	₱–	₱–	₱–	₱6,882	₱928	₱537	₱1,140	(₱10,640)	₱91,815
Deferred tax liabilities	–	162	–	–	–	–	12	6	6	–	186
Total liabilities	₱47,720	₱45,410	₱–	₱–	₱–	₱6,882	₱940	₱543	₱1,146	(₱10,640)	₱92,001
Segment additions to property, plant and equipment and investment properties	₱84	₱4,918	₱–	₱–	₱–	₱731	₱646	₱5	₱355	₱–	₱6,739
Depreciation and amortization	₱92	₱1,259	₱–	₱–	₱–	₱936	₱558	₱4	₱91	₱–	₱2,940
Non-cash expenses other than depreciation and amortization	₱1,024	₱462	₱–	₱–	₱–	₱166	₱9	₱221	₱–	₱–	₱1,882

Geographical Segments

	Revenue			Segment Assets		Investment Properties and Property, Plant and Equipment Additions	
	2010	2009	2008	**2010**	2009	**2010**	2009
Philippines	**₱80,152,760**	₱60,284,336	₱ 63,077,576	**₱304,559,183**	₱212,398,081	**₱6,052,296**	₱5,648,747
Japan	**2,876,681**	1,023,625	1,083,135	**13,089**	12,532	**167,584**	254
USA	**5,642,469**	6,253,443	6,736,608	**2,275,263**	10,667,684	**34,425**	181,336
Europe	**5,373,401**	5,594,446	4,471,487	**–**	111,678	–	–
Others (mostly Asia)	**4,025,989**	3,137,965	3,739,847	**8,361,045**	8,959,445	**189,624**	171,152
	₱98,071,300	₱76,293,815	₱79,108,653	**₱315,208,580**	₱232,149,420	**₱6,443,929**	₱6,001,489

Summarized financial information of BPI, Globe and MWC are presented in Note 10 to the consolidated financial statements.

29. Leases

Finance leases - as lessee
Foreign subsidiaries conduct a portion of their operations from leased facilities, which include office equipment. These leases are classified as finance leases and expire over the next 5 years. The average discount rate implicit in the lease is 8.5% per annum in 2010 and 2009. Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments follow:

	2010		2009	
	Minimum payments	**Present values of payments**	Minimum payments	Present values of payments
	(In Thousands)			
Within one year	**₱72,773**	**₱71,596**	₱13,448	₱11,866
After one year but not more than five years	**30,248**	**29,002**	23,987	21,982
Total minimum lease payments	**103,021**	**100,598**	37,435	33,848
Less amounts representing finance charges	**5,806**	**–**	1,470	–
Present value of minimum lease payments	**₱97,215**	**₱100,598**	₱35,965	₱33,848

Operating lease commitments - as lessee
The Group entered into lease agreements with third parties covering real estate properties. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals payable under noncancellable operating leases of lessee subsidiaries are as follows:

	2010	2009
	(In Thousands)	
Within one year	**₱238,623**	₱300,933
After one year but not more than five years	**724,219**	755,185
More than five years	**1,518,990**	1,536,304
	₱2,481,832	₱2,592,422

Operating leases - as lessor
Certain subsidiaries have lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals receivable under noncancellable operating leases of the Group are as follows:

	2010	2009
	(In Thousands)	
Within one year	**₱1,552,790**	₱1,618,130
After one year but not more than five years	**4,304,099**	4,789,404
More than five years	**1,823,452**	3,349,840
	₱7,680,341	₱9,757,374

30. **Related Party Transactions**

The Group, in its regular conduct of business, has entered into transactions with associates, jointly controlled entities and other related parties principally consisting of advances, loans and reimbursement of expenses, purchase and sale of real estate properties, various guarantees, construction contracts, and development, management, underwriting, marketing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made at normal market prices.

The effects of the foregoing are shown under the appropriate accounts in the consolidated financial statements as follows (amounts in thousands):

Receivable from related parties

	2010	2009
Associates:		
CHI	**₱108,239**	₱120,791
Interest in limited partnerships of AINA	**49,311**	1,559,312
Naraya Development Co. Ltd.	**17,146**	17,863
NTDCC	**15,790**	25,383
ASTI	**13,238**	76,747
Arch Capital	**216**	908
PPI Prime Ventures, Inc.	**5**	5,946
Lagoon Development Corporation	**–**	15,337
MD Express	**–**	144
	203,945	1,822,431
Jointly controlled entities:		
Integreon	**359,067**	–
Globe	**29,987**	38,827
ACC	**743**	15,929
Asiacom	**9**	–
MWCI	**–**	48,113
	389,806	102,869
Other related parties:		
Columbus Holdings, Inc. (Columbus)	**888,810**	520,066
Glory High	**542,674**	571,467
Key management personnel	**168,462**	280,488
Fort Bonifacio Development Corporation (FBDC)	**109,279**	87,296
Isuzu Philippines Corporation	**29,742**	–
Honda Cars Philippines, Inc. (HCP)	**23,998**	603
Innove Communications, Inc. (Innove)	**7,281**	4,890
MyAyala	**3,656**	51
	1,773,902	1,464,861
	₱2,367,653	₱3,390,161

Payable to related parties

	2010	2009
Associates:		
Arch Capital	**₱343,540**	₱427
CHI	**284,750**	149,713
BLC	**80,954**	78,829
BPI	**3,289**	–
ASTI	**152**	–
Green Horizon	**–**	13,455
	712,685	242,424
Jointly controlled entities:		
Globe	**772**	13
Asiacom	**94**	94
	866	107

(Forward)

	2010	2009
Other related parties:		
Columbus	**₱491,121**	₱484,888
HCP	**155,873**	69,665
Isuzu Philippines Corporation	**34,181**	–
City Sports Club Cebu, Inc.	**4,000**	–
Innove	**208**	110
Ayala Multipurpose Cooperative	**126**	–
Others	**139**	33,225
	685,648	587,888
	₱1,399,199	₱830,419

Income

	2010	2009	2008
		(In Thousands)	
Associates	**₱1,202,628**	₱2,046,351	₱896,103
Jointly controlled entities	**138,971**	140,652	229,954
Other related parties	**19,899**	15,062	669,162
	₱1,361,498	₱2,202,065	₱1,795,219

Cost and expenses

	2010	2009	2008
		(In Thousands)	
Associates	**₱228,461**	₱606,641	₱220,205
Jointly controlled entities	**104,493**	47,732	54,339
Other related parties	**18,901**	7,294	12,983
	₱351,855	₱661,667	₱287,527

Receivable from related parties include the following:

a. Receivables from Glory High represent noninterest-bearing advances for certain residential development projects. Payments become due as soon as the projects are completed.

b. Receivables from AINA's interest in limited partnerships are nontrade in nature and bear interests ranging from 12% to 15%.

The other outstanding balances of receivable from/payable to related parties at year-end are unsecured, interest free and will be settled in cash.

As of December 31, 2010 and 2009, the Group maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows:

	2010	2009
	(In Thousands)	
Cash in bank	**₱4,385,954**	₱4,538,648
Money market placements	**33,625,700**	24,775263
Other short-term investments	**1,181,563**	692,000

The Group also has short-term and long-term debt payable to BPI amounting to ₱5.4 billion and ₱5.1 billion as of December 31, 2010 and 2009, respectively.

From the Group's placements and short-term investments with BPI, the Group has accrued interest receivable amounting to ₱71.3 million and ₱45.6 million as of December 31, 2010 and December 31, 2009, respectively. The Group has accrued interest payable amounting to ₱3.3 million and ₱3.4 million as of December 31, 2010 and December 31, 2009 pertaining to the outstanding loans.

Allowance for doubtful accounts on amounts due from related parties amounted to ₱122.7 million and ₱8.0 million as of December 31, 2010 and 2009, respectively. Reversal of provision for doubtful accounts in 2009 amounted to ₱2.8 million and provision for doubtful accounts amounted to ₱6.0 million in 2008.

Compensation of key management personnel by benefit type follows:

	2010	2009	2008
		(In Thousands)	
Short-term employee benefits	**₱1,219,128**	₱864,014	₱675,164
Share-based payments (Note 27)	**207,746**	167,886	184,521
Post-employment benefits (Note 26)	**98,949**	103,979	48,256
	₱1,525,823	₱1,135,879	₱907,941

31. Financial Instruments

Fair Value of Financial Instruments

The table below presents a comparison by category of carrying amounts and estimated fair values of all of the Group's financial instruments (amounts in thousands):

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS AT FVPL				
Held for trading	**₱404,008**	**₱404,008**	₱433,821	₱433,821
Designated at FVPL	**468,072**	**468,072**	493,039	493,039
Derivative assets				
Embedded	**267,763**	**267,763**	–	–
Freestanding	**21,073**	**21,073**	–	–
Total financial assets at FVPL	**1,160,916**	**1,160,916**	926,860	926,860
LOANS AND RECEIVABLES				
Cash and cash equivalents	**53,142,777**	**53,142,777**	45,656,889	45,656,889
Short-term investments	**3,993,533**	**3,993,533**	4,560,976	4,560,976
Accounts and notes receivables				
Trade receivables				
Real estate	**13,653,812**	**12,429,914**	12,129,515	12,224,995
Electronics manufacturing	**4,209,809**	**4,209,809**	3,867,003	3,867,003
Water utilities	**459,763**	**459,763**	–	–
Automotive	**833,179**	**833,179**	818,850	818,850
Information technology and BPO	**31,946**	**31,946**	799,783	799,783
International and others	**1,060**	**1,060**	3,700	3,700
Total trade receivables	**19,189,569**	**17,965,671**	17,618,851	17,714,331
Nontrade receivables				
Advances to other companies	**3,842,838**	**3,826,358**	2,888,665	2,875,452
Related parties	**2,280,467**	**2,280,467**	3,384,955	3,384,955
Investments in bonds classified as loans and receivables	**200,000**	**218,990**	200,000	207,588
Receivable from officers and employees	**567,945**	**540,099**	325,637	293,551
Other receivables	**1,471,879**	**1,452,564**	879,242	879,242
Total nontrade receivables	**8,363,129**	**8,318,478**	7,678,499	7,640,788
Total loans and receivables	**84,689,008**	**83,420,459**	75,515,215	75,572,984
AFS FINANCIAL ASSETS				
Quoted equity investments	**1,737,361**	**1,737,361**	1,119,829	1,119,829
Unquoted equity investments	**2,658,151**	**2,658,151**	2,392,489	2,392,489
Quoted debt investments	**288,007**	**288,007**	1,199,154	1,199,154
Unquoted debt investments	**527,947**	**527,947**	–	–
Total AFS financial assets	**5,211,466**	**5,211,466**	4,711,472	4,711,472
Total financial assets	**₱91,061,390**	**₱89,792,841**	₱81,153,547	₱81,211,316

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL LIABILITIES AT FVPL				
Derivative liabilities				
Embedded	**₱168,016**	**₱168,016**	₱–	₱–
OTHER FINANCIAL LIABILITIES				
Current other financial liabilities				
Accounts payable and accrued expenses				
Accounts payable	**15,944,506**	**15,944,506**	13,859,257	13,859,257
Accrued expenses	**9,958,115**	**9,958,115**	6,152,842	6,152,842
Accrued project costs	**2,808,045**	**2,808,045**	2,136,700	2,136,700
Dividends payable	**2,226,117**	**2,226,117**	2,264,306	2,264,306
Related Parties	**1,399,199**	**1,399,199**	830,419	830,419
Interest payable	**572,921**	**572,921**	402,278	402,278
Accrued personnel costs	**557,589**	**557,589**	427,502	427,502
Retentions payable	**119,151**	**119,151**	120,938	120,938
Customers' deposits	**2,204,010**	**2,204,010**	2,374,457	2,374,457
Short-term debt	**4,519,287**	**4,519,287**	2,638,658	2,638,658
Current portion of service concession obligation	**794,473**	**794,473**	–	–
Current portion of long-term debt	**11,237,343**	**11,237,343**	2,453,144	2,453,144
Noncurrent other financial liabilities				
Service concession obligation	**7,025,751**	**8,299,826**	–	–
Other noncurrent liabilities	**9,067,708**	**8,989,761**	7,214,472	7,173,354
Long-term debt	**67,079,948**	**68,679,877**	51,431,583	53,331,913
Total other financial liabilities	**135,514,163**	**138,310,220**	92,306,556	94,165,768
Total financial liabilities	**₱135,682,179**	**₱138,478,236**	₱92,306,556	₱94,165,768

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

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

Financial assets at FVPL - Fair values of investments in government securities are based on quoted prices as of the reporting date. For other investment securities with no reliable measure of fair value, these are carried at its last obtainable fair value.

Derivative instruments - The fair value of the freestanding currency forwards is based on counterparty valuation. The call and put options were valued using binomial model. This valuation technique considers the probability of PSi's share price based on a 5-year discounted cash flow to move up or down depending on the volatility, the risk free rate and exercise price based on a 12-month trailing EBITDA as of the valuation date. The fair value of the embedded call option was determined using Black's option pricing model. Valuation inputs such as discount rates were based on credit adjusted interest rates ranging from 2% to 5% in 2010 while interest rate volatility was computed based on historical rates or data.

Noncurrent trade and nontrade receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 1.13% to 13.8% in 2010 and 4.3% to 9.6% in 2009.

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

AFS unquoted shares - Fair value of equity funds are based on the net asset value per share. For other unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of future cash flows and the lack of suitable method of arriving at a reliable fair value, these are carried at cost.

Accounts payable and accrued expenses, customers' deposits, short-term debt and current portion of long-term debt and service concession obligation - The fair values of accounts payable and accrued expenses and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

Customers' deposits - The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used for Peso-denominated loans were 1.99% to 7.27% in 2010 and 4.16% to 6.14% in 2009 while the discount rates used for the foreign currency-denominated loans ranged from about 1.13% to 3.66% in 2010 and 0.17% to 4.54% in 2009.

The fair value of noncurrent other financial liabilities (fixed rate and variable rate loans repriced on a semi-annual/annual basis and deposits) are estimated using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used ranged from 2.7% to 7.4% in 2010 and 4.3% to 9.6% in 2009.

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

Fair Value Hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets at FVPL amounting to ₱410.3 million and ₱440.6 million as of December 31, 2010 and 2009, respectively, and quoted AFS financial assets amounting to ₱2,025.4 million and ₱2,319.0 million as of December 31, 2010 and 2009, respectively, are classified under the Level 1 category. Derivative asset pertaining to currency forwards amounting ₱21.1 million as of December 31, 2010 are classified under Level 2.

As of December 31, 2010, derivative assets amounting to ₱53.1 million and ₱214.6 million, and derivative liability amounting to ₱168.0 million are classified under Level 3 category.

The ₱214.6 million pertains to the embedded call option bifurcated from the MWC ₱4.0 billion bonds. The derivative asset was classified as such because of the use of credit spread as input to its fair value calculation which was assessed by the Group as having a significant impact to its fair value.

The following are the estimated changes in the fair values of the MWC ₱4.0 billion Bonds Embedded Call Option using an assumed increase/(decrease) in the credit spread, the results of which are shown below:

	Changes in Basis Points (bps)	Effect on Income before Income Tax
		(In Thousands)
2010	**+25**	**(₱5,626)**
	-25	**6,925**

The fair value of the ₱53.1 million call option and ₱168.0 million put option are highly sensitive to the estimated 12-month trailing EBITDA of PSi during the option period and PSi's cost of equity as of valuation date.

The following are the estimated changes in the fair values of the call and put options assuming the estimated EBITDA used in the fair value calculation would vary by 5% (amounts in thousands).

	Increase (Decrease) in Net Income
Estimated EBITDA is 5% higher	
Call option	(₱5,278)
Put option	(22,579)
Estimated EBITDA is 5% lower	
Call option	5,890
Put option	22,131

The following are the estimated changes in the fair values of the call and put options assuming the cost of equity will change by 5% (amounts in thousands).

	Increase (Decrease) in Net Income
Cost of equity is 5% higher	
Call option	(₱12,818)
Put option	(20,901)
Cost of equity is 5% lower	
Call option	17,690
Put option	22,687

Derivatives

Freestanding Derivatives

In 2010 and 2009, IMI entered into various short-term currency forwards with aggregate nominal amount of US$59.0 million and US$27.6 million, respectively. As of December 31, 2010, the outstanding forward contracts have a net positive fair value of US$0.5 million. There are no outstanding contracts as of December 31, 2009. Net fair value gain recognized in 2010 and 2009 amounted to US$2.1 million (₱94.2 million) and US$0.2 million (₱7.7 million), respectively.

In 2008, IMI entered into structured currency options for economic hedges which it unwound in the second quarter of 2008. The remaining outstanding structured currency options after the unwinding program have maturity dates of up to November 2008.

During the first half of 2008, IMI entered into additional structured currency options for economic hedges. The economic turn-around during the second quarter of 2008 led to a weaker peso which resulted in an unfavorable position on IMI's derivative transactions. In May 2008, the BOD of IMI approved the unwinding of four major derivative contracts and IMI incurred unwinding costs amounting to US$33.4 million (₱1.5 billion). As of December 31, 2009, outstanding liability on unwinding cost amounted to US$2.3 million (₱106.3 million) which is included as part of "Accounts payable" (see Note 17). In 2010, such liability was condoned by the counterparty. The gain from the condonation is included under "Foreign exchange gains (losses)" in the consolidated statement of income (see Note 22).

Embedded derivatives

MWC

₱4.0 billion Bonds Embedded Call Option

MWC has an embedded call option on the ₱4.0 billion Peso Bonds issued on October 22, 2008. The embedded call option gives MWC the right to redeem all but not in part the outstanding bonds on the twelfth interest payment date. The amount payable to the bondholders in respect of such redemptions shall be calculated based on the principal amount of the bonds being redeemed, as the sum of 102% of the principal amount and accrued interest on the bonds on the optional redemption date. On issue date, MWC recognized separately the fair value of the embedded call option, resulting in recognition of a derivative asset and loan premium amounting to ₱210.6 million. The embedded derivative is carried at FVPL while the loan premium is amortized at effective interest rate over the life of the loan.

As of December 31, 2010, the embedded option's fair value is ₱214.6 million and included as part of "Other noncurrent assets" in the consolidated statement of financial position. The mark-to-market gain amounting to ₱70.8 million in 2010 was recognized in the consolidated statement of income.

IMI

PSi Equity Call and Put Option

As discussed in Note 23, the acquisition of PSi gave rise to a long equity call option and written equity put option for IMI. As of December 31, 2010, the call option has a positive value of US$1.2 million (₱53.15 million) , while the put option has a negative value of US$3.8 million (₱168.0 million). Net fair value loss on the options amounted to US$0.2 million (₱9.39 million) in 2010. The call option is included as part of "Other current assets" while the the put option is included as part of "Other current liabilities" in the consolidated statement of financial position.

Fair Value Changes on Derivatives
The net movements in fair values of the Group's derivative instruments as of December 31 follow (amounts in thousands):

Derivative Assets

	2010	2009
Balance at beginning of year	**₱–**	₱–
Additions through business combination	**143,815**	–
Initial value of long call option	**61,607**	–
Net changes in fair value of derivatives	**156,323**	7,665
Translation adjustment	**(461)**	–
	361,284	7,665
Fair value of settled instruments	**(72,448)**	(7,665)
Balance at end of year	**₱288,836**	₱–

Derivative Liability

	2010	2009
Balance at beginning of year	**₱–**	₱–
Initial value of written put option	**167,467**	–
Net changes in fair value of derivatives	**724**	–
Translation adjustment	**(175)**	–
Balance at end of year	**₱168,016**	₱–

As of December 31, 2010, the mark-to-market gain on derivative asets and liabilities amounting to ₱49.7 million was recognized in the consolidated statement of income under "Others."

Financial Risk Management

General
In line with the corporate governance structure of the Group, the Group has adopted a group-wide enterprise risk management framework in 2002. An Enterprise Risk Management Policy was approved by the Audit Committee in 2003, and was subsequently revised and approved on February 14, 2008. The policy was designed primarily to enhance the risk management process and institutionalize a focused and disciplined approach to managing the Group's business risks. By understanding and managing risk, the Group provides greater certainty and confidence to the stockholders, employees, and the public in general.

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

A Chief Risk Officer (CRO) is the ultimate champion of enterprise risk management of the Group and oversees the entire risk management function. On the other hand, the Risk Management Unit provides support to the CRO and is responsible for overall continuity. Beginning 2008, under an expanded charter, the Audit and Risk Committee will provide a more focused oversight role over the risk management function.

A quarterly report on the risk portfolio of the Group and the related risk mitigation efforts and initiatives are provided to the Audit and Risk Committee. The Company's internal auditors monitor the compliance with Group's risk management policies to ensure that an effective control environment exists within the Group.

The Company engaged the services of an outside consultant to assist the Company in the roll-out of a more focused enterprise risk management framework which included a formal risk awareness session and self-assessment workshops with all the functional units of the Company. The Company continues to monitor the major risk exposures and the related risk mitigation efforts and initiatives.

The Audit and Risk Committee has initiated the institutionalization of an enterprise risk management function across all the subsidiaries and affiliates.

Financial Risk Management Objectives and Policies
The Group's principal financial instruments comprise financial assets at FVPL, AFS financial assets, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

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

The Group's risk management policies are summarized below:

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

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates as of December 31, 2010 and 2009, with all variables held constant, (through the impact on floating rate borrowings and changes in fair value of AFS financial assets and financial assets at FVPL).

December 31, 2010

	Effect on profit before tax Change in basis points	
	+100 basis points	**-100 basis points**
	(In Thousands)	
FVPL financial assets	**(₱576)**	**₱578**
Parent Company - floating rate borrowings	**(50,475)**	**50,475**
Subsidiaries - floating rate borrowings	**(119,106)**	**119,106**
	(₱170,157)	**₱170,159**

	Change in basis points Effect on equity	
	+100 basis points	**-100 basis points**
	(In Thousands)	
AFS financial assets	**(₱4,447)**	**₱4,508**

December 31, 2009

	Effect on profit before tax Change in basis points	
	+100 basis points	-100 basis points
	(In Thousands)	
FVPL financial assets	(₱3,796)	₱3,846
Parent Company - floating rate borrowings	(52,388)	52,388
Subsidiaries - floating rate borrowings	(49,700)	49,700
	(₱105,884)	₱105,934

	Change in basis points Effect on equity	
	+100 basis points	-100 basis points
	(In Thousands)	
AFS financial assets	(₱12,106)	₱12,438

There is no other impact on the Group's equity other than those already affecting the net income.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with its corresponding nominal amounts and carrying values (in thousands), are shown in the following table:

2010

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱53,125,220	₱53,125,220	₱–	₱–	₱53,125,220
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	3,993,533	3,993,533	–	–	3,993,533
Financial assets at FVPL	Fixed at the date of investment or revaluation cut-off	Various	404,008	404,008	–	–	404,008
Accounts and notes receivable	Fixed at the date of investment or revaluation cut-off	Various	9,682,862	6,107,831	1,666,651	652,991	8,427,473
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	288,007	–	228,755	59,252	288,007
			₱67,493,630	₱63,630,592	₱1,895,406	₱712,243	₱66,238,241
The Company							
Long-term debt							
Fixed							
	Fixed at 6.725% to 7.95%	5 years	₱14,955,000	₱65,000	₱14,890,000	₱–	₱14,955,000
	Fixed at 8.15%	6 years	1,000,000	–	1,000,000	–	1,000,000
	Fixed at 6.70% to 8.40%	7 years	1,477,500	7,500	1,470,000	–	1,477,500
	Fixed at 6.75%	10 years	1,496,667	1,667	6,667	1,488,333	1,496,667
	Fixed at 7.20%	7 years	9,800,000	–	–	9,800,000	9,800,000
Floating							
	Variable at 0.50% to 0.67% over 91-day T-bills PDST-R1	3 months	6,730,000	255,000	6,475,000		6,730,000
Subsidiaries							
Short-term debt	Ranging from 1.16% to 3.72%	Monthly, quarterly	2,035,874	2,035,874	–	–	2,035,874
	Ranging from 3.5% to 8.0%	Monthly, quarterly	2,483,413	2,483,413	–	–	2,483,413
Long-term debt							
Fixed							
	Fixed at 4.57% to 9%	3,5,7,10 and 12 years	27,241,778	3,248,671	21,699,076	2,791,029	27,738,776
Floating							
	Variable	3 months, semi-annual	14,912,882	7,659,840	3,901,729	3,557,779	15,119,348
			₱82,133,114	₱15,756,965	₱49,442,472	₱17,637,141	₱82,836,578

2009

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱45,641,187	₱45,641,187	₱–	₱–	₱45,641,187
Short-term investments	Fixed at the date of investment or revaluation cut-off	Balance date	4,560,976	4,560,976	–	–	4,560,976
Financial assets at FVPL	Fixed at the date of investment or revaluation cut-off	Balance date	433,821	433,821	–	–	433,821
Accounts and notes receivable	Fixed at the date of sale	Date of sale	12,502,881	9,328,493	1,282,872	125,549	10,736,914
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	1,119,154	925,694	222,490	50,970	1,199,154
			₱64,258,019	₱60,890,171	₱1,505,362	₱176,519	₱62,572,052

(Forward)

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
The Company							
Long-term debt							
Fixed							
	Fixed at 6.725% to 7.95%	5 years	₱14,000,000	₱45,000	₱13,955,000	₱–	₱14,000,000
	Fixed at 8.15%	6 years	1,000,000	–	1,000,000	–	1,000,000
	Fixed at 6.70% to 8.40%	7 years	2,485,000	7,500	1,477,500	1,000,000	2,485,000
	Fixed at 6.75%	10 years	1,498,333	1,667	6,666	1,490,000	1,498,333
Floating							
	Variable at 0.50% to 0.67% over 91-day T-bills PDST-R1	3 months	6,985,000	255,000	6,730,000	–	6,985,000
Subsidiaries							
Short-term debt							
	Variable ranging from 1.9% to 3.9%	Monthly	968,783	968,783	–	–	968,783
	Variable ranging from 5.0% to 9.5%	Monthly	1,669,875	1,669,875	–	–	1,669,875
Long-term debt							
Fixed							
	Fixed at 5.0% to 14.88%	3,5,7 and 10 years	15,891,724	322,320	11,388,838	4,177,019	15,888,177
Floating							
	Variable	3 month, semi-annual	12,031,450	1,821,657	9,382,894	823,666	12,028,217
			₱56,530,165	₱5,091,802	₱43,940,898	₱7,490,685	₱56,523,385

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

The table below summarizes the Group's exposure to foreign exchange risk as of December 31, 2010 and 2009. Included in the table are the Group's monetary assets and liabilities at carrying amounts, categorized by currency.

	2010		2009	
	US$	**Php Equivalent***	US$	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**US$208,166**	**₱9,125,997**	US$171,687	₱7,931,962
Short term investments	**5,404**	**236,896**	6,576	303,811
Accounts and notes receivables	**71,605**	**3,139,158**	1,968	90,932
Other current assets	**12**	**525**	–	–
Investments	**5,794**	**254,009**	–	–
Other noncurrent assets	**2,415**	**105,894**	–	–
Total assets	**293,396**	**12,862,479**	180,231	8,326,705
Liabilities				
Accounts payable and accrued expenses	**42,058**	**1,843,816**	70,911	3,276,098
Other current liabilities	**18,763**	**822,555**	–	–
Short-term debt	**46,439**	**2,035,874**	20,969	968,783
Long-term debt	**224,103**	**9,824,666**	168,531	7,786,117
Other noncurrent liabilities	**175**	**7,692**	–	–
Total liabilities	**331,538**	**14,534,603**	260,411	12,030,998
Net foreign currency denominated assets (liabilities)	**(US$38,142)**	**(₱1,672,124)**	(US$80,180)	(₱3,704,293)

**Translated using the exchange rate at the reporting date (US$1:₱43.840 in 2010, US$1: ₱46.20 in 2009).*

The table below summarizes the exposure to foreign exchange risk of the subsidiaries with a functional currency of US$.

	2010		2009	
	Php	**US$ Equivalent***	Php	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**₱291,043**	**US$6,639**	₱446,323	US$9,661
Accounts and notes receivables	**79,026**	**1,803**	194,834	4,217
Other current assets	**1,178**	**27**	29,604	641
Investments	**16,770**	**383**	–	–
Other noncurrent assets	**59,852**	**1,365**	38,413	831
Total assets	**447,869**	**10,217**	709,174	15,350
Liabilities				
Accounts payable and accrued expenses	**918,201**	**20,944**	551,037	11,927
Other current liabilities	**239,221**	**5,457**	68,216	1,477
Short-term debt	**40,000**	**912**	71,000	1,537
Other noncurrent liabilities	**22,303**	**509**	27,343	592
Total liabilities	**1,219,725**	**27,822**	717,596	15,533
Net foreign currency denominated liabilities	**(₱771,856)**	**(US$17,605)**	(₱8,422)	(US$183)

**Translated using the exchange rate at the reporting date (₱1:US$0.023 in 2010, ₱1:US$0.022 in 2009).*

	2010		2009	
	SGD	**US$ Equivalent***	SGD	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**SGD1,301**	**US$1,014**	SGD5,434	US$3,911
Accounts and notes receivables	**244**	**190**	717	515
Investments	**198**	**154**	–	–
Other noncurrent assets	**10,384**	**8,092**	5,611	4,037
Total assets	**12,127**	**9,450**	11,762	8,463
Liabilities				
Accounts payable and accrued expenses	**5,042**	**3,929**	2,205	1,590
Other current liabilities	**1,295**	**1,009**	2,085	1,349
Short-term debt	**1,682**	**1,311**	3,172	2,291
Other noncurrent liabilities	**143**	**111**	143	103
Total liabilities	**8,162**	**6,360**	7,605	5,333
Net foreign currency denominated assets	**SGD3,965**	**US$3,090**	SGD4,157	US$3,130

**Translated using the exchange rate at the reporting date (SGD1:US$0.779 in 2010, SGD1:US$0.719 in 2009).*

	2010		2009	
	JPY	**US$ Equivalent***	JPY	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**JPY66,906**	**US$820**	JPY19,854	US$217
Accounts and notes receivables	**219,487**	**2,666**	151,583	1,696
Other noncurrent assets	**2,325**	**28**	320	3
Total assets	**288,718**	**3,514**	171,757	1,916
Liabilities				
Accounts payable and accrued expenses	**–**	**–**	323,334	3,630
Net foreign currency denominated assets (liabilities)	**JPY288,718**	**US$3,514**	(JPY151,577)	(US$1,714)

**Translated using the exchange rate at the reporting date (JPY1:US$0.012 in 2010, US$0.011 in 2009).*

	2010		2009	
	HKD	**US$ Equivalent***	HKD	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**HKD1,118**	**US$144**	HKD1,053	US$136
Accounts and notes receivables	**97,779**	**12,582**	97,199	12,542
Investments	**13,890**	**1,791**	–	–
Other current assets	**–**	**–**	320	41
Other noncurrent assets	**–**	**–**	16,541	2,134
Total assets	**112,787**	**14,517**	115,113	14,853
Liabilities				
Accounts payable and accrued expenses	**6,293**	**809**	4,765	615
Net foreign currency denominated assets	**HKD106,494**	**US$13,708**	HKD110,348	US$14,238

**Translated using the exchange rate at the reporting date (HKD1:US$0.129 in 2010 and 2009).*

	2010		2009	
	RMB	**US$ Equivalent***	RMB	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**RMB31,304**	**US$4,728**	RMB43,235	US$6,333
Accounts and notes receivables	**255,384**	**38,571**	160,552	23,518
Total assets	**286,688**	**43,299**	203,787	29,851
Liabilities				
Accounts payable and accrued expenses	**153,864**	**23,237**	234,361	34,081
Other current liabilities	**–**	**–**	9	–
Total liabilities	**153,864**	**23,237**	234,370	34,081
Net foreign currency denominated assets (liabilities)	**RMB132,824**	**US$20,062**	(RMB30,583)	(US$4,230)

**Translated using the exchange rate at the reporting date (RMB1:US$0.152 in 2010, RMB1:US$0.146 in 2009)*

	2010		2009	
	GBP	**US$ Equivalent***	GBP	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**GBP –**	**US$–**	GBP77	US$124
Accounts and notes receivables	**–**	**–**	642	1,035
Other noncurrent assets	**–**	**–**	775	1,250
Total assets	**–**	**–**	1,494	2,409
Liabilities				
Accounts payable and accrued expenses	**2**	**4**	2,354	3,797
Other current liabilities	**–**	**–**	247	399
Total liabilities	**2**	**4**	2,601	4,196
Net foreign currency denominated liabilities	**(GBP2)**	**(US$4)**	(GBP1,107)	(US$1,787)

**Translated using the exchange rate at the reporting date (GBP1:US$0.641 in 2010, GBP1:US$0.914 in 2009)*

	2010		2009	
	INR	**US$ Equivalent***	INR	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**INR6,307**	**US$541**	INR20,467	US$441
Accounts and notes receivables	**–**	**–**	4,001	86
Other current assets	**10,680**	**264**	34,142	735
Other noncurrent asset	**5,602**	**137**	–	–
Total assets	**22,589**	**942**	58,610	1,262
Liabilities				
Accounts payable and accrued expenses	**33,522**	**2,080**	67,627	1,456
Other current liabilities	**–**	**–**	25,361	546
Short term debt	**2,000**	**44**	–	–
Long-term debt	**8,335**	**185**	21,799	469
Other noncurrent liabilities	**4,217**	**602**	–	–
Total liabilities	**48,074**	**2,911**	114,787	2,471
Net foreign currency denominated liabilities	**(INR25,485)**	**(US$1,969)**	(INR56,177)	(US$1,209)

**Translated using the exchange rate at the reporting date (INR1:US$0.022 in 2010 and 2009).*

	2010		2009	
	THB	**US$ Equivalent***	THB	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**THB1,840**	**US$61**	THB4,846	US$146
Accounts and notes receivables	**(1,591)**	**(56)**	1,591	48
Investments	**9,120**	**304**	–	–
Other noncurrent assets	**120,042**	**2,688**	153,386	4,619
Total assets	**129,411**	**2,997**	159,823	4,813
Liabilities				
Accounts payable and accrued expenses	**712**	**24**	182	5
Net foreign currency denominated assets	**THB128,699**	**US$2,973**	THB159,641	US$4,808

**Translated using the exchange rate at the reporting date (THB1:US$0.033 in 2010, THB1:US$0.030 in 2009).*

	2010		2009	
	MYR	**US$ Equivalent***	MYR	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**MYR4,676**	**US$1,499**	MYR3,567	US$1,052
Accounts and notes receivables	**–**	**–**	30	9
Short term investments	**30**	**10**	–	–
Other noncurrent assets	**4,410**	**1,413**	4,082	1,204
Total assets	**9,116**	**2,922**	7,679	2,265
Liabilities				
Accounts payable and accrued expenses	**89**	**28**	78	23
Other noncurrent liabilities	**26**	**8**	26	8
Total liabilities	**115**	**36**	104	31
Net foreign currency denominated assets	**MYR9,001**	**US$2,886**	MYR7,575	US$2,234

**Translated using the exchange rate at the reporting date (MYR1:US$0.327 in 2010, MYR1:US$0.0.295 in 2009).*

	2010		2009	
	EUR	**US$ Equivalent***	EUR	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**EUR505**	**US$668**	EUR–	US$–
Accounts and notes receivables	**247**	**333**	–	–
Total assets	**752**	**1,001**	–	–
Liabilities				
Accounts payable and accrued expenses	**333**	**440**	–	–
Total liabilities	**333**	**440**	–	–
Net foreign currency denominated assets	**EUR419**	**US$561**	EUR–	US$–

**Translated using the exchange rate at the reporting date (EUR1:US$0.747 in 2010).*

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (amounts in thousands).

2010

Currency	**Increase (decrease) in Peso per foreign currency**	**Effect on profit before tax**
US$	**₱1.00**	**(₱38,142)**
	(1.00)	**38,142**

Currency	**Increase (decrease) in USD per foreign currency**	**Effect on profit before tax**
PHP	**US$1.00**	**(US$771,856)**
	(US$1.00)	**771,856**
SGD	**US$1.00**	**3,965**
	(US$1.00)	**(3,965)**
JPY	**US$1.00**	**288,718**
	(US$1.00)	**(288,718)**
HKD	**US$1.00**	**106,494**
	(US$1.00)	**(106,494)**
RMB	**US$1.00**	**132,824**
	(US$1.00)	**(132,824)**
GBP	**US$1.00**	**(2)**
	(US$1.00)	**2**
INR	**US$1.00**	**(25,485)**
	(US$1.00)	**25,485**
THB	**US$1.00**	**128,699**
	(US$1.00)	**(128,699)**
MYR	**US$1.00**	**9,001**
	(US$1.00)	**(9,001)**
EUR	**US$1.00**	**419**
	(US$1.00)	**(419)**

2009

Currency	Increase (decrease) in Peso per foreign currency	Effect on profit before tax
US$	₱1.00	(₱80,180)
	(1.00)	80,180

Currency	Increase (decrease) in USD per foreign currency	Effect on profit before tax
PHP	US$1.00	(US$8,422)
	(US$1.00)	8,422
SGD	US$1.00	4,157
	(US$1.00)	(4,157)
JPY	US$1.00	(151,577)
	(US$1.00)	151,577
HKD	US$1.00	110,348
	(US$1.00)	(110,348)
RMB	US$1.00	(30,583)
	(US$1.00)	30,583
GBP	US$1.00	(1,107)
	(US$1.00)	1,107
INR	US$1.00	(56,177)
	(US$1.00)	56,177
THB	US$1.00	159,641
	(US$1.00)	(159,641)
MYR	US$1.00	7,575
	(US$1.00)	(7,575)

There is no other impact on the Group's equity other than those already affecting net income.

Price risk
AFS financial assets are acquired at certain prices in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. Depending on the several factors such as interest rate movements, the country's economic performance, political stability, domestic inflation rates, these prices change, reflecting how market participants view the developments. The Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each sector and market.

The analysis below demonstrates the sensitivity to a reasonably possible change of market index with all other variables held constant, of the Group's equity (amounts in thousands).

2010

Market Index	Change in Variables	Effect on Equity
PSEi	**+5%**	**₱175,365**
	-5%	**(175,365)**

2009

Market Index	Change in Variables	Effect on Equity
PSEi	+5%	₱168,206
	-5%	(168,206)

Liquidity risk
The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual

cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues both on-shore and off-shore.

The table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2010 and 2009 based on contractual undiscounted payments.

	2010				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱15,944,506	₱–	₱–	₱–	₱15,944,506
Accrued expenses	9,958,115	–	–	–	9,958,115
Accrued project costs	2,808,045	–	–	–	2,808,045
Dividends payable	2,226,117	–	–	–	2,226,117
Related parties	1,399,199	–	–	–	1,399,199
Accrued personnel costs	557,589	–	–	–	557,589
Retentions payable	119,152	–	–	–	119,152
Service concession liability	1,235,724	911,529	934,713	14,107,248	17,189,214
Customers' deposit	2,204,010	–	–	–	2,204,010
Short-term debt	4,519,287	–	–	–	4,519,287
Long-term debt (LTD)	11,237,343	11,110,988	18,098,406	37,457,090	77,903,827
Other noncurrent liabilities	59,733	4,864,460	1,090,429	3,053,086	9,067,708
	₱52,268,820	₱16,886,977	₱20,123,548	₱54,617,424	₱143,896,769

	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
Interest payable on LTD	₱3,380,298	₱3,290,643	₱2,660,225	₱4,697,201	₱14,028,367

	2009				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱13,859,257	₱–	₱–	₱–	₱13,859,257
Accrued expenses	6,152,842	–	–	–	6,152,842
Accrued project costs	2,136,700	–	–	–	2,136,700
Dividends payable	2,264,306	–	–	–	2,264,306
Accrued personnel costs	427,502	–	–	–	427,502
Related parties	830,419	–	–	–	830,419
Retentions payable	120,938	–	–	–	120,938
Customers' deposit	2,374,457	–	–	–	2,374,457
Short-term debt	2,638,658	–	–	–	2,638,658
LTD	2,453,144	8,256,906	11,289,842	31,884,835	53,884,727
Other noncurrent liabilities	–	6,865,272	902,293	315,565	8,083,130
	₱33,258,223	₱15,122,178	₱12,192,135	₱32,200,400	₱92,772,936

	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
Interest payable on LTD	₱3,119,138	₱1,795,261	₱1,675,878	₱2,948,760	₱9,539,037

Cash and cash equivalents, short-term investments, financial assets at FVPL and AFS debt investments are used for the Group's liquidity requirements. Please refer to the terms and maturity profile of these financial assets under the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section. AFS unquoted debt investments with maturity of more than a year from December 31 are marketable securities and could be sold as and when needed prior to its maturity in order to meet the Group's short-term liquidity needs.

Credit risk
The Group's holding of cash and short-term investments exposes the Group to credit risk of the counterparty. Credit risk management involves dealing only with institutions for which credit limits have been established.

The Group's treasury policy sets credit limits for each counterparty. Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown at gross, before the effect of mitigation through the use of master netting arrangements or collateral agreements.

	2010	2009
	(In Thousands)	
Cash and cash equivalents	**₱53,125,220**	₱45,641,187
Short-term investments	**3,993,533**	4,560,976
Financial assets at FVPL	**404,008**	433,821
Derivative asset	**288,836**	–
Accounts and notes receivables		
Trade		
Real estate	**13,653,812**	12,129,515
Electronics manufacturing	**4,209,809**	3,867,003
Water utilities	**459,763**	–
Automotive	**833,179**	818,850
Information technology and business process outsourcing	**31,946**	799,783
International and others	**1,060**	3,700
Advances to other companies	**3,842,838**	2,888,665
Related parties	**2,280,467**	3,384,955
Investment in bonds classified as loans and receivables	**200,000**	200,000
Others	**1,471,879**	879,242
AFS financial assets		
Quoted equity investments	**1,737,361**	1,119,829
Unquoted equity investments	**3,186,098**	2,392,489
Quoted debt investments	**288,007**	1,199,154
Total credit risk exposure	**₱90,007,816**	₱80,319,169

The analysis of accounts and notes receivables that are past due but not impaired follows:

December 31, 2010

	Neither Past Due nor Impaired	**Past Due but not Impaired**						**Impaired**	**Total**
		<30 days	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**	**Total**		
				(In Thousands)					
Trade:									
Real estate	**₱11,039,146**	**₱681,668**	**₱442,056**	**₱340,243**	**₱294,771**	**₱769,707**	**₱2,528,445**	**₱331,280**	**₱13,898,871**
Electronics manufacturing	**3,507,295**	**178,400**	**106,854**	**51,722**	**40,768**	**324,770**	**702,514**	**5,250**	**4,215,059**
Information technology and BPO	**27,117**	**1,603**	**2,073**	**470**	**683**	**–**	**4,829**	**35,281**	**67,227**
Automotive	**631,517**	**81,328**	**25,184**	**38,430**	**24,686**	**32,034**	**201,662**	**36,378**	**869,557**
Water utilities	**319,415**	**242,446**	**18,693**	**34,311**	**57,340**	**205,608**	**558,398**	**128,269**	**1,006,082**
International and others	**1,060**	**–**	**–**	**–**	**–**	**–**		**1,710**	**2,770**
Related parties	**2,019,218**	**109,376**	**35,399**	**8,236**	**6,034**	**66,714**	**225,759**	**122,676**	**2,367,653**
Advances to other companies	**3,288,531**	**94,592**	**92,574**	**90,953**	**25,251**	**163,751**	**467,121**	**87,186**	**3,842,838**
Investment in bonds classified as loans and receivables	**200,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**200,000**
Receivable from employees	**550,219**	**9,847**	**5,932**	**1,947**	**–**	**–**	**17,726**	**920**	**568,865**
Others	**1,450,854**	**10,617**	**5,447**	**3,786**	**908**	**267**	**21,025**	**39,886**	**1,511,765**
Total	**₱23,034,372**	**₱1,409,877**	**₱734,212**	**₱570,098**	**₱450,441**	**₱1,562,851**	**₱4,727,479**	**₱788,836**	**₱28,550,687**

December 31, 2009

	Neither Past Due nor Impaired	Past Due but not Impaired						Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
				(In Thousands)					
Trade:									
Real estate	₱9,805,514	₱706,133	₱309,749	₱296,463	₱263,399	₱640,257	₱2,216,001	₱310,810	₱12,332,325
Electronics manufacturing	3,634,407	88,862	69,953	14,462	15,810	43,509	232,596	14,436	3,881,439
Information technology and BPO	272,769	677	406,287	–	99,157	20,893	527,014	77,405	877,188
Automotive	562,613	152,945	48,798	15,412	9,772	29,310	256,237	30,451	849,301
International and others	2,263	3	635	–	–	799	1,437	103	3,803
Related parties	3,216,798	106,132	13,169	3,074	28,319	17,463	168,157	5,206	3,390,161
Advances to other companies	1,689,117	73,816	177,172	50,595	38,763	859,202	1,199,548	–	2,888,665
Investment in bonds classified as loans and receivables	200,000	–	–	–	–	–	–	–	200,000
Receivable from employees	303,742	13,897	7,870	128	–	–	21,895	3,298	328,935
Others	876,406	134	419	1,109	908	266	2,836	27,529	906,771
Total	₱20,563,629	₱1,142,599	₱1,034,052	₱381,243	₱456,128	₱1,611,699	₱4,625,721	₱469,238	₱25,658,588

The table below shows the credit quality of the Group's financial assets as of December 31, 2010 and 2009 (amounts in thousands):

December 31, 2010

	Neither past due nor impaired				**Past due but**		
	High Grade	**Medium Grade**	**Low Grade**	**Total**	**not impaired**	**Impaired**	**Total**
Cash and cash equivalents	**₱53,142,777**	**₱–**	**₱–**	**₱53,142,777**	**₱–**	**₱–**	**₱53,142,777**
Short-term investments	**3,993,533**	**–**	**–**	**3,993,533**	**–**	**–**	**3,993,533**
FVPL financial assets	**872,080**	**–**	**–**	**872,080**	**–**	**–**	**872,080**
Accounts and notes receivables							
Trade							
Real estate	**8,049,691**	**1,577,103**	**1,412,352**	**11,039,146**	**2,528,445**	**331,280**	**13,898,871**
Electronics manufacturing	**3,271,656**	**199,593**	**36,046**	**3,507,295**	**702,514**	**5,250**	**4,215,059**
Information technology and BPO	**27,117**	**–**	**–**	**27,117**	**4,829**	**35,281**	**67,227**
Automotive	**602,784**	**–**	**28,733**	**631,517**	**201,662**	**36,378**	**869,557**
Water utilities	**197,654**	**121,761**	**–**	**319,415**	**558,398**	**128,269**	**1,006,082**
International and others	**806**	**254**	**–**	**1,060**		**1,710**	**2,770**
Related parties	**1,216,013**	**152,274**	**650,931**	**2,019,218**	**225,759**	**122,676**	**2,367,653**
Advances to other companies	**2,550,781**	**717,437**	**20,313**	**3,288,531**	**467,121**	**87,186**	**3,842,838**
Investments in bonds classified as loans and receivables	**200,000**	**–**	**–**	**200,000**	**–**	**–**	**200,000**
Receivable from employees	**424,808**	**68,333**	**57,078**	**550,219**	**17,726**	**920**	**568,865**
Others	**1,427,677**	**11,253**	**11,924**	**1,450,854**	**21,025**	**39,886**	**1,511,765**
AFS Investments							
Quoted shares of stocks	**1,737,361**	**–**	**–**	**1,737,361**	**–**	**–**	**1,737,361**
Quoted debt investments	**288,007**	**–**	**–**	**288,007**	**–**	**–**	**288,007**
	₱78,002,745	**₱2,848,008**	**₱2,217,377**	**₱83,068,130**	**₱4,727,479**	**₱788,836**	**₱88,584,445**

December 31, 2009

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱45,656,889	₱–	₱–	₱45,656,889	₱–	₱–	₱45,656,889
Short-term investments	4,560,976	–	–	4,560,976	–	–	4,560,976
FVPL financial assets	926,860	–	–	926,860	–	–	926,860
Accounts and notes receivables							
Trade							
Real estate	8,340,452	854,788	610,274	9,805,514	2,216,001	310,810	12,332,325
Electronics manufacturing	3,269,152	334,198	31,057	3,634,407	232,596	14,436	3,881,439
Information technology and BPO	272,769	–	–	272,769	527,014	77,405	877,188
Automotive	381,983	180,630	–	562,613	256,237	30,451	849,301
International and others	–	2,263	–	2,263	1,437	103	3,803
Related parties	3,102,245	31,457	83,096	3,216,798	168,157	5,206	3,390,161
Advances to other companies	1,668,211	4,317	16,589	1,689,117	1,199,548	–	2,888,665
Investments in bonds classified as loans and receivables	200,000	–	–	200,000	–	–	200,000
Receivable from employees	235,156	57,195	11,391	303,742	21,895	3,298	328,935
Others	872,974	3,432	–	876,406	2,836	27,529	906,771
AFS Investments							
Quoted shares of stocks	877,509	–	–	877,509	–	–	877,509
Unquoted shares of stocks	–	–	–	–	–	–	–
Quoted debt investments	1,199,154	–	–	1,199,154	–	–	1,199,154
	₱71,564,330	₱1,468,280	₱752,407	₱73,785,017	₱4,625,721	₱469,238	₱78,879,976

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

Cash and cash equivalents, short-term investments, FVPL financial assets, quoted AFS financial assets, advances to other companies and related party receivables
High grade pertains to cash and cash equivalents and short-term investments, quoted financial assets, related party transactions and receivables with high probability of collection.

Medium grade pertains to unquoted financial assets other than cash and cash equivalents and short-term investments with nonrelated counterparties and receivables from counterparties with average capacity to meet its obligation.

Low grade pertains to financial assets with the probability to be impaired based on the nature of the counterparty.

Trade receivables
Real estate - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment in the past; and low grade pertains to receivables with more than 3 defaults in payment.

Electronics manufacturing - high grade pertains to receivable with favorable credit terms and can be offered with a credit term of 15 to 45 days; medium grade pertains to receivable with normal credit terms and can be offered with a credit term of 15 to 30 days; and low grade pertains to receivables under advance payment or confirmed irrevocable Stand-by Letter of Credit and subjected to semi-annual or quarterly review for possible upgrade.

Automotive - high grade pertains to receivables from corporate accounts and medium grade for receivables from noncorporate accounts.

Unquoted AFS financial assets - the unquoted investments are unrated.

32. **Registration with the Philippine Export Zone Authority (PEZA)**

Some activities of certain subsidiaries are registered with the PEZA. Under the registration, these subsidiaries are entitled to certain tax and nontax incentives, which include, but are not limited to, income tax holiday (ITH) and duty-free importation of inventories and capital equipment. Upon the expiration of the ITH, the subsidiaries will be liable for payment of a five percent (5%) tax on gross income earned from sources within the PEZA economic zone in lieu of payment of national and local taxes.

33. **Note to Consolidated Statements of Cash Flows**

Details of the decrease in consolidated net assets resulting from the deconsolidation of Integreon in 2010 follows:

	In US$	In Php*
	(In Thousands)	
Assets		
Cash and cash equivalents	US$1,262	₱58,691
Accounts receivable - net	17,182	798,947
Other current assets	3,905	181,573
Intangible assets	43,348	2,015,689
Property, plant and equipment	6,572	305,601
Other noncurrent assets	4,328	201,283
Total	76,597	3,561,784
Liabilities		
Accounts payable and accrued expenses	12,976	603,369
Short term debt	33,326	1,549,661
Long term debt	2,672	124,258
Other current liabilities	3,057	142,158
Total	52,031	2,419,446
Net assets	US$24,566	₱1,142,338

**Translated using the exchange rate at the transaction date (US$1:₱46.50).*

The Group's noncash investing activity in 2009 pertains to the loans receivable from EGS Corp. that were transferred to Stream as part of the Agreement amounting to ₱1,699.6 million (US$35.8 million).

34. **Interest in a Joint Venture**

MDC has a 51% interest in MDC-First BalFour, Inc. JV (the Joint Venture), a jointly controlled operation whose purpose is to design and build St. Luke's Medical Center (the Project) in Fort Bonifacio Global City, Taguig.

The Project, which started on January 31, 2007, is a world-class medical facility comprising, more or less, of a 611-bed hospital and a 378-unit medical office building, with an approximate gross floor area of 154,000 square meters, which meets international standards, and all standards and guidelines of applicable regulatory codes of the Philippines and complies with the criteria of the Environment of Care of the Joint Commission International Accreditation. The project was completed on October 30, 2009. Activities in 2010 mainly pertain to winding down operations and punch listing works.

The share in the assets, liabilities, income and expenses of the Joint Venture at December 31, 2010 and 2009 and for the years then ended, which are included in the consolidated financial statements follow:

	2010	2009
	(In Thousands)	
Current assets		
Cash and cash equivalents	**₱30,384**	₱150,805
Receivables	**130,928**	188,416
Amounts due from customers for contract work	**8,415**	61,379
Other current assets	**53,780**	49,719
Property and equipment - net	**1**	22
Total assets	**₱223,508**	₱450,341
Total liabilities	**₱109,349**	₱227,024

The following is the share of the MDC on the net income (loss) of the Joint Venture:

	2010	2009
	(In Thousands)	
Revenue from construction contracts	**₱20,841**	₱835,615
Contract costs	**(31,702)**	(730,779)
Interest and other income (expense)	**4,833**	(583)
Income (loss) before income tax	**(6,028)**	104,253
Provision for income tax	**(115)**	(831)
Net income (loss)	**(₱6,143)**	₱103,422

The Joint Venture's Management Board declared and paid cash dividends amounting to ₱185.3 million and ₱200.0 million in 2010 and 2009, respectively. Based on 51% share, MDC received ₱94.5 million and ₱102.0 million cash dividends in 2010 and 2009, respectively.

Provision for income tax pertains to the final tax on interest income.

35. Commitments

Commitments

ALI has signed a 50-year lease agreement with the Subic Bay Metropolitan Authority (SBMA), for the development of a 7.5-hectare property along Rizal Highway within the Subic Bay Freeport Zone, located between the two main gates linking the Freeport Zone to Olongapo City.

On October 27, 2006, an ALI subsidiary entered into a land lease agreement with a third party for a term of 25 years. The lease generally provides for a monthly rent based on a certain percentage of gross revenue.

ALI has an existing contract with Bases Conversion and Development Authority (BCDA) to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to a subsidiary, in exchange for equity.

As part of the bid requirement, ALI procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, the subsidiary obtained standby letters of credit to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement.

On April 15, 2003, ALI entered into a Joint Development Agreement (JDA) with BCDA for the development of lot (the Lot) inside Fort Bonifacio with a gross area of 11.6 hectares for residential purposes. Pursuant to the JDA, BCDA shall contribute the title and its interest to the lot and ALI in turn shall provide the necessary cash and expertise to undertake and complete the implementation of the residential development.

Also, in accordance with the JDA, ALI shall pay an upfront cash of ₱700.0 million as advance payment for the aggregate of BCDA's annual minimum revenue share for the first 8 selling periods of the residential project, which shall be liquidated based on the terms of the JDA.

On March 24, 2004, ALI and Alveo Land Corporation (Alveo), executed an Assignment Agreement pursuant to the terms and condition of which ALI assigned to Alveo all of its rights and interest under the JDA to undertake jointly with BCDA the development of the Lot.

MDC, in the normal course of business, furnishes performance bonds in connection with its construction projects. These bonds shall guarantee MDC's execution and completion of the work indicated in the respective construction contracts.

On November 21, 2006, the Company acted as guarantor to a US$150 million transferable term loan facility between AYCFL as borrower and several lenders. The facility was fully drawn and with outstanding balance of US$105.0 million as of December 31, 2010.

On April 15, 2008, the Company acted as guarantor to a US$50 million transferable term loan facility between AYCFL as borrower and several lenders. The facility was fully drawn and with outstanding balance of US$50.0 million as of December 31, 2010.

On August 14, 2009, the Company acted as guarantor to a US$20 million revolving credit facility between AYCFL as borrower and a foreign bank. As of December 31, 2010, AYCFL has not made any drawdown from the credit facility with the foreign bank.

On February 2, 2010, the Company acted as guarantor to a US$150 million transferable term loan facility between AYCFL as borrower and a foreign bank. As of December 31, 2010, AYCFL has not made any drawdown from the term loan facility with the foreign bank.

On December 16, 2010, the Company acted as guarantor to a US$260 million transferable term loan facility between AYCFL as borrower and several lenders. As of December 31, 2010, AYCFL has not made any drawdown from the term loan facility with the foreign bank

On October 21, 2010, MWC entered into a term loan agreement amounting to US$150 million to partially finance capital expenditures within the East Zone. The loan has a tenor of 10 years and is financed by a syndication of four banks - ING N.V Tokyo, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ Ltd. and Sumitomo Mitsui Banking Corporation insured by Nippon Export and Investment Insurance. As of December 31, 2010, no drawdown has been made on the said facility.

MWC Group Concession Agreements

<u>MWC's Concession Agreement (Agreement)</u>
The significant commitments of MWC under the Agreement and Extension are as follows:

a. To pay MWSS concession fees;

b. To post a performance bond, bank guarantee or other security acceptable to MWSS amounting to US$70.0 million in favor of MWSS as a bond for the full and prompt performance of MWC's obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

Rate Rebasing Period	Aggregate amount drawable under performance bond (in US$ millions)
First (August 1, 1997 - December 31, 2002)	US$70
Second (January 1, 2003 - December 31, 2007)	70
Third (January 1, 2008 - December 31, 2012)	60
Fourth (January 1, 2013 - December 31, 2017)	60
Fifth (January 1, 2018 - December 31, 2022)	50
Sixth (January 1, 2013 - December 31, 2027)	50
Seventh (January 1, 2028 - December 31, 2032)	50
Eighth (January 1, 2033 - May 6, 2037)	50

Within 30 days from the commencement of each renewal date, MWC shall cause the performance bond to be reinstated in the full amount set forth above as applicable for that year.

Upon not less than 10-day written notice to MWC, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS by MWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid;

c. With the Extension, MWC agreed to increase its annual share in MWSS operating budget by 100% from ₱100 million to ₱395 million, subject to annual CPI;

d. To meet certain specific commitments in respect of the provision of water and sewerage services in the East Zone, unless deferred by MWSS-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;

e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the East Zone is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with MWC);

f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property;

g. To ensure that at all times, MWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and

h. To ensure that no debt or liability that would mature after the life of the Agreement will be incurred unless with the approval of MWSS.

Failure of MWC to perform any of its obligations that is deemed material by MWSS-RO may cause the Agreement to be terminated.

<u>LAWC's Concession Agreement</u>
The significant commitments of LAWC under its concession agreement with POL are as follows:

a. To pay POL concession fees;

b. To manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;

c. To design, construct and commission the new facilities during the cooperation period;

d. To provide and manage the services;

e. To bill and collect payment from the customer for all services;

f. To extract raw water exclusively from all sources of Raw Water; and

g. To negotiate in good faith with POL any amendment or supplement to the concession agreement to establish, operate and maintain wastewater facilities if doing such is financially and economically feasible.

<u>BIWC's Concession Agreement</u>
The significant commitments of BIWC under its concession agreement with TIEZA are as follows:

a. To meet certain specific commitments in respect of the provision of water and sewerage services in the service area, unless deferred by the TIEZA Regulatory Office (TIEZA-RO) due to unforeseen circumstances or modified as a result of rate rebasing exercise;

b. To pay concession fees, subject to the following provisions:

   i. Assumption of all liabilities of the BWSS as of Commencement Date and service such liabilities as they fall due. BWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within the Boracay island prior to commencement date. The servicing of such liabilities shall be applied to the concession fees;

   ii. Payment of an amount equivalent to 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes. Such payments shall be subject to adjustment based on the gross revenue of BIWC as reflected in its separate financial statements;

   iii. Provision of the amount of the TIEZA BOD's approved budget in 2010, payable in 4 installments at the first month of each quarter and not exceeding:

Month	Maximum Amount
January	₱5,000,000
April	4,000,000
July	3,000,000
October	3,000,000

   iv. Provision of the annual operating budget of the TIEZA-RO, payable in 2 equal tranches in January and July and not exceeding:

Year	Maximum Amount
2011	₱15,000,000
2012	20,000,000
2013 and beyond	20,000,000, subject to annual CPI adjustments

c. To establish, at Boracay Island, a TIEZA-RO building with staff house, the cost of which should be reasonable and prudent;

d. To pay an incentive fee pegged at ₱1.00 per tourist, local and foreign, entering the service area;

e. To raise financing for the improvement and expansion of the BWSS water and wastewater facilities;

f. To operate, maintain, repair, improve, renew and as appropriate, decommission facilities, as well as to operate and maintain the drainage system upon its completion, in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the service area is capable of meeting the service obligations (as such obligations may be revised from time to time by the TIEZA-RO following consultation with BIWC);

g. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property; and

h. To ensure that at all times, BIWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement.

In addition, MWC, as the main proponent of BIWC shall post a bank security in the amount of US$2.5 million to secure MWC's and BIWC's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by MWC following the schedule below:

Rate Rebasing Period	Amount of Performance Security (in US$ millions)
First	US$2.5
Second	2.5
Third	1.1
Fourth	1.1
Fifth	1.1

On or before the start of each year, BIWC shall cause the performance security to be reinstated in the full amount set forth as applicable for that year.

Upon not less than 10 days written notice to BIWC, TIEZA may take one or more drawings under the performance security relating to a Rate Rebasing Period to cover amounts due to TIEZA during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Arbitration Panel for adjudication until the Arbitration Panel has handed its decision on the matter.

In the event that any amount payable to TIEZA by BIWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid.

Failure of BIWC to perform any of its obligations that is deemed material by TIEZA-RO may cause the concession agreement to be terminated.

MWC Management Contracts

Vietnam Project
On July 22, 2008, MWC entered into a Performance-Based Leakage Reduction and Management Services Contract with Saigon Water Corporation. The contract involves the following components:

a. General requirements;
b. District Metering Area establishment;
c. Leakage reduction and management services;
d. System expansion work;
e. Emergency and unforseen works; and
f. Daywork schedule

Total revenue and cost from the Vietnam Project in 2010 amounted to ₱72.8 million and ₱93.9 million, respectively.

India Project
On May 25, 2007, MWC entered into a Secondment Agreement with Mahindra Water Utilities Limited relating to water management. Total revenue and costs related to the India Project in 2010 amounted to ₱2.1 million and ₱4.2 million, respectively.

Cebu Project
Following the execution of the Memorandum of Understanding last January 29, 2009, the Governor of Cebu Province has accepted the unsolicited proposal of the consortium of MWC and Stateland, Inc. for a joint venture or investment with the Provincial Government of Cebu for the development of a treated bulk water supply project to the province of Cebu. The parties are still negotiating on the specific terms and conditions of the joint venture or investment. The project aims to deliver in bulk to the province of Cebu treated surface water extracted from the Luyang River in the town of Carmen.

MWC contracts with the Maynilad Water Services, Inc. (Maynilad)

In relation to the Concession Agreement with MWSS, MWC entered into the following contracts with Maynilad:

a. Interconnection Agreement wherein the two Concessionaires shall form an unincorporated joint venture that will manage, operate, and maintain interconnection facilities. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones.

b. Joint Venture Arrangement that will operate, maintain, renew, and as appropriate, decommission common purpose facilities, and perform other functions pursuant to and in accordance with the provisions of the Agreement and perform such other functions relating to the concession (and the concession of the West Zone Concessionaire) as the Concessionaires may choose to delegate to the joint venture, subject to the approval of MWSS.

c. In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II (the Project). Total loan facility is US$116,602,000 with maturity of 20 years including 5 years grace period. Interest rate is 3% per annum. MWSS then entered into a Memorandum of Agreement with MWC and Maynilad for MWC and Maynilad to shoulder equally the repayment of the loan, to be part of the concession fees.

36. Contingencies

Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations.

MWC

On October 13, 2005, the Municipality of Norzagaray, Bulacan jointly assessed MWC and Maynilad (the "Concessionaires") for real property taxes on certain common purpose facilities purportedly due from 1998 to 2005 amounting to ₱357.1 million. It is the position of the Concessionaires that these properties are owned by the Republic of the Philippines and that the same are exempt from taxation.

Total provisions for real property taxes arising from the property in Bulacan and other municipalities, based on the delinquency notice received, amounted to ₱412.1 million for the year 2010.

37. Assets Held in Trust

MWSS

MWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or MWC.

The Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both East and West Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to MWC on Commencement Date based on MWSS' closing audit report amounted to ₱4.6 billion with a sound value of ₱10.4 billion.

A re-appraisal of the MWSS facilities mentioned above as of December 31, 2004 was conducted by Cuervo Appraisers. The final appraisal report was submitted last November 2006 showing a total reproduction cost of ₱27.0 billion with a sound value of ₱17.2 billion.

In 2009, MWC engaged the services of Cuervo Appraisers to conduct a re-appraisal of the MWSS assets on record as of December 31, 2008. Total reproduction cost as of December 31, 2008 amounted to ₱37.7 billion with a sound value of ₱22.9 billion.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. On October 27, 2006, MWC has renewed the lease for 5 years, with expiry of October 27, 2011. Rent expense amounted to ₱16.80 million in 2010. These are included under "Rental and utilities" in the consolidated statement of income.

POL

LAWC is granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with POL. The legal title of all property in existence at the commencement date shall be retained by POL. Upon expiration of the useful life of any such property as may be determined by LAWC, such property shall be returned to POL in its then condition at no charge to POL or LAWC.

TIEZA

BIWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to TIEZA in its then-current condition at no charge to TIEZA or MWC.

The net book value of the facilities transferred to MWC on commencement date based on TIEZA's closing audit report amounted to ₱618.3 million.

38. **Events after the Reporting Period**

a. On February 22, 2011, the BOD approved the increase of the authorized stock from ₱37.0 billion to ₱56.2 billion divided into 900.0 million shares with a par value of ₱50 per share, 12.0 million Prefered A shares, 58.0 million Prefered B shares, 200.0 million Voting Prefered shares with par value of ₱1.0 per share and the creation of 40.0 million Series C preferred shares with a par value of ₱100 per share with the same basic features as the Series A and Series B preferred shares. The BOD likewise approved the declaration of a 20% stock dividend to all common stockholders to be issued from the increase in authorized capital stock.

b. On February 28, 2011, the Company and ALI exchanged their ownership interests in ARCH Capital and ARCH Capital Asian Partners, G.P., (together "ARCH") with TRG, resulting in TRG acquiring the Company and ALI's combined interest in ARCH.

c. On various dates from January 1 to March 14, 2011, the Company bought a total of 502,300 common shares amounting to ₱174.0 million as part of the Company's share buyback program.

d. On February 9, 2011, ALI has received the notice of award dated January 28, 2011 for the ₱3.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City.

   ALI will sign a 25-year lease contract for the property with an option to renew it for another 25 years by mutual agreements. The project will involve the construction of a retail establishment with 63,000 square meters of available gross leasable area and a combination of headquarters-and-BPO-office type buildings with an estimated 8,000 square meters of gross leasable area.

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