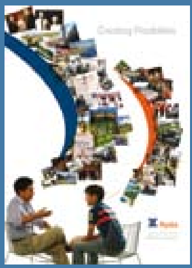
Creating Possibilities

Ayala

Ayala Corporation
2009 Annual Report

Creating Possibilities



We at Ayala are committed to building a sustainable future. We understand that today's challenges demand that we emphasize social relevance in our investments—the kind that addresses the tangible needs of our stakeholder communities and creates equitable improvements in their quality of life. We believe that by focusing our efforts on the greater good and contributing towards meaningful change, we are capitalizing on untapped growth opportunities that in time, will become significant contributors to our portfolio. Moving forward, this brand of enlightened capitalism will continue to shape the way we do business and strengthen our resolve to become a transformational force in the Philippines and in the region.

Ayala's Commitment to Sustainability

- In operations, continuously reduce our environmental footprint
- In essential products and services, innovate to serve the disadvantaged in an environmentally friendly way
- In supply chains, use our buying volume to provide opportunities for communities and entrepreneurs
- In human resource practices, ensure safe and healthy environments and development opportunities for our employees
- In community involvement, address education, micro-enterprise, environmental and disaster preparedness
- In management approach, strive for material impact and measurable results

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OUR MISSION

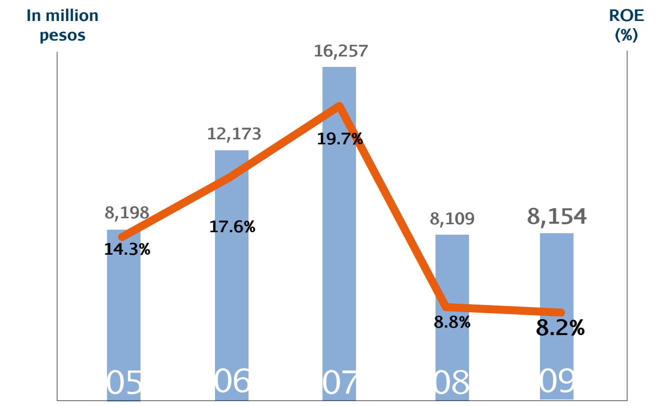
Ayala Corporation, a holding company with a diverse business portfolio, has a legacy of pioneering the future. Founded in 1834, it has achieved its position of leadership by being values oriented, goals driven, and stakeholder focused. Anchored on values of integrity, long-term vision, empowering leadership, 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 Corporation is one of the largest conglomerates in the Philippines with businesses in real estate, financial services, telecommunications, water distribution, electronics manufacturing services, automotive dealership, and business process outsourcing. Its corporate social responsibility arm, Ayala Foundation, has programs that focus on education, entrepreneurship, and the environment.

KEY HIGHLIGHTS

- 47% growth in net portfolio value
- Gains-adjusted net income up 34%
- Increased stake in Manila Water in light of potential for regional expansion
- Continued share buy-back with 1.8 million shares repurchased by year-end
- Published first Philippine group-wide Global Reporting Initiative (GRI)-compliant sustainability report

NET INCOME AND RETURN ON EQUITY (ROE)

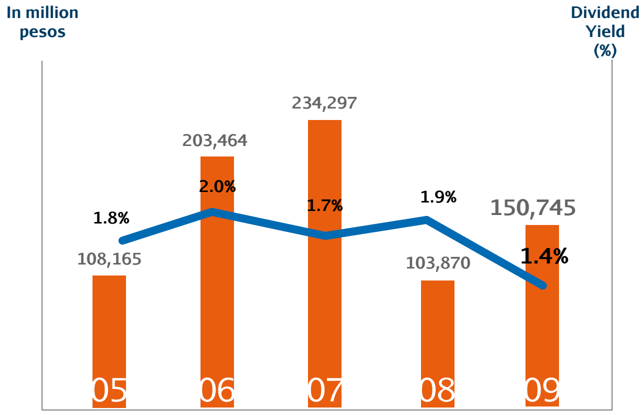


9% 5-YEAR AVERAGE NET INCOME GROWTH

14% 5-YEAR AVERAGE RETURN ON EQUITY

7% 5-YEAR TSR CAGR

MARKET CAPITALIZATION AND DIVIDEND YIELD



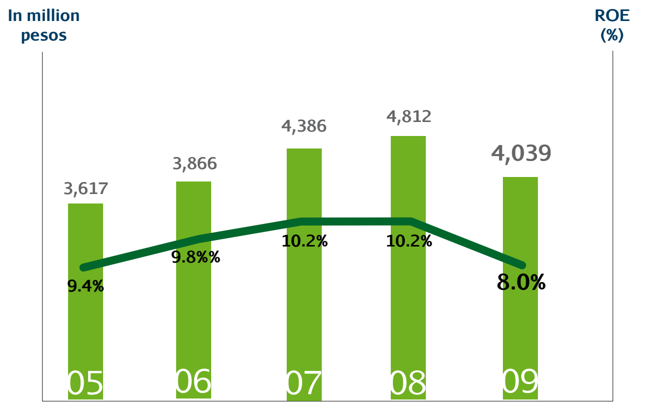
Market Capitalization based on year-end closing price

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.

KEY HIGHLIGHTS

- Opened Ayala Triangle Gardens in November
- Launched NUVALI in April and opened the lakeside retail area called Solenad
- Joint venture with National Housing Authority for the 29.1-ha. North Triangle property in Quezon City
- Signed 50-year lease agreement with Subic Bay Metropolitan Authority for the development of a 7.5-ha. property within the Subic Bay Freeport Zone
- Launched 2,229 new residential units
- Opened *MarQuee Mall* in Angeles, Pampanga in September
- Completed an additional 40,000 sqms. of BPO office space in *U.P.-AyalaLand TechnoHub*

NET INCOME AND RETURN ON EQUITY (ROE)

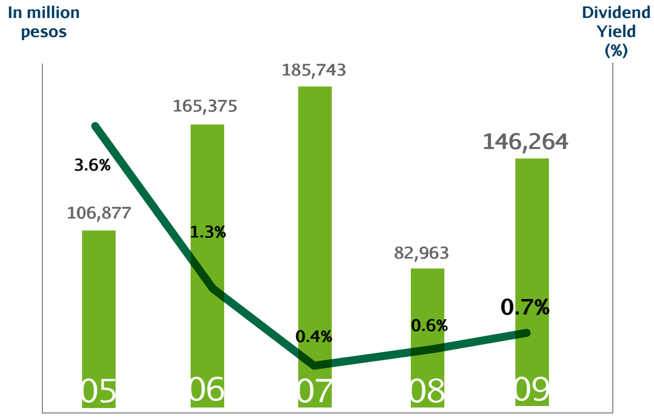


7% 5-YEAR AVERAGE NET INCOME GROWTH

10% 5-YEAR AVERAGE RETURN ON EQUITY

14% 5-YEAR TSR CAGR

MARKET CAPITALIZATION AND DIVIDEND YIELD



TSR: Total Shareholder Return

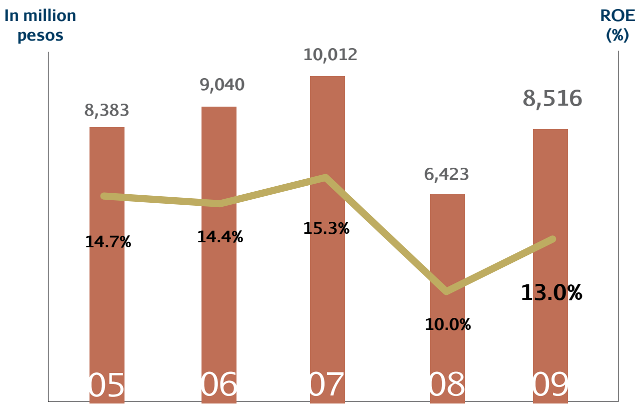
CAGR: Compounded Annual Growth Rate

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, and life and general insurance.

KEY HIGHLIGHTS

- Net income of ₱8.5 billion, up by 33%; return on equity of 13%
- Published the first bank sustainability report in the Philippines
- Formed BPI Globe BanKO, a mobile microfinance bank to broaden entry into inclusive banking
- Partnered with Philippine American Life Assurance Company in a bancassurance joint venture under BPI Philam Life Assurance Corporation
- Outperformed the industry in credit card billings and became the second most-used credit card

NET INCOME AND RETURN ON EQUITY (ROE)

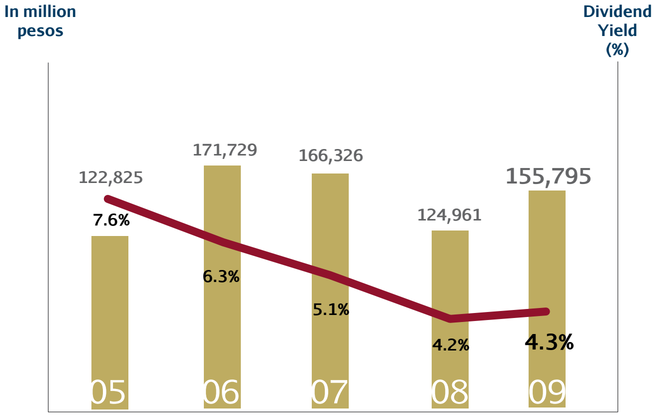


8% 5-YEAR AVERAGE NET INCOME GROWTH

14% 5-YEAR AVERAGE RETURN ON EQUITY

10% 5-YEAR TSR CAGR

MARKET CAPITALIZATION AND DIVIDEND YIELD



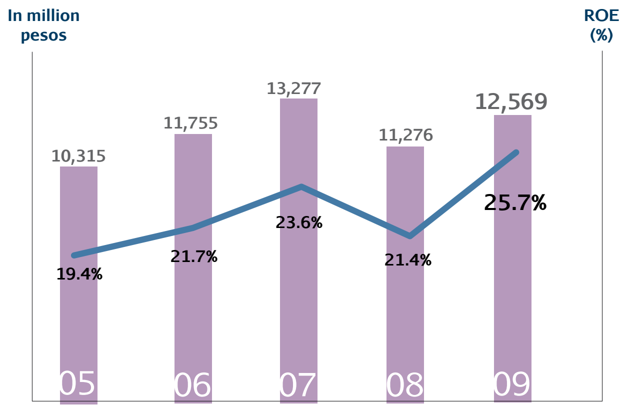
Market Capitalization based on year-end closing price

Globe Telecom Inc. is a major provider of telecommunications services in the Philippines, servicing over 23 million mobile subscribers, over 700,000 wired and wireless broadband customers, and almost 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 700,000 retailers nationwide.

KEY HIGHLIGHTS

- Net Income of ₱12.6 billion, up by 11% with all-time high return on equity of 26%
- Grew broadband subscriber base three-fold to over 715,000
- Pioneered innovative products: 2-in-1 mobile and landline service *DUO*, and prepaid voice and SMS services such as *IMMORTALTXT* and *IMMORTALCALL+* where load has no expiry period
- Completed its second fiber-optic backbone network to provide additional capacity and further boost the resilience of Globe's domestic network
- Signed agreement to be the exclusive landing party in the Philippines to the Southeast Asia Japan cable system, the highest capacity system in the world

NET INCOME AND RETURN ON EQUITY (ROE)

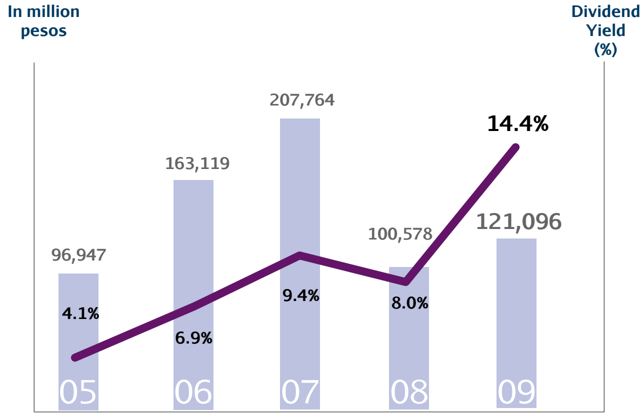


3% 5-YEAR AVERAGE NET INCOME GROWTH

22% 5-YEAR AVERAGE RETURN ON EQUITY

6% 5-YEAR TSR CAGR

MARKET CAPITALIZATION AND DIVIDEND YIELD



TSR: Total Shareholder Return

CAGR: Compounded Annual Growth Rate

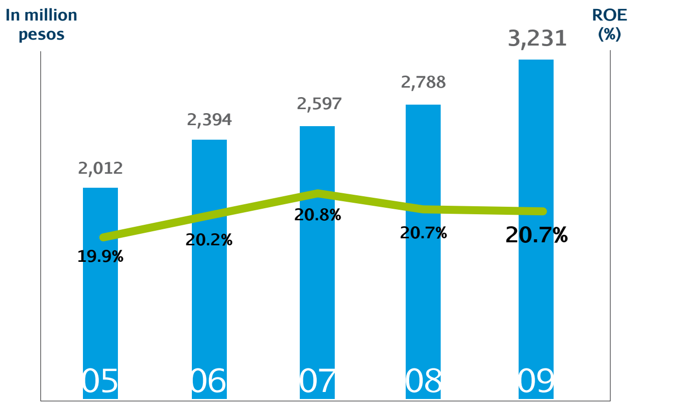
Manila Water

Manila Water Company Inc. is the sole provider for 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, Tirupur, India, and Ho Chi Minh City, Vietnam.

KEY HIGHLIGHTS

- Secured renewal of the Concession Agreement up to 2037
- Reduced non-revenue water ratio in the East Zone to an all-time-low of 15.8%
- Expanded business outside the East Zone through the acquisition of concessions in Laguna and Boracay
- Received top awards on corporate governance and sustainable development from organizations such as Corporate Governance Asia and Management Association of the Philippines

NET INCOME AND RETURN ON EQUITY (ROE)

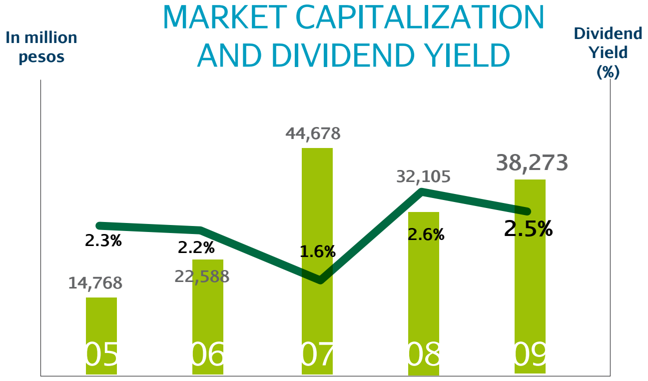


20% 5-YEAR AVERAGE NET INCOME GROWTH

20% 5-YEAR AVERAGE RETURN ON EQUITY

30% 4-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

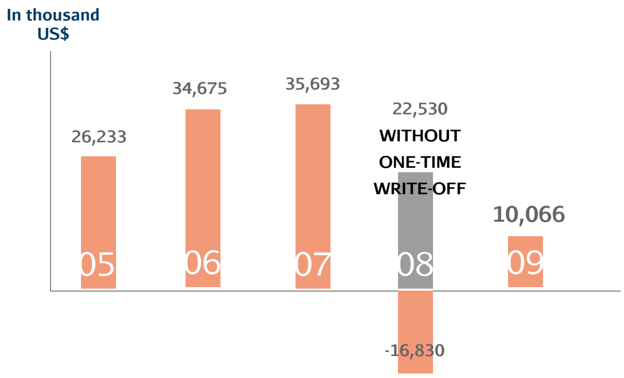
IMI

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.

KEY HIGHLIGHTS

- Posted US$396 million in revenues and net income of US$10 million
- Focused on sales generation, capability enhancement, and cost efficiency programs
- Enhanced organizational capability with new heads for China operations, finance, and sales
- Forged a strategic partnership for the renewable energy market

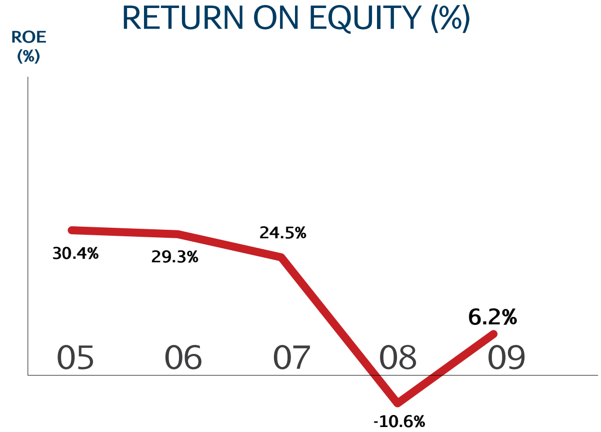
NET INCOME



37% 5-YEAR AVERAGE REVENUE GROWTH

16% 5-YEAR AVERAGE RETURN ON EQUITY

RETURN ON EQUITY (%)



TSR: Total Shareholder Return
CAGR: Compounded Annual Growth Rate

Ayala Automotive Holdings Corporation is a leading vehicle dealership network of both Honda and Isuzu brands with 9% share of industry sales. Its products in the passenger car category include Honda City, Jazz, Civic and Accord. In the commercial vehicle segment, it has Honda CR-V, and Isuzu Crosswind, D-Max, Alterra and Isuzu trucks.

LiveIt Investments Ltd. is the holding company for Ayala Corporation's investments in the business process outsourcing (BPO) sector. Its four investee companies are leaders in their respective sectors:

- Stream Global Services is a Top 7 global call center company
- Integreon is the leading integrated global provider of knowledge process outsourcing (KPO) services
- Affinity Express is a leader in the emerging outsourced graphics and creative services sector
- HRMall is a leading local provider of outsourced HR services locally

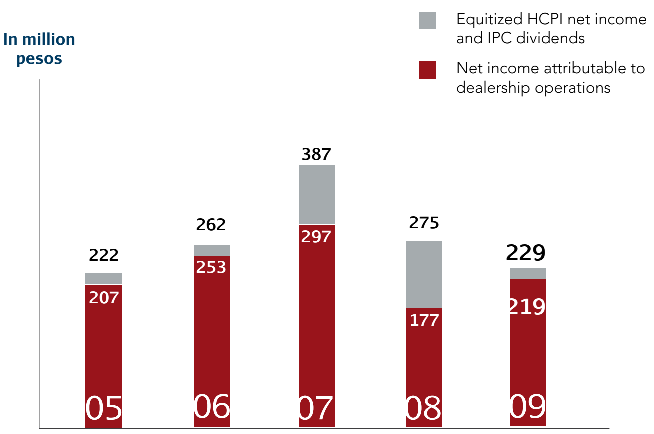
KEY HIGHLIGHTS

- Achieved 10% growth in unit sales, outpacing industry growth
- Ayala's Honda dealerships cornered 50% of total Honda network sales
- Ayala's Isuzu dealerships captured 31% of total Isuzu sales
- Ayala's Honda Cars Alabang and Isuzu Alabang were the top-selling dealers nationwide for Honda and Isuzu, respectively.

KEY HIGHLIGHTS

- LiveIt's share of the revenues of its investee companies grew by 76% to US$226 million, and its share of their EBITDA grew by 239% to US$16 million
- Stream Global Services combined with eTelecare Global Solutions in October 2009, creating an approximately US$800 million company with 30,000 employees in over 20 countries
- Integreon strengthened its position as the leading global KPO company with the acquisitions of Grail Research and Onsite, and the launch of its U.K. operations

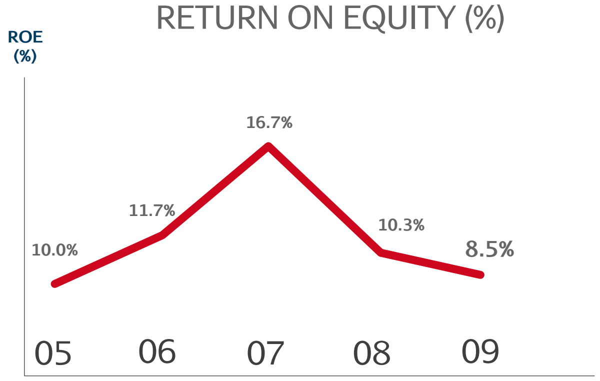
CONSOLIDATED NET INCOME



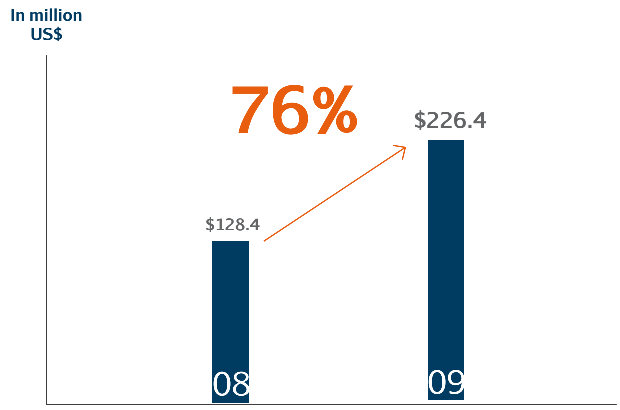
11%
5-YEAR AVERAGE CONSOLIDATED NET INCOME GROWTH

12%
5-YEAR AVERAGE RETURN ON EQUITY

RETURN ON EQUITY (%)

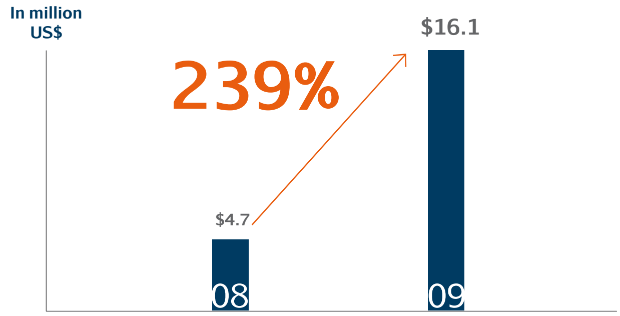


LIVEIT SHARE OF REVENUES [1]



[1] Share of revenues is based on management reporting and its equity ownership in each investee company

LIVEIT SHARE OF EBITDA[1]



	08	09
Reported Net Income/ (Loss)[2]	($20.8)	($12.2)

1 Share of EBITDA is based on management reporting and its equity ownership in each investee company

2 Net loss includes net impact of acquisition-related items such as amortization of intangibles, deal expenses and leverage driven interest: US$9.1 million in 2009 and US$13.6 million in 2008

AG Holdings

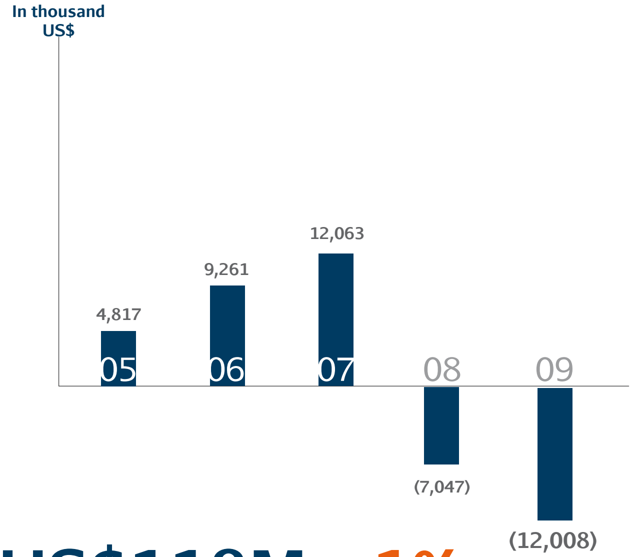
A member of the Ayala group of companies

AG Holdings Limited is the holding company for the Ayala group's international property investments.

KEY HIGHLIGHTS

- Take-up of projects in Thailand, China and Macau was ahead of projections
- Completed investment in Foshan, China, which is ARCH Fund's largest investment to date
- Value of Asian portfolio up by 5% versus prior year
- Stepped up commitment to ARCH Fund, with additional investments of US$6.3 million

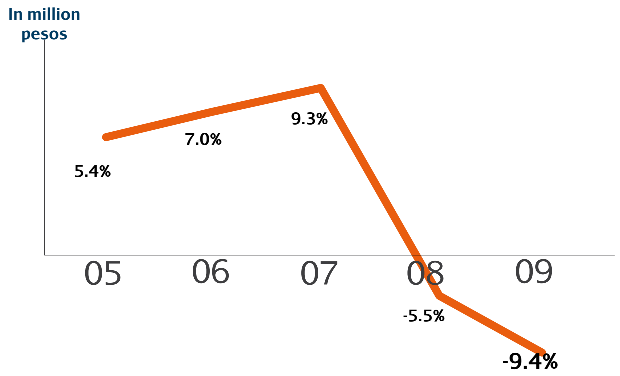
NET INCOME



US$118M
NET ASSET VALUE

1%
5-YEAR AVERAGE RETURN ON EQUITY

RETURN ON EQUITY (%)



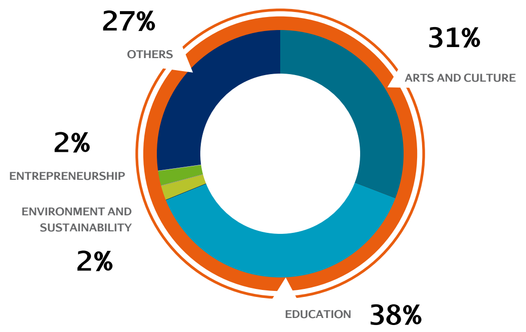
Ayala Foundation

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 the arts, history and culture.

KEY HIGHLIGHTS

- Raised US$1.4 million through Ayala Foundation USA from Filipino expatriates
- Connected 415 public high schools to the Internet in partnership with the GILAS consortium, effectively connecting close to 40% of all public high schools in the country
- Launched *Ayala GREEN*, expanding the Solid Waste Management program to include projects in energy efficiency, water-use management, and clean air
- Published a Global Reporting Initiative (GRI)-compliant Sustainability Report—*Pioneering for a Sustainable Future*, the first by a business group
- Organized and participated in relief and rescue operations for victims of Typhoons *Ondoy* and *Pepeng*

2009 USES OF FUNDS



Financial Highlights

	2009	2008	2007
FOR THE YEAR (in million pesos)			
Revenues	76,294	79,109	78,767
Net Income Attributable to Equity Holders	8,154	8,109	16,257
Cash Dividends to Common Shares	1,994	1,989	3,312
Cash Dividends to Equity Preferred Shares	1,081	549	549
Stock Dividends	-	4,139	3,450
Stock Dividends (%)	-	20%	20%
AT YEAR END (in million pesos)			
Total Assets	232,479	220,188	196,131
Cash and Cash Equivalents	45,657	42,886	38,836
Short-Term Investments	4,561	1,009	3,688
Total Borrowings	56,523	54,484	50,032
Stockholders' Equity*	102,260	97,311	86,887
PER SHARE (in pesos)			
Earnings - Basic	14.23	15.22	31.62
Earnings - Diluted	14.19	15.17	31.47
Book Value of Common Shares	182.22	172.26	163.08
Cash Dividends to Common Shares	4.00	4.00	8.00
FINANCIAL RATIOS			
Current Ratio	2.57	2.52	1.92
Debt-to-Equity Ratio	0.55	0.56	0.58

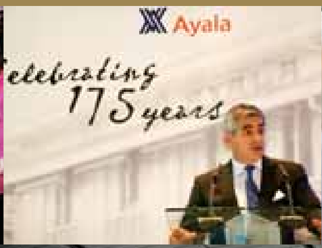
* Stockholders' equity excludes noncontrolling interests

Consolidated Financial Highlights

	Ayala Corporation					Ayala Land				
	2009	2008	2007	2006	2005	2009	2008	2007	2006	2005
For the Year (in million pesos)										
Revenues	76,294	79,109	78,767	70,162	50,543	30,455	33,749	25,707	25,559	21,375
Net Income Attributable to Equity Holders	8,154	8,109	16,257	12,173	8,198	4,039	4,812	4,386	3,866	3,617
Cash Dividends to Common Shares	1,994	1,989	3,312	2,757	1,376	780	780	782	1,843	3,237
Cash Dividends to Equity Preferred Shares	1,081	549	549	274	-		66	-	-	-
Stock Dividends	-	4,139	3,450	-	-	-	-	2,172	-	-
Stock Dividends (%)	-	20%	20%	-	-	-	-	20%	-	-
At Year End (in million pesos)										
Total Assets	232,479	220,188	196,131	181,984	167,846	108,071	100,589	82,981	78,250	71,810
Cash and Cash Equivalents	45,657	42,886	38,836	20,391	23,416	10,529	12,655	11,272	4,631	6,161
Short-Term Investments	4,561	1,009	3,688	2,928	595	4,561	1,009	2,036	2,928	595
Total Borrowings	56,523	54,484	50,032	52,881	60,377	18,812	16,752	10,139	12,837	10,723
Stockholders' Equity *	102,260	97,311	86,887	76,788	61,194	52,392	49,028	45,705	40,651	38,448
Per Share (in pesos)										
Earnings - Basic	14.23	15.22	31.62	24.01	16.58	0.31	0.36	0.34	0.30	0.28
Earnings - Diluted	14.19	15.17	31.47	23.89	16.52	0.31	0.36	0.33	0.30	0.28
Book Value of Common Shares	182.22	172.26	163.08	142.95	148.16	3.93	3.68	3.41	3.75	3.56
Cash Dividends to Common Shares	4.00	4.00	8.00	8.00	4.00	0.06	0.06	0.06	0.17	0.30
Financial Ratios										
Current Ratio	2.57	2.52	1.92	1.70	1.55	1.95	1.89	1.65	1.64	1.55
Debt-to-Equity Ratio	0.55	0.56	0.58	0.69	0.99	0.36	0.34	0.22	0.32	0.28

* Stockholders' equity excludes noncontrolling interests

Bank of the Philippine Islands					Globe Telecom					Manila Water				
2009	2008	2007	2006	2005	2009	2008	2007	2006	2005	2009	2008	2007	2006	2005
34,395	29,784	32,554	29,837	27,552	63,861	64,818	65,509	59,949	58,748	9,533	8,914	7,332	6,785	5,763
8,516	6,423	10,012	9,040	8,383	12,569	11,276	13,277	11,755	10,315	3,231	2,788	2,597	2,394	2,012
5,844	5,842	7,573	7,573	6,291	15,087	16,542	15,339	6,600	5,436	811	787	605	420	269
	-	-	-	-	50	61	49	65	68	200	180	132	148	136
-	5,409	-	4,507	-	-	-	-	-	-	-	-	-	-	-
-	20%	-	20%	-	-	-	-	-	-	-	-	-	-	-
724,420	666,612	637,285	583,133	529,285	127,644	119,751	116,621	124,580	125,102	43,758	36,368	27,942	24,263	17,929
81,524	70,788	86,121	68,354	28,027	5,940	5,782	6,191	7,506	10,911	4,038	3,989	1,537	6,455	3,014
124,962	98,228	112,758	104,841	100,944	3	-	2,850	7,307	1,254	3,724	3,368	1,388	177	-
38,942	16,430	6,678	6,722	14,345	47,477	40,588	30,373	39,207	49,693	14,361	13,352	6,236	8,058	4,526
66,798	62,934	70,011	64,439	58,528	47,709	50,092	55,417	56,948	51,619	16,817	14,450	12,479	11,874	10,123
2.62	1.98	3.09	2.79	3.11	94.59	84.75	100.07	88.56	76.74	1.31	1.13	1.06	1.00	0.94
2.62	1.98	3.09	2.79	3.11	94.31	84.61	99.58	88.32	76.60	1.31	1.13	1.06	1.05	0.93
20.57	19.39	25.89	23.73	26.07	354.50	372.52	412.78	425.16	385.34	7.92	6.70	5.79	5.44	4.60
1.80	1.80	2.80	2.80	2.80	114.00	125.00	116.00	50.00	40.00	0.40	0.35	0.30	0.21	0.14
-	-	-	-	-	0.55	0.58	0.68	0.94	0.94	1.69	2.03	0.93	1.61	1.08
-	-	-	-	-	1.00	0.81	0.55	0.69	0.96	0.85	0.92	0.51	0.68	0.45




Ayala at 175

For 175 years, Ayala has prospered through good and bad times as a Filipino business house imbued with a singular vision and the spirit of innovation. The strength of character, exemplified by its founders and leaders and nurtured by generations of Ayala citizens, has already earned for Ayala a special place in the country's history.

Through its leaders' pioneering spirit and its employees' shared values of integrity, long-term vision, empowering leadership, and commitment to national development, Ayala continues to keep a firm focus on the future and evolve with the times, making investments in new areas of growth.

Today, Ayala's vision of the future does not only create value for its businesses and shareholders, but also adds value to the lives of individuals and the communities it serves.

One hundred and seventy-five years is a long journey and, for Ayala, a process of growth and renewal, and a continuing history of significant contribution to national development.

Endowed with such perspective, Ayala looks forward with confidence and optimism to an even longer and brighter future.

Message to our Stockholders

STRATEGIC INITIATIVES

- VALUE CREATION
- DRIVING OUR CORE BUSINESSES, EXPANSION AT THE BASE OF THE PYRAMID AND SUSTAINABLE BUSINESS PRACTICES
- BUILDING A COMPETITIVE ADVANTAGE IN GLOBAL BUSINESSES
- EXPLORING NEW SECTORS AND INCREASING GROUP INVESTMENTS

Fellow Shareholders:

Value Creation

In March 2009 we marked our 175th year as an enterprise and over 30 years as a publicly owned company. As we look back to 1976, the time when we listed our shares in the Philippine stock market, we are delighted to note that our market capitalization has grown from approximately ₱615 million to ₱151 billion by the close of 2009; the equivalent of a compounded annual growth of 18%. In dollar terms, it reflects a 12% annual growth, rising from a market capitalization of US$83 million back in 1976 to US$3.3 billion today. Our consolidated revenues have also increased dramatically from ₱259 million to ₱76 billion and our net income from ₱145 million to ₱8.2 billion, representing a compounded annual growth of 19% and 13%, respectively. Total assets grew from ₱647 million back in 1976 to ₱232 billion today. Combining the market capitalization of all the listed companies Ayala is responsible for, we form 22% of the Philippine Stock Exchange Index with a combined market capitalization of ₱612 billion or roughly US$13.2 billion.

The value creation our institution has achieved over this period for stockholders is a product of a portfolio that has evolved over time, shaped in large part by strategic decisions made in response to changes in the market environment and major shifts in industry dynamics. The portfolio's performance and robust value creation this past year, amidst one of the most challenging periods in both the global and domestic economy, validates the strategic directions we have taken in the past. It also highlights the fact that we have created a portfolio that has been resilient in the face of significant market volatility and which we believe is positioned for growth as the economic cycle turns.

In 2009, Ayala's net portfolio value increased by 47% to ₱195 billion when compared to the prior year's level. As markets began to stabilize and recover in March, we were able to deliver a total shareholder return (TSR) of 46% for the year ending in December.

Driving our Core Businesses, Expansion at the Base of the Pyramid and Sustainable Business Practices

This performance first highlights our confidence in our core businesses. These are businesses that have performed well historically, and we will continue to build on the success that we have achieved in these industries. Collectively, these will continue to be significant drivers of our growth in the coming years, and will be driven primarily by:

- The recovery in the real estate sector coupled with the aggressive expansion program of Ayala Land;
- The growth in the banking sector moving in line with a revitalized economy, supported by robust business activity in the consumer and middle market sectors; and
- The expansion of the telecommunication broadband business and Globe Telecom's efforts to strengthen its position in the mobile wireless market.

We see much more room for growth moving forward as these businesses aggressively expand into new markets and geographies. In particular, there are untapped opportunities across the real estate, banking, and telecom sectors as we seek to address the needs of consumers at the base of the economic pyramid and who continue to make up the majority of our country's consumer profile.

As a group operating in an emerging market, it is part of our long-term growth strategy to find innovative and creative ways of serving the needs of this larger segment of our population. We feel a collective responsibility to address this market effectively and are increasingly aligning our business models across the group to be responsive and relevant to our commitment to provide sustainable growth and development to a broader and more diverse community. This is embodied in a group-wide Sustainability Report which we published in 2009, the first Global Reporting Initiative (GRI) compliant report done by a business group in the country. We seek to more holistically measure our companies' performance and impact on the communities and environment in which we operate, even as we sharpen our financial and value creation objectives as an organization that puts risk capital to work to fund the infrastructure and service needs of our economy. We are in a unique position to achieve this, given our breadth of operations and our ability to create synergies across our group. Increasingly, we are finding ways to harness and combine our group's competencies to develop products and services for these new markets in new and effective ways.

One example, in this past year, was the formation of BPI Globe BanKO, a joint venture to develop microfinance services, which involves affiliate companies and in which Ayala Corporation has a 20% stake. Microfinance can be a transformational force in society and it is a model that has been a successful creator of value, both from a social development perspective and as a profitable enterprise, in other emerging economies. The synergy of BPI and Globe in this venture offers a unique value proposition as it combines the strength of BPI in banking and Globe's technology platform in M-commerce to bring banking services to a consumer community at significantly lower price points than ever before.

Our real estate unit, Ayala Land Inc., has also readjusted its strategy vigorously to develop economic housing for consumers at more affordable price points and is set to launch a fourth brand geared specifically to this segment. Our expansion in this broader market is in line with efforts to intensify our presence in new geographies within the country.

We are excited by these new initiatives which run parallel to our growth objectives in our traditional markets. In turn, we have established positions of market leadership in these more established markets where we continue to see opportunities for growth and expansion.

Building a Competitive Advantage in Global Businesses

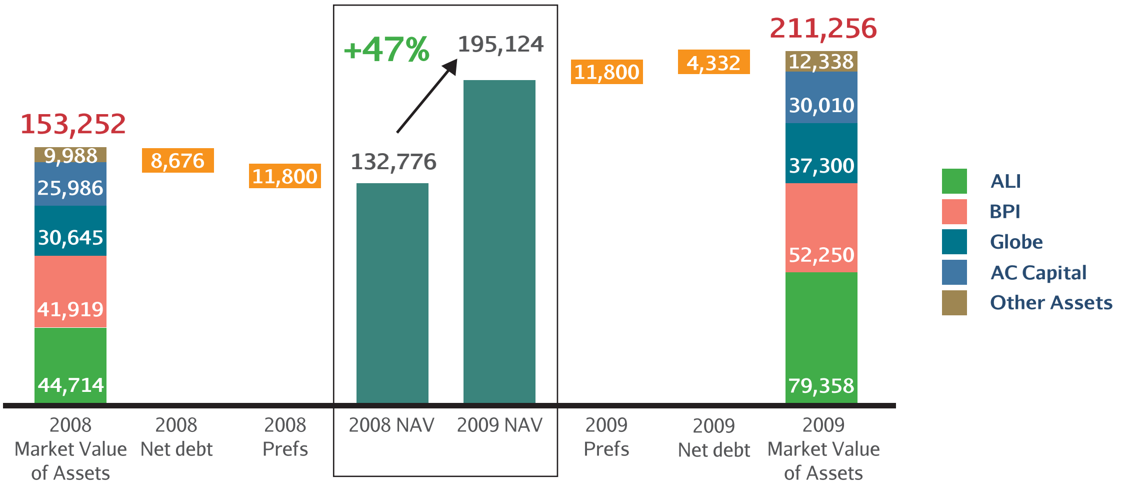
While there are avenues for growth domestically, we likewise see opportunities for expansion in selective areas in the region that can be potential sources of growth over the medium to longer term. These global initiatives are visible in several of our business units, particularly in Manila Water, in Integrated Micro-Electronics, Inc. (IMI), and in our business process outsourcing (BPO) units, which have a mandate to establish a regional or international presence and in which they have the core competency to be globally competitive.

Manila Water recently signed a joint development agreement with REE Corporation of Vietnam and our strategic partner, Mitsubishi Corporation, to explore and evaluate private participation in water, wastewater and other environmental services projects in Vietnam. In addition, in February 2010, Manila Water also signed a joint venture agreement with Jindal Water Infrastructure Limited to jointly develop new businesses in these same fields in India. Ayala is supportive of these growth initiatives and has signified its support by increasing its economic stake in Manila Water.

We also continue to support the expansion of IMI as it seeks to widen its global manufacturing footprint. A sizable untapped market exists for electronics manufacturing services. IMI is well-positioned to develop its role in this market as it expands into high-growth, high-margin product niches in both established and emerging electronics segments. The

AYALA NET PORTFOLIO VALUE 2009 vs 2008

(in million pesos)



2008 values for ALI, BPI, Globe, MWC based on market prices as of 12/24/08; 2009 values based on market prices as of 12/29/09

company will continue to build alliances globally, forge strategic partnerships, and participate in acquisition opportunities. In January 2010, IMI listed its shares in the Philippine Stock Exchange to give it sufficient financial flexibility as it pursues these initiatives. It now has operations across six countries through 12 offices and manufacturing plants.

Our BPO investments continue to build scale and reach through a series of mergers and acquisitions. In 2009, we merged our biggest investment in customer care, eTelecare Global Solutions, with Stream Global Services. This created a global industry leader, ranked seventh in the world, with an operating footprint of over 30,000 employees in over 20 countries. Integreon became the leading Global Knowledge Process Outsourcing company through strong organic growth and the acquisitions of attractive companies in the outsourced legal and market research services sectors. The past few years have seen us focus on building scale and ramping up the revenue base of these companies, an important pre-condition to ensuring global competitiveness and relevance in this space. As we now focus on improving efficiencies within this larger platform of operations, these businesses will contribute more positively to group earnings and value creation in the near future.

Exploring New Sectors and Increasing Group Investments

In support of these initiatives, we have increased our group capital expenditures to ₱70 billion this year, 39% higher than the prior year. At the holding company level, we have kept our capital expenditure commitment to ₱7 billion for 2010, mainly to support the capital needs of our existing businesses. We increased our stake in Manila Water and we continued to pursue our share buy-back program. However, we are prepared to expand this effort if we find compelling value-enhancing propositions. We remain keen to participate in the domestic infrastructure space, including investments in clean energy and the water sector. We will continue to explore avenues for public-private partnerships in these areas, building on our past success and experience working within this framework in companies like Manila Water. The remainder of the group's capital expenditure plan includes our business units' investments across the real estate, telecommunications, and water utilities sectors.

As we explore opportunities in these new sectors, we are committed to reshaping a robust portfolio composed of businesses that are attuned to the needs of a broader based market and are aligned with society's need to achieve sustainable growth and development. We intend to achieve this while continuing to realize healthy long-term returns and value for all our stakeholders.

We appreciate the commitment of our management team and employees in aligning themselves to our broader goals of creating a thriving, progressive enterprise that contributes meaningfully to society's sustainable growth. We thank the members of our Board for their guidance and direction, our business partners for their support, and our shareholders for never ceasing to believe in Ayala's capacity to reinvent itself and continue its tradition of creative value building, entrepreneurship and effective use of risk capital to add value to our broader community of stakeholders.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman and Chief Executive Officer

President's Report to Stockholders

WE ARE OPTIMISTIC ABOUT THE UPCOMING YEAR AS POSITIVE TRENDS INDICATE THE GLOBAL ECONOMY, AND THE PHILIPPINES IN PARTICULAR, ARE POISED FOR A STEADY ALBEIT GRADUAL RECOVERY.

HIGHLIGHTS

- STRONG PERFORMANCE OF CORE BUSINESSES AND TURNAROUND IN AC CAPITAL
- POSITIVE SECTORAL TRENDS PRESENT OPPORTUNITIES FOR GROWTH AND EXPANSION
- REINVESTING FOR PORTFOLIO ENHANCEMENT
- SEEKING NEW INVESTMENT OPPORTUNITIES

Fellow Shareholders:

Our deliberate efforts the past few years to strengthen our balance sheet through value realization and prudent debt management prepared us well for the economic downturn. Our healthy cash position and comfortable gearing kept our fundamentals intact across the group even at the height of the financial crisis. This position of financial strength allowed us to maintain our focus on: (1) strengthening each of our business units in their respective industries, (2) continuing our portfolio enhancement initiatives, and (3) seeking investment opportunities where we can lay the foundation for future growth.

EQUITY IN NET EARNINGS OF BUSINESS UNITS (in million pesos)

BUSINESS UNIT	2009	2008	% CHANGE 2009 VS. 2008	% TO TOTAL
ALI	2,149	2,538	-15%	23%
BPI	2,707	2,145	+ 26%	29%
Globe	3,862	3,643	+ 6%	42%
AC Capital	494	(540)	-	6%
TOTAL	9,212	7,786	+ 18%	100%

Solid equity earnings growth from BPI and Globe offset decline in ALI; turnaround in equity earnings of AC Capital from loss in 2008

We are optimistic about the upcoming year as positive trends indicate the global economy, and the Philippines in particular, are poised for a steady albeit gradual recovery.

Strong Performance of Core Businesses and Turnaround in AC Capital

Our optimism is drawn from the strong performance and resilience of our core businesses as well as the improved operating results of our businesses under AC Capital, even amidst a severe global economic slowdown.

Equity earnings from core businesses Ayala Land Inc. (ALI), Bank of the Philippine Islands (BPI), and Globe Telecom grew by 5% in 2009 and by 10% in the fourth quarter alone, from marginal growth in the first two quarters of the year.

AC Capital contributed positively. Combined equity earnings from its business units reversed losses in 2008. This was driven by the strong earnings growth of our water distribution unit, Manila Water Company Inc., and the turnaround of our electronics manufacturing business, Integrated Micro-Electronics Inc. (IMI). LiveIt Investments Ltd., our holding company for our investments in the business process outsourcing (BPO) sector, also posted significantly lower losses.

This put total equity earnings at ₱9.2 billion, up 18% from the prior year. However, significantly lower capital gains kept net income at par with the prior year's level at ₱8.2 billion. Excluding gains, net income growth was actually much higher at 34% compared with the year before. Return on equity reached 8.2%.

Positive Sectoral Trends Present Opportunities for Growth and Expansion

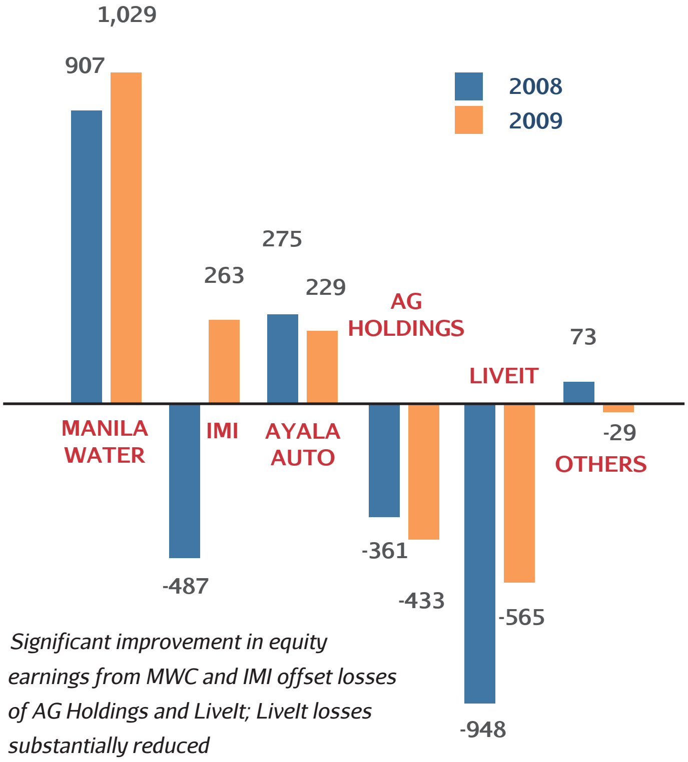
Apart from this resilient performance, we also draw optimism from the positive trends we are seeing in the different sectors that we operate in and we continue to look for interesting new growth opportunities in other sectors.

In real estate, ALI's residential sales across all brands recovered beginning the second quarter of 2009. We are confident this momentum will continue. This was confirmed with two very successful launches in January 2010. Ayala Land is embarking on its most aggressive launch in the coming year as it expands its presence in key cities and areas in the Philippines. The breadth of this project pipeline is underpinned by a desire to broaden the customer base and develop products for consumers at lower price points.

ALI's recurring income base continued to grow in 2009. Occupancy in shopping centers continued to improve alongside the expansion in gross leasable area (GLA) with the opening of *MarQuee Mall* in Pampanga. There are many opportunities as ALI expands in the Philippines. In the past six months ALI sealed several joint venture agreements with various strategic partners to develop mixed-use community centers in the Subic Bay Freeport Area and Cagayan de Oro. It will also unveil *Abreeza Mall* in Davao City by next year. Its office leasing business, mostly in BPO, also continued to expand with leased-out GLA up by 117%. Average lease rates have been steady.

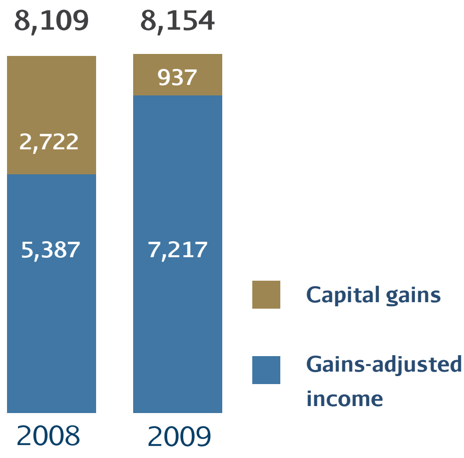
In banking, BPI registered strong business volume and revenue growth which in turn produced solid growth in earnings. Loans to small-medium enterprises,

EQUITY IN NET EARNINGS FROM AC CAPITAL
(in million pesos)



Significant improvement in equity earnings from MWC and IMI offset losses of AG Holdings and LiveIt; LiveIt losses substantially reduced

CONSOLIDATED NET INCOME
2009 versus 2008
(in million pesos)



Gains-adjusted net income up 34%

consumer market, and credit card customers remained robust, expanding at double-digit levels. The bank's remittance business was also strong, outpacing industry growth which resulted in BPI capturing over 20% of the overseas Filipino remittance business.

We are excited about the new initiatives BPI is undertaking to extend market reach, broaden customer base, and refine its product suite. BPI pursued two joint ventures in 2009. First is BPI Globe BanKO, a mobile microfinance bank with Ayala Corporation and Globe as strategic partners. This will allow BPI to expand and deliver financial services to lower income sectors leveraging on Globe's technology platform. Second is BPI-Philam Life Assurance Company, a bancassurance platform with The Philippine American Life Insurance Company. These synergistic partnerships will enhance BPI's presence in non-traditional markets and allow for significant cross-selling opportunities.

Globe Telecom registered strong earnings growth in 2009. While the core mobile business was weighed down by weak consumption and intense competition, Globe made gains in broadband, growing their subscriber base three-fold. Broadband will continue to be a key growth area and we are confident that with the resources Globe is investing, it will contribute more significantly to the overall business in the medium to long term. Globe's broadband capex for 2010 includes investments to augment existing capacities, expand coverage, and improve the availability of *3G*, *WiMax*, and *DSL* broadband services.

In the year ahead, Globe will continue to strengthen its brand portfolio, drive improvements in the sales and distribution process, improve customer service, and develop products and offers that deliver greater value to customers. Globe's commitment to optimizing its capital structure and delivering superior value to its shareholders has prompted it to increase dividend payout to a range of 75% to 90% of prior year's earnings.

There are exciting new opportunities for our water utilities business, Manila Water Company Inc., both in the Philippines and in the region. Manila Water has recently secured concessions in Boracay and Laguna, providing venues to replicate its successful business model. Management contracts overseas, particularly in Ho Chi Minh and in India, are stepping stones for larger projects in these countries and other parts of the region. With the renewal of its concession agreement extending the concession period to 2037, Manila Water's investment plan will ensure better service and more affordable water rates for its customers. In view of the potential for local and regional expansion, Ayala recently increased its economic stake in Manila Water from 31.5% to 43.1% to participate in this prospective growth.

Our BPO businesses under LiveIt continue to build scale through mergers and acquisitions in the global BPO space while leveraging on the Philippines' competitive advantages. One of the significant moves we made was the merger of eTelecare Global Solutions with Stream Global Services in October 2009. This merger puts us among the top BPO companies globally with approximately 30,000 employees based out of 50+ solution centers in 22 countries supporting more than 30 languages and serving Fortune 1000 companies.

Our other BPO units continue to build scale through acquisitions as a way of accelerating the expansion of their capabilities and positioning the companies as leading global providers. By year-end, LiveIt recorded equity revenue growth of 76% to US$226 million with share of EBITDA at US$16 million, in its third full year of operations.

Reinvesting for Portfolio Enhancement

Despite somber economic conditions, the group continued to reinvest in its existing businesses as part of its portfolio enhancement initiatives. In 2009, the group capital expenditure amounted to over ₱50 billion, slightly lower than prior year's ₱55 billion. Investments from the holding company included those in our BPO businesses and in ARCH Captial, our real estate fund, which has projects in China, Thailand, and India. We also pursued share buy-backs of our subsidiaries' and of our own shares. We repurchased a total of 466,360 Ayala Corporation shares in 2009, bringing total shares bought back to 1.8 million by year-end and also signed an agreement to acquire United Utilities' 11.6% economic stake in Manila Water. This ₱3.5 billion transaction was consummated in early 2010.

Notwithstanding these investments, we ended the year with a healthy cash balance of ₱30 billion and a low net gearing of approximately 0.04 to 1. We also prepaid a total of ₱7.2 billion worth of outstanding debt and replaced these with lower-cost debt which allowed us to generate interest savings and lower our average cost of debt.

Seeking New Investment Opportunities

Our healthy cash balance and low gearing give us the opportunity to make significant investments. We actively explored opportunities in the infrastructure space, including the power sector. We remain committed to pursuing investment opportunities in this space and in areas where we can lay the foundation for higher growth. We recently announced our intent to bid for the Angat Hydroelectric Power Plant in early 2010.

We regularly look for ways to refresh thinking and leadership in our business units. We draw primarily from the leadership bench within Ayala. In 2009 we successfully transitioned new leaders with the appointment of new Chief Executive Officers for Ayala Land (Antonino Aquino), Globe Telecom (Ernest Cu), Manila Water (Jose Rene Almendras), and AC Capital (Gerardo Ablaza, Jr.) as well as Chief Finance Officers for Integrated Micro-Electronics Inc. (Sherisa Nuesa) and Manila Water (Luis Juan Oreta). We are confident that their wealth of experience will add great value and leadership strength in each of their assigned business units.

We are pleased with the accomplishments this year and appreciate the awards and recognition given to us by various institutions for these. In 2009, we were awarded by *Finance Asia* as Best Managed Company in the Philippines, Best in Corporate Governance, Best in Corporate Social Responsibility, and Best CEO. We were also ranked first by *Euromoney* for Overall Most Convincing and Coherent Strategy by a Conglomerate in the Philippines as well as among Asia's 200 Most Admired Companies in the Philippines by the *Wall Street Journal Asia*.

No doubt, these are reflections of the collective efforts of our senior management team, executives, and staff. We appreciate their continued support, loyalty and dedication and for contributing to the realization of our shared business and socio-civic objectives. We also thank our members of the Board for their guidance, our business partners for their shared vision, and our shareholders for their continued trust and confidence in Ayala.

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

BUSINESS REVIEW

Real Estate

AyalaLand

CONSOLIDATED HIGHLIGHTS (in million pesos except per share amounts and ratios)	2009	2008
Total assets	108,071	100,589
Stockholders' equity*	52,392	49,028
Revenues	30,455	33,749
Net income attributable to equity holders	4,039	4,812
Per share		
Earnings	0.31	0.36
Book Value	3.93	3.68
Ratios		
Current ratio	1.95	1.89
Debt-to-equity ratio	0.36	0.34
Return on equity	8.0%	10.2%
Top common shareholder		
Ayala Corporation	53.3%	53.5%

* Stockholders' equity excludes noncontrolling interests.

Soon after I rejoined Ayala Land last year, I came to realize that despite the tightening competitive landscape and the aggressive moves of other industry players, we had the capacity and the capability to move to a higher level of performance. I believe that we have many unique competitive advantages that would enable us to generate higher growth, increase profitability, and deliver more substantial returns for our investors.

To accomplish this, we need to stay ahead of the market and leverage our experience and strong brands to achieve a more broad-based growth trajectory. We see opportunities to expand beyond our traditional segments and move lower down the base of the economic pyramid where we can truly participate in the growing buying power of the middle class. This market has significant potential that remains untapped and which in the long run can give us scale for sustained, broad-based growth.

The timing to expand is, in my view, ideal. Market sentiment has steadily recovered beginning the second half of 2009. Key drivers remain stable and demand is gaining momentum. In view of these, we embarked on a strategic direction anchored on growth, margin improvement, capital efficiency, and organizational development. With this we aim to double our net income, bring our return on equity to mid-teen levels and enhance overall shareholder value over the next five years.

Growth

We will continue to strengthen our presence in our traditional markets where we have enjoyed leadership. In January 2010 we launched two new residential projects that cater to this core high-end market—*Santierra at NUVALI* and *Park Terraces* in Makati. Both set new sales records during their respective launches, underscoring the strength of demand in the residential market.

As we expand beyond our traditional segments, we have identified as many as 30 growth centers within and outside the expanded Mega Manila area where we intend to establish our presence over the next few years. We are broadening product offerings by introducing new formats to tap previously unserved consumer segments and diversifying our portfolio. For instance, we will make inroads into the economic housing segment through a fourth residential brand, *Amaia*, and by developing smaller community and neighborhood centers for our retail portfolio. We will also be launching our own boutique hotel brand as well as condotel operations that will be a key feature of our planned foray into tourism estate-related ventures.

Margin Improvement

We are committed to improving margins by one percentage point each year over the next five years as we optimize our various cost models. We have already begun to realize gains from various fixed and variable cost control measures, project savings, and operational efficiencies. Our initial results are very encouraging and indicate that we can sustain these improvements and even add to these gains over the medium term.

Capital Efficiency

As we drive for higher levels of growth and profitability, we also need to make more efficient use of our resources in order to improve capital and shareholder returns. We will do this in several ways:

- Improve asset turnover by accelerating our growth center development timetables and taking an asset-light approach to land acquisition and development (through joint ventures and long-term lease arrangements) whenever feasible
- "Move with scale" across our entire product portfolio in growth centers to maximize land utilization and potential for value capture
- Shift to a payout-based dividend policy and gradually increase from 30% for 2010 to a target of 50% by 2014
- Increase net-gearing levels by optimizing the use of our cash and additional borrowings within our debt capacity limits
- Explore the new REIT Law as an efficient means of recycling capital for our investment properties.

Organizational Development

We continuously re-evaluate and refresh our roles at the corporate center to be more responsive to the company's strategic directions. We have formalized the implementation of Enterprise-Wide Risk Management and are using this framework to manage our shifting risk profiles better. We are also instituting a talent development program that maximizes the potential of our current human resources to ensure we meet the demands of our expansion.

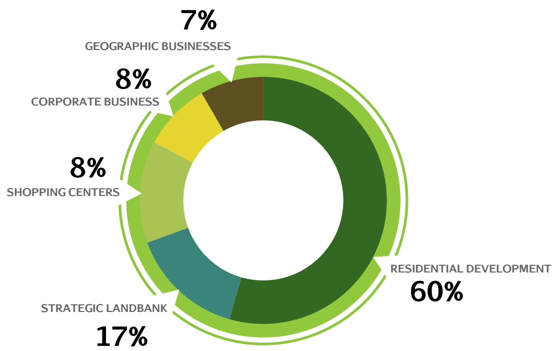
Ayala Land is and will remain at the forefront of sustainable development as we see this as a key differentiator and a critical part of our value-creation process. We are integrating more closely our social and environmental objectives with our business models and goals. Among our key initiatives are:

- Operating cost reduction programs that are tied to sustainability efforts to ensure that these are embedded in day-to-day operations;
- Pioneering the design and use of green technology in buildings and structures (e.g. green roofs, lush vegetation, district cooling and grey water systems);
- Improving programs on solid waste management across all Ayala Property Management Corporation-managed facilities;
- Implementation of livelihood projects and employment opportunities to residents of communities affected by our developments, such as NUVALI;
- Our cooperation with other Ayala group companies to help rehabilitate the Pasig River through the *Kapit-Bisig Para sa Ilog Pasig* project; and
- Masterplanning and developing an informal settlers' relocation site in Calauan, Laguna.

I am grateful for the hard work and dedication of all our employees, the experience and professionalism of our management team, and the support of the Board and all our stakeholders. We will continue to draw on the value of these resources as we pursue our five-year plan and I am confident we will emerge stronger as an organization and deliver more value for our shareholders in the years to come.

Antonino T. Aquino
President and CEO

BREAKDOWN OF CAPITAL EXPENDITURE

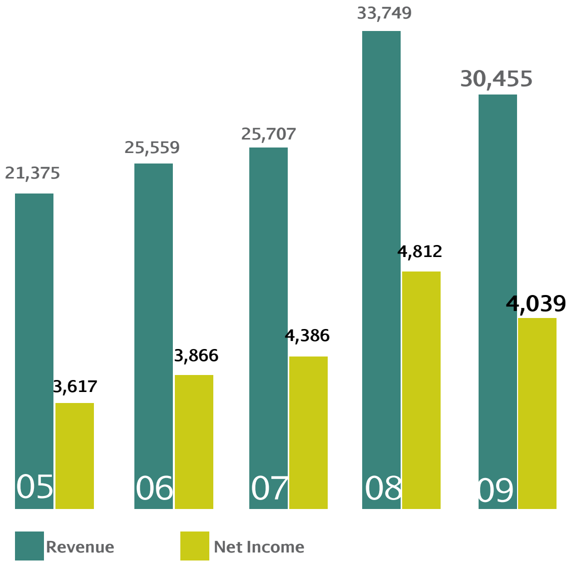


₱16.2B

Total capital expenditures in 2009 for completion of projects and expansion into new growth centers

REVENUES AND NET INCOME

(in million pesos)



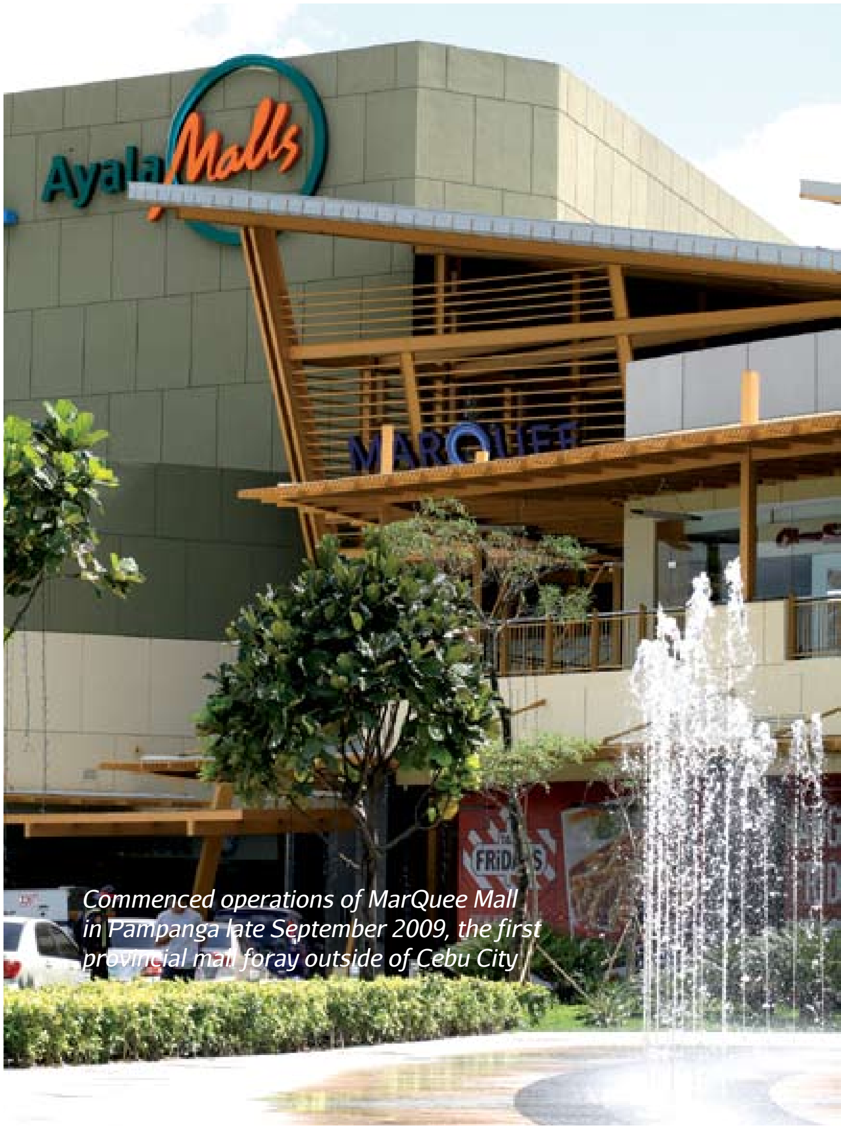
₱4.0B

Net income after tax excluding large transactions

₱30B

Revenues

Revenues and net income were ahead of market consensus.



Commenced operations of MarQuee Mall in Pampanga late September 2009, the first provincial mall foray outside of Cebu City

The year 2009 was characterized by uncertainties brought about by the global financial crisis. Consumption was somewhat muted by sagging business and consumer confidence in the early part of the year, overpowering other positive drivers like benign inflation and interest rate and resurgent overseas Filipino remittances. But despite the demanding business landscape, Ayala Land Inc. (ALI) posted solid financial results in 2009. Revenues reached ₱30 billion and net income after tax excluding large transactions reached ₱4.0 billion. This was a shade below the all-time-high net income recorded in 2008.

Our eight-decade-long industry experience has given us the combined ability to thrive under difficult times and quickly adjust to changing business conditions. The uncertain economic conditions at the start of the year led us to take a conservative stance. We scaled back capital expenditures for new investments to manage our risk exposure, bringing down capital expenditures by 10%. We took a strategic decision to prioritize projects committed for completion. However, while we managed capital spend, we continued to expand our existing portfolio across all our strategic business units to ensure the foundation for future growth:

Residential Business

- Added 2,229 new units to inventory from three new projects and additional phases from existing developments
- Introduced *Avida Towers San Lorenzo* in Makati, *Avida Residences* in Cavite, and Alveo's *Ametta Place* in Pasig as demand for more affordable and quality housing remained stable in the middle- to low-income segments
- Sharpened execution and project delivery resulting in much improved customer satisfaction and stronger equity across all residential brands

Leasing Business

Shopping Centers

- Commenced operations of *MarQuee Mall* in Pampanga in late September 2009, the first provincial mall foray outside of Cebu City, adding 36,000 square meters of gross leasable area (GLA) to shopping center portfolio
- Achieved higher average occupancy levels across all malls
- Effectively leased out 97% of available shopping center GLA as of end-2009

Office

- Delivered remaining four buildings in *U.P.-AyalaLand TechnoHub* with total GLA of 40,000 square meters, completing the first phase of our business process outsourcing (BPO) expansion program
- Increased BPO GLA by more than seven times the level the past two years bringing total BPO space to 257,000 square meters as of the end-2009
- Leased out 65% of total BPO space, more than double the 2008 level, with sustained strong product differentiation a1st competition

Strategic Landbank Management

- Sealed partnership with the National Housing Authority to masterplan and develop a first-of-its-kind transit-based growth center in Quezon City that will transform the area into a well-planned, integrated and environmentally balanced, mixed-use community.
- Inked a joint development agreement with the Subic Bay Metropolitan Authority to masterplan a seven-hectare property within Subic Bay Freeport Zone that will transform the Olongapo and Subic corridor into a desired destination and a flourishing growth center in the region

As we continuously build our business competencies, we also focused on improving our operating models particularly on the development side. We have implemented design-to-cost schemes, standardized floor templates, and innovated processes by leveraging on modern technologies and new building systems. We also significantly reduced planning timelines to increase our speed to market and allow us to sustain our robust project pipeline.

Across the company we have rationalized costs and introduced programs like the *ALI Creative, Alternative, and New ideas* (CAN) and *Switch Off* campaigns on top of stringent controls to reduce overhead costs. We are also ensuring we operate more efficiently and in a sustainable manner. These efforts contained costs vis-à-vis our revenue performance which improved margins and overall profitability.

Demand for more affordable and quality housing remained stable in the middle-to low-income segments

Financial Services

BANK OF THE PHILIPPINE ISLANDS

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

	2009	2008
Total assets	724,420	666,612
Capital funds attributable to equity holders	66,798	62,934
Revenues	34,395	29,784
Net income attributable to equity holders	8,516	6,423
Per share		
Earnings	2.62	1.98
Book Value	20.57	19.39
Return on equity	13.0%	10.0%
Top common shareholder Ayala Corporation	33.5%	33.5%

Despite the doom and gloom at the beginning of the year, we weathered the global financial crisis and improved our net income by 33% to ₱8.5 billion and our return on equity from 10% to 13%.

We started the year cautiously by paring our already prudent treasury positions by 20% and by pricing our credit portfolio at appropriate risk levels at the time. We felt that the economy was shifting from systemic and market risk in 2008 to specific and credit risk in 2009.

Given this, our overall loans grew by only 2%. Excluding liquid multinationals who paid down their precautionary 2008 loans, total loans to domestic companies were at a respectable 9%. We grew double digit at the small and medium enterprises (SME) and consumer segments and we improved our position in credit card billings from number 4 to number 2.

Fortunately, our non-performing loan ratios proved stable and even declined from 3.0% to 2.8% despite first-quarter fears of exporter problems and third quarter worries of super typhoons destruction defaults. Following global trends, local interest rates fell 200 basis points from end-2008.

Overseas Filipino remittances defied conventional wisdom of worrisome declines and grew 15% for BPI and 5.6% for the Philippines. To enhance customer loyalty, we heavily promoted savings accounts to protect our *BPInoys* during the crisis, and they responded with a 42% increase in overall OFW deposits.

BPI Capital was the Joint Issue Manager for the Bureau of Treasury's Retail Treasury Bond which generated P114 billion for the national treasury.

We refreshed our branch look, and increased our number of relationship managers and financial advisors. We also launched a *Bank Anywhere* program by which every branch became a home branch. This served our business continuity programs well when we operated continuously through non-flooded branches and automated teller machines (ATMs) during Typhoon *Ondoy* (Ketsana).

We also formed two strategic partnerships. First, our Ayala Life Assurance, Inc. joined market leader The Philippine American Life Insurance Company (Philamlife) in a bancassurance joint venture named BPI Philam Life Assurance Corporation. We expect significant synergy and exponential cross-selling opportunities as we match Philamlife's insurance skills with our banking customer base, and our banking products with their insurance customer base.

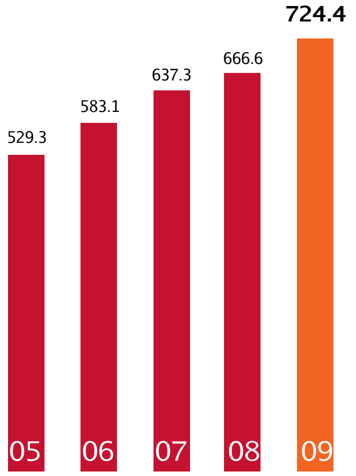
Second, we formed a mobile microfinance savings bank named BPI Globe BanKO. We see long-term potential in catering to the needs of the base of the pyramid (with US$2 per day income) in a cost efficient manner.

This venture concretized our sustainability development thrust and encouraged us to launch our first (and the first for a Philippine bank) Sustainability Report—*Minding Our Footprint*—in 2009. Key strategic themes involved total customer experience, (down) market expansion, environmental footprint reduction, and employee engagement.

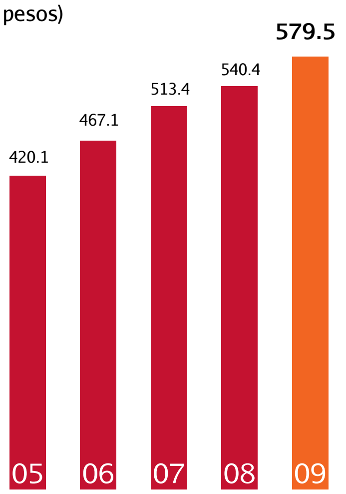
As we approach 2010, we feel confident of BPI's ability and agility in adapting to a still unpredictable environment. We will continue with our successful *Back to Basics* deposit-taking and lending strategy that we started in late 2007. We will service our clients in a proactive financial advisory manner and be an innovative financial trailblazer in this new decade. Finally, we will maintain our focus primarily on a diversified lending approach, and endeavor to constantly make banking more accessible to the great majority of Filipinos.

Aurelio R. Montinola III
President

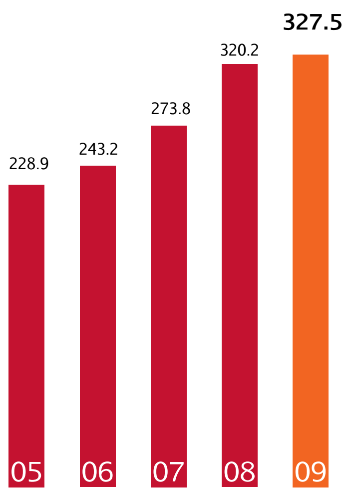
TOTAL ASSETS
(in billion pesos)



TOTAL DEPOSITS
(in billion pesos)



TOTAL LOANS (NET)
(in billion pesos)



The Bank of the Philippine Islands (BPI) registered strong business volume and revenue growth in 2009.

The higher net income of ₱8.5 billion was driven by the 15% increase in total revenues. Net interest income was ahead by 10% on account of a 9% expansion in average asset base and a slight improvement in net spreads. Non-interest income increased by 26% due to securities trading gain of ₱1.5 billion against losses the previous year, various fees and commissions, gain on asset sales, rental income and income from insurance operations.

BPI set aside ₱2.5 billion in impairment losses, ₱605 million more than last year. Operating costs were 7% higher from manpower- and premises-related expenses. Income taxes were ₱534 million higher in view of the higher level of deferred income tax write-offs on net operating loss carry-over.

The bank's total resources ended at ₱724 billion, up by 9%, boosted by the 7% increase in deposits to ₱579 billion. Total funds managed grew by ₱184 billion or 22% to ₱1.0 trillion as assets under management expanded by 50% to ₱435 billion.

BPI's capital stood at ₱67 billion with a capital adequacy ratio of 14.7%. The bank's market capitalization of ₱155.8 billion remained the highest in the industry. Total cash dividend declared for the year was ₱5.8 billion, equivalent to ₱1.80 per share.

In 2009, BPI focused on low cost deposits and offered float deposit products designed to meet the customer's need to transact, build up and invest. These were:

- *BPI Maxi Saver*, a tiered interest rate savings account plus a 1% bonus interest if no withdrawal is made in a month;
- *BPI Get Started*, a savings account with free life insurance coverage up to 5 times the balance; and
- *BPI Save-Up*, where funds are periodically transferred from a linked payroll or any ATM-based account, bundled with free life insurance coverage up to 10 times the balance.

This resulted in the shift of float to bought deposit ratio from 47:53 to 54:46.

BPI's *24/7 Banking Channels* provided clients with the freedom to bank outside the branch. BPI Express Online ranked first among financial institutions in the Top Philippine Web sites with a monthly splash page hit of 4.1 million. BPI Express Mobile's internet-based application is the most innovative banking platform in the country, serving the clients of both Globe Telecom and its competitor. Aside from banking transactions and real-time reloading of mobile phones, this also provided access to the mall with just a thumb click and a Mobile Commerce platform for entrepreneurs.

BPI Family Savings Bank (BFSB) ventured into several firsts for its clients:

- The first-ever nationwide *Auto Madness* was held in March with over a hundred participating dealer partners.
- A pioneering partnership with Home Depot was sealed to provide discounts and raffle prizes for homeowners.
- The *Grow Your SME Business Solutions* provided entrepreneurs with a complete financial package of business loans, online cash management bundles, check-accessed credit line, and savings and investment products.

BFSB received a Special Citation Award for Franchise-Friendly Bank from the Philippine Franchise Association for its efforts in assisting small and medium enterprises. This is a first for any bank in the Philippines.

13.0%

Return on equity improved from 10.0%

To further strengthen BPI's presence overseas where there is high concentration of Overseas Filipinos, the bank expanded its network in the U.S., the Middle East, Europe and Southeast Asia. In Saudi Arabia, it forged strategic tie-ups with National Commercial Bank, the largest bank in the Kingdom, and The Bank of Albilad.

BPI Capital participated in major fund-raising and financial advisory deals. Among many others, it was once again the joint issue manager for the Bureau of Treasury's Retail Treasury Bond which generated ₱114 billion for the National Treasury. It was also the sole issue manager and lead underwriter for Globe Telecom's fixed-rate retail bonds and Ayala Land's Homestarter Bonds. It also acted as the issue manager and lead manager/bookrunner for the largest domestic fixed-rate corporate issue in the country by Petron Corporation.

₱156 B Market capitalization, highest among the listed banks

The first ever nationwide Auto Madness was held in March with over a hundred participating dealer partners.

Telecommunications

CONSOLIDATED HIGHLIGHTS (in million pesos except per share amounts and ratios)	2009	2008
Total assets	127,644	119,751
Stockholders' equity*	47,709	50,092
Net Operating Revenues	63,861	64,818
Net income	12,569	11,276
Per share		
Basic Earnings	94.59	84.75
Book value	354.50	372.52
Ratios		
Current ratio	0.55	0.58
Debt-to-equity ratio	1.00	0.81
Return on equity	25.7%	21.4%
Top common shareholder		
Ayala Corporation	30.5%	30.5%
Singapore Telecom International Pte Ltd	47.3%	47.3%

* Stockholders' equity excludes noncontrolling interests.

Globe Telecom delivered improved results in 2009 despite the telecommunications industry being weighed down by weaker consumption, a maturing market, and a more difficult regulatory environment. We executed our strategic imperatives, maintained our focus on enhancing our customers' experience, and strengthened the growth platform for all our businesses.

Price competition remained intense in the mobile business, exacerbated by the market's shift towards lower-yield unlimited and bucket SMS and voice offers. We continued to improve our price competitiveness, enhanced our brand propositions, and introduced various offers to drive usage and promote loyalty. We changed our subscriber acquisition programs in the early part of the year to focus on better quality subscribers—those likely to stay longer, use the service more, and who see greater value proposition in our brands beyond the initial value embedded in the SIM. While this strategic move resulted in a near-term contraction in our SIM base, we think it was a critical and necessary adjustment to enhance the longer-term effectiveness of our acquisition programs. As early as the second quarter, we started to see improvements in revenues and ARPUs particularly for our mass market brand TM which registered a 5% improvement in revenues despite the reduction in its SIM base.

Globe introduced a number of pioneering product and service innovations during this period:

- *Globe DUO*, a unique product that combines a mobile and wireless landline service into one SIM and handset;
- *IMMORTALTXT* and *IMMORTALCALL+*, the first and only SMS and voice offer in the market with no expiry period;
- *Globe Tattoo*, a single SIM that can be used in both a mobile phone and a Globe Broadband internet stick to serve the convergent needs of today's digitally attuned youth; and
- Globe's *Worldwidest* campaign that underscores the global reach of our brands and the various international call and text services available to our subscribers.

We made significant headway in the broadband space. We grew our subscriber base three-fold and raised revenues by over 74%. We brought new, pioneering technologies to the country:

- The first commercial launch of *WiMAX* service in the country and in the region which brought the internet to over 190 towns and cities nationwide, including areas formerly not serviceable by a wired connection.
- Started carrying live traffic in the TGN-Intra Asia Cable system in early 2009 and brought to full operation our second fiber-optic backbone network which spans over 1,900 kms of inland and submarine cable covering most areas of the country. This enhances domestic and international transmission systems to meet the growing demand for more bandwidth and improve the resiliency of our networks.
- Globe became the exclusive landing party in the Philippines to the Southeast Asia-Japan (SJC) cable system which will link the country to Singapore, Hong Kong, Indonesia, and Japan. SJC will make possible enhanced data connectivity for our corporate customers, while providing retail customers with better and more reliable internet experience.

Our fixed-line data business for the corporate sector also sustained double-digit growth. Service revenues were up 23% as we reaped the benefits of capital commitments made a few years ago to support the growth of the BPO space and other key industry verticals. Globe secured a MEF 9 (Metro Ethernet Forum) certification for its carrier ethernet offerings, a first in the Philippine telecommunications industry. Our data center also achieved ISO 27001:2005 and 9001:2008 certification for meeting the Information Security Management System and Quality Management System standards.

Globe BridgeCom, our overarching program for our corporate social responsibility efforts in education and computer literacy, entrepreneurship, and the environment, continued to make impact. Whether through *Text2Teach*, or the *Internet-in-Schools*, or our *Bangon Pinoy* program for families affected by typhoons *Ondoy* and *Pepeng*, we strive to contribute in a meaningful and sustainable way to national development.

Our thrust for the coming year will focus on the continuous upgrade of our networks to improve coverage, quality, and reliability. We will put emphasis on strengthening brand equity, improving customer service, and ensuring the pervasiveness of our distribution channel. We will resume the growth of our mobile SIM base through quality acquisitions, and develop products and offers that deliver value to our customers while ensuring attractive returns and value for our stakeholders.

Ernest L. Cu
President

26%

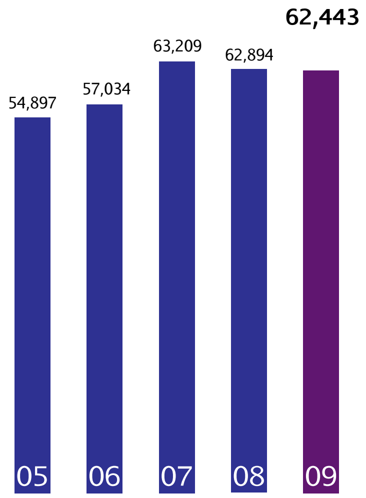
Return on equity reached a record high

58%

Consolidated EBITDA margin

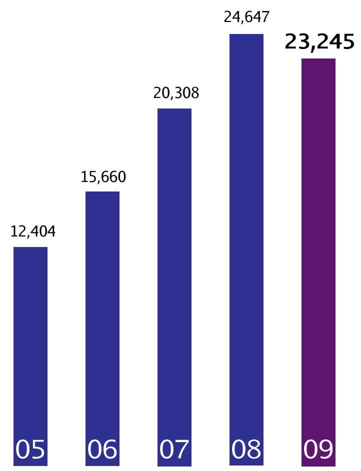
SERVICE REVENUES

(in million pesos)



MOBILE SUBSCRIBERS

(in '000)



Globe Telecom Inc. posted 11% earnings improvement in 2009 with net income of ₱12.6 billion. Consolidated service revenues were stable at ₱62.4 billion despite a very difficult market. The company's broadband and fixed-line data business for the corporate sector continued to grow at a robust pace, with revenues rising 74% and 23%, respectively. This substantially offset the 4% decline in its core mobile business.

Globe's broadband business continued to make critical gains in subscriber base and market share given its attractive and affordable product offerings, effective brand positioning, and expanded service areas. Globe broadband subscribers grew three-fold to more than 715,000 compared to just over 230,000 the prior year, with wireless broadband via *3G* delivering a significant portion of the growth.

Similarly, Globe's fixed-line data business sustained its growth momentum, benefiting from the growing outsourcing and offshoring industry, as well as from Globe's earlier efforts to expand the footprint and increase the capacity of its high-speed data network to support the connectivity requirements of its corporate clients.

The continued intense competition and increasing preference of subscribers for value offers on the back of weaker domestic consumption pulled back the performance of Globe's mobile business. Globe closed the year with 23.2 million mobile subscribers, 6% lower than last year as it recalibrated its subscriber acquisition efforts to focus on better quality subscribers while deliberately churning out marginal users.

Notwithstanding this, the company's consolidated EBITDA margin remained high at 58% of service revenues. Mobile margins remained strong at 65% of service revenues, while broadband and fixed-line margins rose to 22% from 17% in 2008 with significantly improved scale. Excluding the foreign exchange and mark-to-market, and non-recurring gains, Globe ended the year with core net income of ₱12 billion, 2% higher than last year.

Globe invested a total of ₱24.7 billion in capital expenditures in 2009. These included investments in expanding and upgrading the company's broadband and mobile networks, and carry-over spend related to its participation in the TGN IA international cable system, a second fiber-optic backbone network and domestic transmission loops. Its *2G*, *3G*, and *WiMax* base stations now number more than 10,300, up 22% from last year.

In line with its efforts to optimize its balance sheet while enhancing shareholder value, the company paid out a total of ₱15.1 billion in regular and special cash dividends in 2009, equivalent to 134% of the prior year's net income. The company likewise upgraded its regular pay-out policy starting 2010, raising its regular pay-out from 75% to a range of 75% to 90% of the prior year's net income.

As a result of higher profits and focused capital management efforts, return on equity reached a record 26%, up from 21% in 2008. Globe generated total shareholder return of 30% in 2009, inclusive of a dividend yield of 14% which remains one of the highest among telecom companies in the Asia-Pacific region.

BUSINESS REVIEW
AC Capital

AC Capital manages Ayala's other business portfolios—utilities, electronics manufacturing services and information technology, automotive, and business process outsourcing. It is a vehicle for identifying growth-oriented investment opportunities and realizing value for successful businesses. One of its principal roles is to nurture the entrepreneurial spirit within the group by guiding companies, providing capital to new ideas with strong growth potential and exiting those that have proven elusive of success.

The AC Capital portfolio performed strongly in 2009, despite a challenging global environment. By year-end it contributed positively to Ayala group earnings, reversing the loss it recorded in 2008. Equity earnings from the portfolio reached ₱494 million in 2009, a significant reversal of the ₱540 million equity loss the prior year.

This performance was driven by the robust growth of our water utilities business, Manila Water Co. Inc., the turnaround of the electronics manufacturing business, Integrated Micro-Electronics Inc., and the significant reduction in consolidated net loss of our business process outsourcing (BPO) investments under LiveIt Investments Ltd. We remain optimistic about the prospects of these businesses given their latitude and potential to expand domestically and in the region. We remain supportive of their respective growth initiatives and jointly explore opportunities that will allow them to bring these aspirations to bear.

As we pursue these, we also continue to actively explore opportunities for new business development. There are three main areas that draw particular interest.

First is the infrastructure space. We continue to look at opportunities across this broad sector, especially those that can create synergies with our existing development plans in the real estate sector. We remain open to engaging in public-private-sector partnerships as a means to tap these opportunities, building on our experience working within this framework in Manila Water.

Second, these infrastructure projects must tie in with our group-wide thrust towards sustainable development. This is in line with our commitment as expressed in our group-wide sustainability report published in 2009 that outlines our goal to reduce our environmental footprint, enhance our economic contributions, and invest in social development. With this in view, we are particularly keen on clean energy, water, wastewater, and other environmental projects.

Lastly, as an offshoot of our thrust to embed our sustainable-development objectives within our business models, we are eyeing entrepreneurial opportunities that particularly serve the needs of consumers at the base of the economic pyramid. While this segment represents a socioeconomic challenge on one end, we view this as a potentially large market opportunity on the other. Consumers in this segment need access to products and services and given their large share of the population, they are an important component for sustainable growth of businesses and the broader society. This is particularly true in emerging markets like the Philippines where anywhere from 40% to 90% of consumers belonging to low-income communities command anywhere from 25% to 50% of purchasing power. We are gradually exploring this sector and have begun initiatives in the area of microfinance with our joint investment with Bank of the Philippine Islands and Globe Telecom. We hope to find other avenues to combine our competencies to serve this market in creative and innovative ways.

As we continue to pursue initiatives along these lines, we continue to fine tune our current portfolio to better enhance values and increase relative contribution to group-wide earnings. We remain hopeful that the gradual economic recovery, both domestic and global, will result in improved profitability for our businesses and increased earnings contribution in the coming year.

Gerardo C. Ablaza, Jr.
Chief Executive Officer

BUSINESS REVIEW
Utilities

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

	2009	2008
Total assets	43,758	36,368
Stockholders' equity*	16,817	14,450
Revenues	9,533	8,914
Net income attributable to equity holders	3,231	2,788
Per share		
Earnings	1.31	1.13
Book Value	7.92	6.70
Ratios		
Current ratio	1.69	2.03
Debt-to-equity ratio	0.85	0.92
Return on equity	20.7%	20.7%
Top common shareholder		
Ayala Corporation	31.5%	29.9%
United Utilities Plc	11.6%	11.6%

* Stockholders' equity excludes noncontrolling interests.

Once again, Manila Water has exceeded its targets, growing its revenues and net income by 7% and 16% respectively, despite a challenging operating environment in 2009. Our collection efficiency, which averaged at 100%, supported to our operating cash flows which stood at ₱5.9 billion by year-end. Current ratio stood at 1.69x and net debt-to-equity at 0.27x, reflecting the strength of the company's balance sheet.

During the year, Manila Water was granted a 15-year extension of its concession agreement until the year 2037. This will enable us to implement an ambitious ₱450 billion operating and capital investment plan aimed at improving water and wastewater services, while ensuring continued water affordability for our customers. The plan includes significant outlays for wastewater coverage expansion, network reliability improvements, and new water sources development. This extension also marks a significant milestone for the company, reaffirming the support and confidence of the Philippine government, customers, and other stakeholders in Manila Water's ability to serve and deliver water efficiently to communities in the East Zone.

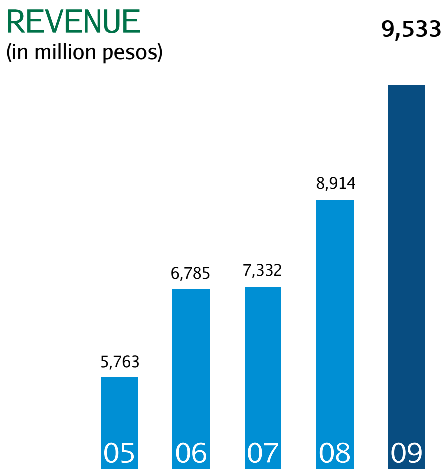
As we continue to build on our accomplishments, we remain committed to increasing our presence in the water and environmental sector in other areas of the Philippines and in the Asian region. The acquisition of two new concessions in Laguna and Boracay provides a promising platform for Manila Water's continued business expansion. Our presence in the high-growth area of Laguna will help support the province's Biñan and Cabuyao areas with 24/7 potable water at good

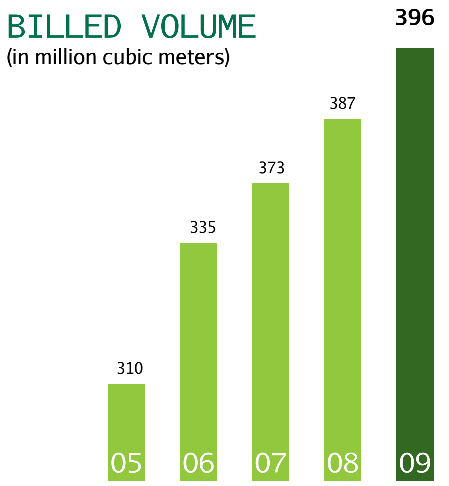
We are focused on gradually growing our presence in the water and environmental sector in other areas of the Philippines and in the Asian region.

pressure. Meanwhile, our world-class water and wastewater operations in Boracay aim to sustain the island's status as a premier tourist destination. Given the track record that we have established, we aim to uphold the same level of financial and operational performance in these new endeavors.

Recognizing our critical role in contributing to the upliftment of our customers' quality of life and in the preservation of our environment, we have implemented a triple bottomline approach in measuring and managing our business. This strategy helps us set standards in measuring our performance and impact across three important aspects—financial viability, social responsibility, and environmental sustainability. We believe that this framework holistically drives the organization to perform in line with the present needs of the business, while ensuring that we are also able to meet the demands of the future.

Jose Rene D. Almendras
President





Manila Water experienced the impact of 2009's economic slowdown through the deterioration of average water consumption, particularly among commercial and industrial customers as they deliberately cut down on spending and consumption. This was reflected in the decline in water sales during the first half of the year by 0.2% to 194 million cubic meters (mcm). However, further decline was averted by the accelerated implementation of network projects in the expansion areas, which consequently increased the company's customer base, offsetting the reduction in consumption. A total of 54,401 new households were connected to the network, resulting in a 2% increase in water sales to 396 mcm by year-end. Manila Water also continued to improve its network efficiency, bringing down water losses to an all-time low of 15.8%.

The company likewise continues to implement the Three-River System Master Plan, a massive wastewater project that will specifically target the areas along the three most polluted rivers in eastern Metro Manila- the San Juan, Pasig and Marikina rivers. The project's successful implementation is expected to significantly contribute to cleaning up these rivers which flow into Manila Bay. Moreover, the plan's completion will allow for improved wastewater coverage of 100% of the catchment basins along the three river systems.

Earnings growth for 2009 was supported by steady billed volume sales, effective management of major cost items and a reduction of the corporate income tax rate, resulting in a 16% growth in net income to ₱3.2 billion.

In 2009, the company spent ₱5.3 billion in new capex investments, bringing cumulative investments in the East Zone to ₱32.4 billion since 1997. These investments have enabled Manila Water to continue outperforming its regulatory commitments, and provide superior customer service. This was reflected in the 2009 satisfaction rating which was independently conducted by the University of the Philippines' National Engineering Center through the Public Assessment of Water Services (PAWS) survey. The results revealed that 100% of the surveyed customers gave the highest possible rating of "Very Good" to Manila Water for the second straight year.

Manila Water continued its efforts to grow the business outside of the East Zone concession by exploring opportunities in the water and environmental sector across the region. Apart from effectively managing its existing operations in Ho Chi Minh, Vietnam and Tirupur India, the company has successfully closed new concession contracts in the province of Laguna and the island of Boracay in the Philippines. Coupled with the need to respond to the challenges of water and environmental development, Manila Water sees these as opportunities for market development and service expansion. Moreover, the closing of these projects has enabled the company to strengthen its presence in the field of water and environmental services.

The company's achievements in 2009 were also capped by recognitions from various financial publications and agencies. *Corporate Governance Asia* has cited the company for its continuous efforts to strengthen corporate governance practices, giving Manila Water a Gold Award for its CorpGov Scorecard Project. Similarly, the company was once again honored by the Management Association of the Philippines for its Annual Report, recognizing Manila Water's work in the promotion of good governance and adherence to international reporting standards.

BUSINESS REVIEW

Electronics

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

	2009	2008
Total assets	302	307
Stockholders' equity*	167	160
Revenues	396	441
Net income attributable to equity holders	10	(17)
Ratios		
Current ratio	1.89	1.70
Debt-to-equity ratio	0.29	0.45
Return on equity	6.2%	-10.6%
Top common shareholder		
AYC Holdings Ltd.	67.8%	67.8%
Resins Inc.	16.9%	16.9%

* Stockholders' equity excludes noncontrolling interests.

2009 was very challenging for the global electronics industry. The global electronics manufacturing services (EMS) industry revenues contracted by 8.5% to US$182 billion.[1] In addition to reduced volume requirements of the original equipment manufacturers (OEMs), the EMS industry was besieged by a severe supply shortage of electronics components as suppliers remained cautious of excess inventory.

This impacted IMI's revenues, which declined by 10% to US$396 million. It was only in the second half of the year that the industry began to turn. Our revenues rebounded accordingly which, coupled with effective cost control and operational streamlining measures, resulted in a net income after tax of US$10 million.

We expect gradual growth in 2010. Global PC shipments are expected to grow with the notebook sector as one of the drivers. Global mobile phone sales are expected to increase alongside growth in emerging markets. These trends should positively impact IMI's business in the storage device and telecommunications network infrastructure device sectors.

The automotive electronics systems are likewise expected to grow steadily between 2010 and 2017.[2]

In view of this, we are identifying lucrative product niches to grow our business in this segment. Similarly, we are tracking the emerging applications of electronics in the industrial, medical, and renewable energy industries. We are enhancing our capabilities to serve these new markets and are beginning to make inroads. Specifically, we are looking at the renewable energy sector to engage in the manufacturing of solar panels.

The trends augur well for the global EMS industry, which is expected to grow at a compounded annual growth rate of 1.8%[3] to 7.8%[4] for the period 2008 to 2013. The penetration rate of the electronics outsourcing industry, EMS and Original Design Manufacturing (ODM) is projected to increase from 31% in 2008 to 35% by 2013.[5] IMI is clearly positioned in an industry with potential for high growth.

We remain positive in the face of the vast opportunities over the medium term for three main reasons.

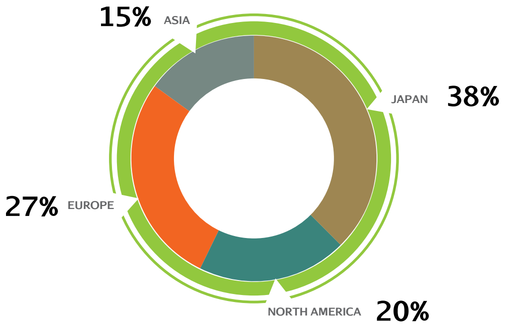
First, we have a solid track record with our OEM customers, a global footprint, and a robust financial position. As OEMs require more capacity in China to supply a domestic market that continues to grow at a healthy rate, IMI can aggressively offer its China facilities that are capable of both low-volume/high-mix and high-volume/low-mix production.

Second, there is room for growth with the industry's impending rebound. Electronics will undoubtedly drive the future of the world economy, and IMI must capitalize on this window of opportunity. An enhanced process of strategic planning and technology road-mapping will lead to more focused capability enhancement and value creation.

Lastly, there exists a sizable untapped market for EMS. As our peers refocus on sustainable markets, we will gravitate toward high-growth, high-margin product niches to continue on our path of sustainable growth and profitability. IMI is positioning in key growth niches within the automotive, industrial, and renewable energy markets while probing into other non-traditional markets which could provide synergistic out-of-the-box business solutions.

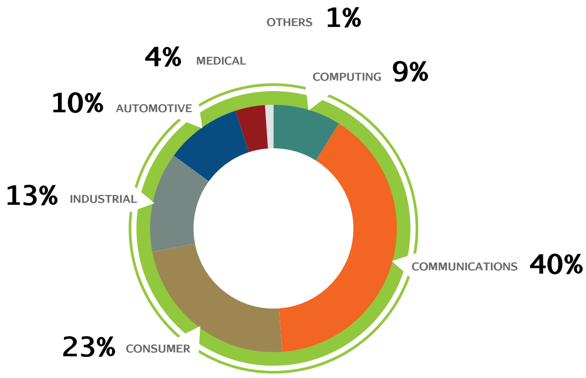
Arthur R. Tan
President

SALES BY CUSTOMER NATIONALITY



SALES BY MARKET SEGMENT

US$ 396 Million



Integrated Micro-Electronics, Inc. posted revenues of US$396 million in 2009, a 10% decline from 2008 impacted by the global financial crisis that hit the electronics industry worldwide. Specifically:

- Revenues from a key Japanese OEM in the optical disk drive (ODD) industry decreased significantly as market demand for Blu-ray discs declined and supply shortages of integrated circuits for other ODD models hindered production.
- IMI also set aside its planned volume expansion for a key European automotive electronics OEM as the worldwide automotive electronic systems declined by 17% in 2009.
- Revenues from several other customers dropped due to reduced customer demand and material shortages.

Counterbalancing this was increased revenues from the conversion from consignment to semi-turnkey of a leading Japanese OEM in mobile phone LCDs (liquid crystal displays). In addition, a leading Chinese OEM in telecommunications continues to expand globally, driven by *3G* network deployments in emerging markets. IMI increased focus on sales generation, with 13 new programs commencing mass production during the year.

IMI's net income after tax reached US$10 million, inclusive of a US$4.5 million non-recurring income from recovery of insurance losses. This was a reversal of last year's loss. The increase in core earnings was attributed to several factors:

- Rebound in sales in the third quarter of the year due to an improved operating environment, which increased production capacity utilization in the last four months of the year;
- Consolidation of Philippine operations in Cebu and Laguna International Industrial Park plants into Laguna Technopark Inc.; and
- Reduced general and administrative expenses due to cost reduction measures.

Several of IMI's strategic customers have begun to utilize IMI's multiple plants in the region. IMI's engineering know-how, ability to source materials, and expertise in manufacturing complex products have enabled the company to maintain its preferred supplier status for a number of OEMs.

The Design and Development Group maintained its focus to render custom design manufacturing activities for IMI's customers.

- The Singapore and China design and development teams continued to supply customers with customized switch-mode power supplies.
- China established itself as a developer of intelligent LCD modules to the industrial and consumer electronics markets.
- The Philippines' design team rendered embedded-systems development services, specializing in ARM-based hardware running the Linux operating system.

The group also continued its platform-development activities to address anticipated market needs.

- The team in Singapore worked on a high-reliability inverter platform to complement IMI's foray into solar-cell-module assembly.
- The design team in China made significant improvements in its compressor inverter platform, a device employed by high-end refrigerators and air conditioners to improve performance and reduce energy consumption.
- The design team in the Philippines revived its automotive camera development activities, anticipating a surge in demand for these devices due to new legislation requiring their use in North America and Europe.

IMI's Global Test & Systems Development Group formed in January 2009 now has three groups operating in Laguna, Philippines, and in Liantang and Jiaxing in China. The group supplies customized function testers, handlers, and automated optical inspection machines to all of IMI's manufacturing locations. These solutions are tailor-fit to a customer's particular product and manufacturing process, thus requiring a combination of equipment design skill and customer product knowledge for development. In 2009, the group delivered multiple optical test systems to a leading automotive OEM and other customers.

IMI also started to participate in the renewable energy market. IMI forged a strategic partnership with Silicon Valley Technology Center, a California-based leader in independent technology services in the semiconductor industry, and Renewable Energy Test Center, a California-based engineering services, test and certification provider of photovoltaic (PV) and renewable energy products. The partnership aims to offer complete PV services: solar wafer and panel prototype development, product certification, and mass production.

To improve supply chain management with the aim of enhancing its ability to handle turnkey manufacturing, IMI initiated direct component manufacturer engagements. This enabled IMI to select its supply channel of choice.

Equally important is the enhancement of organizational capability. Several management executives joined the company in 2009 which include the chief finance officer and senior managing director for corporate resources, managing director for China operations, and global sales head.

End notes
[1] Electronic Trend Publications
[2] Semicast Research Ltd.
[3] International Data Corporation
[4] Electronic Trend Publications
[5] Electronic Trend Publications

GLOSSARY OF TERMS

Consignment - a business model where an EMS company provides its customer facility, labor, and program management, while the customer provides the equipment and raw materials

Turnkey - a business model where an EMS company allows its customer to integrate processes into the standard manufacturing line of the EMS provider. The EMS provider normally sources and procures the raw materials.

3G - means Third Generation, the generic term used for the next generation of mobile communications systems, providing enhanced capacity, quality and data rates and promising exciting new services in all of the areas of voice, text and data

3G phone networks - refer to the Third Generation of mobile technology, which includes advanced wireless technology such as high-speed Internet and video phone calls

Switch-mode power supplies - an electronic power supply unit (PSU) that incorporates a switching regulator in order to convert the alternating current (AC) mains safely to the required DC output voltage with high efficiency

Compressor inverter platform - a variable frequency inverter driving a brushless compressor such that it offers higher cooling capability, lower power consumption, and better temperature stability

Solar inverter platform - a solar inverter or PV inverter is a type of electrical inverter that is made to change the direct current (DC) electricity from a photovoltaic array into AC for use with home appliances and possibly a utility grid

Embedded systems - a small computer system designed to perform a dedicated function. This is as opposed to PCs, for example, that are general-purpose machines. Embedded systems are usually "embedded" into devices such as access points, modems, set top boxes and even microwave ovens, or any device where intelligence is needed.

Optical test systems - equipment used to perform production testing of optical products such as cameras

BUSINESS REVIEW

Automotive

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

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

Amid the challenges encountered by most global automotive players in 2009, the Philippine automotive industry countered earlier expectations of a weak market and ended the year with new unit sales reaching a decade-high of 132,444 units.

Ayala Automotive delivered strong results in 2009, accounting for almost one out of every 10 new units sold. This reinforces our strong presence in the industry and reaffirms the trust we have built among our customers. This strong market position is a result of our having established over time a reputation for high quality products and having consistently provided quality after-sales services to our customers. This was made possible with the support of our major partners and suppliers.

We remain optimistic in the growth potentials of the Philippine automotive industry particularly as domestic demand remains resilient and spending appetite is reinvigorated by a recovery in the broader economy. We expect the industry to be even more competitive in the coming years as market players turn more aggressive in their efforts to expand their presence and share of the market. The full implementation of the ASEAN Free Trade Agreement (AFTA) and the impending reduction in tariffs from other countries like China and Japan will allow industry players to offer a more extensive range of products at more competitive prices. We are confident that our partners, Honda Cars Philippines Inc. and Isuzu Philippines Corporation, will be able to leverage on their strong brands to optimize their presence in this liberalized environment.

Ayala Automotive is firmly committed to proactively respond to its customers' needs and expectations, even as we aim to explore opportunities which may emerge in a rebounding economy. We are confident that as we consistently deliver on this promise in even better ways than we have in the past, we will continue to generate a sustainable and creditable performance in the years ahead.

Rufino Luis T. Manotok
President

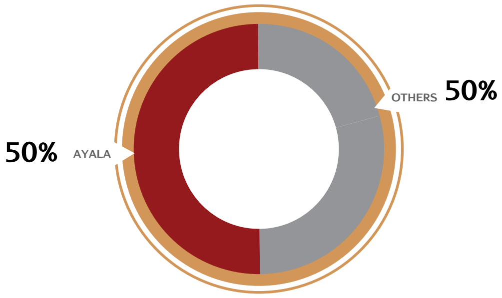
CONSOLIDATED HIGHLIGHTS
(in million pesos)

	2009	2008
Revenues	11,208	10,397
Net income attributable to dealership operations	219	177
Consolidated net income	229	275
Car unit sales	11,394	10,324
Return on equity	8.5%	10.3%

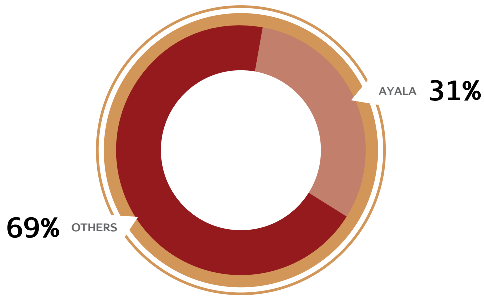
The Ayala Isuzu dealerships remained on top position and improved its market share to 31%.

AYALA DEALERSHIPS' SHARE OF TOTAL NATIONWIDE SALES

HONDA



ISUZU



The year 2009 turned out better for the Philippine automotive industry despite the economic downturn. The industry recorded car sales of 132,444 units, 6% higher than prior year's 124,450 units. Sales in 2009 were boosted by a robust performance in December, which beat all monthly sales records not only for the year, but also over the past decade. The strong growth was attributed to the aggressive introduction of new models and various promotional offers by automotive players, as well as to the attractive and more affordable financing options within reach of consumers.

Commercial vehicles (CV) accounted for the lion's share of the market, comprising 65% of industry sales. CV sales increased by 8% in 2009 as a result of the introduction of new models and exceptional increase in sales of sports utility vehicles (SUVs) and pick-ups. Asian utility vehicles and SUVs dominated the CV segment accounting for 37% and 33% of the segment's sales, respectively. In the meantime, the passenger cars (PC) segment accounted for 35% of total automotive sales, with sales up 4% in 2009. The subcompact cars accounted for 69% of total PC sales.

Honda Cars Philippines Inc. (HCPI) remained at third spot in the local automotive market and ranked second

in the PC segment. Honda's market share improved from 11% in 2008 to 13% in 2009 as sales reached 17,168 units, up 20% from last year's level. Honda's growth was primarily driven by the remarkable performance of its compact sedan model—the all-new City 2009, which accounted for more than half of Honda sales during the year. Ayala's Honda dealerships accounted for 50% of total HCPI network sales. Three of its dealerships ranked among the Top 5 dealers nationwide, with its dealership in Alabang as the leading dealer in the entire network.

This year was challenging for Isuzu Philippines Corporation (IPC) as it faced competitors' aggressive introduction of new models, particularly in the SUV segment. As a result, Isuzu registered a 9% decline in 2009 and its share in total automotive sales slipped to 7% from 8% the prior year. Ayala's Isuzu dealerships, however, retained their top position and improved their market share to 31%. Isuzu Alabang was the top-selling dealer in the Isuzu network while Isuzu Cebu, Inc. was the leading provincial dealer.

The Ayala dealerships remain to be one of the largest vehicle retail groups in the country accounting for 9% of total industry sales. As a result of the strong sales performance, Ayala Automotive Holdings Corporation's net income attributable to dealership operations reached ₱219 million, which was an improvement from last year's level.

The automotive industry projects sustained growth in 2010. Trends are positive with industry sales up by double-digit levels in the first two months of 2010. This outlook is underpinned by the improved economic condition, the low interest rate environment, and strong overseas remittances from Filipinos working abroad.

A key challenge the industry may face, however, is the impact of the full implementation of AFTA and the continued trade liberalization under various free-trade agreements. This involves the elimination of tariffs which challenges the competitiveness of local assembly operations.

However, the government, in support of the local automotive industry players, is finalizing a new Motor Vehicle Development Program that aims to push the Philippines towards global competitiveness in a liberalized intra-regional trade arena. With the strong brand images of HCPI and IPC, they are well positioned to capitalize and optimize opportunities in this liberalized environment.

BUSINESS REVIEW

Business Process Outsourcing

Liveit
A member of the Ayala group of companies

Our strategy is to acquire or invest in global business process outsourcing (BPO) companies that have the potential to become a Global Top 5 leader in attractive sectors, and can leverage the Philippines.

Despite the very challenging global economic backdrop in 2009, we made significant progress towards our three key goals of (1) achieving scale and sector leadership, (2) improving profitability, and (3) creating value.

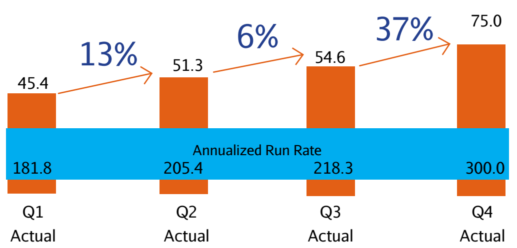
Achieving scale and sector leadership
In the fourth quarter of 2009 (Q409), our four companies attained a combined annualized revenue run rate of US$911 million, of which LiveIt's share was US$300 million. Our share of revenues increased by 37% from US$55 million in Q309 to US$75 million in Q409, principally due to the Stream/eTelecare combination and Integreon's acquisition of Grail.

Our investee companies, in which we have invested approximately US$200 million to date, also strengthened their positions as leaders in their respective sectors through both organic growth and mergers and acquisitions (M&A).

eTelecare became a Top 7 global call center company with approximately US$800 million in revenues as a result of its merger with Stream.

LiveIt Share of Quarterly 2009 Revenues [1]

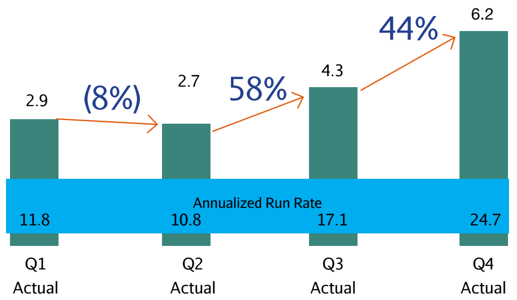
(in million US$)



[1]Share of revenues of eTelecare, Integreon, Affinity and HRMall from Q1 to Q4; and of Stream commencing in Q4; based on management reporting.

LiveIt Share of Quarterly 2009 EBITDA[1]

(in million US$)



[1]Share of EBITDA of eTelecare, Integreon, Affinity and HRMall in Q1 to Q4; and of Stream commencing in Q4; based on management reporting.

Integreon became the leading global knowledge process outsourcing company by acquiring Onsite and Grail, and carving out Osborne Clark's middle office in the U.K. It has grown from an annualized revenue run rate of US$10 million when LiveIt first invested in 2006, to US$88 million in Q409.

Affinity Express continues to be the leader in the emerging outsourced graphics and creative services sector. HR Mall has become a leading provider of outsourced HR services in the Philippine market.

Achieving profitability

Greater scale together with improved efficiencies, enabled all four companies to significantly improve profitability. In the fourth quarter, the combined annualized EBITDA run rate for the four companies was US$77 million, with LiveIt's share at US$25 million.

In the same period, LiveIt achieved positive net income of US$1.3 million, primarily due to positive operating net income of US$2.1 million and US$2.4 million in net acquisition-related income, largely driven by the one-off gain from the eTelecare/Stream share exchange.

Creating Value

We also made progress in creating value. The market value of our investment in Stream is US$134 million, based on its market price at year-end, versus our cost of US$107 million. The market value of our investment in Integreon is US$81 million, based on the valuation implied by Actis's recent US$50 million investment, versus our cost of US$37 million.

Looking Ahead

We expect the international economic environment to remain quite challenging in 2010, but believe that the global BPO industry will experience an improvement in growth rates. Our investee companies have recently started to experience stronger demand and a shortening of their sales cycles, because their end clients remain under intense pressure to reduce their costs, and at the same time are running out of internal capacity as their own sales activities start to pick up.

Although we expect pricing pressure to remain significant due to tougher competition, and foreign exchange remains a risk, we expect that, in general, our investee companies will benefit in 2010 from their improved economies of scale and more complete global offerings, which is what their customers are increasingly focused on. Overall, we anticipate that greater scale and efficiencies will result in improving profitability for LiveIt.

Finally, we expect the recent trend of consolidation within the industry to continue, which may present our portfolio companies with interesting opportunities.

Alfredo I. Ayala
President

LiveIt Investments Ltd. is the holding company for Ayala's investments in the business process outsourcing (BPO) sector. Its share of the revenues of its investee companies grew by 76% to US$226 million in 2009 and its share of their EBITDA grew by 239% to US$16 million.

The significant improvement in scale and profitability was primarily due to organic growth, the Stream/ eTelecare merger, Integreon's acquisitions of Onsite and Grail Research and carveout of Osborne Clarke's U.K. operations, and a significant improvement in both Affinity Express and HRMall's margins. As a result, LiveIt registered a lower operating net loss of US$3.1 million in 2009 versus last year's US$7.1 million, and a lower net loss of US$12 million in 2009 (of which US$9.1 million was due to the net impact of acquisition-related items such as amortization of intangibles, deal expenses and leverage-driven interest) versus the prior year's US$20.8 million (of which US$13.6 million was acquisition-related).

Stream Global Services

In October 2009, Stream Global Services and eTelecare Global Solutions completed their merger. This created a leading customer relationship management services company with approximately 30,000 employees in 50+ solution centers in 22 countries, offering sales, care and technical support services in over 30 languages to large international enterprises. Post-merger, LiveIt's ownership stake was 26%.

For 2009, LiveIt reflected only eTelecare's results for the first three quarters, and the merged company's results in the last quarter. On this basis, 2009 revenues were US$414 million, up by 38% over the prior year.

Integreon, Inc.

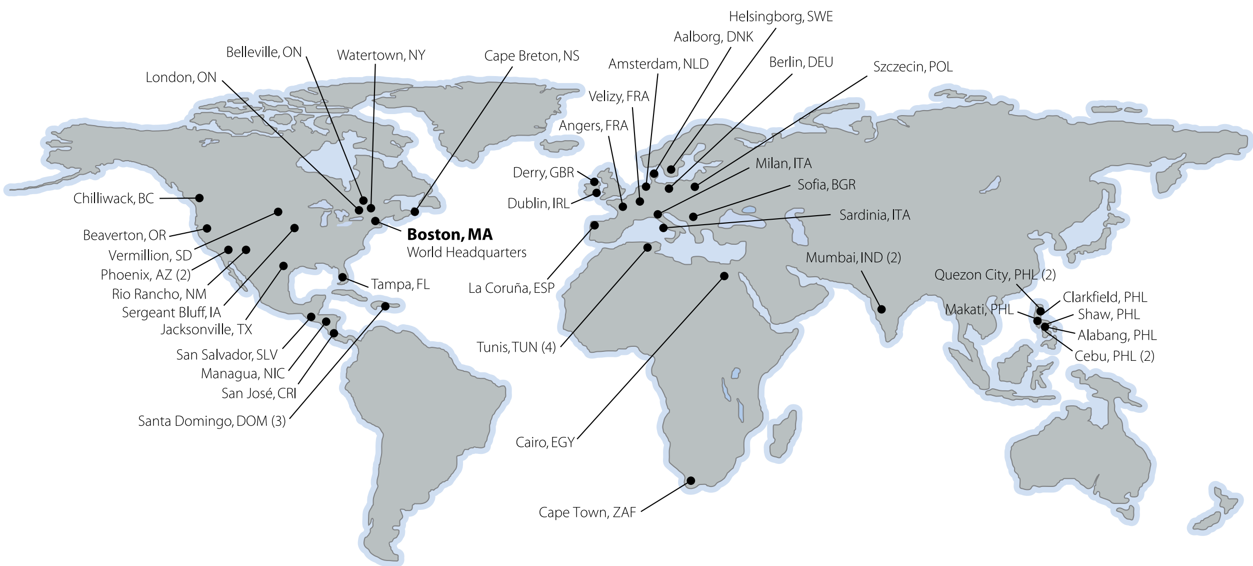
Integreon is the leading global provider of legal support, research, and business services to law firms, financial institutions and corporations. Clients include 11 of the Top 50 global brands such as Microsoft; 32 of the top 50 American Law firms such as Clifford Chance and DLA Piper US LLP; and nine of the top 10 global investment banks.

In March 2009, Integreon carved out the Bristol, England middle-office operations of Osborne Clarke, a top 50 U.K. law firm, creating the first onshore shared services center for the U.K. legal sector. Under a seven-year, £50-million agreement, Integreon will provide IT, document, research, analytics and support services to Osborne Clarke.

In April 2009, Integreon completed the asset acquisition of ONSITE3 (TM), a leading global provider of electronic evidence solutions for law firms and corporations, based in Arlington, Virginia. The merger significantly increased the scale of Integreon's litigation support business by adding electronic discovery and forensics to its onshore and offshore attorney review services and providing the market with a one-stop litigation support solution.

In October 2009, Integreon acquired Grail Research, the captive strategic research and decision support unit of the Monitor Group, one of the world's leading management consulting companies. Grail is

Stream's Global Presence in 50+ Solution Centers in 22 Countries



headquartered in Cambridge, Massachusetts, and has more than 200 employees in India, China, and South Africa. The acquisition expanded Integreon's business-intelligence, research and analytics business into high-end, customized market research, and includes a five-year contract for Monitor to buy research services from Integreon.

Revenues almost doubled in 2009 to US$62 million from 2008's US$32 million. Integreon's existing business grew by 56% to US$33 million, while acquisitions contributed US$29 million. As of year-end, LiveIt owned 86% of Integreon.

Integreon also won the overall top ranking in knowledge process outsourcing (KPO), for the 4th consecutive year, in the *Black Book of Outsourcing's* 2009 survey. It was also recognized by Frost & Sullivan as the top global KPO company and awarded the 2009 Frost & Sullivan Award for "*Excellence in Knowledge Process Outsourcing*."

Affinity Express

100% owned Affinity Express is the leading global provider of high-volume advertising, and marketing design services to the newspaper, direct marketer, retail, corporate, advertising and promotional products industries. It has recently expanded its services to include new high-growth markets (e.g., digital interactive services, yellow pages and corporate marketing communications services).

Affinity Express serves more than 150 publications in North America, including numerous publications from the Sun Times Media Group and Hearst Publications. In 2009, Affinity Express added 10 major new accounts and its revenues grew by 9% to US$13.4 million, despite the global recession.

HRMall, Inc.

Initially formed as the shared-services company for the Ayala group's HR transactional and payroll needs, 100% owned HRMall is a BPO specialist focused on providing human resource related services to organizations across multiple industry sectors in the Asia-Pacific region. It currently services more than 20,000 employee-users. In 2009, HRMall's revenues grew by 26% to ₱98 million due to higher volume from new and existing clients.

BUSINESS REVIEW

International Real Estate

NET ASSET VALUE (in million U.S. dollars)	Value
Asia	78.9
USA	42.1
Net Other Assets/ (Liabilities)	(3.4)
TOTAL	**117.6**

Our priorities for the coming year will reflect the lessons and experiences learned in recent years from operating in regional and international property markets. AG's future will largely rest on ARCH Capital Management's success as a property fund manager.

Asian markets will be the primary focus, which will be pursued primarily through ARCH's management company and the fund it manages. Priority markets will be mainly in China, and this in turn means being able to bring to bear our best teams and experience in the most important ventures.

Growth and scale will largely be manifested by the size of assets under management, a metric commonly utilized in the private equity industry to denote the scale of businesses managed by a fund manager. From its current US$330 million, ARCH's goal is to move to a significantly higher level of assets under management over the course of the next several years. Through moving up this measurement of business scale, we hope to be able to better leverage our natural skills as a developer and to combine these with the ability of local partners in order to find and develop the best opportunities.

The fund management industry is consolidating and ARCH's commitment to growth and to staying engaged in this area of Asian property markets is key to longer term viability and profitability.

Charles H. Cosgrove
President

One Oasis, Macau

Asia

ARCH Capital Management, our regional property fund management business, approached 2009 with a clear focus on risk given the effects of the global financial crisis and the severe impact of the ensuing liquidity crunch. Despite the turbulence and uncertainties, ARCH succeeded in accessing bank financing in the form of new loans, refinancing, or loan upsizing for all portfolio investments. The speed of recovery in Asia surprised many, with market participants vying for distressed opportunities which failed to materialize. ARCH completed one investment in Foshan, China, a 1,211-unit residential development in one of the most affluent cities in Guangdong province. This project represents ARCH's largest investment to date, with strong sales results recorded over the July-December period. ARCH's Thailand and India portfolio continued to record steady sales, reflecting the emergence of market recovery for residential product offerings suited to local tastes and preferences. The Concordia joint venture in Macau obtained all requisite government approvals to proceed. This facilitates planning for the development's marketing launch in early 2010 to take advantage of the significant turnaround in the real estate market on the strength of recovery in the Macau gaming industry and visitor arrivals. The imminent launch of this project is an exciting prospect for ARCH's fund investors as well as the management team.

In August 2009, AG Holdings established a small office in Shanghai to assist ARCH in business development and provide a solid underwriting base to review the Fund's investment opportunities there. Given the large allocation of capital by ARCH to China, this dedication of resources to investment review is an appropriate commitment to further support ARCH's activities in its key Asian market. ARCH is presently reviewing a number of substantial transactions in China which are targeted for completion this year.

In the latter half of 2009, a decision was made to tighten the regional focus of AG by directing its efforts in a more focused manner through ARCH. As such, in 2010 the priority will be to reallocate resources in AG in selected markets and wind down its direct presence in others.

North America

In 2009, AG experienced significant losses in its U.S. portfolio. The entire U.S. real estate market suffered from a variety of financial and fundamental factors working against any kind of recovery. All of our residential projects were adversely impacted by slow sales and lower rents. Retail projects were hurt by credit contraction and higher unemployment in almost all geographic markets. The modest economic recovery that appeared to take hold at year's end was not flowing through to sales and rentals. Absent stronger economic growth fundamentals, 2010 may deliver more disappointing news in the U.S. real estate sector.

The approach being taken to remaining investments in the U.S. portfolio is to carefully consider those assets that may be worth sustaining and to maintain a minimum management and support structure until some modest market recovery occurs. Regrettably, some further losses may be expected from the U.S. portfolio in the absence of a dramatic recovery in key factors underpinning its real estate markets.

Outlook for 2010

The prospects for AG in 2010 will be challenging. The withdrawal of accommodative monetary policy in financial markets globally will be challenging for property companies and investors in general. AG's posture will likely be one of a transition from managing a portfolio of assets operating in very difficult conditions in one region, to repositioning into more promising markets in Asia, through ARCH. The legacy portfolio of U.S. projects will require continuing asset management. As the Asian portfolio remains robust, ARCH's goal in 2010 is to increase its assets under management in its key Asian markets in a prudent and deliberate manner.

Social Commitment

Over the past 48 years, the Ayala Foundation Inc. (AFI) has pursued its mission to serve the needs of communities by addressing the causes of poverty and improving the quality of life for all Filipinos. In 2009 we have realigned our activities in our various programs for greater synergy. The foundation works in five major mission areas—Education; Environment; Entrepreneurship; History, Arts, and Culture; and Community Development. All areas are expanding to achieve greater reach and impact.

Education

The foundation is involved in primary, secondary, and tertiary education. The *Center of Excellence in Public Elementary Education* (*CENTEX*), one of our key educational endeavors, provides high-quality public elementary education. It also ensures its students get good secondary and tertiary education. *CENTEX*'s holistic view of child development encourages us to continue our efforts in supplemental programs such as child feeding, parent training, and teacher training on top of our traditional educational mission.

The multi-stakeholder initiatives where we play an active role—*Text2Teach*, *Education and Livelihood Alliance* (*ELSA*), and *Gearing up Internet Literacy and Access for Students* (*GILAS*)—all continue to reach out to more schools across the country. This has brought *Text2Teach* to 150 public elementary schools, *ELSA* to provide training for youth leaders in Mindanao, and *GILAS* to connect 415 more public high schools to the internet.

The *Ayala Young Leaders' Congress* (*AYLC*) continues with its annual leadership camp and is also strengthening its alumni network in outreach activities, as well as reaching out to more schools and educational institutions.

Environment

We are expanding our environmental advocacies and we are carrying this out under a new integrated environment and sustainability division. We are going beyond our highly successful solid waste management program to implement programs in clean water, clean air, and energy efficiency.

The foundation will continue to play a pivotal role in the *Ayala Social Initiatives*, the group's flagship sustainability program. After facilitating the publication of the Ayala group's first conglomerate-wide sustainability report in 2009, as well as assisting in the holding of the group's first Sustainability Summit, the foundation will remain involved in this endeavor and will intensify efforts in communicating the importance of sustainability across the Ayala group and to various external audiences.

Entrepreneurship

Our entrepreneurship programs are likewise expanding. Through the Ayala Social Enterprise Accelerator Program, our programs are now aiming to seek innovative solutions to critical social problems.

The Diorama Experience at the Ayala Museum

Aside from promoting the growth of technology start-ups through our technology business incubators, we are focusing on entrepreneurship programs that address pressing societal problems such as rural health care, access to clean drinking water, and renewable energy.

History, Art, and Culture

The Ayala Museum and the Filipinas Heritage Library (FHL) continue to expand their reach. Aside from new exhibitions, publications, and public activities held in the Museum and Library, we aim to reach out to more Filipinos in different parts of the country. In cooperation with the Ayala group we are embarking on a major art and history advocacy program in 2010. This program called *Bravo! Celebrating the Filipino*, will involve public performances and shows ranging different Filipino art forms. In addition, FHL will continue its *MyLibrary* program, which helps build or improve library facilities in various communities, as well as promote the importance of reading among children and adults.

Community Development

Our community development programs remain committed to providing technical assistance to selected communities. In Bohol, the foundation will be involved in setting up a sustainability mechanism in its project areas before turn over to local government units and non-government organizations. In Mindoro, AFI will continue to provide education, entrepreneurial training, and eco-tourism-related capacity-building initiatives for the Iraya Mangyan. Lastly, we are preparing to turn over the Buklod Bahayan Daycare Center in Cavite to the community this year.

Following the impact of severe typhoons as a result of climate change, the foundation has mobilized disaster preparedness, relief, and rehabilitation projects. Together with 14 other organizations, Ayala Foundation will be actively involved in *Project Noah's Ark*, a nationwide disaster-preparedness program which aims to help identify and develop suitable evacuation centers in high-risk areas. Aside from building safe and hygienic evacuation facilities, *Project Noah's Ark* will also provide training in disaster preparedness, develop guidelines for disaster response, and set up early warning systems, through the participation of community members.

The foundation is grateful for the support of its stakeholders and partners. We hope to continue to count on them as we evolve as an organization. As we look forward to celebrating our 50th anniversary in 2011, we continue to develop and implement innovative and holistic programs that, we hope, will contribute to our mission of eradicating poverty and improving the quality of life in all its forms.

Victoria P. Garchitorena
President

In 2009, Ayala Foundation Inc. reaffirmed the importance of partnerships in ensuring the success of its projects. These partnerships were pursued not only in the country, but in other countries as well. For instance, AFI's multi-stakeholder initiatives—such as the *GILAS* and *Text2Teach*—continued to grow, as their reach and impact were felt in previously under-served parts of the country. AFI partnerships with overseas Filipinos were also sustained as exemplified by the support of Filipino-Americans to Ayala Foundation USA's fund-raising activities. AF USA raised a total of US$1.4 million in donations.

As the Ayala group adopted sustainability as a guiding principle behind its operations, AFI also played an active role in the group's sustainability-related initiatives. Through the *Ayala Social Initiatives*, AFI published the first Global Reporting Initiative (GRI)-compliant conglomerate sustainability report in the Philippines in 2009. The report—*Pioneering for a Sustainable Future*—expresses the Ayala group's commitment to take a holistic "triple bottom line" approach to the management of its businesses. This embodies the group's initiatives in minimizing its environmental footprint, and creating a positive impact on its communities, particularly the lower income groups, while meeting financial and business goals. The objective is to harmonize and integrate the group's social, environmental, and economic goals into its business models to contribute to sustainable growth and development. In line with this, AFI organized the first Sustainability Summit, which gathered senior and key executives of the Ayala group to find ways to move forward on this initiative.

Environment and Sustainability

AFI expanded its environmental programs with the launch of *Ayala Green Resources for Environmental Education and Networking* (*Ayala GREEN*), an initiative that will develop and implement programs on energy efficiency, clean air, and proper water use. The Solid Waste Management program continued to progress with 1,090 tons of recyclables worth ₱6 million collected from Makati Central Business District alone, and 100 tons of recyclables which include printer toner cartridges and lead-acid batteries.

Education and Youth Development

AFI's educational programs made significant accomplishments:

GILAS
- Connected 415 public high schools to the Internet
- Connected 2,517 or close to 40% of total nationwide public high schools by year-end
- Explored satellite technology to connect hard-to-reach schools

Text2Teach
- 97 public elementary schools received educational material for Math, Science, and English classes
- Raised cash donations amounting to ₱1.9 million and in-kind donations, as contributed by the government, worth ₱82,000
- Gained support of local government units for project implementation in other schools

AYLC
- 73 of the country's best student leaders participated in the 11th AYLC
- Conducted a massive campaign to enjoin the youth to participate in the 2010 national elections
- Conducted lectures on voters' rights and responsibilities in over 400 schools and institutions, reaching 50,000 individuals

ELSA
- Implemented training courses for 144 parent-teacher associations on fund raising and resource mobilization
- Conducted student leadership camps on good citizenship and community engagement for 160 young leaders in Mindanao

CENTEX
- Celebrated 10th anniversary
- Hewlett-Packard upgraded the *CENTEX* computer laboratory; supported *My Backyard*, an environmental awareness program
- 30 students received intensive study of English with the help of the U.S. Department of State and the U.S. Embassy

Entrepreneurship and Community Development

Entrepreneurship

The Ayala Technology Business Incubator (AyalaTBI) provides technical assistance for start-up technology entrepreneurs or "technopreneurs." This year it hosted 29 start-ups in its four facilities in the areas of hardware and software development. AyalaTBI also supported the development of environmental technology. Aside from hosting a start-up company whose thrust is in this emerging field, it also hosted its first *Green Technology Boot Camp* where 15 teams pitched 15 environmental technology-related business concepts. Ten of these were noted for commercialization by a panel of venture capitalists and industry players.

Community Development

- Implemented eco-cultural projects in cooperation with the local government and the community-based BEZO Initiatives in Baclayon, Bohol, including construction of the Baclayon Tourism Center. The center now serves as the hub of eco-cultural tourism activities in the town, including the island of Pamilacan.
- Contributed to the development of the Ancestral Domain Sustainable Development Program Plan of the *Iraya Mangyan Development Program* in Puerto Galera, Oriental Mindoro. This aims to empower the Mangyans on the use of their land.
- Helped formalized the Buklod Bahayan Daycare Center in Silang, Cavite which provides 192 children with quality daycare education and nutritional support. Training sessions on project and financial management were conducted in view of the turnover of the center to the teachers, parents, and homeowners.

Disaster Response

AFI initiated and participated in collaborative disaster-response operations and raised as much as ₱16 million for the victims of the severe typhoons that hit the Philippines. The AYLC alumni also pitched in with their own rescue and relief operations, helping as many as 1,250 families in Rizal, Bulacan, Pampanga, and Benguet. As a more permanent and pre-emptive response, AFI is working with several partners in developing *Noah's Ark*, a disaster-preparedness program focusing on prevention mechanisms in the face of natural calamities.

History, Art, and Culture

Ayala Museum

The Ayala Museum introduced innovations to enhance the museum experience for visitors and to bring Philippine art, history, and culture closer to Filipinos.

Among these were:

- Launch of an audio guide system for its Dioramas of Philippine History
- Display of major artworks at Greenbelt ArtPark, including large-scale sculptures and paintings by National Artist Arturo Luz and Architect Lor Calma
- Exhibitions featuring works of Fernando Zóbel in the 1950s; the later works of Mexico-based Filipino artist Romeo Tabuena; a retrospective of the 40-year work of Romulo Olazo; and the first Southeast Asian Ceramic Festival

The museum published six guides to complement several of its exhibitions and conducted lectures to educate the public on its collections, as well as on Philippine art, culture, and history in general.

Filipinas Heritage Library

FHL continued to preserve some of the country's most important cultural documents and artifacts and made these accessible to the public.

- Launched official Web site of FHL's *Himig Collection* (www.himig.com.ph), giving access to some of the country's most important musical treasures.
- Developed a Web site in partnership with BEZO Initiatives (www.bezo.org.ph), which details the cultural, socioeconomic, and environmental activities of the Bezo Initiatives program in Baclayon, Bohol

FHL held various educational activities and participated in major national literary and cultural events. These include:

- Art Connection, a lecture series to help teachers enhance art education in the country
- Workshop series on art, culture, and other activities for the Department of Trade and Industry
- Photography and writing workshops, which attracted over 1,000 participants
- Lecture series on Philippine language and literature
- Performance reading of Jose Rizal's *El Filibusterismo* in cooperation with the National Bookstore Development Board

In advocating the reading habit, FHL partnered with Chevron Philippines to establish or rehabilitate community libraries in different parts of the country, starting with community libraries in San Pascual, Batangas, and Tiwi, Albay, in 2010. FHL also published three books for children to promote reading and Filipino cultural themes among the young.

Sustainable Development at Ayala

Sustainability Programs

In 2009, the Ayala group of companies reaffirmed its commitment to sustainability by adopting it as a major part of its business operations. With its diverse portfolio of businesses, Ayala is looking at ways to use its business expertise to respond to social needs and problems. It is developing products and services for markets it has not traditionally served, catering in particular to consumers at the base of the economic pyramid. This move has opened up operational synergies among business units and opportunities to integrate corporate social responsibility (CSR) initiatives. Among these are:

- BPI Globe BanKO, a new microfinance business collaboration among Ayala Corporation, Bank of the Philippine Islands and Globe Telecom that seeks to address the needs of the unbanked segments of the population, particularly at the lowest socio-economic classes
- *Project 175 KB*, a group-wide campaign for 175,000 books to celebrate Ayala's 175th anniversary, which yielded 210,800 story books that were distributed to 329 schools across the country
- *Kapit-Bisig para sa Ilog Pasig* is a joint effort of Ayala, ABS-CBN Foundation, and Habitat for Humanity Philippines to relocate squatters living along the Pasig River. With the group's ₱30-million commitment, this group-wide initiative will have Ayala Land plan and develop the relocation site, Manila Water provide wastewater treatment facilities, Ayala Foundation handle the community organizing and livelihood programs, and the other group companies enjoin volunteers for house-building at the relocation site in Calauan, Laguna
- Disaster relief efforts for affected areas of Typhoons *Ondoy* and *Pepeng*. The group ensured normal business operations and mobilized almost ₱40 million in donations and hundreds of volunteers to distribute relief goods to evacuation centers and to employees severely affected. The group companies also set up rehabilitation and outreach programs to address flood-related damages and health issues in Taguig, Laguna, Pampanga and Pangasinan.

Last year the Ayala group published its first conglomerate-wide sustainability report, *Pioneering for a Sustainable Future*, a first by a conglomerate in the country. This provided an overview of the Ayala group's efforts in harmonizing its economic, social, and environmental commitments. Each of the companies was measured against the triple-bottom-line metric of sustainable development. These metrics were based on global standards for environmental and social performance. To underpin Ayala's efforts to bring up the sustainability quotient of the group, the Sustain+Ability Summit was held in November 2009 with local and international resource speakers providing insight to over 300 top-level executives and line managers.

Listed companies in the Ayala Group published sustainability report.

Ayala Social Initiatives

Apart from the group-wide activities on sustainability and corporate social responsibility, the individual companies also implemented their own programs for education, environment, and entrepreneurship.

Ayala Automotive

- Isuzu Mandaue associates conducted a seminar on Fuel Efficiency Tips and Defensive Driving to 90 participants
- Honda associates conducted *Kid Smart: Basic Road Safety Seminars* for 1,300 elementary school children in Alabang and *Teen Smart: Road Safety Seminars* to 300 high school students in Quezon City
- Associates from Honda Cars and Isuzu branches in Iloilo and Cebu donated blood to the Red Cross.

Ayala Land

Ayala Land launched *Alay sa Komunidad* in July 2009 to unify its CSR initiatives for communities, focusing on *barangays* in the Calamba and Sta. Rosa, Laguna areas.

- The *Alay sa Edukasyon* program of Nuvali and National Bookstore Foundation donated 300 pairs of shoes and school supplies kits to Grade 1 pupils in four elementary schools in Calamba
- ALI representatives, together with the local officials of *barangay* Canlubang, Calamba, organized an Effective Leadership and Good Governance training for chairmen and *kagawad* members from 21 *barangays*
- The *May Kabuhayan* program held a job fair for 100 job applicants from Calamba and Sta. Rosa, Laguna, and a workshop on basket weaving and charcoal manufacturing.

  Other retail-oriented projects yield around ₱60,000 a month for the communities. *May Kabuhayan* has benefited over 200 community members since 2007.

BPI

- BPI Foundation conducted training courses for 69 microfinance institutions (MFIs) through the *BPI-Ateneo Building Capacities of MFIs* composed of 182 representatives that serve 800,000 microfinance clients
- *Show Me, Teach Me, SME - Empowering Entrepreneurs* sessions on financial and credit literacy for 132 entrepreneurs were held in Antipolo, Legaspi City, and Cagayan de Oro
- BPI-DOST Science Awards has recognized 572 outstanding science research projects of college students since 1989 and supported 24 students through the BPI College Scholarship program, which has graduated 163 scholars to date
- Published *Herencia: A Legacy of Art and Progress*, an excellence awardee of the *2009 Asian Multimedia Publishing Awards* that features in-depth reviews of BPI's most important artwork collection
- 35 Cebu employee volunteers participated in the International Coastal Cleanup for the fifth year.

Globe Telecom

Globe *BridgeCom* programs include:

- The *Internet in Schools Program*, which connected more than 600 public high schools with the Department of Education and *GILAS* consortium
- The Global Filipino Teachers Program which trained public high school teachers in Central Visayas on ICT integration in the classroom
- The rollout of *Text2Teach* to 97 public elementary schools in North Luzon
- Livelihood grants to 25 cooperatives and NGOs, 10 entrepreneurship trainings and five entrepreneurship fairs in Negros Occidental, Isabela, La Union, and Quezon
- *Sagot Ka Ni Kap*, a leadership and governance program in 167 barangays nationwide
- Scholarships and educational grants to service awardees of the Armed Forces of the Philippines
- Globe-Gawad Kalinga partnership for *Bayan Anihan Farms*, an initiative focusing on food sufficiency and sustainability in 32 communities nationwide
- Hosting of the 1st Regional CSR Summit of the SingTel Group

IMI

Volunteerism programs:

- Reforestation activity with 150 participants and 1,500 seedlings in Mount Makiling, Paciano, Rizal
- Health outreach activity to elementary students and residents of Biñan, Laguna
- Employee donation and participation in Children's Hour's Christmas gift-giving activities in Laguna, Cavite, Marikina, Muntinlupa, Manila, and Quezon City.

Employee empowerment programs:

- Education programs that benefit 31 employees with 28 graduates under the Formal Education for Employees' Development and five scholars under the Continuing Education Program
- Livelihood programs like *Globe Autoload Max* franchising, cosmetology and meat-processing workshops to help generate additional income for 286 employees.

Manila Water

Water supply provision to the urban poor:

- *Tubig Para Sa Barangay* now serves 1.6 million people in underprivileged communities
- The *Lingap* programs bring water supply and sanitation to more than 300 diverse public institutions.

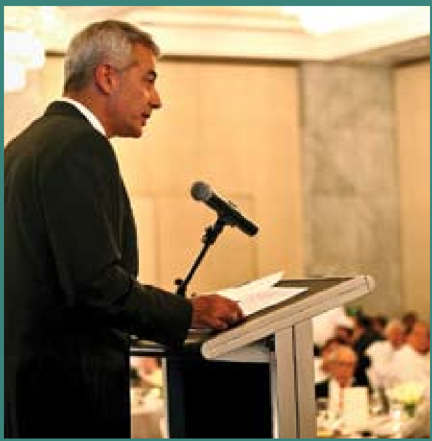
Water education:

- Conducted nearly 100 *Lakbayan* tours and plant visits for 2,600 individuals coming from different sectors
- Partnered with public and private entities for the *Water Trail Program: A Support Module in Water and Wastewater Education* which benefited over 1,200 students, school teachers and officials in Pasig City

Environmental protection:

- Increased sewage-treatment capacity from 40 million liters per day (mld) in 1997 to 93 mld in 2009
- Treated 50 mld of wastewater that could have polluted our river system
- Increased forest cover from 30% to 35% by planting 15,000 seedlings at Ipo watershed
- Reduced systems losses from 63% in 1997 to 15.8% in 2009 to address the increasing water demand without having to develop new water sources
- Expanded scope of carbon accounting to include business travels

Corporate Governance



"Corporate Governance has become a highly complex task. It requires continuous review, monitoring, and coordination among key stakeholders. Governance starts with the board of directors and management executives, and continues on to the corporation's internal and external auditors, institutional investors, and regulatory bodies. Combined, they comprise an ecosystem where each component is accountable to another and each must perform with equal diligence, vigilance, and rigor."

- Fernando Zobel de Ayala
Keynote Speech at the Institute of Corporate Directors' 6th Annual Dinner

Governance at Ayala Corporation

In 2009, the Ayala group's practice of good governance was recognized by trusted institutions here and in the region.

In May 2009, Ayala Corporation, Globe Telecom, Ayala Land, Inc., Manila Water Company, Bank of the Philippine Islands, Cebu Holdings, Inc., and Cebu Property Ventures and Development Corporation made it to the Institute of Corporate Directors' Top 15 listed Philippine companies with the highest corporate governance scores—at par with corporate governance practices of companies in more advanced economies.

The same Ayala companies also made it to the Top 20 companies cited by the Management Association of the Philippines for best practices in compliance, disclosure and corporate governance during its Best Annual Reports Competition in November 2009. Meanwhile, *Corporate Governance Asia*, a regional publication based in Hong Kong, likewise honored Ayala as one of Asia's Best Companies for Corporate Governance for the third straight year.

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 in managing 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 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 members of the Board and Management 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 62 and 63. 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 two independent directors who can effectively exercise their best judgment for the company. The two make up more than 20% of the Board.

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.

Messrs. Meneleo J. Carlos, Jr. and Xavier P. Loinaz sit as the independent directors. Mr. Nobuya Ichiki, general manager of Mitsubishi Corporation's Manila Branch, is a non-executive director. He became a director in June 2009.

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 six meetings last year was more than 95%. Of the seven directors, six, namely, Jaime Augusto Zobel de Ayala, Fernando Zobel de Ayala, Meneleo J. Carlos, Jr., Xavier P. Loinaz, Mercedita S. Nolledo and Delfin L. Lazaro had perfect attendance. Nobuya Ichiki attended two of the three meetings during his incumbency.

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 fixing 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 2009, where it approved: 1) the performance bonus for 2008; 2) the 2009 compensation of officers and managers; and 3) the 2009 Executive Stock Ownership Plan (ESOWN) allocation.

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 Committee also reviews the qualifications of all persons nominated to positions requiring appointment by the Board.

Ayala group executives receive awards from the Institute of Corporate Directors

At two meetings in 2009, the Nomination Committee: 1) approved the final list of nominees for directors for election at the 2009 annual stockholders' meeting; and 2) endorsed for board approval the resignation of Toshifumi Inami and the election of Nobuya Ichiki as a 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 six meetings in 2009, where it reviewed and approved the 2008 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 2009 and the 2009 Internal Audit Plan. The Committee proposed certain terms and conditions for the company's consent to the engagement by both eTelecare Global Solutions, which was 50%-owned by the company, and Stream Global Services, of Ernst & Young for the financial and tax due diligence relative to the proposed merger of eTelecare and Stream. The Committee approved the company's consent to the engagement after it was satisfied that the interest of the company was protected. The Committee likewise recommended the appointment of SGV and Co. as the company's external auditor for 2009 and proposed remuneration.

The activities of the Audit and Risk Committee are further discussed in the Accountability and Audit section on page 57.

	Executive Committee	Compensation Committee	Nomination Committee	Audit and Risk Committee
Jaime Augusto Zobel de Ayala	C		M	
Fernando Zobel de Ayala	M		M	
Nobuya Ichiki**	M	M		M
Meneleo J. Carlos, Jr.*		C	C	M
Delfin L. Lazaro		M		
Xavier P. Loinaz*				C
Number of Meetings held in year 2009	6	1	2	6

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 attended 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 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 equally responsible as the Board 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.

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 constantly reviews and upgrades 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 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 a more focused oversight of the risk management function.

A Chief Risk Officer (CRO) oversees the entire risk management function. A quarterly report on the risk portfolio of the Ayala group of companies and the related risk mitigation efforts and initiatives are provided to the Committee. Ayala's internal auditors monitor the compliance with risk management policies to ensure that an effective control environment exists within the entire Ayala group.

For 2009, Ayala hired an external consultant to help it roll out a more focused enterprise risk management framework. The rollout included a formal risk-awareness session and self-assessment workshops with all 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.

ACCOUNTABILITY AND AUDIT

The Audit and Risk Committee oversees the performance of external and internal auditors. The role and responsibilities of the Committee are outlined in the expanded Audit and Risk Committee Charter on the company's Web site. 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. Ms. 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.

Over the past two years, Ayala paid or accrued the following fees, including VAT, to its external auditor, SGV & Co., who was hired to audit the Company's annual financial statements:

	Audit & Audit-related Fees (in pesos)	Other Fees (in pesos)
2009	3.02 M	1.95 M
2008	3.02 M	5.29 M

In 2009, SGV & Co. billed the company for an aggregate fee of ₱1.95 million for the following services:

(i) Completion of the Enterprise-Wide Risk Management study;
(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

In 2008, SGV & Co. billed an aggregate fee of ₱5.29 million for the following services:

(i) Review of the company's consolidated financial statements for the period ended June 30, 2008 and issuance of a comfort letter in connection with the company's issuance of preferred shares;
(ii) Conduct of an Enterprise-Wide Risk Management study; and
(iii) Conduct of a seminar on new accounting standards.

There were no tax fees paid to SGV & Co. in 2008 and 2009.

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 an annual audit program approved by Audit and Risk Committee. Special audits are also undertaken when necessary.

In 2009, the Audit and Risk Committee received, reviewed, noted and/or approved audit reports from Internal Audit and Management according to the approved Internal Audit Plan.

The Internal Audit function was rated "Generally Conforms" after a thorough third-party assessment review (QAR) by the Institute of Internal Auditors, Inc. (U.S.A.) 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. We continue 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. Mr. Solomon M. Hermosura, a managing director and the 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, experience, judgment, knowledge, time commitment and team work, and identifies clear areas for improvement.

In 2009, the compliance officer led the Ayala group's regulatory council in a voters' registration campaign among the employees across the companies. This is part of the council's efforts to promote responsible citizenship and conscientiousness in the performance of legal duties.

DISCLOSURE AND TRANSPARENCY

Ayala is committed to 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.

In 2009, Ayala released its first Sustainability Report, the first conglomerate in the country to do so, in what will be a biennial exercise of measuring the group's impact on the community and environment to encourage good corporate behavior among its business units.

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, 2009, Mermac Inc. held 253.1 million common shares representing 50.78% of Ayala's total outstanding common shares. PCD Nominee Corporation held 157.7 million common shares or 31.65% and Mitsubishi Corporation held 52.6 million common shares or 10.55%. Out of the total 498 million outstanding common shares, 175.46 million or 35.21% were beneficially owned by non-Filipinos.

There were 12 million outstanding listed Preferred A shares, 95.98% of which were owned by various holders registered under the PCD Nominee Corporation. Of the outstanding Preferred A shares, 0.17% were beneficially owned by non-Filipinos.

Out of the 58 million outstanding listed Preferred B shares, 29.7 million shares or 51.14% were owned by various owners registered under the PCD Nominee Corporation and about 0.14% were owned by foreigners.

Of the 568 million total issued and outstanding common and preferred shares of the company, 175.6 million common and preferred shares or 30.89% were owned by foreigners.

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 Philippine Stock Exchange (PSE) which are readily available on the company's website.

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 2009, the company filed unstructured disclosures involving the amendment of company By-Laws in nominating and electing independent directors, and the Bangko Sentral's approval of Bank of Philippine Islands' sale of shares in Pilipinas Savings Bank Inc., a fifth of which the company will now own.

Ayala also disclosed the increase in its Manila Water Company Inc. stake; the sale of Ayala Systems Technology Inc. shares owned by Azalea Technology Investments Inc.; the acquisition of Grail Research by Integreon Inc.; the stock-for-stock exchange with Stream Global Services Inc. by EGS Corp.; 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 is submitted at least 15 working days before the annual stockholders' meeting.

In 2009, the audited financial statements as contained in the Definitive Information Statement was submitted to the SEC on March 6, 2009 and to the PSE three days later, more than three weeks before the April 3, 2009 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 Board met to accept the results. The results were also sent to financial and stock market analysts via a live 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 138-143: 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 144-145.

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, 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's 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 are made aware of the undisclosed material information.

Covered persons are prohibited from buying or selling the company's securities during trading blackouts. These employees may include those who have knowledge of material facts or changes in the affairs of Ayala which have not been disclosed to the public, including any information likely to affect the market price of Ayala's stocks. 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 share of stock entitles the registered holder to one vote.

Shareholder and Investor Relations

Ayala believes that open and transparent communications are 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 Strategic Planning, 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 shareholders' meetings, one-on-one meetings, conference calls, road shows and investor conferences, Web site, and e-mails or telephone calls.

The company holds regular briefings and meetings with analysts, including financial analysts from the banking community. In 2009, four briefings were held, coinciding with the announcement of the 2008 year-end results and 2009 first-quarter, first-semester, and third-quarter results. Analysts were also given access to senior management.

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

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.

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 commit to live out the following values: integrity, long-term vision, empowering leadership, and commitment to national development. These values are captured in the new 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 yearly to ensure that potential conflicts of interest are brought to management attention.

Recognitions

In 2009, various international and independent institutions recognized Ayala's governance principles and practices as among the best in the Philippines. Leading financial magazine *FinanceAsia* ranked Ayala as 1st in the category for "Best Corporate Governance" in its poll of the country's Best Managed Companies. *Asiamoney*'s 2009 Corporate Governance Poll likewise ranked Ayala as "Overall Best Company in the Philippines for Corporate Governance," "Best for Responsibilities of Management and Board of Directors," and "Best for Shareholders' Rights and Equitable Treatment."

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Values drive the 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 its interaction with various stakeholders:

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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. Integrity starts with the kind of individuals we engage at Ayala. Their individual ethics are perpetuated and reinforced by our corporate culture.

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, 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

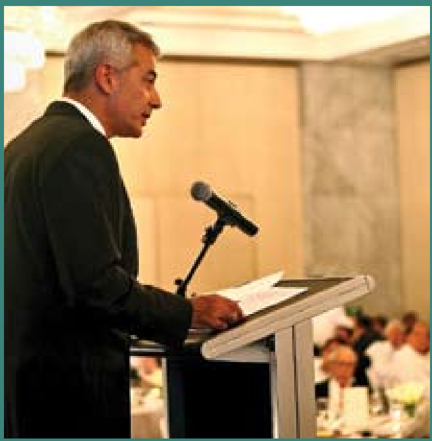
At Ayala, we realize that leaders today need to manage a whole range of issues in increasingly complex situations. These challenges can only be met by empowering people at all levels of the organization to make decisions and to take action, within the framework of a shared vision and a shared corporate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

Corporate Governance



"Corporate Governance has become a highly complex task. It requires continuous review, monitoring, and coordination among key stakeholders. Governance starts with the board of directors and management executives, and continues on to the corporation's internal and external auditors, institutional investors, and regulatory bodies. Combined, they comprise an ecosystem where each component is accountable to another and each must perform with equal diligence, vigilance, and rigor."

- Fernando Zobel de Ayala
Keynote Speech at the
Institute of Corporate Directors' 6th Annual Dinner

Governance at Ayala Corporation

In 2009, the Ayala group's practice of good governance was recognized by trusted institutions here and in the region.

In May 2009, Ayala Corporation, Globe Telecom, Ayala Land, Inc., Manila Water Company, Bank of the Philippine Islands, Cebu Holdings, Inc., and Cebu Property Ventures and Development Corporation made it to the Institute of Corporate Directors' Top 15 listed Philippine companies with the highest corporate governance scores—at par with corporate governance practices of companies in more advanced economies.

The same Ayala companies also made it to the Top 20 companies cited by the Management Association of the Philippines for best practices in compliance, disclosure and corporate governance during its Best Annual Reports Competition in November 2009. Meanwhile, *Corporate Governance Asia*, a regional publication based in Hong Kong, likewise honored Ayala as one of Asia's Best Companies for Corporate Governance for the third straight year.

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 in managing 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 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 members of the Board and Management 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 62 and 63 . 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 two independent directors who can effectively exercise their best judgment for the company. The two make up more than 20% of the Board.

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.

Messrs. Meneleo J. Carlos, Jr. and Xavier P. Loinaz sit as the independent directors. Mr. Nobuya Ichiki, general manager of Mitsubishi Corporation's Manila Branch, is a non-executive director. He became a director in June 2009.

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 six meetings last year was more than 95%. Of the seven directors, six, namely, Jaime Augusto Zobel de Ayala, Fernando Zobel de Ayala, Meneleo J. Carlos, Jr., Xavier P. Loinaz, Mercedita S. Nolledo and Delfin L. Lazaro had perfect attendance. Nobuya Ichiki attended two of the three meetings during his incumbency.

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 fixing 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 2009, where it approved: 1) the performance bonus for 2008; 2) the 2009 compensation of officers and managers; and 3) the 2009 Executive Stock Ownership Plan (ESOWN) allocation.

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 Committee also reviews the qualifications of all persons nominated to positions requiring appointment by the Board.

Ayala group executives receive awards from the Institute of Corporate Directors

At two meetings in 2009, the Nomination Committee: 1) approved the final list of nominees for directors for election at the 2009 annual stockholders' meeting; and 2) endorsed for board approval the resignation of Toshifumi Inami and the election of Nobuya Ichiki as a 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 six meetings in 2009, where it reviewed and approved the 2008 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 2009 and the 2009 Internal Audit Plan. The Committee proposed certain terms and conditions for the company's consent to the engagement by both eTelecare Global Solutions, which was 50%-owned by the company, and Stream Global Services, of Ernst & Young for the financial and tax due diligence relative to the proposed merger of eTelecare and Stream. The Committee approved the company's consent to the engagement after it was satisfied that the interest of the company was protected. The Committee likewise recommended the appointment of SGV and Co. as the company's external auditor for 2009 and proposed remuneration.

The activities of the Audit and Risk Committee are further discussed in the Accountability and Audit section on page 57.

	Executive Committee	Compensation Committee	Nomination Committee	Audit and Risk Committee
Jaime Augusto Zobel de Ayala	C		M	
Fernando Zobel de Ayala	M		M	
Nobuya Ichiki**	M	M		M
Meneleo J. Carlos, Jr.*		C	C	M
Delfin L. Lazaro		M		
Xavier P. Loinaz*				C
Number of Meetings held in year 2009	6	1	2	6

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 attended 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 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 equally responsible as the Board 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.

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 constantly reviews and upgrades 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 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 a more focused oversight of the risk management function.

A Chief Risk Officer (CRO) oversees the entire risk management function. A quarterly report on the risk portfolio of the Ayala group of companies and the related risk mitigation efforts and initiatives are provided to the Committee. Ayala's internal auditors monitor the compliance with risk management policies to ensure that an effective control environment exists within the entire Ayala group.

For 2009, Ayala hired an external consultant to help it roll out a more focused enterprise risk management framework. The rollout included a formal risk-awareness session and self-assessment workshops with all 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.

ACCOUNTABILITY AND AUDIT

The Audit and Risk Committee oversees the performance of external and internal auditors. The role and responsibilities of the Committee are outlined in the expanded Audit and Risk Committee Charter on the company's Web site. 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. Ms. 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.

Over the past two years, Ayala paid or accrued the following fees, including VAT, to its external auditor, SGV & Co., who was hired to audit the Company's annual financial statements:

	Audit & Audit-related Fees (in pesos)	Other Fees (in pesos)
2009	3.02 M	1.95 M
2008	3.02 M	5.29 M

In 2009, SGV & Co. billed the company for an aggregate fee of ₱1.95 million for the following services:

(i) Completion of the Enterprise-Wide Risk Management study;
(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

In 2008, SGV & Co. billed an aggregate fee of ₱5.29 million for the following services:

(i) Review of the company's consolidated financial statements for the period ended June 30, 2008 and issuance of a comfort letter in connection with the company's issuance of preferred shares;
(ii) Conduct of an Enterprise-Wide Risk Management study; and
(iii) Conduct of a seminar on new accounting standards.

There were no tax fees paid to SGV & Co. in 2008 and 2009.

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 an annual audit program approved by Audit and Risk Committee. Special audits are also undertaken when necessary.

In 2009, the Audit and Risk Committee received, reviewed, noted and/or approved audit reports from Internal Audit and Management according to the approved Internal Audit Plan.

The Internal Audit function was rated "Generally Conforms" after a thorough third-party assessment review (QAR) by the Institute of Internal Auditors, Inc. (U.S.A.) 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. We continue 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. Mr. Solomon M. Hermosura, a managing director and the 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, experience, judgment, knowledge, time commitment and team work, and identifies clear areas for improvement.

In 2009, the compliance officer led the Ayala group's regulatory council in a voters' registration campaign among the employees across the companies. This is part of the council's efforts to promote responsible citizenship and conscientiousness in the performance of legal duties.

DISCLOSURE AND TRANSPARENCY

Ayala is committed to 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.

In 2009, Ayala released its first Sustainability Report, the first conglomerate in the country to do so, in what will be a biennial exercise of measuring the group's impact on the community and environment to encourage good corporate behavior among its business units.

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, 2009, Mermac Inc. held 253.1 million common shares representing 50.78% of Ayala's total outstanding common shares. PCD Nominee Corporation held 157.7 million common shares or 31.65% and Mitsubishi Corporation held 52.6 million common shares or 10.55%. Out of the total 498 million outstanding common shares, 175.46 million or 35.21% were beneficially owned by non-Filipinos.

There were 12 million outstanding listed Preferred A shares, 95.98% of which were owned by various holders registered under the PCD Nominee Corporation. Of the outstanding Preferred A shares, 0.17% were beneficially owned by non-Filipinos.

Out of the 58 million outstanding listed Preferred B shares, 29.7 million shares or 51.14% were owned by various owners registered under the PCD Nominee Corporation and about 0.14% were owned by foreigners.

Of the 568 million total issued and outstanding common and preferred shares of the company, 175.6 million common and preferred shares or 30.89% were owned by foreigners.

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 Philippine Stock Exchange (PSE) which are readily available on the company's website.

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 2009, the company filed unstructured disclosures involving the amendment of company By-Laws in nominating and electing independent directors, and the Bangko Sentral's approval of Bank of Philippine Islands' sale of shares in Pilipinas Savings Bank Inc., a fifth of which the company will now own.

Ayala also disclosed the increase in its Manila Water Company Inc. stake; the sale of Ayala Systems Technology Inc. shares owned by Azalea Technology Investments Inc.; the acquisition of Grail Research by Integreon Inc.; the stock-for-stock exchange with Stream Global Services Inc. by EGS Corp.; 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 is submitted at least 15 working days before the annual stockholders' meeting.

In 2009, the audited financial statements as contained in the Definitive Information Statement was submitted to the SEC on March 6, 2009 and to the PSE three days later, more than three weeks before the April 3, 2009 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 Board met to accept the results. The results were also sent to financial and stock market analysts via a live 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 138-143: 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 144-145.

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, 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's 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 are made aware of the undisclosed material information.

Covered persons are prohibited from buying or selling the company's securities during trading blackouts. These employees may include those who have knowledge of material facts or changes in the affairs of Ayala which have not been disclosed to the public, including any information likely to affect the market price of Ayala's stocks. 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 share of stock entitles the registered holder to one vote.

Shareholder and Investor Relations

Ayala believes that open and transparent communications are 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 Strategic Planning, 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 shareholders' meetings, one-on-one meetings, conference calls, road shows and investor conferences, Web site, and e-mails or telephone calls.

The company holds regular briefings and meetings with analysts, including financial analysts from the banking community. In 2009, four briefings were held, coinciding with the announcement of the 2008 year-end results and 2009 first-quarter, first-semester, and third-quarter results. Analysts were also given access to senior management.

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

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.

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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.

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 the Ayala Foundation. 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. Chairman of Harvard Business School Asia-Pacific Advisory Board, Member of Harvard University Asia Center Advisory Committee, Member of the Board of Trustees of The Singapore Management University and Asian Institute of Management; Member of the Asia Business Council, The Asia Society, the International Business Council of the World Economic Forum; Trustee of Ramon Magsaysay Awards Foundation; Chairman of the World Wildlife Fund Philippine Advisory Council, Vice Chairman of Asia Society Philippines Foundation, Inc., Co-Vice Chair of the Makati Business Club, Asia Society Philippines Foundation, Inc., and Member of Board of Trustees of the Children's Hour Philippines, Inc.

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 Automotive Holdings, 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, Ayala International Pte. Ltd., and Caritas Manila; and Member of INSEAD East Asia Council; World Economic Forum, Habitat for Humanity International Asia-Pacific Steering Committee. Trustee, International Council of Shopping Centers.

MENELEO J. CARLOS, JR.

Independent Director of Ayala Corporation (since 2002). Chairman and President of Riverbanks Development Corporation; Chairman of Chem Insurance Brokers, Inc., AVC Chemicals, Inc., Philippine Iron Construction & Marine Works, Inc. and Vacphil Rubber Philippines Inc.; President of Resins, Inc., RI Chemical Corporation, Maja Development Corporation; Director of Polymer Products Philippines, Inc., Philippine Iron Construction and Marine Works, Cagayan Electric Power & Light Co. and Philippine Technology Development Ventures, Inc.

Board of Directors

MERCEDITA S. NOLLEDO

Director of Ayala Corporation (since 2004). 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.

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., 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.

XAVIER P. LOINAZ

Independent Director of Ayala Corporation (since 2009). Vice-Chairman of FGU Insurance Corporation; 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.

NOBUYA ICHIKI

Independent 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.; Director of Japanese Chamber of Commerce & Industry of the Philippines, 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.

* *Nobuya Ichiki replaced Toshifumi Inami on June 4, 2009*

Jaime Augusto
Zobel de Ayala

Fernando
Zobel de Ayala

Gerardo C. Ablaza, Jr.

Jose Rene D. Almendras

Antonino T. Aquino

Alfredo I. Ayala

Jaime I. Ayala*

Charles H. Cosgrove

Ernest Lawrence L. Cu

** Resigned as of December 31, 2009*

Ayala Group of Companies

Management Committee

John Eric T. Francia | Victoria P. Garchitorena | Delfin L. Lazaro | Rufino Luis T. Manotok

Aurelio R. Montinola III | Mercedita S. Nolledo | 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

ANTONINO T. AQUINO
President, Ayala Land, Inc.

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

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

JAIME I. AYALA***

CHARLES H. COSGROVE
President, AG Holdings, Ltd.

ERNEST LAWRENCE L. CU
President, Globe Telecom, Inc.

JOHN ERIC T. FRANCIA
Group Head, Corporate Strategy

VICTORIA P. GARCHITORENA
President, Ayala Foundation, Inc.

DELFIN L. LAZARO**
Chief Executive Officer, AC Capital

RUFINO LUIS T. MANOTOK
Chief Finance Officer
President, Ayala Automotive Holdings Corporation

AURELIO R. MONTINOLA III
President, Bank of the Philippine Islands

MERCEDITA S. NOLLEDO
Corporate Secretary and Senior Counsel

JOHN PHILIP S. ORBETA
Group Head, Corporate Resources

ARTHUR R. TAN
President, Integrated Micro-Electronics, Inc.

MANAGING DIRECTORS

Solomon M. Hermosura
General Counsel
Group Head, Legal and Compliance

Ramon G. Opulencia
Treasurer

Gil B. Genio
Delfin C. Gonzalez, Jr.
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

Gerardo B. Amisola
Wilfrido A. Atienza
Francis Andre B. Azurin****
Ruby P. Chiong
Alexander T. Cordero
Emily C. De Lara
Rosallie A. Dimaano
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
Carlos C. Reyes
Ma. Victoria P. Sugapong
Sheila Marie U. Tan
Eliezer C. Tanlapco
Norma P. Torres
Jaime P. Villegas

* *Effective January 1, 2010*
** *Up to December 31, 2009*
*** *Resigned as of December 31, 2009*
**** *Retired as of December 31, 2009*

Management Report

2009

Ayala Corporation generated consolidated revenues of ₱76.3 billion in 2009, ₱2.8 billion or 4% lower than prior year's ₱79.1 billion. The decline was attributed to the slight drop in consolidated sales and services and a ₱1.6 billion decline in other income as 2008 included gains from the sale of certain assets at the holding company level as well as from Ayala Land's land sales. Consolidated sales and services, which comprised 82% of consolidated revenues, dropped by 2% as a result of lower sales from the real estate and electronics manufacturing units.

Ayala Land recorded lower revenues in 2009 mainly due to a decline in its construction and support businesses as it wound down external projects. Residential revenues dipped by 6% to ₱14.2 billion versus prior year due to lower bookings. With gross domestic product (GDP) growth slowing in 2009, residential launches were deliberately held back during the year. This was, however, partly offset by construction accomplishment in its existing projects as well as a significant improvement in its leasing business in both commercial centers and office spaces. In all, Ayala Land's revenues declined by 10% to ₱30.5 billion in 2009 from ₱33.7 billion in 2008.

Impacted by the slowdown in the global electronics industry as a result of the financial crisis, IMI's revenues dipped by 7% to ₱18.9 billion due to the slowdown in operations of major customers of IMI Philippines and IMI Singapore. Revenues from several other customers dropped due to reduced customer demand and material shortages. In particular, revenues from a key Japanese original equipment manufacturer (OEM) in the optical disk drive industry decreased significantly as market demand softened. Also, IMI's decision to set aside its planned volume expansion for a key European automotive electronics OEM also impacted revenues in the short term.

The decline in consolidated revenues was partly mitigated by higher sales of the automotive unit (Ayala Automotive) and the business process outsourcing (BPO) units (Integreon and Affinity Express) which scaled up operations with several add on acquisitions.

Ayala Automotive recorded higher car sales in 2009 (11,394 units in 2009 vs 10,324 units in 2008) due to the strong sales of the new Honda City. Honda Cars sold 4,516 Honda City units which is 53% of the total dealership sales. This was, however, partly offset by the decrease in sales of Isuzu Automotive Dealerships.

Revenues from BPO units also increased mainly due to Integreon's acquisition of Onsite, although this was partly offset by the decrease in graphics revenue of Affinity Express given the generally weak U.S. economic conditions.

The decline in consolidated sales and services was partly compensated for by the stable equity earnings from associates and jointly controlled entities, which reached ₱7.4 billion, the same level as the prior year. Higher net income from the telecom (Globe Telecom), banking (Bank of the Philippine Islands), and water distribution units (Manila Water Company Inc.) despite the economic slowdown resulted in strong equity earnings.

Globe Telecom posted 11% increase in net income to ₱12.6 billion in 2009 with core net income of ₱12.0 billion slightly higher than the ₱11.8 billion posted in 2008. Service revenues were flat at ₱62.4 billion. The 4% decline in the consumer wireless business was offset by gains in the broadband business, which rose by 74% to ₱3.3 billion and fixed-line data business, which increased by 23% to ₱3.0 billion. Its core mobile business was weighed down by intense competition. However, Globe made significant gains in its broadband business. Actual EBITDA was 3% lower than 2008 due to the overall decline in service revenues and higher subsidies as it ramped up its broadband business. EBITDA margin, however, remains high at 58% while return on equity improved to 25.7% from 21.4% in 2008. In 2009, Globe increased its target dividend yield from 70% to between 75% and 90% of prior year's net income as it remains committed to achieving its optimal capital structure.

Bank of the Philippine Islands (BPI) posted significantly higher net income for the year, up 33% to ₱8.5 billion on the back of good revenue and business volume growth. Higher securities trading gains of ₱1.5 billion versus a ₱478 million loss in 2008 also contributed to earnings growth. Net interest income increased by ₱1.94 billion. While overall net loans grew by only 2% as multinationals and top-tier corporates paid down loans and took advantage of the liquidity and availability of funding in the capital markets, consumer and middle-market loan growth was robust. Credit card receivables increased by 16%, SME loans by 11%, consumer loans by 10%, and local middle market names by 9%. While loans grew, BPI managed to improve its asset quality to a year-low non-performing loan ratio of 2.8%. BPI also retained its strength in the remittance business which increased by 15%, outpacing the industry's 5% growth. This allowed BPI to capture 20% of the overseas Filipino remittance market. With improved earnings, BPI's return on equity likewise increased to 13%.

Manila Water Company continued its strong performance by posting 16% growth in net income to ₱3.2 billion on the back of higher revenue and continued improvement in operating efficiency. Revenues increased by 7% to ₱9.5 billion due to higher tariff and water volume sales. The water utility reduced non-revenue water to 15.8%, a remarkable accomplishment from over 25% system losses in 2007, and posted collection efficiency of 100%. It also ramped up its wastewater initiatives, increasing sewer connections to 50,800 in 2009. Sanitation services also intensified benefitting 291,469 households. Total cost and expenses were well managed, growing only by 9% despite water and wastewater expansion activities. Return on equity remained stable at 20.7%. The year 2009 was marked by Typhoon *Ondoy* and the damage it inflicted. Manila Water played a vital role in effective disaster management with 100% water supply restoration after a week of round-the-clock operations following the calamity. *Ondoy* created additional expenses but had no major impact on the water utility's bottomline. Collection was staggered in affected areas these but comprised only 10% of the revenue base.

Consolidated costs and expenses declined in line with the contraction in consolidated revenues. Consolidated costs and expenses fell by 3% to ₱63.8 billion from ₱66.0 billion the prior year. Costs of sales and services, which accounted for 77% of consolidated costs and expenses dipped by 1% to ₱49.3 billion from ₱50.0 billion the prior year. This was mainly a result of the decline in cost of sales and services at Ayala Land, which was in line with the fall in revenues, and IMI's lower manpower costs due to the redundancy program implemented in 2009 as well as lower sub-contracting and inventory costs. General and administrative (G&A) expenses on a consolidated basis also declined by 3% to ₱9.2 billion with lower expenses from Ayala Land and IMI.

Consolidated interest expense and other financing charges declined by 23% to ₱3.8 billion from nearly ₱5 billion the prior year. This was mainly due to the currency-hedging-related losses at IMI booked in 2008, which negated the impact of higher loan levels at Ayala Land and the parent company level.

At the holding company level, interest and financing charges were flat despite the increase in loan levels as the company actively lowered financing cost over the past few years. Average cost of debt at the parent level in 2009 has decreased to 5.9% compared to 9.5% three years ago. In 2009 the company continued to prepay ₱7.2 billion in debt, replacing these with newly raised funds at lower cost. The parent company's net debt has declined substantially to ₱4.3 billion from ₱8.7 billion in 2008 and a high of ₱36.2 billion in 2004, allowing it to maintain a very comfortable net debt to equity ratio of 0.04 to 1. Likewise, on a consolidated basis, the company is in a very comfortable financial position with consolidated net debt to equity at 0.06 to 1.

Consolidated net income for the full year 2009 reached ₱8.2 billion at par with prior year's level despite a much more challenging economic environment.

Ayala Land recorded 16% lower net income of ₱4.0 billion from ₱4.8 billion last year, which includes gains from the sale of an asset in 2008. Excluding the one-off gain, however, net income contracted only 2% year-on-year. IMI managed to post 160% growth in net income to US$10.1 million. The jump in income can be primarily attributed to non-recurring items—fire insurance gain of US$4.5 million in 2009 coupled with hedging losses of US$33.4 million in 2008. Net income without non-recurring items in 2009 was US$5.5 million.

Significant improvement in Ayala's BPO units also underpinned the stability in consolidated earnings this year. While LiveIt recorded net loss of ₱565 million for 2009, this was better than the ₱948 million loss in 2008. Income from an US$8.8 million gain on the eTelecare share exchange and a US$4.9 million gain from the Integreon-Onsite bargain purchase more than offset the unbudgeted acquisition expenses for Stream and Integreon. Affinity's significant improvement in financial results also contributed to LiveIt's improved bottomline.

International real estate arm, AG Holdings, recorded a net loss of ₱433 million, as the U.S. economic meltdown continued to impose provisions for assets in North America. Asian operations remained solid with ARCH Capital Management posting profit in 2009. Projects in Thailand, China and Macau did better than or as expected. Take-up for three Thai projects ranged between 61% and 86%. In China, Phase I take-up was 44% for apartments and 58% for villas. The Macau project's master layout secured government approval.

In summary, while net earnings were flat in 2009, impacted by various factors both external and internal, the company maintains a healthy financial and liquidity position across the group. Debt and debt to equity ratios are at very comfortable levels, cash resources are sufficient to pursue the respective growth agenda of each of the operating units, and solvency and liquidity ratios are well within comfortable limits.

As recovery presumably commenced in the second half of 2009, a gradual recovery is expected in 2010. While there remain uncertainties in the economic environment, it is expected that each of the operating units will bounce back in strong fashion given their strong financial and market positions and growth initiatives set in place.

Financial Statements

Report of the Audit and Risk Committee to the Board of Directors

For the year ended 31 December 2009

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 and two (2) special meetings during the year and a meeting with all the independent directors in the Ayala Group;

- We 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 discussed and approved the 2009 work plan of the Company's internal auditors. We also 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 conformance with the International Standards for the Professional Practice of Internal Auditing;

- We discussed and approved the overall scope and audit plan of SGV & Co. We also discussed the results of their audits including their 2008 final management letter of comments and the 2009 interim management letter of comments, ensuring that management is taking appropriate corrective actions in a timely manner;

- We 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 reviewed and discussed the adequacy of the Company's enterprise risk management process, including the major risk exposures, the related risk mitigation efforts and initiatives and updates on risk mitigation plans. This activity was reviewed in the context that management is primarily responsible for the risk management process.

- In a meeting of all the independent directors of the Ayala Group, there was consensus that all the Ayala Companies and Subsidiaries must institutionalize a risk management process within their respective business operations. This initiative is now in progress.

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, 2009 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 2010 based on the review of their performance and qualifications.

05 March 2010

XAVIER P. LOINAZ Chairman	NOBUYA ICHIKI Member	MENELEO J. CARLOS, JR. Member

Statement of Management's Responsibility for Financial Statements

The management of Ayala Corporation is responsible for all information and representations contained in the consolidated statements of financial position as at December 31, 2009 and 2008, 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, 2009, 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 for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The 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, has 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 10, 2010.

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

FERNANDO ZOBEL DE AYALA
President and Chief Operating Officer

RUFINO LUIS T. MANOTOK
Chief Finance Officer

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Ayala Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of income, the 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, 2009, and a summary of significant accounting policies and other explanatory notes. In the consolidated financial statements, the Group's investment in the Bank of the Philippine Islands and Subsidiaries is stated at ₱29,406 million and ₱28,533 million as of December 31, 2009 and 2008, respectively, and the Group's equity in the net income of the Bank of the Philippine Islands and Subsidiaries is stated at ₱2,707 million in 2009, ₱2,145 million in 2008 and ₱3,291 million in 2007. The financial statements of the Bank of the Philippine Islands and Subsidiaries, in which the Group has a 33.5% interest in 2009 and 2008, 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 the 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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 Subsidiaries as of December 31, 2009 and 2008, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2009 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
PTR No. 2087400, January 4, 2010, Makati City

March 10, 2010

Ayala Corporation and Subsidiaries

Consolidated Statements of Financial Position

(Amounts in Thousands)

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 30)	**₱45,656,889**	₱42,885,792
Short-term investments (Notes 5 and 30)	**4,560,976**	1,008,924
Accounts and notes receivable - net (Notes 6, 29 and 30)	**25,232,799**	23,284,010
Inventories (Note 7)	**10,797,048**	10,011,355
Other current assets (Notes 8 and 30)	**6,547,004**	7,090,394
Total Current Assets	**92,794,716**	84,280,475
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 6 and 30)	**2,657,623**	6,694,021
Land and improvements (Note 9)	**17,582,562**	15,756,894
Investments in associates and jointly controlled entities - net (Note 10)	**71,556,952**	68,140,394
Investments in bonds and other securities (Notes 11 and 30)	**3,543,458**	3,064,502
Investment properties - net (Note 12)	**29,089,730**	21,344,980
Property, plant and equipment - net (Note 13)	**7,771,863**	13,884,817
Deferred tax assets - net (Note 23)	**1,395,992**	1,132,847
Pension assets (Note 25)	**132,419**	117,388
Intangible assets - net (Note 14)	**4,611,884**	3,865,397
Other noncurrent assets	**1,341,836**	1,906,172
Total Noncurrent Assets	**139,684,319**	135,907,412
Total Assets	**₱232,479,035**	₱220,187,887

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 16, 28 and 29)	**₱27,664,537**	₱27,483,536
Short-term debt (Notes 18 and 30)	**2,638,658**	2,755,447
Income tax payable	**506,114**	214,697
Current portion of long-term debt (Notes 18 and 30)	**2,453,144**	1,478,871
Other current liabilities (Note 17)	**2,821,932**	1,553,530
Total Current Liabilities	**36,084,385**	33,486,081
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 18 and 30)	**51,431,583**	50,250,151
Deferred tax liabilities - net (Note 23)	**207,425**	185,536
Pension liabilities (Note 25)	**228,312**	490,744
Other noncurrent liabilities (Note 19)	**9,109,180**	7,588,080
Total Noncurrent Liabilities	**60,976,500**	58,514,511
Total Liabilities	**97,060,885**	92,000,592
Equity		
Equity attributable to equity holders of Ayala Corporation		
Paid-up capital (Note 20)	**37,477,875**	37,251,714
Share-based payments (Note 26)	**1,059,588**	705,457
Retained earnings (Note 20)	**65,739,096**	61,604,466
Cumulative translation adjustments	**(1,351,334)**	(968,778)
Net unrealized gain (loss) on available-for-sale financial assets (Note 11)	**123,916**	(631,127)
Parent Company preferred shares held by a subsidiary (Note 20)	**(100,000)**	(100,000)
Treasury stock (Note 20)	**(688,714)**	(550,540)
	102,260,427	97,311,192
Noncontrolling interests	**33,157,723**	30,876,103
Total Equity	**135,418,150**	128,187,295
Total Liabilities and Equity	**₱232,479,035**	₱220,187,887

See accompanying Notes to Consolidated Financial Statements.

Ayala Corporation and Subsidiaries

Consolidated Statements of Income

(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2009	2008	2007
REVENUE			
Sales and services (Notes 12 and 29)	**₱62,627,206**	₱64,052,828	₱56,578,214
Equity in net income of associates and jointly controlled entities	**7,361,015**	7,396,180	9,767,222
Interest income	**2,497,077**	2,242,895	1,693,045
Other income (Note 21)	**3,808,517**	5,416,750	10,728,375
	76,293,815	79,108,653	78,766,856
COSTS AND EXPENSES			
Costs of sales and services (Notes 7, 12, 21 and 29)	**49,318,294**	50,014,366	43,169,110
General and administrative (Notes 21, 25 and 29)	**9,214,570**	9,485,514	9,498,306
Interest expense and other financing charges (Notes 18 and 21)	**3,822,342**	4,937,108	4,120,160
Other charges (Note 21)	**1,435,038**	1,595,422	1,569,944
	63,790,244	66,032,410	58,357,520
INCOME BEFORE INCOME TAX	**12,503,571**	13,076,243	20,409,336
PROVISION FOR INCOME TAX (Note 23)			
Current	**2,010,214**	2,442,789	1,979,820
Deferred	**(311,530)**	(25,234)	(7,825)
	1,698,684	2,417,555	1,971,995
INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE	**10,804,887**	10,658,688	18,437,341
INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE - net of tax (Note 15)	**–**	–	624,788
NET INCOME	**₱10,804,887**	₱10,658,688	₱19,062,129
Net Income Attributable to:			
Equity holders of Ayala Corporation	**₱8,154,345**	₱8,108,597	₱16,256,601
Noncontrolling interests	**2,650,542**	2,550,091	2,805,528
	₱10,804,887	₱10,658,688	₱19,062,129
EARNINGS PER SHARE (Note 24)			
Basic			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Corporation	**₱14.23**	₱15.22	₱30.64
Net income attributable to equity holders of Ayala Corporation	**14.23**	15.22	31.62
Diluted			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Corporation	**₱14.19**	₱15.17	₱30.50
Net income attributable to equity holders of Ayala Corporation	**14.19**	15.17	31.47

See accompanying Notes to Consolidated Financial Statements.

Ayala Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
NET INCOME	**₱10,804,887**	₱10,658,688	₱19,062,129
OTHER COMPREHENSIVE INCOME			
Exchange differences arising from translations of foreign investments	**(260,419)**	1,805,405	(2,274,022)
Change in fair value of available-for-sale financial assets	**431,329**	(751,054)	97,688
	170,910	1,054,351	(2,176,334)
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES			
Exchange differences arising from translations of foreign investments	**(226,115)**	(203,276)	(83,389)
Change in fair value of available-for-sale financial assets	**322,448**	(1,586,875)	(435,029)
	96,333	(1,790,151)	(518,418)
TOTAL COMPREHENSIVE INCOME	**₱11,072,130**	₱9,922,888	₱16,367,377
Total Comprehensive Income Attributable To:			
Equity holders of Ayala Corporation	**₱8,526,832**	₱7,093,753	₱13,891,328
Noncontrolling interests	**2,545,298**	2,829,135	2,476,049
	₱11,072,130	₱9,922,888	₱16,367,377

See accompanying Notes to Consolidated Financial Statements.

Ayala Corporation and Subsidiaries

Consolidated Statements of Changes in Equity

(Amounts in Thousands)

	Paid-up Capital (Note 20)	Share-based Payments (Note 26)	Cumulative Translation Adjustments	Retained Earnings (Note 20)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 11)	Parent Company Preferred Shares Held by a Subsidiary (Note 20)	Treasury Stock (Note 20)	Noncontrolling 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 noncontrolling 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**

	Paid-up Capital (Note 20)	Share-based Payments (Note 26)	Cumulative Translation Adjustments	Retained Earnings (Note 20)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 11)	Parent Company Preferred Shares Held by a Subsidiary (Note 20)	Treasury Stock (Note 20)	Noncontrolling 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 noncontrolling 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

Ayala Corporation and Subsidiaries

Consolidated Statements of Changes in Equity

(Amounts in Thousands)

	Paid-up Capital (Note 20)	Share-based Payments (Note 26)	Cumulative Translation Adjustments	Retained Earnings (Note 20)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 11)	Treasury Stock (Note 20)	Noncontrolling Interests	Total Equity
			For the year ended December 31, 2007					
At January 1, 2007	₱23,137,948	₱558,416	(₱298,310)	₱51,226,582	₱2,078,522	(₱310)	₱24,698,735	₱101,401,583
Net income	–	–		16,256,601			2,805,528	19,062,129
Other comprehensive income	–	–	(1,998,767)		(366,506)		(329,479)	(2,694,752)
Total comprehensive income	–	–	(1,998,767)	16,256,601	(366,506)	–	2,476,049	16,367,377
Issuance/subscription of shares	364,129	–	–	–	–	–	–	364,129
Additions to subscriptions receivable	(96,267)	–	–	–	–	–	–	(96,267)
Cost of share-based payments of Ayala Corporation	–	10,718	–	–	–	–	–	10,718
Cost of share-based payments of investees	–	34,815	–	–	–	–	201	35,016
Acquisition of treasury stock	–	–	–	–	–	(159,383)	–	(159,383)
Cash dividends	–	–	–	(3,860,978)	–	–	(533,625)	(4,394,603)
Stock dividends	3,449,584	–	–	(3,449,584)	–	–	–	–
Increase in noncontrolling interests	–	–	–	–	–	–	968,027	968,027
At December 31, 2007	₱26,855,394	₱603,949	(₱2,297,077)	₱60,172,621	₱1,712,016	(₱159,693)	₱27,609,387	₱114,496,597

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱12,503,571**	₱13,076,243	₱20,409,336
Adjustments for:			
Interest and other financing charges - net of amount capitalized (Note 21)	**3,822,342**	3,481,156	4,120,160
Depreciation and amortization (Note 21)	**3,345,985**	2,940,216	2,988,879
Provision for impairment loss (Note 21)	**1,435,038**	1,259,085	–
Cost of share-based payments (Note 26)	**471,572**	342,919	288,050
Equity in net income of associates and jointly controlled entities	**(7,361,015)**	(7,396,180)	(9,767,222)
Interest income	**(2,497,077)**	(2,242,895)	(1,693,045)
Gain on sale of investments (Note 21)	**(1,698,820)**	(3,554,679)	(8,844,822)
Bargain purchase gain (Note 21)	**(235,851)**	–	–
Other investment income (Note 21)	**(227,015)**	(264,495)	(73,500)
Gain on sale of other assets (Note 21)	**(168,063)**	(45,409)	(54,064)
Impairment loss on goodwill (Note 21)	**–**	–	662,591
Operating income before changes in working capital	**9,390,667**	7,595,961	8,036,363
Decrease (increase) in:			
Accounts and notes receivable (Note 32)	**559,913**	(8,896,301)	(2,254,055)
Inventories	**(863,784)**	(1,248,050)	1,981,833
Other current assets	**394,741**	(1,197,782)	863,696
Increase (decrease) in:			
Accounts payable and accrued expenses	**(538,698)**	4,169,567	4,239,429
Other current liabilities	**977,356**	(38,164)	97,469
Net pension liabilities	**(277,463)**	(17,620)	105,848
Cash generated from operations	**9,642,732**	367,611	13,070,583
Interest received	**2,363,205**	2,183,379	1,469,236
Interest paid	**(3,921,315)**	(3,655,908)	(3,837,504)
Income tax paid	**(1,407,267)**	(2,514,143)	(1,989,616)
Net cash provided by (used in) operating activities	**6,677,355**	(3,619,061)	8,712,699
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale of investments	**3,280,322**	9,777,713	7,930,635
Sale of available-for-sale financial assets	**775,353**	139,095	7,221,574
Disposals of property, plant and equipment	**853,945**	176,166	1,060,647
Maturities of (additions to) short-term investments	**(3,552,052)**	2,678,683	(759,678)
Additions to:			
Investments	**(1,872,563)**	(6,117,884)	(2,851,887)
Available-for-sale financial assets	**(926,982)**	(2,220,736)	(2,993,868)
Land and improvements (Note 9)	**(3,396,777)**	(145,544)	(548,392)
Investment properties (Note 12)	**(3,512,819)**	(773,616)	(929,835)
Property, plant and equipment (Note 13)	**(2,488,770)**	(5,965,432)	(3,302,179)
Dividends received from associates and jointly controlled entities	**7,679,137**	8,326,390	8,050,049
Acquisitions through business combinations by subsidiaries - net of cash acquired (Note 22)	**(800,312)**	(891,935)	(326,030)
Decrease (increase) in other noncurrent assets	**583,436**	292,557	(631,428)
Net cash provided by (used in) investing activities before cash items associated with noncurrent assets held for sale	**(3,378,082)**	5,275,457	11,919,608
Net cash provided by investing activities associated with noncurrent assets held for sale, including cash balance	**–**	–	624,788
Net cash provided by (used in) investing activities	**(3,378,082)**	5,275,457	12,544,396

(Forward)

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term and long-term debt	**₱13,303,049**	₱13,045,651	₱21,742,528
Issuance of preferred shares	**–**	5,958,307	–
Issuance of common shares	**–**	–	209,687
Collections of (additions to) subscriptions receivable	**31,198**	(64,745)	(96,267)
Payments of short-term and long-term debt	**(11,826,486)**	(12,025,905)	(21,392,701)
Dividends paid	**(3,626,165)**	(2,925,409)	(4,255,580)
Acquisition of treasury shares (Note 20)	**(138,173)**	(390,848)	(159,383)
Redemption of preferred shares	**–**	–	(2,500,000)
Increase in:			
Other noncurrent liabilities	**1,518,460**	396,915	676,578
Noncontrolling interests in consolidated subsidiaries	**209,941**	399,881	962,291
Net cash provided by (used in) financing activities	**(528,176)**	4,393,847	(4,812,847)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,771,097**	6,050,243	16,444,248
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**42,885,792**	36,835,549	20,391,301
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱45,656,889**	₱42,885,792	₱36,835,549

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 50.78% owned by Mermac, Inc., 10.55% 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, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 were endorsed for approval by the Audit Committee on March 5, 2010 and authorized for issue by the Executive Committee of the Board of Directors (BOD) on March 10, 2010.

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
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009. The financial statements of the subsidiaries are prepared for the same reporting year as the Company.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances, including intercompany profits and unrealized profits and losses, are eliminated in consolidation.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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	
	2009	2008
Real Estate and Hotels:		
Ayala Land, Inc. (ALI) and subsidiaries (ALI Group)	**53.3***	53.5*
Ayala Hotels, Inc. (AHI) and subsidiaries	**76.7**	76.8
Electronics, Information Technology and Business Process Outsourcing Services:		
Azalea Technology Investments, Inc. and subsidiaries (Azalea Technology)	**100.0**	100.0

(Forward)

	Effective Percentages of Ownership	
	2009	2008
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
Technopark Land, Inc.	**78.8**	78.8
Integrated Microelectronics, Inc. (IMI) and subsidiaries**	**67.8**	67.8
Automotive:		
Ayala Automotive Holdings Corporation (AAHC) and subsidiaries	**100.0**	100.0
International and Others:		
Bestfull Holdings Limited (incorporated in Hong Kong) and subsidiaries (BHL Group)	**100.0**	100.0
AC International Finance Limited (ACIFL) (Cayman Island Company) and subsidiary	**100.0**	100.0
AYC Finance Ltd. (Cayman Island Company)	**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

**The Company owns 75.33% and 75.46% of the total common and preferred shares of ALI as of December 31, 2009 and 2008, respectively.*
*** A subsidiary of AYC Holdings, Ltd. which is a subsidiary of ACIFL.*

On various dates in 2008, the Company converted US$171.88 million of its deposits for future stock subscription in AIVPL into equity, increasing the Company's ownership from 68.71% to 97.78%. Consequently, Azalea Technology's ownership in AIVPL was diluted from 31.29% to 2.22%.

On May 1, 2008, AIVPL converted its US$124 million deposits for future stock subscription in LiveIt Investments Ltd. (LIL) giving it 99.99% ownership interest in LIL. LSI, which previously held 100% of LIL, now holds 0.01% stake in LIL. LIL carries the Group's investments in Integreon Managed Solutions Inc. (Integreon), Affinity Express Inc. and Newbridge International Investments (Newbridge).

On March 1, 2008, the Company entered into a Deed of Assignment with AIVPL to transfer the Company's shares of Bayantrade in exchange for AIVPL's shares of stocks.

Noncontrolling 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 and changes in equity and within the equity section in the consolidated statements of financial position, separately from the Company's equity. Acquisitions of noncontrolling interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the nets assets acquired is recognized as goodwill.

<u>Changes in Accounting Policies</u>
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, 2009.

PAS 1, *Presentation of Financial Statements*
The revised standard introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Standard also requires additional requirements in the presentation of the statements of financial position and owner's equity as well as additional disclosures to be included in the financial statements. The Group elected to present two statements, a consolidated statement of income and a consolidated statement of comprehensive income. The consolidated financial statements have been prepared following the revised disclosure requirements.

PAS 23, *Borrowing Costs*
The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. It has been the Group's policy to capitalize borrowing costs, and as such, adoption of this revised standard did not have any impact on the consolidated financial statements.

PFRS 8, *Operating Segments*
PFRS 8 replaced PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated statements of financial position and consolidated statement of income and the Group will provide explanations and reconciliations of the differences. This Standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party. The Group has enhanced its current manner of reporting segment information to include additional information used by management internally. Segment information from prior years was restated to include additional information (see Note 27).

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire. The Group does not grant loyalty award credits to customers. As such, adoption of this Interpretation did not have any impact on the consolidated financial statements.

Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
This Interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of a net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. Adoption of this Interpretation did not have any impact on the consolidated financial statements.

Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) Instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets, (b) Instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation, (c) Instruments in the subordinate class have identical features; (d) The instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) Total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument. Adoption of these amendments did not have any impact on the consolidated financial statements.

Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* and PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS. The Amendments to PAS 27 has changes in respect of the holding companies' separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is any indicator of impairment. The new requirement does not have an impact on the consolidated financial statements.

Amendments to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
This Standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires nonvesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a nonvesting condition that is within the control of either the entity or the counterparty is accounted for as a cancellation. However, failure to satisfy a nonvesting condition that is beyond the control of either party does not give rise to a cancellation. Adoption of this revised standard did not have any impact on the consolidated financial statements.

Amendment to PFRS 7, *Financial Instruments: Disclosures*
The amended PFRS 7 requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures as follows: (a) exclusion of derivative liabilities from maturity analysis unless the contractual maturities are essential for an understanding of the timing of the cash flows; and (b) inclusion of financial guarantee contracts in the contractual maturity analysis based on the maximum amount guaranteed. The fair value measurement disclosures are presented in Note 30 to the consolidated financial statements while the current liquidity risk disclosures are not significantly impacted by the amendments.

Amendment to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* and PAS 39, *Financial Instruments: Recognition and Measurement*
These amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. PAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as fair value through profit or loss. Adoption of these amendments did not have any impact on the consolidated financial statements.

Improvements to PFRS
In May 2008 and April 2009, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each Standard. These amendments are effective beginning January 1, 2009. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the consolidated financial statements.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a noncontrolling interests in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements*
  Assets and liabilities classified as held for trading are not automatically classified as current in the consolidated statement of financial position.

- PAS 16, *Property, Plant and Equipment*
  This amendment replaces the term ‘net selling price’ with ‘fair value less costs to sell’, to be consistent with PFRS 5 and PAS 36, *Impairment of Assets*.

  Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 18, *Revenue*
  The amendment adds guidance (which accompanies the Standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

  a. has primary responsibility for providing the goods or service;
  b. has inventory risk;
  c. has discretion in establishing prices; and,
  d. bears the credit risk

  The Group assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements.

- PAS 19, *Employee Benefits*
  Revises the definition of ‘past service cost’ to include reduction in benefits related to past services (‘negative past service cost’) and to exclude reduction in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

It revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled and it deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- PAS 23, *Borrowing Costs*
  Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

- PAS 28, *Investments in Associates*
  If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

  An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*
  Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interests in Joint Ventures*
  If a joint venture is accounted for at fair value in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*
  When discounted cash flows are used to estimate 'fair value less costs to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*
  Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.

  It deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit-of-production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  Changes in circumstances relating to derivatives, specifically derivatives designated or de-designated as hedging instruments after initial recognition are not reclassifications.

  When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.

  It removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.

  It requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Property*
  It revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

- PAS 41, *Agriculture*
  It removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.

  It removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Future Changes in Accounting Policies
The Group will adopt the following standards and 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 in 2010

Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*
The revised PFRS 3 and revised PAS 27 will be effective for annual periods beginning on or after July 1, 2009. Revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and noncontrolling interests (previously referred to as 'minority interests'); even if the losses exceed the noncontrolling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively, while changes introduced by revised PAS 27 must be applied retrospectively with a few exceptions. The changes will affect future acquisitions and transactions with noncontrolling interest.

Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible hedged items*
The Amendment to PAS 39 will be effective for annual periods beginning on or after July 1, 2009. This Amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. This 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.

Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*
IFRIC 17 will be effective for annual periods beginning on or after July 1, 2009. This Interpretation provides guidance on the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners: (a) distributions of non-cash assets (e.g. items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5; and (b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative. The Group does not expect the Interpretation to have an impact on the consolidated financial statements.

Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
This Interpretation will be effective for annual periods beginning on or after July 1, 2009. This Interpretation is to be applied prospectively to transfers of assets from customers received on or after July 1, 2009. The Interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. When the transferred item meets the definition of an asset, the asset is measured at fair value on initial recognition as part of an exchange transaction. The service(s) delivered are identified and the consideration received (the fair value of the asset) allocated to each identifiable service. Revenue is recognized as each service is delivered by the entity.

Amendments to *PFRS 2, Group Cash-settled Share-based Payment Transactions*
The amendments to PFRS 2, *Share-based Payments* is effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group as the Group has not entered into any such share-based payment transactions.

Improvements to PFRS
The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning January 1, 2010 except as otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- 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. The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  The Amendment 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 non-current assets or discontinued operations.

- PFRS 8, *Operating Segment Information*
  The Amendment 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*
  The Amendment explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
  The Amendment removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating 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. 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.

Effective in 2012

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as 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 reward 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 Interpretation will be accounted for retrospectively, and will result to restatement of prior period financial statements. The adoption of this 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 Interpretation when it becomes effective in 2012.

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

Financial assets 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 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 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 recognizing gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets 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.

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.

Derivative financial instruments also include bifurcated embedded derivatives. 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.

For bifurcated embedded derivatives in financial contracts that are not designated or do not qualify as hedges, changes in the fair values of such transactions are recognized in the consolidated statement of income.

Contracts that are entered into and continue to be held for the purpose of the receipt of the raw materials in accordance with the Group's expected usage requirements are considered normal purchase agreements.

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 sell 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. HTM investments are included in current assets if expected to be realized within 12 months from reporting date. HTM investments that are not due in the next 12 months are presented under "Investments in bonds and other securities" account in the consolidated statement of financial position.

The Group's HTM investments pertain to bonds included under "Other current assets" account in 2008.

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 statements 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.

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' 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 21).

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 quoted and unquoted equity securities included under "Investments in bonds and other securities" in the consolidated statement of financial position. AFS financial assets are included in 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" account in the consolidated statement of income.

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 and HTM investments
For loans and receivables and HTM investments 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 21). 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 those costs incurred for the development and improvement of properties, including capitalized borrowing costs.

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.

Noncurrent Assets Held for Sale
Noncurrent assets held for sale are carried at the lower of its carrying amount and fair value less costs to sell. At each reporting date, the Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The related results of operations and cash flows of the disposal group that qualified as discontinued operation are separated from the results of those that would be recovered principally through continuing use, and prior years' consolidated statement of income and cash flows are re-presented. Results of operations and cash flows of the disposal group that qualified as discontinued operation are presented in the consolidated statement of income and consolidated statement of cash flows as items associated with noncurrent assets held for sale.

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, except for an interest in a joint venture, which is accounted for using proportionate consolidation. 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 a 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. Under the proportionate consolidation method for the Group's interest in a joint venture through Makati Development Corporation (MDC), an ALI subsidiary, the Group 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.

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.

Investment Properties

Investment properties consist of properties 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.

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 of investment properties follow:

Land improvements	5 years
Buildings	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 includes the following types of assets and their corresponding estimated useful lives:

Hotel buildings and improvements	30-50 years
Land improvements	30 years
Leasehold improvements	5-20 years
Furniture, furnishing and equipment	5 years
Machinery and equipment	5 years
Transportation equipment	5 years

The assets residual values, useful lives and depreciation and amortization method 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 or charged against current operations.

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

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 are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets (including previously unrecognized intangible assets) acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition, irrespective of the extent of any noncontrolling interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of the impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill allocated to a CGU is included in the carrying amount of the CGU being disposed when determining the gain or loss on disposal. For partial disposal of operation within the CGU, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining gain or loss on disposal and measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained, unless another method better reflects the goodwill associated with the operation disposed of.

Impairment of Nonfinancial Assets
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 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.

Treasury Stock
Own equity instruments which are reacquired and held by the Company or by other companies of the consolidated group are carried at cost and are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. 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 and cost from sales of completed projects by real estate subsidiaries are accounted for using the full accrual method. The percentage of completion method is used to recognize income from sales of projects where the subsidiaries have material obligations under the sales contracts to complete the project after the property is sold. Under this method, gain 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.

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.

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

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

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.

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 or loss is recognized in the consolidated statement of income if the Company 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 risk 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.

<u>Commission Expense</u>
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 “Cost of sales and services” in the consolidated statement of income.

<u>Borrowing Costs</u>
Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development cost (included in real estate inventories, investment properties and property, plant and equipment). Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate from general borrowings and the actual borrowing costs eligible for capitalization for funds borrowed specifically. All other borrowing costs are expensed in the period they occur.

<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, 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.

Income Tax
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 by the statement of financial position 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 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 BHL, AIVPL and IMI is the US Dollar ($). As at 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 thereporting 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.

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 26 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 at 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 24).

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 earnings per share does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share.

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 27 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:

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 is 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 Company 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 Bases Conversion Development Authority (BCDA) to develop, under a lease agreement, a mall on a 9.8-hectare lot inside Fort Bonifacio. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessor.

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 generates cash flows largely independent of the other assets held by an entity. 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).

HTM investments
The classification of HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances, it will be required to reclassify the entire portfolio as AFS financial asset. The investments would therefore be measured at fair value and not at amortized cost.

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 34).

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
ALI Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. ALI Group's revenue from real estate and construction 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, 2009 and 2008, allowance for impairment losses amounted to ₱373.0 million and ₱357.8 million, respectively. Accounts and notes receivable, net of allowance for doubtful accounts, amounted to ₱27.9 billion and ₱30.0 billion as of December 31, 2009 and 2008, 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 ₱9.0 billion and ₱8.2 billion as of December 31, 2009 and 2008, respectively. Inventories carried at NRV amounted to ₱1.8 billion as of December 31, 2009 and 2008 (see Note 7).

Evaluation of impairment of nonfinancial assets
The Group reviews investments in associates and jointly controlled entities, investment properties, property, plant and equipment 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 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 Group'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 2009 and 2008 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.

In determining the amount of impaired goodwill in 2007, the Group determined the recoverable amount of the investment in a subsidiary based on the estimated net selling price of the cash generating unit to which the goodwill is allocated. The excess of the carrying amount of the investment over the estimated net selling price is allocated first to the goodwill, resulting in an impairment loss of ₱662.6 million (see Note 14).

Investments in associates and jointly controlled entities, investment properties, property, plant and equipment and intangible assets amounted to ₱113.0 billion and ₱107.2 billion as of December 31, 2009 and 2008, respectively (see Notes 10, 12, 13 and 14).

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 ₱37.5 billion and ₱35.8 billion as of December 31, 2009 and 2008, respectively (see Notes 12, 13 and 14).

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, 2009 and 2008, the Group has net deferred tax assets amounting to ₱1,396.0 million and ₱1,132.8 million, respectively and net deferred tax liabilities amounting to ₱207.4 million and ₱185.5 million, respectively (see Note 23).

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 ₱471.6 million in 2009, ₱342.9 million in 2008 and ₱288.0 million in 2007.

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 25 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 25 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 method. See Notes 6, 8, 11, 19 and 30 for the related balances.

Purchase price allocation
2009 Acquisition
As of December 31, 2009, the purchase price allocation relating to the Group's acquisition of Grail Research, Inc. (Grail) 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.

2008 Acquisition
As of December 31, 2008, the purchase price allocation relating to the Group's acquisition of Datum Legal, Inc. (Datum) has been prepared on a preliminary basis. In 2009, purchased price allocation of Datum was finalized and there were no significant changes to the fair values of the assets acquired and liabilities assumed.

As of December 31, 2008, the purchase price allocation relating to the Group's acquisition of ALI Property Partners Holdings Company (APPHC) and ALI Property Partners Corporation (APPCo.) has been prepared on a preliminary basis. In 2009, the Group finalized its purchased price allocation and the 2008 comparative information has been restated to reflect adjustments to the fair values of investment properties and property, plant and equipment.

4. Cash and Cash Equivalents

This account consists of the following:

	2009	2008
	(In Thousands)	
Cash on hand and in banks	**₱3,960,792**	₱3,772,560
Cash equivalents	**41,696,097**	39,113,232
	₱45,656,889	₱42,885,792

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:

	2009	2008
PHP	**4.0% to 4.8%**	5.3% to 7.1%
US$	**1.9% to 4.8%**	3.5% to 4.8%

6. Accounts and Notes Receivable

This account consists of the following:

	2009	2008
	(In Thousands)	
Trade:		
Real estate	**₱13,011,442**	₱10,565,254
Electronics manufacturing	**3,881,439**	3,152,168
Information technology and business process outsourcing (BPO)	**877,188**	352,084
Automotive	**849,301**	665,670
International and others	**3,803**	64,074
Related parties (Note 29)	**3,390,161**	7,869,143
Advances to other companies	**2,888,665**	3,643,843
Advances to contractors and suppliers	**2,604,816**	2,496,665
Investment in bonds classified as loans and receivables	**200,000**	–
Others	**556,589**	1,526,961
	28,263,404	30,335,862
Less allowance for doubtful accounts	**372,982**	357,831
	27,890,422	29,978,031
Less noncurrent portion	**2,657,623**	6,694,021
	₱25,232,799	₱23,284,010

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 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.

Electronics manufacturing
Electronics manufacturing receivables pertain to receivables arising from manufacturing and other related services for electronic products and components and collectible within 30 to 60 days from invoice date.

Information technology and BPO
Information technology and BPO receivables arose 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.

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.

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.

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's (LBP's) 7.25% 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, receivable from employees and other nontrade receivables.

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

	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 21)	**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	**₱178,618**	**₱14,436**	**₱30,451**	**₱77,405**	**₱103**	**₱36,033**	**₱337,046**

	2008						
	Real Estate	Electronics Manufacturing	Automotive	Information Technology and BPO	International and Others	Others	Total
At January 1	₱119,508	₱31,180	₱26,107	₱18,261	₱61,160	₱83,130	₱339,346
Provisions during the year (Note 21)	61,526	7,256	217	5,866	–	14,006	88,871
Write-offs	(44,305)	–	–	–	–	–	(44,305)
Reversals	–	(2,159)	–	(5,007)	–	(18,915)	(26,081)
At December 31	₱136,729	₱36,277	₱26,324	₱19,120	₱61,160	₱78,221	₱357,831
Individually impaired	₱82,628	₱36,277	₱217	₱19,120	₱60,134	₱75,160	₱273,536
Collectively impaired	54,101	–	26,107	–	1,026	3,061	84,295
Total	₱136,729	₱36,277	₱26,324	₱19,120	₱61,160	₱78,221	₱357,831
Gross amount of loans and receivables individually determined to be impaired	₱83,124	₱36,277	₱217	₱19,120	₱60,134	₱122,221	₱321,093

As of December 31, 2009 and 2008, certain receivables with a nominal amount of ₱12,502.9 million and ₱14,720.2 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 ₱1,766.0 million and ₱843.4 million as of December 31, 2009 and 2008, respectively.

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$5.6 million (₱258.7 million) 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 consolidated statement of income (see Note 21).

7. Inventories

This account consists of the following:

	2009	2008
	(In Thousands)	
Real estate inventories:		
Subdivision land for sale		
At cost	**₱4,230,063**	₱3,156,622
At NRV	**524,158**	608,955
Condominium, residential and commercial units for sale - at cost	**3,521,952**	3,681,273
Club shares - at cost	**242,320**	281,022
Materials, supplies and others - at NRV (cost of ₱1,473,369 in 2009 and ₱1,650,194 in 2008)	**1,215,129**	1,122,616
Work-in-process - at cost	**253,622**	344,240
Vehicles - at cost	**398,849**	265,478
Finished goods - at cost	**222,446**	268,958
Parts and accessories - at NRV (cost of ₱124,925 in 2009 and ₱135,296 in 2008)	**96,691**	108,576
Construction materials - at cost	**91,818**	173,615
	₱10,797,048	₱10,011,355

Inventories recognized as cost of sales amounted to ₱34.3 billion, ₱34.4 billion and ₱30.2 billion in 2009, 2008 and 2007, respectively, and were included under costs of sales and services in the consolidated statement of income (see Note 21).

The Group recorded a provision for impairment amounting to ₱78.1 million and ₱136.6 million in 2009 and 2008. The provision is included under “Other charges” in the consolidated statement of income (see Note 21).

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” in the consolidated statement of income (see Note 21).

8. **Other Current Assets**

This account consists of the following:

	2009	2008
	(In Thousands)	
Prepaid expenses	**₱1,808,813**	₱1,845,997
Value-added input tax	**1,426,839**	1,102,560
Financial assets at FVPL	**926,860**	2,233,201
Treasury bills (Note 11)	**925,694**	–
Creditable withholding tax	**914,243**	1,209,148
HTM investments	**–**	65,405
Others	**544,555**	634,083
	₱6,547,004	₱7,090,394

Financial assets at FVPL consist of:

	2009	2008
	(In Thousands)	
Held for trading:		
Government securities	**₱433,821**	₱1,778,720
Designated as at FVPL:		
Investment securities	**493,039**	454,481
	₱926,860	₱2,233,201

Government securities pertain to treasury bonds that have yields to maturity of 4.2% to 4.8% in 2009 and 5.5% to 6.4% in 2008. The Group recognized unrealized loss on these government securities amounting to ₱0.7 million in 2009, ₱3.9 million in 2008 and unrealized gain of ₱18.0 million in 2007 (see Note 21). The Group recognized realized gains on disposal amounting to ₱25.2 million and ₱1.1 million in 2009 and 2008, respectively (see Note 21).

Investment securities pertain mostly to the Group's investment in The Rohatyn Group (TRG) Allocation LLC, which has a fair value of US$9.4 million (₱448.2 million) as of December 31, 2008. Unrealized gains on this investment amounted to US$0.3 million (₱14.7 million) and US$2.9 million (₱119.5 million) in 2009 and 2008, respectively (see Note 21). 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.

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.

HTM investments in 2008 pertain to fixed rate treasury notes that bear an effective interest rate of 11.4% which matured on February 25, 2009.

Freestanding derivatives
In 2009, IMI entered into various short-term currency forwards with aggregate nominal amount of $27.64 million. In 2008, IMI entered into structured currency options for economic hedges which it unwound in the second quarter of 2008 (see Note 21). The remaining outstanding structured currency options after the unwinding program have maturity dates of up to November 2008.

As of December 31, 2009 and 2008, IMI has no outstanding derivative transactions.

Fair Value Changes on Derivatives
The net movements in fair values of the Group's freestanding derivative instruments as of December 31 follow (amounts in thousands):

	2009	2008
Balance at beginning of year	**₱–**	₱143,322
Net changes in fair value of derivatives not designated as accounting hedges	**7,665**	(1,448,978)
	7,665	(1,305,656)
Fair value of settled instruments	**(7,665)**	1,305,656
Balance at end of year	**₱–**	₱–

The net changes in fair value of derivatives not designated as accounting hedges include hedging losses amounting to ₱1,456 million in 2008 included under "Interest expense and other financing charges" and fair value gain amounting to ₱7.7 million and ₱7.0 million in 2009 and 2008, respectively, included as part of "Marked-to-market gain" under "Other income" account in the consolidated statement of income (see Note 21).

9. **Land and Improvements**

This account consists of:

	2009	2008
	(In Thousands)	
Cost		
Balance at beginning of the year	**₱15,974,474**	₱16,418,181
Additions	**3,396,777**	145,544
Transfers*	**(804,954)**	(588,841)
Write-offs (Note 21)	**(202,983)**	–
Disposals	**–**	(410)
Balance at end of the year	**18,363,314**	15,974,474
Allowance for decline in value		
Balance at beginning of the year	**217,580**	217,580
Additions	**568,672**	–
Transfers*	**(5,500)**	–
Balance at end of the year	**780,752**	217,580
	₱17,582,562	₱15,756,894

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

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 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.

In 2009, the Group recorded provision for impairment amounting ₱568.7 million. The amount of impairment has been included under "Other charges" in the consolidated statement of income (see Note 21).

10. Investments in Associates and Jointly Controlled Entities

This account consists of the following:

	2009	2008
	(In Thousands)	
Acquisition cost	**₱54,906,614**	₱52,426,662
Accumulated equity in earnings	**15,991,568**	15,488,891
Cumulative translation adjustments and equity reserves	**658,770**	224,841
	₱71,556,952	₱68,140,394

The Group's equity in the net assets of its associates and jointly controlled entities and the related percentages of ownership are shown below:

	Percentage of Ownership		Carrying Amounts	
	2009	2008	**2009**	2008
Domestic:			(In Millions)	
Bank of the Philippine Islands and subsidiaries (BPI)	**33.5****	33.5**	**₱29,406**	₱28,533
Globe Telecom, Inc. and subsidiaries (Globe)*	**30.5**	30.5	**17,313**	18,000
Stream Global Services, Inc. (Stream)	**25.7**	–	**4,879**	–
Manila Water Company, Inc. and subsidiaries (MWCI)*	**31.5****	29.9**	**4,308**	3,188
Emerging City Holdings, Inc. (ECHI)*	**50.0**	50.0	**3,371**	2,823
Cebu Holdings, Inc. and subsidiaries (CHI)	**47.2**	47.2	**1,972**	1,940
Bonifacio Land Corporation (BLC)	**5.0**	5.0	**1,465**	1,118
Berkshires Holdings, Inc. (BHI)*	**50.0**	50.0	**1,445**	1,210
Philwater Holdings Company, Inc. (Philwater)*	**60.0**	60.0	**1,430**	1,193
North Triangle Depot Commercial Corporation (NTDCC)	**49.0**	49.0	**1,417**	1,555
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	**887**	843
Alabang Commercial Corporation (ACC)*	**50.0**	50.0	**609**	595
EGS Corporation (EGS Corp.)*	**–**	50.0	**–**	3,346
Foreign:				
ARCH Asian Partners L.P.	**19.2****	19.2**	**1,437**	959
Others	**Various**	Various	**1,618**	2,837
			₱71,557	₱68,140

** 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 ₱104,803.2 million and ₱79,767.2 million as of December 31, 2009 and 2008, respectively.

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

BPI	2009	2008
Total resources	**₱724,420**	₱666,612
Total liabilities	**656,655**	602,740
Noncontrolling interest	**967**	938
Net interest income	**21,402**	19,463
Other income	**12,993**	10,321
Other expenses	**19,676**	18,312
Net income attributable to:		
Equity holders of the bank	**8,516**	6,423
Noncontrolling interests	**149**	134
Earnings per share		
Basic	**2.62**	1.98
Diluted	**2.62**	1.98

Globe	2009	2008
Current assets	**₱18,415**	₱17,541
Noncurrent assets	**109,228**	102,202
Total assets	**127,643**	119,743
Current liabilities	**33,576**	33,728
Noncurrent liabilities	**46,359**	35,923
Total liabilities	**79,935**	69,651
Net operating revenue	**65,807**	65,964
Costs and expenses	**47,834**	48,118
Net income	**12,569**	11,276
Earnings per share:		
Basic	**94.59**	84.75
Diluted	**94.31**	84.61

MWCI	2009	2008
Current assets	**₱9,178**	₱8,595
Noncurrent assets	**34,580**	27,774
Total assets	**43,758**	36,369
Current liabilities	**5,427**	4,231
Noncurrent liabilities	**21,361**	17,680
Total liabilities	**26,788**	21,911
Revenue	**9,533**	8,914
Costs and expenses	**4,686**	4,396
Net income	**3,231**	2,788
Earnings per share:		
Basic	**1.31**	1.13
Diluted	**1.31**	1.13

Stream	2009	
	In US$	In Php*
Current assets	US$227	₱10,505
Noncurrent assets	453	20,949
Total assets	680	31,454
Current liabilities	115	5,329
Noncurrent liabilities	262	12,108
Total liabilities	377	17,437
Revenue	585	27,016
Costs and expenses	590	27,273
Net income	(28)	(1,320)
Loss per share:		
Basic	(3.46)	(159.85)
Diluted	(3.46)	(159.85)

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

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.

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

<u>Investment in Globe</u>
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 21). The Company also holds 60% of Asiacom Philippines, Inc., which owns 158.5 million Globe preferred shares. The Company does not exercise control over Asiacom since it is a joint venture with SingTel.

<u>Investment in eTelecare and Stream</u>
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$9.00 per share. New Bridge and Providence formed a 50-50 joint venture company, EGS Corp. to own 100% of EGS Acquisition Corp. (EGS Acquisition).

On December 12, 2008, EGS Acquisition 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 Corp., 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 to EGS Corp. (see Note 29). These advances were originally borrowed by EGS Corp. from AYC Holdings. AYC Holdings assigned the advances to NewBridge.
- NewBridge shall transfer to Stream all the shares of EGS Corp. 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 $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 $5.30 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 $5,994 in lieu of 1,131 shares. As a result of the transaction, NewBridge:

- derecognized its Investment in and Loan Receivable from EGS Corp. 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 Stream at a total cost of US$1.9 million.

As of December 31, 2009, Newbridge's effective ownership in Stream is 25.76%.

<u>Investment in MWCI</u>
In various dates in 2009, the Company acquired 40.8 million common shares of MWCI for a total consideration of ₱572.4 million. This increased the Company's ownership interest in MWCI from 29.9% to 31.5%.

<u>Investment in NTDCC</u>
In 2007, a series of capital calls were made by NTDCC amounting to ₱484.8 million, increasing ALI'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.

<u>Investment in ECHI, BHI and BLC</u>
ALI Group's investment in BLC is accounted for using the equity method because the ALI Group has significant influence over BLC. ECHI and BHI are joint venture companies established by ALI to indirectly hold its equity interest in BLC.

On July 31, 2008, the ALI Group acquired additional 4,360,178 shares of BLC from Fort Bonifacio Development Corporation amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC. This resulted in an increase in ALI Group's effective interest in BLC from 37.23% to 41.10%.

In January and October 2009, ALI Group acquired additional 2,295,207 shares of BLC from the Development Bank of the Philippines and Metro Pacific Corporation (MPC) amounting to ₱362.6 million. This resulted in an increase in the ALI Group's effective interest in BLC from 41.10% as of December 31, 2008 to 45.05% as of December 31, 2009.

<u>Investment in Philwater</u>
The Company does not exercise control over Philwater since it is a joint venture with United Utilities Pacific Holdings BV.

Investment in ARCH Fund
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 2008, the Fund issued a capital call where the Company and ALI's share amounted to US$3.9 million. In 2009, the Fund issued another capital call where the Company and ALI's share amounted US$6.4 million.

As of December 31, 2009, the Company and ALI's remaining capital commitment with the Fund amounted to US$31.8 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 ₱1,164.4 million and ₱1,950.7 million as of December 31, 2009 and 2008, 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. The impairment loss is netted against the equity in net income of associates and jointly controlled entities in the consolidated statements 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 ₱12.2 billion and ₱10.5 billion and as of December 31, 2009 and 2008, respectively.

As of December 31, 2009 and 2008, the Group has no capital commitments with its jointly controlled entities.

11. **Investments in Bonds and Other Securities**

This account consists of investments in:

	2009	2008
	(In Thousands)	
AFS financial assets		
Quoted equity investments	**₱877,509**	₱1,449,982
Unquoted equity investments	**2,392,489**	1,614,520
	3,269,998	3,064,502
Quoted debt investments	**1,199,154**	–
	4,469,152	3,064,502
Less current portion (Note 8)	**925,694**	–
	₱3,543,458	₱3,064,502

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. It also includes the Group's investment in Red River Holding in 2008. The Red River Holding 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$2.0 million.

Unquoted equity investments also include unlisted preferred shares in a public utility company which the Group will continue to carry as part of the infrastructure that it provides for its real estate development projects. These are carried at cost less impairment, if any.

As of December 31, 2009 and 2008, the Net Unrealized Gain (Loss) on AFS financial assets as reflected in the equity section is broken down as follows:

	2009	2008
	(In Thousands)	
Net unrealized gain on AFS financial assets of the Company and its consolidated subsidiaries	**₱463,852**	₱78,320
Share in the net unrealized loss on AFS financial assets of associates	**(339,936)**	(709,447)
	₱123,916	(₱631,127)

The rollforward of unrealized gain (loss) on AFS financial assets of the Company and its consolidated subsidiaries is as follows:

	2009	2008
	(In Thousands)	
Balance at beginning of year	**₱78,320**	₱834,589
Changes in fair value recognized in equity	**409,245**	(1,862,720)
Recognized in profit and loss	**(23,713)**	1,106,451
Balance at end of year	**₱463,852**	₱78,320

12. **Investment Properties**

The movements in investment properties follow:

2009

	Land	**Building**	**Total**
		(In Thousands)	
Cost			
Balance at beginning of the year	**₱5,772,835**	**₱21,406,904**	**₱27,179,739**
Additions	**273,744**	**3,239,075**	**3,512,819**
Transfers	**–**	**5,944,985**	**5,944,985**
Retirements	**(247)**	**(686,555)**	**(686,802)**
Balance at end of the year	**6,046,332**	**29,904,409**	**35,950,741**
Accumulated Depreciation and Amortization			
Balance at beginning of the year	**152,589**	**5,682,170**	**5,834,759**
Depreciation and amortization (Note 21)	**–**	**982,125**	**982,125**
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**	**6,834,395**	**6,861,011**
Net Book Value	**₱6,019,716**	**₱23,070,014**	**₱29,089,730**

2008

	Land	Building	Total
		(In Thousands)	
Cost			
Balance at beginning of the year	₱5,798,283	₱16,898,156	₱22,696,439
Additions	3,932	769,684	773,616
Additions through business combination (Note 22)	–	4,017,955	4,017,955
Retirements	(29,380)	(278,891)	(308,271)
Balance at end of the year	5,772,835	21,406,904	27,179,739
Accumulated Depreciation and Amortization			
Balance at beginning of the year	152,589	5,127,677	5,280,266
Depreciation and amortization (Note 21)	–	730,845	730,845
Additions through business combination (Note 22)	–	73,828	73,828
Retirements	–	(250,180)	(250,180)
Balance at end of the year	152,589	5,682,170	5,834,759
Net Book Value	₱5,620,246	₱15,724,734	₱21,344,980

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 ₱168.9 billion in 2009 and ₱131.91 billion in 2008. The fair values of the investment properties were determined based on valuations performed by independent professional qualified appraisers.

Consolidated rental income from investment properties amounted to ₱7.4 billion in 2009, ₱5.9 billion in 2008 and ₱5.5 billion in 2007. Consolidated direct operating expenses arising from the investment properties amounted to ₱2.5 billion in 2009, ₱3.1 billion in 2008 and ₱2.4 billion in 2007.

13. Property, Plant and Equipment

The movements in property, plant and equipment follow:

	2009						
	Land, Buildings and Improvements (Note 18)	Machinery and Equipment (Note 28)	Hotel Property and Equipment (Note 18)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
				(In Thousands)			
Cost							
At January 1	₱3,817,895	₱7,641,215	₱2,927,132	₱1,999,690	₱1,409,698	₱5,965,846	₱23,761,476
Additions	715,796	473,065	90,058	587,372	545,770	76,709	2,488,770
Additions through business combination (Note 22)	65,576	136,376	–	–	–	–	201,952
Disposals	(31,375)	(688,579)	(94,750)	(41,855)	(431,027)	(2,588)	(1,290,174)
Transfers	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	4,638,489	7,455,306	2,922,440	2,518,254	1,522,672	92,716	19,149,877
Accumulated depreciation and amortization and impairment loss							
At January 1	1,980,551	4,065,995	1,499,952	1,594,811	735,350	–	9,876,659
Depreciation and amortization for the year (Note 21)	347,132	1,205,873	125,105	306,969	142,894	–	2,127,973
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	2,383,439	4,880,684	1,538,265	1,846,267	729,359	–	11,378,014
Net book value	₱2,255,050	₱2,574,622	₱1,384,175	₱671,987	₱793,313	₱92,716	₱7,771,863

	2008						
	Land, Buildings and Improvements (Note 18)	Machinery and Equipment (Note 28)	Hotel Property and Equipment (Note 18)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
				(In Thousands)			
Cost							
At January 1	₱3,407,607	₱6,675,439	₱2,693,069	₱1,985,808	₱1,040,022	₱1,354,449	₱17,156,394
Additions	376,720	1,269,742	236,064	276,505	477,798	3,328,603	5,965,432
Additions through business combination (Note 22)	227	70,046	–	23,698	1,640	1,287,009	1,382,620
Disposals	(317,916)	(235,628)	(2,001)	(59,994)	(118,428)	(4,215)	(738,182)
Transfers	29,829	(705,809)	–	(300,200)	–	–	(976,180)
Exchange differences	321,428	567,425	–	73,873	8,666	–	971,392
At December 31	3,817,895	7,641,215	2,927,132	1,999,690	1,409,698	5,965,846	23,761,476
Accumulated depreciation and amortization and impairment loss							
At January 1	₱1,760,130	₱3,372,359	₱1,399,430	₱1,515,742	₱615,888	₱–	₱8,663,549
Depreciation and amortization for the year (Note 21)	325,341	938,985	102,523	260,529	205,204	–	1,832,582
Impairment loss for the year (Note 21)	36,003	–	–	37,400	–	–	73,403
Additions through business combination (Note 22)	26	65,557	–	8,632	1,439	–	75,654
Disposals	(283,376)	(187,297)	(2,001)	(44,063)	(90,688)	–	(607,425)
Transfers	–	(395,901)	–	(206,512)	–	–	(602,413)
Exchange differences	142,427	272,292	–	23,083	3,507	–	441,309
At December 31	1,980,551	4,065,995	1,499,952	1,594,811	735,350	–	9,876,659
Net book value	₱1,837,344	₱3,575,220	₱1,427,180	₱404,879	₱674,348	₱5,965,846	₱13,884,817

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱2,128.0 million in 2009, ₱1,832.6 million in 2008 and ₱1,819.2 million in 2007 (see Note 21).

In 2008, IMI recognized an impairment loss amounting to ₱73.4 million representing the carrying amount of the production assets dedicated to EPSON Imaging Devices, Panasonic Communication of the Philippines and Panac Co. Ltd., net of reimbursements received, following the pre-termination of the existing manufacturing agreements with said companies (see Note 21).

Part of the property, plant and equipment derecognized by IMI pertains to facilities damaged by fire with book value amounting to US$0.1 million (₱4.6 million). The loss from the damaged facilities is included under “General and administrative” in the consolidated statement of income.

Starting January 2009, IMI extended the estimated useful life of Surface Mount Technology and other production equipment from five to seven years due to factors which demonstrated that the equipment can be used for more than five years. The change in estimated useful life reduced depreciation expense for the year by US$2.07 million (₱95.6 million).

14. Intangible Assets

The movements in intangible assets follow:

	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 22)	**550,506**	**280,430**	–	–	**14,505**	–	**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	**4,667,694**	**1,462,043**	**4,128**	**4,620**	**34,172**	**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 21)	–	**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	**₱4,005,103**	**₱502,729**	**₱–**	**₱1,050**	**₱6,160**	**₱96,842**	**₱4,611,884**

	2008						
	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Total
				(In Thousands)			
Cost							
At January 1	₱3,264,238	₱936,354	₱4,128	₱4,128	₱20,312	₱140,946	₱4,370,106
Additions through business combination (Note 22)	343,743	153,680	–	–	–	–	497,423
Exchange differences	374,275	136,435	–	624	–	20,636	531,970
At December 31	3,982,256	1,226,469	4,128	4,752	20,312	161,582	5,399,499
Accumulated amortization and impairment loss							
At January 1	662,591	414,487	4,128	1,652	11,551	–	1,094,409
Amortization (Note 21)	–	318,766	–	826	8,761	48,436	376,789
Exchange differences	–	62,655	–	249	–	–	62,904
At December 31	662,591	795,908	4,128	2,727	20,312	48,436	1,534,102
Net book value	₱3,319,665	₱430,561	₱–	₱2,025	₱–	₱113,146	₱3,865,397

Goodwill mainly comprises the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by IMI and Integreon, Inc (Integreon).

Impairment testing of goodwill for IMI
Goodwill acquired through business combinations have been allocated to three individual CGUs of IMI for impairment testing as follows:

	2009		2008	
	In US$	**In Php***	In US$	In Php**
		(In Thousands)		
Speedy Tech Electronics, Ltd.	**US$45,128**	**₱2,084,916**	US$45,128	₱2,144,483
Saturn	**657**	**30,353**	657	31,221
M. Hansson Consulting, Inc.	**441**	**20,374**	441	20,956
	US$46,226	**₱2,135,643**	US$46,226	₱2,196,660

**Translated using the closing exchange rate at the statements of financial position date (US$1:₱46.20)*
***Translated using the closing exchange rate at the statements of financial position date (US$1:₱47.52)*

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 five-year period. The pre-tax discount rate applied to cash flow projections is 12% and 10% in 2009 and 2008, respectively, and cash flows beyond the five-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.

Based on the value-in-use calculations, the carrying values of the CGUs did not exceed their recoverable amounts. Therefore, IMI did not recognize any impairment loss in 2009 and 2008.

With regard to the assessment of value-in-use of the three CGUs, IMI management believes that a reasonably possible change in any of the above key assumptions will not cause the carrying value of the CGU to materially exceed its recoverable amount.

Impairment testing of goodwill for Integreon
The Goodwill of Integreon arose from the acquisition of the following companies:

	2009		2008	
	In US$	**In Php***	In US$	In Php**
		(In Thousands)		
Grail	**US$11,557**	**₱533,933**	US$–	₱–
CBF Group, Inc.	**10,153**	**469,069**	10,153	482,471
Integreon Managed Solutions, Inc.	**8,770**	**405,174**	8,770	416,750
Datum Legal, Inc.	**5,374**	**248,279**	3,678	174,779
Contentscape	**370**	**17,094**	370	17,582
	US$36,224	**₱1,673,549**	US$22,971	₱1,091,582

**Translated using the closing exchange rate at the reporting date (US$1:₱46.20)*
***Translated using the closing exchange rate at the reporting date (US$1:₱47.52)*

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.

In 2008, the recoverable amount of the CGU has been determined based on value-in-use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 22% and cash flows beyond the five-year period are extrapolated using a steady growth rate of 5%.

Key assumptions used in value-in-use calculation
The calculations of value-in-use for the CGU are most sensitive to the following assumptions: revenue growth for the five-year projection period, growth rate beyond the five-year period and the pre-tax discount rate. The assumptions are based on management’s estimate after considering industry outlook.

Based on the value-in-use calculation, the carrying value of the CGU did not exceed its recoverable amount. Therefore, Integreon did not recognize any impairment loss in 2008.

With regard to the assessment of value-in-use of the CGU, Integreon management believes that a reasonably possible change in any of the above key assumptions will not cause the carrying value of the CGU to materially exceed its recoverable amount.

15. Noncurrent Assets Held for Sale

In 2006, the Group had negotiations to sell its equity interests in Makati Property Ventures, Inc. (MVPI) and Hermill Investments Pte. Ltd. (Hermill).

In 2007, the Group recognized a gain amounting to ₱598.8 million as a result of the consummation of the sale of MPVI and ₱26.0 million as a result of the Hermill sale (included in “Income associated with noncurrent assets held for sale” in the consolidated statement of income).

EPS on income associated with noncurrent assets held for sale attributable to equity holders of the Company follows (amounts in thousands, except for EPS figures):

	2007
Income associated with noncurrent assets held for sale	₱624,788
Less: Income associated with noncurrent assets held for sale attributable to noncontrolling interests	139,982
	484,806
Weighted average number of common shares for basic EPS	496,787
Dilutive shares arising from stock options	2,374
Adjusted weighted average number of common shares for diluted EPS	499,161
Basic EPS	₱0.98
Diluted EPS	₱0.97

16. Accounts Payable and Accrued Expenses

This account consists of the following:

	2009	2008
	(In Thousands)	
Accounts payable	**₱14,584,321**	₱13,922,547
Accrued expenses	**6,152,842**	6,821,712
Dividends payable	**2,264,306**	1,333,740
Accrued project costs	**2,136,700**	2,022,903
Taxes payable	**1,470,295**	1,659,597
Accrued personnel costs	**427,502**	823,717
Interest payable	**402,278**	501,251
Retentions payable	**120,938**	262,330
Related parties (Note 29)	**105,355**	135,739
	₱27,664,537	₱27,483,536

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 light and power, marketing costs, film share, professional fees, postal and communication, supplies, repairs and maintenance, transportation and travel, security, insurance, and representation.

17. Other Current Liabilities

This account consists of:

	2009	2008
	(In Thousands)	
Customers' deposits	**₱2,374,457**	₱1,246,593
Other liabilities	**447,475**	306,937
	₱2,821,932	₱1,553,530

18. Short-term and Long-term Debt

Short-term debt consists of:

	2009	2008
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 5.0% to 9.5% per annum in 2009 and 7.0% to 9.6% per annum in 2008	**₱1,669,875**	₱1,501,000
Foreign currency debt - with interest rates ranging from 1.9% to 3.9% per annum in 2009 and 2.5% to 6.4% per annum in 2008	**968,783**	1,254,447
	₱2,638,658	₱2,755,447

The Philippine peso debt consists mainly of ALI's and its subsidiaries' bank loans of ₱1,423.0 million and ₱1,279.5 million as of December 31, 2009 and 2008, respectively. These are unsecured peso-denominated short-term borrowings with interest rates of 5.0%per annum in 2009 and 7.0% to 8.5% per annum in 2008.

The foreign currency debt consists mainly of BHL's and IMI's loans from various banks.

Long-term debt consists of:

	2009	2008
	(In Thousands)	
The Company:		
Bank loans - with interest rates ranging from 4.7% to 4.8% per annum in 2009 and 6.3% to 6.6% per annum in 2008 and varying maturity dates up to 2013	**₱6,985,000**	₱6,990,000
Fixed Rate Corporate Notes (FXCNs) with interest rates ranging from 6.7% to 8.4% per annum and varying maturity dates up to 2016	**11,485,000**	10,662,500
Bonds due 2012	**6,000,000**	6,000,000
Syndicated term loan	**1,498,333**	1,584,907
	25,968,333	25,237,407
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 3.3% to 15.0% per annum in 2009 and 2.7% to 15.0% per annum in 2008	**10,724,816**	10,985,557
Philippine peso - with interest rates ranging from 7.0% to 9.7% per annum in 2009 and 9.5% to 20.0% per annum in 2008	**7,759,743**	7,819,128
Bonds:		
Due 2009	**–**	106,930
Due 2012	**41,835**	–
Due 2013	**4,000,000**	4,000,000
Due 2016	**10,000**	–
FXCNs	**5,380,000**	3,580,000
	27,916,394	26,491,615
	53,884,727	51,729,022
Less current portion	**2,453,144**	1,478,871
	₱51,431,583	₱50,250,151

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 ₱6,712.9 million as of December 31, 2009 and ₱2,844.0 million as of December 31, 2008 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 2005, the Company issued ₱7.2 billion FXCNs consisting of 5- and 7-year notes to various institutions with fixed interest rates of 10.00% and 10.38% 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.

Subsidiaries
Foreign Currency Debt
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-months 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, IMI Singapore, 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, 2009 and 2008, the outstanding balance of the loan amounted to US$16.0 million and US$24.0 million, respectively.

Philippine Peso Debt
The Philippine Peso loans pertain to ALI subsidiaries' loans that will mature on various dates up to 2015 with floating interest rates at 100 basis points to 200 basis points spread over benchmark 91-day PDST-R1/R2 and fixed interest rates of 6.97% 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 ₱811.2 million and ₱612.4 million as of December 31, 2009 and 2008, respectively.

Home Starter Bonds due 2009
ALI launched in March 2006 its Homestarter Bonds of up to ₱169.2 million with fixed interest rate of 5% per annum. The Homestarter Bonds are being issued monthly in a series for a period of thirty six (36) months with final maturity in March 2009. On maturity date, the principal amount of the bond is redeemable with the accrued interest. Should the bondholder decide to purchase an Ayala Land property, he is entitled to an additional 10% of the aggregate face value of the bond as bonus credit which together with the principal and accrued interest can be applied as downpayment towards the purchase of an Ayala Land Premier, Alveo or Avida property. As of December 31, 2008, the outstanding Homestarter Bonds amounted to ₱106.9 million. Bonds that were not applied as downpayment for property and remained outstanding were fully redeemed on March 16, 2009, the final maturity date.

Homestarter Bond due 2012
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.

5-Year Bonds due 2013
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.

5-,7- and 10-year FXCNs due in 2011, 2013 and 2016
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.

10-year FXCNs due 2012
ALI also has outstanding ₱580.0 million 10-year FXCNs with fixed interest rate of 14.9% per annum issued in 2002 and due 2012. In February 2009, ALI prepaid in full such FXCNs.

5-, 7- and 10-year FXCN due 2014, 2016 and 2019
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 FXCN due 2016
In 2009, ALI executed a ₱1.0 billion committed FXCN facility with a local bank, of which an initial ₱10 million was drawn on October 12, 2009. The FXCN 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 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, investments 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, 2009 and 2008.

Total interest paid amounted to ₱3.9 billion in 2009, ₱3.7 billion in 2008 and ₱3.8 billion in 2007.

Interest capitalized by subsidiaries amounted to ₱76.3 million in 2009 and ₱151.0 million in 2008. The average capitalization rate is 7.15% and 6.27% in 2009 and 2008, respectively.

19. Other Noncurrent Liabilities

This account consists of the following:

	2009	2008
	(In Thousands)	
Deposits and deferred credits	**₱5,479,797**	₱4,880,443
Retentions payable	**1,967,042**	1,766,831
Other liabilities	**1,662,341**	940,806
	₱9,109,180	₱7,588,080

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 amounts due to related parties, nontrade payables, subscription payable and others (see Note 29).

20. Equity

The details of the Company's common and equity preferred shares follow:

	Common shares			**Preferred A shares**		**Preferred B shares**		
	2009	2008	2007	**2009**	2008	**2009**	2008	2007
	(In Thousands, except par value figures)							
Authorized shares	**600,000**	600,000	600,000	**12,000**	12,000	**58,000**	58,000	58,000
Par value per share	**₱50**	₱50	₱50	**₱100**	₱100	**₱100**	₱100	₱100
Issued and subscribed shares	**500,176**	498,362	414,687	**12,000**	12,000	**58,000**	58,000	58,000
Treasury shares	**1,844**	1,378	324	–	–	–	–	–

Preferred 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 9.4578% per annum. The Preferred B shares may be redeemed at the option of the Company starting in the fifth year.

On January 31, 2008, the BOD approved the re-issuance and reclassification of 1.2 billion redeemed Preferred A and AA shares with a par value of ₱1.00 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 8.88% per annum. The Preferred A shares may be redeemed at the option of the Company starting in the fifth year.

Common shares
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.

The details of the Company's paid-up capital follow:

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 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

2007

	Preferred Stock - B	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-up Capital
			(In Thousands)			
As of January 1, 2007	₱5,800,000	₱17,166,964	₱75,754	₱335,343	(₱240,113)	₱23,137,948
Exercise of ESOP/ESOWN	–	17,119	24,931	322,079	(96,267)	267,862
Stock dividends	–	3,449,584	–	–	–	3,449,584
As of December 31, 2007	₱5,800,000	₱20,633,667	₱100,685	₱657,422	(₱336,380)	₱26,855,394

The movements in the Company's outstanding number of common shares follow:

	2009	2008	2007
		(In Thousands)	
At January 1	**496,984**	414,363	344,850
Stock dividends	**–**	82,774	68,991
Exercise of options ESOP/ESOWN	**1,814**	898	841
Issuance of shares	**–**	3	–
Treasury stock	**(466)**	(1,054)	(319)
At December 31	**498,332**	496,984	414,363

On September 10, 2007, the BOD approved the creation of a share buyback program involving ₱2.5 billion worth of common capital stock. In 2009 and 2008, the Company acquired 466,360 and 1,054,422 common shares, respectively, at a total cost of ₱138.2 million and ₱390.8 million, respectively. As of December 31, 2009 and 2008, treasury stock amounted to ₱688.7 million and ₱550.5 million, respectively.

In addition, ₱100.0 million Preferred A shares of the Company have been acquired by ALI. This has been accounted for as "Parent Company Preferred shares held by a subsidiary" 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 ₱33,990.7 million, ₱30,308.0 million and ₱29,824.0 million as of December 31, 2009, 2008 and 2007, 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, 2009 and 2008 amounted to ₱31,060.0 million and ₱30,745.9 million, respectively.

Dividends consist of the following:

	2009	2008	2007
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	**₱1,994,148**	₱1,989,484	₱3,312,426
Cash dividends per share	**₱4.00**	₱4.00	₱8.00
Stock dividends	**₱–**	₱4,138,716	₱3,449,584
Dividends to equity preferred shares declared during the year	**₱2,025,567**	₱548,552	₱548,552

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 ₱498.3 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 share holders 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.

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, 2009 and 2008.

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.

	2009	2008
	(In Thousands)	
Short-term debt	**₱2,638,658**	₱2,755,447
Long-term debt	**53,884,727**	51,729,022
Total debt	**56,523,385**	54,484,469
Less:		
Cash and cash equivalents	**45,656,889**	42,885,792
Short-term investments	**4,560,976**	1,008,924
Net debt	**₱6,305,520**	₱10,589,753
Equity attributable to equity holders of the Company	**₱102,260,427**	₱97,311,192
Debt to equity	**55%**	56%
Net debt to equity	**6%**	11%

21. **Other Income and Costs and Expenses**

Other income consists of:

	2009	2008	2007
		(In Thousands)	
Gain on sale of investments	**₱1,698,820**	₱3,554,679	₱8,844,822
Management and marketing fees	**680,244**	626,350	485,802
Insurance claim (Note 6)	**280,100**	–	–
Bargain purchase gain (Note 22)	**235,851**	–	–
Dividend income	**204,691**	148,914	73,500
Gain on sale of other assets	**168,063**	45,409	54,064
Rental income	**66,795**	40,442	39,351
Marked-to-market gain (Note 8)	**22,324**	119,229	320,610
Foreign exchange gain (loss)	**(64,974)**	181,858	626,766
Others	**516,603**	699,869	283,460
	₱3,808,517	₱5,416,750	₱10,728,375

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. Marked-to-market gain pertains to fair value gains on financial assets at FVPL and freestanding derivatives.

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".

In December 2007, ALI entered into a joint venture with Kingdom Hotel Investments, Inc. to develop a 7,377-square meter property along Makati Avenue corner Arnaiz Avenue (formerly Pasay Road) into a luxury hotel complex comprising a 300-room Fairmont Hotel, a 30-suite Raffles Hotel and 189 Raffles branded private residences. The total project cost is approximately US$153.0 million.

The 7,377-square meter property to be developed was conveyed by ALI to KHI-ALI Manila, Inc. (KAMI) in exchange for 37,250 common shares, 38,250 redeemable preferred shares A and 16,758 preferred shares of KAMI. On December 13, 2007, ALI sold 16,758 of its preferred shares in KAMI to Kingdom Manila B.V., which resulted in a gain of ₱1,004.0 million, reported under "Gain on sale of investments".

Other income includes income derived from ancillary services of consolidated subsidiaries.

Cost of sales and services included in the consolidated statement of income are as follows:

	2009	2008	2007
		(In Thousands)	
Inventory	**₱34,281,857**	₱34,440,421	₱30,196,530
Personnel costs (Notes 25, 26 and 29)	**5,279,394**	6,782,659	5,215,984
Depreciation and amortization	**2,474,988**	1,821,069	1,971,932
Rental and utilities	**2,339,382**	2,725,843	2,127,910
Professional and management fees	**1,037,461**	961,649	826,035
Taxes and licenses	**770,138**	588,714	569,666
Repairs and maintenance	**614,205**	555,272	383,451
Transportation and travel	**531,087**	118,911	67,161
Insurance	**163,801**	172,498	61,909
Contract labor	**101,587**	423,156	412,743
Others	**1,724,394**	1,424,174	1,335,789
	₱49,318,294	₱50,014,366	₱43,169,110

General and administrative expenses included in the consolidated statement of income are as follows:

	2009	2008	2007
		(In Thousands)	
Personnel costs (Notes 25, 26 and 29)	**₱4,661,710**	₱4,753,473	₱4,168,554
Depreciation and amortization	**870,997**	1,119,147	1,016,947
Professional fees	**817,167**	616,969	796,979
Taxes and licenses	**428,525**	454,387	530,583
Rental and utilities	**384,790**	298,472	357,666
Transportation and travel	**264,030**	338,855	376,087
Provision for doubtful accounts (Note 6)	**217,208**	88,871	127,701
Advertising and promotions	**182,492**	420,620	234,330
Postal and communication	**179,638**	157,226	153,649
Repairs and maintenance	**128,511**	116,317	132,257
Contract labor	**125,750**	39,677	36,952
Entertainment, amusement and recreation	**124,712**	129,273	141,782
Insurance	**106,841**	73,342	59,703
Supplies	**89,420**	137,599	161,459
Donations and contributions	**67,129**	123,312	126,541
Dues and fees	**55,041**	66,365	61,033
Research and development	**29,339**	48,685	189,693
Others	**481,270**	502,924	826,390
	₱9,214,570	₱9,485,514	₱9,498,306

Depreciation and amortization expense included in the consolidated statement of income follows:

	2009	2008	2007
		(In Thousands)	
Included in:			
Cost of sales and services	**₱2,474,988**	₱1,821,069	₱1,971,932
General and administrative expenses	**870,997**	1,119,147	1,016,947
	₱3,345,985	₱2,940,216	₱2,988,879

Personnel costs included in the consolidated statements of income follow:

	2009	2008	2007
		(In Thousands)	
Included in:			
Cost of sales and services	**₱5,279,394**	₱6,782,659	₱5,215,984
General and administrative expenses	**4,661,710**	4,753,473	4,168,554
	₱9,941,104	₱11,536,132	₱9,384,538

Interest expense and other financing charges consist of:

	2009	2008	2007
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱271,057**	₱244,466	₱321,891
Long-term debt	**3,475,297**	3,216,017	3,544,488
Hedging losses (Note 8)	**–**	1,455,952	–
Dividends on preferred shares	**–**	–	154,335
Others	**75,988**	20,673	99,446
	₱3,822,342	₱4,937,108	₱4,120,160

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 $33.36 million or ₱1.46 billion. The net changes in fair value of settled derivative instruments not designated as accounting hedges are included as part of "Interest expense and other financing charges". The fair value of settled instruments includes the unwinding costs of US$33.36 million for the year ended December 31, 2008.

Other charges consist of:

	2009	2008	2007
		(In Thousands)	
Provision for impairment losses			
Land and improvements (Note 9)	**₱568,672**	₱–	₱–
Inventories (Note 7)	**78,091**	136,630	–
AFS financial assets (Note 11)	**–**	1,106,451	–
Property, plant and equipment (Note 13)	**–**	73,403	–
Write-offs and other charges	**350,265**	–	669,949
Impairment loss on goodwill	**–**	–	662,591
Others	**438,010**	278,938	237,404
	₱1,435,038	₱1,595,422	₱1,569,944

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. In 2007, write-offs and other charges include the write-down of investment properties damaged by the Glorietta 2 explosion and related expenses incurred, and demolition and relocation costs as part of the ALI's Ayala Center redevelopment program amounting to a total of ₱213.7 million in 2007 (see Note 12).

22. **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.

2009 Acquisitions

On-Site Sourcing, Inc.
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 21)	(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$6.29 million (₱299.58 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 by US$0.67 million (₱31.91 million) and revenue would have increased by US$7.84 million (₱373.40 million) in 2009.

In accordance with PFRS 3, the bargain purchase gain is recognized in the consolidated statement of income (see Note 21).

Grail
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$0.42 million (₱20.00 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 by US$0.46 million (₱21.91 million) and revenue would have increased by US$7.03 million (₱334.82 million) in 2009.

2008 Acquisitions

Datum
On May 30, 2008, Integreon Managed Solutions, Inc. (IMSI), a wholly owned subsidiary of Integreon which in turn is a subsidiary of LIL, acquired 100% of Datum.

The purchase price allocation has been prepared on a preliminary basis as of December 31, 2008. The following is a summary of the provisional fair values of the assets acquired and liabilities assumed as of the date of the acquisition:

	Fair Value Recognized on Acquisition	
	In US$	In Php*
	(In Thousands)	
Cash and cash equivalents	US$530	₱23,261
Trade and other receivables	2,156	94,667
Other current assets	68	2,998
Property and equipment - net	364	15,987
Other noncurrent assets	12	506
	3,130	137,419
Accounts payable and accrued expenses	1,324	58,149
Other current liabilities	450	19,780
Other noncurrent liabilities	128	5,575
	1,902	83,504
Net assets	1,228	53,915
Intangible assets arising on acquisition	3,500	153,680
Goodwill arising on acquisition	3,678	161,511
Total consideration	US$8,406	₱369,106

**Translated using the exchange rate at the transaction date (US$1:₱43.91)*

Cost of the acquisition follows:

	In US$	In Php*
	(In Thousands)	
Cash paid	US$7,289	₱320,066
Shares issued	631	27,701
Transaction costs	486	21,339
	US$8,406	₱369,106

**Translated using the exchange rate at the transaction date (US$1:₱43.91)*

Cash flow on acquisition follows:

	In US$	In Php*
	(In Thousands)	
Net cash acquired with the subsidiary	US$530	₱23,261
Cash paid	7,775	341,405
Net cash outflow	US$7,245	₱318,144

**Translated using the exchange rate at the transaction date (US$1:₱43.91)*

From the date of acquisition, Datum has contributed ₱38.9 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 by ₱111.2 million and revenue would have increased by ₱417.2 million in 2008.

In 2009, IMSI finalized its purchased price allocation and there were no significant changes to the fair values of the assets acquired and liabilities assumed of Datum. In 2009, IMSI paid an earn-out as consideration for the acquisition of Datum. This was reflected as additional goodwill.

<u>APPHC</u>
In 2006, ALI signed an agreement with MLT Investments Ltd. (MIL) and Filipinas Investments Ltd. (FIL) to jointly develop a business process outsourcing office building in Dela Rosa Street and to purchase the existing PeopleSupport Building.

As of December 31, 2007, APPHC, the joint-venture company, is 60% owned by ALI. APPHC owns 60% interest in its subsidiary, APPCo. The remaining 40% interest in both APPHC and APPCo. are split evenly between MIL and FIL. APPHC and APPCo. are jointly controlled by ALI, MIL, and FIL.

On December 8, 2008, ALI acquired from FIL its 20% ownership in APPHC and APPCo. This resulted in an increase in ALI's effective ownership interest in APPHC from 60% to 80% and APPCo. from 36% to 68%, thereby providing ALI with the ability to control the operations of APPHC and APPCo. following the acquisition. Accordingly, APPHC and APPCo.'s financial statements are consolidated on a line-by-line basis with that of the Group as of December 31, 2008.

Following is a summary of the fair values of the identifiable assets acquired and liabilities assumed of APPHC and APPCo. as of the date of acquisition (in thousands):

Assets	
Cash and cash equivalents	₱227,266
Trade and other receivables	188,974
Other current assets	649,154
Investment property - net (Note 12)	3,944,127
Property and equipment - net (Note 13)	1,290,979
Other assets	21,304
	6,321,804
Liabilities	
Accounts and other payables	716,815
Deposits and other current liabilities	41,171
Loans payable	3,282,150
Deposits and other noncurrent liabilities	288,287
	4,328,423
Net assets	1,993,381
Noncontrolling interests in APPHC	(800,392)
	1,192,989
Net assets of APPHC acquired	238,678
Noncontrolling interests in APPCo. acquired	400,196
Total net assets acquired	638,874
Acquisition cost	638,874
Cash and cash equivalents acquired with the subsidiary	227,266
Acquisition cost, net of cash acquired	₱411,608

From the date of acquisition, APPHC and APPCo's additional contribution to the Group's net income is immaterial. Had the combination taken place at the beginning of the year, the net income of the Group would have increased by ₱14.1 million and revenue from continuing operations would have increased by ₱323.9 million in 2008.

Total costs directly attributable to the business combination amounted to ₱15.6 million.

In 2009, ALI finalized its purchase price allocation which resulted in adjustments to the fair value of investment properties and property, plant and equipment. The related 2008 comparative information has been restated to reflect these adjustments. The value of investment properties and property, plant and equipment increased (decreased) by ₱286.5 million and (₱1.7 million), respectively. There was also a corresponding deduction in goodwill amounting to ₱148.7 million and an increase in noncontrolling interest amounting to ₱136.1 million. The increase in depreciation and amortization charge on investment properties and property, plant and equipment was not material.

23. **Income Taxes**

The components of the Group's deferred taxes as of December 31, 2009 and 2008 are as follows:

Net deferred tax assets

	2009	2008
	(In Thousands)	
Deferred tax assets on:		
Allowance for probable losses	**₱832,834**	₱796,299
Unrealized gain, deposits and accruals for various expenses on real estate transactions	**321,177**	446,236
Retirement benefits	**100,466**	144,850
Share-based payments	**82,784**	62,265
NOLCO	**19,052**	28,854
MCIT	**27,323**	5,214
Others	**484,134**	233,895
	1,867,770	1,717,613
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(471,778)**	(553,912)
Others	**–**	(30,854)
	(471,778)	(584,766)
Net deferred tax assets	**₱1,395,992**	₱1,132,847

Net deferred tax liabilities

	2009	2008
	(In Thousands)	
Deferred tax assets on:		
Unrealized gain, deposits and accruals for various expenses on real estate transactions	**₱17**	₱63,593
NOLCO	**–**	36,984
Others	**809**	13,347
	826	113,924
Deferred tax liabilities on:		
Excess of financial realized gross profit over taxable realized gross profit	**(147,368)**	(137,854)
Capitalized interest and other expenses	**(37,151)**	(117,271)
Others	**(23,732)**	(44,335)
	(208,251)	(299,460)
Net deferred tax liabilities	**(₱207,425)**	(₱185,536)

The Group has NOLCO amounting to ₱5.6 billion and ₱7.2 billion in 2009 and 2008, respectively, which were not recognized. Further, deferred tax assets from the excess MCIT over regular corporate income tax amounting to ₱38.6 million in 2009 and ₱41.2 million in 2008 and from unrealized gain on real estate sales amounting to ₱4.8 million as of December 31, 2007, 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, 2009, 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)	
2007	2010	₱2,095,519	₱20,248
2008	2011	2,282,936	17,482
2009	2012	1,336,734	28,197
		₱5,715,189	₱65,927

At December 31, 2009 and 2008, 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 ₱1,626.7 million and ₱2,051.0 million as of December 31, 2009 and 2008, respectively.

The reconciliation between the statutory and the effective income tax rates follows:

	2009	2008	2007
Statutory income tax rate	**30.00%**	35.00%	35.00%
Tax effects of:			
Gain on sale of shares and capital gains tax	**(3.20)**	(7.43)	(17.56)
Nontaxable equity in net earnings of associates and jointly controlled entities	**(17.67)**	(19.80)	(16.70)
Interest income subjected to final tax at lower rates	**(0.97)**	(2.45)	(1.82)
Income under income tax holiday	**(0.16)**	(0.22)	(0.04)
Effect of change in tax rate	**–**	0.90	–
Others	**5.59**	12.49	10.81
Effective income tax rate	**13.59%**	18.49%	9.69%

As of December 31, 2008, the deferred tax assets and liabilities are set-up based on the 30% corporate tax rate which became effective beginning January 1, 2009 as provided under Republic Act No. 9337.

24. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Company:

	2009	2008	2007
	(In Thousands, except EPS figures)		
Net income	**₱8,154,345**	₱8,108,597	₱16,256,601
Less dividends on preferred stock	**1,081,352**	548,552	548,552
	₱7,072,993	₱7,560,045	₱15,708,049
Weighted average number of common shares	**496,984**	496,756	496,787
Dilutive shares arising from stock options	**1,541**	1,719	2,374
Adjusted weighted average number of common shares for diluted EPS	**498,525**	498,475	499,161
Basic EPS	**₱14.23**	₱15.22	₱31.62
Diluted EPS	**₱14.19**	₱15.17	₱31.47

EPS on income before income associated with noncurrent assets held for sale attributable to equity holders of the Company follows:

	2009	2008	2007
	(In Thousands, except EPS figures)		
Income before income associated with noncurrent assets held for sale	**₱10,804,887**	₱10,658,688	₱18,437,341
Less: Income before income associated with noncurrent assets held for sale associated to minority interests	**2,650,542**	2,550,091	2,665,546
Less: Dividends on preferred stock	**1,081,352**	548,552	548,552
	₱7,072,993	₱7,560,045	₱15,223,243
Weighted average number of common shares for basic EPS	**496,984**	496,756	496,787
Dilutive shares arising from stock options	**1,541**	1,719	2,374
Adjusted weighted average number of common shares for diluted EPS	**498,525**	498,475	499,161
Basic EPS	**₱14.23**	₱15.22	₱30.64
Diluted EPS	**₱14.19**	₱15.17	₱30.50

25. **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 ₱344.4 million in 2009, ₱195.6 million in 2008 and ₱331.5 million in 2007.

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:

	2009	2008	2007
		(In Thousands)	
Current service cost	**₱261,116**	₱263,055	₱260,685
Interest cost on benefit obligation	**307,200**	215,771	158,528
Expected return on plan assets	**(255,016)**	(247,462)	(167,940)
Net actuarial gain	**30,401**	(29,573)	(18,715)
Past service cost	**2,532**	2,796	98,539
Curtailment loss (gain)	**382,296**	(11,447)	–
Settlement gain	**(384,170)**	–	–
Effect of ceiling limit	**–**	2,504	357
Total retirement expense	**₱344,359**	₱195,644	₱331,454
Actual return (loss) on plan assets	**₱453,834**	(₱410,372)	₱244,109

The funded status and amounts recognized in the consolidated statement of financial position for the pension plan assets of subsidiaries in a net pension asset position as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In Thousands)	
Benefit obligation	**(₱244,605)**	(₱306,808)
Plan assets	**508,082**	730,490
	263,477	423,682
Unrecognized net actuarial gains	**(131,058)**	(306,294)
Assets recognized in the consolidated statements of financial position	**₱132,419**	₱117,388

The funded status and amounts recognized in the consolidated statement of financial position for the pension plan liabilities of the Company and subsidiaries in a net pension liability position as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In Thousands)	
Benefit obligation	**(₱3,529,634)**	(₱3,136,033)
Plan assets	**3,147,837**	2,283,634
	(381,797)	(852,399)
Unrecognized net actuarial losses	**125,793**	331,431
Unrecognized past service cost	**27,692**	30,224
Liabilities recognized in the consolidated statements of financial position	**(₱228,312)**	(₱490,744)

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

	2009	2008
	(In Thousands)	
Balance at January 1	**₱3,442,841**	₱3,708,898
Interest cost on benefit obligation	**307,200**	215,771
Current service cost	**261,116**	263,055
Benefits paid	**(282,615)**	(342,328)
Actuarial loss (gains) on obligations	**180,934**	(214,791)
Benefits obligation from acquired subsidiary	**125**	–
Curtailments	**281,525**	(34,104)
Settlements	**(416,887)**	(153,679)
Past service cost	**–**	19
Balance at December 31	**₱3,774,239**	₱3,442,841

Changes in the fair value of the combined plan assets are as follows:

	2009	2008
	(In Thousands)	
Balance at January 1	**₱3,014,124**	₱3,734,339
Expected return	**255,016**	247,462
Contributions by employer	**652,516**	186,164
Benefits paid	**(282,615)**	(342,328)
Settlements	**(181,940)**	(153,679)
Actuarial gains (losses) on plan assets	**198,818**	(657,834)
Balance at December 31	**₱3,655,919**	₱3,014,124

The assumptions used to determine pension benefits for the Group are as follows:

	2009	2008
Discount rates	**9.5% to 15.0%**	7.0 to 13.4%
Salary increase rates	**6.0% to 10.0%**	4.5 to 8.0%
Expected rates of return on plan assets	**4.0% to 11.0%**	3.0 to 8.0%

The allocation of the fair value of plan assets of the Group follows:

	2009	2008
Investments in debt securities	**69.0%**	51.4%
Investments in equity securities	**23.5%**	25.0%
Others	**7.5%**	23.6%

Amounts for the current and previous annual periods are as follows:

	2009	2008	2007	2006	2005
			(In Thousands)		
Defined benefit obligation	**(₱3,774,239)**	(₱3,442,841)	(₱3,708,898)	(₱4,012,650)	(₱3,026,065)
Plan assets	**3,655,919**	3,014,124	3,734,339	3,508,563	2,910,036
Excess (deficit)	**(₱118,320)**	(₱428,717)	₱25,441	(₱504,087)	(₱116,029)

Gains (losses) on experience adjustments are as follows:

	2009	2008	2007
		(In Thousands)	
Defined benefit obligation	**₱19,482**	(₱566,144)	₱136,564
Plan assets	**198,818**	(657,834)	30,727

The Company expects to contribute ₱113.4 million to its defined benefit pension plan in 2010.

As of December 31, 2009 and 2008, the plan assets include shares of stock of the Company with total fair value of ₱196.5 million and ₱357.8 million, respectively.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

26. **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, 2009, 2008 and 2007 follows:

	2009		2008		2007	
	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	**3,352,018**	**₱141.18**	2,837,102	₱170.30	2,533,908	₱205.13
Exercised	**(11,900)**	**(143.51)**	(52,499)	(150.99)	(169,656)	(203.37)
Adjustment due to 20% stock dividends (Note 20)	**–**	**–**	567,415	–	472,850	–
Outstanding, at end of year	**3,340,118**	**₱141.17**	3,352,018	₱141.18	2,837,102	₱170.30

The options have a contractual term of 10 years. As of December 31, 2009 and 2008, the weighted average remaining contractual life of options outstanding is 3.16 years and 4.3 years, respectively, and the range of exercise prices amounted from ₱107.29 to ₱204.86.

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:

	June 30, 2005	June 10, 2004
Weighted average share price	₱327.50	₱244.00
Exercise price	₱295.00	₱220.00
Expected volatility	46.78%	46.71%
Option life	10 years	10 years
Expected dividends	1.27%	1.43%
Risk-free interest rate	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 follows:

	2009	2008
Granted	**1,831,782**	1,015,200
Subscribed	**1,813,994**	898,260
Exercise price	**₱180.13**	₱284.96

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, 2009 and 2008 follow:

	2009		2008	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
At January 1	**190,795**	**₱251.39**	61,546	₱237.88
Granted	**17,788**	**180.13**	116,940	284.96
Exercised/cancelled	**(48,433)**	**(222.07)**	–	–
Adjustment due to 20% stock dividends (Note 20)	**–**	**–**	12,309	–
At December 31	**160,150**	**₱252.34**	190,795	₱251.39

The fair value of stock options granted 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:

	April 30, 2009	May 15, 2008
Number of unsubscribed shares	**17,788**	116,940
Fair value of each option	**₱112.87**	₱137.45
Weighted average share price	**₱263.38**	₱316.50
Exercise price	**₱180.13**	₱284.96
Expected volatility	**49.88%**	30.63%
Dividend yield	**1.59%**	1.56%
Interest rate	**7.49%**	8.23%

Total expense arising from share-based payments recognized by the Group in the consolidated statement of income amounted to ₱471.6 million in 2009, ₱342.9 million in 2008 and ₱288.0 million in 2007.

27. Operating Segment Information

For management purposes, the Group is organized into the following business units:

a. Real estate and hotels
b. Financial services and bancassurance
c. Telecommunications
d. AC Capital

- 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 agribusiness 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.

- AC Capital - the business unit that oversees the financial performance of subsidiaries other than the three major businesses of the Group. AC Capital also provides support to subsidiaries' growth initiatives and seeks new investment opportunities for the Group that will complement existing business and further enhance the Group's value. AC Capital has the following operating segments:

  - 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.

The following tables regarding operating segments present assets and liabilities as of December 31, 2009 and 2008 and revenue and profit information for each of the three years in the period ended December 31, 2009 (amounts in millions).

2009

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	AC Capital: Water Utilities	AC Capital: Electronics	AC Capital: Information Technology and BPO Services	AC Capital: International	AC Capital: Automotive and Others	Intersegment Eliminations	Consolidated
Revenue											
Sales to external customers	₱–	₱28,393	₱–	₱–	₱–	₱18,937	₱4,041	₱–	₱11,256	₱–	₱62,627
Intersegment	–	318	–	–	–	–	(22)	–	(32)	(264)	–
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	1,617	822	–	–	–	35	5	111	3	(96)	2,497
Other income	1,987	591	–	–	–	323	701	128	284	(205)	3,809
Total revenue	3,608	31,092	2,707	3,862	1,029	19,295	3,916	(155)	11,505	(565)	76,294
Operating expenses	1,795	21,857		–		18,536	4,575	284	11,452	34	58,533
Operating profit	1,813	9,235	2,707	3,862	1,029	759	(659)	(439)	53	(599)	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
Income before income associated with noncurrent assets held for sale	(817)	5,318	2,707	3,862	1,029	433	(729)	(445)	(25)	(528)	10,805
Net income	(₱817)	₱5,318	₱2,707	₱3,862	₱1,029	₱433	(₱729)	(₱445)	(₱25)	(₱528)	₱10,805
Other information										–	
Segment assets	₱102,302	₱98,700	₱–	₱–	₱–	₱14,019	₱6,248	₱4,276	₱2,862	(₱68,881)	₱159,526
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	₱111,021	₱–	₱–	₱–	₱14,029	₱11,629	₱6,807	₱3,277	(₱69,103)	₱232,479
Segment liabilities	₱45,248	₱48,726	₱–	₱–	₱–	₱6,241	₱3,097	₱893	₱1,627	(₱8,979)	₱96,853
Deferred tax liabilities	–	151	–	–	–	5	42	5	5	–	208
Total liabilities	₱45,248	₱48,877	₱–	₱–	₱–	₱6,246	₱3,139	₱898	₱1,632	(₱8,979)	₱97,061
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	AC Capital: Water Utilities	AC Capital: Electronics	AC Capital: Information Technology and BPO Services	AC Capital: International	AC Capital: Automotive and Others	Intersegment Eliminations	Consolidated
Revenue											
Sales to external customers	₱–	₱30,679	₱–	₱–	₱–	₱20,306	₱2,611	₱–	₱10,457	₱–	₱64,053
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	1	(70)	2,243
Other income	3,591	1,331	–	–	–	261	4	178	207	(155)	5,417
Total revenue	4,832	33,883	2,145	3,643	907	20,620	2,486	126	10,740	(273)	79,109
Operating expenses	1,429	24,591	–	–	–	19,387	3,391	271	10,566	(137)	59,498
Operating profit	3,403	9,292	2,145	3,643	907	1,233	(905)	(145)	174	(136)	19,611
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
Income before income associated with noncurrent assets held for sale	(91)	5,801	2,145	3,643	907	(562)	(940)	(268)	99	(75)	10,659
Income associated with noncurrent assets held for sale, net of tax	–	–	–	–	–	–	–	–	–	–	–
Net income	(₱91)	₱5,801	₱2,145	₱3,643	₱907	(₱562)	(₱940)	(₱268)	₱99	(₱75)	10,659
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

2007

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	AC Capital: Water Utilities	AC Capital: Electronics	AC Capital: Information Technology and BPO Services	AC Capital: International	AC Capital: Automotive and Others	Intersegment Eliminations	Consolidated
Revenue											
Sales to external customers	₱–	₱22,962	₱–	₱–	₱–	₱ 19,526	₱ 2,129	₱–	₱11,961	₱–	₱56,578
Intersegment	–	74	–	–	–	–	–	–	–	(74)	–
Equity in net earnings of associates and jointly controlled entities	61	804	3,291	4,545	800	–	(28)	226	68	–	9,767
Interest income	1,233	597	–	–	–	66	11	114	2	(330)	1,693
Other income	8,854	1,459	–	–	–	165	22	157	264	(193)	10,728
Total revenue	10,148	25,896	3,291	4,545	800	19,757	2,134	497	12,295	(597)	78,766
Operating expenses	1,819	17,928	–	–	–	17,761	3,036	242	12,024	(143)	52,667
Operating profit	8,329	7,968	3,291	4,545	800	1,996	(902)	255	271	(454)	26,099
Interest expense and other financing charges	3,316	868	–	–	–	215	20	9	22	(330)	4,120
Other charges	2	874	–	–	–	21	663	–	10	–	1,570
Provision for income tax	140	1,567	–	–	–	150	17	23	63	12	1,972
Income before income associated with noncurrent assets held for sale	4,871	4,659	3,291	4,545	800	1,610	(1602)	223	176	(136)	18,437
Income associated with noncurrent assets held for sale, net of tax	–	599	–	–	–	–	–	26	–	–	625
Net income	₱4,871	₱5,258	₱3,291	₱4,545	₱800	₱1,610	(₱1,602)	₱249	₱176	(₱136)	₱19,062

Geographical Segments

	Revenue			Segment Assets		Investment Properties and Property, Plant and Equipment Additions	
	2009	2008	2007	**2009**	2008	**2009**	2008
Philippines	**₱60,284,336**	₱ 63,077,576	₱56,931,668	**₱212,727,696**	₱205,816,750	**₱5,850,799**	₱5,340,557
Japan	**1,023,625**	1,083,135	9,400,556	**12,532**	13,020	**254**	199
USA	**6,253,443**	6,736,608	6,081,976	**10,667,684**	6,048,504	**181,336**	919,310
Europe	**5,594,446**	4,471,487	3,525,576	**111,678**	–	**–**	–
Others (mostly Asia)	**3,137,965**	3,739,847	2,827,080	**8,959,445**	8,309,613	**171,152**	478,982
	₱76,293,815	₱79,108,653	₱78,766,856	**₱232,479,035**	₱220,187,887	**₱6,203,541**	₱6,739,048

Summarized financial information of BPI, Globe and MWCI are presented in Note 10 to the consolidated financial statements.

28. 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 2009 and 2008. Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments follow:

	2009		2008	
	Minimum payments	**Present values of payments**	Minimum payments	Present values of payments
		(In Thousands)		
Within one year	**₱13,448**	**₱11,866**	₱1,036	₱980
After one year but not more than five years	**23,987**	**21,982**	14	13
Total minimum lease payments	**37,435**	**33,848**	1,050	993
Less amounts representing finance charges	**3,587**	**–**	57	–
Present value of minimum lease payments	**₱33,848**	**₱33,848**	₱993	₱993

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 non-cancellable operating leases of lessee subsidiaries are as follows:

	2009	2008
	(In Thousands)	
Within one year	**₱300,933**	₱154,923
After one year but not more than five years	**755,185**	513,202
More than five years	**1,536,304**	1,478,113
	₱2,592,422	₱2,146,238

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 non-cancellable operating leases of the Group are as follows:

	2009	2008
	(In Thousands)	
Within one year	**₱1,618,130**	₱1,361,126
After one year but not more than five years	**4,789,404**	3,783,681
More than five years	**3,349,840**	1,405,812
	₱9,757,374	₱6,550,619

29. 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 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 (in thousands):

Receivable from related parties

	2009	2008
Associates:		
Interest in limited partnerships of AINA	**₱1,559,312**	₱948,629
CHI	**120,791**	85,587
NTDCC	**25,383**	19
Naraya Development Co. Ltd.	**17,863**	16,628
Lagoon Development Corporation	**15,337**	25,626
Arch Capital	**908**	611
MD Express	**144**	19
Accendo Commercial Corp.	**–**	63,510
	1,739,738	1,140,629
Jointly controlled entities:		
MWCI	**48,113**	3,840
Globe	**38,827**	92,640
ACC	**15,929**	7,457
EGS Acquisition	**–**	2,130,844
EGS Corp.	**–**	2,855,215
	102,869	5,089,996
Other related parties:		
Glory High	**571,467**	642,308
Columbus Holdings, Inc. (Columbus)	**520,066**	520,061
Key management personnel	**280,488**	220,877
Fort Bonifacio Development Corporation (FBDC)	**87,296**	247,428
Ayala Systems Technology, Inc.	**76,747**	–
PPI Prime Ventures, Inc.	**5,946**	–
Innove Communications, Inc. (Innove)	**4,890**	4,806
Honda Cars Philippines, Inc. (HCP)	**603**	–
MyAyala	**51**	3,038
	1,547,554	1,638,518
	₱3,390,161	₱7,869,143

Payable to related parties

	2009	2008
Associates:		
BLC	**₱78,829**	₱–
CHI	**509**	1,341
Arch Capital	**427**	–
	79,765	1,341
Jointly controlled entities:		
Asiacom	**94**	–
Globe	**13**	116
	107	116
Other related parties:		
Columbus	**484,888**	–
Cebu Property Ventures and Development Corporation	**149,204**	4,937
HCP	**69,665**	121,447
Green Horizons	**13,455**	6,371
Innove	**110**	1,196
Others	**33,225**	331
	750,547	134,282
	₱830,419	₱135,739

Income

	2009	2008	2007
		(In Thousands)	
Associates	**₱956,704**	₱109,277	₱164,666
Jointly controlled entities	**140,652**	229,954	71,895
Other related parties	**15,062**	669,162	918,140
	₱1,112,418	₱1,008,393	₱1,154,701

Cost and expenses

	2009	2008	2007
		(In Thousands)	
Jointly controlled entities	**₱47,732**	₱54,339	₱46,201
Other related parties	**7,294**	12,983	1,938
	₱55,026	₱67,322	₱48,139

Receivable from related parties include the following:

a. Receivables from AINA's interest in limited partnerships are nontrade in nature and bear interests ranging from 12% to 15%.

b. In 2008, AYC Holdings, Inc. issued promissory notes and advances to EGS Corp. and EGS Acquisition amounting to ₱4,986.1 million. The advances amounting to ₱665.3 million is payable in one year and bear interest at the rate of 12% per annum. The promissory notes amounting to ₱4,320.8 million is payable over a period of five years and bear interest at the rate of 12% to 18% per annum. The notes and advances were partially collected in October 1, 2009. The balance amounting to ₱1,655.8 million owed by EGS Corp. was assigned to NewBridge in 2009.

c. Promissory notes issued by BLC, which were assigned by MPC to ALI and Evergreen Holdings Inc. and the advances subsequently made by ALI to FBDC to fund the completion of the Bonifacio Ridge project and to BLC to finance the costs to be incurred in relation to its restructuring program are due and demandable and bear interest at the rates of 12% to 14% per annum.

d. Any other outstanding balances at the year-end are unsecured, interest free and will be settled in cash.

Allowance for doubtful accounts on amounts due from related parties amounted to ₱5.2 million and ₱8.0 million as of December 31, 2009 and 2008, 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 and ₱1.7 million in 2007.

Compensation of key management personnel by benefit type follows:

	2009	2008	2007
		(In Thousands)	
Short-term employee benefits	**₱864,014**	₱675,164	₱503,101
Share-based payments (Note 26)	**167,886**	184,521	144,767
Post-employment benefits (Note 25)	**103,979**	48,256	78,110
	₱1,135,879	₱907,941	₱725,978

30. 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 (in thousands):

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FVPL FINANCIAL ASSETS				
Financial assets at FVPL	**₱926,860**	**₱926,860**	₱2,233,201	₱2,233,201
LOANS AND RECEIVABLES				
Cash and cash equivalents	**45,656,889**	**45,656,889**	42,885,792	42,885,792
Short-term investments	**4,560,976**	**4,560,976**	1,008,924	1,008,924
Accounts and notes receivables				
Trade receivables				
Real estate	**12,808,632**	**12,904,112**	10,428,525	11,118,638
Electronics manufacturing	**3,867,003**	**3,867,003**	3,115,891	3,115,891
Automotive	**818,850**	**818,850**	639,346	639,346
Information technology and BPO	**799,783**	**799,783**	332,964	332,964
International and others	**3,700**	**3,700**	3,940	3,940
Total trade receivables	**18,297,968**	**18,393,448**	14,520,666	15,210,779
Nontrade receivables				
Advances to other companies	**2,888,665**	**2,860,678**	3,643,843	3,643,843
Related parties	**3,384,955**	**3,384,955**	7,861,125	8,168,757
Investments in bonds classified as loans and receivables	**200,000**	**200,000**	–	–
Other receivables	**514,018**	**514,018**	1,455,732	1,435,553
Total nontrade receivables	**6,987,638**	**6,959,651**	12,960,700	13,248,153
Total loans and receivables	**75,503,471**	**75,570,964**	71,376,082	72,353,648
AFS FINANCIAL ASSETS				
Quoted equity investments	**877,509**	**877,509**	1,449,982	1,449,982
Unquoted equity investments	**2,392,489**	**2,392,489**	1,614,520	1,614,520
Quoted debt investments	**1,199,154**	**1,199,154**	–	–
Total AFS financial assets	**4,469,152**	**4,469,152**	3,064,502	3,064,502
HTM INVESTMENTS				
Quoted debt investments	**–**	**–**	65,405	68,695
Total financial assets	**₱80,899,483**	**₱80,966,976**	₱76,739,190	₱77,720,046
OTHER FINANCIAL LIABILITIES				
Current other financial liabilities				
Accounts payable and accrued expenses				
Accounts payable	**₱14,584,321**	**₱14,584,321**	₱13,922,547	₱13,922,547
Accrued expenses	**6,152,842**	**6,152,842**	6,821,712	6,821,712
Dividends payable	**2,264,306**	**2,264,306**	1,333,740	1,333,740
Accrued project cost	**2,136,700**	**2,136,700**	2,022,903	2,022,903
Accrued personnel costs	**427,502**	**427,502**	823,717	823,717
Interest payable	**402,278**	**402,278**	501,251	501,251
Retentions payable	**120,938**	**120,938**	262,330	262,330
Related Parties	**105,355**	**105,355**	135,739	135,739
Customers' deposits	**2,374,457**	**2,374,457**	1,246,593	1,246,593
Short-term debt	**2,638,658**	**2,638,658**	2,755,447	2,755,447
Current portion of long-term debt	**2,453,144**	**2,453,144**	1,478,871	1,478,871
Noncurrent other financial liabilities				
Other noncurrent liabilities	**8,083,130**	**8,042,012**	7,016,372	7,022,465
Long-term debt	**51,431,583**	**53,331,913**	50,250,151	51,849,121
Total other financial liabilities	**₱93,175,214**	**₱95,034,426**	₱88,571,373	₱90,176,436

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.

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 4.28% to 9.59% in 2009 and 6.40% to 7.70% in 2008.

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 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.

HTM investments - The fair value of bonds is based on quoted market prices.

Liabilities - 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.

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 4.28% to 9.59% in 2009 and 6.60% to 7.70% in 2008.

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 and quoted AFS financial assets amounting to ₱440.6 million and ₱2,076.7 million, respectively, were classified under the Level 1 category. There are no financial assets at FVPL and quoted AFS financial assets that have been classified under the Level 2 and 3 category.

During the reporting period ended December 31, 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Risk Management and Financial Instruments

General
In line with the corporate governance structure of the Company, the Company 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 Company's business risks. By understanding and managing risk, the Company 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, HTM investments, 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 purpose of the Group's financial instruments is to fund its operational and capital expenditures. 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 and interest rate 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, 2009 and 2008, with all variables held constant, (through the impact on floating rate borrowings and changes in fair value of financial assets at FVPL).

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**

December 31, 2008

	Effect on profit before tax Change in basis points	
	+100 basis points	-100 basis points
	(In Thousands)	
FVPL financial assets	(₱10,295)	₱10,475
Parent Company - floating rate borrowings	(52,425)	52,425
Subsidiaries - floating rate borrowings	(130,990)	130,990
	(₱193,710)	₱193,890

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:

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	₱45,656,889	₱45,656,889	₱–	₱–	₱45,656,889
Short-terms 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
Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	925,694	925,694	222,490	50,970	1,199,154
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 (formerly Mart1)	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 months, semi-annual	12,031,450	1,821,657	9,382,894	823,666	12,028,217

2008

	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	₱42,885,792	₱42,885,792	₱–	₱–	₱42,885,792
Short-term investments	Fixed at the date of investment or revaluation cut-off	Balance date	1,008,924	1,008,924	–	–	1,008,924
Financial assets at FVPL	Fixed at the date of investment or revaluation cut-off	Balance date	1,778,720	1,778,720		–	1,778,720
Accounts and notes receivable	Fixed at the date of sale	Date of sale	14,720,214	8,017,173	5,651,461	208,166	13,876,800
HTM	Fixed at 16.50%	6 months	65,000	65,405	–	–	65,405
Company							
Long-term debt							
Fixed							
	Fixed at 6.70%	7 years	1,492,500	7,500	30,000	1,455,000	1,492,500
	Fixed at 6.75%	10 years	1,500,000	1,667	6,667	1,491,666	1,500,000
	Fixed at 6.825%	5 years	6,000,000	–	6,000,000	–	6,000,000
	Fixed at 10.00%	5 years	3,000,000	–	3,000,000	–	3,000,000
	Fixed at 10.375%	7 years	4,170,000	10,000	4,160,000	–	4,170,000
	Fixed at 6.725%	5 years	2,000,000	–	2,000,000	–	2,000,000
Floating							
	Variable at 0.50% to 0.67% over 91-day T-bills PDST-R1 (formerly Mart1)	3 months	6,990,000	5,000	6,985,000	–	6,990,000
Subsidiaries							
Short-term debt							
	Variable ranging from 7.0% to 9.64%	Monthly	1,501,000	1,501,000	–	–	1,501,000
	Variable ranging from 2.5% to 6.4%	Monthly	1,254,447	1,254,447	–	–	1,254,447
Long-term debt							
Fixed							
	Fixed at 9.5%	1 and 2 years	33,500	33,500	–	–	33,500
	Fixed at 5.0% to 14.88%	3,5,7 and 10 years	13,855,658	204,892	9,884,047	3,762,625	13,851,564
Floating							
	Variable at 1.00% to 1.5% over 91-day PDST-F or PDST-R1	3 months	1,625,000	39,250	435,350	1,146,394	1,620,994
	Variable from 4.0% to 15.0%	3 months	10,985,557	1,177,062	9,799,115	9,380	10,985,557

Foreign exchange risk
The Group's foreign exchange risk results primarily from movements of the Philippine Peso (PHP) against the United States Dollar (US$). The Company may enter into foreign currency forwards and foreign currency swap contracts in order to hedge its US$ obligations.

The table below summarizes the Group's exposure to foreign exchange risk as of December 31, 2009 and 2008. Included in the table are the Group's monetary assets and liabilities at carrying amounts, categorized by currency.

	2009		2008	
	US$	**Php Equivalent***	US$	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**US$171,687**	**₱7,931,962**	US$88,107	₱4,186,845
Short term investments	**6,576**	**303,811**	6,120	290,822
Accounts and notes receivables	**1,968**	**90,932**	107,245	5,096,282
Total assets	**180,231**	**8,326,705**	201,472	9,573,949
Liabilities				
Accounts payable and accrued expenses	**70,911**	**3,276,098**	2,119	100,695
Short-term debt	**34,500**	**1,593,900**	–	–
Long-term debt	**155,000**	**7,161,000**	175,000	8,316,000
Total liabilities	**260,411**	**12,030,998**	177,119	8,416,695
Net foreign currency denominated assets (liabilities)	**(US$80,180)**	**(₱3,704,293)**	US$24,353	₱1,157,254

**Translated using the exchange rate at the reporting date (US$1:₱46.200 in 2009, US$1:47.520)*

The table below summarizes the exposure to foreign exchange risk of the subsidiaries with a functional currency of US$.

	2009		2008	
	PHP	**US$ Equivalent***	PHP	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**₱446,323**	**US$9,661**	₱783,272	US$16,483
Accounts and notes receivables	**194,834**	**4,217**	236,652	4,980
Other current assets	**29,604**	**641**	43,935	925
Other non-current assets	**38,413**	**831**	–	–
Total assets	**709,174**	**15,350**	1,063,859	22,388
Liabilities				
Accounts payable and accrued expenses	**551,037**	**11,927**	534,193	11,241
Other current liabilities	**68,216**	**1,477**	–	–
Short-term debt	**71,000**	**1,537**	–	–
Other noncurrent liabilities	**27,343**	**592**	–	–
Total liabilities	**717,596**	**15,533**	534,193	11,241
Net foreign currency denominated assets (liabilities)	**(₱8,422)**	**(US$183)**	₱529,666	US$11,147

**Translated using the exchange rate at the reporting date (₱1:US$0.022 in 2009, ₱1:US$0.021 in 2008)*

	2009		2008	
	SGD	**US$ Equivalent***	SGD	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**SGD5,434**	**US$3,911**	SGD12,976	US$8,944
Accounts and notes receivables	**717**	**515**	142	98
Other current assets	–	–	1,275	879
Other noncurrent assets	**5,611**	**4,037**	8,074	5,565
Total assets	**11,762**	**8,463**	22,467	15,486
Liabilities				
Accounts payable and accrued expenses	**2,205**	**1,590**	2,117	1,459
Other current liabilities	**2,085**	**1,349**	–	–
Short-term debt	**3,172**	**2,291**	–	–
Long-term debt	–	–	6,949	4,790
Other noncurrent liabilities	**143**	**103**	171	118
Total liabilities	**7,605**	**5,333**	9,237	6,367
Net foreign currency denominated assets	**SGD4,157**	**US$3,130**	SGD13,230	US$9,119

**Translated using the exchange rate at the reporting date (SGD1:US$0.719 in 2009, SGD1:US$0.689 in 2008)*

	2009		2008	
	JPY	**US$ Equivalent***	JPY	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**JPY19,854**	**US$217**	JPY44,824	US$493
Accounts and notes receivables	**151,583**	**1,696**	92,418	1,016
Other noncurrent assets	**320**	**3**	–	–
Total assets	**171,757**	**1,916**	137,242	1,509
Liabilities				
Accounts payable and accrued expenses	**323,334**	**3,630**	80,176	882
Net foreign currency denominated assets (liabilities)	**(JPY151,577)**	**(US$1,714)**	JPY57,066	US$627

**Translated using the exchange rate at the reporting date (JPY1:US$0.011 in 2009 and 2008)*

	2009		2008	
	HKD	**US$ Equivalent***	HKD	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**HKD1,053**	**US$136**	HKD106,845	US$13,787
Accounts and notes receivables	**97,199**	**12,542**	106,559	13,750
Other current assets	**320**	**41**	320	41
Other noncurrent assets	**16,541**	**2,134**	16,541	2,134
Total assets	**115,113**	**14,853**	230,265	29,712
Liabilities				
Accounts payable and accrued expenses	**4,765**	**615**	12,076	1,558
Net foreign currency denominated assets	**HKD110,348**	**US$14,238**	HKD218,189	US$28,154

**Translated using the exchange rate at the reporting date (HKD1:US$0.129 in 2009 and 2008)*

	2009		2008	
	RMB	**US$ Equivalent***	RMB	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**RMB43,235**	**US$6,333**	RMB16,508	US$ 2,410
Accounts and notes receivables	**160,552**	**23,518**	132,881	19,403
Total assets	**203,787**	**29,851**	149,389	21,813
Liabilities				
Accounts payable and accrued expenses	**234,361**	**34,081**	103,097	15,054
Other current liabilities	**9**	–	–	–
Total liabilities	**234,370**	**34,081**	103,097	15,054
Net foreign currency denominated assets (liabilities)	**(RMB30,583)**	**(US$4,230)**	RMB46,292	US$6,759

**Translated using the exchange rate at the reporting date (RMB1:US$0.146 in 2009 and 2008)*

	2009		2008	
	GBP	**US$ Equivalent***	GBP	US$ Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**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	**2,354**	**3,797**	–	–
Other current liabilities	**247**	**399**	–	–
Total liabilities	**2,601**	**4,196**	–	–
Net foreign currency denominated liabilities	**(GBP1,107)**	**(US$1,787)**	–	–

**Translated using the exchange rate at the reporting date (GBP1:US$0.914)*

	2009		2008	
	INR	**US$ Equivalent***	INR	US$ Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**INR20,467**	**US$441**	–	–
Accounts and notes receivables	**4,001**	**86**	–	–
Other current assets	**34,142**	**735**	–	–
Total assets	**58,610**	**1,262**	–	–
Liabilities				
Accounts payable and accrued expenses	**67,627**	**1,456**	–	–
Other current liabilities	**25,361**	**546**	–	–
Long-term debt	**21,799**	**469**	–	–
Total liabilities	**114,787**	**2,471**	–	–
Net foreign currency denominated liabilities	**(INR56,177)**	**(US$1,209)**	–	–

**Translated using the exchange rate at the reporting date (INR1:US$0.022)*

	2009		2008	
	THB	**US$ Equivalent***	THB	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**THB4,846**	**US$146**	THB4,846	US$137
Accounts and notes receivables	**1,591**	**48**	–	–
Other current assets	–	–	92	3
Other noncurrent assets	**153,386**	**4,619**	210,205	5,524
Total assets	**159,823**	**4,813**	215,143	5,664
Liabilities				
Accounts payable and accrued expenses	**182**	**5**	144	4
Net foreign currency denominated assets	**THB159,641**	**US$4,808**	THB214,999	US$5,660

**Translated using the exchange rate at the reporting date (THB1:US$0.030 in 2009, THB1:US$0.028 in 2008)*

	2009		2008	
	MYR	**US$ Equivalent***	MYR	US$ Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**MYR3,567**	**US$1,052**	MYR5,233	US$1,445
Accounts and notes receivables	**30**	**9**	9	2
Other current assets	–	–	68	19
Other noncurrent assets	**4,082**	**1,204**	5,410	1,494
Total assets	**7,679**	**2,265**	10,720	2,960
Liabilities				
Accounts payable and accrued expenses	**78**	**23**	78	22
Other noncurrent liabilities	**26**	**8**	26	7
Total liabilities	**104**	**31**	104	29
Net foreign currency denominated assets	**MYR7,575**	**US$2,234**	MYR10,616	US$2,931

**Translated using the exchange rate at the reporting date (MYR1:US$0.0.295 in 2009, MYR1:US$0.0.276 in 2008)*

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 (in thousands).

<u>2009</u>

Currency	**Increase (decrease) in Peso per foreign currency depreciation (appreciation)**	**Effect on profit before tax**
US$	**₱1.00**	**(₱80,180)**
	(1.00)	**80,180**

Currency	**Increase (decrease) in USD per foreign currency depreciation (appreciation)**	**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)**

2008

Currency	Increase (decrease) in Peso per foreign currency depreciation (appreciation)	Effect on profit before tax
US$	₱1.00	₱24,353
	(1.00)	(24,353)

Currency	Increase (decrease) in USD per foreign currency depreciation (appreciation)	Effect on profit before tax
PHP	US$1.00	US$529,666
	(US$1.00)	(529,666)
SGD	US$1.00	13,230
	(US$1.00)	(13,230)
HKD	US$1.00	218,189
	(US$1.00)	(218,189)
RMB	US$1.00	46,292
	(US$1.00)	(46,292)
JPY	US$1.00	57,066
	(US$1.00)	(57,066)
THB	US$1.00	215,143
	(US$1.00)	(215,143)
MYR	US$1.00	10,616
	(US$1.00)	(10,616)

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 analysis below demonstrates the sensitivity to a reasonably possible change of market index with all other variables held constant, of the Group's equity (in thousands).

2009

Market Index	Change in Variables	Effect on Equity
PSEi	+5%	₱168,206
	-5%	(168,206)

2008

Market Index	Change in Variables	Effect on Equity
PSEi	+5%	₱38,096
	-5%	(38,096)

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, 2009 and 2008 based on contractual undiscounted payments.

	2009				
	< 1 year	**1 to < 2 years**	**2 to < 3 years**	**> 3 years**	**Total**
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	**₱14,584,321**	**₱–**	**₱–**	**₱–**	**₱14,584,321**
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	**105,355**	–	–	–	**105,355**
Retentions payable	**120,938**	–	–	–	**120,938**
Customers' deposit	**2,374,457**	–	–	–	**2,374,457**
Short-term debt	**2,638,658**	–	–	–	**2,638,658**
Long-term debt	**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	**₱3,119,138**	**₱1,795,261**	**₱1,675,878**	**₱2,948,760**	**₱9,539,037**

	2008				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱13,922,547	₱–	₱–	₱–	₱13,922,547
Accrued expenses	6,821,712	–	–	–	6,821,712
Accrued project costs	2,022,903	–	–	–	2,022,903
Dividends payable	1,333,740	–	–	–	1,333,740
Accrued personnel costs	823,717	–	–	–	823,717
Retentions payable	262,330	–	–	–	262,330
Related parties	135,739	–	–	–	135,739
Customers' deposit	1,246,593	–	–	–	1,246,593
Short-term debt	2,755,447	–	–	–	2,755,447
Long-term debt	1,478,871	5,669,616	8,801,387	35,694,241	51,644,115
Other noncurrent liabilities	–	2,260,063	745,981	4,010,328	7,016,372
	₱30,803,599	₱7,929,679	₱9,547,368	₱39,704,569	₱87,985,215

	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
Interest payable	₱3,625,656	₱3,360,187	₱3,212,604	₱4,162,923	₱14,361,370

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.

	2009	2008
	(In Thousands)	
Cash and cash equivalents	**₱41,696,097**	₱39,113,232
Short-term investments	**4,560,976**	1,008,924
Financial assets at FVPL	**926,860**	2,233,201
Accounts and notes receivables		
Trade		
Real estate	**12,808,632**	10,428,525
Electronics manufacturing	**3,867,003**	3,115,891
Automotive	**818,850**	639,346
Information technology and business process outsourcing	**799,783**	332,964
International and others	**3,700**	3,940
Advances to other companies	**2,888,665**	3,643,843
Related parties	**3,384,955**	7,861,125
Investment in bonds classified as loans and receivables	**200,000**	–
Others	**514,018**	1,455,732
AFS financial assets		
Quoted equity investments	**877,509**	1,449,982
Unquoted equity investments	**2,392,489**	1,614,520
Quoted debt investments	**1,199,154**	–
HTM investments		
Bonds	**–**	65,405
Total credit risk exposure	**₱76,938,691**	₱72,966,630

The analysis of accounts and notes receivables that are past due but not impaired follows:

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	**₱10,616,823**	**₱706,133**	**₱309,749**	**₱296,463**	**₱263,399**	**₱640,257**	**₱2,216,001**	**₱178,618**	**₱13,011,442**
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**
Others	**522,926**	**134**	**419**	**1,109**	**908**	**266**	**2,836**	**30,827**	**556,589**
Total	**₱20,717,716**	**₱1,128,702**	**₱1,026,182**	**₱381,115**	**₱456,128**	**₱1,611,699**	**₱4,603,826**	**₱337,046**	**₱25,658,588**

December 31, 2008

	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	₱8,132,446	₱907,944	₱267,659	₱369,772	₱132,440	₱671,869	₱2,349,684	₱83,124	₱10,565,254
Electronics manufacturing	2,942,598	138,169	16,415	244	–	18,465	173,293	36,277	3,152,168
Automotive	245,499	274,359	89,929	28,933	7,777	18,956	419,954	217	665,670
Information technology and BPO	200,326	64,596	20,296	31,365	16,381	–	132,638	19,120	352,084
International and others	–	1,542	1,681	258	189	270	3,940	60,134	64,074
Advances to other companies	2,429,488	249,737	27,017	383,020	8,563	546,018	1,214,355	–	3,643,843
Related parties	7,634,485	56,138	47,536	44,731	41,372	36,863	226,640	8,018	7,869,143
Others	1,067,694	38,823	69,285	72,592	87,538	76,826	345,064	114,203	1,526,961
Total	₱22,652,536	₱1,731,308	₱539,818	₱930,915	₱294,260	₱1,369,267	₱4,865,568	₱321,093	₱27,839,197

The table below shows the credit quality of the Group's financial assets as of December 31, 2009 and 2008 (in thousands):

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	**9,151,761**	**854,788**	**610,274**	**10,616,823**	**2,216,001**	**178,618**	**13,011,442**
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**
Others	**522,792**	**134**	**–**	**522,926**	**2,836**	**30,827**	**556,589**
AFS Investments							
Quoted shares of stocks	**877,509**	**–**	**–**	**877,509**	**–**	**–**	**877,509**
Unquoted shares of stocks	**–**	**2,392,489**	**–**	**2,392,489**	**–**	**–**	**2,392,489**
Quoted debt investments	**1,199,154**	**–**	**–**	**1,199,154**	**–**	**–**	**1,199,154**
	₱71,790,301	**₱3,800,276**	**₱741,016**	**₱76,331,593**	**₱4,603,826**	**₱337,046**	**₱81,272,465**

December 31, 2008

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱42,885,792	₱–	₱–	₱42,885,792	₱–	₱–	₱42,885,792
Short-term investments	1,008,924	–	–	1,008,924	–	–	1,008,924
FVPL financial assets	2,233,201	–	–	2,233,201	–	–	2,233,201
Accounts and notes receivables							
Trade							
Real estate	6,042,439	1,600,010	489,997	8,132,446	2,349,684	83,124	10,565,254
Electronics manufacturing	867,658	1,682,919	392,021	2,942,598	173,293	36,277	3,152,168
Automotive	192,080	53,419	–	245,499	419,954	217	665,670
Information technology and BPO	200,326	–	–	200,326	132,638	19,120	352,084
International and others	–	–	–	–	3,940	60,134	64,074
Advances to other companies	2,407,629	7,942	13,917	2,429,488	1,214,355	–	3,643,843
Related parties	6,967,055	667,430	–	7,634,485	226,640	8,018	7,869,143
Others	928,795	138,899	–	1,067,694	345,064	114,203	1,526,961
AFS Investments							
Quoted shares of stocks	1,449,982	–	–	1,449,982	–	–	1,449,982
Unquoted shares of stocks	–	1,614,520	–	1,614,520	–	–	1,614,520
HTM Investments							
Quoted debt investments	65,405	–	–	65,405	–	–	65,405
	₱65,249,286	₱5,765,139	₱895,935	₱71,910,360	₱4,865,568	₱321,093	₱77,097,021

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, HTM investments, 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; 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.

AFS financial assets - the unquoted investments are unrated.

31. 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.

32. Note to Consolidated Statements of Cash Flows

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).

33. Interest in a Joint Venture

MDC has a 51% interest in Makati Development Corporation - First Balfour, Inc. Joint Venture (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 was started on January 31, 2007. The Project 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 Group's share in the assets, liabilities, income and expenses of the Joint Venture at December 31, 2009 and 2008 and for the years then ended, which are included in MDC's financial statements, are as follows:

	2009	2008
	(In Thousands)	
Current assets		
Cash and cash equivalents	**₱150,805**	₱181,953
Receivables	**191,809**	440,569
Due from customers for contract work	**61,379**	229,596
Inventory	**–**	18,349
Other current assets	**46,326**	135,674
Property and equipment	**22**	16,978
Total assets	**450,341**	1,023,119
Current liabilities	**226,545**	802,821
Revenue	**835,615**	1,422,023
Contract costs	**(730,779)**	(1,218,026)
Interest and other income	**(583)**	16,516
Income before income tax	**104,253**	220,513
Income tax	**(831)**	(2,250)
Net income	**₱103,422**	₱218,263

Provision for income tax pertains to final tax on interest income.

34. **Commitments and Contingencies**

Commitments
ALI has an existing contract with the Bases Conversion 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 revenue.

Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, its 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, SSECC 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 development of another lot inside Fort Bonifacio with a gross area of 11.6 hectares for residential purposes. Pursuant to the agreement, BCDA shall contribute its title and 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. ALI commits to invest sufficient capital to complete the residential development.

ALI procured a surety bond with a face value of ₱122.9 million issued by an insurance company in favor and for the benefit of BCDA as beneficiary. The surety bond shall be continuing in nature and shall secure the obligation of ALI to pay BCDA annual minimum revenue share for each of the first 8 selling periods of the residential project.

In 2002, ALI agreed to underwrite the subscription to NTDCC additional shares amounting to ₱1.4 billion over a 4-year equity schedule up to 2007 in exchange for a 5% underwriting fee (net of a 1.5% rebate to existing shareholders who subscribed).

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 April 15, 2008, the Company acted as guarantor to a US$50 million transferable term loan facility between AYC, a subsidiary, as borrower and several lenders who are also the lead arrangers of the Agreement.

Repayment dates for advances made to AYC are in six-month intervals from 2011 to 2013. The Company unconditionally guaranteed the due and punctual payment of advances if for any reason AYC does not make timely payment. The Company waived all rights of subrogation, contribution, and claims of prior exhaustion of remedies. The Company's obligation as guarantor will remain in full force until no sum remains to be lent by the lenders, and the lenders recover the advances.

AINA obtained a US$3.0 million letter of credit as security for the release of a loan to one of its subsidiaries. As security for the letter or credit, AINA is required to maintain a US$3.0 million certificate of deposit with the bank. AINA, together with another individual, jointly and severally guarantees the obligation of its subsidiary.

Share sale and purchase agreement with United Utilities (UU)
On November 11, 2009, the Company, UU and Philwater Holdings, Inc. signed agreements for the Company's acquisition of UU's 81.9 million common shares and economic interest in 2 billion preferred shares in MWCI for a total consideration of ₱3.5 billion.

As of December 31, 2009, the MWCI shares held by UU was not transferred to the Company pending compliance of certain conditions precedents under the Share Sale and Purchase Agreement (see Note 35).

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.

As a result of the explosion which occurred on October 19, 2007 at the basement of the Makati Supermarket Building, the Philippine National Police - Multi-Agency Investigation Task Force and the Department of Interior and Local Government - Inter-Agency task Force (DILG-IATF) filed complaints with and recommended to the Department of Justice ("DOJ") the prosecution of certain officers/employees of Makati Supermarket Corporation, the owner of the building, as well as some officers/employees of Ayala Property Management Corp. (APMC), among other individuals, for criminal negligence. In a Joint Resolution dated April 23, 2008, the DOJ special panel of prosecutors ruled that there was no probable cause to prosecute the APMC officers/employees for criminal negligence. This was affirmed by the DOJ Secretary in a Resolution dated November 17, 2008. A Motion for Reconsideration was filed by the DILG-IATF to question the DOJ Secretary's Resolution which remains unresolved to date. No civil case has been filed by any of the victims of the incident.

35. Events after the Reporting Period

The Company

On March 4, 2010, the Company completed the acquisition of UU's 81.9 million common shares and economic interest in 2 billion preferred shares in MWCI. The acquisition increased the Company's interest in MWCI from 31.7% to 43.3%.

In various dates from January 1 to March 10, 2010, the Company bought a total of 1.34 million common shares amounting to ₱395.4 million as part of the Company's share buyback program.

IMI

Listing by Way of Introduction

On December 9, 2009, the BOD of PSE approved the application of IMI for the initial listing by way of introduction of 1,137,708,197 common shares, with a par value of ₱1.00 per share, under the First Board of the Exchange, at an indicative opening price of ₱6.24 per share. On the same day, the PSE approved the application of IMI to list additional 146,681,420 common shares to cover IMI's ESOWN. The listing ceremony was held on January 21, 2010. On this date, IMI's stock symbol, IMI, officially entered into the electronic board of the PSE marking the start of public trading of its common shares through the stock market.

Restructuring plan

On January 21, 2010, the IMI's BOD approved another restructuring plan. IMI estimated to incur about $0.64 million (₱30.0 million) as a result of this restructuring. The employees that will be laid off will come from two projects of IMI that will end its manufacturing agreements in February 2010. Most of the employees included in the restructuring plan are in the operator level. It is expected that the restructuring will be carried out and completed by March 2010.

Integreon

On February 16, 2010, Actis LLP, an emerging market private equity specialist, invested US$50.0 million for a 37.7% interest in Integreon.

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Institutional Investor Inquiries

Ayala Corporation welcomes inquiries from analysts, the financial community, and institutional investors.
Please write or call:
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Shareholder Services and Assistance

For inquiries regarding dividend payments, change of address and account status, and lost or damaged stock certificates,
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