NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of **AYALA LAND, INC.** will be held at the Grand Ballroom, InterContinental Manila, Ayala Center, Makati City, on **Wednesday, April 14, 2010** at **9:00 o'clock in the morning** with the following

A G E N D A

1. Proof of Notice and Determination of Quorum

2. Approval of Minutes of Previous Meeting

3. Annual Report

4. Ratification of All Acts and Resolutions of the Board of Directors and of the Executive Committee Adopted During the Preceding Year.

5. Election of Directors (including the Independent Directors)

6. Election of Auditors and Fixing of their Remuneration

7. Consideration of Such Other Business as May Properly Come Before the Meeting

8. Adjournment

Only stockholders of record at the close of business on **February 19, 2010** are entitled to notice of, and to vote at, this meeting.

Makati City, February 5, 2010.

FOR THE BOARD OF DIRECTORS

MERCEDITA S. NOLLEDO
Corporate Secretary

We are not soliciting your proxy. However, if you would be unable to attend the meeting but would like to be represented thereat, you may accomplish the herein proxy form and submit the same on or before **March 31, 2010** to the Office of the Corporate Secretary at 34F Tower One, Ayala Triangle, Ayala Avenue, Makati City. Validation of proxies shall be held on April 6, 2010 at 9:00 a.m. at the Office of the Corporate Secretary. Thank you.

PROXY

The undersigned stockholder of **AYALA LAND, INC.** (the "Company") hereby appoints ____________________________ or in his absence, the Chairman of the meeting, as *attorney* and *proxy,* with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the annual meeting of stockholders of the Company on April 14, 2010 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of minutes of previous meeting.
   ❑ Yes ❑ No ❑ Abstain

2. Approval of annual report.
   ❑ Yes ❑ No ❑ Abstain

3. Ratification of all acts and resolutions of the Board of Directors and of the Executive Committee.
   ❑ Yes ❑ No ❑ Abstain

4. Election of Directors

   ❑ Vote for all nominees listed below
   Fernando Zobel de Ayala
   Jaime Augusto Zobel de Ayala
   Antonino T. Aquino
   Delfin L. Lazaro
   Aurelio R. Montinola III
   Mercedita S. Nolledo
   Francis G. Estrada (Independent)
   Jaime C. Laya (Independent)
   Oscar S. Reyes (Independent)

   ❑ Withhold authority for all nominees listed above

   ❑ Withhold authority to vote for the nominees listed below:

   ____________________ ____________________
   ____________________ ____________________
   ____________________ ____________________

5. Election of Sycip Gorres Velayo & Co. as independent auditors and fixing of their remuneration.
   ❑ Yes ❑ No ❑ Abstain

6. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.
   ❑ Yes ❑ No

____
PRINTED NAME OF STOCKHOLDER

____
SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY

____
DATE

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE MARCH 31, 2010, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement of

Ayala Land, Inc. (the "Registrant," "Company" or "ALI")

Pursuant to Section 20 of the Securities Regulation Code (the "Code")

1. **Check the appropriate box:**

   __________ Preliminary Information Sheet
   ____✔_____ Definitive Information Sheet

2. **Name of Registrant as specified in its charter:** AYALA LAND, INC.

3. **Province, country or other jurisdiction of incorporation or organization:** REPUBLIC OF THE PHILIPPINES

4. **SEC Identification Number:** 152747

5. **BIR Tax Identification Code:** 000-153-790-000

6. **Address of Principal Office:** 31st Floor, Tower One and Exchange Plaza
   Ayala Triangle, Ayala Avenue, Makati City 1226

7. **Registrant's telephone number, including area code:** (632) 848-5772 / 841-5675

8. **Date, time and place of the meeting of security holders:**

Date	-	April 14, 2010
Time	-	9:00 A.M.
Place	-	Grand Ballroom, InterContinental Manila Ayala Center, Makati City

9. **Approximate date on which the Information Statement is first to be sent or given to security holders:**

   March 17, 2010

10. **Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA:**

    a. **Shares of Stock**

Class	Number of Shares
Common Shares	13,001,279,745

    b. **Debt Securities**

    ₱ 4.0 billion Bonds

11. **Are any or all of Registrant's securities listed in a Stock Exchange?**

    __✔__ Yes   _____ No

    12,999,800,637 common shares are listed with the Philippine Stock Exchange ("PSE").

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of security holders

a.	**Date**	-	April 14, 2010
	Time	-	9:00 A.M.
	Place	-	Grand Ballroom, InterContinental Manila Ayala Center, Makati City
	Principal Office	-	31st Floor, Tower One and Exchange Plaza Ayala Triangle, Ayala Avenue Makati City 1226

b. Approximate date when the Information Statement is first to be sent or given to security holders:

March 17, 2010

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

Item 2. Dissenter's Right of Appraisal

There are no matters to be acted upon that may give rise to appraisal rights under the Corporation Code.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

a. No current director or officer[1], or nominee for election as director or any of his associate, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon other than election to office.

b. No director has informed the Company that he intends to oppose any action to be taken at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

a. **Number of Shares Outstanding as of February 28, 2010**: 13,001,279,745 Common Shares

13,034,603,880 Preferred Shares

Number of Votes Entitled: one (1) vote per share for Common Shares

one (1) vote per share for Preferred Shares on matters provided for under the Corporation Code

b. All stockholders of record as of February 19, 2010 are entitled to notice and to vote at the meeting

[1] References to directors, officers, Board or Committees are references to directors, officers, Board or Committees of the Company unless otherwise specified.

c. **Manner of Voting**

For common shares, Article III, Secs. 7 and 8, of the By-Laws of the Company (the "By-laws") provides:

> "Section 7 - Each share of stock entitles the person in whose name it is registered in the books of the Corporation to one vote, provided the conditions as regards payment subject to which it was issued have been complied with.
>
> Section 8 – The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him for as many persons as many votes as the number of Directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected. x x x"

d. **Security Ownership of Certain Record and Beneficial Owners and Management**

i. Security Ownership of Record and Beneficial Owners of more than 5% as of February 28, 2010.

Title of Class	**Name, address of Record Owner and Relationship with Issuer**	**Name of Beneficial Owner and Relationship with Record Owner**	**Citizenship**	**No. of Shares Held**	**Percent** (of the Outstanding Common & Preferred Shares)
Common	Ayala Corporation[2] 34/F Tower One Bldg. Ayala Ave., Makati City	Ayala Corporation[3]	Filipino	6,934,509,515	26.634%
Preferred				12,679,029,436	48.698%
Common	PCD Nominee Corporation (Non-Filipino)[4] G/F MSE Bldg. Ayala Ave., Makati City	Hongkong and Shanghai Banking Corporation (HSBC) and Standard Chartered Bank (SCB)[5]	Various	4,770,883,203	18.324%

ii. Security Ownership of Directors and Management (Executive Officers) as of February 28, 2010.

Title of Class	**Name of Beneficial Owner**	**Amount and Nature of Beneficial Ownership**	**Citizenship**	**Percent** (of the Outstanding Common & Preferred Shares)
Directors				
Common	Fernando Zobel de Ayala	12,000 (direct)	Filipino	0.00005%
Common	Jaime Augusto Zobel de Ayala	12,000 (direct)	Filipino	0.00005%
Common	Antonino T. Aquino	11,101,676 (direct & indirect)	Filipino	0.04264%
Common	Mercedita S. Nolledo	250,014 (direct & indirect)	Filipino	0.00096%
Common	Corazon S. de la Paz-Bernardo	1,201 (direct & indirect)	Filipino	0.00000%
Common	Oscar S. Reyes	1 (direct)	Filipino	0.00000%
Common	Delfin L. Lazaro	1 (direct)	Filipino	0.00000%
Common	Francis G. Estrada	1 (direct)	Filipino	0.00000%
Common	Aurelio R. Montinola III	3,579 (direct & indirect)	Filipino	0.00001%

[2] Ayala Corporation ("AC") is the parent of the Company.
[3] As per By-laws and the Corporation Code, the AC Board has the power to decide how AC's shares are to be voted.
[4] The PCD is not related to the Company.
[5] HSBC and SCB are participants of PCD. The 3,056,249,893 and 1,222,857,647 shares owned by HSBC and SCB, respectively, represent 16.435% of the total issued and outstanding shares of the Company and form part of the 4,770,883,203 shares registered in the name of PCD Non-Filipino. The clients of HSBC and SCB have the power to decide how their shares are to be voted.

CEO and Most Highly Compensated Executive Officers				
Common	Antonino T. Aquino	11,101,676 (direct & indirect)	Filipino	0. 04264%
Common	Vincent Y. Tan	8,030,079 (indirect)	Filipino	0.03084%
Common	Ma. Victoria E. Añonuevo	4,186,351 (direct & indirect)	Filipino	0.01608%
Common	Bernard Vincent O. Dy	3,294,930 (direct & indirect)	Filipino	0.01266%
Common	Raul M. Irlanda	2,409,581 (direct & indirect)	Filipino	0.00925%
Common	Rex Ma. A. Mendoza	4,631,142 (direct & indirect)	Filipino	0.01779%
Common	Emilio J. Tumbocon	7,088,402 (direct & indirect)	Filipino	0.02723%
Common	Jaime E. Ysmael	2,492,388 (direct & indirect)	Filipino	0.00957%
Common	Dante M. Abando	1,332,019 (direct & indirect)	Filipino	0.00512%
Common	Arturo G. Corpuz	2,304,353 (direct & indirect)	Filipino	0.00885%
Common	Anna Ma. Margarita B. Dy	2,895,400 (direct & indirect)	Filipino	0.01112%
Common	Jose Emmanuel H. Jalandoni	2,240,843 (indirect)	Filipino	0.00861%
Common	Joselito N. Luna	2,040,693 (direct & indirect)	Filipino	0.00784%
Common	Maria Teresa Ruiz	98,976 (indirect)	Filipino	0.00038%
Other Executive Officers				
Common	Ruel C. Bautista	735,817 (direct & indirect)	Filipino	0.00283%
Common	Augusto D. Bengzon	1,064,919 (direct & indirect)	Filipino	0.00409%
Common	Aniceto V. Bisnar, Jr.	523,703 (direct & indirect)	Filipino	0.00201%
Common	Manny A. Blas II	921,974 (direct & indirect)	Filipino	0.00354%
Common	Ma. Corazon G. Dizon	960,193 (direct & indirect)	Filipino	0.00369%
Common	Michael Alexis C. Legaspi	1,675,094 (direct & indirect)	Filipino	0.00643%
Common	Francis O. Monera	1,928,350 (direct & indirect)	Filipino	0.00741%
Common	Rosaleo M. Montenegro	1,990,797 (direct & indirect)	Filipino	0.00765%
Common	Ma. Rowena Victoria M. Tomeldan	2,277,891 (direct & indirect)	Filipino	0.00875%
All Directors and Officers as a group		**66,504,368**		0.25543%

None of the members of the Company’s directors and management owns 2.0% or more of the outstanding capital stock of the Company.

iii. **Voting Trust Holders of 5% or More**

The Company knows of no persons holding more than 5% of common shares under a voting trust or similar agreement.

iv. **Changes in Control**

No change of control in the Company has occurred since the beginning of its last fiscal year.

Item 5. Directors and Executive Officers

Article IV Section 1 of the Company's By-Laws provides in part:

> "Section 1. x x x The Board of Directors shall have nine (9) members who shall be elected by the Corporation's stockholders entitled to vote at the annual meeting, and shall hold office for one year until their successors are elected and qualified in accordance with these By-laws."

The record of attendance of the Company's directors at the meetings of the Board of Directors (the "Board") held in 2009 is as follows:

Directors	No. of Meetings Attended/Held[6]	Percent Present
Fernando Zobel de Ayala	5/5	100.00%
Jaime Augusto Zobel de Ayala	4/5	80.00%
Jaime I. Ayala[7]	1/1	100.00%
Delfin L. Lazaro	5/5	100.00%
Mercedita S. Nolledo	4/5	80.00%
Aurelio R. Montinola III	3/5	60.00%
Corazon S. dela Paz-Bernardo	5/5	100.00%
Ramon R. del Rosario, Jr.[8]	1/1	100.00%
Francis G. Estrada	4/5	80.00%
Antonino T. Aquino[9]	4/4	100.00%
Oscar S. Reyes[10]	4/4	100.00%

The Management Committee members and other officers, unless removed by the Board, shall serve as such until their successors are elected or appointed.

a. **Information required of Directors and Executive Officers**

i. **Directors and Executive Officers**

The following, who are all part of the final list of candidates presented by the Nomination Committee (the NomCom, composed of Fernando Zobel de Ayala, Chairman, Antonino T. Aquino and Oscar S. Reyes), have been nominated to the Board for the ensuing year and have accepted their nomination:

FERNANDO ZOBEL DE AYALA
ANTONINO T. AQUINO
DELFIN L. LAZARO
MERCEDITA S. NOLLEDO
JAIME C. LAYA
JAIME AUGUSTO ZOBEL DE AYALA
AURELIO R. MONTINOLA III
FRANCIS G. ESTRADA
OSCAR S. REYES

These nominees were formally nominated to the NomCom by a shareholder of the Company, Ma. Victoria M. del Mundo. Mr. Francis G. Estrada, Mr. Oscar S. Reyes, both incumbent directors, and Mr. Jaime C. Laya, are being nominated as independent directors. Ms. del Mundo is not related to any of the nominees for independent directors.

[6] In 2009 and during the incumbency of the director
[7] Mr. Ayala stepped down from the Board on April 1, 2009
[8] Mr. del Rosario stepped down from the Board on April 1, 2009
[9] Mr. Aquino was elected to the Board on April 1, 2009
[10] Mr. Reyes was elected to the Board on April 1, 2009

Only nominees whose names appear on the final list of candidates will be eligible for election as directors of the Company. No further nominations will be entertained or allowed on the floor during the actual annual stockholders' meeting.

The nominees have served as directors of the Company for more than five years except for Mr. Aurelio R. Montinola III, Mr. Francis G. Estrada, Mr. Oscar S. Reyes and Mr. Antonino T. Aquino. Mr. Montinola has served as director for five years, Mr. Estrada for two years, and Mr. Reyes and Mr. Aquino for one year. Mr. Laya has not previously served as director of the Company.

The Company has adopted and complied with SRC Rule 38 (Requirements on Nomination and Election of Independent Directors).

A summary of the qualifications of the incumbent directors, nominees for directors for election at the stockholders' meeting and incumbent officers is set forth in Annex A.

ii. **Significant Employees**

The Company considers its entire work force as significant employees. Everyone is expected to work together as a team to achieve the Company's goals and objectives.

iii. **Family Relationships**

Fernando Zobel de Ayala, the Chairman, and Jaime Augusto Zobel de Ayala, the Vice Chairman, are brothers.

iv. **Involvement in Certain Legal Proceedings**

None of the directors or executive officers is involved in any material pending legal proceedings in any court or administrative agency.

As of end-2009, the Company is not involved in any litigation it considers material. In any event, below are the legal proceedings involving the Company that may be significant.

Ayala Southvale

Certain individuals and entities have claimed an interest in ALI's properties located in Las Piñas, Metro Manila, which are adjacent to its development in Ayala Southvale.

Prior to purchasing the aforesaid properties, ALI conducted an investigation of titles to the properties and had no notice of any title or claim that was superior to the titles purchased by ALI. ALI traced its titles to their original certificates of title and ALI believes that it has established its superior ownership position over said parcels of land. ALI has assessed these adverse claims and believes that its titles are in general superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning in October 1993, ALI filed petitions in the Regional Trial Courts (RTC) in Makati and Las Piñas for quieting of title to nullify the purported titles or claims of these claimants. These cases are at various stages of trial and appeal. Some of these cases have been finally decided by the Supreme Court ("SC") in ALI's favor. These include decisions affirming the title of ALI to some of these properties, which have been developed and offered for sale to the public as Sonera, Ayala Southvale. The controversy involves the remaining area of approximately 121 hectares.

ALI does not intend to develop and sell the rest of the Las Piñas properties until the litigation is resolved. It has made no provision in respect of such actual or threatened litigations.

b. **Certain Relationships and Related Transactions**

The Company and its subsidiaries (the "Group"), in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of advances and reimbursement of expenses, purchase and sale of real estate properties, construction contracts, and development, management, underwriting, marketing, leasing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made on an arm's length basis and at current market prices at the time of the transactions.

However, no other transaction, without proper disclosure, was undertaken by the Company in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect) or any member of his immediate family was involved or had a direct or indirect material interest.

ALI employees are required to promptly disclose any business and family-related transactions with the company to ensure that potential conflicts of interest are surfaced and brought to the attention of management.

c. **Ownership Structure and Parent Company**

Ayala Corporation owns 75.31% of the total outstanding common and preferred shares of the Company.

d. **Resignation of Directors**

To date, no director has resigned or declined to stand for re-election for the Board due to any disagreement with the Company relative to the Company's operations, policies and practices.

Item 6. Compensation of Directors and Executive Officers

a. **Executive Compensation**

The Company adopts a performance-based compensation scheme. The total annual compensation of the President and Management Committee members amounted to ₱135.00 million in 2008 and ₱129.92 million in 2009. The projected total annual compensation for the current year is ₱134.69 million.

Total compensation paid to all senior personnel from Manager and up amounted to ₱345.76 million in 2008 and ₱333.86 million in 2009. The projected total annual compensation for the current year is ₱355.37 million.

Name and Principal Position	Year	Salary	Other Variable Pay
Antonino T. Aquino* President & CEO			
Vincent Y. Tan Executive Vice President			
Ma. Victoria E. Añonuevo Senior Vice President			
Bernard Vincent O. Dy Senior Vice President			
Raul M. Irlanda Senior Vice President			
Rex Ma. A. Mendoza Senior Vice President			
Emilio J. Tumbocon Senior Vice President			
Jaime E. Ysmael Senior Vice President & CFO			
Dante M. Abando Vice President			
Arturo G. Corpuz Vice President			
Anna Ma. Margarita B. Dy Vice President			

Jose Emmanuel H. Jalandoni Vice President			
Joselito N. Luna Vice President			
Maria Teresa Ruiz Vice President			
CEO & 13 Most Highly Compensated Executive Officers	Actual 2008 (restated)	₱119.58 M	₱15.42 M**
	Actual 2009	₱119.52 M	₱10.40 M**
	Projected 2010	₱126.69 M	₱8.00 M
All other officers*** as a group unnamed	Actual 2008 (restated)	₱304.52 M	₱41.24 M**
	Actual 2009	₱312.61 M	₱21.25 M**
	Projected 2010	₱331.37 M	₱24.00 M

** Compensation started in April 2009*
*** Exclusive of Stock Option exercise*
**** Managers and up*

The total annual compensation paid to all senior personnel from Manager and up was all paid in cash.

The total annual compensation includes the basic salary and other variable pay (performance bonus and exercise of Stock Option Plan).

b. **Compensation of Directors**

Article IV Section 17 of the Company's By-Laws provides:

> "Section 17 – Each member of the Board of Directors who is neither an officer nor consultant of the Corporation shall be entitled to receive a reasonable per diem in an amount to be determined by the Board of Directors for his attendance in Board meetings. Any additional compensation, other than per diems, to be given to members of the Board of Directors shall be subject to stockholders' approval."

i. **Standard Arrangement (Current Compensation)**

During the 2003 annual stockholders' meeting, the stockholders ratified the resolution fixing the remuneration of non-executive directors at ₱1,000,000.00 consisting of the following components:

Retainer Fee:	₱500,000.00
Per diem per Board meeting attended:	₱100,000.00

In addition, a non-executive director is entitled to a per diem of ₱20,000.00 per Board committee meeting actually attended.

ii. **Other Arrangement**

None of the directors, in his personal capacity, has been contracted and compensated by the Company for services other than those provided as a director.

The Company has no other arrangement with regard to the remuneration of its directors and officers aside from the compensation received as herein stated.

c. **Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

The above named executive officers are covered by letters of appointment stating their respective job functionalities, among others.

d. **Warrants and Options Outstanding: Repricing**

i. The Company has offered its Executive Stock Option Plan (ESOP) to its officers since 1998. The following are the outstanding options held by the above named officers:

Name	Options Granted	Outstanding Options	Grant Date	Exercise Price	Market Price on Date of Grant*
All above-named officers	14,586,871	1,612,407	June 20, 2001		5.40
	9,978,200	2,958,783	June 18, 2002		6.10
	9,377,400	2,689,344	June 6, 2003		5.70
	10,416,983	7,092,856	June 10, 2004		5.30

** Average price on dates of grant*

The options expire ten years from grant date. Of the above named officers, no officers exercised their options for the year 2009.

ii. The Company has adjusted the exercise price of the options awarded to the above named officers due to the stock dividend paid in June 2007.

Item 7. Independent Public Accountants

a. The principal accountant and external auditor of the Company is SyCip, Gorres, Velayo & Company (SGV & Co.). The same accounting firm is being recommended for re-election at the meeting.

b. Representatives of SGV & Co. for the current year and for the most recently completed fiscal year are expected to be present at the meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor, and Ms. Lucy L. Chan has been the Partner In-charge effective audit year 2007.

c. **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There were no disagreements with the SGV & Co. on any matter of accounting and financial disclosure.

d. **Audit and Audit-Related Fees**

ALI and its subsidiaries paid its external auditors the following fees in the past two years: *(in P million; with VAT)*

	Audit & Audit-related Fees	Tax Fees	Other Fees
2009	8.1*	-	-
2008	8.1*	-	-

** Pertains to audit fees; no fees for other assurance and related services*

e. **Tax Fees**

Tax consultancy services are secured from entities other than the appointed external auditor.

Under paragraph D.3.1 of the ALI Audit and Risk Committee Charter, the Audit Committee (composed of Oscar S. Reyes, Chairman, Mercedita S. Nolledo and Corazon S. de la Paz-Bernardo) recommends to the Board and stockholders the appointment of the external auditor and the fixing of audit fees. The Board and stockholders approve the Audit Committee's recommendation.

Item 8. Compensation Plans

There are no matters or actions to be taken up in the meeting with respect to any compensation plan pursuant to which cash or non-cash compensation may be paid or distributed. The Executive Stock Option Plan (ESOP) and the Employee Stock Ownership Plan (ESOWN) of the Company were approved by the Securities and Exchange Commission in July 1991 and March 2006, respectively.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other than for Exchange

There are no matters or actions to be taken up with respect to authorization or issuance of securities.

Item 10. Modification or Exchange of Securities

There are no matters or actions to be taken up with respect to the modification of any class of the Company's securities or the issuance of authorization for issuance of one class of the Company's securities in exchange for outstanding securities of another class.

Item 11. Financial and Other Information

The audited financial statements as of December 31, 2009, Management's Discussion and Analysis, Market Price of Shares and Dividends and other data related to the Company's financial information are attached hereto as Annex "B". The Schedules required under Part IV(c) of Rule 68 will be included in the Annual Report (SEC Form 17-A).

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

There are no matters or actions to be taken up in the meeting with respect to merger, consolidation, acquisition by, sale or liquidation of the Company.

Item 13. Acquisition or Disposition of Property

There are no matters or actions to be taken up in the meeting with respect to acquisition or disposition of any property by the Company.

Item 14. Restatement of Accounts

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the Group financial statements are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) and amendments to existing standards which became effective on January 1, 2009. Except as otherwise indicated, the adoption of the new and amended Standards and Interpretations did not have a significant impact on the consolidated financial statements.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  It 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 Philippine Accounting Standards (PAS) 27, *Consolidated and Separate Financial Statements*; (b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- Amendment to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
  The Standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires 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 cancellation. However, failure to satisfy a nonvesting condition that is beyond the control of either party does not give rise to a cancellation.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
  The amendments to PFRS 7 introduce enhanced disclosures about fair value measurement and liquidity risk. The amendments to PFRS 7 require fair value measurements for each class of financial instruments to be disclosed by the source of inputs, using the following three-level hierarchy: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The level within which the fair value measurement is categorized must be based on the lowest level of input to the instrument's valuation that is significant to the fair value measurement in its entirety.

  Additional disclosures required in the amendments to PFRS 7 are shown in *Note 29 - Financial assets and liabilities*. The amendments to PFRS 7 also introduce two major changes in 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.

- PFRS 8, *Operating Segments*
  It replaces 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 financial position and consolidated statements 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.

- Amendment to PAS 1, *Presentation of Financial Statements*
  It introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Amendment also requires additional requirements in the presentation of the financial position and equity as well as additional disclosures to be included in the consolidated financial statements. Adoption of this Amendment will not have significant impact on the Group except for the presentation of a statement of comprehensive income and additional disclosures to be included in the consolidated financial statements.

- Amendment to PAS 23, *Borrowing Costs*
  This Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  These Amendments introduce 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 the consolidated statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

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

- Amendments to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, and PAS 39, *Financial Instruments: Recognition and Measurement*
  This Amendment to Philippine Interpretation IFRIC 9 requires 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. Amendments to PAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This Philippine 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 has expired.

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

Improvements to PFRS

In April 2009, the International Accounting Standards Board issued its omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. The adoption of these amended Standards and Interpretations did not have a significant impact in the consolidated financial statements. There are separate transitional provisions for each standard:

- PFRS 2, *Share-based Payment*
  It 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, *Business Combinations*. The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  It clarifies that the disclosures required in respect of non-current 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 PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

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

- PAS 17, *Leases*
  It 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 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 has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.

- PAS 36, *Impairment of Assets*
  It 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*
  It 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 - Eligible Hedged Items*
  It clarifies the following: (a) 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; (b) 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; and (c) 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*
  It 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*
  It 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.

D. <u>OTHER MATTERS</u>

Item 15. Action with Respect to Reports

a. Approval of the Minutes of the 2009 Annual Meeting of the Stockholders held on April 1, 2009 covering the following matters:

   i) Annual Report of Officers;
   ii) Ratification and approval of all acts and resolutions of the Board and the Executive Committee for the fiscal year 2008 which include among others the approval of projects and investments, treasury matters including borrowings and bank transactions and appointment of officers and signatories;
   iii) Election of the Members of the Board, including Independent Directors, and
   iv) Election of External Auditors and Fixing of their Remuneration.

b. Approval of the Annual Report of Management for the year ending December 31, 2009.

Item 16. Matters not required to be Submitted

All matters or actions to be taken up in the meeting will require the vote of common stockholders as of the record date.

Item 17. Amendment of Charter, Bylaws or Other Documents

There are no matters or actions to be taken up in the meeting with respect to any amendment of the Company's Articles of Incorporation or By-laws.

Item 18. Other Proposed Action

a. Ratification of all acts of the Board, Executive Committee and Management for the period covering January 1, 2009 through December 31, 2009.

   These acts are covered by Resolutions of the Board duly adopted in the normal course of trade or business involving:

i) Approval of projects and investments;
ii) Treasury matters including borrowings, opening of accounts and bank transactions; and
iii) Appointment of signatories and amendments thereof.

b. Election of the Members of the Board, including the independent directors, for the ensuing year.

c. Election of External Auditors and fixing their remuneration.

Item 19. Voting Procedures

a. **Vote required**: The vote of stockholders representing at least a majority of the issued and outstanding capital stock entitled to vote is required.

b. **Method of Voting**: Straight and Cumulative Voting

In all items for approval except election of directors, each common share of stock entitles its registered owner to one vote.

In case of election of directors, each common stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many nominees as he shall see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the total number of directors to be elected.

If there are more than nine nominees for the 9-member Board, voting shall be done by secret ballot. If there are only nine nominees, voting will be done by show of hands.

The external auditor of the Company, SGV & Co., will validate the ballots when voting is done by secret ballot. Likewise, SGV will count the number of hands raised when voting by show of hands is done.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on the 8th day of March 2010.

AYALA LAND, INC.

by: MERCEDITA S. NOLLEDO
Corporate Secretary

ANNEX "A"
DIRECTORS AND KEY OFFICERS
(as of December 31, 2009)

The write-ups below include positions currently held by the directors and executive officers, as well as positions held during the past five years.

Board of Directors

Fernando Zobel de Ayala	Delfin L. Lazaro
Jaime Augusto Zobel de Ayala	Aurelio R. Montinola III
Antonino T. Aquino	Mercedita S. Nolledo
Corazon S. de la Paz-Bernardo	Oscar S. Reyes
Francis G. Estrada	

Fernando Zobel de Ayala, Filipino, 49, has served as Chairman of the Board of ALI since 1999. He also holds the following positions: Vice Chairman, President and Chief Operating Officer of Ayala Corporation; Chairman of Manila Water Company, Inc., Ayala Automotive Holdings Corp., Ayala DBS Holdings, Inc., Alabang Commercial Corp.; Vice Chairman of Aurora Properties, Inc., Azalea Technology Investments, Inc., Ceci Realty, Inc. and Vesta Property Holdings, Inc.; Co-Vice Chairman of Ayala Foundation, Inc. and Mermac, Inc.; Director of the 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 and Trustee of International Council of Shopping Centers. He graduated with B.A. Liberal Arts at Harvard College in 1982.

Jaime Augusto Zobel de Ayala, Filipino, 50, has served as Director, Vice Chairman and member of the Executive Committee of ALI since 1988. He also holds the following positions: Chairman and CEO of Ayala Corporation; Chairman of the Board of Directors of Ayala Corporation, Globe Telecom, Inc., Bank of the Philippine Islands and Integrated Micro-Electronics, Inc., Azalea Technology Investment, Inc., World Wildlife Fund Philippine Advisory Council, and AI North America; Vice Chairman of Manila Water Co., Inc. and Asia Society Philippines Foundation, Inc.; Co-Vice Chairman of Mermac, Inc., Ayala Foundation, Inc. and Makati Business Club; Director of BPI PHILAM Life Assurance Corporation, Alabang Commercial Corporation and Ayala Hotels, Inc. He is a member of various international and local business and socio-civic organizations including the Children's Hour Philippines, Inc., Asian Institute of Management, Asia Business Council, JP Morgan International Council, Mitsubishi Corporation International Advisory Committee, Toshiba International Advisory Group, Harvard Business School Asia-Pacific Advisory Board, Harvard University Asia Center Advisory Committee, The Asia Society, The Singapore Management University, the Conference Board, Pacific Basin Economic Council and Philippine Economic Society; Trustee of the Ramon Magsaysay Awards Foundation and the International Business Council of the World Economic Forum. He was a TOYM (Ten Outstanding Young Men) Awardee in 1999 and was named Management Man of the Year in 2006 by the Management Association of the Philippines for his important role in the transformation of Ayala Corporation into a highly diversified forward-looking conglomerate. He was also awarded the prestigious Harvard Business School Alumni Achievement Award in 2007. He graduated with B.A. in Economics (Cum Laude) at Harvard College in 1981 and took his MBA at the Harvard Graduate School of Business Administration in 1987.

Antonino T. Aquino, Filipino, 62, has served as Director and President of ALI since April 2009. He also holds the following positions: Senior Managing Director of Ayala Corporation, Chairman of the Board of Trustees of the Hero Foundation and member of the Board of Directors of Manila Water Co., Inc. He also serves as a member of the board of various corporate social responsibility foundations such as Ayala Foundation, Manila Water Foundation, Habitat for Humanities Philippines, La Mesa Watershed Foundation and Makati Environment Foundation. He also served as President of Manila Water Company, Inc, and Ayala Property Management Corporation; Senior Vice President of Ayala Land, Inc., and a Business Unit Manager in IBM Philippines, Inc. He was named "Co-Management Man of the Year 2009" by the Management Association of the Philippines for his leadership role in a very successful waterworks privatization and public-private sector partnership. He graduated with Bachelor of Science Major in Management at the Ateneo de Manila University in 1968 and has completed academic units for the Masteral Degree in Business Management at the Ateneo Graduate School of Business in 1975.

Corazon S. de la Paz-Bernardo, 69, Filipino, has served as an Independent Director of ALI since April 2006. She was re-elected on September 2007 as the President of the International Social Security Association, for the triennium 2008-2010, the first non-European to occupy this position. She is also a regular Director of Equitable Card Network, Inc. and Banco de Oro Unibank, Inc. She is also a member of the Board of Trustees and Treasurer of MFI Foundation, Inc., Trustee of University of the East and the UE Ramon Magsaysay Memorial Medical Center, Inc. She also serves as an advisor to the Audit Committee of the Philippine Long Distance Telephone Company. Until 2008, she served as the President and Chief Executive Officer of Social Security System. She was the Chairman and Senior Partner of Joaquin Cunanan & Co. (PricewaterhouseCoopers, Philippines) from 1981 to 2001 and served in the Price Waterhouse World Board from 1992 to 1995. She received a Fulbright Achievement Award for Business Administration in 1988 and was one of The Outstanding Women in the Nation's Service Awardee for Management in 1983. She has a Masters in Business Administration degree from Cornell University, as a Fulbrighter and a University of the East scholar. She studied Business Administration at the University of the East, graduating magna cum laude. She placed first in the 1960 Philippine board examination for certified public accountants.

Francis G. Estrada, 60, Filipino, has served as an Independent Director of ALI since April 2008. His other significant positions include: Chairman and Co-Founder of Equity Managers Asia, Inc.; Independent Director of Energy Development Corp. and Philamlife and General Insurance Co.; a regular Director of Clean Air Initiative Center, University Putra Malaysia and Maximo Kalaw T. Foundation; Fellow and Trustee of the Institute of Corporate Directors, De La Salle University (Philippines), De La Salle University-National Mission Council, and Sociedad Espanola de Benificencia; Member of the Advisory Board of Rizal Commercial Banking Corporation; Member of American Chamber of Commerce, Management Association of Commerce, and Camara Espanola; and Adviser of Antai College of Economics and Management of Shanghai Jiaotong University. He was named "Most Outstanding Alumnus" of the Asian Institute of Management in 1989. He holds a Bachelor of Arts (Literature) and Bachelor of Science (Business Administration) degrees from De La Salle University (Philippines) and a Master in Business Management, "with Distinction" from the Asian Institute of Management. He also completed the Advanced Management Program at the Harvard Business School.

Delfin L. Lazaro, Filipino, 64, has served as member of the Board of ALI since 1996. He also holds the following positions: Chairman of Philwater Holdings Co., Inc. and Atlas Fertilizer & Chemicals, Inc.; Chairman and President of Michigan Power, Inc., Purefoods International, Ltd., and A.C.S. T. Business Holdings, Inc.; Vice Chairman and President of Asiacom Philippines, Inc.; President of Azalea Technology Investments, Inc.; Director of Ayala Corporation, Globe Telecom, Inc., Integrated Micro-Electronics, Inc., Manila Water Co., Inc., AYC Holdings, Ltd., AI North America, Inc., AC International Holdings, Ltd., Ayala DBS Holdings, Inc., Ayala Automotive Holdings Corp., Probe Productions, Inc. and Empire Insurance Company. Formerly, Mr. Lazaro was the President and CEO of Benguet Corporation and Secretary of the Department of Energy of the Philippine government. He was named Management Man of the Year 1999 by the Management Association of the Philippines for his contribution to the conceptualization and implementation of the Philippine Energy Development Plan and to the passage of the law creating the Department of Energy. He was also cited for stabilizing the power situation that helped the country achieve successively high growth levels up to the Asian crisis in 1997. He graduated with BS Metallurgical Engineering at the University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

Aurelio R. Montinola, ***III***, 58, Filipino, has served as member of the Board of ALI since February 2005. He is the President and CEO of Bank of the Philippine Islands. His other affiliations, among others, include: Chairman of BPI Direct Savings Bank, Inc., BPI Computer Systems, Inc., BPI/MS Insurance Corp., BPI Europe Plc., East Asia Educational Foundation, Inc., LGU Guarantee Corp., Monti-Rey, Inc., Desrey, Syrel Investment and Realty Corporation Inc., Amon Trading Corporation, Amon Realty, Dercc, Inc. and East Asia Computer Center, Inc.; Co-Chairman of the Philippine-France Business Council; Vice Chairman and President of the BPI Foundation, Inc.; Vice Chairman of the A/P Regional Advisory Board of the Master Card Incorporated; Vice Chairman of the Republic Cement Corp., Far Eastern University and Philippine Business for Education, Inc., Director of the BPI Capital Corporation, BPI-Philam Life Assurance Corp., BPI Bancassuranc Corp., BPI Family Savings Bank, Inc., Mere, Inc., and Western Resources Corp.; Member of the Makati Business Club and Management Association of the Philippines; and Trustee of the Ayala Foundation, International School Manila and Pres. Manuel A. Roxas

Foundation. He graduated with BS Management Engineering from the Ateneo de Manila University in 1973 and received his MBA at Harvard Business School in 1977.

Mercedita S. Nolledo, Filipino, 68, has served as Director and Corporate Secretary of ALI since 1994. She also serves as Board member, Senior Managing Director and Corporate Secretary of Ayala Corporation, and Senior Counsel of the Ayala Group of Companies. Her other significant positions include: Chairman of BPI Investment Management, Inc. and FEB Management, Inc., Director of Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings Corp., HCMI Insurance Agency, Inc.; Bank of the Philippine Islands, BPI Family Savings Bank, BPI Capital Corp., and Anvaya Cove Beach and Nature Club, Inc.; Member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc.; Treasurer of Phil. Tuberculosis Society, Inc., Sonoma Properties, Inc. and JMY Realty Development Corp. She had her education at the University of the Philippines and graduated Magna Cum Laude and Class Valedictorian in Bachelor of Science in Business Administration and Cum Laude and Class Valedictorian in Bachelor of Laws.

Oscar S. Reyes, Filipino, 63, has served as Director of ALI since April 2009. Among his other positions are: Chairman of MRL Gold Phils., Inc. and Link Edge, Inc.; Independent Director of Manila Water Company, Inc., Philippine Long Distance Telephone Company, Pepsi Cola Products Philippines Inc., Basic Energy Corporation, Alcorn Gold Resources Corp. and Sun Life Financial Plans, Inc.; a regular Director of Smart Communications Inc., First Philippine Electric Corporation and Bank of the Philippine Islands. Prior to these posts, he served the Shell Companies in the Philippines in various capacities, including Country Chairman and concurrently President of Pilipinas Shell Petroleum Corporation, and Managing Director of Shell Philippines Exploration B.V. He is a Member of the Board of Trustees of Pilipinas Shell Foundation, Inc., SGV Foundation, and El Nido Foundation, Inc. He finished his BA Major in Economics (Cum Laude) at the Ateneo de Manila University in 1965. He undertook post-graduate studies at the Ateneo Graduate School of Business, Waterloo Lutheran University and the Harvard Business School.

Nominees to the Board of Directors for Election at the Stockholders' Meeting:

All the above incumbent directors, except Ms. de la Paz-Bernardo.

Jaime C. Laya, Filipino, 71, is Chairman of the Board of Directors of Philippine Trust Company (Philtrust Bank). He is also: an Independent Director of Victorias Milling Co., Inc. and GMA Network, Inc.; a regulat director of Philippine AXA Life Insurance Co., Inc. and Philippine Ratings Services Corporation; Trustee of De la Salle University-Taft, St. Paul's University - Quezon City, Cultural Center of the Philippines, Fundacion Santiago and ABS-CBN Foundation, Inc. He has served as Minister of the Budget, Minister of Education, Culture and Sports, Governor of the Central Bank of the Philippines, Chairman of the National Commission for Culture and Arts, and Professor and Dean of Business Administration, University of the Philippines.

Management Committee Members / Key Executive Officers

Antonino T. Aquino*	President and Chief Executive Officer
Mercedita S. Nolledo*	Corporate Secretary
Vincent Y. Tan	Executive Vice President
Ma. Victoria E. Añonuevo	Senior Vice President
Bernard Vincent O. Dy	Senior Vice President
Raul M. Irlanda	Senior Vice President
Rex. Ma. A. Mendoza	Senior Vice President
Emilio J. Tumbocon	Senior Vice President
Jaime E. Ysmael	Senior Vice President & Chief Finance Officer
Dante M. Abando	Vice President
Arturo G. Corpuz	Vice President
Anna Ma. Margarita B. Dy	Vice President
Jose Emmanuel H. Jalandoni	Vice President
Joselito N. Luna	Vice President
Maria Teresa T. Ruiz	Vice President
Augusto D. Bengzon	Vice President & Treasurer

Ruel C. Bautista	Vice President
Aniceto V. Bisnar, Jr.	Vice President
Manuel A. Blas II	Vice President
Maria Corazon G. Dizon	Vice President
Michael Alexis C. Legaspi	Vice President
Francis O. Monera	Vice President
Rosaleo M. Montenegro	Vice President
Ma. Rowena Victoria M. Tomeldan	Vice President

* *Member of the Board*

Vincent Y. Tan, Filipino, 59, is an Executive Vice President and Head of the Planning Group of ALI. He is a member of the Management Committee of ALI. His other positions include: Chairman of Laguna Technopark, Inc.; Director of Gisborne Property, Inc., Hillsford Property Corporation, Summerhill E-Office Corporation, Ayala Property Partners Corporation, Ayala Property Partners Holdings Corporation, First Gateway Real Estate Corporation, Glensworth Development, Inc., One Dela Rosa Property Development, Inc., Aurora Properties, Inc., Vesta Property Holdings, Inc., CECI Realty Inc., UP North Property Holdings, Inc., Cebu Insular Hotel Co., Inc. Ayala Hotels, Inc., Enjay Hotels, Inc., Ayala Greenfield Golf & Leisure Club, Inc., North Triangle Depot Commercial Corporation, Monumento Rail Transit Corporation and Metro Rail Transit Development Corporation. He graduated with the degree of B.S. Management Engineering (Cum Laude) at the Ateneo de Manila University in 1971 and earned his M.B.A. (Concentration in Management Science and Finance) from the University of Chicago in 1973.

Ma. Victoria E. Añonuevo, Filipino, 60, is a Senior Vice-President and a member of the Management Committee of ALI. She also serves as Head of the AyalaLand Businesscapes Group and Ayala Malls Group. Her other significant positions include: President of Laguna Technopark, Inc. (LTI), Director of Ayala Hotels, Inc. (AHI), North Triangle Depot Commercial Corp. (NTDCC), Tower One Condominium Corp., Anvaya Cove Beach and Nature Club, Inc., Madrigal Business Park, Alabang Commercial Corp., Makati Development Corp. (MDC) and Makati Development Corp. (MDC), Chairman & President of ALI Property Partners Corp. (APPCo), Chairman of Leisure Allied, Inc. (LAI) and South Innovative Theatres Management, Inc., Vice Chairman of the Board of Station Square East Commercial Corp. (SSECC). She graduated with a degree of Bachelor of Science in Business Administration, Major in Marketing (Cum Laude) at the University of the Philippines in 1971 and completed her Masters in Business Administration at the University of the Philippines in 1975. She was sent by ALI as a scholar to the Program for Management Development, Harvard Business School, 1997 at Boston, Massachusetts, USA.

Bernard Vincent O. Dy, Filipino, 45, is a Senior Vice President & member of the Management Committee of ALI since 2005. Currently, he is the Head of the Residential Business Group of ALI. His other significant positions include: Director of Fort Bonifacio Development Group, Alveo Inc., Avida Land Corp., and Amicassa Inc.; President of Serendra, Inc. and Anvaya Cove Beach & Nature Club, Inc. He graduated with a degree of Bachelor of Science in Business Administration from the University of Notre Dame and took up his MBA and Masters in International Relations at the University of Chicago.

Raul M. Irlanda, CFM, Filipino, 54, is a Senior Vice President and a member of the Management Committee of ALI. He is the Chief Executive Officer and Director of Ayala Property Management Corporation, Chief Executive Officer and board member of Makati Development Corporation. He is also the Director of Tower One Condominium Corporation, and the first and only Filipino Certified Facility Manager (CFM) by the International Facility Management Association (IFMA); Governor of Ayala Center Association and also the Group head of Ayala Security Force. He is a Board Adviser of the College of Technology Management at University of Makati. He is a Director of the Philippine Constructors Association and of the Construction Safety Foundation. He graduated with a degree of Bachelor of Science in Management/Finance from San Sebastian College and took his Masteral studies in Business Administration major in Financial Management from De La Salle University. He also completed in 2005 the Executive Development Program at the Aresty Institute of Executive Education at Wharton, University of Pennsylvania.

Rex Ma. A. Mendoza, Filipino, 47, is a Senior Vice-President, a member of the Management Committee and Head of the Corporate Marketing and Sales Group of ALI. Concurrently, he is the Chairman & President of Ayala Land International Sales, Inc.; President of Ayala Land Sales, Inc.; Head of Sales & Marketing for the

Residential Business Group; Chairman and President of Rampver, Inc.; Marketing and Training Consultant for IMPACT and Mindbroker, Inc.; and Professor of De La Salle University, Graduate School of Business. Prior to joining ALI, he was an Executive Vice President and Head of the Sales, Marketing and Training of the Philippine American Life & General Insurance Company; Vice Chairman and CEO of Philam Asset Management; Vice Chairman and CEO of Philam Financials; Director of Philam Insurance Co., Security Philam, Philam Call Center and Philam Foundation. He graduated with a degree of Bachelor of Science in Business Administration, major in Marketing and Finance at the University of the Philippines, Diliman and took his Masters in Business Management, with distinction at the Asian Institute of Management.

Emilio J. Tumbocon, Filipino, 53, is a Senior Vice President and a member of the Management Committee of ALI. He heads the Visayas-Mindanao SBU Group and concurrently the Technical Services Director of Superblock Projects of ALI. His other significant positions include: Director of Ayala Property Management Corporation, Laguna Technopark, Inc., Cebu Holdings Inc., Cebu Property Ventures Development Corporation, Makati Development Corporation, Accendo Commercial Corporation & Anvaya Cove Beach and Nature Club, Inc. He is also a certified Project Management Professional (PMP) of the Project Management Institute & Past President of the Philippine Constructors Association, Inc. (PCA). He graduated from the University of the Philippines with a degree of Bachelor of Science in Civil Engineering (C.E. '79) and graduated in Masters in Business Administration (MBA '85) from the same university. He also took the Construction Executive Program (CEPS '87) at Stanford University, Palo Alto, California, U.S.A., the Senior Business Executive Program (SBEP ‘91) at the University of Asia and the Pacific, and The Executive Program (TEP ‘97) at Darden Graduate School of Business Administration, University of Virginia, Charlottesville, Virginia, U.S.A.

Jaime E. Ysmael, Filipino, 49, is a Senior Vice President, Chief Finance Officer and a member of the Management Committee of ALI. Concurrently, he is a Managing Director of Ayala Corporation. His other significant positions include: Director and President of CMPI Holdings, Inc., CMPI Land, Inc. and One Legaspi Park Residential Commercial Corp.; Director and Vice-President of Ayala Westgrove Heights Homeowner’s Association, Inc.; Director and Treasurer of Ayala Land International Sales, Inc., Ayala Land Sales, Inc., Alveo Land Corp., Laguna Technopark, Inc., Serendra, Inc. and Tower One Condominium Corp.; Director, Treasurer and CFO of Anvaya Cove Beach & Nature Club, Inc.; Director, Treasurer and Member of the Executive Committee of Ayala Hotels, Inc. and Enjay Hotels, Inc.; Director and Member of the Executive Committee of Cebu Holdings, Inc.; Director of Alabang Commercial Corp., Avida Land Corp., Ayala Greenfield Development Corporation, Cebu Insular Hotel Company, Inc., First Longfield Investments Ltd., Green Horizons Holdings, Ltd., North Triangle Depot Commercial Corp., Regent Time International, Ltd. and Station Square East Commercial Corp.; Trustee of Serendra Condominium Corporation; and Chief Finance Officer of Roxas Land Corp. He graduated Summa Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration, Major in Accounting. He holds an M.B.A. degree (Major in Finance) at The Wharton School and an M.A. degree in International Studies at the School of Arts and Sciences of the University of Pennsylvania under The Joseph H. Lauder Institute of Management and International Studies.

Dante M. Abando, Filipino, 45, is a Vice President and a member of the Management Committee of ALI. He is concurrently the Head of the Construction Management Division of ALI and the President and Member of the Board of Directors of Alveo Land Corp. His other significant positions include serving as Director of Makati Development Corp., Ayala Property Management Corp., Avida Land, Corp., Serendra Inc., AmicaSSa Process Solutions, Inc., and Anvaya Beach and Nature Club, Inc., where his extensive background in both management and engineering lent an in-depth understanding of the industry and business. Prior to joining ALI, he served as a Manager of Philkoei International, Inc., where he played a significant role in business development as well as marketing and project operations. He was also the Construction Engineer for DM Consunji, Inc. He earned his MBA from the University of the Philippines, Diliman where he also completed his undergraduate studies in B.S. Civil Engineering.

Arturo G. Corpuz, Filipino, 52, is a Vice President and a member of the Management Committee of ALI since 2008. He heads the Urban and Regional Planning Division and the Central Land Acquisition Unit of ALI. He is a Trustee of the Makati Parking Authority and a member of the Board of Aurora Properties, Inc. and of Vesta Properties Holdings, Inc. He is also the current President of the Philippine Economic Society. He received his baccalaureate degree in Architecture from the University of the Philippines and his masteral and doctoral degrees in urban and regional planning from Cornell University.

Anna Ma. Margarita B. Dy, Filipino, 40, is a Vice President and member of the Management Committee of ALI since August 2008. She is the Head of the Strategic Landbank Management Group of ALI. Her other significant positions include: Director and Executive Vice President of Fort Bonifacio Development Corporation and is a Director of the Nuvali Subsidiaries: Aurora Properties, Inc., Vesta Properties Holdings, Inc., and CECI Realty, Inc. Prior to joining ALI, she was the Vice President of Benpres Holdings Corporation. She received her Masters of Business Administration degree from the Harvard Business School and graduated, magna cum laude from the Ateneo de Manila University with a Bachelor of Arts degree in Economics, Honors Program.

Jose Emmanuel H. Jalandoni, CFA, Filipino, 42, is a Vice President, a member of the Management Committee and the Group Head of ALI-Capital. Concurrently, he is a Director and member of the Investment Committee of ARCH Capital Management Company Ltd. (Hong Kong); Director of ARCH Capital Asian Partners, G.P. (Cayman), First Longfield Investments Limited (HK), Green Horizons Holdings Limited (HK), Jade Estates Holdings Limited (BVI), KHI-ALI Manila, Inc., CMPI Holdings, Inc., and CMPI Land, Inc., Gisborne Property, Inc., Hillsford Property Corp.,; Director and Treasurer of Ayala Property Partners Corporation, Ayala Property Partners Holding Corporation, First Gateway Real Estate Corporation, Glensworth Development, Inc., One Dela Rosa Property Development, Inc., UP North Property Holdings, Inc., Asterion Technopod Incorporated, Crestview E-Office Corporation, Summerhill E-Office Corporation, Sunnyfield E-Office Corporation; Chairman and President of Alinet.Com, Inc.; and Director and President of Ecoholdings, Inc. He joined ALI in 1996 and held various positions in the Company. He graduated with a degree of Bachelor of Science in Legal Management from the Ateneo de Manila University in 1989 and took his Masters in Business Management at the Asian Institute of Management in 1992.

Joselito N. Luna, Filipino, 46, is a Vice President and a member of the Management Committee of ALI since 2008. He is also ALI’s Chief Architect and Head of Innovation and Design Group. His other significant positions include: Director of Vesta Properties Holdings, Inc.,,Aurora Properties, Inc. and Ecoholdings, Inc. He is a Registered Architect and Environmental Planner. He obtained his Bachelor of Science in Architecture degree from the University of the Philippines in 1985, took his graduate courses in Urban and Regional Planning at the University of the Philippines and completed the Management Development Program of the University of Michigan at Ann Arbor, USA.

Maria Teresa T. Ruiz, Filipino, 55, joined ALI in October 2007 as Vice President and member of the Management Committee. She serves as Head of the Human Resources and Public Affairs Group which covers External Affairs and Corporate Communications of ALI. Prior to joining ALI, she served as Director for various Human Resources functions in Wyeth Philippines, Zuellig Pharma, Solid Cement and Apo Cement Companies, Coca Cola Bottlers, and PLDT. She graduated with a degree of Bachelor of Arts in Communication Arts (Cum Laude) from Maryknoll College.

Augusto D. Bengzon, Filipino, 47, joined ALI in December 2004 as Vice President and Treasurer. His other significant positions include: Treasurer of Avida Land Corp., Makati Development Corp., Aurora Properties, Inc., Vesta Properties Holdings, Inc., and CECI Realty, Inc. Prior to joining ALI, he was the Vice President and Credit Officer in Global Relationship Banking at Citibank N.A. where he spent sixteen years in various line management roles covering Treasury, Portfolio Management, Structuring, Debt Syndication and Relationship Management. He received his Bachelor of Science degree in Business Management from the Ateneo de Manila University and is a graduate of the Philippine Trust Institute. He was granted a full scholarship by the Asian Institute of Management where he received his Masters in Business Management degree.

Ruel C. Bautista, Filipino, 54, is a Vice President of ALI. He is concurrently the Chief Operating Officer of Makati Development Corporation. Prior to joining ALI, he served in various project management and engineering capacities for other private institutions for close to 25 years. He graduated with a degree in Bachelor of Science in Civil Engineering at the Mapua Institute of Technology in 1976. He also took the Project Management Program at the Asian Institute of Management in 1995.

Aniceto V. Bisnar, Jr., Filipino, 46, is a Vice President and General Manager of NUVALI, Strategic Land Bank Management Group of ALI. His other significant positions include: General Manager and Senior Vice President of Ceci Realty, Inc., Aurora Properties, Inc. and Vesta Property Holdings, Inc.; Chairman of Crimson Field Enterprises, Inc.; and Director of Red Creek Properties, Inc. He was formerly the Head of Commercial Operations of Fort Bonifacio Development Corporation which developed Bonifacio Global City. He graduated with a degree of Bachelor of Science at the Philippine Military Academy in 1985 (top 5% of his class) and earned his

Masters in Business Management at the Asian Institute of Management in 1989. He also took the Master Planning and Urban Housing & Mixed Use Development Program of the Harvard University Graduate School of Design in 1996.

Manuel A. Blas II, Filipino, 55, is a Vice President of ALI. He is concurrently the Managing Director of Bonifacio Art Foundation, Inc. Prior to joining ALI, he was the Regional President for Sara Lee Asia Pacific. He graduated with a degree in Bachelor of Arts at the De La Salle University, Summa cum Laude, in 1977 and M.A., Religious Studies at the Maryhill School of Theology, Summa cum Laude, in 2004.

Maria Corazon G. Dizon, Filipino, 47, is a Vice President and Head of Business Development and Strategic Planning of the Ayala Malls Group. Prior to this, she occupied various positions in ALI including Asset Management Head and Chief Finance Officer for the Ayala Malls Group, and Head of Control and Analysis Division and Investor Relations Unit. She graduated with a degree in Bachelor of Science in Commerce major in Accounting at the University of Santo Tomas in 1984 and is a Masters of Business Administration candidate from the De La Salle Graduate School of Business and Economics. She also took the Executive Development Program at the Aresty Institute of Executive Education at Wharton, University of Pennsylvania in 2006 and the Creating Shareholder Value Program at the University of Chicago in 1999.

Michael Alexis C. Legaspi, Filipino, 52, is a Vice President of ALI and Chief Operating Officer of Ayala Hotels, Inc. He is a Director of Greenhaven Property Ventures, Inc. He previously held the following positions: Head of Sales Division of ALI, Resident Manager of Oakwood Premier Ayala Center and Head of Operations of Ayala Property Management Corporation. He graduated with a degree of Bachelor of Science in Hotel and Restaurant Administration at the University of the Philippines, Diliman in 1980.

Francis O. Monera, Filipino, 56, is a Vice President for Visayas-Mindanao Group of ALI. He is currently the President of Cebu Holdings, Inc. (CHI) and Cebu Property Ventures and Development Corporation. He was the Chief Operating Officer of CHI before he was elected President of the Company effective January 1, 2007. He is also currently the Regional Director of the Philippine Chamber of Commerce and Industry for Central Visayas and a Trustee for the Cebu Chamber of Commerce and Industry. He served as President of the Cebu Chamber of Commerce and Industry from February 2006 to 2008. He graduated Magna Cum Laude with a Bachelor of Science in Commerce degree major in Accounting from the Manuel L. Quezon University in 1978. He is an MBA candidate at the Ateneo Graduate School of Business and attended the Executive Development Program at the Harvard Graduate School of Business, Harvard University in 1997.

Rosaleo M. Montenegro, Filipino, 51, is a Vice President of ALI. His other significant positions include: President of Avida Land Corp.; Chairman of the Board and President of Avida Sales Corp., Buklod Bahayan Realty & Development Corp., and Amaia Land Corp. (formely First Communities Realty, Inc.); and, Director of Amicassa Process Solutions, Inc. and Ayala Land Sales, Inc. He is a Certified Public Accountant and graduated with a degree in Bachelor of Science in Commerce major in Accounting at the Polytechnic University of the Philippines in 1979 and is a Masters in Business Administration candidate from the Ateneo Graduate School of Business. He also took the Management Development Program from the University of Michigan - Ross School of Business in the United States in 2006.

Ma. Rowena Victoria M. Tomeldan, Filipino, 48, is a Vice President and Chief Operating Officer of the Ayala Malls Group. Her other significant positions include: Governor of the Ayala Center Association; President and member of the Board of Directors of Ayala Theatres Management, Inc., Five Star Cinema, Inc.. NorthBeacon Depot Commercial Corp. and Station Square East Commercial Corp.; and, Director of ALI-CII Development Corporation, Lagoon Development Corporation, Leisure and Allied Industries, Phils., North Triangle Depot Commercial Corp., Accendo Commercial Corporation and Bonifacio Global City Estate Association. She graduated with a degree in Bachelor of Arts in Economics (Cum Laude) from the University of the Philippines in 1983 and she earned her Masters in Business Administration (one of the Top Ten MBA students) from the University of the Philippines in 1988.

ANNEX "B"

I. MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF FINANCIAL CONDITION AND RESULTS OF OPERATION

2009 vs. 2008

Results of Operations

Ayala Land, Inc. ("ALI" or "the Company") posted a strong financial performance for the full year 2009 despite a challenging macroeconomic environment, especially in the first quarter of last year. Consolidated core net income reached Php4.04 billion in 2009, nearly matching the record Php4.13 billion in earnings (excluding large transactions) generated the previous year. The Company's quarterly financial performance also improved steadily, with the Php1.12 billion in net income generated in the fourth quarter of 2009 up 7% quarter-on-quarter and 16% year-on-year, respectively. This was achieved through a combination of relatively stable operating revenues from key business segments and effective cost control measures.

Consolidated revenues of Php30.46 billion in 2009 were 10% lower than the Php33.75 billion recorded the previous year. The decline was accounted for mostly by the 8% drop in revenues from Real Estate and Hotel operations and the absence of capital gains from a large transaction, specifically the sale of the Valero lots in March 2008. Real Estate and Hotel operations revenues were lower, mostly on the Company's decision to reduce its external third-party construction contracts while aggregate consolidated revenues from the company's core residential and leasing operations remained flat.

Despite the lower consolidated revenues, consolidated net operating income (NOI) reached Php9.03 billion in 2009, declining by only 3% from the Php9.33 billion posted the previous year. This reflected the overall improvement in blended NOI margins to 32% in 2009 from 30% the previous year. Shopping Centers and Corporate Business margins stabilized as leased-out rates in new malls and business process outsourcing (BPO) office buildings steadily moved up, while an improvement in Strategic Landbank Management margins offset the decline in Residential and Support Businesses margins which were hampered by high input costs at the start of the year. The improvement in NOI margins and a 16% reduction in General and Administrative Expenses (GAE) contributed to narrowing the gap between the after-tax Net Income (NIAT) of Php4.04 billion in 2009 compared with the Php4.81 billion (including large transactions) recorded in 2008.

Business Segments

The details of the individual performance of each business segment are discussed as follows:

Residential Development. Residential Development revenues amounted to Php14.23 billion in 2009, 6% lower than the Php15.22 billion posted the previous year, as the combined value of bookings for the three brands dropped due to uncertain market conditions in the first quarter and a limited supply of new product launches in 2009. Ayala Land Premier revenues registered a decline of 15% to Php6.53 billion as the gradual recovery in demand was not met with adequate inventory. Meanwhile, Alveo Land and Avida Land both posted growth rates of 2% year-on-year. Alveo's revenues reached Php4.03 billion while Avida's reached Php3.67 billion as advancing percentages of completion on projects under construction offset the decline in new bookings. The Residential Business remained the biggest contributor to the Company's NOI, accounting for 43% of total at Php3.85 billion. NOI margins dropped to 27% from 29% largely because the completion mix was weighted towards the lower-margin products. For 2010, the Company is anticipating a strong turn-around in market conditions and will be launching its most aggressive campaign ever, with over 9,200 units to be launched from 28 projects across all residential brands. 2010 will also be noteworthy for the Company's initial foray into the economic housing segment through a newly established fourth brand known as Amaia Land Corporation, with a maiden project to be launched in Laguna within the first quarter.

Shopping Centers. Total revenues for Shopping Centers rose by 4% to Php4.44 billion in 2009 as its gross leasable area (GLA) portfolio increased with the opening of MarQuee Mall in Angeles, Pampanga last September 2009. Blended occupancy rates remained at 92% despite the Ayala Center redevelopment-related closures in Glorietta 1 as well as the start-up operations of MarQuee Mall. Average building rent for all malls dropped by 5% to P1,019 per square meter per month, mostly due to the lower average lease rates in MarQuee Mall. NOI for Shopping Centers meanwhile improved by 9% to Php2.34 billion and accounted for 26% of the Company's total NOI. NOI margins also improved to 53% from 50% with the continued ramp-up of new malls. For 2010, the Company will continue with the construction of its Abreeza Mall in Davao, which is expected to open in 2011. It is also expected to launch the Phase 2 development of Ayala Center Cebu, while breaking ground in several other provincial locations for both regional malls as well as its community and neighborhood center products.

Corporate Business. Revenues from Corporate Business nearly doubled to Php1.99 billion in 2009 from Php1.09 billion the previous year. The growth was derived largely from the expansion of the BPO office portfolio that reached a total of 178,160 square meters of leased-out GLA as of year-end 2009, compared with 82,224 square meters as of year-end 2008. Revenues were also boosted by higher average BPO lease rates that went up by 22% to an average of Php582 per square meter per month with the start of operations of two higher-yielding BPO office buildings in Makati in 2009 (Solaris One and Glorietta 5 BPO). Meanwhile, the performance of the headquarter-type (HQ) office buildings continued to be positive. Average lease rates for the HQ buildings increased by 4% to Php806 per square meter per month on programmed rental escalations as well as above-average renewal rental rates, with occupancy rates remaining high at 96%. NOI meanwhile increased by 86% to Php1.08 billion in 2009, accounting for 12% of the Company's total. NOI margins also improved to 54% from 53% as a result of improving occupancy rates in the recently opened buildings. For 2010, the Company continues to see positive prospects for expansion in select locations and will begin construction on Two Evotech in Nuvali as well as several other BPO buildings in Luzon and the Visayas region.

Strategic Landbank Management. Revenues from the Strategic Landbank Management Group (SLMG) amounted to Php2.26 billion in 2009, 24% higher than the previous year, largely due to the significant construction completion of its share in booked NUVALI residential and commercial lot sales. The strong revenue growth also led to an increase in NOI by 32% to Php832 million from Php632 million in 2008 (and contributed 9% to total NOI). NOI margins likewise improved to 37% from 35% with a greater percentage of construction accomplishment in higher-margin lots in NUVALI.

Visayas-Mindanao. Revenues from Visayas-Mindanao improved by 20% to Php 194 million in 2009 from Php161 million the previous year. Most of the revenue growth came from increasing percentage completion at Alegria Hills in Cagayan de Oro and from higher bookings in new phases of Plantazionne Verdana Homes in Negros Occidental. NOI contribution was Php17 million, or less than 1% of total.

Support Business. The Support Businesses, namely Construction, Property Management and Hotels, generated revenues (net of inter-company eliminations) of Php4.96 billion in 2009, 38% lower than the Php8.05 billion posted the previous year. The decline was a result of the winding down and subsequent lower contribution from external construction projects as the Company deliberately adopted a strategy of focusing more on internal construction projects. Consequently, NOI for the Support Businesses in aggregate also dropped by 44% to Php909 million, or 10% of total. Overall margins were likewise lower at 18% compared with 20% the previous year, although these stabilized in the second half of 2009, compared with a larger average year-on-year drop in the first two quarters of last year.

Equity in Net Earnings of Investees, Interest and Other Income

Equity in Net Earnings of Investees grew by 9% to Php968 million from Php885 million, mostly from the contribution of Fort Bonifacio Development Corporation (in which the Company holds an effective stake of 24.8%) and the improved performance of shopping center joint ventures accounted for under the equity method (particularly TriNoma and Alabang Town Center). Meanwhile, Interest, and Other Income decreased by 37% to Php1.41 billion in 2009 compared with the Php2.25 billion the previous year. Higher management fees and interest income on higher average cash balances in 2009 were not enough to compensate for the absence of capital gains derived from the sale of shares in wholly-owned subsidiaries Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc. in March 2008.

Expenses

Total expenses dropped to Php26.42 billion in 2009, 9% lower than the Php28.94 billion recorded in 2008. Cost of Sales from Real Estate and Hotels, which accounted for the bulk at Php19.04 billion, declined by 11%, reflecting the strong project cost control initiatives. GAE was also contained at Php2.75 billion, dropping by 16% from the previous year with savings from a corporate restructuring program in 2008 as well as strong cost control initiatives implemented in 2009. Meanwhile, Interest Expense, Financing and Other Charges went up by 63% to Php2.82 billion, mostly due to the increase in average loan balances for 2009 as the Company ramped up its borrowing program.

Project and Capital Expenditures

ALl spent a total of Php16.24 billion for project and capital expenditures in 2009, 14% less than the record Php18.89 billion spent in 2008. Residential Development accounted for 60% of the total, followed by Strategic Landbank Management with 17% and Shopping Centers and Corporate Business each accounting for 8% of total. For 2010, the Company has earmarked a new record high of Php27.17 billion for capex as it expects its most aggressive year ever with record product launches and activity levels across all product segments. The capex allocation is expected to cover expenses related to the launch of new residential and leasing projects, the ongoing construction completion of existing projects under development, as well some possible land acquisition as the Company seeks to expand its presence in more growth centers across the country.

Financial Condition

The Company's balance sheet continues to be robust with a close to zero net-debt position and significant capacity to take on additional borrowings to support its aggressive growth plans for the next few years. Cash and Cash Equivalents stood at Php15.52 billion with a Current Ratio of 1.95:1. Total Borrowings as of year-end 2009 stood at Php18.81 billion, compared with Php16.75 billion as of December 2008, translating to a Debt-to-Equity Ratio of 0.37:1 and a Net Debt-to-Equity Ratio of 0.06:1. The Company has been managing its debt profile effectively, with 91% in long-term debt (with 84% of total carrying a fixed-rate) and an average borrowing rate of 7.9%, down from -8.0% the previous year. The Company's borrowings carry an average maturity tenor of 4.4 years. In order to support its expansion plans, the Company intends to continue ramping-up its borrowing program in 2010.

Key Financial Performance Indicators

The table below sets forth the comparative performance indicators of the Company and its majority-owned subsidiaries:

	End 2009	*End- 2008*
Current ratio [1]	1.92:1	1.89:1
Debt-to-equity ratio [2]	0.37:1	0.34:1
Net debt(cash)-to-equity ratio [3]	0.06:1	0.03:1
	FY 2009	*FY 2008*
Return on assets [4]	3.9	5.2%
Return on equity [5]	8.0	10.2%

[1] *Current assets / current liabilities*
[2] *Total interest-bearing debt (inclusive of bonds) / stockholders' equity*
[3] *Interest-bearing debt less cash, cash equivalents & investment in government securities / stockholders' equity*
[4] *Net income / average total assets*
[5] *Net income / average stockholders' equity*

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created in 2009.

For 2010, ALI has earmarked a total of ₱27.2billion for project and capital expenditures, the bulk of which will be used to fund ongoing and planned projects of Residential Development and Strategic Landbank Management. Throughout the year, ALI examines the appropriate timing and allocated amounts for these projects, and adjusts the budget accordingly to reflect changes in plans. These projects will be funded through cash generated from operations and additional borrowings.

Material changes (+/- 5% or more) in the financial statements

Income Statement items – 2009 vs 2008

8% decline in real estate revenues
Largely due to lower revenues from the construction business with the winding down and subsequent lower contribution from external construction projects.

7% decrease in hotel operations revenues
Mainly due to lower occupancy rate and average room rate of Hotel Intercontinental Manila.

9% increase in equity in net earnings of associates and jointly controlled entities
Primarily due to higher income from Fort Bonifacio Development Corp., Alabang Commercial Corp. and North Triangle Depot Commercial Corp. (NTDCC) that offset lower income from Cebu Holdings, Inc. and Cebu Property Ventures Development Corp.

16% decline in interest income
Mainly due to the payment by Bonifacio Land Corp. of an intercompany loan in 2008.

52% decrease in other income
Largely due to absence of large transactions during the period against the sale of shares in Piedmont Property Ventures, Inc., Stonehaven Land, Inc and Streamwood Property, Inc. in March 2008.

11% decline in real estate costs and expenses
Primarily due to impact of project cost control initiatives.

16% drop in general and administrative expenses
Mainly due to lower payroll costs and benefits, and the impact of spend management initiatives involving controllable costs.

28% increase in interest expense and other financing charges
Largely due to higher level of debt.

121% increase in other charges
Primarily due to provisioning for bad debts and write-offs due to impairment of real estate inventories.

44% decrease in provision for income tax
Mainly due to the lower taxable income for the period and reduction in income tax rate to 30%.

12% increase in net income attributable to minority interests l
Largely due to higher income from Ceci Realty, Inc and Aurora Properties Holdings, Inc.

Balance Sheet items – 2009 vs 2008

17% decrease in cash and cash equivalents
Primarily due to reclassification of money market placements with terms of more than 90 days to short-term investments.

79% increase in short term investments and financial assets at fair value through profit or loss
Largely due to increase in money market placements with terms of more than 90 days

100% increase in available for sale financial assets – current portion
Mainly due to investment in fixed income securities.

9% increase in real estate inventories
Largely due to Ayala Land Premier developments including Abrio, Westgrove Heights and Anvaya, and new projects such as Ametta Place and Verdana Homes Mamplasan Phase 3.

9% decline in other current assets
Primarily due to lower prepaid expenses of Makati Development Corp.

36% increase in non-current accounts and notes receivable
Mainly due to higher receivables of Avida.

11% increase in land and improvements
Largely due to land acquisitions and incidental costs related to site preparation and clearing of various properties.

9% increase in investment in associates and jointly controlled entities
Mainly due to additional investment in Fort Bonifacio Holdings and higher earnings from Emerging City Holdings Inc. and Berkshire Holdings Inc.

55% increase in available-for-sale financial assets
Primarily due to investment in fixed income securities maturing on years 2013, 2014 and 2016.

43% increase in investment properties
Mainly due to completion of malls and buildings such as MarQuee Mall, U.P.-AyalaLand TechnoHub (new buildings), Cebu E-bloc, Glorietta 5 and Vertex One, and additional disbursements related to the construction of Ayala Center Redevelopment.

62% decline in property and equipment
Primarily due to reclassification of operational and completed buildings to investment properties.

36% increase in deferred tax assets
Largely due to Ceci Realty's higher unrealized sales collection.

7% decline in accounts and other payables
Primarily due to the completion of ALI Parent and Makati Development Corp. projects.

27% increase in short term debt
Mainly due to new loan availments of ALI Parent and Avida.

151% increase in income tax payable
Primarily due to higher creditable withholding tax recognized by Alveo Land and Ceci Realty in 2008.

55% increase in current portion of long-term debt
Largely due to the reclassification of loans from non-current to current of APPHC and Ayala Hotels Inc.

93% increase in other current liabilities
Mainly due to increase in customers' deposits in Serendra, Ceci Realty and Aurora Properties.

10% increase in long-term debt- net of current portion
Largely due to increase in Fixed Rate Corporate Notes (FXCNs).

46% decline in pension liabilities
Mainly due to adjustments made to reflect latest actuarial valuation.

7% decline in deferred tax liabilities
Primarily due to the shift in the corporate tax rate from 35% to 30%.

31% increase in deposits and other non-current liabilities
Largely due to the increase in security and construction deposits from MarQuee Mall, Glorietta 5 BPO, U.P.-AyalaLand TechnoHub and One Evotech.

9% decline in deferred credits
Mainly due to the income realization of Serendra Inc. following project completion.

10% increase in retained earnings
Largely due to current year's income net of dividends.

70% increase in stock options outstanding
Primarily due to exercise of ESOWN grant.

5% increase in unrealized gain on available-for-sale financial assets
Mainly due to revaluation of Ayala Corporation preferred shares.

11% increase in minority interests in net assets of subsidiaries
Largely attributed to Accendo Commercial Corp., APPHC and APPCo.

Risks

Ayala Land is subject to significant competition in each of its principal businesses. Ayala Land competes with other developers and developments to attract purchasers of land and condominiums, retail and office tenants, and customers for the retail outlets, restaurants and hotels in its malls/retail centers.

However, Ayala Land believes that, at present, there is no single property company that has a significant presence in all sectors of the property market.

High-End, Middle-Income and Affordable Residential Developments

With respect to high-end land and condominium sales, Ayala Land competes for purchasers primarily on the basis of reputation, reliability, price and the quality and location of the community in which the relevant site is located. For the middle-income and affordable housing markets, Ayala Land competes for buyers based on quality of projects, affordability of units, and availability of in-house financing. Ayala Land is also actively tapping the growing OFW market.

Office Space, Retail and Land Rental

For its office rental properties, Ayala Land competes for tenants primarily based upon the quality and location of the relevant building, the reputation of the building's owner, the quality of support services provided by the property manager, and rental and other charges. The Company is addressing the growing demand from BPOs and call centers by providing fully integrated, well maintained developments (high rise or campus facility) in key locations in the country.

With respect to its retail properties, Ayala Land competes for tenants primarily based upon the ability of the relevant retail center to attract customers - which generally depends on the quality and location of, and mix of tenants in, the relevant retail center and the reputation of the owner of the retail center- and rental and other charges. The market for shopping centers has become especially competitive and the number of competing properties is growing. Some competing shopping centers are located within relatively close proximity of each of Ayala Land's commercial centers.

Industrial Property Business

The industrial property business is affected by an oversupply which limits industrial expansion. The entry of China into the World Trade Organization in 2003 poses strong competition for foreign direct investment. Overall, the industrial property segment is not likely to show significant demand improvement in the near term.

Hotel Operations

The local hotel sector experienced growth in occupancy, rental rates and revenues per available room. The Company's hotels, known for their premium value and service, performed strongly in each of their respective markets. Any slowdown in tourism could potentially limit growth of the Company's hotels.

Construction

Ayala Land's construction business is benefiting from the improved performance of the construction industry, particularly from an uptick in development activities mostly from the residential and retail sectors. Any slowdown in the construction business could potentially cap growth of the Company's construction arm.

Other risks that the company may be exposed to are the following:

- Changes in Philippine and international interest rates
- Changes in the value of the Peso
- Changes in construction material and labor costs, power rates and other costs
- Changes in laws and regulations that apply to the Philippine real estate industry
- Changes in the country's political and economic conditions

To mitigate the above mentioned risks, Ayala Land shall continue to adopt appropriate risk management tools as well as conservative financial and operational controls and policies to manage the various business risks it faces.

2008 vs. 2007

Results of Operations

Ayala Land, Inc. (“ALI” or “the Company”) posted a 10% growth in consolidated net income in 2008, reaching a record Php 4.8 billion from Php 4.4 billion the previous year, despite a challenging macroeconomic environment especially in the second half of 2008. This robust performance was achieved on the back of strong operating revenues and equity earnings from affiliates combined with effective cost control measures.

The Company recorded consolidated revenues of Php 33.7 billion, its highest ever and 31% more than the Php 25.7 billion achieved in 2007. Operating revenues increased by 34% to Php 30.6 billion with the bulk of the gains coming from the Residential, Strategic Landbank and Construction businesses. Shopping Centers and Corporate Business also contributed to consolidated revenue growth.

Equity in Net Earnings of Investees rose by 12% to Php 885 million following the favorable performance of the Company’s corporate investment vehicles in Bonifacio Global City, Cebu Holdings, Inc. (CHI) and the shopping centers affiliates. Meanwhile, Interest, Investment and Other Income contracted by 18% to Php 2.2 billion as the gain from the sale of shares in three subsidiaries (namely Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc.) in March 2008 was lower compared with the gains from similar large transactions in 2007. These were the sale of shares in Makati Property Venture, Inc (MPVI) to the Ascott Residence Trust in March and the sale of preferred shares in KHI-ALI Manila, Inc. (KAMI) to Kingdom Manila B.V. in connection with the development of a luxury hotel complex within Ayala Center in December 2007.

Consolidated net operating income (NOI) reached Php 9.3 billion in 2008, 21% higher year-on-year. However, overall NOI margins declined by four percentage points to 30% following the drop in shopping center and construction margins. Shopping center margins were affected by the closure of high-margin Glorietta 2 in connection with the ongoing Ayala Center redevelopment as well as the start-up operations at Greenbelt 5. Construction margins were put under pressure by the increase in the costs of construction materials, particularly in the third quarter. Meanwhile, Residential and Corporate Business both showed healthier margins compared with the previous year following the successful implementation of unit price increases and rental escalations, respectively.

Business Segments

The Residential Development business accounted for the bulk of revenues at Php 15.2 billion or 45% of total revenues. This was followed by the Support Businesses at 24%, or Php 8.0 billion, largely coming from the Construction business. Shopping Centers contributed 13% or Php 4.3 billion, while Strategic Landbank Management generated 5% or Php 1.8 billion. Corporate Business also accounted for 3% or Php 1.1 billion, followed by Visayas-Mindanao with Php 161 million or less than 1%. Interest and Other Income accounted for the balance of 9%.

Residential Development

Residential Development revenues amounted to Php 15.2 billion in 2008, 18% higher than the Php 12.8 billion posted in 2007. Alveo Land and Avida Land both registered double-digit growth rates of 33% and 38% year-on-year, respectively.

Ayala Land Premier (ALP) projects generated Php 7.7 billion in revenues, 5% higher than in 2007. High-end condominium units contributed the bulk (Php 4.2 billion) of ALP's revenues, but were down 6% year-on-year due to a slowdown in the high-end condominium market. Bookings of high-end condominium units in 2008 declined from 508 to 171, with sales from One Serendra East Tower (launched in March 2008) not enough to make up for the sell-out of the highly successful The Residences at Greenbelt (TRaG) project, which accounted for the bulk of units in 2007. Despite the soft market conditions, revenue growth was driven by advancing project completion rates last year (TRaG 2 at 75%; TRaG 3 at 38%; and One Serendra Sections D & E at 92%). High-end lots meanwhile contributed Php 2.7 billion (+34% year-on-year) with total booked sales of 371 lots, mostly from Abrio in NUVALI, Ayala Westgrove Heights and Ayala Greenfield Estates. Revenues of leisure project Anvaya Cove declined by 3% to Php 814 million as the higher completion rates in Anvaya Cove were offset by lower bookings, which fell to 188 from 433 the previous year due to a sell-out of available lot inventory.

Meanwhile the performance of the middle-income and affordable residential sectors remained robust. Alveo's revenues grew by 33% to Php 4.2 billion in 2008 from Php 3.0 billion the previous year. Although booked units grew by only 5% to 1,164 units, significant construction accomplishment secured the high revenue growth. New projects Treveia in NUVALI (265 lots), Senta in Legaspi Village, Makati (210 units), and Red Oak and The Aston at Two Serendra (total of 291 units) accounted for the bulk of bookings.

Avida's revenues rose by 38% to Php 3.6 billion in 2008 due to the increase in bookings to 1,957 units from 1,706 units in 2007, coupled with a steady progress of construction. New projects such as Avida Settings NUVALI, Avida Settings Cavite, Avida Towers San Lazaro (new towers) and Avida Towers Makati West, likewise drove growth of Avida unit bookings.

NOI for Residential Development contributed 47% of total NOI and grew 28% in 2008 to Php 4.4 billion. NOI margin likewise improved to 29% from 27% in 2007 with the impact of the effected price increases across all three brands and effective cost management offsetting the higher average cost of construction materials.

Meanwhile, take-up of all residential projects in 2008 reached 4,803 units, 15% lower than the 5,644 units in 2007 with sales value also dropping by 12% to Php 18.4 billion. A total of 4,238 units were launched during the year, short of the original full-year target of 5,622 units (excluding residential projects in Visayas-Mindanao) by 24% and 18% less than what was brought into the market in 2007.

Shopping Centers

2008 revenues for Shopping Centers rose by 3% to Php 4.3 billion. Total gross leasable area (GLA) owned and operated by the Company grew 2% to 887,112 square meters as new mall openings in Greenbelt 5 Phase 2, Glorietta 5 and the The Terraces at Ayala Center Cebu were offset by the closure of Glorietta 2 and Park Square 2 for the start of the Ayala Center redevelopment. Average building rent for all malls meanwhile grew 4% to P1,100 per square meter per month, while average occupancy rates improved by 3% points to 92% with significant improvements in the occupancy of Trinoma and Market!Market!. Meanwhile flagship Ayala Center experienced flat rental rates and a decline in occupancy rates to 91% from 98% last year due to the start-up operations of Greenbelt 5 and Glorietta 5.

NOI for Shopping Centers posted a decline of 11% to Php 2.2 billion, while NOI margin was squeezed to 50% from 58% since the continued closure of high-margin Glorietta 2 and the start-up operations of Greenbelt 5 and Glorietta 5 were not fully offset by the improved performance of Market!Market!. Shopping Centers accounted for 23% of total NOI.

The construction of MarQuee Mall in Angeles, Pampanga is ongoing, with a target opening of May 2009. Planning activities for a retail-BPO development in Davao City is also currently underway.

Corporate Business

Revenues from Corporate Business amounted to Php 1.1 billion in 2008, higher by 10% from the previous year as rental escalations from both traditional headquarter-type (HQ) office buildings as well as business process outsourcing type buildings (BPO) kicked in. Average rental rates for HQ increased by 12% for the 2008, with BPO increasing by 7%. While there was no expansion for the HQ type office segment, BPO building GLA increased by 2.6 times to 93,487 square meters with the completion and start of operations of the first four buildings of the UP-Ayala Land TechnoHub. Average occupancy for BPO buildings dropped from 100% to 79% as some locators in the UP TechnoHub were still at various stages of fit-out. Occupancy rates for HQ-type buildings meanwhile improved by one percentage point to 98%.

NOI grew by 19% to Php 580 million from Php 489 million in 2007. NOI margin also improved by four percentage points to 53% following the increase in rental rates, decrease in direct operating expenses and the impact of a decline in LTI lot sales which delivered lower margins. Only 5.8 hectares were sold in LTI in 2008 compared to 9.3 hectares in 2007. Corporate Business' NOI accounted for 6% of total.
The other BPO building projects that were completed in 2008 but will not be operational until the first quarter of 2009 include two additional buildings in UP-Ayala Land TechnoHub, Glorietta 5, Solaris (along Dela Rosa Street in Makati), San Lazaro Vertex and Cebu eBloc. These BPO buildings will contribute another 121,781 square meters to total GLA. Also targeted for completion in 2009 are the last four buildings in UP-Ayala Land TechnoHub with an incremental GLA of 40,000 square meters.

With the market slowdown that the industry is currently faced with in the near-term, the Company is recalibrating the timing of future launches. The posture is to prepare expansion sites that have already been secured into "push-button" mode, which will enable the Company to respond quickly in the event of a market upswing.

Strategic Landbank Management

Revenues of Strategic Landbank Management rose by 281% to Php 1.8 billion in 2008 from Php 478 million in 2007. Significant growth was generated from its share in lot sales at NUVALI across all three residential brands. Booked "override" (i.e. its share in residential lot sales by virtue of being the land owner and joint development partner) units increased to 440 units in 2008 versus 108 in 2007, complemented by higher construction completion on override units at The Columns at Legazpi Village.

Accordingly, NOI surged by 325% to Php 632 million from Php 149 million, while NOI margin improved by four percentage points to 35%. SLMG's NOI during the year contributed 7% to total NOI.

Equity in Net Earnings from Ayala Land's effective stake in Fort Bonifacio Development Corporation (FBDC) grew by 31% to Php 576 million, driven by improved leasing activities and the increase in the prices of sold lots in Bonifacio Global City (BGC). A total of 18,214 square meters were sold in 2008 at an average price of Php 151,000 per square meter.

The Company remains committed to drive the growth in land values of its three strategic landbank areas. In Makati, the major redevelopment of the Ayala Center is already ongoing and is expected to be completed by 2012. Glorietta 5, consisting of both retail and BPO, was completed in December 2008. Meanwhile, preparation for the redevelopment of Glorietta 1 & 2 commenced in January 2009 to make way for the construction of more retail, BPO and hotel spaces. In Bonifacio Global City, the 29-storey BGC E-Services Building, a Company-managed project, was 53% complete while construction of St. Luke's Hospital is nearing completion. In NUVALI, the Technopod building was completed in December 2008 and the retail areas are slated to open by April 2009.

Visayas-Mindanao

Visayas-Mindanao's revenues dropped by 9% to Php 161 million in 2008 from Php 176 million the previous year as bookings fell to 117 lots from 135 lots in 2007. Most of the bookings came from newer phases of Plantazionne Verdana Homes and Ayala Northpoint (both in Bacolod). NOI contribution was a negative Php 26 million as the price increases implemented and the sales volumes were not enough to offset the high fixed costs in Ayala Northpoint Phase 2 and the slow take-up of Alegria Hills in Cagayan de Oro.

Support Business

The Support Businesses, namely Construction, Property Management and Hotels, generated revenues (net of inter-company eliminations) of Php 8.0 billion in 2008, growing by 93% year-on-year. Total NOI for the Support Businesses in aggregate also grew by 33% to Php 1.6 billion, with bulk of the increase coming from the Construction business.

Makati Development Corporation (MDC), ALI's wholly-owned construction arm, reported revenues of Php 5.7 billion (net of inter-company eliminations), representing a 216% growth over the previous year on the back of significant progress in construction accomplishment on external projects. External projects accounted for 44% of the value of MDC's outstanding contracts. The construction business contributed Php 685 Million or 7% of the Company's NOI.

Ayala Property Management Corporation (APMC), a 100%-owned subsidiary, reported an almost flat growth in revenues of Php 1.0 billion (net of inter-company eliminations) in 2008 over the previous year's level. NOI margin, however, improved by 10 percentage points to 47%. Higher efficiencies achieved in facilities management led to significant savings in direct operating expenses. APMC's NOI amounted to Php 487 million or 5% of ALI's NOI.

The Hotels group, comprised of Hotel InterContinental Manila and Cebu City Marriott Hotel, generated Php 1.3 billion in 2008, slightly declining by 3% from the previous year. With their recent renovations, average room rates at Hotel InterContinental Manila and Cebu City Marriott Hotel were higher by 13% and 9% to Php 5,491 and Php 3,462, respectively. However, the fierce competition in the industry and renovation related disruptions saw occupancy rates drop from 82% to 78% for the InterCon and from 75% to 52% at the Marriott. The two hotel properties contributed Php 445 million or 5% to ALI's NOI.

NOI margins of the Support Businesses dropped to 20% from 29% largely because of lower margins on MDC's external contracts and the impact of higher construction material costs. The hotels exhibited slight margin improvements while the recovery in APMC's margins narrowed the drop in Support Businesses' total NOI margins.

Equity in Net Earnings of Investees, Interest, Fees, Investment and Other Income

Equity in Net Earnings from Investees grew by 12% to Php 885 million from Php 787 million, mostly coming from the combined contribution of ALI's corporate investment vehicles in Bonifacio Global City, and higher earnings of Cebu Holdings Inc. (CHI) and Alabang Commercial Corporation (ACC).

As mentioned in the Strategic Landbank discussion, the contribution of FBDC reached Php 576 million or 31% higher than the Php 439 million in 2007. Meanwhile, Equity Earnings from CHI and Cebu Property Ventures Development Corp. (CPVDC) were 45% higher at Php 201 million from Php 138 million in 2007. At Ayala Center Cebu, the average building rent was 5% higher year-on-year, while occupancy rate improved to 97% from 93%. Four lot sales, one in Cebu Business Park and three in Asiatown IT Park, with a total area of 24,202 square meters, further raised equity earnings.

For the shopping center business, ACC (corporate vehicle for Alabang Town Center) contributed Php 121 million in 2008, 10% more than the previous year as rental rates increased by 4%. TriNoma, which opened in May 2007, contributed another Php 14 million to equity earnings also due to higher rental and occupancy rates.

Interest, Fees, Investment and Other Income amounted to Php 2.2 billion in 2008 or a decline of 18% from Php 2.7 billion the previous year. The Php 761 million in pre-tax capital gains from the sale of shares in wholly-owned subsidiaries Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc. in March 2008 was lower compared with the two asset sales in 2007, namely the sale of shares in Makati Property Venture, Inc (MPVI) to the Ascott Residence Trust in March 2007 and the sale of preferred shares in KHI-ALI Manila, Inc. (KAMI) to Kingdom Manila B.V. in December 2007.

Expenses

For 2008, total expenses amounted to Php 28.9 billion, 32% more than the Php 22.0 billion in 2007. Real Estate and Hotels Cost of Sales accounted for the bulk at Php 21.3 billion, 41% more than the previous year. Meanwhile, General and Administrative Expenses (GAE) rose by 21% to Php 3.3 billion, still a much lower pace than the 34%

increase in real estate revenues. Interest, Taxes and Other Charges likewise went up by 7% to Php 4.4 billion largely because of higher taxes resulting from higher taxable income from subsidiaries. This is expected to moderate in 2009 with the lowering of the corporate income tax rate from 35% to 30%.

Project and Capital Expenditures

ALl spent a record Php 18.9 billion for project and capital expenditures in 2008, 22% more than the Php 15.4 billion spent in the previous year. Residential Development projects accounted for the bulk of capex at Php 7.9 billion. This was followed by Corporate Business which used 28% or Php 5.3 billion, while around 12% or Php 2.2 billion was used by Shopping Centers.

For 2009, ALl has earmarked a similarly high Php 17.4 billion for capital and project expenditures as activity levels for the completion of current projects for delivery will remain high. Bulk of the budget will go to Residential Development and Strategic Landbank with a 50% and 17% share, respectively. Shopping Centers will get 13% while Corporate Business is expected to have a 12% allocation.

Financial Condition

The Company's balance sheet continues to be healthy with a Current Ratio of 1.89: 1. As of end-2008, Cash and Cash Equivalents stood at Php 15.4 billion, 20% higher than the end-2007 level of Php 13.6 billion. Total Borrowings were at Php 16.8 billion from Php 10.1 billion as of December the previous year, translating to a Debt-to-Equity Ratio of 0.34: 1. ALI's cash position has been boosted by the successful issuance of Php 4.0 billion in 5-year retail bonds, and Php1.4 billion in non-recourse sales of account receivables. The Company's debt profile has also been improved with average maturities lengthened to 4.7 years, and 83% of borrowings already at fixed-rates. ALI has already secured the bulk of its funding program for its capital expenditure commitments for 2009 (an additional Php 2.4 billion was drawn in January 2009) while additional cash and debt capacity is available for attractive investment opportunities that may arise.

Key Financial Performance Indicators

The table below sets forth the comparative performance indicators of the Company and its majority-owned subsidiaries:

	End- 2008	*End-2007*
Current ratio [1]	1.89:1	1.65:1
Debt-to-equity ratio [2]	0.34:1	0.22:1
Net debt(cash)-to-equity ratio [3]	0.03:1	(0.08):1
	FY 2008	*FY 2007*
Return on assets [4]	5.2%	5.4%
Return on equity [5]	10.2%	10.2%

[1] *Current assets / current liabilities*
[2] *Total interest-bearing debt (inclusive of bonds) / stockholders' equity*
[3] *Interest-bearing debt less cash, cash equivalents & investment in government securities / stockholders' equity*
[4] *Net income / average total assets*
[5] *Net income / average stockholders' equity*

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created in 2008.

For 2009, ALI has earmarked a total of ₱17.4 billion for project and capital expenditures, the bulk of which will be used to fund ongoing and planned projects of Residential Development and Strategic Landbank Management. Throughout the year, ALI examines the appropriate timing and allocated amounts for these projects, and adjusts the budget accordingly to reflect changes in plans. These projects will be funded through cash generated from operations and additional borrowings.

Material changes (+/- 5% or more) in the financial statements

<u>Income Statement items</u> –2008 versus 2007

36% increase in real estate revenues
Primarily due to higher revenues from Residential, Strategic Landbank and Construction businesses, as well as better revenue performance of Shopping Centers and Corporate Business.

12% increase in equity in net earnings of investees
Largely due to higher income from ALI's corporate vehicles in Bonifacio Global City as well as improved performance of Cebu Holdings Inc., Alabang Commercial Corporation and North Triangle Depot Commercial Corporation.

58% increase in interest income
Mainly accounted by higher interest income from money market transactions.

11% decrease in other income
Primarily due to lower proceeds from the gain on sale of shares in Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc. in 2008 against the gain on sale of preferred shares in KHI-ALI Manila, Inc. in 2007.

43% increase in real estate costs and expenses
Mainly due to higher real estate revenues.

21% increase in general and administrative expenses
Primarily due to higher payroll costs and benefits following the salary increases.

18% increase in interest expense and other financing charges
Largely to higher average bank loans.

34% decrease in other charges
Primarily due to higher expenses related to the Glorietta 2 explosion and sale of preferred shares in KAMI in 2007.

25% increase in provision for income tax
Principally due to the higher taxable income during the period.

100% decrease in income associated with non-current assets held for sale
Primarily due to the sale of Oakwood recognized in 1Q07.

20% decrease in net income attributable to minority interests
Largely due to lower income of Ayala Hotels, Inc. following the sale of Oakwood in 1Q07.

<u>Balance Sheet items</u> – 2008 versus 2007

12% increase in cash and cash equivalents
Largely due to proceeds from bond issuance and from sale of shares in Piedmont Property Ventures, Inc., Stonehaven Land, Inc. and Streamwood Property, Inc.

18% increase in short-term investments and fair value through profit or loss financial assets
Largely due to increase in government securities.

42% increase in accounts and notes receivable
Primarily due to increase in advances to contractors and suppliers, as well as a reclassification of Serendra Inc. receivables from non-current receivables.

22% increase in real estate inventories
Largely due to set-up of additional costs for Anvaya shares, and disbursements for actual development of Anvaya, Abrio, Westgrove, Treveia, Senta and various Avida projects.

80% increase in other current assets
Mainly due to higher prepaid expenses and inventory of supplies of Makati Development Corporation and creditable withholding tax largely due to Serendra, Inc..

51% decline in non-current accounts and notes receivable
Primarily due to changes in Serendra Inc.'s classification of trade receivables.

10% increase in investments in associates and jointly controlled entities
Mainly due to new investments in Accendo (Davao mall) and Northbeacon Commercial Corporation (MarQuee Mall).

28% increase in available for sale financial assets
Largely due to acquisition of Ayala Corp. preferred shares.

27% increase in investment properties
Primarily due to disbursements related to the construction of UP Ayala Land TechnoHub, NUVALI Technopod and Greenbelt 5 Phase 2.

123% increase in property and equipment
Primarily due to disbursements for ongoing projects such as Solaris One, UP Ayala Land TechnoHub, San Lazaro Vertex, Asian I-Office, Glorietta 5 and MarQuee Mall.

18% decline in deferred tax assets
Primarily due to the shift in corporate tax rate from 35% to 30%.

5% decrease in other non-current assets
Mainly consist of prepaid items charged to various projects.

31% increase in accounts and other payables
Largely due to increase in Makati Development Corporation's accrual of salaries, equipment rental and cost of materials.

21% decrease in short-term debt
Largely due to retirement of short-term loan availments by Avida Land and Station Square East Commercial Corporation.

47% decline in income tax payable
Primarily due to higher creditable withholding tax recognized by Serendra, Inc. in 2008.

90% decrease in current portion of long-term debt
Largely due to retirement of loans by Ayala Land, Inc. and Station Square East Commercial Corporation.

79% increase in other current liabilities
Largely due to the increase in customers' deposits posted by Ayala Land, Inc. and Serendra, Inc.

148% increase in long-term debt – net of current portion
Mainly due to the issuance of Php 4 billion fixed-rate retail corporate bonds carrying a coupon rate of 8.75% per annum with a maturity of five years and the Php 3 billion debt of APPHC added as a result of consolidation.

44% decrease in pension liabilities
Primarily due to adjustments made to reflect latest actuarial valuation.

5% increase in deferred tax liabilities
Primarily due to the shift in the corporate tax rate from 35% to 30%.

28% increase in deposits and other non-current liabilities
Primarily due to increase in customer and security deposits, and deferred interest income on ALI advances and unearned management fees.

6% increase in deferred credits
Mainly owing to deferred rental income of APPHC and deferred interest income of Aurora Properties, Inc., Vesta Property Holdings, Inc. and Ceci Realty, Inc.

14% increase in retained earnings
Largely because of income generated in 2008.

11% increase in stock options outstanding
Primarily due to ESOP availments.

713% increase in unrealized gain on available-for-sale financial assets
Mainly due to market valuation of shares in Subic Bay Yacht Club and Tagaytay Highlands.

147,829% increase in treasury stock
Primarily due to the buyback of ALI shares initiated in August 2008.

19% increase in minority interest in net assets of subsidiaries
Largely attributed to APPHC and Serendra Inc.

Upon the written request of a stockholder, the Company undertakes to furnish said stockholder with a copy of SEC Form 17-A free of charge. Any written request for a copy of SEC Form 17-A shall be addressed to the following:

Ayala Land, Inc.
30/F Tower One and Exchange Plaza
Ayala Triangle
Ayala Avenue, Makati City
1226

Attention: **Mr. Jaime E. Ysmael**
Senior Vice President & Chief Finance Officer

II. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY

A) Principal Market where the Registrant's Common equity is traded.

Philippine Stock Exchange
Prices (in PhP/share)

	High		Low		Close	
	2009	2008	2009	2008	2009	2008
First Quarter	7.30	15.00	5.00	9.70	5.70	10.75
Second Quarter	9.70	11.25	5.60	9.60	8.10	9.60
Third Quarter	11.75	11.25	8.20	8.40	11.50	9.20
Fourth Quarter	12.50	9.40	10.25	5.30	11.25	6.40

The market capitalization of ALI as of end-2009, based on the closing price of ₱11.25/share, was approximately ₱146 billion.

The price information as of the close of the latest practicable trading date, March 8, 2010 is ₱11.00.

B) *Holders*

There are approximately 11,210 holders of common equity security of the Company as of February 28, 2009 (based on number of accounts registered with the Stock Transfer Agent). The following are the top 20 direct holders of the common equity securities of the Company:

	Stockholder Name	**No. of Common Shares**	**Percentage (of Common Shares)**
1.	Ayala Corporation	6,934,509,515	53.34%
2.	PCD Nominee Corp. (Non-Filipino)	4,770,883,203	36.70%
3.	PCD Nominee Corp. (Filipino)	920,488,898	7.08%
4.	ESOWN Administrator 2009	38,277,304	0.29%
5.	The Insular Life Assurance Company, Ltd.	20,726,012	0.16%
6.	ESOWN Administrator 2006	14,565,178	0.11%
7.	ESOWN Administrator 2005	13,328,741	0.10%
8.	Jose Luis Gerardo Yulo	11,882,458	0.09%
9.	ESOWN Administrator 2008	7,739,220	0.06%
10.	BPI T/A #14016724	5,928,408	0.04%
11.	Estrellita B. Yulo	5,732,823	0.04%
12.	Xavier P. Loinaz	5,621,590	0.04%
13.	Elvira L. Yulo	5,174,000	0.04%
14.	ESOWN Administrator 2007	5,034,400	0.03%
15.	Maria Alexandra Q. Caniza	4,531,026	0.03%
16.	Pan Malayan Management and Investment Corp.	4,002,748	0.03%
17.	Ma. Angela Y. La o'	3,728,620	0.03%
18.	Lucio W. Yan	3,483,871	0.03%
19.	Telengtan Brothers & Sons, Inc.	3,480,000	0.03%
20.	BPI AMTG - TA#14016759	3,182,286	0.02%

C) *Dividends*

STOCK DIVIDEND (Per Share)			
PERCENT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
20%	February 1, 2007	May 22, 2007	June 18, 2007

CASH DIVIDEND (Per Share)			
PESO AMOUNT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
0.03	May 9, 2007	June 7, 2007	July 3, 2007
0.03	November 20, 2007	December 20, 2007	January 10, 2008
0.03	May 12, 2008	June 11, 2008	June 27, 2008
0.03	November 6, 2008	December 5, 2008	January 8, 2009
0.03	May 12, 2009	June 11, 2009	June 30, 2009
0.03	November 19, 2009	December 18, 2009	January 19, 2010

Dividend policy

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors.

Special cash dividends are declared depending on the availability of cash, taking into account the Company's CAPEX and project requirements and the progress of its ongoing asset rationalization program.

Cash dividends are subject to approval by the Company's Board but no stockholder approval is required. Property dividends which may come in the form of additional shares of stock are subject to approval by both the Company's Board of Directors and the Company's stockholders. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and PSE.

D) *Recent Sale of Securities*

For the past three years, common shares were issued representing the exercise of stock options by the Company's executives under the Executive Stock Option Plan (ESOP) and the subscription to the common shares under the Executive Stock Ownership Plan (ESOWN) as follows:

Year	No. of Shares	
	ESOP (exercised)	ESOWN (subscribed)
2007	14.2 Million	5 Million
2008	3.2 Million	7.9 Million
2009	1.8 Million	38.3 Million

The aforesaid issuance of shares was covered by the Commission's approval of the Company's Stock Option Plan on July 1991 and subsequently on March 2006.

Last 18 October 2007, the SEC approved the Company's application for an increase in authorized capital stock from ₱20B to ₱21.5B to cover the offering and issuance of new 13.034 Billion Preferred Shares to the common shareholders of the Company.

E) *Corporate Governance*

a. The evaluation system which was established to measure or determine the level of compliance of the Board and top level management with its Manual of Corporate Governance consists of a Customer Satisfaction Survey which is filled up by the various functional groups indicating the compliance rating of certain institutional units and their activities. The evaluation process also includes a Board Performance Assessment which is accomplished by the Board indicating the compliance ratings. The above are submitted to the Compliance Officer who issues the required certificate of compliance with the Company's Corporate Governance Manual to the Securities and Exchange Commission.

b. To ensure good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the company, as well as the mechanism for monitoring and evaluating Management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

c. There were no deviations from the Company's Manual of Corporate Governance. The Company has adopted in the Manual of Corporate Governance the leading practices and principles of good corporate governance, and full compliance therewith has been made since the adoption of the Manual.

d. The Company is taking further steps to enhance adherence to principles and practices of good corporate governance.

ANNEX "C"

NATURE AND SCOPE OF BUSINESS

Ayala Land is the largest and most diversified real estate company in the Philippines. It has organized its operations into several core businesses and support businesses.

Core Businesses

- Residential Business - sale of high-end residential lots and units (including leisure community developments), middle-income residential lots and units, and affordable housing units and lots; lease of residential units; marketing of residential developments;

- Ayala Malls - development of commercial centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these commercial centers; management and operations of malls which are co-owned with partners;

- Corporate Business - development and lease or sale of office buildings; sale of industrial lots and lease of factory buildings;

- Strategic Landbank Management - acquisition, development and sale of large, mixed-use, masterplanned communities; sale of override units or Ayala Land's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center;

- Geographic Businesses:
  Visayas-Mindanao – development, sale and lease of the Company and subsidiaries' product offerings in key cities in the Visayas and Mindanao regions
  Ayala International – investment in an Asian real estate private equity fund and a fund management company

Support Businesses

- Construction – land development and construction of ALI and third-party projects

- Hotels – development and management of hotels; lease of land to hotel tenants

- Property management – facilities management of ALI and third-party projects

- Waterworks operations – operation of water and sewage treatment facilities in some ALI projects

In addition to above business lines, Ayala Land also derives other income from its investment activities and sale of non-core assets.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of Ayala Land, Inc. and its subsidiaries is responsible for all information and representations contained in the consolidated financial statements for the year ended December 31, 2009 and 2008 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 stockholders, has examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors and stockholders.

FERNANDO ZOBEL DE AYALA
Chairman, Board of Directors

ANTONINO T. AQUINO
President & Chief Executive Officer

JAIME E. YSMAEL
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FEB 2 6 2010 at Makati City, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Fernando Zobel de Ayala	XX2935162	04 February 2009 – Manila
Antonino T. Aquino	XX4033426	25 June 2009 – Manila
Jaime E. Ysmael	XX1502287	03 June 2008 – Manila

Doc. No. 309 ;
Page No. 63 ;
Book No. 7 ;
Series of 2010.

PHILIP MIGUEL I. RANADA
NOTARY PUBLIC
ROLL NO. 52062
MAKATI CITY, PHILIPPINES

Notarial DST pursuant to Sec. 188 of the Tax Code affixed on Notary Public's copy.

PHILIP MIGUEL I. RANADA
Notary Public-Makati City
Appt. No. M-479 until 12-31-2010
Attorney's Roll No. 52062
PTR No. 2093639MB; 01-07-2010; Makati City
IBP Lifetime Roll No. 08814
33rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Ayala Land, Inc.
Tower One, Ayala Triangle
Ayala Avenue, Makati City

We have audited the accompanying consolidated financial statements of Ayala Land, Inc. and Subsidiaries, which comprise 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 a summary of significant accounting policies and other explanatory notes.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ayala Land, Inc. 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

February 26, 2010

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 29)	**₱10,528,726**	₱12,655,402
Short-term investments (Notes 5 and 29)	**4,560,976**	1,008,923
Financial assets at fair value through profit or loss (Notes 5 and 29)	**433,821**	1,778,720
Available-for-sale financial assets (Notes 11 and 29)	**925,694**	–
Accounts and notes receivable - net (Notes 6 and 29)	**16,654,767**	15,795,711
Real estate inventories (Note 7)	**9,022,337**	8,313,513
Other current assets (Note 8)	**4,013,999**	4,413,771
Total Current Assets	**46,140,320**	43,966,040
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 6 and 29)	**1,976,678**	1,780,191
Land and improvements (Note 9)	**17,768,048**	15,942,380
Investments in associates and jointly controlled entities (Note 10)	**10,798,078**	9,916,380
Available-for-sale financial assets (Notes 11 and 29)	**725,570**	468,860
Investment properties - net (Note 12)	**25,412,537**	17,769,007
Property and equipment - net (Notes 13 and 16)	**3,364,584**	8,946,102
Deferred tax assets - net (Note 23)	**1,078,308**	794,534
Other noncurrent assets (Note 14)	**807,340**	1,005,389
Total Noncurrent Assets	**61,931,143**	56,622,843
	₱108,071,463	₱100,588,883
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 15 and 29)	**₱19,309,169**	₱20,654,472
Short-term debt (Notes 16 and 29)	**1,630,900**	1,279,500
Income tax payable	**223,542**	89,084
Current portion of long-term debt (Notes 16 and 29)	**377,669**	244,142
Other current liabilities (Note 17)	**2,150,713**	1,115,727
Total Current Liabilities	**23,691,993**	23,382,925
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16 and 29)	**16,803,596**	15,227,888
Pension liabilities (Note 26)	**53,033**	98,626
Deferred tax liabilities - net (Note 23)	**150,953**	162,360
Deposits and other noncurrent liabilities (Notes 18 and 29)	**7,322,857**	5,600,926
Deferred credits	**854,131**	937,468
Total Noncurrent Liabilities	**25,184,570**	22,027,268
Total Liabilities	**48,876,563**	45,410,193

(Forward)

	December 31	
	2009	2008
Equity (Note 19)		
Equity attributable to equity holders of Ayala Land, Inc.		
Paid-up capital	**₱18,448,433**	₱18,357,905
Retained earnings	**34,570,354**	31,371,619
Stock options outstanding (Note 28)	**180,930**	106,281
Unrealized gain on available-for-sale financial assets (Note 11)	**16,611**	15,802
Treasury stock	**(823,967)**	(823,967)
	52,392,361	49,027,640
Noncontrolling interests in net assets of subsidiaries	**6,802,539**	6,151,050
Total equity	**59,194,900**	55,178,690
	₱108,071,463	₱100,588,883

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2009	2008	2007
REVENUE			
Real estate (Notes 20 and 25)	**₱26,841,928**	₱29,295,299	₱21,490,348
Hotel operations (Note 21)	**1,232,443**	1,321,485	1,356,906
Equity in net earnings of associates and jointly controlled entities (Note 10)	**968,004**	884,727	787,209
Interest income (Note 25)	**780,459**	925,973	586,433
Other income (Notes 22 and 25)	**632,410**	1,321,499	1,486,333
	30,455,244	33,748,983	25,707,229
COSTS AND EXPENSES			
Real estate (Note 22)	**18,149,304**	20,409,684	14,229,832
General and administrative expenses (Notes 22, 26 and 28)	**2,792,633**	3,172,288	2,654,073
Interest expense and other financing charges (Note 22)	**1,345,491**	1,050,041	892,771
Hotel operations (Note 22)	**867,199**	876,493	913,030
Other charges (Note 22)	**1,454,679**	792,520	964,387
	24,609,306	26,301,026	19,654,093
INCOME BEFORE INCOME TAX	**5,845,938**	7,447,957	6,053,136
PROVISION FOR INCOME TAX (Note 23)			
Current	**1,460,090**	2,154,636	1,745,325
Deferred	**(295,181)**	(89,499)	(189,071)
	1,164,909	2,065,137	1,556,254
INCOME BEFORE INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE	**4,681,029**	5,382,820	4,496,882
INCOME ASSOCIATED WITH NONCURRENT ASSETS HELD FOR SALE - net of tax	**–**	–	598,666
NET INCOME	**₱4,681,029**	₱5,382,820	₱5,095,548
Net Income Attributable to:			
Equity holders of Ayala Land, Inc. (Note 27)	**₱4,039,256**	₱4,812,348	₱4,386,362
Noncontrolling interests	**641,773**	570,472	709,186
	₱4,681,029	₱5,382,820	₱5,095,548
Earnings Per Share (Note 27)			
Basic			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	**₱0.31**	₱0.36	₱0.31
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.31**	₱0.36	₱0.34
Diluted			
Income before income associated with noncurrent assets held for sale attributable to equity holders of Ayala Land, Inc.	**₱0.31**	₱0.36	₱0.31
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.31**	₱0.36	₱0.33

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
Net income	**₱4,681,029**	₱5,382,820	₱5,095,548
Other comprehensive income:			
Net unrealized gain on available-for-sale financial assets (Note 11)	**809**	3,633	12,266
Total comprehensive income	**₱4,681,838**	₱5,386,453	₱5,107,814
Total comprehensive income attributable to:			
Equity holders of Ayala Land, Inc.	**₱4,040,065**	₱4,815,981	₱4,398,628
Noncontrolling interests	**641,773**	570,472	709,186
	₱4,681,838	₱5,386,453	₱5,107,814

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands, Except Par Value and Cash Dividends Per Share Figures)

	Years Ended December 31		
	2009	2008	2007
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.			
Common Shares - ₱1 par value (Note 19)			
Issued			
Balance at beginning of year	**₱13,003,443**	₱13,002,821	₱10,809,675
Issuance of shares	**1,895**	622	2,776
Stock options exercised	**–**	–	17,972
Stock dividends	**–**	–	2,172,398
Balance at end of year	**13,005,338**	13,003,443	13,002,821
Subscribed			
Balance at beginning of year	**39,088**	31,811	34,587
Additions	**38,277**	7,899	–
Issuance of shares	**(1,895)**	(622)	(2,776)
Balance at end of year	**75,470**	39,088	31,811
Preferred Shares - ₱0.10 par value (Note 19)			
Balance at beginning of year	**1,303,460**	1,303,460	–
Issued during the year	**–**	–	1,303,460
Balance at end of year	**1,303,460**	1,303,460	1,303,460
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	**4,179,971**	3,994,945	3,863,431
Additions	**146,964**	185,026	131,514
Balance at end of year	**4,326,935**	4,179,971	3,994,945
SUBSCRIPTIONS RECEIVABLE			
Balance at beginning of year	**(168,057)**	(130,390)	(127,103)
Additions	**(111,309)**	(95,839)	(60,413)
Collections	**16,596**	58,172	57,126
Balance at end of year	**(262,770)**	(168,057)	(130,390)
TOTAL PAID-UP CAPITAL	**18,448,433**	18,357,905	18,202,647
RETAINED EARNINGS (Note 19)			
Appropriated for future expansion	**6,000,000**	6,000,000	6,000,000
Unappropriated:			
Balance at beginning of year	**25,371,619**	21,405,247	19,973,445
Cash dividends			
Common stock - ₱0.06 per share in 2009, ₱0.06 in 2008 and ₱0.06 per share in 2007	**(780,040)**	(779,862)	(782,162)
Preferred stock - ₱0.005 or 4.64% in 2009 and 2008	**(60,481)**	(66,114)	–
Stock dividends	**–**	–	(2,172,398)
Net income	**4,039,256**	4,812,348	4,386,362
Balance at end of year	**28,570,354**	25,371,619	21,405,247
	34,570,354	31,371,619	27,405,247

(Forward)

	Years Ended December 31		
	2009	2008	2007
STOCK OPTIONS OUTSTANDING (Note 28)			
Balance at beginning of year	**₱106,281**	₱95,901	₱107,973
Cost of stock options	**79,977**	31,357	19,468
Stock options exercised	**(5,328)**	(20,977)	(31,540)
Balance at end of year	**180,930**	106,281	95,901
UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS (Note 11)			
Balance at beginning of year	**15,802**	1,943	(10,323)
Net changes during the year	**809**	13,859	12,266
Balance at end of year	**16,611**	15,802	1,943
TREASURY STOCK (Note 19)			
Balance at beginning of year	**(823,967)**	(557)	(557)
Acquisition of treasury stock	**–**	(823,410)	–
Balance at end of year	**(823,967)**	(823,967)	(557)
NONCONTROLLING INTERESTS			
Balance at beginning of year	**6,151,050**	5,040,590	6,586,585
Net income	**641,773**	570,472	709,186
Increase (decrease) in noncontrolling interests	**503,728**	657,423	(1,887,483)
Dividends paid to noncontrolling interests	**(493,443)**	(119,402)	(367,923)
Net unrealized gain (loss) recognized in equity	**(569)**	1,967	225
Balance at end of year	**6,802,539**	6,151,050	5,040,590
	₱59,194,900	₱55,178,690	₱50,745,771
Total Income and Expense Recognized for the Year			
Net income attributable to:			
Equity holders of Ayala Land, Inc.	**₱4,039,256**	₱4,812,348	₱4,386,362
Noncontrolling interests	**641,773**	570,472	709,186
	4,681,029	5,382,820	5,095,548
Net unrealized gain (loss) recognized in equity:			
Equity holders of Ayala Land, Inc. (Note 11)	**809**	13,859	12,266
Noncontrolling interests	**(569)**	1,967	225
	240	15,826	12,491
	₱4,681,269	₱5,398,646	₱5,108,039

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱5,845,938**	₱7,447,957	₱6,053,136
Adjustments for:			
Depreciation and amortization (Notes 12, 13 and 22)	**1,787,398**	1,258,169	1,310,457
Interest expense - net of amount capitalized (Note 22)	**1,421,742**	1,184,769	870,513
Dividends received from investees (Note 10)	**218,619**	170,934	84,377
Cost of share-based payments (Note 28)	**148,582**	138,916	104,704
Provision for impairment losses on (Note 22):			
Land and improvements	**568,672**	–	–
Receivables	**86,892**	72,846	89,149
Real estate inventories	**78,091**	379,230	–
Available-for-sale financial assets	**–**	10,226	–
Gain on sale of investments (Note 22)	**–**	(761,815)	(1,003,976)
Equity in net earnings of associates and jointly controlled entities (Note 10)	**(968,004)**	(884,727)	(787,209)
Interest income	**(780,459)**	(925,973)	(337,818)
Gain on financial assets at fair value through profit or loss (Note 22)	**(25,156)**	(1,061)	(52,600)
Unrealized loss (gain) on financial assets at fair value through profit or loss (Note 22)	**654**	3,953	(18,018)
Fair value gain on derivative asset (Note 22)	**–**	(6,974)	(59,026)
Operating income before changes in working capital	**8,382,969**	8,086,450	6,253,689
Decrease (increase) in:			
Accounts and notes receivable - trade	**(1,960,729)**	(3,317,230)	(2,009,200)
Real estate inventories	**12,539**	(1,548,595)	2,207,429
Other current assets (Note 8)	**399,772**	(1,729,607)	(624,571)
Increase (decrease) in:			
Accounts and other payables	**(1,367,262)**	4,349,526	3,821,922
Other current liabilities (Note 14)	**1,034,986**	451,263	180,674
Pension liabilities (Note 26)	**(45,593)**	(77,211)	83,909
Cash generated from operations	**6,456,682**	6,214,596	9,913,852
Interest received	**662,868**	924,603	346,712
Income tax paid	**(1,325,632)**	(2,232,676)	(1,725,723)
Interest paid	**(1,384,069)**	(1,219,156)	(817,536)
Net cash provided by operating activities before cash items associated with noncurrent assets held for sale	**4,409,849**	3,687,367	7,717,305
Net cash provided by operating activities associated with noncurrent assets held for sale	**–**	–	598,666
Total cash provided by operating activities	**4,409,849**	3,687,367	8,315,971
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale of investments and financial assets at fair value through profit or loss	**1,369,401**	1,633,405	1,389,974
Sale of available-for-sale financial assets	**74,458**	11,786	12,791
Disposal of property and equipment	**147,506**	18,332	–
Disposals of (additions to):			
Short-term investments and financial assets at fair value through profit or loss	**(3,552,053)**	(1,102,315)	2,596,048

(Forward)

	Years Ended December 31		
	2009	2008	2007
Available-for-sale financial assets (Note 11)	**(₱1,256,622)**	(₱100,000)	₱–
Land and improvements	**(3,193,794)**	(131,834)	(548,392)
Investments in associates and jointly controlled entities	**(132,313)**	(861,220)	175,944
Investment properties (Note 12)	**(2,643,249)**	(862,391)	(485,334)
Property and equipment (Note 13)	**(1,353,667)**	(4,218,201)	(2,018,156)
Acquisition of a subsidiary, net of cash acquired (Note 24)	**–**	(411,608)	–
Decrease (increase) in accounts and notes receivable - nontrade	**935,885**	898,011	(360,202)
Additions to other noncurrent assets	**(390,577)**	(721,079)	(166,977)
Collections of other noncurrent assets	**588,627**	933,426	198,101
Total cash provided by (used in) investing activities	**(9,406,398)**	(4,913,688)	793,797
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short and long-term debt (Note 16)	**3,584,276**	6,040,006	956,961
Additions to deposits and other noncurrent liabilities	**4,444,535**	3,003,569	2,372,109
Payments of:			
Short and long-term debt (Note 16)	**(1,523,642)**	(2,710,100)	(3,654,899)
Deposits and other noncurrent liabilities	**(2,805,941)**	(2,009,948)	(1,597,302)
Capital infusion in noncontrolling interests in consolidated subsidiaries	**623,828**	180,000	144,314
Redemption of investments in noncontrolling interests in consolidated subsidiaries	**(120,100)**	(177,808)	(965,849)
Proceeds from issuance of preferred shares	**–**	–	1,303,460
Proceeds from capital stock subscriptions	**16,596**	58,172	57,126
Acquisition of treasury shares	**–**	(823,410)	–
Dividends paid to noncontrolling interests	**(493,443)**	(119,402)	(367,923)
Dividends paid to equity holders of Ayala Land, Inc. (Note 19)	**(856,236)**	(831,262)	(716,450)
Total cash provided by (used in) financing activities	**2,869,873**	2,609,817	(2,468,453)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,126,676)**	1,383,496	6,641,315
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**12,655,402**	11,271,906	4,630,591
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱10,528,726**	₱12,655,402	₱11,271,906

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Ayala Land, Inc. (the Company) was incorporated in the Republic of the Philippines. The Company's parent is Ayala Corporation (AC). AC is a publicly-listed company, 50.78%-owned by Mermac, Inc., 10.58%-owned by Mitsubishi Corporation and the rest by the public. The Company's registered office and principal place of business is Tower One, Ayala Triangle, Ayala Avenue, Makati City.

The Company and its Subsidiaries (the Group) are incorporated to hold, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of, for itself or for others, residential including, but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; to acquire, purchase, hold, manage, develop and sell subdivision lots, with or without buildings or improvements; to erect, construct, alter, manage, operate, lease, in whole or in part, buildings and tenements of the Company or of other persons; and to engage or act as real estate broker. The Group is also involved in hotel operations.

The consolidated financial statements of Ayala Land, Inc. and Subsidiaries 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 February 18, 2010 and were approved and authorized for issue by the Board of Directors (BOD) on February 26, 2010.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets 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 (₱000) except when otherwise indicated. The Group's functional currency is Philippine Peso.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as issued by the International Accounting Standards Board (IASB).

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, using consistent accounting policies.

All intra-group balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intra-company transactions that are recognized in assets are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company and its subsidiaries obtain control, and continue to be consolidated until the date that such control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of income from the date of acquisition or up to the date of the disposal, as appropriate.

The consolidated financial statements represent the consolidation of the financial statements of the Company and the following domestic and foreign subsidiaries:

	Percentages of Ownership	
	2009	2008
Real Estate:		
Alveo Land Corporation	**100%**	100%
Amorsedia Development Corporation and Subsidiaries	**100**	100
OLC Development Corporation	**100**	100
Ayala Greenfield Development Corporation (AGDC)	**50**	50
Avida Land Corporation and Subsidiaries (Avida)	**100**	100
Ayala Land International Sales, Inc.	**100**	100
Ayala Land Sales, Inc.	**100**	100
Buendia Landholdings, Inc.	**100**	100
Crans Montana Holdings, Inc.	**100**	100
Crimson Field Enterprises, Inc.	**100**	100
Ecoholdings Company, Inc.	**100**	100
Northbeacon Commercial Corporation (NBCC)	**100**	100
Red Creek Properties, Inc.	**100**	100
Regent Time International, Limited (Regent) (British Virgin Islands)	**100**	100
Asterion Technopod, Incorporated (ATI)	**100**	100
Crestview E-Office Corporation (CeOC)	**100**	100
Gisborne Property Holdings, Inc. (GPHI)	**100**	100
Hillsford Property Corporation (HPC)	**100**	100
Primavera Towncentre, Inc. (PTI)	**100**	–
Summerhill E-Office Corporation (Summerhill)	**100**	100
Sunnyfield E-Office Corporation (Sunnyfield)	**100**	100
ALI Property Partners Holding Corp. (APPHC) (Note 24)	**80**	80
ALI Property Partners Corp. (APPCo) (Note 24)	**60**	60
APPCo (Note 24)	**20**	20
Asian I-Office Properties, Inc. (AiO)	**78**	78
Laguna Technopark, Inc.	**75**	75
Aurora Properties Incorporated	**70**	70
Vesta Property Holdings, Inc.	**70**	70
Station Square East Commercial Corporation (SSECC)	**69**	69
Serendra, Inc.	**67**	67
Ceci Realty, Inc.	**60**	60
CMPI Holdings, Inc.	**60**	60
Accendo Commercial Corp. (Accendo)	**57**	–
ALI-CII Development Corporation (ALI-CII)	**50**	50
Roxas Land Corporation (RLC)	**50**	50
Construction:		
Makati Development Corporation (MDC)	**100**	100
Hotels:		
Ayala Hotels, Inc. (AHI) and Subsidiaries	**50**	50
Enjay Hotels, Inc.	**100**	100
Cebu Insular Hotel Company, Inc. (CIHCI)	**63**	63
Greenhaven Property Venture, Inc. (GPVI)	**100**	–

(Forward)

	Percentages of Ownership	
	2009	2008
Property Management:		
Ayala Property Management Corporation (APMC)	**100%**	100%
Ayala Theatres Management, Inc. and Subsidiaries	**100**	100
Entertainment:		
Five Star Cinema, Inc.	**100**	100
Leisure and Allied Industries Philippines, Inc. (LAI)	**50**	50
Others:		
ALInet.com, Inc. (ALInet)	**100**	100
First Longfield Investments Limited (First Longfield) (Hongkong Company)	**100**	100
Food Court Company, Inc.	**100**	100

AC owns the other 50% of AHI and subsidiaries. The Company exercises control over AHI and subsidiaries. Likewise, the Company, through its 50% effective ownership and by virtue of a management contract or shareholders' agreement, exercises control over the operations and management of RLC, AGDC, ALI-CII and LAI. Accordingly, the accounts of AHI, RLC, AGDC, ALI-CII and LAI are consolidated to the accounts of the Company.

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, consolidated statements of comprehensive income and consolidated statements of changes in equity and within equity in the consolidated statements of financial position, separately from the Company's equity.

The Company, through Accendo, entered into a Joint Venture Agreement with Anflo Group in 2007 to develop and operate "Abreeza", a commercial center in Davao City, which is expected to be operational by 2011. A total of ₱307.7 million was initially invested in 2008 equivalent to 46% interest. By the end of 2009, Company's interest in Accendo increased to 56.91% as a result of additional infusion and conversion of advances into equity.

In 2008, CHI's subsidiary, Cebu Property Ventures Development Corporation (CPVDC) entered into a joint venture agreement with the Company to invest in AiO to hold and operate eBloc Business Process Outsourcing (BPO) Building Project, a 12-storey BPO building located in the Asiatown IT Park in Cebu. The Company infused ₱270.0 million for a 60% stake in AiO, with CPVDC holding the remaining 40%. The Company's effective interest in AiO increased to 77.5% as of December 31, 2008.

The six (6) entities namely ATI, CeOC, GPHI, HPC, Summerhill and Sunnyfield were all established to handle, develop and manage all future BPO buildings located at various growth centers within the Philippines.

The following entities were organized in 2009:

PTI, a new wholly-owned subsidiary will handle the planning, development and management of small-format retail facilities known as "neighborhood centers" within the Company's existing and planned growth centers across the country.

GPVI, a company established to plan, develop and manage the hotel being constructed in Glorietta 1 as part of the Ayala Center redevelopment project.

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the Group's consolidated financial statements are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) Interpretations and amendments to existing standards which became effective on January 1, 2009. Except as otherwise indicated, the adoption of the new and amended Standards and Philippine Interpretations did not have a significant impact on the consolidated financial statements.

- PFRS 1, *First-time Adoption of PFRS - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  It 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 Philippine Accounting Standard (PAS) 27, *Consolidated and Separate Financial Statements*; (b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- Amendment to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
  The Standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires 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 cancellation. However, failure to satisfy a nonvesting condition that is beyond the control of either party does not give rise to a cancellation.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
  The amendments to PFRS 7 introduce enhanced disclosures about fair value measurement and liquidity risk. The amendments to PFRS 7 require fair value measurements for each class of financial instruments to be disclosed by the source of inputs, using the following three-level hierarchy: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The level within which the fair value measurement is categorized must be based on the lowest level of input to the instrument's valuation that is significant to the fair value measurement in its entirety.

  Additional disclosures required in the amendments to PFRS 7 are shown in Note 29. The amendments to PFRS 7 also introduce two major changes in 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.

- PFRS 8, *Operating Segments*
  It replaces 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 financial position and consolidated statements 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.

- Amendment to PAS 1, *Presentation of Financial Statements*
  It introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Amendment also requires additional requirements in the presentation of the financial position and equity as well as additional disclosures to be included in the consolidated financial statements. Adoption of this Amendment will not have significant impact on the Group except for the presentation of a statement of comprehensive income and additional disclosures to be included in the consolidated financial statements.

- Amendment to PAS 23, *Borrowing Costs*
  This Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  These Amendments introduce 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 the consolidated statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

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

- PAS 40, *Investment Properties*
  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.

- Amendments to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, and PAS 39, *Financial Instruments: Recognition and Measurement*
  This Amendment to Philippine Interpretation IFRIC 9 requires 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. Amendments to PAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This Philippine 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 has expired.

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

Improvements to PFRS
In April 2009, the International Accounting Standards Board issued its omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. The adoption of these amended Standards and Interpretations did not have a significant impact in the consolidated financial statements. There are separate transitional provisions for each standard, which will become effective for periods on or after January 1, 2010:

- PFRS 2, *Share-based Payment*
  It 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, *Business Combinations*. The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  It 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 PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

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

- PAS 17, *Leases*
  It 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 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 has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.

- PAS 36, *Impairment of Assets*
  It 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*
  It 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* - *Eligible Hedged Items*
  It clarifies the following: (a) 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; (b) 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; and (c) 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*
  It 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*
  It 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.

Future Changes in Accounting Policies

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

Effective in 2010

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

- Philippine Interpretation IFRIC 17, *Distribution of Noncash Assets to Owners*
  This Philippine Interpretation provides guidance on how to account for noncash distributions to owners. The Philippine Interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect this Philippine Interpretation to have an impact on the consolidated financial statements as the Group has not made noncash distributions to its shareholders in the past.

- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
  This Philippine Interpretation is to be applied prospectively to transfers of assets from customers received. It also provides guidance on how to account for items of property 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 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.

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*
  The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and 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 the revised PAS 27 must be applied retrospectively with a few exceptions. The changes will affect future acquisitions and transactions with noncontrolling interests.

Effective in 2012

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

The adoption of this Philippine Interpretation may significantly affect the determination of the revenue from real estate sales and the corresponding costs, 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 and will disclose the impact when it becomes effective in 2012.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of change in value.

Financial Instruments
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 initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets and loans and receivables. The Group 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 or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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 techniques. Valuation techniques 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" and "Interest expense and other financing charges" accounts unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using 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".

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a 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:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- 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
- The financial instrument contains an embedded derivative that would need to be separately recorded.

As of December 31, 2009 and 2008, the Group holds its "Treasury bills" and "Treasury bonds" for trading purposes and classifies them as financial assets at FVPL. The Group has not designated any financial asset or financial liability as at FVPL.

As of December 31, 2007, the Company has an outstanding short-term nondeliverable currency forward contract to manage its exchange exposure and was accounted for as a nonhedge derivative.

Derivative Financial Instruments and Hedging

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. Changes in fair value of derivative instruments not accounted for as hedges are recognized immediately in 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 hybrid or combined contract if all the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not clearly and 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 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.

Where derivatives are designated as effective hedging instruments, provisions of hedge accounting apply. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss for the year.

Contracts that are entered and continue to be held for the purpose of the receipt of 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 for which management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts 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 under “Other income” or “Other charges” when the HTM investments are derecognized and impaired, as well as through the amortization process.

As of December 31, 2009 and 2008, the Group has no HTM investments.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities 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 assets at FVPL. This accounting policy relates to the consolidated statement of financial position captions “Short-term investments” and “Accounts and notes receivable” except for “Advances to contractors”.

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

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as designated as 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. AFS financial assets include equity investments.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as “Unrealized gain (loss) on available-for-sale financial assets” in the equity section of the consolidated statement of financial position.

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" account or "Other charges" account. Where the Group holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. The losses arising from impairment of such investments are recognized in the consolidated statement of income under the "Other charges" account.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. 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 integral parts 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 debts, accounts and other payables, and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and pension).

Deposits and Retentions Payable
Deposits and retentions payable are measured initially 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 under the "Real estate revenue" 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:

a. the rights to receive cash flows from the asset have expired;
b. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
c. the Group has transferred its 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 risk and rewards of the asset but has transferred the 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 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 has expired, or is discharged or cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for 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 the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of income under "Other charges" account.

Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, 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 year, 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 the consolidated statement of income, 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 difference between loss estimates and actual loss experience.

AFS financial assets
For AFS 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.

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

In the case of debt instruments classified as AFS financial assets, 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 subsequent year, the fair value of a debt instrument increases 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 statements 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.

Real Estate Inventories

Real estate inventories are carried at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. Cost includes those costs incurred for development and improvement of the properties, including capitalized borrowing costs.

Materials, Parts and Supplies

Materials, parts and supplies are valued at the lower of cost or NRV. Cost is determined using the moving average method. NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

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

Noncurrent Assets Held for Sale

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 cashflows 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 those costs incurred for development and 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 of accounting. 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 is accounted for using the equity method from the day it becomes an associate. 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 not amortized. 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, the investments in the investee companies 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 investee companies, less any impairment in values. The consolidated statement of income reflects the share of the results of the operations of the investee companies. The Group's 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 for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when their investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee companies. When the investee companies subsequently report net income, the Group will resume applying the equity method but only after its share of that net income 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.

Interest in a Joint Venture

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

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

Investment Properties

Investment properties consist of properties that are held to earn rentals and that 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 residual value. Land is carried at cost less any impairment in value.

Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of investment properties follow:

	Years
Land improvements	8-40
Buildings	20-40

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.

A transfer is 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. A transfer is 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. A transfer between investment property, owner-occupied property and inventory does not change the carrying amount of the property transferred nor does it change the cost of that property for measurement or disclosure purposes.

Property and Equipment

Property 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 and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs.

Major repairs are capitalized as part of property 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 and equipment commences once the property and equipment are available for use and are computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years
Buildings and improvements	20-40
Machinery and construction equipment	5
Furniture, fixtures and equipment	3-10
Transportation equipment	3-5

Hotel property and equipment includes the following type of assets and their corresponding estimated useful lives:

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

The assets' residual values, estimated 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 and equipment.

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

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 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 loss. 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 the higher of an 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 assessments of the time value of money and the risks specific to the asset. 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 any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If such 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 a revaluation increase. After such 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.

The following criteria are also applied in assessing impairment of specific assets:

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 companies. The Group determines at each reporting date whether there is any objective evidence that the investment in associates or jointly controlled entities is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the consolidated statement of income.

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 obligation, 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
Treasury stock is recorded at cost and is presented as a deduction from equity. 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 when the shares were issued and to retained earnings for the remaining balance.

Revenue and Cost Recognition
Revenue from sales of real estate and cost from completed projects is accounted for using the full accrual method. The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

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

Revenue from construction contracts included in the “Real estate” account in the consolidated statement of income is 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 administration and property management are recognized when services are rendered.

Revenue from hotel operations is recognized when the services are rendered.

Revenue from banquets and other special events are recognized when the events take place.

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

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

Share-based Payments
The Group has 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. The fair value is determined by using the Black-Scholes model, further details of which are given in Note 28.

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 award (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 instrument 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 27).

Employee Share Purchase Plans
The Company has an employee share purchase plan (ESOWN) which allows the grantees to purchase the Company's shares at a discounted price. The Company 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 collectible 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.

Pension Cost

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 curtailment or settlement.

The 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 long-term 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.

Actuarial gains and losses is 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 and losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Commission Expense

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

Borrowing Costs

Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development costs (included in “Real estate inventories”, “Investment properties” and “Property and equipment” accounts in the consolidated statement of financial position). Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of 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 applicable weighted average borrowing rate for those coming from general borrowings and the actual borrowing costs eligible for capitalization for funds borrowed specifically.

Leases

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

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 an 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 rents are recognized as revenue in the period in which they are earned.

Current Tax

Current tax assets and liabilities for the current and prior periods and measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

Deferred Tax

Deferred 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 benefits 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 profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic associates and interests in joint ventures.

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 profit will be available to allow 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 profit will allow 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 at the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

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

Foreign Currency Transactions
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 using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate prevailing at the reporting date. Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the year.

Investments in foreign associates are translated to Philippine Peso using the closing exchange rate prevailing at reporting date. The Group's share in the results of operations of the foreign investee is translated using the exchange rate at the dates of the transactions or, where practicable, the rate that approximates the exchange rates at the dates of the transactions, such as the average rate for the period. Any resulting exchange difference is recognized as a separate component of equity.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income for the year attributable to common equity holders of the parent by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year attributable to common equity holders of the Company 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 into 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.

Segment Reporting
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 business segments is presented in Note 30.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They 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.

Subsequent Events
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 the property as the Group considered, among others, the length of the lease term as compared with the estimated life of the assets.

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

Operating lease commitments - Group as lessee
The Group has entered into a contract with Bases Conversion Development Authority (BCDA) to develop, under a lease agreement, a mall on a 9.8-hectare lot inside Fort Bonifacio Global City. 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 appreciation 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 at the 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 land 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).

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 (see Note 11).

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).

<u>Management's Use of Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue and cost recognition
The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Group's revenue from real estate and construction contracts recognized based on the percentage of completion are 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. See Note 20 for the related balances.

Estimating allowance for impairment losses
The Group maintains allowance for impairment losses 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 receivables' 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 classify 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. See Note 6 for the related balances.

Evaluation of net realizable value of 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. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. See Note 7 for the related balances.

Evaluation of asset impairment
The Group reviews investments in associates and jointly controlled entities, land and improvements, investment properties, property and equipment and other noncurrent assets for impairment of value. 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.

As described in the accounting policy, 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 and equipment, and other noncurrent assets. See Notes 9, 10, 12, 13 and 14 for the related balances.

Estimating useful lives of property and equipment and investment properties
The Group estimates the useful lives of its property and equipment and investment properties based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties 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 materially be affected by changes in estimates brought about by changes in factors mentioned above. See Notes 12 and 13 for the related balances.

Deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit 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. See Note 23 for the related balances.

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. See Note 28 for the related balances.

Estimating pension obligation and other retirement benefits
The determination of the Group's obligation and cost for pension and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 26 and include among others, discount rate, expected return on plan assets and salary increase rate. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations. See Note 26 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 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 its fair value by using the discounted cash flow methodology. See Notes 5, 6, 11, 18 and 29 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

	2009	2008
	(In Thousands)	
Cash on hand and in banks	**₱1,482,094**	₱2,029,724
Cash equivalents	**9,046,632**	10,625,678
	₱10,528,726	₱12,655,402

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term rates.

The ranges of interest rates of the above cash equivalents follow:

	2009	2008
Cash equivalents:		
Philippine Peso	**1.5% to 4.8%**	2.3% to 8.3%
US Dollar	**0.3% to 2.1%**	1.0% to 4.8%

5. Short-term Investments and Financial Assets at FVPL

Short-term investments amounted to ₱4,561.0 million and ₱1,008.9 million as of December 31, 2009 and 2008, respectively.

Money market placements are short-term investments made for varying periods of more than three (3) months and up to six (6) months and earn interest at the respective short-term investment rates.

The ranges of interest rates of the above short-term investments follow:

	2009	2008
Short-term investments:		
Philippine Peso	**4.0% to 4.8%**	5.3% to 7.1%
US Dollar	**1.9% to 4.8%**	3.5% to 4.8%

Financial assets at FVPL consist of the following held-for-trading securities:

	2009	2008
	(In Thousands)	
Treasury bonds	**₱433,821**	₱785,263
Treasury bills	**–**	993,457
	₱433,821	₱1,778,720

Treasury bonds and treasury bills 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 financial assets at FVPL amounting to ₱0.7 million in 2009, ₱4.0 million in 2008 and unrealized gain of ₱18.0 million in 2007. The Group recognized realized gain on disposals amounting to ₱25.2 million, ₱1.1 million and ₱52.6 million in 2009, 2008 and 2007, respectively (see Note 22).

6. **Accounts and Notes Receivable -** net

Accounts and notes receivable are summarized as follows:

	2009	2008
	(In Thousands)	
Trade:		
Residential development	**₱9,453,049**	₱7,786,256
Shopping centers	**1,023,439**	1,178,032
Construction contracts	**1,020,241**	1,311,334
Corporate business	**423,701**	254,222
Management fees	**104,790**	135,453
Others	**307,105**	202,317
Advances to contractors and suppliers	**2,582,863**	2,466,458
Advances to other companies	**1,682,492**	1,971,476
Accrued receivable	**899,367**	1,012,917
Receivable from related parties (Note 25)	**823,047**	1,063,436
Receivables from employees	**328,935**	396,651
Investment in bonds classified as loans and receivables	**200,000**	–
	18,849,029	17,778,552
Less allowance for impairment losses	**217,584**	202,650
	18,631,445	17,575,902
Less noncurrent portion	**1,976,678**	1,780,191
	₱16,654,767	₱15,795,711

The classes of trade receivables of the Group are as follows:

- Residential development - pertain to receivables from the sale of high-end, upper middle-income and affordable residential lots and units and leisure community developments
- Construction contracts - pertain to receivables from third party construction projects
- Shopping centers - pertain to lease receivables of retail space
- Corporate business - pertain to lease receivables of office and factory buildings and receivables from the sale of office buildings and industrial lots
- Management fees - pertain to facility management fees receivable

The sales contracts receivable, included under residential development, are collectible in monthly installments over a period of one (1) to ten (10) 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.

Corporate business receivables are collectible on a monthly or quarterly basis depending on the terms of the lease contracts.

Receivables from construction contracts, shopping centers and management fees are due within 30 days upon billing.

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

Receivables from related parties, advances to other companies and accrued receivables are due and demandable. Receivables from employees pertain to housing, car, salary and other loans granted to the Group's employees.

Investment in bonds classified as loans and receivables pertain to the Company's investment in Land Bank of the Philippines (LBP) 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.

Receivables amounting to ₱217.6 million and ₱202.7 million as of December 31, 2009 and 2008, respectively, were impaired and fully provided for. Movements in the allowance for impairment losses follow:

2009

	Shopping Centers	**Residential Development**	**Construction Contracts**	**Management Fees**	**Trade-Others**	**Advances to Other Companies**	**Total**
				(In Thousands)			
Balance at beginning of year	**₱96,588**	**₱13,008**	**₱13,054**	**₱3,814**	**₱10,265**	**₱65,921**	**₱202,650**
Provisions during the period (Note 22)	**80,358**	**–**	**3,565**	**569**	**–**	**2,400**	**86,892**
Reversal (Note 22)	**–**	**–**	**(4,814)**	**–**	**(7,719)**	**(53,547)**	**(66,080)**
Accounts written off	**–**	**–**	**(5,878)**	**–**	**–**	**–**	**(5,878)**
Balance at end of year	**₱176,946**	**₱13,008**	**₱5,927**	**₱4,383**	**₱2,546**	**₱14,774**	**₱217,584**
Individually impaired	**₱156,207**	**₱9,555**	**₱5,927**	**₱4,383**	**₱2,546**	**₱3,454**	**₱182,072**
Collectively impaired	**20,739**	**3,453**	**–**	**–**	**–**	**11,320**	**35,512**
Total	**₱176,946**	**₱13,008**	**₱5,927**	**₱4,383**	**₱2,546**	**₱14,774**	**₱217,584**
Gross amounts of loans, individually determined to be impaired	**₱230,910**	**₱9,555**	**₱5,927**	**₱4,383**	**₱60,035**	**₱6,054**	**₱316,864**

2008

	Shopping Centers	Residential Development	Construction Contracts	Management Fees	Trade Others	Advances to Other Companies	Total
				(In Thousands)			
Balance at beginning of year	₱89,940	₱13,008	₱2,301	₱3,166	₱11,093	₱54,601	₱174,109
Provisions during the period (Note 22)	48,714	–	10,753	648	1,411	11,320	72,846
Accounts written off	(42,066)	–	–	–	(2,239)	–	(44,305)
Balance at end of year	₱96,588	₱13,008	₱13,054	₱3,814	₱10,265	₱65,921	₱202,650
Individually impaired	₱56,026	₱9,555	₱5,878	₱3,814	₱7,355	₱53,875	₱136,503
Collectively impaired	40,562	3,453	7,176	–	2,910	12,046	66,147
Total	₱96,588	₱13,008	₱13,054	₱3,814	₱10,265	₱65,921	₱202,650
Gross amounts of loans, individually determined to be impaired	₱56,522	₱9,555	₱5,878	₱3,814	₱7,355	₱53,875	₱136,999

As of December 31, 2009 and 2008, Residential development, Advances to other companies and receivables from employees with a nominal amount of ₱12,131.9 million and ₱9,485.5 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 ₱667.4 million and ₱830.4 million as of December 31, 2009 and 2008, respectively.

In April 2009 and November 2008, the Group entered into agreements with certain financial institutions for the sale of its 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 statements of income (see Note 22).

7. Real Estate Inventories

This account consists of:

	2009	2008
	(In Thousands)	
Subdivision land for sale:		
At cost	**₱4,230,063**	₱3,156,622
At NRV	**936,184**	1,020,981
Condominium, residential and commercial units for sale - at cost	**3,521,952**	3,681,273
Club shares - at cost	**242,320**	281,022
Construction materials - at cost	**91,818**	173,615
	₱9,022,337	₱8,313,513

Inventories recognized as cost of sales amounted to ₱9.7 billion and ₱9.5 billion in 2009 and 2008, respectively, and are included under "Real estate costs" in the consolidated statement of income. The Group recorded provision for impairment amounting to ₱78.1 million and ₱379.2 million in 2009 and 2008, respectively, for the development cost of real estate inventories which may no longer be recovered (see Note 22).

8. **Other Current Assets**

This account consists of:

	2009	2008
	(In Thousands)	
Prepaid expenses	**₱1,581,509**	₱2,113,930
Value-added input tax	**1,291,576**	1,089,283
Creditable withholding tax	**754,992**	1,109,270
Materials and supplies	**199,258**	29,423
Others	**186,664**	71,865
	₱4,013,999	₱4,413,771

Prepaid expenses mainly include prepayments for commissions, marketing fees, advertising and promotions, 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.

9. **Land and Improvements**

This account consists of:

	2009	2008
	(In Thousands)	
Cost		
Balance at the beginning of the year	**₱16,159,960**	₱16,616,968
Additions	**3,396,777**	131,833
Transfers*	**(804,954)**	(588,841)
Write-offs (Note 22)	**(202,983)**	–
Balance at the end of the year	**18,548,800**	16,159,960
Allowance for decline in value		
Balance at the beginning of the year	**217,580**	217,580
Additions (Note 22)	**568,672**	–
Transfers*	**(5,500)**	–
Balance at the end of the year	**780,752**	217,580
	₱17,768,048	₱15,942,380

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

On August 27, 2009, the Company 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.

Company'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 revenue both for the local and national governments.

Company'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 with the NHA's vision of a private sector-led and managed model for the development of the property, similar to the development experience in Fort Bonifacio.

The total project cost is estimated at ₱22.0 billion, inclusive of future development costs and the current value of the property, which the Company and the NHA will contribute as their respective equity share in the joint venture. The Company expects to start the development within 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 22).

10. Investments in Associates and Jointly Controlled Entities

Details of this account are as follows:

	2009	2008
	(In Thousands)	
Acquisition cost	**₱6,927,574**	₱6,795,261
Accumulated equity in net earnings:		
Balance at beginning of year	**3,121,119**	2,412,041
Equity in net earnings during the year	**968,004**	884,727
Accumulated equity in APPHC (Note 24)	**–**	(4,715)
Dividends received during the year	**(218,619)**	(170,934)
Balance at end of year	**3,870,504**	3,121,119
	₱10,798,078	₱9,916,380

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

	Percentages of Ownership		Carrying Amounts	
	2009	2008	**2009**	2008
			(In Thousands)	
Jointly controlled entities:				
Emerging City Holdings, Inc. (ECHI)	**50%**	50%	**₱3,370,937**	₱2,822,867
Berkshires Holdings, Inc. (BHI)	**50**	50	**1,444,664**	1,209,777
Alabang Commercial Corporation (ACC)	**50**	50	**608,572**	594,329
			5,424,173	4,626,973
Associates:				
Cebu Holdings, Inc. (CHI) and subsidiaries	**47**	47	**1,971,898**	1,939,526
Bonifacio Land Corp. (BLC)	**5**	5	**1,465,166**	1,117,658
North Triangle Depot Commercial Corporation (NTDCC)	**49**	49	**1,417,470**	1,555,470
ARCH Asian Partners L.P.	**8**	8	**437,423**	290,433
Lagoon Development Corporation (LDC)	**30**	30	**66,893**	63,562
KHI-ALI Manila, Inc. (KAMI)	**60**	60	**11,144**	11,144
ARCH Capital Management Co. Ltd. (ARCH Capital)	**17**	17	**2,108**	2,108
KHI Manila Property, Inc.	**20**	20	**1,803**	1,803
Accendo Commercial Corp. (Accendo)*	**–**	46	**–**	307,703
			5,373,905	5,289,407
			₱10,798,078	₱9,916,380

**Accendo became a subsidiary in 2009.*

The Group's investments accounted for as joint ventures amounted to ₱5,424.2 million and ₱4,627.0 million as of December 31, 2009 and 2008, respectively.

As of December 31, 2009 and 2008, the Group had total commitments relating to the Group's interest in the joint venture entity amounted to ₱1,063.6 million and ₱444.7 million, respectively.

The Company's 5.32% direct investment in BLC and 4.78% through Regent are accounted for using the equity method because the Company has significant influence over BLC.

The fair value of the investment in CHI amounted to ₱2,177.6 million and ₱1,361.0 million as of December 31, 2009 and 2008, respectively. CHI's subsidiary, CPVDC, owns 40% interest in AiO (see Note 2).

Financial information on the Company's proportionate share in its jointly controlled entities follows (in thousands):

ECHI and Subsidiaries	**2009**	2008
Current assets	**₱11,689,729**	₱12,915,914
Noncurrent assets	**9,255,171**	8,962,343
Total assets	**20,944,900**	21,878,257
Current liabilities	**1,741,262**	1,676,696
Noncurrent liabilities	**3,701,700**	3,673,139
Total liabilities	**5,442,962**	5,349,835
Net operating revenue	**1,943,837**	2,763,257
Costs and expenses	**1,103,266**	2,667,843
Net income	**840,571**	95,414

BHI	**2009**	2008
Current assets	**₱137**	₱134
Noncurrent assets	**1,804,563**	1,617,686
Total assets	**1,804,700**	1,617,820
Total liabilities	**626**	605
Net operating revenue	**185,650**	124,404
Costs and expenses	**19**	487
Net income	**185,631**	123,917

ACC	**2009**	2008
Current assets	**₱298,497**	₱496,858
Noncurrent assets	**592,607**	1,240,893
Total assets	**891,104**	1,737,751
Current liabilities	**257,650**	500,683
Noncurrent liabilities	**136,232**	271,110
Total liabilities	**393,882**	771,793
Net operating revenue	**344,843**	693,325
Costs and expenses	**209,238**	450,599
Net income	**135,605**	242,726

Financial information on the Company's significant associates follows (in thousands, except earnings per share):

CHI and subsidiaries	**2009**	2008
Total assets	**₱5,773,426**	₱5,769,287
Total liabilities	**1,333,008**	1,501,555
Net operating revenue	**1,283,174**	1,500,031
Costs and expenses	**953,744**	1,100,552
Net income	**329,430**	399,479
Earnings per share	**0.16**	0.19

NTDCC	2009	2008
Total assets	**₱7,757,930**	₱7,803,482
Total liabilities	**5,122,088**	5,006,509
Net operating revenue	**1,532,048**	1,478,474
Costs and expenses	**1,444,878**	1,427,003
Net income	**87,170**	51,471

BLC and Subsidiaries	2009	2008
Total assets	**₱41,043,049**	₱43,780,740
Total liabilities	**5,773,898**	6,297,943
Net operating revenue	**2,896,812**	4,300,677
Costs and expenses	**2,200,149**	5,330,168
Net income (loss)	**696,663**	(1,029,491)

Investment in ECHI and BHI

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

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

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

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

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

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

The Company and EHI acquired additional shares of BLC in 2009 and 2008 through a combination of direct acquisition and through its associates at varying dates as follows:

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

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

This resulted in an increase in the Group's effective interest in BLC from 41.10% as of December 31, 2008 to 45.05% as of December 31, 2009.

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

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

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

Investment in ARCH Capital
In 2006, the Company and AC entered into a Shareholders' Agreement with ARCH Capital and Great ARCH Co. Limited, wherein the Company and AC 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 Philippines. On 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), a wholly owned subsidiary of First Longfield, transferring the interests of AC and the Company in ARCH Capital into Fine State and Green Horizons, respectively. Fine State and Green Horizons are 100% owned Hong Kong subsidiaries of AC and the Company, respectively.

The Company (through Green Horizons) and AC (through Fine State) 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 Green Horizon) and AC (through Fine State) 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 at December 31, 2007, the Fund achieved its final closing, resulting in a total investor commitment of US$330.0 million. As a result, portion of the funds disbursed by the Company and AC and invested into the Fund have been returned in 2007, reducing the Company's overall capital invested to ₱214.5 million as of December 31, 2007.

The Company and AC exercise significant influence over the Fund by virtue of their interest in the general partner and in ARCH Capital. Accordingly, the Company and AC account for their investments in the Fund using the equity method of accounting.

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

The 7,377-square meter property to be developed was conveyed by the Company to KAMI in exchange for 37,250 common shares, 38,250 redeemable preferred shares A and 16,758 preferred shares.

The Company does not consolidate KAMI as it does not exercise control over it.

11. Available-For-Sale Financial Assets

This account consists of investments in:

	2009	2008
	(In Thousands)	
Shares of stock - acquisition cost:		
Unquoted	**₱255,183**	₱270,606
Quoted	**180,386**	182,452
Treasury bonds	**273,459**	–
Treasury bills	**925,625**	–
	1,634,653	453,058
Net unrealized gain	**16,611**	15,802
	1,651,264	468,860
Less current portion	**925,694**	–
	₱725,570	₱468,860

Unquoted investments in shares of stock 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 projects. These are carried at cost less impairment, if any.

In 2008, the Company purchased preferred shares from AC amounting to ₱100.0 million at a purchase price of ₱500 per share.

Movements in the net unrealized gain on AFS financial assets follow:

	2009	2008
	(In Thousands)	
Balance at beginning of year	**₱15,802**	₱1,943
Fair value loss transferred to income (Note 22)	**–**	10,226
Fair value changes during the year	**809**	3,633
Balance at end of year	**₱16,611**	₱15,802

12. **Investment Properties**

The movements in this account are:

2009

	Land	**Building**	**Total**
		(In Thousands)	
Cost			
Balance at the beginning of the year	**₱2,751,756**	**₱20,402,122**	**₱23,153,878**
Additions	**256,196**	**3,233,888**	**3,490,084**
Transfers (Note 13)	**–**	**5,944,984**	**5,944,984**
Retirements	**–**	**(668,315)**	**(668,315)**
Balance at the end of the year	**3,007,952**	**28,912,679**	**31,920,631**
Accumulated Depreciation			
Balance at the beginning of the year	**–**	**5,384,871**	**5,384,871**
Depreciation	**–**	**946,437**	**946,437**
Transfers (Note 13)	**–**	**191,426**	**191,426**
Retirements	**–**	**(14,640)**	**(14,640)**
Balance at the end of the year	**–**	**6,508,094**	**6,508,094**
Net Book Value	**₱3,007,952**	**₱22,404,585**	**₱25,412,537**

2008

	Land	Building	Total
		(In Thousands)	
Cost			
Balance at the beginning of the year	₱2,781,041	₱15,893,168	₱18,674,209
Additions	3,932	761,973	765,905
Addition through business combination (Note 24)	–	4,017,955	4,017,955
Retirements	(33,217)	(270,974)	(304,191)
Balance at the end of the year	2,751,756	20,402,122	23,153,878
Accumulated Depreciation and Amortization			
Balance at the beginning of the year	–	4,881,359	4,881,359
Depreciation and amortization	–	679,864	679,864
Addition through business combination (Note 24)	–	73,828	73,828
Retirements	–	(250,180)	(250,180)
Balance at the end of the year	–	5,384,871	5,384,871
Net Book Value	₱2,751,756	₱15,017,251	₱17,769,007

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 any and all improvements (like 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 use and benefit.

The aggregate fair value of the Group's investment properties amounted to ₱165.8 billion and ₱129.2 billion as of December 31, 2009 and 2008, respectively.

The fair value of the investment properties were determined by independent professionally qualified appraisers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

The value of the land and condominium units was arrived using the Market Data Approach. In this approach, the value of the land and condominium units is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishing of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

As of December 31, 2009 and 2008, total commitments for investment properties amounted to ₱7,867.0 million and ₱9,512.6 million, respectively.

Consolidated rental income from investment properties amounted to ₱7,224.0 million, ₱5,987.8 million and ₱5,543.7 million in 2009, 2008 and 2007, respectively (see Note 20). Consolidated direct operating expenses arising from the investment properties amounted to ₱2.5 billion, ₱3.1 billion and ₱2.4 billion in 2009, 2008 and 2007, respectively (see Note 22).

Depreciation and amortization expense pertaining to investment properties amounted to ₱946.4 million, ₱679.9 million and ₱858.3 million in 2009, 2008 and 2007, respectively (see Note 22).

In 2007, investment properties which were damaged during the Glorietta 2 explosion and other investment properties connected to the Ayala Center redevelopment with net book value of ₱72.0 million and ₱141.9 million, respectively, were written-off by the Company (see Note 22).

13. Property and Equipment

This account consists of:

2009

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Construction in Progress	Total
				(In Thousands)			
Cost							
January 1	**₱659,608**	**₱2,169,396**	**₱926,126**	**₱424,088**	**₱2,927,132**	**₱5,944,984**	**₱13,051,334**
Additions	**632,803**	**96,657**	**497,295**	**88,296**	**90,058**	**–**	**1,405,109**
Disposals/Write-offs	**(2,270)**	**(321,195)**	**(2,297)**	**(63,410)**	**(94,750)**	**–**	**(483,922)**
Transfers	**26,999**	**(60,269)**	**(19,231)**	**(675)**	**–**	**(5,944,984)**	**(5,998,160)**
December 31	**1,317,140**	**1,884,589**	**1,401,893**	**448,299**	**2,922,440**	**–**	**7,974,361**
Accumulated Depreciation and Amortization							
January 1	**320,806**	**1,098,847**	**888,161**	**297,465**	**1,499,953**	**–**	**4,105,232**
Depreciation and amortization	**114,738**	**392,838**	**174,737**	**33,543**	**125,105**	**–**	**840,961**
Disposals/Write-offs	**(761)**	**(197,042)**	**(652)**	**(51,169)**	**(86,792)**	**–**	**(336,416)**
December 31	**434,783**	**1,294,643**	**1,062,246**	**279,839**	**1,538,266**	**–**	**4,609,777**
Net Book Value	**₱882,357**	**₱589,946**	**₱339,647**	**₱168,460**	**₱1,384,174**	**₱–**	**₱3,364,584**

2008

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Construction in Progress	Total
				(In Thousands)			
Cost							
January 1	₱470,898	₱1,984,535	₱824,965	₱361,922	₱2,693,069	₱1,346,157	₱7,681,546
Additions	189,146	286,039	101,161	111,791	236,064	3,311,818	4,236,019
Disposals/Write-offs	(436)	(105,148)	–	(49,625)	(2,001)	–	(157,210)
Acquisition through business combination (Note 24)	–	3,970	–	–	–	1,287,009	1,290,979
December 31	659,608	2,169,396	926,126	424,088	2,927,132	5,944,984	13,051,334
Accumulated Depreciation and Amortization							
January 1	262,283	1,010,473	761,062	233,072	1,399,430	–	3,666,320
Depreciation and amortization	58,688	181,450	127,099	108,544	102,524	–	578,305
Disposals/Write-offs	(165)	(93,076)	–	(44,151)	(2,001)	–	(139,393)
December 31	320,806	1,098,847	888,161	297,465	1,499,953	–	4,105,232
Net Book Value	₱338,802	₱1,070,549	₱37,965	₱126,623	₱1,427,179	₱5,944,984	₱8,946,102

Consolidated depreciation and amortization of property and equipment (included under various consolidated statements of income accounts) amounted to ₱840.9 million, ₱578.3 million and ₱451.6 million in 2009, 2008 and 2007, respectively.

14. Other Noncurrent Assets

Other noncurrent assets consist of deferred charges, utility deposits and others amounting ₱807.3 million and ₱1,005.4 million as of December 31, 2009 and 2008, respectively.

15. Accounts and Other Payables

This account consists of:

	2009	2008
	(In Thousands)	
Accounts payable (see Note 25)	**₱10,856,233**	₱12,995,821
Accrued expenses	**3,503,741**	2,867,691
Accrued project costs	**2,136,700**	2,022,903
Taxes payable	**1,421,452**	1,616,435
Dividends payable	**394,651**	405,753
Accrued salaries and employee benefits	**360,339**	317,945
Accrued rentals	**325,792**	176,785
Interest payable	**189,362**	151,689
Retentions payable	**120,899**	99,450
	₱19,309,169	₱20,654,472

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

16. Short-term and Long-term Debt

The short-term debt of ₱1,630.9 million and ₱1,279.5 million in 2009 and 2008, respectively, represents unsecured peso-denominated bank loans of the Company's subsidiaries with interest rates of 4.75% to 8.5% per annum (p.a.) in 2009 and 7.0% to 8.5% p.a. in 2008 and a ₱207.9 million dollar-denominated bank loan of the Company with interest rates of 2.30% to 5.28% in 2009.

Long-term debt consists of:

	2009	2008
	(In Thousands)	
Company:		
Bonds		
Due 2009	**₱–**	₱106,930
Due 2012	**41,835**	–
Due 2013	**4,000,000**	4,000,000
Floating rate corporate notes (FRCNs)	**10,000**	–
Fixed rate corporate notes (FXCNs)	**5,380,000**	3,580,000
	9,431,835	7,686,930
Subsidiaries:		
Bank loans - Philippine Peso	**7,749,430**	7,785,100
	17,181,265	15,472,030
Less current portion	**377,669**	244,142
	₱16,803,596	₱15,227,888

The Company

Philippine Peso Homestarter Bond due 2009

The Company launched the Homestarter Bond in March 2006. The bond was issued in a series of 36 issues, once every month commencing on March 16, 2006, with an issue amount of up to ₱4.7 million per series or up to an aggregate of ₱169.2 million over a 3-year period. The bond carried an interest rate of 5% per annum, payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to downpayment for a residential property offered for sale by the Company or its affiliates. Bonds that were not applied to downpayment for property and remained outstanding on the third anniversary of the initial issue date were fully redeemed in 2009.

Philippine Peso Homestarter Bond due 2012

The Company 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 at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by the Company or its affiliates. In the event of application of the bond to partial or full payment for property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date.

Philippine Peso 5-Year Bond due 2013

In 2008, the Company issued ₱4.0 billion bond due 2013 with fixed rate equivalent to 8.75% p.a. The Philippine Rating Services Corporation (PhilRatings) assigned a PRS Aaa rating on the bond 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.

Philippine Peso 5-, 7- and 10-Year FXCNs due 2011, 2013 and 2016

In 2006, the Company 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 7.25% to 7.75% p.a. depending on the term of the notes.

Philippine Peso 10-Year FXCNs due 2012

The Company also had an outstanding ₱580.0 million 10-year FXCNs with fixed interest rate of 14.875% p.a. issued in 2002 and due 2012. In February 2009, the Company prepaid in full such FXCNs.

Philippine Peso 5-, 7- and 10-year FXCN due 2014, 2016 and 2019

In 2009, the Company 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%.

Philippine Peso 7-year Floating-rate Corporate Notes (FRCN) due 2016

In 2009, the Company executed a ₱1.0 billion committed FRCN facility with the Land Bank of the Philippines, 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.

Subsidiaries

The subsidiaries' loans will mature on various dates up to 2015 with floating interest rates at 100 bps to 200 bps spread over benchmark 91-day PDST-R1/R2 and fixed interest rates of 6.97% to 9.72% p.a. 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.

The loan agreements contain some or all of the following restrictions: material changes in nature of business; maintenance of required financial ratios; payment of dividends and additional loans maturing beyond a year which will result in a violation of certain financial ratios; merger or consolidation where the Company/subsidiary is not the surviving corporation; guarantees or advances; encumbrance for borrowed money; and sale of substantially all of assets. These restrictions and requirements were complied with by the Group.

Interest capitalized amounted to ₱76.3 million and ₱151.01 million in 2009 and 2008, respectively. The average capitalization rates are 7.15% and 6.27% in 2009 and 2008, respectively.

17. Other Current Liabilities

Other current liabilities consist of customers' and tenants' deposits and construction bonds amounting to ₱2,150.7 million and ₱1,115.7 million as of December 31, 2009 and 2008, respectively.

18. Deposits and Other Noncurrent Liabilities

Deposits and other noncurrent liabilities consist of:

	2009	2008
	(In Thousands)	
Deposits	**₱3,896,194**	₱3,238,071
Retentions payable	**1,967,042**	1,766,831
Other liabilities	**1,459,621**	596,024
	₱7,322,857	₱5,600,926

Deposits are initially recorded at fair value, which was obtained by discounting its future cash flows using the applicable rates of similar types of instruments. The difference between the cash received and its fair value is included in "Deferred credits" account in the consolidated statement of financial position.

Other liabilities mainly includes due to related parties, nontrade payables, subscription payable and others.

19. **Equity**

The details of the number of shares (in thousands) follow:

	2009		2008		2007	
	Preferred	**Common**	Preferred	Common	Preferred	Common
Authorized	**15,000,000**	**20,000,000**	15,000,000	20,000,000	15,000,000	20,000,000
Issued	**13,034,604**	**13,005,338**	13,034,604	13,003,443	13,034,604	13,002,821
Subscribed	**–**	**75,470**	–	39,088	–	31,811
Treasury	**–**	**(79,528)**	–	(79,528)	–	(24)
Outstanding	**13,034,604**	**13,001,280**	13,034,604	12,963,003	13,034,604	13,034,608

Preferred Shares

In August 2007, the BOD approved the increase in authorized capital stock by ₱1.5 billion by creating 15 billion preferred shares with a par value of ₱0.10. Subsequently, in October 2007, 13,034,603,880 preferred shares were issued through a stock rights offer with the following features: (a) non-voting; (b) dividend rate of 4.64% p.a., payable annually, noncumulative; (c) nonparticipating; (d) convertible at the option of the holder at a ratio of one (1) preferred share to one (1) common share commencing on the 10th year from issue date at an exercise price equivalent to the higher of (i) the 30-day average closing price or (ii) closing price of common shares immediately preceding the exercise date, less the par value of the preferred shares; (e) no pre-emptive rights; (f) non-redeemable; (g) non-listed; and, (h) preferred in liquidation to the extent of par value.

The dividends for preferred shares are declared upon the sole discretion of the Company's BOD.

Common Shares

The rollforward of the outstanding number of common shares (in thousands) follows:

	2009	2008	2007
At beginning of year	**12,963,003**	13,034,608	10,844,238
Additional subscriptions	**38,277**	7,899	–
Exercise of stock options	**–**	–	17,972
Acquisition of treasury shares	**–**	(79,504)	–
Issuance of stock dividends	**–**	–	2,172,398
At end of year	**13,001,280**	12,963,003	13,034,608

On February 1, 2007, the BOD approved the increase in authorized capital stock from 12 billion to 20 billion shares.

In September 2007, the Company issued stock rights to all its existing common stockholders in which each stockholder is given the right to purchase at par one (1) preferred share for every common share held. ₱1,303.5 billion of the preferred shares were subscribed and subsequently issued.

No transfer of stock or interest which will reduce the ownership of Filipino citizens to less than the required percentage of the capital stock as provided by existing laws shall be allowed or permitted to be recorded in the books of the Company.

On February 12, 2008, the BOD approved the allotment and subsequent issuance of up to 1 billion common shares of stock of the Company with an aggregate par value of ₱1.0 billion for the purpose of exchanging such shares for properties or assets and/or to raise funds to acquire properties or assets needed for the business of the Company via issuance of equity or equity-linked instruments, the price and the terms and conditions of which shall be determined by the BOD based on prevailing market conditions or on agreements negotiated.

On April 2, 2008, the Company's stockholders approved the allotment and subsequent issuance of the shares for the above-mentioned purposes and for the further amendment of the Amended Articles of Incorporation of the Company to exclude the issuance of shares from the pre-emptive rights of the stockholders pursuant to Section 39 of the Philippine Corporation Code.

Treasury Shares

On August 12, 2008, the BOD approved of a share buyback program. It is part of the Company's balance sheet management program and aims to (i) improve the Company's balance sheet structure and capital efficiency and (ii) enhance shareholder value through the repurchase of shares whenever the stock is trading at a price discount perceived by the Company as not reflective of its fair corporate value.

The Company has repurchased a total of 79,500,000 of its common shares through open market purchases using the trading facilities of the Philippine Stock Exchange for a total purchase price of ₱823.4 million at an average price of ₱10.36 per share as of end of December 2008.

Retained Earnings

The BOD approved the declaration and payment from unappropriated retained earnings of cash dividends of ₱0.06 per share in 2009, ₱0.06 per share in 2008 and ₱0.06 per share in 2007.

On October 9, 2008, the BOD approved the declaration and payment from unappropriated retained earnings of cash dividends at the dividend rate of 4.64% per annum to all issued and outstanding preferred shares.

The BOD approved the declaration of 20 percent stock dividends in 2007 which is equivalent to 2,172.4 million shares based on 10,809.7 million shares outstanding as of December 31, 2006.

Retained earnings of ₱6.0 billion are appropriated for future expansion. Retained earnings also include undistributed net earnings amounting to ₱10,361.8 million, ₱8,526.5 million and ₱6,166.2 million as of December 31, 2009, 2008 and 2007, respectively, representing accumulated equity in the net earnings of subsidiaries, associates and joint ventures.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the 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 ₱16.6 and ₱15.3 billion, respectively.

Capital Management

The primary objective of the Group's capital management policy is to ensure that debt and equity capital are mobilized efficiently to support business objectives and maximize shareholder value. The Group establishes the appropriate capital structure for each business line that properly reflects its premier credit rating and allows it the financial flexibility, while providing it sufficient cushion to absorb cyclical industry risks.

The Group considers debt as a stable source of funding. The Group lengthened the maturity profile of its debt portfolio and makes it a point to spread out its debt maturities by not having a significant percentage of its total debt maturing in a single year.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. It monitors capital using leverage ratios on both a gross debt and net debt basis. As of December 31, 2009 and 2008, the Group had the following ratios:

	2009	2008
Debt to equity	**35.9%**	34.2%
Net debt to equity	**4.5%**	2.7%

Debt consists of short-term and long-term debt. Net debt includes short-term and long-term debt less cash and cash equivalents, short-term investments, financial assets at FVPL and the current portion of AFS financial assets. Equity, which the Group considers as capital, pertains to the equity attributable to equity holders of the Company less unrealized gain on AFS financial assets.

Financial risk assessment

The Company's financial condition and operating results would not be materially affected by the current changes in interest, currency, credit, liquidity and market conditions.

Credit risks continue to be managed through defined credit policies and continuing monitoring of exposure to credit risks. The Company's base of counterparties remains diverse. As such, it is not exposed to large concentration of credit risk.

Exposure to changes in interest rates is reduced by a debt portfolio mix of both fixed and floating interest rates. The Company's ratio of fixed to floating rate debt stood at 84:16 and 83:17 as of December 31, 2009 and 2008, respectively.

As a result, the movement in the actual average interest (borrowing) rate of the Company has been minimal.

Exposure to foreign currency holdings is minimal at $30.8 million and $21.8 million as of December 31, 2009 and 2008, respectively.

Liquidity risk is addressed with long term funding already locked in, while funds are placed on a short term placement.

20. Real Estate Revenue

This account consists of:

	2009	2008	2007
		(In Thousands)	
Real estate sales and services	**₱16,903,991**	₱17,618,117	₱14,148,015
Rental income (Note 12)	**7,223,996**	5,987,813	5,543,694
Construction contracts	**2,713,941**	5,689,369	1,798,639
	₱26,841,928	₱29,295,299	₱21,490,348

21. Revenue from Hotel Operations

This account consists of:

	2009	2008	2007
		(In Thousands)	
Rooms	**₱724,720**	₱724,081	₱751,458
Food and beverage	**333,787**	374,726	393,195
Rental	**151,870**	189,070	169,193
Others	**22,066**	33,608	43,060
	₱1,232,443	₱1,321,485	₱1,356,906

22. Other Income and Costs and Expenses

Other income consists of:

	2009	2008	2007
		(In Thousands)	
Management fees and marketing fees	**₱337,006**	₱328,852	₱215,285
Gain on financial assets at FVPL (Note 5)	**25,156**	1,061	52,600
Gain on sale of investments	**–**	761,815	1,003,976
Fair value gain on derivative asset (Note 8)	**–**	6,974	59,026
Unrealized gain (loss) on financial assets at FVPL (Note 5)	**(654)**	(3,953)	18,018
Others - net	**270,902**	226,750	137,428
	₱632,410	₱1,321,499	₱1,486,333

Ayala Hotels, Inc., together with Ocmador Philippines B. V., agreed to sell Makati Property Ventures, Inc. (MPVI), to DBS Trustee Ltd. (Trustee of Ascott Residence Trust) on March 22, 2007 (closing date). In 2007, total cash received from the sale amounted to ₱983.2 million. The Company recognized a net gain amounting to ₱598.7 million as a result of the consummation of the sale.

In March 2008, the Company 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 the sale of the said subsidiaries amounted to ₱761.8 million.

On December 13, 2007, the Company sold 16,758 of its preferred shares in KAMI to Kingdom Manila B.V., which resulted in a gain of ₱1,004.0 million.

As of December 31, 2007, the Company has an outstanding nondeliverable forward contract with notional amount of US$25.0 million and a forward rate of ₱44.48 with maturity date of October 30, 2008. This forward contract was preterminated in April 2008. Fair value gain amounting to ₱7.0 million and ₱59.0 million was recognized in 2008 and 2007, respectively.

Other income mainly consists of gain on sale of equipment, gain on sale of waterworks and sewerage facilities and equipment and other properties and foreign exchange gains and losses.

In 2009 and 2008, the net foreign exchange amounted to ₱15.7 million gain and ₱32.1 million loss, respectively.

Real estate costs and expenses consist of:

	2009	2008	2007
		(In Thousands)	
Cost of sales	**₱11,053,597**	₱13,876,177	₱9,218,296
Depreciation and amortization	**1,484,796**	1,061,432	1,040,753
Rental	**1,160,470**	1,417,351	801,806
Manpower costs	**827,112**	1,063,374	720,217
Marketing and management fees	**656,034**	740,550	632,311
Direct operating expenses			
Taxes and licenses	**716,769**	530,341	557,449
Repairs and Maintenance	**516,781**	373,833	296,853
Light & water	**416,071**	317,270	357,983
Commission	**264,447**	306,870	187,459
Professional fees	**190,781**	50,024	61,505
Insurance	**120,629**	138,625	33,697
Transportation and travel	**46,140**	52,074	37,513
Representation	**13,294**	25,565	13,365
Others	**682,383**	456,198	270,625
	₱18,149,304	₱20,409,684	₱14,229,832

Hotel operations expenses consist of:

	2009	2008	2007
		(In Thousands)	
Food and beverage	**₱202,915**	₱234,671	₱245,912
Property operations, maintenance and energy costs	**136,946**	142,203	147,667
Administrative	**130,156**	130,650	127,903
Depreciation and amortization	**128,746**	102,523	111,231
Rooms	**65,498**	76,984	79,480
Marketing	**58,797**	59,305	66,447
Land lease	**54,102**	48,371	45,013
Management fee	**51,672**	49,681	56,898
Telephone and other department costs	**24,683**	24,803	14,518
Entertainment, amusement and recreation	**3,024**	3,519	6,335
Others	**10,660**	3,783	11,626
	₱867,199	₱876,493	₱913,030

General and administrative expenses included in the consolidated statements of income follow:

	2009	2008	2007
		(In Thousands)	
Manpower costs (Note 26)	**₱1,573,867**	₱1,959,544	₱1,459,474
Professional fees	**238,694**	172,471	181,902
Depreciation and amortization	**173,856**	94,214	158,473
Taxes and licenses	**153,536**	162,046	127,942
Utilities	**111,210**	107,603	105,707
Repairs and maintenance	**80,516**	55,746	69,361
Entertainment, amusement and recreation	**73,073**	78,996	87,161
Transportation and travel	**70,560**	115,151	112,821
Rent	**67,339**	50,625	26,555
Advertising	**53,600**	59,427	66,449
Security and janitorial	**42,308**	44,495	49,735
Insurance	**39,722**	43,925	20,693
Supplies	**37,723**	45,130	34,798
Dues and fees	**28,846**	20,454	32,350
Others	**47,783**	162,461	120,652
	₱2,792,633	₱3,172,288	₱2,654,073

Manpower costs included in the consolidated statements of income follow:

	2009	2008	2007
		(In Thousands)	
Included in:			
Cost of:			
Real estate	**₱827,112**	₱1,063,374	₱720,217
Hotel operations	**135,761**	156,286	199,664
General and administrative expenses	**1,573,867**	1,959,544	1,459,474
	₱2,536,740	₱3,179,204	₱2,379,355

Depreciation and amortization expense included in the consolidated statements of income follow:

	2009	2008	2007
		(In Thousands)	
Included in:			
Cost of:			
Real estate	**₱1,484,796**	₱1,061,432	₱1,040,753
Hotel operations	**128,746**	102,523	111,231
General and administrative expenses	**173,856**	94,214	158,473
	₱1,787,398	₱1,258,169	₱1,310,457

Interest expense and other financing charges consist of:

	2009	2008	2007
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱137,428**	₱165,315	₱210,472
Long-term debt	**1,190,465**	868,441	663,392
Other financing charges	**17,598**	16,285	18,907
	₱1,345,491	₱1,050,041	₱892,771

Other charges consist of:

	2009	2008	2007
		(In Thousands)	
Provision for impairment losses on:			
Land and improvements (Note 9)	**₱568,672**	₱–	₱–
Receivables (Note 6)	**86,892**	72,846	89,149
Real estate inventories (Note 7)	**78,091**	379,230	–
AFS financial assets (Note 11)	**–**	10,226	–
Write-offs and other charges (Note 7)	**721,024**	330,218	875,238
	₱1,454,679	₱792,520	₱964,387

In 2009 and 2008, the Group recorded provision for impairment amounting to ₱78.1 million and ₱379.2 million, respectively, for the development cost of real estate inventories which may no longer be recovered (see Note 7). In 2009, write-offs and other charges mainly include the write-down of inventory from purchase of steel bars which amounted to ₱350.3 million. In 2007, these 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 Company's Ayala Center redevelopment program amounted to a total of ₱213.9 million (see Note 12).

23. **Income Tax**

The components of 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	**₱897,599**	₱774,347
Difference between tax and book basis of accounting for real estate transactions	**312,182**	329,973
Retirement benefits	**97,294**	104,431
Outstanding share-based payments	**82,784**	27,470
Advanced rental	**28,215**	30,936
NOLCO	**2,611**	5,964
Others	**129,401**	98,840
	1,550,086	1,371,961
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(437,337)**	(553,912)
Deferred revenue	**(21,141)**	–
Unrealized foreign exchange gain	**(13,300)**	(23,515)
	(471,778)	(577,427)
	₱1,078,308	₱794,534

Net deferred tax liabilities:

	2009	2008
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱–**	₱55,402
Retirement benefits	**–**	6,732
Allowance for probable losses	**–**	1,909
	–	64,043
Deferred tax liabilities on:		
Excess of financial realized gross profit over taxable realized gross profit	**(147,367)**	–
Capitalized interest and other expenses	**(3,586)**	(157,577)
Unrealized foreign exchange gain	**–**	(65,369)
Deferred rent	**–**	(3,457)
	(150,953)	(226,403)
	(₱150,953)	(₱162,360)

Certain subsidiaries of the Company have NOLCO amounting to ₱236.6 million and ₱322.6 million as of December 31, 2009 and 2008, respectively and MCIT amounting to ₱20.0 million and ₱15.1 million as of December 31, 2009 and 2008, which were not recognized. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The subsidiaries will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As of December 31, 2009, carryover NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities are as follows:

NOLCO:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
2006	₱146,391	₱146,391	₱–	2009
2007	102,083	–	102,083	2010
2008	94,238	–	94,238	2011
2009	48,954	–	48,954	2012
	₱391,666	₱146,391	₱245,275	

MCIT:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
2006	₱1,363	₱1,363	₱–	2009
2007	8,863	–	8,863	2010
2008	4,899	–	4,899	2011
2009	6,205	–	6,205	2012
	₱21,330	₱1,363	₱19,967	

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 effect of:			
Interest income and capital gains taxed at lower rates	**(0.04)**	(1.68)	(8.39)
Income subjected to lower income tax rates (Note 31)	**(0.72)**	(0.43)	(1.86)
Equity in net earnings of associates and jointly controlled entities	**(4.97)**	(4.16)	(3.52)
Effect of change in statutory income tax rate	**–**	0.30	–
Others - net	**(4.34)**	(1.30)	4.48
Effective income tax rate	**19.93%**	27.73%	25.71%

24. Business Combinations

APPHC

In 2006, the Company signed an agreement with MLT Investments Ltd. (MIL) and Filipinas Investments Ltd. (FIL) to jointly develop a BPO office building in Dela Rosa Street and to purchase the existing PeopleSupport Building.

APPHC, the joint-venture company formed, is 60% owned by the Company. 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 the Company, MIL, and FIL.

On December 8, 2008, the Company acquired from FIL its 20% ownership in APPHC and APPCo. This resulted in an increase in the Company's effective ownership interest in APPHC from 60% to 80% and APPCo from 36% to 68%, thereby providing the Company 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
Minority interest 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 been ₱4,826.4 million and revenue from continuing operations would have been ₱34,072.9 million. Total cost directly attributable to the business combination amounted to ₱15.6 million. The related 2008 comparative information has been restated to reflect this adjustment. The value of investment properties and property and equipment increased (decreased) by ₱286.5 million and (₱1.7 million), respectively. There was also a corresponding reduction in provisional goodwill amounting to ₱148.7 million and an increase in noncontrolling interest amounting to ₱136.1 million. The related increased depreciation charges on investment properties and property and equipment are not material.

25. Related Party Transactions

In its regular conduct of business, the Group has entered into transactions with associates and other related parties principally consisting of advances and reimbursement of expenses, purchase and sale of real estate properties, construction contracts, and development, management, underwriting, marketing, leasing and administrative service agreements. Transactions with related parties are made at normal market prices.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year (in thousands):

2009

	Amounts owed by related parties	Amounts owed to related parties
Jointly controlled entities:		
ACC	**₱15,929**	**₱–**
Associates:		
CHI	**120,791**	**509**
NTDCC	**25,383**	**–**
LDC	**15,337**	**–**
ARCH Capital	**908**	**–**
BLC	**–**	**79,829**
	162,419	**80,338**
Other related parties:		
Columbus	**520,066**	**484,888**
FBDC	**87,296**	**–**
AC	**36,450**	**19,962**
City Sport Club Cebu (CSCC)	**793**	**–**
MDC-First Balfour, Inc. Joint Venture (MDC-FBIJV)	**94**	**–**
Cebu Property Ventures Development Corp. (CPVDC)	**–**	**149,204**
	644,699	**654,054**
	₱823,047	**₱734,392**

2008

	Amounts owed by related parties	Amounts owed to related parties
Jointly controlled entities:		
ACC	₱7,279	₱–
Associates:		
CHI	85,587	1,341
NTDCC	64,854	–
Accendo	63,510	–
LDC	25,626	–
ARCH Capital	611	–
	240,188	1,341
Other related parties:		
Columbus	520,061	–
FBDC	247,428	–
AC	47,640	945
CSCC	833	–
CPVDC	7	4,937
	815,969	5,882
	₱1,063,436	₱7,223

Revenue from related parties:

	2009	2008	2007
Jointly controlled entities:			
ACC	**₱1,503**	₱–	₱–
Associates:			
BLC	**810,753**	–	–
CHI	**139,973**	109,260	164,666
NTDCC	**5,918**	–	–
LDC	**–**	–	–
ARCH Capital	**–**	–	–
	956,644	109,260	164,666
Other related parties:			
Globe Telecom, Inc.	**37,542**	524	485
Manila Water Company, Inc.	**28,353**	–	–
Bank of the Philippine Islands	**15,718**	–	3,036
Innove Communications, Inc.	**3,317**	194	185
AC	**2,826**	–	62,667
CPVDC	**–**	636,041	60,372
CIHCI	**–**	12,893	6,552
IMI	**–**	8,895	–
Honda Cars Philippines, Inc	**–**	2,036	–
One Dela Rosa Property Development, Inc.	**–**	–	711,000
First Communities Finance Corporation	**–**	–	138,742
Integrated Microelectronics, Inc.	**–**	–	9,978
Cebu Leisure Company, Inc.	**–**	65	65
South Innovative Theater	**–**	65	65
Others	**–**	1,709	–
	87,756	662,422	993,147
	₱1,045,903	₱771,682	₱1,157,813

The revenue earned from associates pertains mostly to income from leasing and developmental projects.

Receivables from related parties pertain mostly to advances and reimbursement of operating expenses related to development cost and land acquisitions.

Amounts owed by related parties consist of promissory notes issued by BLC, which were assigned by MPIC to the Company and EHI; and the advances subsequently made by the Company 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. These notes and advances are due and demandable and bear interest at the rate of 12% to 14% p.a.

Compensation of key management personnel by benefit type follows:

	2009	2008	2007
		(In Thousands)	
Short-term employee benefits	**₱128,932**	₱130,943	₱114,379
Share-based payments (Note 28)	**13,719**	3,635	59,586
Post-employment benefits (Note 26)	**21,313**	14,930	3,308
	₱163,964	₱149,508	₱177,273

26. Retirement Plan

The Group has funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. In 2009 and 2008, the benefits are based on a defined benefit formula, while previously, the benefits are generally based on defined contribution formula with minimum lump-sum guarantee of 1.5 months' basic salary per year of service.

The Group's annual contributions to their respective plans consist principally 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 expense (included in manpower costs under "General and administrative expenses") in the consolidated statements of income follow:

	2009	2008	2007
		(In Thousands)	
Current service cost	**₱115,005**	₱127,510	₱120,836
Interest cost on benefit obligation	**135,482**	103,157	41,704
Expected return on plan assets	**(99,062)**	(124,743)	(53,210)
Curtailment gain	**–**	(11,447)	–
Amortization of actuarial losses (gains)	**44,330**	–	(346)
Past service cost	**2,777**	2,777	98,539
Total pension expense	**₱198,532**	₱97,254	₱207,523
Actual return on plan assets	**₱99,277**	(₱191,990)	₱104,177

The funded status and amounts recognized in the consolidated statement of financial position for the pension plan as of December 31, 2009 and 2008 follow:

	2009	2008
	(In Thousands)	
Benefit obligations	**₱1,384,799**	₱1,277,155
Plan assets	**(1,212,764)**	(1,057,896)
	172,035	219,259
Unrecognized net actuarial losses	**(91,555)**	(90,409)
Unrecognized past service cost	**(27,447)**	(30,224)
Liability recognized in the consolidated statement of financial position	**₱53,033**	₱98,626

Changes in the present value of the defined benefit obligation follow:

	2009	2008	2007
		(In Thousands)	
Balance at January 1	**₱1,277,155**	₱1,574,083	₱1,389,916
Interest cost	**135,482**	103,157	41,704
Current service cost	**115,005**	127,510	120,836
Past service cost	**–**	–	136,860
Curtailments	**–**	(34,104)	1,369
Settlements	**–**	(153,679)	–
Benefits paid	**(188,534)**	(192,116)	(180,994)
Actuarial losses (gains)	**45,691**	(147,696)	64,392
Balance at December 31	**₱1,384,799**	₱1,277,155	₱1,574,083

Changes in the fair value of plan assets follow:

	2009	2008	2007
		(In Thousands)	
Balance at January 1	**₱1,057,896**	₱1,428,976	₱1,382,179
Expected return	**99,062**	124,743	53,210
Contributions	**244,125**	166,705	123,614
Settlements	**–**	(153,679)	–
Benefits paid	**(188,534)**	(192,116)	(180,994)
Actuarial gains (losses)	**215**	(316,733)	50,967
Balance at December 31	**₱1,212,764**	₱1,057,896	₱1,428,976

The Group expects to make contributions of ₱186.4 million to its retirement fund in 2010.

The allocations of the fair value of plan assets follow:

	2009	2008	2007
Investments in debt securities	**67.48%**	56.92%	61.14%
Investments in equity securities	**27.38**	14.77	29.37
Others	**5.14**	28.31	9.49

As of December 31, 2009 and 2008, the plan assets include shares of stock of the Company with fair value amounting to ₱6.5 million and ₱6.2 million, respectively.

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

The assumptions used to determine pension benefits for the Group for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Discount rate	**9 to 10%**	9 to 13%	7 to 9%
Salary increase rate	**7 to 10%**	7 to 8%	8 to 10%
Expected rate of return on plan assets	**8 to 10%**	8 to 10%	7%

Amounts for the current and the previous periods follow:

	2009	2008	2007	2006	2005
			(In Thousands)		
Defined benefit obligation	**₱1,384,799**	₱1,277,155	₱1,574,083	₱1,389,916	₱1,489,168
Plan assets	**(1,212,764)**	(1,057,896)	(1,428,976)	(1,382,179)	(1,281,464)
Deficit	**₱172,035**	₱219,259	₱145,107	₱7,737	₱207,704

	2009	2008	2007
		(in Thousands)	
Experience adjustments on plan liabilities	**(₱7,596)**	₱408,988	₱83,292
Experience adjustments on plan assets	**(₱5,951)**	₱316,733	₱50,967

27. Earnings Per Share

The following tables present information necessary to compute EPS (in thousands except EPS):

EPS on net income attributable to equity holders of the Company:

	2009	2008	2007
Net income attributable to equity holders of the Company	**₱4,039,256**	₱4,812,348	₱4,386,362
Less dividends on preferred stock	**60,481**	66,114	–
Net income attributable to equity holders for basic and diluted earnings per share	**₱3,978,775**	₱4,746,234	₱4,386,362
Weighted average number of common shares for basic EPS	**12,985,331**	13,011,387	13,026,949
Dilutive shares arising from stock options and preferred shares	**21,904**	22,932	150,916
Adjusted weighted average number of common shares for diluted EPS	**13,007,235**	13,034,319	13,177,865
Basic EPS	**₱0.31**	₱0.36	₱0.34
Diluted EPS	**₱0.31**	₱0.36	₱0.33

In 2008, the convertible preferred shares are ignored in the calculation of diluted EPS since these are antidilutive.

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

	2009	2008	2007
Income before income associated with noncurrent assets held for sale attributable to equity holders of the parent	**₱4,039,256**	₱4,812,348	₱4,496,882
Less income before income associated with noncurrent assets held for sale associated to minority interests	**–**	–	409,853
Less dividends on preferred stock	**60,481**	66,114	–
Net income before income associated with noncurrent assets held for sale attributable to equity holders for basic and diluted earnings per share	**₱3,978,775**	₱4,746,234	₱4,087,029
Weighted average number of common shares for basic EPS	**12,985,331**	13,011,387	13,026,949
Dilutive shares arising from stock options and preferred shares	**21,904**	22,932	150,916
Adjusted weighted average number of common shares for diluted EPS	**13,007,235**	13,034,319	13,177,865
Basic EPS	**₱0.31**	₱0.36	₱0.31
Diluted EPS	**₱0.31**	₱0.36	₱0.31

28. Stock Options and Ownership Plans

The Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (ESOWN) covering 2.5% of the Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

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

Movements in the number of stock options outstanding under ESOP are as follows:

Pre-PFRS 2 Options

	2009	**Weighted average exercise price**	2008	Weighted average exercise price
At January 1	**22,271,511**	**₱4.15**	23,847,002	₱4.13
Exercised	**–**	**–**	(1,575,491)	4.01
At December 31	**22,271,511**	**₱4.16**	22,271,511	₱4.15

PFRS 2 Options

	2009	**Weighted average exercise price**	2008	Weighted average exercise price
At January 1	**18,441,832**	**₱4.15**	20,018,950	₱4.13
Exercised	**(1,794,018)**	**3.96**	(1,577,118)	4.01
At December 31	**16,647,814**	**₱4.16**	18,441,832	₱4.15

The options exercised had a weighted average exercise price of ₱3.96 per share or ₱7.1 million in 2009 and ₱4.01 per share or ₱12.6 million in 2008. The average fair market value of the shares at the exercise date was ₱11.72 per share or about ₱21.0 million in 2009 and ₱12.41 per share or about ₱39.1 million in 2008.

The fair value of stock options granted is estimated as at the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The fair value of stock options granted under ESOP at June 30, 2005 grant date, and the assumptions used to determine the fair value of the stock options are as follows:

Weighted average share price	₱8.36
Exercise price	₱6.75
Expected volatility	46.3%
Option life	10 years
Dividend yield	3.21%
Interest rate	12.6%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

In November 2001, the Company offered all its ESOWN subscribers with outstanding ESOWN subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

In 2005, the Company introduced a revised ESOWN and granted to qualified officers wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of the Company or any of its subsidiaries during the ten (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 ten (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.

For the unsubscribed shares, the employee still has the option to subscribe within seven (7) years. Movements in the number of options outstanding under ESOWN follow:

	2009	**Weighted average Exercise price**	2008	Weighted average exercise price
At January 1	**21,577,419**	**₱9.58**	8,501,035	₱9.34
Granted	**5,418,619**	**4.96**	15,000,560	9.74
Cancelled	**(2,146,972)**	**9.98**	(1,924,176)	9.81
At December 31	**24,849,066**	**₱8.67**	21,577,419	₱9.58

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:

	Grant Date				
	April 30, 2009	May 15, 2008	September 20, 2007	June 5, 2006	November 16, 2005
Number of unsubscribed shares	5,418,619	15,057,840	494,400	5,196,461	3,036,933
Fair value of each option	₱6.4	₱10.50	₱15.00	₱13.00	₱9.30
Weighted average share price	₱8.72	₱9.50	₱14.24	₱12.83	₱8.36
Exercise price	₱4.96	₱9.74	₱12.00	₱10.35	₱7.03
Expected volatility	37.45%	32.04%	34.67%	46.03%	46.32%
Dividend yield	0.85%	0.49%	0.41%	1.56%	0.77%
Interest rate	5.94%	8.53%	6.93%	10.55%	11.30%

Total expense recognized in 2009, 2008 and 2007 in the consolidated statements of income arising from share-based payments amounted to ₱148.6 million, ₱138.9 million and ₱104.7 million, respectively (see Note 22).

29. Financial Assets and Liabilities

Fair Value Information

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2009 and 2008:

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	(In Thousands)			
Financial Assets at FVPL	**₱433,821**	**₱433,821**	₱1,778,720	₱1,778,720
Loans and Receivables				
Cash and cash equivalents	**10,528,726**	**10,528,726**	12,655,402	12,655,402
Short-term investments	**4,560,976**	**4,560,976**	1,008,923	1,008,923
Accounts and notes receivable				
Trade				
Residential development	**9,440,041**	**9,535,521**	7,773,248	8,463,361
Construction contracts	**1,014,314**	**1,014,314**	1,298,280	1,298,280
Shopping centers	**846,493**	**846,493**	1,081,444	1,081,444
Corporate business	**423,701**	**423,701**	254,222	254,222
Management fees	**100,407**	**100,407**	131,639	131,639
Others	**304,559**	**304,559**	192,052	192,052
	12,129,515	**12,224,995**	10,730,885	11,420,998
Advances to other companies	**1,370,019**	**1,356,806**	1,905,555	1,885,376
Accrued receivable	**899,367**	**899,367**	1,012,917	1,012,917
Related parties	**823,047**	**823,047**	1,063,436	1,063,436
Receivable from employees	**328,935**	**296,849**	396,651	370,486
Investment in bonds classified as loans and receivables	**200,000**	**200,000**	–	–
	3,621,368	**3,576,069**	4,378,559	4,332,215
Total loans and receivables	**30,840,585**	**30,890,766**	28,773,769	29,417,538
AFS financial assets				
Unquoted	**255,183**	**255,183**	270,606	270,606
Quoted	**1,396,081**	**1,396,081**	198,254	198,254
Total AFS financial assets	**1,651,264**	**1,651,264**	468,860	468,860
Total financial assets	**₱32,925,670**	**₱32,975,851**	₱31,021,349	₱31,665,118
Other Financial Liabilities				
Current				
Accounts payable	**₱10,856,233**	**₱10,856,233**	₱12,995,821	₱12,995,821
Accrued expenses	**3,503,741**	**3,503,741**	2,867,691	2,867,691
Accrued project costs	**2,136,700**	**2,136,700**	2,022,903	2,022,903
Dividends payable	**394,651**	**394,651**	405,753	405,753
Accrued salaries and employee benefits	**360,339**	**360,339**	317,945	317,945
Accrued rentals	**325,792**	**325,792**	176,785	176,785
Interest payable	**189,362**	**189,362**	151,689	151,689
Retentions payable	**120,899**	**120,899**	99,450	99,450
Short-term debt	**1,630,900**	**1,630,900**	1,279,500	1,279,500
Current portion of long-term debt	**377,669**	**377,669**	244,142	244,142
Noncurrent				
Long-term debt	**16,803,596**	**16,767,032**	15,227,888	15,191,324
Deposits and other noncurrent liabilities	**7,322,857**	**7,281,739**	5,600,926	5,607,019
Total other financial liabilities	**₱44,022,739**	**₱43,945,057**	₱41,390,493	₱41,360,022

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

Cash and cash equivalents, short-term investments and current and related parties receivables - Carrying amounts approximate fair values due to the relatively short-term maturities of these investments.

Financial assets at FVPL - These are investments in government securities. Fair value is based on quoted prices as of reporting dates.

Noncurrent accounts and notes receivables - The fair values of residential accounts and notes receivable, advances to other companies, receivable from employees and other accounts receivable, 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 6.55% to 7.62% and 6.40% to 7.70% as of December 31, 2009 and 2008, respectively.

AFS quoted equity securities - Fair values are based on quoted prices published in markets.

AFS unquoted equity securities - These are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value.

Liabilities - The fair value of noncurrent unquoted instruments (long-term debt and deposits) are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used ranged from 5.57% to 10.15% and 5.44% to 8.82% as of December 31, 2009 and 2008, respectively. The fair value of noncurrent unquoted debt instruments with floating rates are estimated using discounted cash flow - last repricing method. The fair values of accounts and other payables and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

Fair Value Hierarchy

As at December 31, 2009, financial assets at FVPL and quoted AFS financial assets have been measured at fair value.

The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Level 1: quoted (unadjusted prices) in active markets for identical assets and 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 which 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 ₱0.4 million and ₱1.4 million, respectively, were classified under the Level 1 category. There are no financial assets at FVPL and quoted AFS financial assets which have been classified under the Level 3 category.

There have been no reclassifications from Level 1 to Level 2 category.

Financial Risk Management and Objectives

The Group's principal financial instruments comprise of cash and cash equivalents, short-term investments and financial assets at FVPL, AFS quoted and unquoted equity securities, investments in bonds, 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 trade receivables and trade payables which arise directly from the conduct of its operations.

Exposure to liquidity, credit, interest rate, currency and equity risks arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The use of financial derivative instruments (if any) is solely for management of the Group's financial risk exposures. It is the Group's policy not to enter into derivative transactions for speculative purposes.

The Group's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Group.

Liquidity risk

The Group employs scenario analysis and contingency planning to actively manage its liquidity position and guarantee that all operating, investing and financing needs are met. The Group has come up with a three-layered approach to liquidity through the prudent management of sufficient cash and cash equivalents, the potential sale of accounts receivables and the maintenance of short-term revolving credit facilities.

Cash and cash equivalents are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise. Management develops viable funding alternatives through a continuous program for the sale of its receivables and ensures the availability of ample unused short-term revolving credit facilities from both local and foreign banks as back-up liquidity.

The Group ascertains that its cash is invested in short-term bank placements and special deposit accounts, as well as in high-quality and marketable government and corporate securities.

The table summarizes the maturity profile of the Group's financial liabilities at December 31, 2009 and 2008 based on contractual undiscounted payments:

2009

	< 1 year	**>1 to < 5 years**	**> 5 years**	**Total**
		(In Thousands)		
Accounts and other payables	**₱17,887,717**	**₱–**	**₱–**	**₱17,887,717**
Short-term debt	**1,630,900**	**–**	**–**	**1,630,900**
Long-term debt	**377,669**	**11,802,911**	**5,000,685**	**17,181,265**
Deposits and other noncurrent liabilities	**–**	**7,322,857**	**–**	**7,322,857**
	₱19,896,286	**₱19,125,768**	**₱5,000,685**	**₱44,022,739**
Interest payable	**₱1,303,314**	**₱3,867,795**	**₱785,666**	**₱5,956,775**

2008

	< 1 year	>1 to < 5 years	> 5 years	Total
		(In Thousands)		
Accounts and other payables	₱19,038,037	₱–	₱–	₱19,038,037
Short-term debt	1,279,500	–	–	1,279,500
Long-term debt	244,142	10,318,868	4,909,020	15,472,030
Deposits and other noncurrent liabilities	–	2,840,303	2,760,623	5,600,926
	₱20,561,679	₱13,159,171	₱7,669,643	₱41,390,493
Interest payable	₱1,243,870	₱3,971,394	₱569,022	₱5,784,286

Cash and cash equivalents, Short-term investments, financial assets at FVPL and treasury bonds and treasury bills classified as AFS financial assets 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. Treasury bonds with maturity of more than a year from December 31, 2009 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 credit risks are primarily attributable to installments receivable, rental receivables and other financial assets. To manage credit risks, the Group maintains defined credit policies and monitors its exposure to credit risks on a continuous basis.

In respect of installments receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. The Group's stringent customer requirements and policies in place contribute to lower customer default than its competitors. Customer payments are facilitated through various collection modes including the use of post dated checks and auto-debit arrangements. Exposure to bad debts is not significant and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants. For existing tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

Other financial assets are comprised of cash and cash equivalents, short-term investments, financial assets at FVPL and AFS financial assets. The Group adheres to fixed limits and guidelines in its dealings with counterparty banks and its investment in financial instruments. Bank limits are established on the basis of an internal rating system that principally covers the areas of liquidity, capital adequacy and financial stability. The rating system likewise makes use of available international credit ratings. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations. Nevertheless, the Group closely monitors developments over counterparty banks and adjusts its exposure accordingly while adhering to pre-set limits.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position as of December 31, 2009 and 2008.

Statement of financial position items	**2009**	2008
	(In Thousands)	
Cash and cash equivalents	**₱10,528,726**	₱12,655,402
Short-term investments	**4,560,976**	1,008,923
Financial assets at FVPL	**433,821**	1,778,720
Accounts and notes receivable		
Trade:		
Residential development	**9,440,041**	7,773,248
Construction contracts	**1,014,314**	1,298,280
Shopping centers	**846,493**	1,081,444
Corporate business	**423,701**	254,222
Management fees	**100,407**	131,639
Others	**304,559**	192,052
Advances to other companies	**1,370,019**	1,905,555
Accrued receivable	**899,367**	1,012,917
Related parties	**823,047**	1,063,436
Receivables from employees	**328,935**	396,651
Investment in bonds classified as loans and receivables	**200,000**	–
AFS financial assets	**1,651,264**	468,860
	₱32,925,670	₱31,021,349

Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk. As of December 31, 2009 and 2008, the aging analysis of past due but not impaired trade receivables presented per class, follow:

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:									
Residential development	**₱8,712,971**	**₱257,246**	**₱123,152**	**₱72,163**	**₱64,695**	**₱213,267**	**₱730,523**	**₱9,555**	**₱9,453,049**
Construction contracts	**119,405**	**327,432**	**93,946**	**158,885**	**158,729**	**155,917**	**894,909**	**5,927**	**1,020,241**
Shopping centers	**402,454**	**100,177**	**65,896**	**45,914**	**35,008**	**143,080**	**390,075**	**230,910**	**1,023,439**
Corporate business	**287,621**	**21,278**	**8,265**	**13,809**	**599**	**92,129**	**136,080**	**–**	**423,701**
Management fees	**35,993**	**–**	**18,490**	**5,692**	**4,368**	**35,864**	**64,414**	**4,383**	**104,790**
Others	**247,070**	**–**	**–**	**–**	**–**	**–**	**–**	**60,035**	**307,105**
Advances to other companies	**1,194,505**	**2,018**	**6,058**	**8,335**	**869**	**166,954**	**184,234**	**6,054**	**1,384,793**
Accrued receivable	**899,367**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**899,367**
Related parties	**743,515**	**71,631**	**5,686**	**–**	**–**	**2,215**	**79,532**	**–**	**823,047**
Receivables from employees	**316,424**	**4,426**	**196**	**–**	**587**	**7,302**	**12,511**	**–**	**328,935**
Investment in bonds classified as loans and receivables	**200,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**200,000**
	₱13,159,325	**₱784,208**	**₱321,689**	**₱304,798**	**₱264,855**	**₱816,728**	**₱2,492,278**	**₱316,864**	**₱15,968,467**

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:									
Residential development	₱6,826,451	₱582,193	₱136,962	₱116,545	₱52,335	₱62,215	₱950,250	₱9,555	₱7,786,256
Construction contracts	754,468	168,035	36,006	201,343	13,199	132,405	550,988	5,878	1,311,334
Shopping centers	587,368	33,849	17,394	19,201	36,190	427,508	534,142	56,522	1,178,032
Corporate business	120,718	73,704	28,882	12,581	14,492	3,845	133,504	–	254,222
Management fees	104,379	–	18,127	5,354	3,459	320	27,260	3,814	135,453
Others	80,454	14,132	30,288	14,748	12,765	42,575	114,508	7,355	202,317
Advances to other companies	1,204,651	108,184	138,312	149,682	165,436	151,336	712,950	53,875	1,971,476
Accrued receivable	934,120	1,674	242	–	–	76,881	78,797	–	1,012,917
Related parties	739,326	50,404	62,975	67,109	76,264	67,358	324,110	–	1,063,436
Receivable from employees	366,694	11,618	2,788	4,182	7,096	4,273	29,957	–	396,651
	₱11,718,629	₱1,043,793	₱471,976	₱590,745	₱381,236	₱968,716	₱3,456,466	₱136,999	₱15,312,094

The table below shows the credit quality of the Company's financial assets as of December 31, 2009 and 2008:

2009

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
				(In Thousands)			
Cash and cash equivalents	**₱10,528,726**	**₱–**	**₱–**	**₱10,528,726**	**₱–**	**₱–**	**₱10,528,726**
Short-term investments	**4,560,976**	**–**	**–**	**4,560,976**	**–**	**–**	**4,560,976**
Financial assets at FVPL	**433,821**	**–**	**–**	**433,821**	**–**	**–**	**433,821**
Accounts and notes receivables							
Trade:							
Residential development	**7,306,176**	**840,147**	**566,648**	**8,712,971**	**730,523**	**9,555**	**9,453,049**
Construction contracts	**119,405**	**–**	**–**	**119,405**	**894,909**	**5,927**	**1,020,241**
Shopping centers	**402,454**	**–**	**–**	**402,454**	**390,075**	**230,910**	**1,023,439**
Corporate business	**253,582**	**14,641**	**19,398**	**287,621**	**136,080**	**–**	**423,701**
Management fees	**11,765**	**–**	**24,228**	**35,993**	**64,414**	**4,383**	**104,790**
Others	**247,070**	**–**	**–**	**247,070**	**–**	**60,035**	**307,105**
Advances to other companies	**1,175,901**	**2,015**	**16,589**	**1,194,505**	**184,234**	**6,054**	**1,384,793**
Accrued receivable	**899,367**	**–**	**–**	**899,367**	**–**	**–**	**899,367**
Related parties	**630,171**	**31,457**	**81,887**	**743,515**	**79,532**	**–**	**823,047**
Receivable from employees	**305,803**	**–**	**10,621**	**316,424**	**12,511**	**–**	**328,935**
Investment in bonds classified as loans and receivables	**200,000**	**–**	**–**	**200,000**	**–**	**–**	**200,000**
AFS financial assets							
Unquoted	**255,183**	**–**	**–**	**255,183**	**–**	**–**	**255,183**
Quoted	**1,396,081**	**–**	**–**	**1,396,081**	**–**	**–**	**1,396,081**
	₱28,726,481	**₱888,260**	**₱719,371**	**₱30,334,112**	**₱2,492,278**	**₱316,864**	**₱33,143,254**

2008

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
				(In Thousands)			
Cash and cash equivalents	₱12,655,402	₱–	₱–	₱12,655,402	₱–	₱–	₱12,655,402
Short-term investments	1,008,923	–	–	1,008,923	–	–	1,008,923
Financial assets at FVPL	1,778,720	–	–	1,778,720	–	–	1,778,720
Accounts and notes receivables							
Trade:							
Residential development	5,090,721	1,550,140	185,590	6,826,451	950,250	9,555	7,786,256
Construction contracts	705,279	45,958	3,231	754,468	550,988	5,878	1,311,334
Shopping centers	244,806	43,391	299,171	587,368	534,142	56,522	1,178,032
Corporate business	109,057	6,479	5,182	120,718	133,504	–	254,222
Management fees	104,379	–	–	104,379	27,260	3,814	135,453
Others	80,454	–	–	80,454	114,508	7,355	202,317
Advances to other companies	1,204,651	–	–	1,204,651	712,950	53,875	1,971,476
Accrued receivable	934,120	–	–	934,120	78,797	–	1,012,917
Related parties	739,223	103	–	739,326	324,110	–	1,063,436
Receivable from others	366,694	–	–	366,694	29,957	–	396,651
AFS financial assets							
Unquoted	–	270,606	–	270,606	–	–	270,606
Quoted	100,000	98,254	–	198,254	–	–	198,254
	₱25,122,429	₱2,014,931	₱493,174	₱27,630,534	₱3,456,466	₱136,999	₱31,223,999

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

Cash and cash equivalents, short-term investments, financial assets at FVPL, AFS quoted equity securities - based on the nature of the counterparty and the Group's internal rating system

Receivables - 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

AFS financial assets - the unquoted financial assets are unrated

Interest rate risk
The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group manages its interest rate risk by leveraging on its premier credit rating and increasing the fixed interest component of its debt portfolio. The Company's ratio of fixed to floating rate debt stood at around 84:16 and 83:17 as of December 31, 2009 and 2008, respectively.

The following tables demonstrate the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates on 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):

2009

	Change in basis points	
	Effect on income before income tax	
	+ 100 basis points	**- 100 basis points**
	(In Thousands)	
Financial assets at FVPL	**(₱3,796)**	**₱3,846**
Subsidiaries - floating rate borrowings	**(27,690)**	**27,690**
	(₱31,486)	**₱31,536**

	Change in basis points	
	Effect on equity	
	+ 100 basis points	**- 100 basis points**
	(In Thousands)	
AFS financial assets	**(₱12,106)**	**₱12,438**

2008

	Change in basis points	
	Effect on income before income tax	
	+ 100 basis points	- 100 basis points
	(In Thousands)	
Financial assets at FVPL	(₱10,295)	₱10,475
Subsidiaries - floating rate borrowings	(29,045)	29,045
	(₱39,340)	₱39,520

The assumed change in rate is based on the currently observable market environment. 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 their corresponding nominal amounts and carrying values are shown in the following table (in thousands):

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	**₱10,528,726**	**₱10,528,726**	**₱–**	**₱–**	**₱10,528,726**
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	**4,560,976**	**4,560,976**	**–**	**–**	**4,560,976**
Financial assets at FVPL	Fixed at the date of investment or revaluation cut-off	Various	**433,821**	**20,476**	**413,345**	**–**	**433,821**
AFS financial assets	Fixed at the date of investment or revaluation cut-off	Various	**1,197,744**	**925,694**	**222,490**	**49,560**	**1,197,744**
Accounts and notes receivable	Fixed at the date of sale	Date of sale	**12,131,866**	**9,279,235**	**1,132,798**	**–**	**10,412,033**
			₱28,853,133	**₱25,315,107**	**₱1,768,633**	**₱49,560**	**₱27,133,300**
Company							
Short-term debt – US Dollar	Variable at 2.30%	Monthly, quarterly	**₱207,900**	**₱207,900**	**₱–**	**₱–**	**₱207,900**
Long-term debt							
Fixed							
Peso	Fixed at 7.25% to 7.75%	5, 7 and 10 years	**3,000,000**	**–**	**2,080,000**	**920,000**	**3,000,000**
Peso	Fixed at 7.76% to 8.9%	5, 7 and 10 years	**2,380,000**	**–**	**220,000**	**2,160,000**	**2,380,000**
Peso	Fixed at 8.75%	5 years	**4,000,000**	**–**	**4,000,000**	**–**	**4,000,000**
Peso	Fixed at 5%	3 years	**41,835**	**–**	**41,835**	**–**	**41,835**
Floating							
Peso	Variable at .96% over 91-day PDST-R1	7 years	**10,000**	**–**	**–**	**10,000**	**10,000**

(Forward)

	Interest terms (p.a.)	**Rate Fixing Period**	**Nominal Amount**	**< 1 year**	**1 to 5 years**	**> 5 years**	**Carrying Value**
Subsidiaries							
Short-term debt	Variable ranging from 4.75% to 5.30%	Monthly, quarterly	**1,423,000**	**1,423,000**	**–**	**–**	**1,423,000**
Long-term debt							
Fixed							
Peso	Fixed at 6.97% to 9.72%	5 to 7 years	**6,406,961**	**311,612**	**4,994,782**	**1,097,019**	**6,403,413**
Floating							
Peso	Variable at 1.00% to 1.50% over 91-day PDST R1/R2	3 months	**1,349,250**	**66,057**	**466,294**	**813,666**	**1,346,017**
			₱18,818,946	**₱2,008,569**	**₱11,802,911**	**₱5,000,685**	**₱18,812,165**

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	₱12,655,402	₱12,655,402	₱–	₱–	₱12,655,402
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	1,008,923	1,008,923	–	–	1,008,923
Financial assets at FVPL	Fixed at the date of investment or revaluation cut-off	Various	1,778,720	1,344,081	434,639	–	1,778,720
Accounts and notes receivable	Fixed at the date of sale	Date of sale	9,429,765	7,301,510	1,284,841	–	8,586,351
			₱24,872,810	₱22,309,916	₱1,719,480	₱–	₱24,029,396
Company							
Long-term debt							
Fixed							
Peso	Fixed at 7.25% to 7.75%	5, 7 and 10 years	₱3,000,000	₱–	₱2,080,000	₱920,000	₱3,000,000
Peso	Fixed at 8.75%	5 years	4,000,000	–	4,000,000	–	4,000,000
Peso	Fixed at 14.88%	10 years	580,000	–	580,000	–	580,000
Peso	Fixed at 5%	3 years	106,930	106,930	–	–	106,930

(Forward)

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Subsidiaries							
Short-term debt	Variable ranging from 7.0% to 8.5%	Monthly	1,279,500	1,279,500	–	–	1,279,500
Long-term debt							
Fixed							
Peso	Fixed at 6.97% to 9.72%	5 to 7 years	6,168,200	97,962	3,223,519	2,842,625	6,164,106
Floating							
Peso	Variable at 1.00% to 1.50% over 91-day PDST R1/R2	3 months	1,625,000	39,250	435,349	1,146,395	1,620,994
			₱16,759,630	₱1,523,642	₱10,318,868	₱4,909,020	₱16,751,530

Foreign currency risk
Financial assets and credit facilities of the Group, as well as major contracts entered into for the purchase of raw materials, are mainly denominated in Philippine Peso. The Group's placements in foreign currencies and the amount of foreign currency-denominated debt are minimal. As such, the Group's foreign currency risk is minimal.

The following table shows the Group's consolidated foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2009 and 2008:

	2009		2008	
	US Dollar	**Php Equivalent**	US Dollar	Php Equivalent
		(In Thousands)		
Financial Assets				
Cash and cash equivalents	**$17,621**	**₱816,860**	$15,703	₱746,207
Short-term investments	**6,576**	**303,799**	6,120	290,822
Accounts and notes receivable - net	**6,610**	**305,369**	–	–
Total	**30,807**	**1,426,028**	21,823	1,037,029
Financial Liabilities				
Accounts and other payables	**132**	**6,096**	–	–
Short-term debt	**4,500**	**207,900**	–	–
Total	**4,632**	**213,996**	–	–
Net foreign currency denominated assets	**$26,175**	**₱1,212,032**	$21,823	₱1,037,029

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine peso-US dollar 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.

	Effect on profit before tax	
Increase (decrease)in exchange rate	**2009**	2008
	(In Thousands)	
₱1.00	**₱26,175**	₱21,823
(₱1.00)	**(₱26,175)**	(₱21,823)

There is no other impact on the Group's equity other than those already affecting the net income.

Price risk
AFS financial assets are acquired at a certain price 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 several factors such as interest rate movements, 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%**	**₱513**
	-5%	**(98)**

2008

Market index	Change in variables	Effect on equity
PSEi	+5%	₱1,534
	-5%	3,354

30. Segment Information

The industry segments where the Group and its associates and joint ventures operate follow:

Core business:

- Shopping centers - development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; management and operation of malls which are co-owned with partners
- Corporate business - development and lease or sale of office buildings; sale of industrial lots and lease of factory building
- Residential developments - sale of high-end and upper middle-income residential lots and units, affordable housing units and lots, and leisure community developments; lease of residential developments under joint venture
- Strategic landbank management - acquisition, development and sale of large-scale, mixed-use, masterplanned communities; sale of override units or the Company's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center
- Construction - land development and construction of the Group and third-party projects
- Visayas-Mindanao - development, sale and lease of the Group's product offerings in key cities in the Visayas and Mindanao regions. This consists of shopping centers and residential developments

Support Businesses:

- Hotels - development and management of hotels/serviced apartments and lease of land to hotel tenants
- Property management - facilities management of the Group and third-party projects
- Others - other income from investment activities and sale of non-core assets.

The Company and its subsidiaries generally account for inter-segment sales and transfers as if the sales and transfers were to third parties at current market prices.

In 2008, the Group presented Construction as a reportable segment. Previously, Construction has been included as part of Support businesses. The 2007 segment information has been restated to be consistent with the 2008 presentation.

Business segments

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

2009

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	₱4,443	₱1,993	₱14,338	₱2,148	₱194	₱2,714	₱2,244	₱–	₱–	₱28,074
Intersegments sales	446	–	275	253	–	5,487	212	–	(6,673)	–
Equity in net earnings of associates and jointly controlled entities	176	–	–	685	103	–	–	4	–	968
Total revenue	5,065	1,993	14,613	3,086	297	8,201	2,456	4	(6,673)	29,042
Operating expenses	2,700	1,078	11,676	1,745	226	7,767	2,155	862	(6,401)	21,808
Operating profit	2,365	915	2,937	1,341	71	434	301	(858)	(272)	7,234
Interest income										780
Interest expense										(1,345)
Other income										632
Other charges										(1,455)
Provision for income tax										(1,165)
Net income										₱4,681
Net income attributable to:										
Equity holders of Ayala Land, Inc.										₱4,039
Noncontrolling interests										642
										₱4,681
Other Information										
Segment assets	₱18,410	₱17,938	₱59,806	₱9,692	₱1,232	₱6,466	₱2,760	₱10,832	(₱30,941)	₱96,195
Investment in associates and jointly controlled entities	2,093	–	–	6,281	1,972	–	–	452	–	10,798
	₱20,503	₱17,938	₱59,806	₱15,973	₱3,204	₱6,466	₱2,760	₱11,284	(₱30,941)	₱106,993
Deferred tax assets										1,078
Total assets										₱108,071
Segment liabilities	₱7,392	₱5,662	₱18,771	₱3,552	₱349	₱5,060	₱1,246	₱12,616	(₱5,922)	₱48,726
Deferred tax liabilities										151
Total liabilities										₱48,877

(Forward)

	Shopping Centers	**Corporate Businesses**	**Residential Development**	**Strategic Landbank Management**	**Vismin**	**Construction**	**Support Businesses**	**Corporate**	**Intersegment Adjustments**	**Consolidated**
Segment additions to property and equipment and investment properties	**₱1,131**	**₱431**	**₱154**	**₱458**	**₱–**	**₱–**	**₱151**	**₱3,218**	**(₱648)**	**₱4,895**
Depreciation and amortization	**₱967**	**₱361**	**₱76**	**₱8**	**₱3**	**₱108**	**₱147**	**₱117**	**₱–**	**₱1,787**
Non-cash expenses other than depreciation and amortization	**₱80**	**₱–**	**₱87**	**₱866**	**₱246**	**₱4**	**₱1**	**₱3**	**₱–**	**₱1,287**
Impairment losses	**₱80**	**₱–**	**₱29**	**₱371**	**₱246**	**₱4**	**₱1**	**₱3**	**₱–**	**₱734**

2008

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	₱4,281	₱1,088	₱15,297	₱1,743	₱161	₱5,689	₱2,358	₱–	₱–	₱30,617
Intersegments sales	348	–	472	–	–	4,490	221	–	(5,531)	–
Equity in net earnings of associates and jointly controlled entities	138	14	–	576	201	–	–	(44)	–	885
Total revenue	4,767	1,102	15,769	2,319	362	10,179	2,579	(44)	(5,531)	31,502
Operating expenses	2,689	689	12,535	1,273	233	9,642	2,135	1,093	(5,831)	24,458
Operating profit	2,078	413	3,234	1,046	129	537	444	(1,137)	300	7,044
Interest income										926
Interest expense										(1,050)
Other income										1,321
Other charges										(793)
Provision for income tax										(2,065)
Net income										₱5,383
Net income attributable to:										
Equity holders of Ayala Land, Inc.										₱4,812
Noncontrolling interests										571
										₱5,383
Other Information										
Segment assets	₱17,250	₱15,971	₱57,823	₱9,477	₱2,116	₱7,163	₱3,252	₱4,668	(₱27,842)	₱89,878
Investment in associates and jointly controlled entities	2,521	–	–	5,163	1,940	–	–	292	–	9,916
	₱19,771	₱15,971	₱57,823	₱14,640	₱4,056	₱7,163	₱3,252	₱4,960	(₱27,842)	₱99,794
Deferred tax assets										795
Total assets										₱100,589

(Forward)

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Segment liabilities	₱7,142	₱5,042	₱17,345	₱2,328	₱806	₱5,893	₱1,413	₱11,051	(₱5,772)	₱45,248
Deferred tax liabilities										162
Total liabilities										₱45,410
Segment additions to property and equipment and investment properties	₱1,967	₱1,389	₱273	₱–	₱880	₱172	₱267	₱54	₱–	₱5,002
Depreciation and amortization	₱761	₱189	₱50	₱–	₱2	₱100	₱53	₱103	₱–	₱1,258
Non-cash expenses other than depreciation and amortization	₱49	₱–	₱–	₱–	₱379	₱11	₱–	₱23	₱–	₱462
Impairment losses	₱49	₱–	₱–	₱–	₱379	₱11	₱1	₱23	₱–	₱463

2007

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	₱4,175	₱993	₱12,918	₱414	₱176	₱1,799	₱2,372	₱–	₱–	₱22,847
Intersegments sales	360	–	197	–	–	4,317	17	–	(4,891)	–
Equity in net earnings of associates and jointly controlled entities	125	86	–	420	138	–	–	18	–	787
Total revenue	4,660	1,079	13,115	834	314	6,116	2,389	18	(4,891)	23,634
Operating expenses	2,389	597	10,820	383	205	5,704	2,124	865	(5,290)	17,797
Operating profit	₱2,271	₱482	₱2,295	₱451	₱109	₱412	₱265	(₱847)	₱399	5,837
Interest income										586
Interest expense										(893)
Other income										1,486
Other charges										(964)
Provision for income tax										(1,556)
Net income before income associated with noncurrent assets held for sale										4,496
Income associated with noncurrent assets held for sale, net of tax										599
Net income										₱5,095
Net income attributable to:										
Equity holders of Ayala Land, Inc.										₱4,497
Minority interests										598
										₱5,095

(Forward)

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Other Information										
Segment assets	₱16,937	₱9,071	₱45,596	₱8,848	₱1,449	₱5,797	₱2,830	₱7,704	(₱24,961)	₱73,271
Investment in associates and jointly controlled entities	2,176	238	–	4,497	1,810	–	–	318	–	9,039
	₱19,113	₱9,309	₱45,596	₱13,345	₱3,259	₱5,797	₱2,830	₱8,022	(₱24,961)	₱82,310
Deferred tax assets										671
Total assets										₱82,981
Segment liabilities	₱5,815	₱626	₱11,889	₱1,808	₱99	₱4,694	₱1,032	₱11,873	(₱5,715)	₱32,121
Deferred tax liabilities										114
Total liabilities										₱32,235
Segment additions to property and equipment and investment properties	₱1,127	₱321	₱89	₱–	₱4	₱159	₱88	₱80	₱–	₱1,868
Depreciation and amortization	₱862	₱97	₱51	₱–	₱1	₱86	₱127	₱86	₱–	₱1,310
Non-cash expenses other than depreciation and amortization	₱213	₱–	₱–	₱–	₱–	₱–	₱–	₱54	₱–	₱267
Impairment losses	₱28	₱–	₱–	₱–	₱–	₱–	₱–	₱61	₱–	₱89

31. Registration with Philippine Economic Zone Authority (PEZA)

LTI is registered with PEZA on October 27, 1999 as a non-pioneer "ecozone developer/operator" The PEZA registration entitled the subsidiary to a four-year income tax holiday from the start of its commercial operations. At the expiration of its four-year tax holiday, the subsidiary pays income tax at the special tax rate of 5% on its gross income earned from sources within the PEZA economic zone in lieu of paying all national and local income taxes.

Likewise, Ceci Realty, Inc. also became registered with PEZA in 2007 as the "developer/operator" of the Lakeside Evozone.

32. Leases

Operating Leases - Group as Lessor
The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals receivable under noncancellable operating leases of the Group follow:

	2009	2008
	(In Thousands)	
Within one year	**₱1,616,618**	₱1,361,011
After one year but not more than five years	**4,789,404**	3,783,220
More than five years	**3,349,840**	1,403,205
	₱9,755,862	₱6,547,436

Operating Leases - Group as Lessee
The Group entered into 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 payable under noncancellable operating leases of the Group follow:

	2009	2008
	(In Thousands)	
Within one year	**₱104,581**	₱104,581
After one year but not more than five years	**418,323**	418,323
More than five years	**1,359,550**	1,464,131
	₱1,882,454	₱1,987,035

33. Interest in a Joint Venture

MDC has a 51% interest in MDC-FBIJV (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 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 the Company's financial statements follow:

	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 expense	**(831)**	(2,250)
Net profit	**₱103,422**	₱218,263

Provision for income tax expense pertains to the final tax on interest income.

34. Long-term Commitments and Contingencies

Commitments

The Company has an existing contract with BCDA to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, the Company transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity.

As part of the bid requirement, the Company 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, the Company 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 all its title and interest to the lot and the Company in turn shall provide the necessary cash and expertise to undertake and complete the implementation of the residential development. The Company commits to invest sufficient capital to complete the residential development.

The Company 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 the Company to pay BCDA annual minimum revenue share for each of the first 8 selling periods of the residential project.

In 2002, the Company 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.

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 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.