





### Cover Rationale

Ayala Land has always believed in sustainable development. We achieve this through a firm commitment to equitable growth that balances our responsibilities to our investors while minimizing our environmental footprint as a major property developer. We also recognize the needs of the broader base of aspiring homeowners beyond our core markets who are less financially capable but are driven by dreams to one day live in their own homes and be part of Ayala Land communities. We intend to pursue these opportunities aggressively by investing in new technologies and participating in partnerships that will allow us to create relevant real estate products and contribute significantly to meaningful change through social development.

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# Vision and Mission

## Enhancing Land and Enriching Lives, for More People

Our vision is to enhance our standing and reputation as the Philippines' leading real estate developer, and to be a strong partner in nation building. By developing integrated, masterplanned and sustainable mixed-use communities in vibrant growth centers all over the country, we strive to continually elevate the quality of life for all of our customers.

We shall be a responsible corporate citizen and act with integrity, foresight and prudence. We shall empower our employees to deliver products that exceed our customers' expectations and build long-term value for our shareholders.

## About this Integrated Annual and Sustainability Report

This is the first time that Ayala Land, Inc. is releasing an Integrated Annual and Sustainability Report.

Sustainable development has always been one of our key guiding principles and in 2008, we formalized this approach with the publication of our first Sustainability Report covering our initiatives and performance in 2007. This was a self-declared C-level report which complied with the guidelines of the Global Reporting Initiative (GRI). Last year, we issued our second Sustainability Report, which took a step further and was published in accordance with GRI B-level guidelines, and where we reported on a total of 23 GRI performance indicators.

As we continue to more closely integrate and embed sustainability concepts and practices into our strategies and business models, we have deemed it appropriate to issue a single, fully-integrated report which covers the financial as well as the environmental and social aspects of our Company's performance in 2009. This report remains compliant with GRI B-level guidelines and we are proud to have continued our progression as we are now reporting on a total of 37 GRI performance.

In addition, the sustainability portion of this report will contain reviews and commentaries from representatives of some of our most important stakeholders. Their views are their own, and based strictly on their experience and understanding of how we conduct our business as a Company. We believe that the inclusion of this additional feedback makes this integrated report much more meaningful.

A feedback form has been included in this report and we hope that you can share your views and comments with us. We intend to keep improving the standards of both our sustainability practices and reporting in the years to come and your feedback is a very important part of this process. Alternatively, you may also contact us about this report and its contents via email at [integratedreport@ayalaland.com.ph](mailto:integratedreport@ayalaland.com.ph).

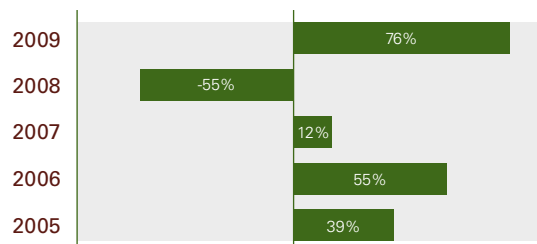
# How did we do?

## Year in Summary

“With the prospect of a challenging and volatile 2009, we adopted a measured and conservative approach to our product launches. Despite this, we maintained our strong financial performance and generated the highest one-year return for our shareholders in 15 years.”

1

Total Shareholder Return (TSR)



Shareholder Returns  
see p.6

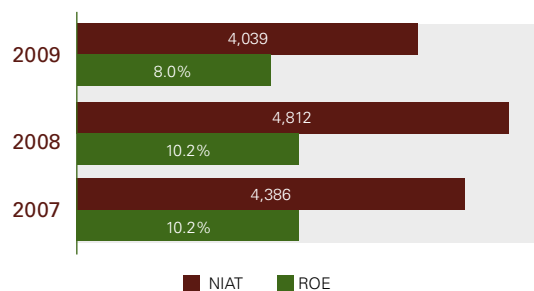
**76%**

Total Shareholder Return

Our TSR for 2009 was a 15-year high.

2

Net Income and Return on Equity



Financial Performance  
see p.132

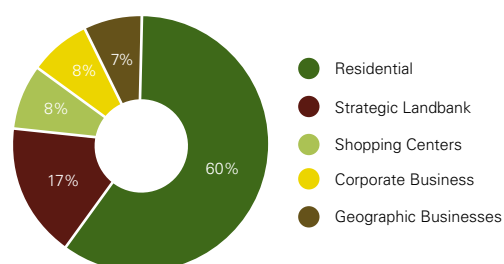
**₱4.0 B**

Net Income After Tax

Core net income nearly matched record level achieved in 2008.

3

Capital Expenditure



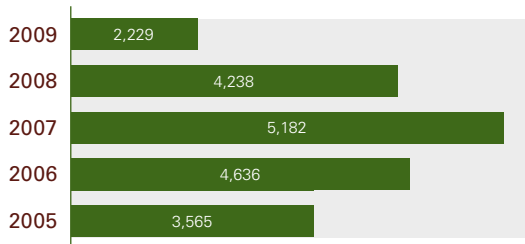
Growth Centers  
see pp.26 and 132

**₱16.2 B**

Capital expenditure

We spent Php16.2 billion for the completion of committed projects and expansion into new growth centers.

Number of Units Launched



Residential Development  
see pp.32 and 132

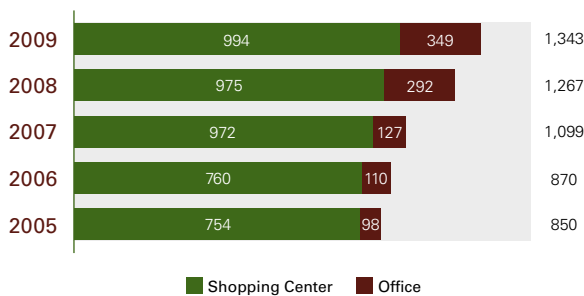
# 2,229

Residential units launched

Project launches were deliberately slowed down in expectation of soft market conditions.

# 4

Total Gross Leasable Area ('000 sqm)



Leasing Portfolio  
see pp.38 and 132

# 1.3M

Square meters of total GLA for malls and office buildings

Our leasing portfolio expanded 6% with the addition of MarQuee Mall and 4 BPO buildings at U.P.-AyalaLand TechnoHub.

# 5

Net Operating Income (NOI) Margins



Operating Margins  
see pp.17 and 132

# 32%

NOI Margins

Margin improvement was a result of cost control measures, project savings, and improved operating efficiencies.

# 6

### For the year, we:

- Created the Board Sustainability Committee
- Established multi-year targets for environmental, social and economic sustainability
- Rolled out ALI Green Training Series

Sustainability Reporting  
see p.74

# 61%

Increase in GRI performance indicators reported

We maintained GRI B-Level reporting but increased the indicators from 23 to 37, and included stakeholders' commentaries.

# 7



# Perspectives on 2009 and beyond

Messages

Chairman's Message

President's Message

CFO and Compliance Officer's Report

# Chairman's Message



## Fernando Zobel de Ayala Chairman

### Key Points

- Macroeconomic fundamentals remain stable and supportive
- Real estate market resilient, with strong demand
- 2009 a transitional year, with a new strategy in place
- 76% TSR highest in 15 years; cash dividends to increase
- Will retain industry leadership in sustainability

My fellow stockholders,

**W**hat a difference a year makes. Just twelve months ago, real estate markets all over the world were gripped by fear and panic, causing asset prices to collapse in many major economies. Our own property market experienced a brief crisis of confidence in the first quarter of 2009 which affected both overseas and domestic buyers. This prompted your Company to take a conservative posture which was oriented more towards the preservation of liquidity and the completion of existing project commitments, rather than the aggressive launch of new products.

As the year progressed, however, we started to get a clearer sense of the impact of the crisis. Major economies remained in a state of recession, but many keen observers began to realize that the worst was likely over, that the coordinated stimulus packages of central banks all over the world had stabilized the markets, and that the correction in asset markets had bottomed.

“It is estimated that more than half of the US\$17.3 billion in remittance flows received in 2009 will end up having a positive impact on the real estate industry, either being spent directly on residential purchases or property-supporting industries such as retail.”

In the Philippines, demand for higher-end residential projects slowed down in the fourth quarter of 2008 and the first quarter of 2009, but prices did not correct in any meaningful fashion and neither was there any evidence of a spike-up in secondary market sales. This, to us, was a clear indication that both macroeconomic and industry fundamentals were, in fact, robust and resilient. It also meant that demand would likely recover quickly once buyers realized that the corrections experienced during the Asian crisis a decade ago were not going to be repeated.

### Strong industry fundamentals

Indeed, the Philippines outperformed most other economies in the region in 2009. GDP and private consumption growth remained positive and our inflation remained benign. This, together with a stable currency, record gross international reserves, and current account and balance of payment surpluses, supports a low interest rate environment that is conducive to real estate investments.

In addition, overseas Filipino remittances remained very robust and easily outperformed nearly all analyst expectations with a 6% year-on-year growth. It is estimated that more than half of the US\$17.3 billion in

remittance flows received in 2009 will end up having a positive impact on the real estate industry, either being spent directly on residential purchases or property-supporting industries such as retail. Credit, meanwhile, remains highly affordable and available, especially when one considers the very high amounts of liquidity being kept in the banks and in special deposit accounts with the *Bangko Sentral ng Pilipinas*.

As far as the real estate sector is concerned, we also believe that there was no bubble to burst simply because we did not build one in the preceding five years, unlike many other areas around the world. In fact, asset reflation has been moderate, with prime Makati land values growing at less than 10% annually prior to last year. We believe that this is the kind of stable return that promotes long-term investments and a healthy market, and not the kind of speculative behavior that builds property bubbles.

We did not experience an excessive inventory build-up from property players as there was a relative equilibrium with the amount of new inventory matching up well with the amount taken up by the market, resulting in relatively healthy vacancy rates in most areas. In addition, there is a significant housing backlog and

## Chairman's Message



domestic demand remains robust, especially in the end-user driven middle-income, affordable and economic housing segments. This is not very surprising given that Filipino families still see home ownership as one of their life ambitions. With financing costs remaining near all-time lows and with steady remittance support for an increasing number of households, that dream has never been more real than it is today.

### **A transitional year, a new strategy**

With this in mind, 2009 can therefore be viewed as a transitional year for Ayala Land and a good year for your Company. While our conservative posture resulted in a relatively limited launch of new units for the residential market, our existing projects recovered and sold very well as buyer confidence returned. This allowed your Company to post a net income of Php 4.0 billion for the full year. A thorough discussion of our financial results can be found in our Management's Discussion and Analysis of Financial Results section of this Integrated Annual and Sustainability Report, which starts on page 132.

More importantly, we used the time last year to formulate and begin the implementation of an aggressive five-year strategic plan which is designed to

take your Company to a whole new level, and which we feel is more focused on delivering on the high expectations of our long-term shareholders. Led by our new President and Chief Executive Officer Antonino T. Aquino, who was appointed to his position a year ago, this strategy is anchored on a four-pillar plan designed to achieve our twin goals of doubling our level of net income and delivering a mid-teen Return on Equity (ROE) within five years. The details of this will be discussed at length in the President's Message, which starts in the next section.

Some of you who are reading this letter may already be familiar with the salient points of this new strategy. We have been very active in communicating this to our investors through a series of roadshows, investor conferences, analyst briefings and company visits throughout 2009. By the time you read this, you will likely have already heard that 2010 will be our busiest and most aggressive year ever as we look forward to launching more than 9,200 residential units. We believe that the foundations of a great year are already in place and we remain fully committed to communicating with you as frequently as possible to provide updates on key developments and results as measured against the deliverables of these four pillars.

### Rewarding our shareholders

With the positive outlook that we, along with many others, see for our industry and with an aggressive and exciting new strategy in place, 2009 was actually a good year for our shareholders. Your Company's Total Shareholder Return (stock price increase plus dividends received) reached 76%, which is the highest that we have achieved in a single year since 1994. We will continue to do everything that we can to ensure that your Company's stock price will be reflective of improving fundamental performance and we will likewise be focused on the need to meet our shareholders' dividend expectations. Increasing cash dividends will be part of our capital efficiency strategy and your Company will migrate from a fixed to a payout-based cash dividend policy beginning 2010. Our initial target is to increase this to 30% this year, from the equivalent of 16% which we paid last year. Our medium-term goal is to gradually increase this to 50% of prior-year's net income by 2014.

### An integrated approach to sustainability

Sustainability has always been a key component of our approach to land development. As the leading property developer in the Philippines, your Company has a major impact on the environmental, social and economic well-being of the communities where we operate, and our nation as a whole. We are committed not only to excellence in our products but to also leading our industry and our country in helping to address the many sustainability challenges that we face.

The realities of the devastating effects of climate change, for example, were made very clear in 2009 with the impact of Typhoons Ondoy and Pepeng. While it was heartening to see how we as a nation came together in the relief efforts and the outpouring of support for our affected countrymen, the message was nonetheless clear – everyone needs to face our environmental issues and act on these challenges. There are many, many things that we can all do to improve sustainability practices in our businesses

and in our personal lives. Ayala Land has been leading the way on this front, and we will continue to raise the bar as we integrate and link sustainability more and more into all of our strategies, operations and business processes.

This is why we are now, for the first time, integrating our Sustainability Report into our Annual Report. Sustainability has become part of how we act as a responsible corporate citizen and is an important factor in everything that we do. As you read through our sustainability efforts and practices beginning on page 74, we hope that you will make the commitment to take this journey with us as well.

In closing, let me just take this opportunity to sincerely thank my fellow Directors on your Company's Board, the management team, and all of our employees for all of the hard work these last twelve months. I know that everyone put in a tremendous amount of effort to deal with not only the difficult crisis that we faced last year, but to also then quickly shift gears when the market turned around. I believe that the foundations have been laid for some very exciting times, not only in 2010, but over the next five years as well. I also want to thank all of our customers, business partners and, most especially, our shareholders who have supported us through all of these difficult cycles. Rest assured that we will continue working very hard to exceed your expectations.

Thank you.



Fernando Zobel de Ayala  
Chairman

# President's Message



**Antonino T. Aquino**  
**President and**  
**Chief Executive Officer**

## Key Points

- Strong financial performance in 2009
- Goal: Double net income and achieve mid-teen ROE by 2014
- Growth strategy anchored on geographic, product and segment expansion
- Asset turnover, margins and capital efficiency to improve
- Focus on organizational development and sustainability

To our valued shareholders,

**D**espite the challenging environment we faced last year, which our Chairman discussed at length in his message, I am pleased to report that Ayala Land, Inc. once again posted a strong financial performance in 2009. We posted Php30.5 billion in revenues and our core net income after tax reached Php4.0 billion, quite an accomplishment considering that this nearly matched the all-time high that we recorded in 2008. This definitely exceeded our expectations and you can read more about our financial performance in our Management's Discussion and Analysis of Financial Results section of this annual report on page 132.

I believe that this achievement is a clear barometer for how well your Company has been able to thrive even under the most difficult circumstances while quickly adjusting to the shifting market conditions. With economic and property sector prospects uncertain at the start of the year, we took a conservative stance and scaled back on our capital expenditure program – especially for new investments – as a way of

Figure 1.  
Our Four-Pillar Strategy



managing our overall risk exposure. Our total capital expenditure of Php16.2 billion was 14% lower than 2008 as we focused primarily on the completion of projects that we had already committed to our customers. This helped bring in a steady revenue stream which contributed strongly to our financial performance for the year. And when the market started turning more positive, we were able to respond with the acceleration of some new product launches which allowed us to post improving quarterly results as the year progressed.

### Our performance in 2009

In our residential segment, for instance, we focused on the more resilient segments of the market and delivered 2,229 new units coming from three new projects as well as additional phases of existing developments. Avida Towers San Lorenzo in Makati, Avida Residences in Cavite, and Alveo's Ametta Place in Pasig were the new projects launched as we felt that demand for quality residential products would remain stable in the middle-income to affordable segments. We also sharpened our execution and delivery for these and other ongoing projects and achieved an even higher level of customer satisfaction, enabling us to strengthen our brand equity further across all segments.

Our leasing businesses meanwhile continued their expansion in both our shopping center and office portfolios. For shopping centers, 2009 was highlighted by the continued ramp-up and success of Greenbelt 5 and the opening of MarQuee Mall in Pampanga last September. MarQuee added 37,000 square meters of gross leasable area (GLA) to our shopping center portfolio and sustained our mall expansion program. We also achieved higher average occupancy levels across all our malls and effectively leased out 97% of our available shopping center GLA as of end-2009 as we leveraged on the long-term relationships we have built with our merchants and anchor tenants over the years.

We also completed the remaining four buildings in U.P.-AyalaLand TechnoHub which added a total area of 40,000 square meters of GLA to our business process outsourcing (BPO) portfolio. This brought our total BPO GLA to 257,300 square meters, a seven-fold increase compared with just two years ago. Of these, 178,160 square meters were leased out, which was more than double the 2008 level. While the market had experienced a supply-demand imbalance in 2009, we expect this to correct as early as next year and are already positioning ourselves accordingly.

# President's Message

Figure 2.  
Geographic Coverage and Expansion Program for 2010



In addition, we acquired two very strategic parcels of land in Quezon City and Subic. We concluded a joint venture agreement with the National Housing Authority to masterplan and develop the 29-hectare North Triangle Property beside TriNoma. We also signed a 50-year lease agreement with the Subic Bay Metropolitan Authority for the right to develop a 7.5-hectare property within the Subic Bay Freeport Zone. These will be part of our expansion into growth centers across the country that I will discuss in the next section of this message.

### Our plans for the future

Having rejoined the Company at our Annual Stockholders' Meeting last year, my first order of business was to re-familiarize myself with all facets of our business operations and I talked to as many of our customers, employees and shareholders as possible. I soon came to three conclusions: The first is that the market was stronger and deeper than we originally thought, but was also increasingly competitive. Second, we have a great Company with great people and a lot of strengths and advantages. Finally, however, I realized that we had not done enough to take advantage of the first two conclusions and we were capable of so much more. This latter point was also echoed by many of the long-term institutional shareholders that I had the opportunity to engage in productive discussions with.

With this in mind, we put in place an ambitious plan to take advantage of the improving market conditions, recover and strengthen market share across all our competitive segments, and broaden our base by entering segments further down the economic pyramid that allow us to reach more Filipino families. We will also be raising the efficiency with which we deploy our operating and financial resources while delivering fully on the expectations of our investors.

Our goal, as briefly mentioned in our Chairman's Message, is that within five years (or by 2014), we aim to double our net income and achieve a mid-

teen Return on Equity (ROE). This will be supported by a four-pillar strategy comprised of the following elements: Growth, Margin Improvement, Capital Efficiency and Organizational Development (see Figure 1 on page 11). This will effectively leverage on our core competency of developing integrated, mixed-use and masterplanned communities and expand our coverage in key growth centers around the country. In 2010 and the coming years, your Company will increase its presence and visibility in existing geographies and expand to new core growth markets. We also intend to roll-out the full breadth of the Ayala Land product portfolio in many of our new developments. Let me now discuss these four pillars in more detail.

### A robust and diverse growth platform

With the objective of doubling our net income, growth must clearly be at the heart of our strategy. This is also premised on the realization that with the quality of our brand, our landbank and all the other resources at our disposal, we should really be operating at a far higher level and be able to put some distance between ourselves and our competitors.

We have also come to recognize that with economic and property drivers like stable overseas Filipino (OF) remittances, strong consumption patterns and strengthening demand for BPO office space, the opportunity now exists to broaden our base further both in terms of geographic and product expansion. Our intention therefore is to aggressively grow our traditional products in more locations across the country while also introducing new products that cater to a broader base of the Philippine economic pyramid. And we will do this in a way that leverages on our unique and proven ability to move with scale in each of these areas. Figure 2 shows the extent of our planned geographic expansion for 2010.

Moving forward, we have identified as many as 30 growth centers across the country where we are either actively strengthening or slowly establishing

“Moving forward, we have identified as many as 30 growth centers across the country where we are either actively strengthening or slowly establishing our presence to effectively expand our footprint into new geographies.”

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our presence to effectively expand our footprint into new geographies. Aside from the recently concluded North Triangle and Subic deals, we will be launching new residential, shopping center and office projects this year in several growth centers within and outside Metro Manila and Cebu, such as Laguna, Cavite, Pampanga, Baguio, Bacolod, Iloilo, Davao and Cagayan de Oro.

We will also expand our offerings through new business opportunities that will enable us to diversify our portfolio and tap into other consumer segments unserved by our existing brands. We will introduce new formats within our existing business models like the foray into economic housing under a fourth residential brand Amaia, the roll-out of community and neighborhood centers in our retail portfolio, and the launch of our boutique hotel and condotel products. We are also very much aware that there remains a large potential for tourism estate-related ventures and we are keen to capitalize on this with some possible investments within the year.

### Driving margin improvements

In order to reach our goals, we need to achieve not just growth, but more profitable growth. While our products command premium prices in the marketplace, we

need to ensure that these effectively translate as well to premium profit margins. We have been reviewing all of our cost models to see where we can derive additional improvements and we believe that we can improve our operating margins by one percentage point each year over the next five years. Our initial results have been very encouraging and most of these spend management programs are discussed at length in our Chief Finance Officer's (CFO) report, which is the next section of this Integrated Annual and Sustainability Report.

### Enhancing the efficiency of our capital

With our growth and margin improvement strategies driving returns, we also have to pay equal attention to the capital side of the equation in order to achieve our ROE targets. This strategy will have several dimensions. The first and most important is that we simply must improve our asset efficiency, as measured by asset turnover. In supporting our aggressive growth strategy, we will be deploying an asset-light approach to development, making use of joint ventures and long-term lease arrangements where possible. This is the model that we employed in our acquisition of the North Triangle and Subic land parcels last year, and even in the Cagayan de Oro joint venture which was announced in the first quarter of this year.

This will also require a faster development timetable for all of our growth centers, as well as using our unique ability to “move with scale” in mixed-use developments in order to free up lots for value capture and maximize the utilization of our leasing assets. In addition, we will be optimizing our cash balances and use of leverage in order to move away from our effective zero-net debt position, gradually improve our cash dividend payout, and explore a possible Real Estate Investment Trust (REIT) listing as an efficient means of recycling our capital. These will also be discussed in more detail in the CFO report.

### Organizational Development

Finally, pursuing all these goals, strategies and plans will obviously carry significant organizational challenges. We need to make sure that the organization is flexible, empowered and capable of delivering on all these challenges. The main areas of focus in this area will be risk management, leadership and talent development, and the enhancement of decision and backroom support systems.

Risk management in particular will be critical and we will be strengthening our Enterprise-Wide Risk Management (EWRM) systems to ensure that our record activity and launch levels do not bring about excessive levels of risk, especially with respect to quality levels and project financial commitments. We have formalized the oversight structure within the Board by re-constituting the Audit Committee into an Audit and Risk Committee, appointed a Chief Risk Officer, and are working to strengthen our risk monitoring and mitigating procedures across the organization. These will be discussed in the Risk Management section which begins on page 69.

To ensure that we meet the manpower demands of our expansion without growing the organization unnecessarily, we have instituted a talent development program that focuses on hiring from the bottom, investing heavily in coaching and formal training, and cross-posting to develop cross-functional leadership

skills while facilitating upward mobility in the process as well. We are also implementing a management training program which will allow for the fast-tracking of development of high-potential individuals.

### Enhancing and promoting sustainability

Within the framework of all these strategies, we will ensure that we maintain, and even strengthen, our focus on sustainable development. We firmly believe that sustainability across economic, environmental and social dimensions remains one of our key competitive and differentiating advantages. The integration of our Annual and Sustainability Reports hopefully conveys that sustainability objectives are increasingly being embedded into our business models.

We are pleased that our efforts along these lines are gaining recognition and your Company was one of only two Philippine companies in the top 30 firms cited in the 2009 Asian Sustainability Rating (ASR) report by Corporate Social Responsibility (CSR) Asia. Last year, our program “ALI Green Training Series” also received an Asian CSR Excellence Award presented by the Asian Institute of Management during the Asian Forum on CSR held in Manila. Our progress in terms of sustainability is well documented in the second half of this integrated report. As of 2009, we have been able to measure, monitor and report on 37 GRI performance indicators, an increase of 61 % from the 23 we reported on the previous year. We intend to keep ramping this up over the next few years as we aim to get closer to full level-A reporting.

In practice, many of our cost reduction programs are actually also closely tied up to our sustainability efforts. For example, we have pioneered the design and use of green technology in our newer facilities, such as district cooling and greywater recycling systems that help us conserve precious natural resources and minimize our consumption of energy and water in the long run. In addition, our solid waste management program implemented across all

“Within the framework of all these strategies, we will ensure that we maintain, and even strengthen, our focus on sustainable development. We firmly believe that sustainability across economic, environmental and social dimensions remains one of our key competitive and differentiating advantages.”

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Ayala Property Management Corp. (AMPC)-managed facilities continued to gain ground, reducing the amount of disposable residual waste that our facilities collectively generate.

We have also taken our social responsibility a step further by promoting community and livelihood development projects, such as the basket weaving program we offered to the communities around NUVALI, our cooperation with other Ayala Group companies to help rehabilitate the Pasig River through the “Kapit Bisig Para sa Ilog Pasig” project, and by masterplanning and developing the informal settlers’ relocation site in Calauan, Laguna. I encourage you to read about all these and our other sustainability initiatives beginning on page 74.

In closing, let me personally thank my fellow members of the Board and the Management Committee, all our employees, shareholders, partners, and, of course, all our customers for your support these past twelve months. A tremendous amount of hard work has been put in by so many people. It has been a very challenging time but also very rewarding because I believe that we are now on the path to some very exciting times ahead for your Company. With your continued support, I have every confidence that we will deliver on, and perhaps even exceed, your expectations.

Thank you.



Antonino T. Aquino  
President and Chief Executive Officer

# CFO and Compliance Officer's Report



## Jaime E. Ysmael Chief Finance Officer and Compliance Officer

### Key Points

- Achieved significant improvements in cost models and operating efficiencies
- Implemented EWRM and appointed Chief Risk Officer
- Record capex of Php27.2 billion for 2010
- Net gearing to rise within debt capacity limits
- Target REIT listing by second half of 2010

*As you recall, 2009 started with a high degree of market uncertainty as many analysts feared that the recession in many major economies would linger for quite a while. Business and consumer confidence were both affected, resulting in a general slowdown of economic activity. Back then, our chief priorities were to manage risks and preserve liquidity in order to mitigate any possible adverse impact on your Company of a severe and protracted slowdown. At the same time, we were also preparing ourselves for the eventual market upturn by working hard to improve our cost models while improving our operating efficiencies where possible.*

Even against this backdrop, it is notable that your Company managed to record Php30.5 billion in revenues and a net income after tax of Php4.0 billion. While slightly lower than the previous year's record pace, this result nonetheless exceeded most analysts' expectations. A thorough discussion of our overall performance as well as that of our strategic business units (SBUs) is provided in our Management's Discussion and Analysis of Financial

# CFO and Compliance Officer's Report

Results immediately preceding our detailed financial disclosures at the end of this Integrated Annual and Sustainability Report.

## A look back at 2009

Given the perceived risks we faced at the time, we adopted a very deliberate and selective approach to our new project pipeline and this resulted in our lowest number of launches in recent years. In line with this, we moved to strengthen our risk management oversight structures and practices. We expanded the scope of the Board's Audit Committee and reconstituted it as an Audit and Risk Committee with a revised charter covering this broader role. We have also formalized the implementation of our Enterprise-Wide Risk Management (EWRM) program and we recently bolstered this with the creation of a Chief Risk Officer position as a management function having a direct reporting line to the Audit and Risk Committee.

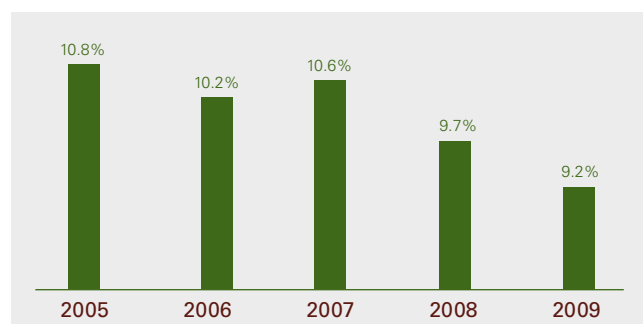
Given our posture during the volatile environment twelve months ago, our Finance team prioritized a strong liquidity position and tighter cost controls. In line with this, we maintained a high level of cash reserves at both the Parent Company and within each of our major operating subsidiaries and affiliates. This ensured that we would be able to keep our construction schedule on committed and ongoing projects on track. As part of this effort, we obtained a total of Php3.4 billion in fresh debt at rates that compared very favorably against other capital market issues at the time. We also raised another Php1.1 billion from the sale of some of our accounts receivables related to the sale of residential units, on a non-recourse basis. These enabled us to end the year with a healthy cash position of Php15.5 billion, with a net-debt to equity ratio of 0.06:1 and a very comfortable current ratio of 1.95:1.

To bring our costs down and improve operating efficiencies further, we collaborated closely with our various product development groups and identified

areas at every stage of the project development process where savings could be generated. For example, we implemented strict design-to-cost parameters for all future projects that will effectively allow us to achieve a minimum required yield and gross profit margin while standardizing and reducing our development costs in each product area. We also strengthened our project control monitoring system and ensured that any realized procurement or construction savings would be reflected in our margins. We have also worked hard to sharpen our project execution and this enabled us to eliminate significant amounts of rework and additional charges in some key residential projects. Finally, we continued to rationalize and lower the direct operating expenses of our facilities, with a strong focus on areas such as light and power, advertising and promotional expenses, and contracted services. On the corporate front, we also made sure that our general and administrative expenses (GAE) remained under control and this was evidenced by our falling GAE-to-Revenue ratio, from 9.7% in 2008, to 9.2% last year (see Figure 3).

On the material procurement side, we also enhanced our procurement processes and strengthened our internal controls further. We enhanced the charter of a Finance-led and controlled Bidding Committee that meets regularly and reviews and challenges key material procurement assumptions and decisions, ensuring transparency throughout the bid process. We also forged strategic partnerships with critical suppliers to ensure optimal pricing and availability

Figure 3.  
GAE-to-Revenue Ratio



“We will be allocating a total of Php27.2 billion for capital expenditure in 2010, the bulk of which will be for the expansion of our residential and leasing businesses as well as for some possible land acquisitions.”

of supply of major construction materials even under tight market conditions. In addition, we also reviewed and instituted additional procurement policies and procedures which ensured a more stringent approval process overall.

With these programs in place, we believe that your Company has been in a better position not only to weather volatility and uncertainty but also to support the significant expansion program outlined in the preceding President’s Message as market conditions have improved significantly. We have, therefore, effectively shifted from a conservative stance to an aggressive growth trajectory that is anchored on the four pillars outlined by our President. To support this strategy from a corporate and finance perspective, we have outlined the following initiatives:

#### **A record capex year for 2010**

One of our primary roles is to provide and allocate capital to our various businesses. This is especially critical as we need to ensure that funds are readily available to support our ambitious growth plan. We will be allocating a total of Php27.2 billion for capital expenditure in 2010, the bulk of which will be for the expansion of our residential and leasing businesses

as well as for some possible land acquisitions. This will be funded by a combination of existing cash on our balance sheet, cash to be generated by operations this year, as well as some additional borrowings.

In addition to this, we will continue to offer innovative financing schemes like our successful Homestarter Bond Series. This not only provides your Company with relatively low-cost debt capital but, more importantly, offers a strong incentive for bondholders to eventually convert to a property purchase, effectively assisting our sales group in meeting its targets. We will also leverage our synergies within the Ayala Group through programs that expand our customer base, like the Home Exclusive Packages and Homestarter Fair successfully held with the Bank of the Philippine Islands last year. We are also exploring more ways by which we can generate business through increased cooperation with other Ayala Group companies, including the prospecting and cross-selling of our products through shared databases.

#### **Improving our cost models and efficiencies across the organization**

As we help enable your Company to meet its growth objectives, we are likewise responsible for driving

# CFO and Compliance Officer's Report

Figure 4. Debt Profile

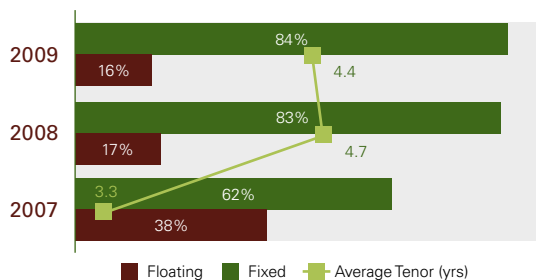
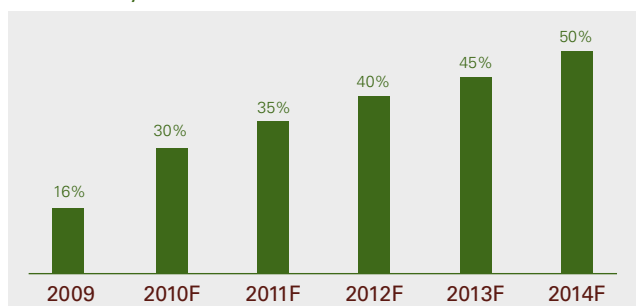


Figure 5. Gearing Ratios



Figure 6. Dividend Payout Ratio



processes that increase our profitability. In addition to continuing the various spend management programs that we have been pursuing for the past two years, we will also be examining other ways by which we can improve our cost models and expand our margins. For example, we are in the process of reengineering our construction contracting models through the transformation of our wholly-owned subsidiary Makati Development Corporation (MDC). MDC will be focused on the mission of helping your Company to be a cost leader within the construction industry. Sharper execution, reduced re-work, the adoption of best practice technologies and processes and the elimination of inefficient subcontracting layers will all be major initiatives moving forward.

Procurement is another major area where further improvements and efficiencies can be realized. We are actively pursuing a centralized accreditation process that will leverage on and maximize the benefits of a bulk purchasing set-up under the Ayala Group. We will also be adopting more aggressively life-cycle costing schemes that will help ensure the lowest aggregate cost for buying and operating specific assets. Another push will be in the more active pursuit of international sourcing opportunities. Within this, we are looking to significantly expand our China sourcing strategy, taking advantage of the unique combination of high quality and low cost offered by many Chinese suppliers. Finally, we will also be increasing our usage of the e-bidding platform while also pursuing strategic partnering opportunities where we can learn from and implement global best practices.

Across the Company, we will continue to explore the viability of expanding our usage of outsourced platforms and shared service schemes, which we started with the backroom operations of our residential business in 2008. To help ensure that we achieve all these, we have set very specific targets for margin improvement within each of our business units and ensured that our employees' key result areas and incentives are aligned closely with these targets.

### Capital efficiency

As we pursue asset and capital-light development models in order to increase asset turnover, we are constantly reinforcing balance sheet accountability among our key business units with a particular focus on periodic reporting of asset and capital utilization metrics such as Return on Equity (ROE). For our other assets, the full automation of divisionalized balance sheets will help facilitate reviews to ensure faster utilization or disposal of these assets.

As our expansion will require significant amounts of capital, we will support this by increasing our net gearing. We will be employing our excess cash balances to minimize our negative carry and will be implementing a consolidated funding strategy for both the corporate side and our subsidiaries. This will include bilateral funding arrangements with our banks as well as a possible capital market issue. Our objective, as always, is to be able to effectively secure the lowest cost while stretching our maturities to match up with the longer duration nature of our commitments (see Figure 4). As we increase our net debt position, however, we will ensure that we remain within our conservative definition of debt capacity where we are able to cover our interest obligations through recurring leasing cash flows, without the need to resort to development cash flows. Figure 5 shows that we are still relatively under-gearred, and have significant debt capacity to support our investment program for 2010 and beyond.

In addition to this, we will be adopting, as mentioned in our President's Message, a payout-based dividend policy that we feel will be appropriate, sustainable, and attractive for our shareholders while meeting the twin objectives of retaining enough cash for our ongoing funding needs and also improving the total shareholder return for our investors. We will improve the dividend payout from 16% in 2009, to 30% of prior year's net income in 2010 and this is expected to increase steadily to 50% by 2014 (see Figure 6).

One of the more important and exciting developments in 2009 was the successful passing of the Real Estate Investment Trust (REIT) Act, which became law in January of this year. Through the Asian Public Real Estate Association (APREA) and in cooperation with the Philippine Stock Exchange (PSE), we have been active in various technical working groups which played a critical role in shepherding this bill successfully through both Houses of Congress. This new capital market development initiative will provide a tremendous opportunity for our leasing businesses to publicly list stable earning investment properties, effectively allowing us to recycle capital and grow our businesses faster. We are awaiting the issuance of the Implementing Rules and Regulations from the Securities and Exchange Commission (SEC) and the Department of Finance, which should be ready by mid-May. We hope to be able to pursue a REIT listing in the second half of this year.

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“As we pursue asset and capital-light development models in order to increase asset turnover, we are constantly reinforcing balance sheet accountability among our key business units with a particular focus on periodic reporting of asset and capital utilization metrics.”

# CFO and Compliance Officer's Report

## Organizational Development

We have made great strides in supporting a stronger organization along several fronts. On the risk management side, we will continue implementing our risk-based and process-focused audits of all our key business units. We are one of the few companies in the country which passed a quality assurance review by an international auditing body and we will continue to cultivate this practice to enhance the value of our businesses further. As mentioned earlier, our EWRM system formalized last year will continue to evolve with the appointment of a Chief Risk Officer who will take the lead in crafting and implementing our own risk management framework to further strengthen the structure for an effective risk management program across the Company. These, along with a more detailed description of our risk management efforts, are discussed in the Risk Management section of this report beginning on page 69.

## Controls, communications and compliance

Early last year, we realigned several functions under the Finance Group to drive efficiencies higher. The integration of the supply chain management and project control divisions within our Group allows us to monitor and manage costs better. The technology management division has also been included as part of our team and this enhances the role of information technology (IT) in corporate decision making through fully automated management information systems. All these allow us to enhance controls, by developing systems that manage risks and ensure business continuity, and increase transactional efficiencies through automation.

Overall, we have also enhanced the role of the Finance Group in driving business unit and corporate performance by instituting various committees such as the Investment Committee to oversee project approval and development processes and the IT Steering Committee to pursue automation and technology-driven innovations. We have also refined the performance and rewards system to

promote accountability and ensure that rewards are commensurate to each individual and group accomplishment and aligned with your Company's overall goals. In line with all these initiatives, we will also be enhancing our investor engagement program to ensure that all institutional investors and portfolio managers as well as buy-side and sell-side analysts have access to the financial and operating information they require to track our performance and make informed recommendations and decisions.

Finally, Ayala Land is committed to the highest standards of disclosure, transparency and corporate governance. As your Company's Chief Compliance Officer, I am pleased to report that in 2009, Ayala Land fully complied with all of the disclosure and reportorial requirements of the SEC, the PSE and the Philippine Dealing and Exchange Corporation with respect to your Company's ownership structure, financial performance and issuance of securities. We have also, as required by the SEC, reviewed and amended our Manual of Corporate Governance to comply with its 2009 Revised Code of Corporate Governance.

As a covered institution, the Company also complied with the rules, regulations and directives issued by the *Bangko Sentral ng Pilipinas* and the Anti-Money Laundering Council in relation to the Anti-Money Laundering Act of 2001. Details of our compliance activities are available at length in the Corporate Governance section of this Integrated Annual and Sustainability Report, beginning on page 56.

Thank you.



Jaime E. Ysmael  
Chief Finance Officer  
and Compliance Officer

# Financial Highlights

(All amounts expressed in Php '000, except as indicated)

	2009	2008	2007
<b>Statement of Income</b>			
Revenues	30,455,244	33,748,983	25,707,229
Net Operating Income (NOI)	9,057,868	9,330,607	7,704,392
Earnings Before Interest and Taxes (EBIT)	8,661,894	9,173,835	8,447,893
Net Income (attributable to equity holders of ALI)	4,039,256	4,812,348	4,386,362
<b>Statement of Financial Position</b>			
Cash and Cash Equivalents*	15,523,523	15,443,045	13,625,530
Total Assets	108,071,463	100,588,883	82,981,245
Total Borrowings	18,812,165	16,751,530	10,139,474
Stockholders' Equity	52,392,361	49,027,640	45,705,181
<b>Statement of Cash Flows</b>			
Net Cash Provided by Operating Activities	4,409,849	3,687,367	8,315,971
Net Cash Provided by (Used in) Investing Activities	(9,406,398)	(4,913,688)	793,797
Net Cash Provided by (Used in) Financing Activities	2,869,873	2,609,817	(2,468,453)
<b>Consolidated Project and Capital Expenditures (Php Billion)</b>			
	16.24	18.89	15.22
<b>Financial Ratios</b>			
Current Ratio	1.95:1	1.89:1	1.65:1
Debt-to-Equity Ratio	0.36:1	0.34:1	0.22:1
Net Debt(Cash)-to-Equity Ratio	0.06:1	0.03:1	(0.08):1
Return on Equity**	8.0%	10.2%	10.2%
Return on Assets**	3.9%	5.2%	5.4%
<b>Stock Information</b>			
(in Php except as indicated)			
Market Capitalization (Php Billion, as of end-2009)	146.3	83.0	185.8
Stock Price (per share, as of end-2009)	11.25	6.40	14.25
Earnings per Share	0.31	0.36	0.34
12-Month Total Shareholder Return ***	76%	(55%)	12%

\*Includes short-term investments and financial assets at fair value through profit or loss

\*\* Return on average equity and average assets

\*\*\* Based on share price appreciation and cash dividends received (net of taxes), with cash dividends reinvested in ALI shares, computed using Php as base currency



# How we create value

Our Businesses

Growth Centers

Residential

Malls, Offices and Hotels

Construction and Property Management

# Growth Centers



Ayala Triangle Gardens

## 2009 HIGHLIGHTS

- Ongoing Ayala Center redevelopment
- Opening of Ayala Triangle Gardens in November
- Groundbreaking of the Mind Museum in BGC, for completion by 2012
- Sale of 11 commercial lots in Lakeside Evozone Phase I and the opening of the lakeside retail area Solenad
- Strong performance from redeveloped Ayala Center Cebu
- Secured new growth centers in North Triangle, Quezon City and Subic

## PORTFOLIO

- Makati Central Business District (51 hectares)
- Bonifacio Global City (32 hectares)
- NUVALI (1,434 hectares)
- Cebu (Ayala Center Cebu, Cebu Business Park, Asiatown IT Park, City Sports Club Cebu, Amara)
- Negros Occidental (Ayala Northpoint, Plantazionne Verdana Homes, Verdana Homes Asyana)
- Cagayan de Oro (Alegria Hills)
- New platforms: North Triangle in Quezon City (29 hectares) and Subic (7.5 hectares)

Growth centers are at the heart of Ayala Land's value creation model. The ability to acquire, masterplan, and develop fully-integrated and sustainable mixed-use communities is one of the Company's key competencies and a strategic differentiator in a highly competitive marketplace. Growth centers allow these communities to develop and thrive through the introduction of Ayala Land's diverse product lines and offer immediate development as well as long-term investment and redevelopment opportunities. As such, growth centers provide an ideal platform for long-term value creation and realization.

Ayala Land currently has 3,930 hectares of land available for growth center development all over the country. Of these holdings, 81% or 3,182 hectares, is located in Luzon, principally in Makati, Bonifacio Global City (BGC) and NUVALI, and is managed by the Strategic Landbank Management Group (SLMG). The balance of 19%, equivalent to 747 hectares, is located in the Visayas and Mindanao (Vis-Min) regions and is managed by the Vis-Min Group (see page 134 for landbank breakdown).

### **Makati: Revitalization and redevelopment**

In 2009, SLMG continued its efforts to refresh and revitalize Makati in order to maintain its standing as the country's premier central business district (CBD). The group finalized its plans for the redevelopment of the Ayala Center and proceeded with site preparation works for the various products to be launched. This will include the new Glorietta 1 and 2, two business process outsourcing (BPO) office towers, a four-star businessman's hotel, and a three-tower high-end residential complex called Park Terraces. The 370-unit first tower of Park Terraces was launched in January 2010 and promptly established a new Company sales record, with Php3.6 billion, or 78% of the available units taken up in a single weekend. With the strong demand, the Company plans to accelerate the launch of the second tower within 2010 (see also discussion in the Residential Business section).

SLMG also opened the Ayala Triangle Gardens in November 2009 and received public acclaim with a series of successful light shows and open air concerts during the Christmas season. Anna Ma. Margarita B. Dy, Group Head for SLMG, said that "because of its very strategic and central location, the Ayala Triangle is an important component of the revitalization of Makati and is envisioned to be a pedestrian-friendly oasis in the city. The Gardens are intended to provide a unique visual and experiential breathing space for the working professionals in the area." A retail component with restaurants and coffee shops is currently being constructed and the area will also be used as a platform for arts and culture-focused events, further establishing the Ayala Triangle as one of the city's most attractive gathering places.

### **BGC: A rapidly developing city**

The rapid build-up of momentum in BGC continued in 2009. With critical mass in the residential and retail segments already well established, BGC continued to gain traction among the working population as more and more office buildings began operations or were under construction last year. Fort Bonifacio Development Corporation (FBDC) sold a total of 8,037 square meters of commercial lots in 2009, despite the market uncertainty in the first half of last year. This next wave of growth, centered primarily on higher value-added BPO and regional processing centers of global service firms, is expected to continue in 2010 with FBDC having a strong pipeline of potential commercial lot transactions.

Other key developments in 2009 included the opening of the world-class St. Luke's Hospital, the expansion of the Boni Transport fleet serving the bus routes within the city, and the groundbreaking for the Mind Museum, which has received strong financial support from sponsors and is expected to be completed by 2012. Dy also added that "site development work on the North City Center area began last year, providing more lot inventory for FBDC for the next few years. This area is envisioned

## Growth Centers



### **Basket Weaving at NUVALI: Handcrafting the future of a community**

Ayala Land's Alay sa Komunidad program – a corporate social responsibility initiative anchored on partnerships with neighboring communities – is an example of how the Company helps to uplift the lives of families living in and around the NUVALI area. A broad range of initiatives are being offered, which include youth formation activities, basic health programs for retirees, and various livelihood opportunities for both men and women.

The basket weaving initiative is one creative and rewarding way of promoting NUVALI's social, economic and environmental sustainability goals. The program was inspired by the Echo (Environment and Community Hope Organization)

Store, where fashionable, hand-made and environmentally-friendly products from small and often marginalized cultural communities are exhibited and sold. This activity is particularly well-suited for non-working women and has become a viable business enterprise for entrepreneurs with little or no start up capital.

Basket weaving is easy to learn, enjoyable, and only requires creativity and some simple skills. Driven by the desire and opportunity to chart a new path for their family's economic future, participants weave gift baskets, trays, and other similarly useful items that often sell well at trade fairs and specialty shops. In addition, the use of old magazines and recycled paper as raw materials helps reduce solid waste and cuts down on harmful carbon emissions. In implementing these programs in NUVALI,

to have more features developing the ‘play’ concept and will help promote an active lifestyle, both in the themes for the planned parks and open spaces as well as in the choice of locators.” 2010 meanwhile will see the expansion of the Bonifacio High Street East Block, with new office and retail locators and a more upscale feel and concept.

### NUVALI: Building critical mass

NUVALI firmly established itself within the public consciousness in 2009 with a very successful Grand Launch last April. In addition to the near sell-out of the Abrio, Treveia and Avida Settings residential offerings, a total of 11 commercial lots have been sold in the Lakeside Evozone Phase I, at average prices in excess of Php26,000 per square meter. In addition, the lakeside retail areas of Solenad have been very successful in attracting significant foot traffic, especially on weekends and special events.

2010 promises to be a very exciting year as critical mass is expected to continue building up in the area. Santierra, Ayala Land Premier’s follow-up offering to Abrio, was launched in January 2010 and resulted in more than a billion pesos in sales on its launch date. As of March this year, 67% of its 194 lots

available for sale has already been taken up. Alveo and Avida, meanwhile, are likewise launching their second residential projects for the area within 2010. For retail, Solenad 2 will start development of another 10,000 square meters of gross leasable area this year and is expected to open by 2011. Two educational institutions have already decided to locate their new campuses within NUVALI (with negotiations currently ongoing for a third), further enhancing the attractiveness of the area and the completeness of its offerings. With the accelerated build-up, a total of 450 hectares, representing 26% of the total area, are already either sold or under development.

NUVALI’s unique selling proposition has been anchored strongly on sustainability. Sustainability programs launched in 2009 included multiple corporate tree-planting activities that resulted in the planting of 1,802 new trees in the area, community livelihood projects and employment programs (see sidebar), local government training for Barangay Canlubang with the Ateneo School of Governance, and the provision of relocation sites and funding for three public schools in the area. In addition, NUVALI is being positioned as an ideal outdoor and leisure destination for families who live in Metro Manila.

Ayala Land offers skills training and seminars on leadership, basic financial management, sales and marketing, and back-end operations. By actively participating, community members not only make baskets but also weave dreams of a brighter tomorrow – a promise every Ayala Land development aims to deliver.



## Growth Centers



“Growth centers are at the heart of Ayala Land’s value creation model. The ability to acquire, masterplan, and develop fully-integrated and sustainable mixed-use communities is one of the Company’s key competencies and a strategic differentiator in a highly competitive marketplace.”

To help achieve this, road infrastructure and access is being improved with the extension of the West Laguna Parkway, which provides access through the Mamplasan exit of the South Luzon Expressway. Additional runs, bike races and other sporting events are being planned and negotiations are underway for a world-class water sports complex to be developed in the area, further establishing NUVALI as a preferred destination for outdoor adventure sports.

### Vis-Min: Preparing for expansion

2009 was a good year for the Vis-Min Group. A total of 168 lots worth Php386 million were sold last year from five different residential developments in Cebu (Amara North), Negros Occidental (Ayala North Point, Plantazzionne Verdana Homes and Verdana Homes Asyana), and Cagayan de Oro (Alegria Hills). Despite the difficult market conditions, these were, respectively, 14% and 6% higher compared with the previous year. 2009 was also a good year for Ayala Center Cebu (ACC) as the year witnessed the first full-year operation of The Terraces. With a total of 55 dining, entertainment and lifestyle outlets, The Terraces has become a landmark in Cebu and a very strong anchor for the whole ACC, helping grow foot traffic by 22% or 12,000 shoppers per day. As a result, revenues from land and building leases grew by 8% and 29%, respectively.

Emilio J. Tumbocon, Group Head for Vis-Min, said that “in line with the Company’s strategy of developing more growth centers across the country, our Group will be significantly expanding its presence in the Vis-Min region across the entire product portfolio.” Additional residential products will be launched in various locations in 2010, highlighted by the first condominium projects to be offered by Ayala Land for the Cebu market. Retail expansion is also underway as construction on the 40,000 square meter Abreeza Mall in Davao continues, with an expected completion and opening by 2011. Plans for another shopping center in Cagayan de Oro City, meanwhile, is also being finalized and expected to break ground within 2010.

On the office segment, Cebu has gained significant traction within the BPO community as a result of its strong labor pool. Work has begun on the expansion of available inventory for Asiatown IT Park in Cebu, with Phase 2 lots expected to be available for sale, as well as the acquisition of a possible Phase 3 expansion site, within 2010. Other BPO developments, as well as a possible new CBD play, are also being eyed for the Vis-Min region.

### Capital efficient platforms for growth

As part of its aggressive push to establish more growth centers in various parts of the country, Ayala Land was also able to gain access to two exciting new growth platforms in 2009. Equally important, these acquisitions were made in a capital efficient manner that did not require a significant upfront investment. The first was the acquisition of a 29-hectare parcel of land in the North Triangle Property in Quezon City through a joint venture agreement with the National Housing Authority. The vision is to transform this very strategically located property into the country’s first transit-oriented, mixed-use CBD. This will be the first organized and masterplanned CBD in Quezon City and will benefit from its close proximity to TriNoma as well as to two major Mass Rail Transit stations along EDSA. The development, which will have residential, office and retail components, is expected to begin launching projects in 2011.

The second was the signing of a 50-year lease agreement with the Subic Bay Metropolitan Authority (SBMA) for the development of a 7.5-hectare property within the Subic Bay Freeport Zone. The development, located at the heart of Subic’s CBD, will be an integrated mixed-use masterplanned community which will include a shopping center, a BPO office building and a three-star hotel. The proposed mall will offer basic conveniences that will address the everyday needs of Subic and Olongapo, as well as unique concepts that will serve not only the immediate communities but also tourists and transients.

# Residential



## 2009 HIGHLIGHTS

- 2,229 new units launched, including new projects Ametta Place from Alveo, Avida Towers San Lorenzo and Avida Residences Dasmariñas
- Sales take-up reached 4,349 units with total value of Php17.1 billion
- 100% buyer acceptance on all turned-over units
- Development of green product designs across all brands and completion of a green model home in NUVALI
- Anvaya Cove cited as finalist in the International Hospitality Design Awards for Sustainable Design
- Activation of wholly-owned subsidiary First Communities Realty, Inc. for the fourth residential brand

## PORTFOLIO

66 ongoing projects (as of 1Q 2010)

- Ayala Land Premier (12 projects) – 10 horizontal (Laguna, Cavite, NUVALI) and 2 vertical (Makati and BGC) developments
- Alveo (13 projects) – 6 horizontal (Laguna, Pasig, Manila) and 7 vertical (Makati, BGC, Manila) developments
- Avida (40 projects) – 31 horizontal (Laguna, NUVALI, Cabanatuan, Batangas, Naga, Lucena, Antipolo) and 9 vertical (Sucat, New Manila, Makati, Manila, Alabang) developments
- Amaia (1 project) – inaugural horizontal development in Calamba, Laguna

Ayala Land's Residential Business Group (RBG) remained the largest contributor to the Company's revenue and net operating income in 2009, at Php14.2 billion and Php3.9 billion, respectively. In spite of challenging market conditions in the first quarter of the year, RBG continued to perform well across various fronts. The group launched 16 new projects/phases, focused on execution of committed projects, and laid the foundation for enabling a significant growth in activity levels for 2010. RBG intends to launch 9,275 units for 2010, a four-fold increase over the 2,229 units launched last year, thus securing the pipeline for 2011 and beyond.

### Improving customer satisfaction and sustainability

"2009 was a breakthrough year in terms of customer satisfaction as we successfully sharpened our project execution and delivery, resulting in unprecedented level of buyer acceptance from the projects that we turned over. We achieved practically a zero-punchlist for the year for Ayala Land Premier's (ALP) The Residences at Greenbelt San Lorenzo Tower and One Serendra Narra Section, Alveo's Marquee Place, and Avida Towers Sucat and New Manila. All these achieved 100% buyer acceptance with little or no rectification required on all units delivered. Particularly because we are basically selling a promise, this level of customer satisfaction upon unit turnover is key to reinforcing the belief and trust in our brands. We will continue to build on this brand equity as we move on to much higher levels of launches in the coming years," said Bernard Vincent O. Dy, the Company's Head of RBG.

With sustainability as a core central theme, RBG has always taken pride in the quality and location of all its developments. In addition to superior site selection and best-in-class land development practices, the Company has long integrated sustainable design principles in its design philosophy and business models to ensure the long-term viability and continued value appreciation of its properties.

Last year, RBG continued to raise the bar on green product design across all its brands and new developments. In NUVALI, for example, which continues to be a model for building sustainable communities, the Company showcased environmentally-sustainable model homes, bike-friendly lanes, wide green spaces, permeable paving, and a greywater recycling system. Meanwhile, Ayala Land's signature leisure community, Anvaya Cove, was also cited as a finalist in the International Hospitality Design Awards for Sustainable Design for its nature-inspired and environmentally-friendly developments. These and other sustainability efforts are discussed in greater detail in the Sustainability Report which begins on page 74.

### Significant ramp-up for 2010

In addition to sharpening its execution and strengthening its sustainability platform, RBG began laying the foundation for a significant ramp-up in launches for 2010 and beyond. Multiple sites were secured across all brands and launch timetables were significantly compressed as the Company prepared for a record number of launches this year.

With expectations for a strong domestic market and a recovery in demand from overseas Filipinos, RBG is planning to strengthen its presence in multiple geographies and growth centers across the country. The very successful launches of ALP's Santierra in NUVALI and Park Terraces within the Ayala Center redevelopment (which together generated more than Php5.0 billion in sales earlier this year) have set the stage for a dramatic expansion for ALP, Alveo and Avida as well as the much awaited launch of the fourth brand, Amaia. Of the 9,275 units that are expected to be launched in 2010, 16% will be from ALP, 22% from Alveo, 48% from Avida and 14% from Amaia.

In terms of its geographic expansion, RBG will launch new projects not only in the Company's strategic landbank areas of Makati, Bonifacio Global

Residential



Alveo's Treveia in NUVALI



Avida Towers New Manila

“With expectations for a strong domestic market and a recovery in demand from overseas Filipinos, RBG is planning to strengthen its presence in multiple geographies and growth centers across the country.”

City (BGC) and NUVALI but also offer exciting new developments in Alabang, Quezon City, Laguna and Cavite. Outside Luzon, RBG will also expand its presence in flourishing growth centers in the Visayas and Mindanao regions where demand for innovative and quality housing products is growing. New projects are being planned across all brands for areas such as Cebu, Bacolod, Iloilo and Cagayan de Oro over the next few years.

Of particular significance is the Company’s planned entry into the economic housing segment, under the recently launched fourth brand Amaia (see sidebar). This is a major step which allows the Company to leverage on an underserved market of modestly earning families and tap into a much larger segment of Philippine households, where the market is estimated to be in excess of five million housing units. Maiden project AmaiaScapes will be launched in Calamba, Laguna with approximately 1,300 units to be made available for sale in 2010.

#### Enhancing margins across brands

With a very strong stable of residential brands already established in the marketplace, RBG is intent on further enhancing its product margins

through the introduction of superior products at desired locations for specific market segments while driving operational efficiencies. Among the major initiatives along this front is an enhanced design process that will introduce progressive building systems, housing models and community patterns which not only reduce overall costs but also inject a fresh and innovative look to new developments.

“We will be implementing a design-to-cost process for all our projects as well as increase the levels of standardization where possible without compromising on our brand promise. We will make full use of tried and tested working templates for vertical towers, especially for the Avida brand, to minimize on R&D and design costs. On top of this, we will also continue to target higher construction and procurement efficiencies which leverage on the scale of our operations and that of the entire Ayala Group, while also pursuing fiscal incentives in our more affordable brands. These programs will be pursued more extensively as we ramp up our project launches to ensure that costs are kept under control and that we are able to enhance our margins steadily over time,” Dy explained. Across the brands, the Group will continue to find ways to improve efficiency, enhance quality and delivery of products to maintain a high degree of customer satisfaction and effectively eliminate rework and any consequential costs.

Over the years, RBG has operated with a lean and efficient organization and this has kept its general and administrative expenses (GAE) in check relative to its revenue performance. Moving forward, it will ensure only optimal increases in headcount relative to planned activity levels and sustain a culture of empowerment to control the growth of its GAE.

#### Improving the efficiency of working capital

Landbanking in critical areas for inventory replenishment is key to the achievement of RBG’s growth objectives. However, this needs to be

## Residential



pursued in a capital efficient manner as multiple sites across various geographies are explored and secured.

One of the key advantages of the Company's residential sales model is its ability to generate significant amounts of cash upfront from pre-selling its projects. This results in moderate working capital requirements during normal sales cycles. "We have a wide and effective sales force and distribution network that provides us with a high level of sales take-up and cash collection that minimizes cash outlays during the life of the project. In addition, a diversified portfolio of brands and mix of horizontal and vertical products means that we are able to spread out risk more effectively. We will continue to leverage on this unique advantage to help us contain our overall risk exposure moving forward," added Dy.

In addition, the Group will also continue to actively manage and optimize its financial resources, particularly with respect to its accounts receivables. The Company is working closely with its partner banks to encourage an earlier mortgage conversion, allowing it to minimize financial and credit risk.

### The rationale behind the fourth brand

Home ownership is a fundamental goal for Filipino families and achieving this in an Ayala Land development remains an elusive dream for many. With Ayala Land's entry into the economic housing segment through newly launched brand, Amaia, the Company is bringing this dream one-step closer to reality for a broader segment of Philippine households.

Amaia (coined from "maya", the common bird, whose hardworking characteristics are reflected in the brand's target markets) developments will be comfortably priced between Php600,000 to Php1.2 million for house and lot packages with floor area sizes ranging from 25 to 48 square meters. These will be offered with various payment schemes that

will easily fit the budget of individuals such as teachers, policemen, nurses, and call center agents as well as overseas Filipino workers across Asia, the US and Europe, and the Middle East.

"Amaia will be able to leverage on Ayala Land's unparalleled sales and distribution network, ensuring a broad reach in both domestic and overseas markets," said Rex Ma. A. Mendoza, the Company's Chief Marketing and Sales Officer. Strong demand is also expected as the new developments will also be eligible for Pag-Ibig financing through the National Home Mortgage Financing Corporation's affordable lending terms.

Amaia projects will combine sleek, modern and innovative home concepts within the comforts of a secure, functioning and evolving community typical of the more exclusive Ayala Land

### Supported by a strong organization

RBG's organizational framework, as a whole, has been consistently aligned with Ayala Land's corporate objectives. Leadership development and empowerment will continue to be a priority for all units within RBG to strengthen each individual's role in the pursuit of the Company's goals moving forward. It will also actively pursue cross-posting initiatives in order to address gaps and deepen the bench across the organization.

"Our continued use of programs for internal talent pool development, shared services and enhanced systems and processes will ensure RBG's continued strong performance and preparedness for an increasingly competitive environment in the medium to long-term," added Dy.

"Our continued use of programs for internal talent pool development, shared services and enhanced systems and processes will ensure RBG's continued strong performance and preparedness for an increasingly competitive environment in the medium to long-term."

developments. "Amaia has tied up with our own property management company APMC to provide reliable estate management and security services, which is usually lacking in this segment. These all add up to an unbeatable value proposition that rewards the efforts and struggles of our everyday heroes and protects their hard-earned investment," added Mendoza.

Amaia's maiden project, AmaiaScapes, is being launched in Calamba, Laguna and will offer an initial run of 1,300 housing units in 2010. The Company intends to roll this out in more locations across the country in the coming years and hopes to enrich the lives and fulfill the dreams of more and more Filipino families.



Architectural rendering of AmaiaScapes Twin Homes

# Malls, Offices and Hotels



## 2009 HIGHLIGHTS

- Opening of MarQueen Mall in Angeles, Pampanga in September
- Launch of customer-centered “It’s Always U-First at Ayala Malls” and the sustainability-oriented Greenology campaign
- Creation of Primavera Towncentre, Inc., a 100% -owned subsidiary that will handle the development of small format neighborhood centers
- Signing of a 50-year lease agreement with SBMA for the development of a mall in Subic
- Start of construction of Abreeza Mall in Davao City
- Completion of additional 40,000 sqm of BPO office space in U.P.-AyalaLand TechnoHub
- Roll-out of district cooling and greywater recycling systems in new developments
- Various international and domestic awards for Greenbelt, Bonifacio High Street, Market!Market!, TriNoma and Ayala Center Cebu

## PORTFOLIO

16 shopping centers/retail areas with total GLA of 994,000 sqm, largely from:

- Glorietta (223,000 sqm)
- Greenbelt (83,000 sqm)
- TriNoma (188,000 sqm)
- Market! Market! (150,000 sqm)
- Alabang Town Center (79,000 sqm)
- MarQueen Mall (37,000 sqm)

Office space for lease:

- Headquarter-type: 5 buildings with 72,500 sqm GLA
- BPO: 19 buildings with 257,300 sqm GLA
- Managed office buildings: 2 buildings with 19,500 sqm GLA
- Laguna Technopark Inc. (LTI) industrial lots for sale and standard factory buildings for lease

Ayala Land's leasing businesses sustained healthy operations amid the challenging business landscape in 2009 and provided stable revenue and cash flow streams that supported the Company's overall financial performance.

### *Shopping Centers*

Despite the economic uncertainty in the first half of last year and the challenges associated with the ongoing redevelopment of Glorietta, the Ayala Malls Group (AMG) was able to improve on its financial performance last year. Consumer spending remained robust as a majority of retail merchants experienced positive growth in same-store sales. AMG sustained its expansion in 2009 with the opening of MarQueue Mall in Pampanga last September. This added 37,000 square meters of new gross leasable area (GLA) to its retail portfolio, bringing the total shopping center GLA owned and managed by the Company to one million square meters. To capitalize on this growing base and help offset the impact of the Glorietta 1 and 2 closures due to the ongoing Ayala Center redevelopment, AMG focused on maximizing occupancy levels at optimal lease rates. Occupancy across all malls rose to 95% as of end-2009, with 97% of all available spaces already leased-out by the end of the year.

With intensifying competition especially in Metro Manila, AMG strengthened its brand-building initiatives in order to preserve its premiere market position. With the launch of "It's always U-First at Ayala Malls" program, the group rolled-out a consumer-centric marketing push that focused on enhancing the customer experience across all Ayala malls. In addition, AMG launched its highly-celebrated Greenology campaign which featured concepts like Eco-Tote Bags, an environmentally-friendly line of clothing, and Eco Dash, a fun run for the environment. These programs provided for increased competitive differentiation while remaining consistent with the Company's overall sustainability efforts.

### *Corporate and BPO Buildings and Industrial Parks*

The office segment, meanwhile, continued to be affected by a challenging environment, particularly with respect to an over-supply situation in available space for business process outsourcing (BPO)-type locators. Within this context, AyalaLand Businesscapes Group (ABG) sustained a healthy financial performance and finished the first phase of its BPO expansion program with the completion of the remaining four buildings in the U.P.-AyalaLand TechnoHub complex. With a 28% increase in available BPO GLA to 257,300 square meters, ABG was able to end the year with the successful leasing-out of 178,160 square meters, or more than double that of the 2008 levels. The Group also made a conscious effort not to follow the severe discounting offered by competition, a decision that is expected to pay off in 2010 as market conditions have significantly improved and there has been a notable increase in interest from potential locators.

In its other business lines, ABG's five headquarter-type buildings maintained a high 96% occupancy rate as the Group continued to offer flexible and attractive packages and a highly differentiated value proposition that locked in long-term locators. Laguna Technopark, Inc., meanwhile, was able to sell nearly six hectares of industrial park lots despite the challenges experienced by export-oriented manufacturers. ABG was also able to pursue the planning and acquisition of land sites for future projects, with a goal of increasing its market share over the next three years.

The Group, meanwhile, continued to showcase sustainability best practices in its newest developments. The U.P.-AyalaLand TechnoHub development continues to pave the way in energy and water use efficiency through its district cooling and greywater recycling systems. The One Evotech at NUVALI, which commenced operations last year, is on track for certification to the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) standard, further highlighting the group's commitment to sustainability.

Malls, Offices and Hotels



U.P.-AyalaLand TechonoHub Retail

### Hotels

The local hotel industry, as a whole, was affected by the drop in global business and tourism-related travel last year, with both the Ayala Hotels, Inc. (AHI)-owned Cebu City Marriott Hotel and the Hotel InterContinental Manila posting lower revenues per available room (REVPAR) compared with the previous year. Both hotels, however, preserved impressive REVPAR premiums over competition in their respective markets.

### Geographic and product expansion

In line with the Company's growth objectives, Ayala Land's leasing operations will expand into broader markets and venture into new business models – both in terms of geographic reach and product offerings.

“In the retail segment, on top of continuing the expansion of regional malls, AMG will enter into smaller retail formats called community and neighborhood centers to tap a broader consumer segment and address increasing customer sophistication and preference for convenience,” said Ma. Victoria E. Añonuevo, concurrent Group Head of AMG and ABG. These exciting new concepts will be rolled out in several growth centers that have been identified, starting with the pilot community center project in Cavite this year. “We will also introduce these to existing Ayala Land developments where consumer demand from captive residential and commercial areas remain significant,” Añonuevo added.

Neighborhood centers are formats which are less than 10,000 square meters GLA in size (see sidebar on next page). A wholly-owned subsidiary Primavera Towncentre, Inc. was formed to consolidate, manage and operate these formats, which will unveil its maiden project this year at the newly opened Ayala Triangle Gardens.

In the office segment, the local BPO industry remains very attractive and the Philippines remains one of the preferred destinations for leading global onshoring and offshoring firms. Demand is on the uptrend again with industry revenues expected to grow at least 25%

in 2010, compared with 19% last year. To capitalize on this opportunity, ABG is pursuing its BPO expansion outside Mega Manila where higher cost efficiencies can be generated and synergies between other internal business units exist within Ayala Land's targeted mixed-use and growth center developments.

“To date, ABG has presence in 19 out of the 30 growth centers we have identified across the country and will aggressively pursue developments in remaining growth centers once these areas are deemed prime for a BPO play,” said Añonuevo. “In line with this, ABG is already fast-tracking plans and entering into negotiations for future BPO sites in Iloilo, Cagayan De Oro, Subic, and Cavite to prepare for the second wave of our BPO roll-out program which we expect to boost Ayala Land's present market share,” Añonuevo added.

Meanwhile, AHI will be launching this year an owned and managed boutique hotel business line that will expand its reach and stabilize its revenue streams. This new product is expected to cater to discriminating but increasingly value-driven business travelers and tourists – a market which has grown significantly over the last decade. Over the medium to long term, a condotel model will also be unveiled to diversify AHI's hotel and serviced-apartment operations, and will be a key feature of the Company's tourism estate-related ventures.

### Cost improvements through operating efficiencies

For leasing properties, efforts at reducing development costs and improving operational efficiencies will be sustained to drive margin improvement over the long-term. On top of design-to-cost initiatives and the standardization of building templates implemented across all business units, the leasing group will make a strong push to reduce its direct operating expenses, particularly with respect to energy usage and contracted services.

Margin enhancement is also expected to be achieved through improved occupancy rates across its entire



“The recent passage of the REIT Law is also expected to provide an attractive opportunity for the Company to recycle its capital more effectively and accelerate the development of future investment properties.”

product range. ABG, in particular, will intensify its sales and marketing campaigns by tapping the international market. This is expected to widen its prospective client base by offering attractive long-term lease arrangements and partnering with existing clients, therefore achieving increased economies of scale across its leasing portfolio.

Furthermore, the Company’s entry into boutique hotel and condotel business operations is also an opportunity to enhance the margins of AHI. The relatively low capital requirement, shorter construction period and lower overhead expenses associated with the construction and operations of these new formats is expected to feed into higher margins in the medium to long-term.

#### **Recycling capital for accelerated development**

Similar to SLMG and RBG, the leasing businesses will be prioritizing an asset-light approach as its preferred site-acquisition model. Sites in Subic, Baguio, Cavite, Davao, and Cagayan de Oro have all been secured either

through a long-term lease arrangement or via a joint venture. Both AMG and ABG are currently negotiating deals for additional sites under the same mode to grow the Company's leasing portfolio.

The recent passage of the REIT Law is also expected to provide an attractive opportunity for the Company to recycle its capital more effectively and accelerate the development of future investment properties. The Implementing Rules and Regulations of the law are expected to be in place by mid-May, paving the way for a public listing of the Company's leasing assets in the second half of 2010. Current shopping center and office assets which have achieved a stabilized yield are expected to be candidates for inclusion in the REIT listing.

### Organizational enhancements that support growth

In order to ensure a consistent supply of able managers for its growing portfolio, the leasing businesses will continue to develop talent from within. This will facilitate leadership development, upward mobility and career advancement within AMG, ABG and AHI. Management functions and roles will also be expanded for identified high-potential individuals. New reporting requirements and systems are also in the process of being implemented to facilitate quicker decision-making and ensure regular monitoring and improved tracking of performance.

Across the various leasing businesses' backroom and support operations, shared-service schemes are also being explored in order to raise the level of operating efficiency by eliminating overlaps and work duplication. Earlier this year, the hotel businesses under AHI were also integrated into ALI Capital, Inc. in order to provide a greater focus on its business incubation and development needs. Finally, with the leasing group also gearing up for a prospective REIT listing, current organizational structures are also being reviewed in order to comply with the requirements of the new legislation.

### Community and neighborhood centers: a new face in retailing

With large urban mega-cities slowly getting more congested, a niche for convenience and value-oriented shopping has emerged. In addition to established regional malls, consumers are increasingly beginning to frequent retail areas which are close to homes and workplaces.

Ayala Land, with an unparalleled track record for nurturing integrated mixed-use communities and growth centers across the country, is launching a new concept in retail shopping that capitalizes on this trend. The Ayala Malls Group (AMG), widely recognized for providing creative and innovative solutions to constantly evolving consumer preferences, is planning and developing smaller retail formats known as community and neighborhood centers that target a broad range of consumer segments.

Community centers will have a retail footprint of 10,000-20,000 square meters of GLA and are going to be located within easy accessibility of a large residential or commercial area. These are being designed as one-stop-shops with a full range of essentials such as a small anchor supermarket, a drug store, fashion and grooming outlets, an offsite ATM, a coffee shop and other value-oriented dining options. The convenient locations ensure that the basic requirements needed within our daily routines are always within range of an easy and stress-free walk, drive or commute and therefore promotes much more frequent patronage.

Neighborhood centers, meanwhile, will be even smaller, with a GLA of 10,000 square meters or less. These will offer the same basic conveniences as community centers but in a much more compact format, ideally locating within or adjacent to existing and future Ayala Land residential and office developments. "These centers will provide a functionally attractive alternative for consumers who wish to avoid peak shopping days. If home is my first place and the office is my second, the community center is definitely my third place – my preferred venue for everyday shopping, dining, and personal needs," said Ma. Victoria E. Añonuevo, Group Head of the AMG.

Community and neighborhood centers provide a practical solution for the modern consumer. While oriented towards basics, these will offer the quality shopping and lifestyle concepts Ayala is well known for and perfectly complements AMG's traditional regional mall products.

# Construction and Property Management

One Serendra East Tower construction site



## 2009 HIGHLIGHTS

- Php1.9 billion in new internal and third-party contracts awarded to MDC last year
- Over-all rating of 4/5 for total customer satisfaction from MDC's customers
- APMC met sustainability targets on energy, water, and solid waste management through lower utilities consumption and reduction of residual waste across all managed properties
- APMC secured an additional Php47 million in new property management contracts
- Several APMC-managed assets were recipients in 2009 of the prestigious Don Emilio Abello Energy Efficiency Awards from the Department of Energy for outstanding energy conservation practices

## PORTFOLIO

- MDC: 34 ongoing construction projects with a gross contract value of Php16.5 billion
- 175 managed facilities comprising of malls, office buildings, car parks, residential buildings / subdivisions, estate and waterworks

Ayala Land's construction and property management businesses enhance the Company's competitive advantages across its diverse product portfolio. Through wholly-owned subsidiaries Makati Development Corporation (MDC) and Ayala Property Management Corporation (APMC), the Company builds world-class facilities and provides leading property management services at optimal costs that ensure value preservation and appreciation over time.

#### *Construction*

MDC is Ayala Land's construction arm and provides quality, cost, and speed-to-market advantages to the Company's residential and leasing properties. As one of the country's largest construction firms, MDC successfully capitalized on its large order book as of end-2009 to sustain its growth and profitability. Among its key accomplishments was the completion and delivery of its committed projects, on time and with significant cost savings, despite the challenging environment in 2009.

Last year, MDC made significant headway in its effort to promote sustainable construction practices, both internally and throughout its supplier and subcontractor network. Through a campaign called "Greening the Supply Chain," MDC spearheaded a conscious effort among its suppliers to promote environmental procurement practices. This strong commitment to sustainability and quality has also yielded more environmentally-sound and customer-friendly practices like optimal construction waste management, dust and noise mitigation, site signage standardization, and increased usage of safety nettings.

"This continuous improvement in quality management systems enabled us to receive a 'highly satisfied' rating for total customer satisfaction," said Raul M. Irlanda, President of both MDC and APMC. MDC is one of the few construction firms in the country with

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**"Through MDC and APMC, the Company builds world-class facilities and provides leading property management services at optimal costs that ensure value preservation and appreciation over time."**

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three international management certifications — ISO 9001:2008 (Quality Management); ISO 14001:2004 (Environmental Management); and OHSAS 18001:2007 (Occupational Health and Safety).

#### *Property Management*

APMC, meanwhile, sustained its main thrust of providing key product differentiation through the high quality and prompt delivery of property management services across a broad range of managed facilities. APMC focused on the continuous improvement of its services, reducing the cost of energy and utilities, and redefining its business model with an emphasis on promoting sustainable operations in managed properties.

"We met our sustainability targets for energy efficiency, water efficiency and solid waste management through lower utilities consumption and the reduction of residual waste across all our managed properties. These initiatives not only allowed us to keep our costs down but also merited various awards and citations," added Irlanda. APMC was a recipient in 2009 (its ninth consecutive year) of the prestigious Don Emilio Abello Award from the Department of Energy for outstanding energy conservation practices.

# Construction and Property Management



Equipment Room at Tower One and Exchange Plaza, Ayala Triangle

APMC remains the only property management company in the country with three international quality management certifications – ISO 9001:2008 (Quality Management); ISO 14001:2004 (Environmental Management); and OHSAS 18001:2007 (Occupational Health and Safety).

### Supporting Growth and Margin Improvement

With much-improved sentiment across the real estate landscape, both MDC and APMC will be gearing up for significantly increased activity levels and a very exciting year in 2010. MDC's overall goal is to improve its cost and contracting models in order to become the cost leader in the construction industry. The organization is currently undergoing a transformation program to ensure that it is able to support Ayala Land's record launch schedule and become a full Engineering, Procurement, and Construction/Construction Management (EPC/CM) company. These include the implementation of global best practices in construction methodologies through a strategic partnership with a leading multinational construction firm, the provision of equipment services and concrete products at competitive costs, and the development of in-house structural works capabilities. These are intended to position MDC as the builder of choice through sustainability and construction excellence.

MDC will also continue to explore technological innovations and the use of more pre-fabricated materials, and pursue reductions in procurement cycle time to further drive costs down. It expects to intensify the use of spend management programs and value engineering initiatives to maintain cost leadership.

APMC, meanwhile, will enhance its own growth pipeline in support of Ayala Land's product expansion and by pursuing more third-party accounts. Specifically, APMC is expanding its utilities management services (initially provided in Serendra) to Anvaya and Celadon this year and eventually aims to extend this to the growing Ayala Land portfolio of residential and leasing properties. It also intends to capitalize on opportunities

in the Visayas-Mindanao region where it is negotiating potential deals for property, utility and carpark management contracts in Cebu and Cagayan de Oro. APMC will also aggressively implement spend management programs along three major components – utilities, repairs and maintenance, and contracted services – and continue to target higher levels of service up-time for all major equipment in its managed facilities.

### Capital Efficiency and Organizational Development

In order to improve the utilization of its equipment and assets, MDC has implemented the SAP-Preventive Maintenance Module in its equipment operations. This will enable more effective monitoring and control of equipment operations and rentals while ensuring optimal preventive and corrective maintenance to ensure efficient operations at all times.

APMC will also tap information technology to optimize service up-time for all major equipment to ensure the provision of basic services and amenities at minimum repair and maintenance costs.

With respect to organizational development, MDC and APMC will continue their capability build-up through the provision of competency-based and technical training sessions to key employees. In addition, a key thrust will be the minimization of employee turnover through benchmarked job-retention programs. An alignment of position titles with industry standards and accelerated job progression and advancement programs for promising engineers have already contributed to reducing employee turnover, and will be continued moving forward.

APMC will also continue to implement corporate programs like the long-running APMC University which provides an effective combination of theoretical and practical on-the-job training for property managers.



# Leading by example

Corporate Governance

Board of Directors  
Management Committee  
Corporate Governance Report  
Risk Management Report

# Board of Directors



**Fernando Zobel de Ayala**

Chairman of ALI since 1999. Vice Chairman, President and Chief Operating Officer of Ayala Corporation. Chairman of Manila Water Company, Ayala Automotive Holdings Corp., Ayala DBS Holdings, Inc. and Alabang Commercial Corp. Vice Chairman of Aurora Properties, Azalea Technology Investments, Ceci Realty and Vesta Property Holdings. Co-Vice Chairman of Ayala Foundation 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. Chairman of the Habitat for Humanity Asia Pacific Capital Campaign and the INSEAD East Asia Council. Trustee of the International Council of Shopping Centers.



**Jaime Augusto Zobel de Ayala**

Vice Chairman and member of the Executive Committee of ALI since 1988. Chairman and CEO of Ayala Corporation. Chairman of Globe Telecom, Inc., Bank of the Philippine Islands, Integrated Micro-Electronics, Inc., Azalea Technology Investment, Inc., World Wildlife Fund Philippine Advisory Council, and AI North America. Vice Chairman of Manila Water Company 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. Member of Children's Hour Philippines, Asian Institute of Management, Asia Business Council, JP Morgan International Council and Mitsubishi Corporation International Advisory Committee. Trustee of the Ramon Magsaysay Awards Foundation and the International Business Council of the World Economic Forum.



#### Antonino T. Aquino

Director and President of ALI since April 2009. Chairman of Alveo Land Corp., Avida Land Corp., Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., Makati Development Corp., Ayala Property Management Corp., North Triangle Depot Commercial Corp., Station Square East Commercial Corp. and Hero Foundation. President and Director of Fort Bonifacio Development Corp., Bonifacio Arts Foundation, Alabang Commercial Corp., Accendo Commercial Corp., Aurora Properties, Inc., Ceci Realty, Inc. and Vesta Property Holdings, Inc. Director of Manila Water Company, Ayala Hotels, Inc. and Ayala Foundation, Inc. Awarded as Management Man of the Year for 2009 by the Management Association of the Philippines.



#### Delfin L. Lazaro

Member of the Board of ALI since 1996. 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.

## Board of Directors



**Mercedita S. Nollado**

Director and Corporate Secretary of ALI since 1994. Senior Counsel of the Ayala Group of Companies. Chairman of BPI Investment Management, Inc. and FEB Management, Inc. Director and Corporate Secretary of Ayala Corporation. Director of Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings Corp., HCM Insurance Agency, Inc. Bank of the Philippine Islands, BPI Family Savings Bank, BPI Capital Corp., and Anvaya Cove Beach and Nature Club, Inc. Corporate Secretary and Member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc. Treasurer of Phil. Tuberculosis Society, Inc.



**Aurelio R. Montinola III**

Member of the Board of ALI since February 2005. President and CEO of Bank of the Philippine Islands. Co-Chairman of the Philippine-France Business Council. Vice Chairman and President of the BPI Foundation, Inc. Vice Chairman of A/P Regional Advisory Board of the Master Card Incorporated, Republic Cement Corp., Far Eastern University and Philippine Business for Education, Inc. Director of BPI Capital Corporation, BPI-Philam Life Assurance Corp., BPI Bancassurance Corp. and BPI Family Savings Bank, Inc. Member of the Makati Business Club and Management Association of the Philippines. Trustee of the Ayala Foundation, International School Manila and Pres. Manuel A. Roxas Foundation.



**Corazon S. de la Paz-Bernardo**

Independent Director of ALI since April 2006. President of the International Social Security Association. Director of Equitable Card Network, Inc. and Banco de Oro Unibank, Inc. 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. Advisor to the Audit Committee of the Philippine Long Distance Telephone Company. Recipient of 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 1985.



**Francis G. Estrada**

Independent Director of ALI since April 2008. Chairman and Co-Founder of Equity Managers Asia, Inc. Director of Energy Development Corp, Philamlife and General Insurance Co., 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 Española de Beneficencia. Member of the Advisory Board of Rizal Commercial Banking Corporation. Member of American Chamber of Commerce, Management Association of Commerce, and Camara Española.



**Oscar S. Reyes**

Independent Director of ALI since April 2009. Chairman of MRL Gold Phils., Inc. and Link Edge, Inc. Director of Bank of the Philippine Islands, Philippine Long Distance Telephone Company, Smart Communications Inc., Pepsi Cola Products Philippines Inc., Basic Energy Corporation, Sun Life Financial Plans, Inc. and First Philippine Electric Corporation. Member of the Board of Trustees of Pilipinas Shell Foundation, Inc., SGV Foundation, and El Nido Foundation, Inc.

# Management Committee



Antonino T. Aquino  
President and CEO



Vincent Y. Tan  
Group Head,  
Planning



Ma. Victoria E. Añonuevo  
Group Head,  
AyalaLand Businesscapes  
Group Head,  
Ayala Malls



Bernard Vincent O. Dy  
Group Head,  
Residential Business



Raul M. Irlanda  
Group Head,  
Construction  
Group Head,  
Property Management



Rex Ma. A. Mendoza  
Chief Marketing  
and Sales Officer  
Group Head,  
Corporate Marketing  
and Sales



Emilio J. Tumbocon  
Group Head,  
Visayas-Mindanao and  
Superblock Projects



Jaime E. Ysmael  
Chief Finance Officer  
Compliance Officer  
Group Head, Finance



Dante M. Abando  
Group Head,  
Construction Management



Arturo G. Corpuz  
Head,  
Urban and Regional  
Planning and Land  
Acquisition



Anna Ma. Margarita B. Dy  
Group Head,  
Strategic Landbank  
Management



Jose Emmanuel  
H. Jalandoni  
Group Head,  
ALL Capital and Hotels



Joselito N. Luna  
Group Head,  
Innovation and Design



Ma. Teresa T. Ruiz  
Group Head,  
Human Resources  
and Public Affairs

# Corporate Governance Report

2009 Annual Stockholders' Meeting



*We are firmly committed to good corporate governance as a critical element in creating and sustaining shareholder value, while balancing the interests of our various stakeholders.*

*The structure for corporate governance is principally contained in our Articles of Incorporation and By-Laws and their amendments. Supplementing and complementing these is the Manual of Corporate Governance that is approved by the Board of Directors (“Board”) and sets forth the principles of good and transparent governance.*

*This Report describes our corporate governance framework and discusses initiatives taken by the Company in 2009 to further strengthen our commitment to integrity, transparency and the equitable treatment of all shareholders.*

## BOARD OF DIRECTORS

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 adequacy of internal controls and risk management, reliability of financial reporting, and compliance with applicable laws and regulations.

Ayala Land is led by a Board consisting of nine members who hold office for one year and until their successors are elected and qualified in accordance with the By-Laws of the Company.

The Board represents a mix of general business, industry, legal, and finance competencies, with each director capable of adding value and rendering independent judgment in relation to the formulation of sound corporate policies. All Board members have undergone training in corporate governance and have been certified by the Institute of Corporate

Directors (ICD). The ICD is a professional organization that is accredited by the Philippine Securities and Exchange Commission (SEC) and works closely with the Organization for Economic Co-Operation and Development (OECD), the Global Corporate Governance Forum, and the International Corporate Governance Network, and is committed to promoting world-class corporate governance principles in the East Asia region.

The roles of the Chairman and the Chief Executive Officer (CEO) are separate to ensure Board independence from management, an appropriate balance of power and increased accountability. Of the nine members of the Board, only the President and Chief Executive Officer is an executive director. The rest are non-executive directors who are neither officers nor consultants of the Company.

Table 1 shows the composition of the Board as of December 31, 2009:

**Table 1.**  
**Ayala Land Board of Directors**

Director	Position	Nature of Appointment
Fernando Zobel de Ayala	Chairman	Non-executive
Jaime Augusto Zobel de Ayala	Vice Chairman	Non-executive
Antonino T. Aquino*	Director	Executive
Delfin L. Lazaro	Director	Non-executive
Mercedita S. Nolleto	Director	Non-executive
Aurelio R. Montinola III	Director	Non-executive
Corazon S. dela Paz-Bernardo	Director	Non-executive/ Independent
Francis G. Estrada	Director	Non-executive/ Independent
Oscar S. Reyes*	Director	Non-executive/ Independent

\* Elected to the Board on April 1, 2009

As a company listed on the Philippine Stock Exchange (PSE), Ayala Land conforms to the legal requirement of having at least two independent

# Corporate Governance Report

directors on the Board. Of the nine current directors, three are independent directors. The Company defines an independent director as one who holds no interests in or relationships with the Company that may hinder their independence from the Company or its management and which would interfere with the exercise of independent judgment in carrying out the responsibilities expected of a director. If the beneficial ownership of an independent director in the Company or in its related companies exceed a 10% limit, or if the director appointed or elected as an independent director subsequently becomes an officer or employee of the Company, the director shall cease to be designated or characterized as an independent director.

## Board Performance

Regular meetings of the full Board are held at least once every quarter. In 2009, the Board had five regular meetings. The average attendance rate of members of the Board is at 91%, while individually complying with the SEC's minimum attendance requirement of 50%. The attendance of the individual directors at these 2009 meetings is disclosed in Table 2, as follows:

**Table 2.**  
**Summary of Directors' Attendance: 2009**

Director	No. of Meetings Attended/Held <sup>1</sup>	% Present
Fernando Zobel de Ayala	5/5	100%
Jaime Augusto Zobel de Ayala	4/5	80%
Antonino T. Aquino <sup>2</sup>	4/4	100%
Jaime I. Ayala <sup>3</sup>	1/1	100%
Delfin L. Lazaro	5/5	100%
Mercedita S. Nolleto	4/5	80%
Aurelio R. Montinola III	3/5	60%
Corazon S. dela Paz-Bernardo	5/5	100%
Ramon R. del Rosario, Jr. <sup>4</sup>	1/1	100%
Francis G. Estrada	4/5	80%
Oscar S. Reyes <sup>5</sup>	4/4	100%

<sup>1</sup> In 2009 and during the incumbency of the director

<sup>2</sup> Mr. Aquino was elected to the Board on April 1, 2009

<sup>3</sup> Mr. Ayala stepped down from the Board on April 1, 2009

<sup>4</sup> Mr. del Rosario stepped down from the Board on April 1, 2009

<sup>5</sup> Mr. Reyes was elected to the Board on April 1, 2009

Board members have separate and independent access to the Corporate Secretary who, apart from being a member of the Board, oversees the adequate flow of information to other Board members prior to meetings and serves as an adviser to the directors on their responsibilities and obligations. Discussions during Board meetings are open, and independent views are encouraged and given due consideration.

One of the tools used by the Board to monitor and improve its performance is an annual self-assessment, which takes place in the first quarter of every year. This is administered in the form of a formal questionnaire that is answered by each member of the Board individually and where members of the Board are able to rate their individual performance and that of the Board as a whole. The results are compiled by the Compliance Officer and submitted back to the Board for discussion and appropriate action through the Corporate Secretary. These self-assessment survey questions are reviewed regularly based on best-practice research and cover four broad areas of Board performance: Fulfillment of the Board's Key Responsibilities, Quality of the Board-Management Relationship, Effectiveness of Board Processes and Meetings, and the Performance of Individual Board Members. The self-assessment survey questions were last updated in 2009 and the questionnaire is administered every May (after the Annual Stockholders' Meeting). The Board also conducts its annual assessment of the President and Chief Executive Officer.

## Board Committees

Five committees support the Board in the performance of specific governance functions. These committees are described below while Table 3 lists each of their members.

*Executive Committee.* The Executive Committee acts on specific matters delegated by the Board of Directors except with respect to the following: distribution of cash dividends; filling of vacancies on the Board or

in the Executive Committee; amendment or repeal of By-Laws or the adoption of new By-Laws; amendment or repeal of any resolution of the Board of Directors; and the exercise of powers delegated by the Board exclusively to other committees. Strategic plans and directions are discussed in detail at the Executive Committee level.

In 2009, the Executive Committee held three meetings and deliberated on, among others, various projects and business proposals.

*Nomination Committee.* The Nomination Committee's main function is to implement and maintain a process which ensures that all directors nominated for election at the Annual Stockholders' Meeting have all the qualifications and none of the disqualifications for directors as stated in the By-Laws and the Manual of Corporate Governance. The Committee is also tasked with reviewing the qualifications of executives prior to movement, promotion, or hiring.

The Nomination Committee held three meetings in 2009. In addition to reviewing the profiles of the nominees for directors for the year 2009-2010 and approving the final list of nominees, the Committee approved the appointments/promotions of key officers, including the inclusion of Mr. Dante M. Abando, concurrent President of Alveo Land Corp. and Head of the Construction Management Group, in the Company's Management Committee.

*Personnel and Compensation Committee.* The Personnel and Compensation Committee's main function is to establish a formal and transparent process for developing and reviewing policies related to the executive remuneration of corporate directors, officers and other key personnel.

The Committee approved the grant of the 2009 Executive Stock Ownership Plan (ESOWN) to qualified officers of the Company during its sole meeting on August 13, 2009. A total of 43,695,923 share grants, representing a

**Table 3.**  
**Board Committees and Members**

<b>Executive Committee</b>	
Fernando Zobel de Ayala	Chairman
Jaime Augusto Zobel de Ayala	Member
Antonino T. Aquino	Member
Delfin L. Lazaro	Member
Oscar S. Reyes	Member
<b>Nomination Committee</b>	
Fernando Zobel de Ayala	Chairman
Antonino T. Aquino	Member
Oscar S. Reyes	Member
<b>Personnel and Compensation Committee</b>	
Fernando Zobel de Ayala	Chairman
Jaime Augusto Zobel de Ayala	Member
Mercedita S. Nolleto	Member
Francis G. Estrada	Member
<b>Audit and Risk Committee</b>	
Oscar S. Reyes	Chairman
Mercedita S. Nolleto	Member
Corazon S. dela Paz-Bernardo	Member
<b>Sustainability Committee</b>	
Antonino T. Aquino	Chairman
Corazon S. dela Paz-Bernardo	Member
Oscar S. Reyes	Member

dilution of less than 0.4% of the Company's issued and outstanding common shares over a period of ten years, were awarded to qualified employees at a strike price of Php4.96 per share.

Non-executive directors receive remuneration consisting of a fixed annual retainer fee of Php500,000 and a fixed per diem of Php100,000 for each regular Board meeting attended. There were a total of five regular Board meetings in 2009. In addition, non-executive directors are also entitled to a per diem of Php20,000 per Board Committee meeting attended. The remuneration of non-executive directors was approved and ratified during the 2003 Annual Stockholders' Meeting and has not increased since then.

# Corporate Governance Report

The total compensation paid to the CEO and key officers of management is disclosed in the Definitive Information Statement sent to all shareholders. The total annual compensation reported includes the basic salary and other variable pay (performance cash bonus and the exercise of Employee Stock Option Plan).

*Audit and Risk Committee.* The Audit and Risk Committee's main function is to take the lead in assisting the Board of Directors in the fulfillment of its oversight responsibility relating to the accuracy of the Company's financial statements and the soundness of its financial reporting process, the robustness of its internal control and risk management systems and processes, internal audit activities, the annual independent audit of the financial statements, and compliance with legal and regulatory matters.

In 2009, the Audit and Risk Committee held five meetings. Last year, the Committee revised its charter to reflect its reconstitution into an "Audit and Risk Committee" (previously the Audit Committee), and included additional roles and activities related to the Company's increased focus on enterprise-wide risk management. The Committee also reviewed and approved the 2008 Audited Financial Statements of the Company as prepared by the external auditors SyCip, Gorres, Velayo & Co. (SGV), as well as the quarterly unaudited financial statements. The Committee likewise gave its recommendation on the re-appointment of SGV as the Company's external auditors for 2009 and the corresponding audit fee structure. In addition, the Audit and Risk Committee reviewed and/or approved specific matters presented by the Internal Audit Division such as its audit plan for 2009, risk-based audit activities and special reviews, and presentations by SGV on its external audit plan, their assessment of the Company's internal controls, and the overall quality of the financial reporting process. The Audit and Risk Committee's activities are further discussed in its Report to the Board of Directors.

*Sustainability Committee.* The Sustainability Committee's role is to provide oversight to the sustainability program of the Company, guide policy-making in the Company's sustainability program, and ensure full Company support and alignment with the Ayala Group of Companies' Commitment to Sustainable Development.

The creation of the Sustainability Committee was approved during the Board of Directors' meeting on August 13, 2009. The first meeting of the newly-formed Committee was held in 2010.

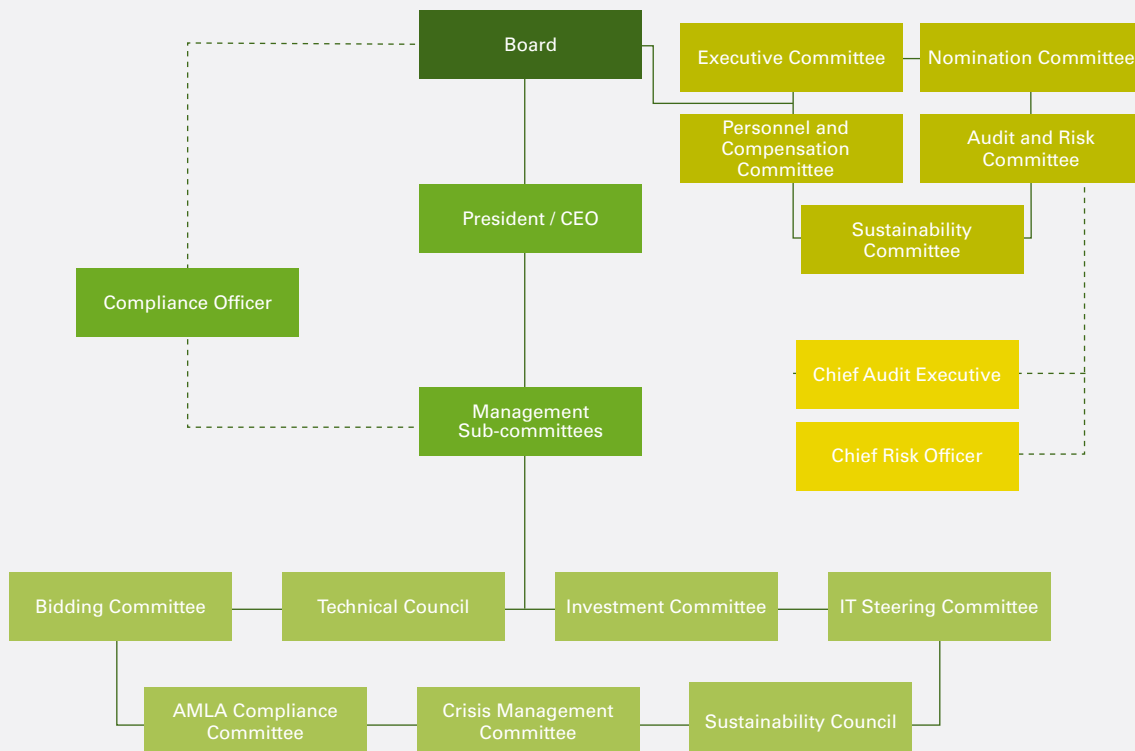
## MANAGEMENT

In addition to the various Board-level committees, the Company has also put in place various management sub-committees to guide the critical decision making and key governance processes required at the management level in overseeing individual business units, projects and support functions. These include the Management Committee, the Investment Committee, the Technical Council, the Bidding Committee, the Information Technology Steering Committee, the Sustainability Council, the Crisis Management Committee and the Anti-Money Laundering Act (AMLA) Compliance Committee (see Figure 7).

Management places high importance on having clear policies, adopting best practices and maintaining strong internal controls in support of effective corporate governance.

Along with the members of the Board, the Company requires members of the Management Committee and other key officers to receive periodic training in corporate governance. As of year-end 2009, 12 of the 14 members of the Management Committee and an additional nine key officers, including the Treasurer, the Deputy Compliance Officer and the Head of Corporate Strategy were certified by the Institute of Corporate Directors for having attended an accredited corporate governance training program. The Company remains

Figure 7.  
Our Governance Structure



committed to continued corporate governance training for the Board and key members of the management team and in 2010 will also implement a training module for corporate governance within its own in-house training curriculum. This will be attended by all new employees of the Company and will effectively broaden the awareness of the principles of good corporate governance across the entire organization.

#### *Shareholder Value Creation*

We seek to consistently improve the Company's business fundamentals and prospects in order to deliver increasing value to our shareholders' investments in the Company over time. Our strategies, business models and

operating plans are all oriented towards the achievement of consistent progress in our operating and financial results and, therefore, the underlying determinants of firm value. Specific targets relating to key metrics such as total shareholder return, return on equity, growth, asset efficiency and profitability are set and incorporated into the management team's key result areas, approved by the Board, and are measured and tracked. This process ensures alignment of incentives between shareholders and management.

#### *Risk Management*

The Board and Management remain firmly committed to the effective management of strategic, operational, financial and compliance-related risks throughout the

# Corporate Governance Report

organization. A key joint responsibility of the Board and Management is to ensure the presence of adequate and effective organizational and procedural controls, supported by management information systems and a risk identification, mitigation, monitoring and reporting system.

Key risk management initiatives implemented in 2009 are discussed in the Risk Management Report on page 69.

## ACCOUNTABILITY AND AUDIT

The Audit and Risk Committee provides oversight to external and internal auditors.

### *Independent Public Accountants*

The principal accountant and external auditor of the Company is the accounting firm of SyCip, Gorres, Velayo & Co. (SGV), with Ms. Lucy L. Chan as the Partner-in-Charge for the 2009 audit year. Ayala Land, Inc. and its various subsidiaries and affiliates paid SGV a total of Php8.1 million (inclusive of VAT) for audit and audit-related fees in 2009, which was the same amount paid to SGV for 2008. No other fees have been paid for assurance and other related services for the past two years. Meanwhile, tax consultancy services are secured from entities other than the appointed external auditor.

### *Internal Audit*

The Internal Audit Division (IAD), headed by a Chief Audit Executive, reports to the Audit and Risk Committee of the Board. The IAD provides independent and objective assurance and advisory services to the Company with the following objectives: strengthen the internal control structure, identify opportunities for process and control improvements, monitor compliance with laws and regulations, share best practices, and enhance the operations and shareholder value of the Company, its subsidiaries and affiliates. Through the Audit and Risk Committee, the IAD assists the Board in the discharge of its duties and responsibilities as

provided for in the SEC's 2009 Revised Code of Corporate Governance.

The IAD executed its audit activities for 2009 in accordance with the risk-based and process-focused audit approach. This approach is in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (Standards) and likewise complies with the SEC's 2009 Revised Code of Corporate Governance.

Following a thorough assessment, review and conclusion by Manabat, Sanagustin & Co. (KPMG) in 2007 that the Company's internal audit activities generally comply with the Standards and Code of Ethics, the IAD introduced strategic changes to the positioning, people management system and processes of the function in support of overall business goals. "Generally complies" means that KPMG has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the Standards and Code of Ethics in all material respects.

## MANAGEMENT OF STAKEHOLDER RELATIONS

We believe that our long-term success rests on the support and contribution of different stakeholders, including our shareholders, customers, business partners, employees, communities, government, non-government organizations (NGOs) and media.

### *Shareholders*

We are committed to providing our shareholders and the investment community with timely, accurate and relevant information about the Company, its financial and operating results, and its future business prospects.

*Annual Stockholders' Meeting.* Shareholder meeting and voting procedures are a critical component of the framework established to safeguard the rights and interests of all our shareholders. Shareholders

are informed at least fifteen (15) business days in advance of the scheduled date of the Annual Stockholders' Meeting. Notices of regular or special meetings contain, in addition to the date, hour and place of the meeting, a statement of the matters to be discussed and voted upon at each meeting. The notice to shareholders also set the date, time and place of the validation of proxies which is prescribed to be no less than five business days prior to the Annual Stockholders' Meeting.

Each share of stock entitles the person in whose name it is registered in the books of the Company to one vote, provided the conditions as regards payment have been complied with. The results of voting on each matter taken up during the annual general meeting are posted on our Investor Relations website immediately after the meeting.

In 2009, we allowed for proxy voting on separate items on the agenda, including the election of directors, ratification of all acts and resolutions of the Board of Directors and of the Executive Committee, and the election of the independent auditors and their approved remuneration. We also implemented proxy voting for individual nominees for the Company's Board of Directors.

*Shareholder Communication.* We believe in open and transparent communication with all our shareholders in order to build investor confidence and ultimately reduce our cost of capital. Through our Investor Communications and Compliance Division, which reports directly to the Chief Finance Officer (CFO), we address the various information requirements of the investing public in general, and minority shareholders, in particular. We have continually enhanced the amount and quality of operating and financial information disclosed to enable the investing public to better understand the Company's business prospects and net asset value.

## COMPANY VALUES

We strongly believe in the primacy of shared values and the empowerment of people as basic operating principles.

We expect our employees, especially members of our Management Team, to conduct themselves properly and consistently with the Company's core values: customer orientation, quality, pursuit of excellence, integrity, social responsibility, long-term focus, empowerment, bias for results and concern for people.

## CODE OF ETHICAL BEHAVIOR

These core values are reinforced through the Code of Ethical Behavior outlining the general expectations of and setting the standards for behavior and ethical conduct of all employees on such matters as reporting of improper conduct, i.e. "whistle blowing procedures," use of company assets and conflicts of interest.

All employees are required to promptly disclose any business- and family-related transactions. At the beginning of each year, our employees complete a mandatory form on "Business Interest/Related Party Disclosure/Insider Trading."

A Manual of Personnel Policies includes the Code of Conduct governing acceptable office conduct for the orderly operation of the Company, as well as the protection of the rights, safety, and benefit of the total employee force.

## VENDORS' CODE OF ETHICS

We are committed to ensuring that firms or individuals providing a product or service to us or indirectly to any of our clients, agents and subcontractors, uphold our reputation and brand.

We expect vendors to share and embrace the letter and spirit of our commitment to the Vendors' Code of Ethics prescribing specific business and employment practices. By vendor, we mean any firm or individual that provides a product or service to us or indirectly to any of our clients. Our ethical expectations are communicated to our suppliers/vendors during the application for and renewal of accreditation.

# Corporate Governance Report

## COMPANY AWARDS

We take pride in being recognized for the quality of our management and for our corporate governance initiatives and efforts. Among the awards received in 2009 are as follows:

- Best Large Cap Corporate for the Philippines – Asiamoney Best Managed Companies Award 2009
- Best Company Executive for the Philippines (Antonino T. Aquino) - Asiamoney Best Managed Companies Award 2009
- Management Man of the Year (Antonino T. Aquino) - Management Association of the Philippines
- Best Overall Developer in the Philippines – Euromoney 2009 Real Estate Poll
  - Best Property Manager in the Philippines
  - Ranked 5th in Overall Real Estate Development in the Region
  - Ranked 5th in Property Management in the Region
- Platinum Award for All-Round Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility, Environmental Responsibility and Investor Relations – The Asset's Excellence in Management and Corporate Governance Awards 2009
- Best Investor Relations Professional (Alfonso Javier D. Reyes) – Thomson Reuters (Asia Pacific) Extel Survey 2009

### Other High Rankings/Citations

- 2nd Place ranking for “Best Investor Relations by a Philippine Company” and “Best IR in the Philippines” from IR Magazine Southeast Asia Awards and Thomson Reuters (Asia Pacific) Extel Survey, respectively
- One of Asia's Best Companies for Corporate Governance – Corporate Governance Asia Recognition Awards 2009
- Among the Top 20 finalists in the 2009 MAP Best Annual Report Awards – Management Association of the Philippines



Aside from disclosures to the Securities and Exchange Commission, the Philippine Stock Exchange, and the Philippine Dealing and Exchange Corporation, we conduct quarterly Analyst Briefings for both equity (buy-side and sell-side) and credit analysts and communicate directly with institutional and individual investors through one-on-one meetings, written communications such as emails, and conference calls. Analysts not able to attend our quarterly briefings in person are also invited to participate through a teleconference facility. We also have a continuing program of enhancing our Investor Relations website, which includes podcasts of our quarterly briefings. A playback facility on our website is available for three business days after each briefing.

Throughout the year, our CEO, CFO, Head of Investor Communications and Compliance, and other members of the Management Committee (where appropriate) make themselves available for meetings with institutional investors through prearranged company visits, teleconferences, Analyst Briefings and attendance in local and international investor conferences. In 2009, senior management met with institutional investors and fund managers in six conferences and corporate day events held in Singapore, Hong Kong, New York and London.

### Customers

Our customers play an integral part in the success of our Company. Over many years, we have endeavored to build the trust and confidence of our customers by consistently delivering on-spec, on-time, and best-in-class products and services. Over the past few years, we have continually sharpened customer focus and accountability and have significantly improved our service levels.

### Business Partners

We endeavor to build long-term, mutually-beneficial relationships with our business partners through fair dealings and adherence to a high level of moral and ethical conduct.

We recognize and respect the rights of creditors as stakeholders and are committed to honoring our contracted financial obligations. We believe in maintaining their confidence as key to ensuring timely availability of credit, at favorable terms. We provide creditors with ready access to essential information about the organization and its projects needed to assess the Company's credit quality. We also invite credit analysts to regularly attend our quarterly Analyst Briefings.

Our procurement organization subscribes to the Principles and Standards of Ethical Supply Management Conduct set by the Institute for Supply Management. Strategic and operational procurement activities are guided by principles and standards of ethical conduct which include providing equal opportunities to and promoting fair and open competition among vendors and trade partners, and by continually practicing best practices that result in the highest level of productivity, efficiency, quality, and cost-competitiveness.

### *Employees*

We endeavor to provide a suitable environment for continuous learning and development for our people. We provide optimal training opportunities and custom-fit programs that enable our employees to strive for excellence and perform at their best. These training programs cover business and technical knowledge, skill-building, values, ethics and good governance. We view these to be building blocks for each individual's professional development and the Company's growth. Under the Individual Development Plan (IDP) process, our employees actively collaborate with their managers and our human resource specialists to determine skills, knowledge and experience needed in their current and prospective future roles. A training program for each individual is designed within the IDP process and progress against the plan is regularly monitored within each division and group.

### *Communities*

As a leading and responsible land and community developer, we recognize the impact our projects have on the communities in which we operate. We are committed to improving the quality of life not only of our customers but also of the families and people in the communities that surround our developments, and society as a whole as well. Details of our community engagement and the beneficiaries of our programs are discussed in the Community Stewardship section of this report, which starts on page 100.

### *Government*

The Company recognizes and is committed to its role in economic development and nation building. We regularly engage the government, both at the national and local levels, to find business solutions to environmental and social issues. We constantly seek to partner with the public sector in developing business models, platforms and infrastructure that serve as catalysts for social development and contribute to raising the standard of living of people in the communities we serve.

### *Non-Government Organizations (NGOs)*

We partner with reputable NGOs and corporate foundations for their expertise in providing meaningful and effective engagement with the communities we serve. We also provide additional resources to enhance their capabilities and increase the potential impact they can have. Since 2007, our partnership with I-Serve, a tenured NGO with expertise in community organization, has allowed us to address some of the needs of the communities surrounding NUVALI through livelihood programs and employment opportunities. We also continue to partner with the Ayala Foundation for ways to enhance the educational opportunities of students in public schools around the country. Details of these are likewise contained in the Community Stewardship section of this report.

# Corporate Governance Report

## *Media*

We work closely with the media to provide timely and accurate news and information on the Company's activities to the general public. We consider the media as partners in our open and transparent approach to communication. Our Corporate Communications Division engages the media on a regular basis through various channels such as media conferences and briefings, news releases and fact sheets, social gatherings, one-on-one meetings, and through third-party consultants. We occasionally support media-initiated causes and events that are aligned with our advocacies and initiatives.

## **DISCLOSURE AND TRANSPARENCY**

We are committed to the highest standards of disclosure, transparency and information dissemination. We provide the public with strategic, operating and financial information through adequate and timely disclosure filings submitted to the regulatory authorities. Along with regular periodic reports, we disclose any and all material and critical information about the Company that may have an impact on the market price and trading volume of its securities.

In 2009, these disclosures included the following:

- Issuance in January of privately placed Fixed Rate Corporate Notes worth Php2.38 billion, with three tranches of five, seven and ten-year maturities at 7.7553%, 8.4547% and 8.9%, respectively.
- Obtained financing facility in April in the form of privately placed Floating Rate Corporate Notes worth Php1.00 billion, with a maturity of seven years.
- Declaration of total cash dividends of Php0.06 per share (in two tranches) to all shareholders as of record date June 11, 2009, payable on June 30, 2009 and as of record date December 18, 2009, payable on January 19, 2010.

- Board approval in August for the formation of a new, wholly-owned subsidiary that will pursue the planned expansion of the residential operations catering to the country's economic housing segment.
- Signing in August of a Joint Venture Agreement with the National Housing Authority for the development of the 29-hectare North Triangle Property in Quezon City.
- Issuance in September of the Ayala Land Homestarter Bonds worth Php504 million at 100% of face value, with a maturity of three years from the initial issue date, and a fixed-rate coupon of 5.0% per annum.
- Signing of a 50-year lease agreement in October with the Subic Bay Metropolitan Authority for the development of a 7.5-hectare property along Rizal Highway within the Subic Bay Freeport Zone in Olongapo City.
- Board approval for the incorporation and capitalization of Primavera Towncentre, Inc., a new 100% owned subsidiary that will handle the planning, development and management of small format retail facilities known as neighborhood centers within existing and planned growth centers across the country.

## *Ownership Structure*

We disclose quarterly and annually the top 100 holders of our common and preferred shares, and the security ownership of certain record and beneficial owners having more than 5% of total outstanding stock, as well as the security ownership of members of the Board of Directors as well as key management officers. This information is relayed quarterly through postings in our Investor Relations website and annually in the Definitive Information Statement sent to our shareholders.

Ayala Corporation owned 75.3% of the total common and preferred shares of the Company as of December 31, 2009. None of our Directors or key management officers owns 2.0% or more of our outstanding

capital stock. There are currently no cross or pyramid shareholdings within the Company's capital structure.

### *Financial Reporting*

Our financial statements comply with Philippine Financial Reporting Standards (PFRS) which are in general compliance with International Accounting Standards. The accounting policies adopted in 2009 are consistent with those of the previous financial year, except for the adoption of the following Philippine Interpretations which became effective on January 1, 2009, and amendments to existing standards that were issued in April 2009:

- PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendment to PFRS 2, Share-based Payment - Vesting Condition and Cancellations
- Amendments to PFRS 7, Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
- PFRS 8, Operating Segments
- Amendment to PAS 1, Presentation of Financial Statements
- Amendment to PAS 23, Borrowing Costs
- Amendments to PAS 27, Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to PAS 32, Financial Instruments: Presentation, and PAS 1, Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives, and PAS 39, Financial Instruments: Recognition and Measurement
- Philippine Interpretation IFRIC 13, Customer Loyalty Programmes
- Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation
- PFRS 2, Share-based Payment

“We are committed to the highest standards of disclosure, transparency and information dissemination.”

- PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations
- PFRS 8, Operating Segment Information
- PAS 1, Presentation of Financial Statements
- PAS 7, Statement of Cash Flows
- PAS 17, Leases
- PAS 18, Revenue
- PAS 36, Impairment of Assets
- PAS 38, Intangible Assets
- PAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items
- Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives
- Philippine Interpretation IFRIC 16, Hedge of a Net Investment in a Foreign Operation

We will adopt other new and amended PFRS and Philippine Interpretations when these become effective in the future. These changes in Accounting Policies are fully explained in the Notes to the Audited Consolidated Financial Statements.

# Corporate Governance Report

## DEALINGS IN SECURITIES

We continue to implement policies governing securities transactions that comply with existing government regulations against insider trading.

### *Reporting of Transactions and Trading Black-outs*

Any change in Company shareholdings resulting from transactions entered into by Directors and key management officers, either by acquisition, disposal, or the grant of shares from incentive-based schemes implemented by the Company, are reported to the SEC within five days from the date of the transaction.

The Company strictly enforces, and monitors compliance with, a policy on insider trading which prohibits the buying or selling of Company securities during prescribed periods by directors, officers and employees who are considered to have knowledge of material facts or changes in the affairs of Ayala Land which have not been disclosed to the public. Covered persons include members of the Board of Directors, key officers, consultants, advisers, and employees who have been made aware of undisclosed material information with respect to the Company and its operations. This restriction is expanded to include the immediate families of the parties mentioned.

The trading black-outs cover 10 trading days before and three trading days after disclosure of quarterly and annual financial results. In the case of other material information disclosed, the black-out covers three trading days before and after disclosure. All members of the Company's management team are required to submit an annual certification signifying that they have not transacted in the Company's shares during any of the previous year's trading black-out periods. This process of certification is conducted January of each year.

### *Insider Trading*

We continue to implement a policy on securities transactions in compliance with existing government regulations against insider trading. There has not been any case of insider trading involving company directors or management in the past five years.

## ANTI-MONEY LAUNDERING

As a covered institution, the Company complies with all the rules, regulations and directives issued by the *Bangko Sentral ng Pilipinas* and the National Government's Anti-Money Laundering Council (AMLC). These cover general information and documentation requirements for customers, record-keeping, and the reporting of covered and/or suspicious transactions. We have an internal Anti-Money Laundering Compliance Committee that meets at least quarterly to review and discuss specific transactions (if any), possible changes in the regulatory environment, enhancements to the documentation and front-liner training, and other issues. We also regularly engage the AMLC in productive discussions on how we can enhance our compliance and we cooperate fully with any request from the regulatory agencies that may arise in the course of our interaction.

## COMPLIANCE OFFICER

Jaime E. Ysmael, who is our Chief Finance Officer and holds the position of Senior Vice President, is the Compliance Officer designated to ensure adherence with corporate governance principles and best practices as well as all regulations that cover the Company. Alfonso Javier D. Reyes, who is our Head for Investor Communications and Compliance Division, is our Deputy Compliance Officer.

# Risk Management Report

*To strengthen the Company's Risk Management function, the Board of Directors approved on August 7, 2009 the transformation of the Audit Committee to the Audit and Risk Committee, the revision of the Audit Committee Charter to include in its mandate the oversight on the Company's risk management policies and procedures, and the appointment of a Chief Risk Officer (CRO).*

Specifically, the Audit and Risk Committee shall:

1. Ensure that an overall set of risk management policies and procedures exist for the company.
2. Review the adequacy of the Company's enterprise risk management framework by evaluating and providing continuous input and feedback on the effectiveness of the risk management process.
3. Review the results of the annual risk assessment conducted by the CRO and monitor and evaluate the effectiveness of the strategies and action plans.
4. Meet periodically with management to discuss the Committee's observations and evaluations.

This charter notwithstanding, Management shall remain primarily responsible for the development,

implementation and reporting of the risk management framework, process and strategies intended to address the identified risks. Figure 8 depicts the Company's Enterprise-Wide Risk Management Structure.

Key risk management initiatives implemented in 2009 include the following:

### Strategic Risk Assessment and Management

By clearly defining and staying consistent to our Ayala Land Four-Pillar Strategy, management was able to focus its efforts on pushing for Company-wide operational improvement even through the effects of the severe market slowdown during the early part of the year.

As part of this effort, the standard Ayala Land Project Development Process was revised to incorporate necessary approvals from the Investment Committee (IC). The IC is a new committee composed of senior executives who convene to review capital investments, monitor exposure, and manage contingent liability. By centrally reviewing and approving all high-value and high-profile investments, both at the Parent and subsidiary levels, the IC was able to apply a consistent approach to project reviews that allowed it to adopt an overall perspective, including improving project

Figure 8.  
Our EWRM Structure



# Risk Management Report

financial hurdles, and considering a project's merit, attractiveness and risks versus other opportunities that may fit within the Company's portfolio. This resulted in the deliberate deferral of projects or the adjustment on the timing of some project launches to take into account shifting market conditions.

## Financial Risk Management

Exposure to liquidity, credit, interest rate, currency and equity risks arise in the normal course of the Company's business activities. Our Treasury Division operates as a centralized entity which manages financial risks and provides optimal investment yield on financial assets and cost-efficient funding for our business units and the Company as a whole. These efforts include maintaining a healthy cash balance throughout the year (to avoid liquidity-related risks), setting and monitoring debt limits for Ayala Land, its subsidiaries and affiliates on a consolidated basis (to prevent excessive leverage); debt profile balancing (i.e. floating to fixed and spreading the maturity date of loans), setting bank and other financial institution counterparty limits (to prevent concentration of exposure), setting and monitoring acceptable accounts receivable limits and selling accounts receivable whenever appropriate, and rationalizing insurance coverage (balancing insurance coverage and exposure versus the cost of premiums).

## Operational Risk Management and Business Continuity

In line with the Company's Business Continuity Plan (BCP), the Company strengthened the function of the Crisis Management Team by assigning a 24x7 management team representative from all business units. This facilitates better coordination, the minimization of disruption and assurance of continuous operation in all locations. To mitigate the risk of failure of our Information Technology infrastructure, the Company set up an offsite IT Disaster Recovery Facility which allows us to switch to the offsite datacenter in case of a major disaster in its primary site in Metro Manila.

## Management of Risks in Supply Chain Management

As supply chain organizations gravitate toward a "build anywhere, source from anywhere" mindset, the risks associated with procurement and managing supply assume greater proportions. Examples of real-world procurement risks include long-term contracts at volatile prices, excessive concentration on one geographic location or dependence on one supplier, supply disruptions (assurance of supply) due to natural disasters and supplier performance/quality. Proactive management of supply risks often requires a continuous evaluation of risk factors across the organization.

From an operational standpoint, procurement risk management begins with the design of the supply network. The definition of design encompasses the identification of suppliers, design of the sourcing protocols and controls, and the definition of contract terms. The following are some of the initiatives implemented in 2009:

### *Internal Process Efficiencies*

- *Creation of a Procurement Council.* The Company formed a Procurement Council composed of the procurement heads of the Company and its subsidiaries and affiliates. Its objectives are the following: alignment of procurement processes, controls, strategies and organization; control of spending and contribution to the attainment of financial targets; protecting the interest of the Company by promoting good governance and commitment to the highest standards of quality and business integrity; promoting synergy and teamwork among the Company and its various procurement units; and taking the lead role in the Corporate Social Responsibility (CSR) aspect of the supply chain.
- *Standardization of Bidcom Procedures.* The Company's Procurement Council aligned the Bidding Committee Charter as well as the composition of its memberships at the subsidiary and affiliate level to that of the Parent Company's Bidding Committee Charter.

- *Automated System Budget Checks.* The Company instituted automatic system budget checks through an SAP-based Supplier Relationship Management procurement platform. Purchase requisitions can only proceed if there are available budget forecasts loaded in the system that have been pre-approved by the CFO. Purchase orders, as well as the eventual payment transactions are dependent on the approved purchase request. This ensures that only budgeted projects or requirements can be processed by the procurement unit.

#### *Assurance of Supply*

- *Supplier Pre-Qualification Process.* Ensures that the Company and its subsidiaries deal only with vendors that complied with pre-qualification requirements and procedures. It also limits the award of contracts to all pre-qualified vendors according to their specific classification or commodity grouping. This facilitates the short-listing and sourcing process of vendors prior to bidding/purchase of goods and services. The Company has partnered with business information provider Dun and Bradstreet to assist us in our supplier accreditation process.
- *Supplier Partnering Program.* We continued enhancing our partnerships for long-term contracts with key suppliers. These contracts represent binding commitments between the Company and the supplier in which prices and terms are usually fixed for a year for non-volatile commodities critical to projects and operations. We have recently reviewed our long term supply agreements to ensure that they incorporate the latest best practices in contract documentation.

#### *Financial Standing/Capability*

- *Surety Bonds.* The use of surety bonds is practiced to mitigate the risks for advance payments as well as to serve as a guarantee that the value of work will not be lost. Surety bonds take different forms, which include performance bonds that guarantee satisfactory completion of a project by

a contractor, and advance payment bonds that ensure the recovery of advance payments made if the contractual agreements entered into cannot be fulfilled.

- *Financial background check of vendors and contractors prior to awarding of contracts.* This is usually a part of the Vendor Pre-qualification process, which involves the financial evaluation of the vendor. Metrics used include financial ratios such as the Altman Z values, gross financial contracting capacity (GFCC), and net financial contracting capacity (NFCC), which are based on the submitted audited financial statements.

#### *Supplier Quality/Service Support/After Sales*

- *Supplier Performance Management.* This ensures that the Company and its subsidiaries deal only with the most reliable and capable suppliers. Vendor performance is evaluated using vendor performance evaluation reports and incident reports that are required from project proponents or end-users before payments are released. An incident report is prepared by the project proponent or end-user whenever they encounter incidents that transpire before, during or after the contract or project implementation that may have a significantly negative impact to the Company or project. This assists vendors in improving their products and services by providing feedback on their performance.
- *Greening the Supply Chain (GSC).* Spearheaded by Makati Development Corporation (MDC), this initiative involved updating of the ISO Manual to integrate a section on Environmental Procurement that adheres to international standards on “green purchasing,” as well as the roll-out of a corporate wide seminar on the topic. It also highlighted the need for vendors to prepare for environmental certification which will be one of the considerations in the selection and awarding of packages via the weighting system to be finalized in early 2010.



# Our Sustainability Journey

2009 GRI Sustainability Report

Sustainability Management  
Environmental Stewardship and Impact Reduction  
Community Stewardship and Social Development  
Personnel Development, Health and Safety  
Market Shaping  
The Journey Ahead  
Stakeholders' Commentaries  
Sustainability Awards and Recognition  
GRI Index

# Sustainability Management



In last year's Sustainability Report, we discussed how we formulated our overall Sustainability Framework which helped us align the many sustainability initiatives from across the organization into a singular framework for all strategic business units (SBUs) and corporate support groups. Figure 9 illustrates the framework, with emphasis on the five major objectives of our sustainability program:

- Environmental Stewardship and Impact Reduction
- Community Stewardship and Social Development
- Personnel Development, Health and Safety
- Market Shaping
- Accountability

Table 4 presents the strategies or key performance indicators under each of the five objectives. Through our sustainability framework, we were able to plan our programs, projects and activities (PPA) for each of the key performance indicators and identify lead SBUs and corporate support groups for each area. The various PPA's planned and implemented throughout the year formed part of the lead units' key result areas which are evaluated semi-annually by top management as part of their performance reviews.

Figure 9.  
Ayala Land Sustainability Framework

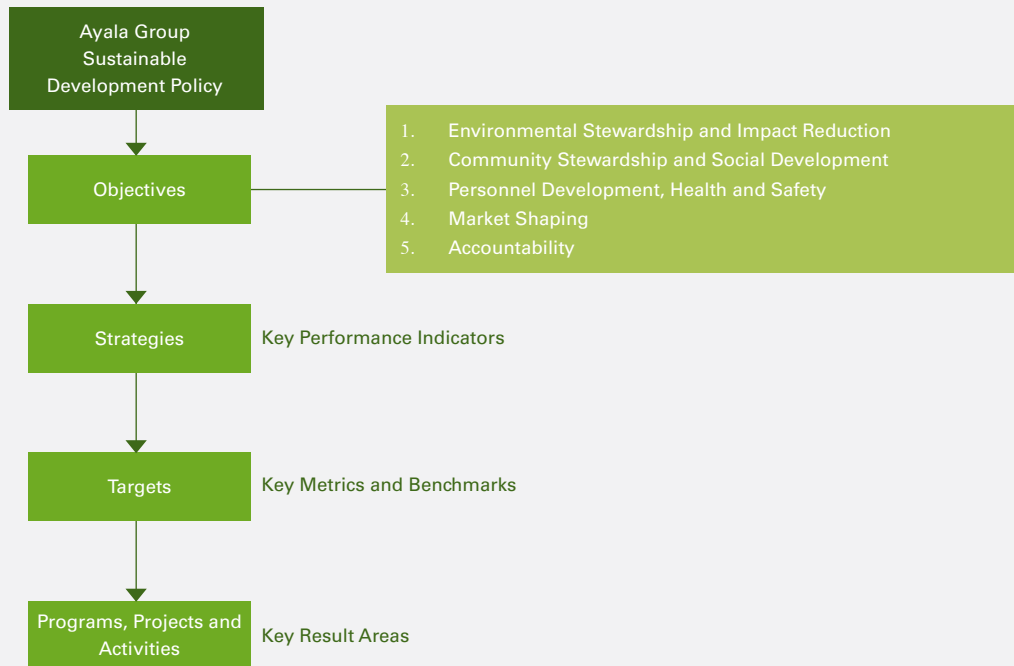


Table 4. Sustainability Objectives and Key Performance Indicators

Environmental Stewardship and Impact Reduction	Community Stewardship and Social Development	Personnel Development, Health and Safety	Market Shaping	Accountability
Energy Efficiency	Local Employment and Livelihood	Employee Wellness	Green Marketing Campaigns	Sustainability Governance
Water Stewardship	Community Health and Safety	Occupational Health and Safety	Green Market Surveys	Sustainability Reporting
Air Quality Management	Education	Green Training for Employees	Green Training for Sales Force	
Solid Waste Management	Arts and Culture	Employee Volunteerism	Green Networking with government, industry groups, NGOs, media	
Sustainable Land Use Planning				
Green Product Design				
Green Procurement				
Sustainable Construction				
Biodiversity Conservation				

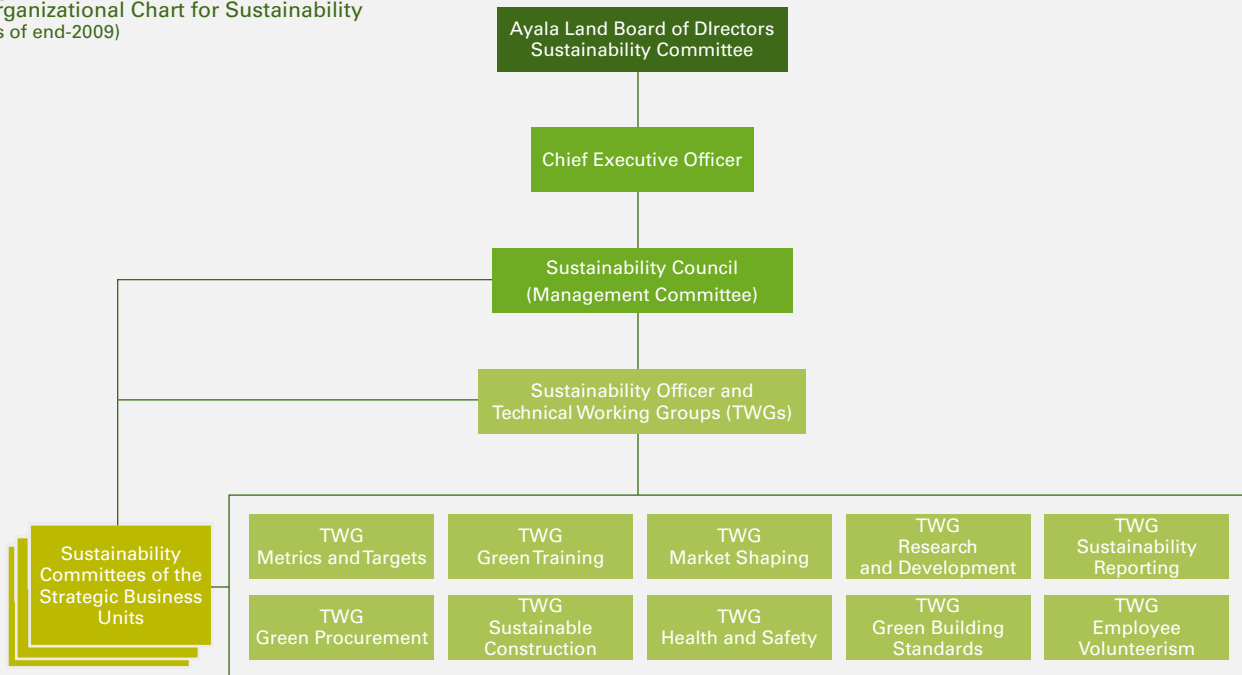
## Sustainability Management



Last August 2009, a Board-Level Sustainability Committee was formally created and ratified by the Company's Board of Directors. The Committee was charged with two main functions: (1) oversee the Company's implementation of its overall sustainability program, and (2) ensure the Company's alignment with the Ayala Group Sustainable Development Policy. The policy was signed on July 3, 2009 by the Ayala Group Management Committee, composed of senior executives of Ayala Corporation and chief executives of its major subsidiaries, with the following objectives:

- In our operations, we will consciously move towards the continuous reductions of our energy, water, and solid waste footprints. Where possible, we will move beyond regulatory compliance and apply best practices and global voluntary standards on environmental and social responsibility.
- In our products and services, we will innovate to be able to serve and empower more customers, particularly those that are disadvantaged and who do not have access to essential goods and services. Our product development will explicitly include environmental and social factors, and we will continuously look for ways to design our products and services for lower environmental impact.
- In our supply chains, we will include environmental parameters in the accreditation of our suppliers. We will also consciously use our buying volume to enable communities to develop by providing opportunities to entrepreneurs and cooperatives.
- In our human resource practices, we will ensure that our employees work in the safest and healthiest environments possible and in a manner that will enable them to reach their highest potential. We will also encourage sustainability initiatives to build positive momentum for sustainable business practices within the workforce.
- In our community involvement, we will provide, to the best of our ability, the resources needed to help address issues of quality education, vibrant micro-enterprises, and a healthy environment for our communities for the sake of economic advancement and nation building.
- In our management approach, we will strive for material impact and measurable results on sustainability while finding opportunities to improve operating efficiencies and satisfy our shareholder requirements.

Figure 10.  
Organizational Chart for Sustainability  
(as of end-2009)



Our Sustainability Framework and its five pillars of sustainability (see Figure 9 and Table 4 on page 75) are properly aligned with the policy objectives listed earlier. Full support from the top executives of the Ayala conglomerate provides the Company's strong mandate for its overall sustainability program. Leading its implementation is our CEO, who is also the Chairman of the Company's Board Sustainability Committee. In support of the CEO is the Management Committee (Mancom), which acts as the Sustainability Council during the periodic reviews of the year's sustainability program. As the Mancom members themselves are the heads of the different SBUs and corporate support groups, they are tasked with the implementation of their respective units' sustainability programs, projects and activities. Figure 10 illustrates the Company's functional organization for sustainability, as of end-2009.



# Sustainability Management

The full-time coordinator for the overall sustainability program is the Sustainability Officer, who works under the supervision of a Mancom member, the Head of Urban and Regional Planning and Land Acquisition. The Sustainability Officer presides over the Sustainability Technical Working Group (TWG), which is responsible for all technical aspects of Environmental Stewardship and Impact Reduction. These include energy, water and solid waste (EWS) tracking, target-setting, and design standardization. The Sustainability TWG is composed of senior executives from Ayala Property Management Corporation (APMC), Makati Development Corporation (MDC), and the Company's Innovation and Design Group (IDG), Construction Management Division (CMD), and Urban and Regional Planning Division (URPD).

The Community Stewardship and Social Development pillar also has a dedicated working group, composed of senior executives from the Company's External Affairs Division (ExAD), Corporate Communications Division (CCD), Employee Relations (ER), Strategic Landbank

Management Group (SLMG) and the Sustainability Officer. The Personnel Development, Health and Safety pillar is handled by the Company's Human Resources and Public Affairs Group (HRPA) through its Corporate Learning and Development unit (CLD) and the newly-created Health and Safety Committee (HSC). The Market Shaping pillar is championed by the Corporate Marketing and Sales Group (CMSG) in coordination with the SBU marketing officers and the various sales companies.

The Accountability pillar is manifested throughout our sustainability organization, with key result areas (KRAs) established for all executives and personnel towards the achievement of the Company's sustainability objectives. The Sustainability Officer and the CCD are jointly responsible for overall sustainability performance monitoring, internal reporting and GRI Sustainability Report preparation. With a robust sustainability framework, and a reinforced sustainability organization, the Company made great strides in its sustainability journey in 2009 and is poised to go much farther this year.



Ayala Group Executives with their GRI Sustainability Reports

### ABOUT THIS GRI SUSTAINABILITY REPORT

This is our third annual Sustainability Report, prepared in accordance with the Global Reporting Initiative (GRI) G3 Guidelines. We have progressed in terms of application level as well as total number of GRI performance indicators covered. This 2009 GRI Report is self-declared at GRI application level B, with review commentaries from four stakeholders representing our employees, our customers, the government sector, and the non-government organization sector.

A total of 37 GRI performance indicators are covered in this report, 61% more than last year's 23 indicators. All of last year's indicators are included in this report, as we continue to track and report our progress on the key performance areas that are most relevant to our operations. Out of the 37 GRI performance indicators reported this year, 14 track environmental performance, 20 track social performance, and three track economic performance.

The scope of our reporting this year has been expanded to include nearly 100% of our controlled properties and construction projects, as compared with last year's limited scope on just the operating facilities managed by APMC and the energy consumption data from our subsidiary, Cebu Holdings, Inc. (CHI). This report does not include CHI's sustainability performance data, which will

be reported in their 2009 Integrated Annual and Sustainability Report.

We first discussed our management approach to sustainability in last year's GRI report. Our previous reports can be downloaded from our company website: [www.ayalaland.com.ph](http://www.ayalaland.com.ph). Our previous reports, as well as sections of our website, also contain detailed information about Ayala Land's business, brands and operations, and other profile indicators as required by GRI.

This 2009 GRI Report focuses on the accomplishments of the Company and its subsidiaries last year, based on the overall targets we set, and the key result areas we established through our sustainability framework. As with last year's GRI report, the major sections in this report are organized to reflect our five pillars of sustainability.

Moving forward, we will continue to track our performance on these and more GRI indicators, and we will strive for higher GRI application levels in our future sustainability reports. As we commit to improving on the scope and coverage of our reporting, we also commit to seeking third-party assurance in future reporting cycles.

We include this GRI Application Level table in our report to support our self-declaration of this report at Application Level B.

		Report Application Level					
		C	C+	<b>B</b>	B+	A	A+
Standard Disclosures	G3 Profile Disclosures	Output Report on: 1.1 2.1-2.10 3.1-3.8, 3.10-3.12 4.1-4.4, 4.14-4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
	G3 Management Approach Disclosures	Output Not Required	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured
	G3 Performance Indicators & Sector Supplement Performance Indicators	Output Report on a minimum of 10 Performance Indicators, including at least one from each: Economic, Social, and Environmental	Report Externally Assured	Report on a minimum of 20 Performance Indicators, at least one from each: Economic, Environmental, Human Rights, Labor, Social, Product Responsibility.	Report Externally Assured	Report on each core G3 and Sector Supplement Indicator with due regard to the Materiality Principle by either: (a) reporting on the Indicator or (b) explaining the reason for the omission.	Report Externally Assured

# Environmental Stewardship and Impact Reduction



Greenbelt Park

In 2009, we made significant progress in environmental stewardship and impact reduction. Even as we continued to integrate sustainability principles and green features into our project development process, we set out to do a major inventory of the electricity, fuel, water, and solid waste footprints of both Ayala Property Management Corporation (APMC) – our property management arm, and Makati Development Corporation (MDC) – our construction arm. A more accurate picture of our annual environmental footprint emerged, which then allowed us to develop metrics and set targets for these key performance indicators. Based on our historical performance, current programs, and comparable Asian benchmarks, the Sustainability Council has approved long-term targets for energy efficiency, water efficiency, and solid waste management, leading up to the year 2013 – the year we celebrate the company’s 25th anniversary.

Our Sustainability Technical Working Group (TWG) also expanded our energy and water database to include nearly 100 % of all Company-owned and joint venture (JV) properties under our operational control (i.e. both APMC-managed and non-APMC-managed), and 100 % of all MDC construction projects in 2009. This resulted in a much higher carbon footprint as compared to our reported figure in our 2008 GRI Sustainability Report. Table 5 presents a summary of our 2009 environmental footprint, aligned with several key GRI indicators for environmental performance. This year, we also report our initiatives on the other key performance indicators of our environmental management program, namely, air quality management, sustainable land-use planning and green product design, green procurement, sustainable construction, and biodiversity conservation. Great strides were made in each of these indicators as we forged ahead in our sustainability journey.

Table 5. Ayala Land 2009 Environmental Footprint

**Direct Energy Consumption****(Diesel Usage, Scope 1)**

APMC-Managed, ALI-Controlled Properties	0.04 M Liters
Non-APMC-Managed, ALI-Controlled Properties	0.60 M Liters
MDC Operations	3.90 M Liters
<b>Total:</b>	<b>4.54 M Liters</b>

**Indirect Energy Consumption****(Purchased Electricity, Scope 2)**

APMC-Managed, ALI-Controlled Properties	74.2 M kWh
Non-APMC-Managed, ALI-Controlled Properties	58.5 M kWh
MDC Operations	9.5 M kWh
<b>Total:</b>	<b>142.2 M kWh</b>

**Carbon Dioxide Emissions****(Scope 1 and Scope 2)**

APMC-Managed, ALI-Controlled Properties	40,772 tons
Non-APMC-Managed, ALI-Controlled Properties	33,705 tons
MDC Operations	15,911 tons
<b>Total:</b>	<b>90,388 tons</b>

**Water Consumption****(Purchased Water)**

APMC-Managed, ALI-Controlled Properties	1.9 M cu.m.
Non-APMC-Managed, ALI-Controlled Properties	1.0 M cu.m.
MDC Operations	0.4 M cu.m.
<b>Total:</b>	<b>3.3 M cu.m.</b>

**Greywater Consumption****(U.P.-AyalaLand TechnoHub)**

96,000 cu.m.

**Greywater Consumption as Percentage of Total Water Consumption**

3%

**Wastewater Discharge**

Total Volume from APMC Sewage Treatment Plants	2.7 M cu.m.
Effluent Quality :	Compliant with DENR Water Quality Standards

**Solid Waste Collected in ALI-Controlled Properties**

Recyclable Waste (traded to recyclers)	3,063 tons
Food Waste (traded to pig farms)	4,929 tons
Compostable Waste (green waste for composting)	4,798 tons
Residual Waste (hauled to sanitary landfills)	10,459 tons
<b>Total:</b>	<b>23,249 tons</b>

**Size of Land in or adjacent to****Areas of High Biodiversity Value**

Anvaya Cove (Morong, Bataan)	320 hectares
NUVALI (Sta. Rosa and Calamba, Laguna)	1,750 hectares
U.P.-Ayala TechnoHub (adjacent to U.P. Arboretum)	20 hectares
<b>Total:</b>	<b>2,090 hectares</b>

**Instances of Non-Compliance with Environmental Laws and Regulations**

None



*“Historically, Ayala Land has been a consistent pioneer in sustainable practice, not just in the inherent, extended nature of its community building, but also in terms of individual products and features like sewage treatment plants, greywater piping, and solid waste recycling. Today, the challenge is to make sustainability a more purposeful and consistent part of doing business, aligned with global initiatives and with the Ayala Land mindset and lifestyle.”*

Dr. Arturo G. Corpuz  
Head, Urban and Regional Planning and Land Acquisition

# Environmental Stewardship and Impact Reduction

## ENERGY EFFICIENCY

Energy efficiency has always been a hallmark of our property management, through the ISO-14001-certified environmental management system of APMC. Even as we develop and operate new buildings and increase our absolute carbon footprint, our energy usage per square meter or “energy intensity” – measured in kilowatt hours per square meter – continues to decrease over the years as shown in Figure 15. APMC’s best practices in energy efficiency, such as optimizing equipment performance, comprehensive demand monitoring, preventive and predictive maintenance, and research and development (R&D) of the latest energy-efficient technologies (e.g. district cooling) and renewable energy-based products, are the key drivers of our success.

Monitoring our energy consumption in our various operating facilities – malls, office buildings, hotels, residential buildings, villages and estates – is aligned with the quarterly submissions to the Department of Energy (DOE), as part of the annual DOE Don Emilio Abello Energy Efficiency Awards Program. In December,

APMC and other Company-affiliated property managers once again received the most awards during the 2009 Don Emilio Abello Energy Efficiency Awards Night, bringing in 21 awards as compared to the previous year’s haul of 16 awards. Based on the DOE’s computations, the total combined energy savings from the awarded facilities were estimated at 145 million kilowatt hours (kWh), which translates to energy cost avoidance of Php898 million and carbon emission avoidance of approximately 80,000 tons CO<sub>2</sub> for the year.

Our biggest large-scale initiative on energy efficiency is our pioneering District Cooling System (DCS) at the U.P.-AyalaLand TechnoHub in Quezon City. This system serves all the office buildings and facilities within the business park. As of end-2009, seven buildings are cooled by this energy-efficient system. With the success of the DCS at the TechnoHub, a similar system has been put in place at NUVALI, serving the initial set of office and retail buildings that came online last year. On a bigger scale, DCS is also being integrated in the utilities masterplan of our ongoing Ayala Center redevelopment in Makati City.

Figure 11.  
U.P.-AyalaLand TechnoHub District Cooling System



- A central plant provides chilled water for the air-conditioning needs of all buildings, through an underground piping loop.
- This allows aggregation of the varying cooling loads of each building, thereby optimizing energy usage by: (a) reducing equipment partial loading losses, and (b) utilizing more efficient large-capacity centrifugal chillers.
- The efficiency of the District Cooling System translates to energy savings of approximately 3,800 kWh per day, or roughly Php 700,000 per month in 2009.

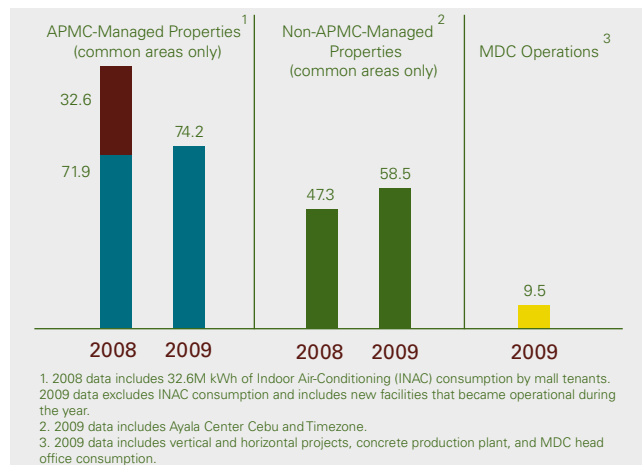
The 2009 energy consumption (i.e. electricity purchased and diesel fuel used) in our major operations – property management and construction – are reported in Figures 12 and 13. In last year's GRI Report, we reported the energy consumption of APMC-managed, Company-controlled properties, amounting to 104.5 million kWh. This figure includes approximately 32.6 million kWh of electricity consumed by mall merchants' indoor air-conditioning (INAC). We have excluded this measurement in 2009, as we limit our scope to the purchased electricity for the common areas of our properties. This year's report on the other hand includes new data for non-APMC-managed but Company-controlled properties, such as Market!Market!, Alabang Town Center, Metropoint Mall, Pavilion Mall, Hotel InterContinental Manila, and Cebu City Marriott Hotel.

Comparing the 2008 and 2009 data for electricity consumption in our controlled properties, our APMC-managed facilities reported a 3% increase in consumption with a 31% increase in the total common-area footprint due to the opening of new facilities in 2009, such as Greenbelt 5, Glorietta 5 and Solaris One in Makati City, Celadon Residences and Vertex One in Manila, and the NUVALI development in Laguna. Non-APMC-managed facilities reported a 24% increase in consumption with a 34% increase in the total common-area footprint, mainly due to the inclusion of Ayala Center Cebu to complete our Ayala Malls sustainability database. It should be noted that Cebu City Marriott Hotel and Ayala Center Cebu are the only non-Luzon properties that are included in our GRI report this year. The complete environmental performance data for all our operations in Cebu, the Visayas, and Mindanao will be reported by our subsidiary Cebu Holdings, Inc. (CHI) in its 2009 Integrated Annual and Sustainability Report.

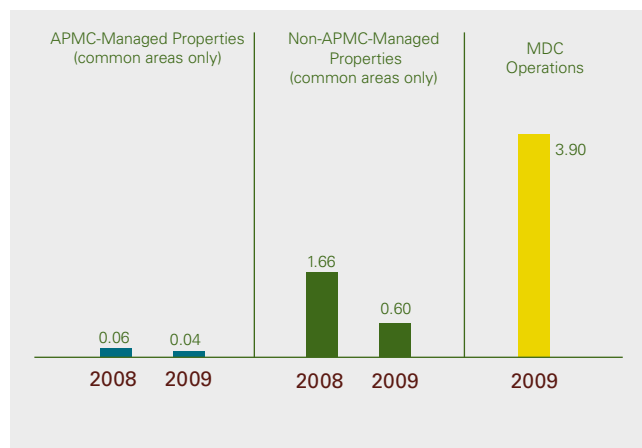
We also report this year on the electricity and fuel consumption of our MDC operations, which includes horizontal and vertical construction projects, concrete production facilities, and the MDC head office in Alabang. Compared with the electricity consumption of our operating facilities, MDC's 2009 consumption was

relatively low at 9.5 million kWh (of which 8.5 M kWh was used in vertical construction projects). However, the total fuel consumption in MDC operations was much higher than the total fuel used in our operating facilities. Majority of the fuel used by MDC was for the operation of heavy equipment. In the operating facilities, fuel usage was generally limited to the testing and maintenance of standby generator sets. No long-term power outages were recorded in 2009.

**Figure 12.**  
Electricity Consumption in Major ALI operations  
(in millions of kilowatt-hours purchased)



**Figure 13.**  
Fuel Consumption in Major ALI Operations  
(in millions of liters of diesel used)



# Environmental Stewardship and Impact Reduction

Based on our 2009 electricity and fuel consumption data in our major operations, 2009 carbon emissions are reported in Table 6. The same emission factors for electricity and fuel that were used in last year's GRI report area were used again in our computations this year. Despite the addition of MDC energy consumption data, the majority of our carbon emissions were from the electricity consumption in the common areas of our operating facilities. Figure 14 shows the breakdown of this emission source, according to property sector. The data shows that our malls and office buildings account for a combined 78% of our electricity consumption.

Moving forward, our Sustainability Council has approved long-term targets for energy efficiency in our operating malls and office buildings – our main users of electricity – as shown in Figure 15. Our Sustainability TWG benchmarked these targets against comparable energy efficiency standards from Singapore, with good ratings achieved by many of our individual properties which have taken the lead on energy efficiency initiatives (e.g. U.P.-AyalaLand TechnoHub). Similar long-term targets are now being developed for our operating hotels, residential buildings, residential villages, and managed estates, and for heavy equipment fuel usage in MDC construction sites.

For new malls and office buildings that are in the planning and design stages, our Innovation and Design Group (IDG) has adopted the Singapore benchmarks of 180 kWh per square meter per year (sqm/yr) for malls and 150 kWh sqm/yr for office buildings, classified as “very good,” as their maximum design targets for energy efficiency. Comprehensive energy modeling, combined with the application of green architecture principles and utilization of energy-efficient technologies, will help us achieve these aggressive targets for our new buildings.

Next year, we will expand our carbon emissions inventory to complete our Scope 1 (direct energy usage) and Scope 2 (purchased electricity) for all operating facilities, start-up facilities, and construction sites. We also aim to include certain Scope 3 emission sources

such as employee commuting and air travel. Our Sustainability TWG is currently exploring the use of proprietary Carbon Accounting Software to strengthen our emissions tracking mechanisms as we continue our progress towards 100% accounting of our carbon footprint.

**Table 6. 2009 Carbon Emissions Inventory (Scope 1 and Scope 2)**

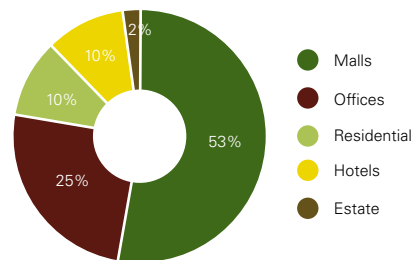
	CO <sub>2</sub> Emissions from Diesel Usage <sup>1</sup> (in tons CO <sub>2</sub> )	CO <sub>2</sub> Emissions from Electricity <sup>2</sup> (in tons CO <sub>2</sub> )
APMC-Managed, ALI-Controlled Properties	110	40,622
Non-APMC-Managed, ALI-Controlled Properties	1,647	32,058
MDC Operations	10,705	5,206
<b>Subtotals</b>	<b>12,462</b>	<b>77,926</b>

**Total of Scope 1 and Scope 2 Emissions = 90,388 tons CO<sub>2</sub>**

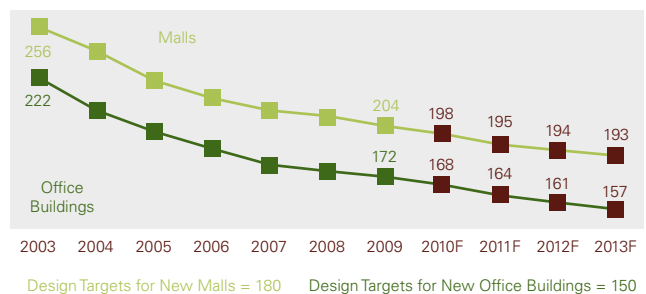
(1) Scope 1 Emission Factor = 2.745 kg CO<sub>2</sub> / liter of diesel (based on the Greenhouse Gas Accounting Protocol developed by the World Research Institute.) This is the same emission factor used in last year's GRI report, and is aligned with the Ayala Group carbon accounting protocol.

(2) Scope 2 Emission Factor = 0.548 kg CO<sub>2</sub> / kilowatt-hour (based on the CDM Baseline Construction for the Electricity Grids in the Philippines by the Manila Observatory.) This is 25% higher than the emission factor used in last year's GRI Report. Starting this year, we are using this emission factor for full alignment with the Ayala Group carbon accounting protocol.

**Figure 14. 2009 Electricity Consumption in ALI-Controlled Properties (consumption in common areas only)**



**Figure 15. Historical Performance and Multi-Year Targets for Energy Efficiency in Malls and Office Buildings (in kilowatt-hours / sqm / yr)**



As we refine our best practices, apply innovative green designs, and look for new green technologies to further improve our energy performance, we also continue to work closely with our mall and office tenants to help them improve their environmental and economic performance. Projects like the annual World Wide Fund for Nature (WWF) Earth Hour event, which eventually became a weekly switch-off hour in our developed office buildings, and the successful Enercon Contest piloted at our corporate headquarters in Makati, will be intensified this year.

Energy efficiency is everyone's concern as we all do our part in fighting climate change. Through our partnership with Greenpeace, the Philippine Green Building Council, Makati City Government, and the Makati City Commercial Estates for an "Energy Efficient Makati," we also share this advocacy with the general public by conducting information and educational campaigns in our properties, such as the "grEEn Xmas" launch at the Glorietta 3 Park last December.



"grEEn Xmas" Launch at Glorietta 3



Earth Hour 2009 in Makati

## Environmental Stewardship and Impact Reduction



*“Water stewardship in U.P.-AyalaLand TechnoHub is approached on two fronts. Water efficiency is achieved with an integrated water recycling system that taps the effluent from the nearby MWC sewage treatment plant for use in filling the man-made garden lagoons, toilet flushing, irrigation and district cooling. This saves up to 80 percent of potable water consumption. Storm-water management, on the other hand, is incorporated in the design of the man-made lagoons, which double up as flood detention basins for the protection of the downstream communities. Surface storm run-off is reduced by maximizing softscaping and the use of pervious pavements which allow storm-water to recharge the underground aquifer.”*

Engr. Victor Emmanuel B. Ahorro  
Construction Management Director of AyalaLand  
Businesscapes and Ayala Hotels Group

### WATER STEWARDSHIP

At Ayala Land, our water stewardship efforts have gone beyond regulatory compliance for water conservation and wastewater treatment. The utilities design of our newer projects now incorporates greywater reuse – the recycling of treated wastewater effluent for non-potable uses such as flushing toilets, make-up water for cooling towers, and landscape irrigation. We pioneered greywater reuse in the country many years ago, using treated wastewater effluent from the Ayala Alabang sewage treatment plant (STP) for irrigation of the golf course within the village. The ongoing rollout of double-piping systems for greywater reuse in NUVALI is one of our biggest green investments to date, and is estimated to reduce potable water consumption by at least 50% at full development.

Last year, the rate of greywater reuse at the U.P.-AyalaLand TechnoHub increased dramatically to serve the growing community within the business park. Greywater consumption exceeded 96,000 cubic meters (cu. m.) in 2009, up from 3,500 cu.m. in 2008. Since the cost of greywater is approximately 75% lower than the cost of potable water, the equivalent peso savings for the Company amounted to Php4.38 million for 2009. The project is a partnership between Ayala Land and our sister company, Manila Water Company (MWC), which operates a municipal STP near the TechnoHub. MWC also earns additional revenue from the sale of greywater to the TechnoHub, making it a win-win situation for all and demonstrating the synergies that can be maximized within the Ayala Group of companies.

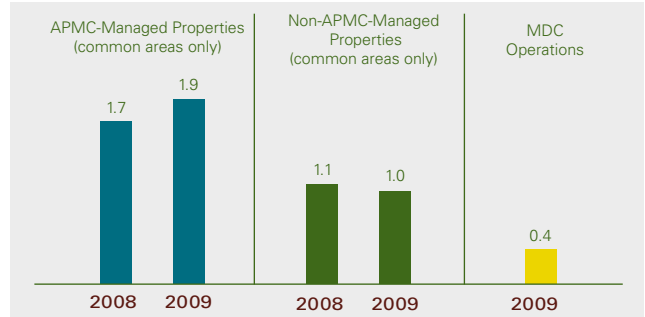


U.P.-AyalaLand TechnoHub

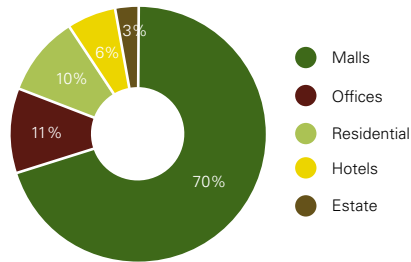
Last year's water consumption in our major operations – property management and construction – is reported in Figure 16. As in the case for energy efficiency, our data shows that our water consumption per square meter or “water use intensity” – measured in cubic meters per square meter of Gross Leasable Area (GLA) – has gone down through the years as shown in Figure 18. APMC's best practices in water efficiency, such as comprehensive demand monitoring, water management for cooling towers, R&D and rollout of water-efficient technologies (e.g. waterless urinals), and the integration of greywater reuse in our developments are the key drivers of our success in this area.

Moving forward, our Sustainability Council has approved long-term targets for water efficiency in our operating malls and office buildings – which together account for 81 % of our total water consumption – as shown in Figures 17 and 18. Our Sustainability TWG benchmarked these targets against comparable water efficiency standards from Australia. Similar long-term targets are now being developed for our operating hotels, residential buildings, residential villages, and managed estates, and for water efficiency in MDC construction sites. For new malls and office buildings, IDG has also adopted the Australian benchmarks of 2.0 cu.m./sqm/yr for malls and 0.5 cu.m./sqm/yr for office buildings, as their maximum design targets for water efficiency.

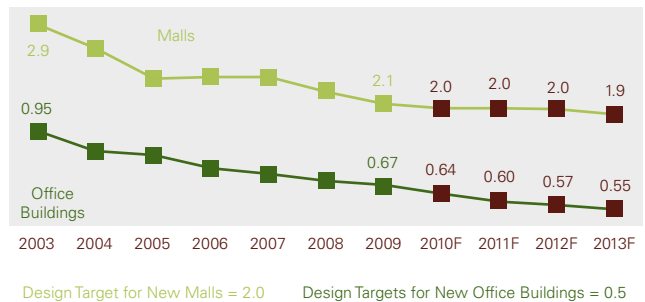
**Figure 16. Water Consumption in Major ALI Operations**  
(in millions of cubic meters of potable water consumed)



**Figure 17. 2009 Water Consumption in ALI-Controlled Properties**  
(consumption in common areas only)



**Figure 18. Historical Performance and Multi-Year Targets for Water Efficiency in Malls and Office Buildings**  
(in cu.m. / sqm / yr)



*“Our learnings on greywater reuse at the U.P.-AyalaLand TechnoHub and NUVALI will be put to good use as we map out and execute the utilities masterplan of our Ayala Center redevelopment and other retail projects. Water stewardship will continue to be an important sustainability program at ALI, especially now as we experience an EL Niño year. We have to adapt to the effects of climate change and do our best in conserving our limited water resources. Greywater reuse in our projects will be the key. It makes sense from both the environmental and economic angle. We hope that other developers follow our lead.”*

Engr. Berni C. Espiritu  
Construction Management Director of Ayala Malls Group and Ayala Center redevelopment



## Environmental Stewardship and Impact Reduction



Earth Day Tigil-Buga Parade at Ayala Avenue

### AIR QUALITY MANAGEMENT

Starting this year, we begin reporting our initiatives on air quality management, another environmental management strategy that is relevant to our operations. To promote better indoor air quality (IAQ) in our buildings, our architects select interior paints and materials that have minimal or no emissions of Volatile Organic Compounds (VOC). In our malls and office buildings, our ventilation systems are designed for optimum air exchange, with constant input of fresh air circulating in the buildings. In our enclosed car parks, monitoring of Carbon Monoxide (CO) concentration is conducted by APMC at least three times per day, to help manage CO levels at or below 42 parts per million (ppm). In our newer developments like Glorietta 5, automatic sensors in the basement parking areas are installed to trigger the operation of jet fans for increased air circulation, thereby reducing CO levels. These IAQ design and engineering best practices contribute to the wellness and safety of our building residents, tenants and visitors, and help increase productivity levels of office workers and store personnel.

With respect to outdoor air quality, our efforts in recent years have been focused on air pollution abatement in the Makati Central Business District (MCBD). Free emission testing is offered to ALI employees for personal and service vehicles on a monthly basis. In June 2009, as part of Makati City's Environment Month programme, we strengthened our partnership with Makati City-Department of Environmental Services (MC-DES) through the Makati Pollution Control Office's "Bantay Tambutso" campaign. Through this campaign, APMC conducts periodic emission testing in selected car parks that serve as public utility jeep terminals, such as the one beside the Ayala Metro Rail Transit (MRT) station. Vehicles that fail the emission testing are not allowed to operate inside the terminal. Our partnership with MC-DES for clean air in Makati City also includes the annual Earth Day Tigil-Buga Parade along Ayala Avenue, in cooperation with the Miss Earth Foundation.

## SOLID WASTE MANAGEMENT

Solid Waste Management (SWM) is the third key component of our environmental sustainability program, together with energy efficiency and water stewardship. The country's ever-growing problems of shrinking landfill space and illegal dumping of garbage in waterways clearly contribute to our flooding disasters during the rainy season. "Reduce, Reuse, Recycle" is not just a slogan anymore; it is a must for everyone.

The clear majority of solid waste generated in our operating facilities comes from our malls, which have a combined foot-traffic count of over a million people per day. Our pioneering SWM program at Ayala Center (i.e. Glorietta, Park Square and Greenbelt) served as our flagship program as we replicated our SWM best practices in all other Ayala malls. Provision of centralized Materials Recovery Facilities (MRF), waste segregation bins in common areas, organized waste collection schedules for the tenants, and close coordination with waste haulers and recyclers are all part of our best practices in this area.

Complementing APMC's best practices are the SWM initiatives of our Ayala Malls Group (AMG) through merchant education, promotion of reusable shopping bags for mall-goers, and recycling of used tarpaulin banners into shopping bags, in partnership with Gifts and Graces Foundation. Market!Market! recently won an Anvil Award of Excellence from the Public Relations Society of the Philippines for its recycled tarpaulin bag project, while TriNoma garnered the Garbology Master Award from the Quezon City government's Zero Basura Olympics competition last year. Market!Market! also began small-scale composting at their Green Roof Vegetable Garden – an innovative employee project that combines elements of SWM, energy efficiency, and urban agriculture.

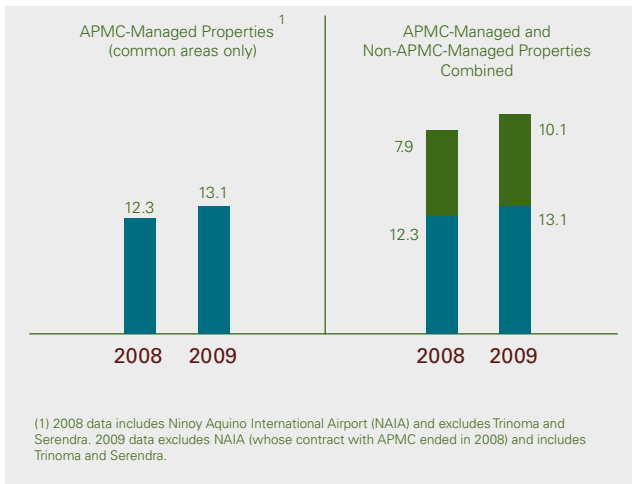
Since the start of our SWM program at Ayala Center, the Ayala Foundation, Inc. (AFI) has been our partner in SWM advocacy for the general public. AFI continues to promote SWM in Ayala communities and oversee the long-running Ayala Recyclables Fair held every weekend at various Ayala malls and other locations. Over 122 tons of non-traditional waste (e.g. broken electronics and appliances, used car batteries, empty toners and ink cartridges, etc.) were traded at the Ayala Recyclables Fair last year.



Market! Market!'s Green Roof Vegetable Garden

# Environmental Stewardship and Impact Reduction

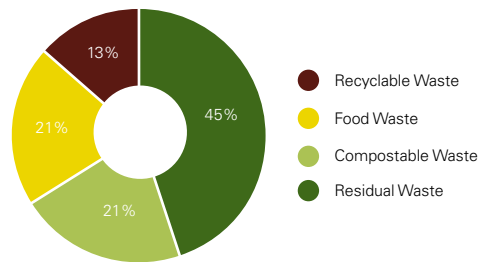
**Figure 19. Solid Waste Generation in ALL-Controlled Properties** (in millions of kilograms, prior to segregation and disposal)



In 2009, our APMC Pay-As-You-Throw (PAYT) waste collection program was implemented in 19 Company-developed office buildings, condominiums, and building car parks in the MCBD. Under the program, building residents and tenants pay a variable amount for waste collection services proportional to the volume of waste they put out for collection. This innovative approach resulted in more waste segregation and recycling within the offices, residences, and other areas of the buildings, and ultimately reduced the volume of residual waste sent to landfills. This year, the PAYT program will be rolled out to the Ayala malls as we continue to cascade our best practices throughout the Company.



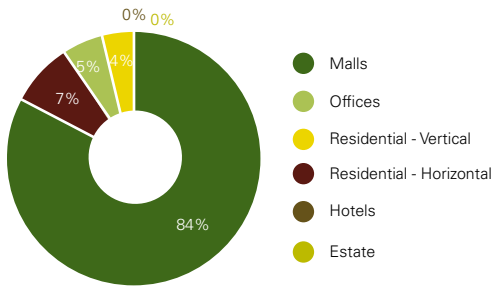
**Figure 20. 2009 Solid Waste Profile**



The village communities of Ayala Land Premier, Alveo Land, and Avida Land also have successful track records in SWM. Avida Land’s “War on Waste” program is a long-running inter-village competition for the cleanest and greenest Avida community. Our pilot vermicomposting project at Ayala Land Premier’s Ayala Westgrove Heights community in Silang, Cavite is now being replicated in other Ayala villages. The successful SWM program of Ayala Westgrove Heights won the 2009 Gawad Aguinaldo sa Kapitaligiran Award given by the Province of Cavite.

The solid waste generation data from Company-controlled properties, based on the weight of total solid waste collected in all areas, is reported in Figure 19. The combined total for APMC-managed and Non-APMC-managed properties in 2009 was approximately 23.2 million kilograms, up by 15% over the 2008 total, but with an increase of 12% in the total area of reporting properties. The solid waste profile for 2009 is illustrated in Figure 20, showing the proportions of recyclable, food, compostable and residual wastes in the total waste stream. The absolute volume of residual waste in 2009 was slightly lower than the corresponding volume in 2008, despite the increase in total solid waste collected. This indicates our continuing progress in waste segregation at the MRF’s and the increased trade of recyclables and food waste from our facilities.

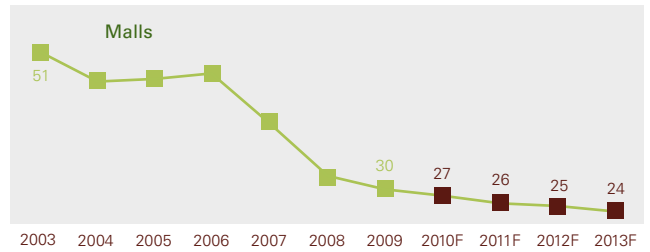
**Figure 21. 2009 Residual Waste Generation Profile in ALI-Controlled Properties**  
(in millions of kilograms sent to landfills)



Moving forward, our Sustainability Council has approved long-term targets for SWM efficiency in our malls, which account for 84 % of our total residual waste generation, as shown in Figures 21 and 22. We will continue to look for new ways to improve our SWM programs, develop new metrics based on waste generation per capita, and strive to meet our yearly targets for residual waste generation per square meter. Promising new R&D initiatives this year include processing of residual waste into hollow blocks and other concrete products, centralized collection of used cooking oil from mall restaurants, and the use of 100 % biodegradable shopping bags. We are also incorporating green building principles in the design and construction of NUVALI’s central MRF, which is intended to be a showcase eco-educational facility in Laguna.



**Figure 22. Historical Performance and Multi-Year Targets for Residual Waste Management in Malls**  
(in kilograms / sqm / yr)



*“Solid Waste Management has grown by leaps and bounds over the past six years. The results speak for themselves. Our malls have diverted waste from landfills by over 80 % since we started the program. We have reduced the share of residual waste in the total waste stream by an average of 2% since 2003. We have established an innovative collection system in our CBD properties through the Pay-As-You-Throw program. Looking forward, we need to take our initiatives a step higher. For us to further reduce our residual waste, we need to eliminate plastic. We need to find an alternative product for plastic that we can endorse to our merchants and tenants like the biodegradable bags that are now being used in Europe. If there’s a company that can pave the way for this initiative, it’s Ayala Land – the company that walks the talk.”*

Engr. Erickberth N. Calupe  
APMC Sustainability Officer and Associate Director for Alveo Land properties

# Environmental Stewardship and Impact Reduction



## SUSTAINABLE LAND USE PLANNING AND GREEN PRODUCT DESIGN

Ayala Land’s green planning and design efforts have focused on broader principles and applications that have far-reaching impact in achieving the Company’s sustainability agenda. These include the creation of higher density, transit- and pedestrian-oriented, mixed-use districts such as Bonifacio Global City, Ayala Center redevelopment and the future North Triangle Development. Planning for diverse activities for living, working and recreation encourage sustainable behavior by placing various destinations in close proximity to each other. This reduces dependence on the automobile for mobility and encourages a more sustainable behavior and lifestyle among its users. Higher density mixed-use districts also make the provision of green infrastructure such as mass transit, shared parking, district cooling and centralized utilities more practical and economical. The ability to incorporate green design principles on a large, district-wide scale allows for more significant positive impact on the environment that cannot be achieved otherwise.

But even at the smaller scale, green building design is also constantly being adopted in Ayala Land projects to ensure continuous reduction in energy and water consumption and waste generation of our buildings. Specific energy, water and waste reduction targets are now part of our building design criteria to ensure better performance of our buildings in the years to come. Designing with nature is constantly in practice across projects ensuring that our developments step lightly on sensitive environments. Habitat preservation and open space conservation are central to projects such as Anvaya Cove, NUVALI, Ayala Westgrove Heights and Ayala Greenfield Estates.

Simultaneously, Ayala Land through its Innovation and Design Group (IDG), the Urban and Regional Planning Division (URPD) and the Sustainability Council are proactively collaborating with the Philippine Green Building Council (PhilGBC) in crafting the national green building rating system—a local metric of sustainable building design, construction and maintenance. Already, several of our buildings have been lined up for piloting the country’s “BERDE” rating system, which stands for Building for Ecologically Responsive



One Evotech Building at NUVALI

Design Excellence. At the organizational level, in-house green expertise is constantly being built up through the ALI Green Training Series. We hire professionals with Leadership in Energy and Environmental Design (LEED) accreditation, and tap global experts in sustainable design to help us develop high-performance buildings.

In all these efforts, we try to achieve the more lofty ideals of doing what is right for the environment, simultaneous with the pragmatic objectives of creating more efficient and economical structures that contribute to the bottom line and enable lower cost of ownership of buildings. In the end, the long term success of any green design initiative has less to do with the nuts and bolts of buildings but more on the intent and motivation behind pursuing them. In the case of Ayala Land, the driving motivation behind sustainable design is still rooted in the Company's history of continuously creating better quality environments that will be enduringly relevant and valuable for our users.



*"Sustainable design in Ayala Land is driven by the same sense of purpose that has distinguished Ayala Land's projects over the years - to deliver quality environments that make a distinctive and lasting positive impact on the people and communities they touch. It is this long-term view and sense of responsibility that are at the core of sustainable development and make our projects valued by their users over time."*

Arch. Joselito N. Luna  
Group Head, Innovation and Design

# Environmental Stewardship and Impact Reduction



**Ayala Triangle Gardens, Makati**

*“A key component of Sustainable Design is Community Fostering -- The Ayala Triangle Gardens is intended to be just that- a community space. The goal is to provide an outdoor experience for Makati... an alternative to the indoor space. The preservation of heritage trees, the introduction of new access ways, and the informal plazas have become the backdrop to a place that the Makati community can identify with and be a part of.”*

Arch. Jose Antonio E. Caniza  
Senior Architect for Strategic Landbank Management



**Avida Green Home, NUVALI**

*“Designing houses goes beyond the physicality of structures. It transcends to the influence it gives to the families and individuals that live within. The end products are not merely individual houses but HOMES situated in very specific environmental contexts. Much like sculpting, one cannot mold a figure without considering the overall nature of the model. Through green design, we seek opportunities, basic as they may be, that can serve as models for our customers to follow for their own benefit, and serve to heighten their environmental consciousness as well.”*

Arch. Jeremy G. Acosta  
Senior Architect for Avida Land



**Treveia Clubhouse, NUVALI**

*“Environmental stewardship is all about creating responsible and sustainable communities. In planning our projects, we go beyond building real estate products. We design and craft our communities to respect the environment on which they sit, and provide the residents their needs without compromising the needs of future generations to come.”*

Arch. Gilbert M. Berba  
Senior Architect for Alveo Land



Anvaya Cove, Morong, Bataan

*“Site design is dictated by the natural landscape. The landscape should lead the way for development, and developers must practice smart preservation of the site’s natural features. Preserving and enhancing the ecology naturally leads to increased biodiversity.”*

Arch. Manuel E. Illana  
Senior Architect for Ayala Land Premier



Marquee Mall, Angeles, Pampanga

*“MarQueue Mall is living proof that, with open eyes and an open mind, green design opportunities can present themselves naturally. A significant amount of recycled and reused materials was used, the architecture allowed for much natural daylighting, the central garden has become a much-appreciated public space, and the list goes on.”*

Arch. Joseph David A. Blas  
Senior Architect for Ayala Malls

Solaris One Building, Makati



*“For office buildings, our focus is on the end users, and what is important for building tenants is high Indoor Environment Quality or IEQ. We achieve this by providing efficient A/C systems and proper lighting. We keep our fenestration ratio at 30% to reduce heat gain within the building. We also specify energy-efficient motors and pumps for our buildings, and use materials with low Volatile Organic Compound (VOC) content for our interiors. By doing all these initiatives, we promote better working environments for the tenants, which in the end helps productivity levels.”*

Arch. Edwin E. Yabut  
Senior Architect for AyalaLand Businesscapes

## Environmental Stewardship and Impact Reduction



### GREEN PROCUREMENT

Our 2009 initiatives on green procurement began in March with a profiling survey of our top 100 suppliers, gathering information on their company policies, programs and projects for sustainability. The survey results showed substantial commitment and best practices within the individual supplier companies. Many firms are fully certified to the ISO 14001 Environmental Management System (EMS) standard and OHSAS 18001 Occupational Health and Safety (OHS) standard. We also observed a significant increase in the number and variety of promising green products and materials being offered in the market this year.

The Ayala Group Sustainability Policy expressly mandates us “to include environmental parameters in the accreditation of our suppliers.” The positive results of our supplier survey will make this challenging task easier for all parties concerned. Our Supply Chain Management Division (SCMD) and MDC are taking the lead in our green procurement initiatives. MDC’s Greening the Supply Chain (GSC) Program was formally announced in August 2009 as the highlight of MDC’s 35th Founding Anniversary. We aim to build on our strong partnerships with our suppliers and welcome them on the common road to sustainability. Together, we can dramatically reduce our overall impact on the environment.



In October 2009, we hosted an orientation workshop for the Green Purchasing Alliance Movement (GPAM), the largest coalition of government, industry, and NGO advocates for green procurement in the country. The event was organized by the National Ecolabeling Program – Green Choice Philippines, with the support of Ayala Land and one of our green supplier-partners, Falcon Waterfree Philippines. The workshop was attended by numerous organizations, including other companies within the Ayala Group, represented by their procurement officers. A declaration of commitment for green purchasing was formulated during the workshop and signed by all participants. The declaration was then symbolically signed during the launch of GPAM at the annual Green Purchasing Conference held in November.

## SUSTAINABLE CONSTRUCTION

Sustainable construction is a critical strategy in our goal of reducing our environmental impact, due to the large-scale nature of our real estate projects which take many years to build. The ALI Construction Management Division (CMD) works in partnership with our construction arm MDC and other general contractors to ensure the quality of construction while being conscious of environmental, health and safety (EHS) issues. MDC's management systems for quality and EHS are certified to ISO and OHSAS international standards.

Last year, MDC engineers continued applying best practices in the areas of erosion control, dust mitigation, noise mitigation, construction waste management, and optimizing the content of fly ash (i.e. waste residue from coal-fired power plants) in our concrete mix. The innovative "MDC water curtain" for dust mitigation was piloted in our One Serendra East Tower construction site, which is adjacent to an occupied residential building. The fine net curtain is extended upwards as the building rises, and it is kept wet with recycled water during construction hours to prevent fugitive dust emissions from affecting the nearby residents.

Moving forward, our Sustainability TWG's target-setting program this year will focus on construction usage of energy, fuel, water and generation of solid waste, using the appropriate metrics for vertical and horizontal projects to measure our performance. Now that we have set long-term targets for reducing the environmental footprint of our operating facilities, we will do the same for our construction sites. Compared with our operating facilities, we anticipate a bigger potential for reducing our construction sites' impact on the environment, given the multiple levels of subcontractors involved. A green training program for construction workers will be a key strategy in leading everyone towards sustainable construction.



*"MDC has been practicing sustainable construction techniques for many years now, but we always look for new ways to improve our environmental protection efforts. In the coming years, we will make sure that more sustainable practices are blended well into our system. Sustainability means a change in mindsets, especially at the construction sites; we need to encourage people to adopt green practices that will come from the heart."*

Engr. Melito A. Cruz  
MDC Head for Land Development and Infrastructure,  
and Sustainability Head

# Environmental Stewardship and Impact Reduction

## Wildlife at Anvaya Cove



### BIODIVERSITY CONSERVATION

Anvaya Cove’s rich marine and terrestrial ecosystems and NUVALI’s wildlife and bird sanctuary areas continued to be the focal points of our biodiversity conservation efforts last year. Our project teams took extra steps in ensuring the protection and conservation of these areas with high biodiversity value, estimated at 100 hectares out of Anvaya Cove’s total land area of 320 hectares, and 165 hectares out of NUVALI’s total land area of 1,750 hectares.

The ongoing inventory and photo documentation of plants, birds and wildlife in both project sites are spearheaded by Arch. Manuel E. Illana, Senior Architect for Ayala Land Premier, and a founding member of the Wild Bird Club of the Philippines and the Wild Bird and Nature Photographers of the Philippines. Arch. Illana, whose on-site photos are featured here, has been with the Anvaya Cove project since day one, and has been frequenting the NUVALI site for professional bird-watching expeditions.

At Anvaya Cove, we conducted a clam-seeding activity as the kickoff project of the newly-created Anvaya Environmental Foundation, Inc. (AEFI). The project was organized in partnership with WWF-

Philippines, the Blue Water Consultancy, and the Philippine Commission on Sports SCUBA Diving. A total of 79 young giant clams (*Tridachna gigas*) from the University of the Philippines’ Bolinao Marine Laboratory in Pangasinan were carefully transported to Anvaya Cove, tagged, and planted by volunteer divers in the house reef. The clams will stimulate coral reef regeneration and help to increase marine biodiversity. The project had the full support and participation of Anvaya Beach and Nature Club members, guests and staff, making it an inspirational experience for everyone.

Our continuing conservation program for the Olive Ridley turtles (*Lepidochelys olivacea*), locally known as “Pawikan,” initiated in 2007, also progressed last year with the release of 445 hatchlings to the sea. This program is conducted in partnership with the local government units (LGU), WWF – Philippines, and the Department of Environment and Natural Resources’ (DENR) Pawikan Conservation and Research Center. The monitoring team reported a higher egg-hatching rate due to improved incubation conditions and egg care. The Pawikan release events held every year give all stakeholders of Anvaya Cove a genuine feeling that our environmental stewardship efforts are robust and progressive.

## Biodiversity Initiatives at NUVALI



In NUVALI, “where people and nature thrive,” our biodiversity conservation program is embedded in the overall masterplan for the project, with clearly delineated no-construction, low-impact, and green buffer zones to protect the areas’ rich biodiversity. The NUVALI Wildlife and Bird Sanctuary and the network of criss-crossing ravines throughout the property are the key areas for protection and conservation. Since the baseline flora and fauna inventory conducted by Haribon Foundation in late 2008, bird-watching groups and photographers have identified another eight species of birds not included in the Haribon inventory, bringing the total to 73 bird species identified as of end-2009. Bird-watching has become a unique weekend attraction at NUVALI, helping in the promotion of biodiversity conservation to the general public.

Last year, as the lakeside developments of NUVALI neared completion, more birds were seen visiting the lake. Most notable of these is the Whiskered Tern (*Chlidonias hybrida*) that frequently dives to feed on small fish and aquatic insects. The four-hectare lake and the nearby two-hectare protected wetlands provide the birds and wildlife of NUVALI with additional sources of food and water. Thousands of

carp fingerlings were seeded into the lake last year for natural control of mosquitoes and other water insects, and to help in priming the lake’s biological processes. The carps are fully grown now, and fish-feeding by visitors has become another fun lakeside activity at NUVALI.

In support of NUVALI’s programs for habitat protection and reforestation along the buffer zones, several tree-planting activities were conducted in 2009. Volunteers from Ayala Land, APMC, MDC, and even other groups such as the Department of Trade and Industry (DTI) and the Miss Earth Foundation planted over a thousand saplings at the dedicated tree-planting areas of NUVALI. On January 22, 2010, the Ayala Group of Companies had a successful group-wide tree-planting activity, with over 600 employee volunteers participating. As we progress towards our long-term target of planting 100,000 indigenous and fruit-bearing trees, we will continue to partner with sustainability-oriented organizations and promote NUVALI as the tree-planting destination of choice in Laguna.

# Community Stewardship and Social Development



Alay sa Edukasyon Program

Ayala Land's commitment to corporate social responsibility (CSR) is embodied in the Company's mission – "Enhancing land and enriching lives for more people." In recent years, our CSR efforts have evolved from philanthropic initiatives to more strategic intents of contributing to nation building, uplifting the lives of people through education, health programs, and livelihood opportunities, and being a preferred and trusted neighbor to communities surrounding our developments. Today, CSR or community stewardship is a key component of our Sustainability Framework.



Basket-weaving at NUVALI

### Alay sa Komunidad in NUVALI

In 2009, we focused much of our community building and social development efforts on the Canlubang communities neighboring our NUVALI project as we continued with our initiatives in other areas.

We launched “Alay sa Komunidad” in July of 2009 as a program that brings together under one embracing and concerted effort all the CSR initiatives being undertaken for the communities in Barangay Canlubang in Calamba, Laguna and in barangays in Sta. Rosa, also in Laguna.

The program was put in motion to help 600 families in the area by raising their level of awareness for opportunities and resources around them, thus empowering them to become self sufficient and progressive communities. As we track the success of Alay sa Komunidad in the NUVALI communities, we will be applying this model to communities surrounding our projects in other areas.

### May Kabuhayan

Our “May Kabuhayan” program has already benefitted over 200 community leaders and residents since its inception in 2007. In 2009, we scaled up the program

by helping to build capability in more sustainable entrepreneurial endeavors that generate greater income for the communities.

Through our ongoing partnership with I-Serve, a tenured non-government organization (NGO) with expertise in community organizing, community leaders were assisted in establishing the Pangarap ng Aurora Neighborhood Association (PNA) in 2007 and the Pag-asa Vesta Plains (PVP) community organization last year, both registered legal entities. These entities act as cooperatives in partnership with the local government and assisted by Ayala Land to spearhead various livelihood and income-generating projects for the residents in the sitios.

Among the first self-sustaining projects that were brought to fruition are the PNA Food Service, a food catering business, and the “Tindahan Natin” neighborhood store. Each of these businesses provides a steady stream of income of about Php50,000 to Php60,000 a month for the communities.

In September, we brought 30 leaders and members of PNA and PVP to NUVALI for a seminar on solid waste management and a training session on weaving

## Community Stewardship and Social Development



baskets out of used paper (such as old telephone directories). Following the training session, members of PNA and PVP began taking and servicing orders for their products in time for the Christmas season.

Earlier in July, a training session was held on the manufacture of charcoal briquettes out of cogon grass, which grows wild in the NUVALI environs and surroundings. The briquettes are now sold to other neighboring barangays in Laguna that use them as a main source of fuel for cooking.

We are conscious of the principle of inclusive development, thus we continue to source manpower from the communities surrounding our projects. About 40% of the manpower needs in NUVALI was sourced from the Canlubang and Sta. Rosa areas. Additionally, we brought together 13 of our suppliers and support service providers and held a job fair in NUVALI for the screening of qualified applicants from the area. About 100 job applicants from Barangay Canlubang and Sta. Rosa City participated in the fair.

### Alay sa Edukasyon

In our engagements with community leaders and members, we discovered that a number of children go to school with bare feet or in worn-out slippers. We also learned that many children fail to go to school for the simple reason that they do not have pencils to use or paper to write on.

To help address this, we conducted a donation drive among our employees and gathered 300 pairs of shoes. These along with school supply kits donated by NUVALI and the National Bookstore Foundation were distributed to grade one pupils of four public elementary schools in Barangay Canlubang.

As part of our continuing cooperation with the Department of Education's (DepEd's) School Improvement Program, employee volunteers participated in the "Brigada Eskwela," a yearly project to refurbish public schools in time for the start of the school year. A group of 100 volunteers trooped to Puting Lupa Elementary School in Calamba and Canlubang Elementary School to scrub, wash, and repaint the roofs and exterior walls of these schools.



Good Governance Workshop for Barangay Canlubang

### Alay Kalusugan

Attendant to the basic health needs of community folk, our External Affairs Division conducted medical and dental missions under the “Alay Kalusugan” program.

A total of 200 residents of Sitio Majada, Canlubang and Barangay Sto. Domingo, Sta. Rosa, Laguna, benefitted from the program that brings a team of doctors and dental physicians to communities to provide immediate grassroots assistance through consultation on physical ailments and basic tooth extraction. The program also includes sessions that, in a fun and engaging way, teach children proper maintenance of oral hygiene. Around 100 children aged 4 to 6 years participated in these sessions.

### Local Government Engagement and Outreaches

In August, a one-and-a-half day workshop on Effective Leadership and Good Governance was organized jointly by ALI with the help of officials of Barangay Canlubang. The workshop was attended by 21 Sitio chairmen as well as a group of barangay kagawads and officials. To maintain the highest level of knowledge and skills enhancement throughout the workshop, ALI partnered with the Ateneo School of Government for the conduct of the training.

In September, the NUVALI team joined the community members of Sitio Buntog, Canlubang for their town fiesta and organized games, donated prizes, and contributed food for the traditional feast. During the Christmas season, the team organized a simple celebration and distributed gifts to the children in the community.

### Disaster Relief

Typhoon Ondoy, which wreaked havoc across central and southern Luzon in September, was one of the worst typhoons to hit the country in decades, flooding 80% of Metro Manila and keeping towns near the shores of Laguna Lake flooded for several weeks. With the rest of the Ayala Group, we joined the outpouring of relief for those affected by the disaster.

Close to 100 ALI volunteers set aside time from work and signed up for packing and distribution activities in various donation drop-off points at Ayala Land, Ayala Foundation, and facilities of the Philippine National Red Cross. Employee donations amounting to Php134,500 were used for a victims’ assistance program.

## Community Stewardship and Social Development

Through “Alay Kalusugan,” some 1,500 residents of four barangays in the cities of Calamba, Sta. Rosa and Biñan in Laguna, and in three barangays in Taguig, were beneficiaries of medical missions conducted by the Company in response to the aftermath of Typhoon Ondoy. The missions were conducted in coordination with barangay and local officials.

### Alignment with Ayala Corporation and Ayala Foundation, Inc.

The Ayala Foundation, Inc. (AFI) continues to be a strategic partner in developing social infrastructure and programs that empower our neighboring communities to raise their standard of living.

In 2009, we continued to support the Foundation’s high-impact education programs such as Gearing up Internet Literacy and Access for Students (GILAS), a multi-sectoral initiative that aims to provide Internet facilities in all public high schools across the country. Our grant provided connection to 19 public high schools located near our projects in Laguna, Negros Occidental, Cagayan de Oro, and Davao City. The number of schools connected by GILAS in 2009 reached 431, benefitting over 215,000 students.

We continued to support the Center for Excellence in Public Elementary Education (CENTEX), which, with the help of Ayala Land and AFI, operates two public schools that provide quality education to deserving children from under-resourced families. Over the last decade, CENTEX has provided quality education to more than 800 students through various scholarships.

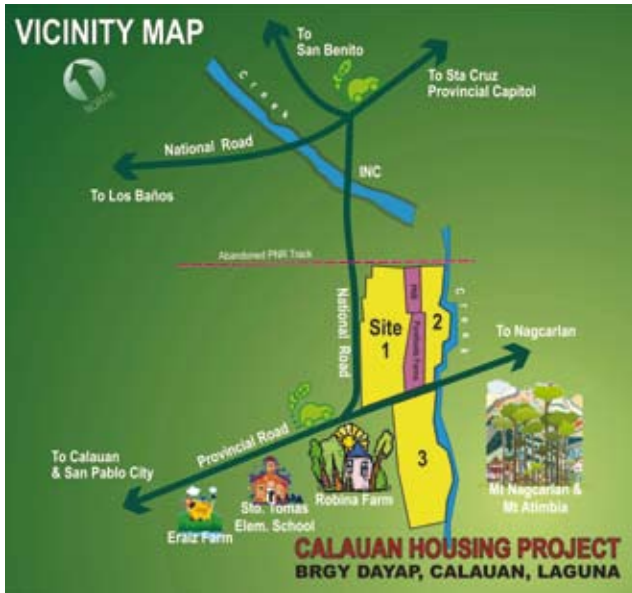
The Company remains actively involved in the development of the youth as future leaders who could influence our country’s progress. The 11th National Ayala Young Leaders Congress (AYLC) was held in February 2009. Seventy-three of the most outstanding student leaders from across the country were gathered for three days to hone their



leadership skills and deepen their commitment to nation building. Congress alumni total 876 to date, with 15 AYLC alumni now employed in ALI and its subsidiaries.

In celebration of its 175th Anniversary, Ayala Corporation, through AFI, called on the entire Ayala citizenry to come together for a book drive dubbed 175 KB. The goal was to collect 175,000 used or new storybooks for children up to 12 years of age. These were donated to 175 public schools nationwide. Ayala Land volunteers distributed 14,000 books to 11 public schools in Quezon City, Taguig, Morong (Bataan), Canlubang, and Sta. Rosa.

As the country’s prominent arts and culture institutions located at the heart of Makati, The Ayala Museum and the Filipinas Heritage Library continue to receive support from Ayala Land. Thus, they continue to offer subsidized educational tours and programs on Philippine arts, history, and culture to public school students. We also support the projects of the Bonifacion Arts Foundation, Inc. (BAFI), including The Mind Museum, envisioned to be the first world-class museum and home of science in the country.



Source: ABS-CBN Foundation, Inc.

## Moving Forward

### *Economic Housing Segment*

Building communities that uplift the lives of people is what Ayala Land does expertly. As we have done this successfully over so many decades, serving the top 5% of the economic bracket in the Philippines, our thrust now is to provide opportunities for a greater number of people to benefit from our developments and experience the Ayala Land lifestyle and quality.

Through a new subsidiary called Amaia, we have begun our push towards serving the economic housing segment which makes up the next 35% of the market. This will allow us to provide housing opportunities to families of public sector employees, overseas Filipino workers, business process outsourcing (BPO) employees, public school teachers, among others, and help to improve their quality of life.

### *The Calauan Resettlement Project*

A key to building sustainable communities is in properly masterplanning the development. Resettlement areas where informal settlers are to be relocated need to be made sustainable so that they may live socially and economically progressive lives.

The Ayala Group of Companies has partnered with Habitat for Humanity in the development of a site in Calauan, Laguna as a model resettlement area. Informal settlers currently living along the banks of the Pasig River, as well as primary victims of Typhoon Ondoy, will be relocated to this site by the Kapit Bisig Para sa Ilog Pasig project of the ABS-CBN Foundation and the National Housing Authority.

In order to leverage on the key competencies of every Ayala company, Ayala Land is spearheading the site development and construction of homes and social amenities of what would be a future thriving community for more than a thousand families.

Our partnership with Habitat for Humanity ensures that the relocatees will have quality homes and a community geared towards social and economic productivity. Through low monthly amortized payments, the relocatees will eventually become owners of these homes.

Manila Water Company will focus on ensuring that the proper water and sewerage systems are in place, which are essential for sustainable health and living conditions. The rest of the Ayala Group companies will delve into creating livelihood programs and assisting the community in moving forward economically. Partner organizations will be tapped to study and roll out the community programs with the help of Ayala volunteers.

The project is a synergized effort among the corporations and a chance for members of the conglomerate to engage themselves in social development programs as a group. The participation of an estimated 2,500 employees in volunteering their technological skills and sweat equity for the project is the goal for 2010. The project is also seen as a massive effort of the private and public sectors to rebuild the lives of people and rehabilitate the Pasig River.

# Personnel Development, Health and Safety



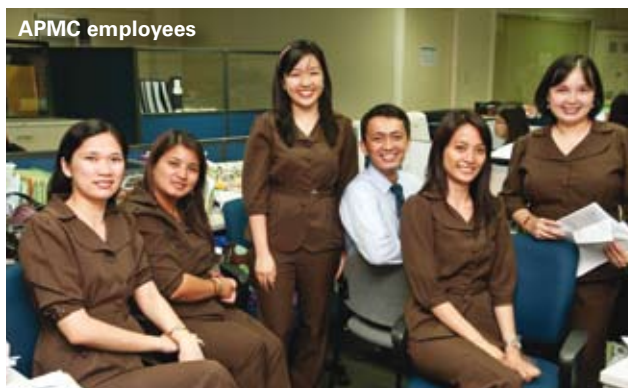
Sustainability at Ayala Land begins with our people, the lifeblood of the Company. The long-term success of ALI’s sustainability programs, and the sustainability of the Company itself, ultimately depends on our people. Maintaining a good work-life balance, working in safe and healthy environments, and developing our employees to their maximum potential have long been part of the ALI way of life. Full-time employees receive the following benefits which are not provided to temporary or part-time employees: life insurance, health insurance, disability/invalidity coverage, and retirement provision.

Last year, as the sustainability mindset took off throughout the organization, we engaged our employees to become green champions in any way they can, whether they are at the forefront of project development or at the offices, working behind the scenes. Employee volunteerism for community stewardship was also encouraged, giving our people many opportunities to give back and pay it forward. It is the duty of the current generation of “ALIZens” to uphold our tradition of sustainability and prepare the next generations to carry the torch.

## 2009 Workforce Profiles, Ayala Land and Wholly-Owned Subsidiaries

### Total Workforce

	Employment Contract		Total Head Count
	Permanent	Probationary	
Ayala Land	475	6	481
Alveo Land	51	9	60
Avida Land	124	12	136
APMC	239	13	252
MDC	177	1	178
<b>TOTAL</b>	<b>1,066</b>	<b>41</b>	<b>1,107</b>



### Employee Distribution

	Total Head Count	Gender Distribution		Age Distribution			Distribution by Position		
		Male	Female	Under 30	30 to 50	Over 50	Senior Management	Middle Management	Rank and File
Ayala Land	481	51%	49%	24%	68%	8%	5%	32%	63%
Alveo Land	60	48%	52%	42%	58%	0%	0%	23%	77%
Avida Land	136	48%	52%	27%	70%	3%	1%	15%	84%
APMC	252	66%	34%	55%	38%	7%	1%	9%	90%
MDC	178	71%	29%	10%	62%	28%	2%	15%	83%

### Composition of Governance Bodies

	Total Head Count	Gender Distribution		Age Distribution		
		Male	Female	Under 30	30 to 50	Over 50
ALI Board of Directors	9	78%	22%	0%	22%	78%
ALI Management Committee	14	79%	21%	0%	50%	50%

Figure 23.  
Ratio of Basic Salary of Men to Women



### Employee Turnover

	Total Headcount	Turnover by Gender				Turnover by Age					
		Male	%	Female	%	Under 30	%	30 to 50	%	Over 50	%
Ayala Land	481	11	2%	14	3%	10	2%	15	3%	0	0%
Alveo Land	60	6	10%	4	7%	3	5%	7	12%	0	0%
Avida Land	136	1	1%	5	4%	4	3%	2	1%	0	0%
APMC	252	22	9%	5	2%	10	4%	6	2%	2	1%
MDC	178	10	6%	5	3%	7	4%	11	6%	6	3%
<b>TOTAL</b>	<b>1,107</b>	<b>50</b>		<b>33</b>		<b>34</b>		<b>41</b>		<b>8</b>	

# Personnel Development, Health and Safety



*“In Ayala Land, creating large-scale sustainable communities also means that we have to integrate into our plans, outdoor sports and active lifestyles that take advantage of the beauty and natural environment of our master-planned developments.*

*Promoting environmental, economic and social sustainability means that we cannot disregard the need for a healthy way of life.*

*Thus, Ayala Land puts a great deal of importance to sports development because this promotes healthy living, teamwork, camaraderie and improves the morale of the employees and participants. Sports is one of the highest forms of disciplines where a person’s abilities, skills, physical and mental endurance are tested as he competes with other teams or with individual athletes. It develops self-confidence and brings out the best in people as they try to win their ‘battles’ to achieve what seems to be impossible!”*

Mr. Aniceto V. Bisnar, Jr.  
General Manager of NUVALI

## EMPLOYEE WELLNESS, HEALTH AND SAFETY

Our people engage in a variety of sports and wellness activities. Basketball, bowling, volleyball, running, golf, badminton and scuba diving are just some of the many Company clubs that have thrived through the years. With regards to health care, all employees of the Company and its subsidiaries undergo annual physical exams and routine flu shots and receive timely information on prevention of serious diseases, such as the AH1N1 virus, Hepatitis, HPV and cervical cancer, and Dengue fever. Our human resources training departments also offer courses on workload management, stress management, emotional intelligence and financial wellness, for the well-rounded development and life-long learning of our personnel.

We also encourage our people “to be sustainable,” to live healthy and make green choices in their everyday lives. We believe that understanding and reducing one’s own carbon footprint eventually translates to more low-carbon innovations in our real estate developments. As we continue to enhance employee wellness, health and safety, and green living, we become a strong sustainable workforce that will carry out the company’s multiple development projects moving forward.



Percentage of employees covered by Collective Bargaining Agreements (Ayala Land parent): 62%

Minimum notice period regarding significant operational changes, as specified in Collective Bargaining Agreements (Ayala Land parent): 30 days

Health and safety topics covered in formal agreements with trade unions (Ayala Land parent): Life Insurance, Health Insurance, Disability/Invalidity Coverage, Retirement Provision

Operations identified as having significant risk for incidents of child labor, forced or compulsory labor: None

No incidents of violations involving rights of indigenous people were recorded last year.



Rates of Injury and Lost Days

	Incidents with lost time	Number of lost days	Frequency Rate	Severity Rate
APMC	1	3	0.31	0.92
MDC	3	12	0.14	0.58

No work-related fatalities were recorded last year.

Percentage of security personnel trained in company policies or procedures concerning aspects of human rights that are relevant to operations: 13%



*“Ayala Land cares for its employees. We offer ‘careers’, not just jobs. Our approach is holistic, making sure that employees grow both professionally and personally. We also strive to nurture individuals who embody the values of excellence, customer orientation and integrity. We envision an organization that is competent and willing to create positive impact on the business and the communities we serve.”*

Ms. Rhea R. Reyes  
 Head, Compensation and Corporate Services  
 Human Resources and Public Affairs Group

## Personnel Development, Health and Safety



In October 2009, the Company's Health and Safety Committee (HSC) was created, to consolidate and reinforce our occupational health and safety (OHS) efforts at Tower One and Exchange Plaza (our corporate headquarters), and to oversee all OHS programs in our facilities and construction sites. Our subsidiaries APMC and MDC have long-standing OHS programs certified to the OHSAS 18001 international standard. Both APMC and MDC continuously log the number of safe man-hours at the construction sites and operating facilities. The HSC draws from the experience of its members, which include representatives from APMC, MDC, Corporate Communications, Corporate Services, Risk Management and the Sustainability Office, representing over 75% of the workforce.



*"Emergencies and disasters are sure to occur and it is just a question of when and how severe it would be. This is why ALI as a company has built-in emergency plans to manage and address the occurrence of various natural and man-made events affecting its properties, both owned and managed. Our priority is the safety and well-being of our personnel, our customers, and the general public who pass through our facilities. Our program on Business Continuity Management is aimed at ensuring our organizational readiness, the mitigation of risks and that critical business operation and services continue in spite of adverse occurrences."*

Mr. Maphilindo S. Tandoc  
Risk Manager  
Treasury/Finance Group

The first project of the HSC was on Emergency Preparedness and Response Planning, a critical requirement for any business, as clearly demonstrated by Typhoon Ondoy last year. Led by the Corporate Communications Head, the HSC organized the Tower One emergency evacuation teams and conducted a workshop in November, in coordination with the Bureau of Fire Protection and Philippine National Red Cross, to train team members on proper evacuation procedures. An unannounced fire and earthquake drill was subsequently held to put into practice what was learned in the training and to get a better perspective of the evacuation readiness of the team and the building occupants. With the learnings from the drill, the HSC is now enhancing the program to ensure quicker response and evacuation time, and to communicate more effective warning and evacuation procedures.

During the first Ayala Sustainability Summit last November, the Ayala Group of Companies expressed their belief in the relevance and importance of Emergency and Disaster Management Planning in sustaining the business. Moving forward, the companies agreed on several key initiatives:

- Establishment of a Centralized Group Disaster Coordinating Center for the collaborative handling of catastrophic events or large emergencies;
- Development of a Group-wide Disaster Management Plan to draw the framework and basic components in managing disasters affecting Ayala Group employees or properties in an area (e.g., Typhoon Ondoy and resultant flooding);
- Incorporating disaster management considerations in property or estate design and development (i.e. evacuation areas).

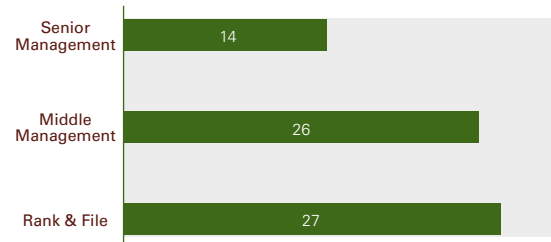
**TRAINING AND DEVELOPMENT**

Our Corporate Learning and Development unit continued to conduct and develop a diverse range of training opportunities for all employees. A total of 76 internal and external training programs were conducted last year with 401 employees attending.

As we continue to strengthen our organization by “building from within,” our training programs aim to arm our employees with the necessary skill sets as they take on more responsibilities during this period of growth.



Figure 24. Average Training Hours Per Employee



Percentage of full-time employees of Ayala Land and subsidiaries that receive regular performance and career development reviews: 100%



# Personnel Development, Health and Safety



## **Ayala Land Inc. Internal training programs conducted in 2009**

- 1 ALI 101: Getting to Know ALI
- 2 ALI 102: Understanding the ALI Business
- 3 Leasing 101: Getting to Know AMG
- 4 Media Handling Workshop/Crisis Management
- 5 Financial Management 101: Reading Beyond the Numbers
- 6 Financial Management 102: Numbers at Work
- 7 Green Training Series
- 8 MM-SRM Basics for Non-Projects Course
- 9 Negotiation Course
- 10 Performance Coaching
- 11 Problem Solving and Decision Making
- 12 Project Management Series Modules 1-9
- 13 Safety and Emergency Evacuation Training
- 14 Workload Management Workshop

Programs on sustainability-related issues were also attended by our employees such as the Green Forum, Asian Forum on Corporate Social Responsibility, Green Purchasing Alliance Movement, and the International Green Building Conference in Singapore. Several of our managers also facilitated the Sustainability Café learning sessions during the Ayala Group Sustainability Summit.

With over 20 new real estate projects to be launched this year, the accelerated training and development of our workforce will play a key role in our project planning and execution moving forward.



### ALI Green Training Series: "Fostering a Sustainability Mindset within Ayala Land"

- Launched on Earth Day, April 22, 2009, the program is a joint effort of the HR Corporate Learning and Development Group and the Sustainability Office.
- The program has a dedicated internal faculty composed of green champions of the Company and its subsidiaries.
- The curriculum includes modules on the Sustainability Framework, Sustainable Land Use Planning, Green Product Design, Energy Efficiency, Water Stewardship, Solid Waste Management, Sustainable Construction, Biodiversity Conservation, Community Stewardship, and Market Shaping.
- The workshop includes case studies on the Company's flagship sustainability projects, such as NUVALI, Anvaya Cove, U.P.-AyalaLand TechnoHub, and Ayala Center, and group brainstorming on green workplace projects.
- Green workplace ideas (e.g., Enercon Contest, Paper Bin Decoration Contest, etc.) from the workshops were implemented at the offices.
- A total of eight full-day workshops were conducted for a total of 152 employees in 2009.
- The program was soon rolled out to our sales force, with a total of 12 workshops and over 250 participants.
- The participants gave excellent feedback and their average evaluation rating for the workshops was 3.77 out of 4.00, one of the highest ratings among the training courses conducted last year.
- In November, the program received an Excellence Award for Best Workplace Practices at the 2009 Asian CSR Awards Night held in Pasig City, Philippines.



*"ALI Green Training was very insightful. It showed me just how involved Ayala is in preserving the environment and this is evident in the designs of our developments and the materials used. Being one of the leading developers in the country, Ayala Land instills that sense of responsibility among its employees and imparts the practice to its merchants as well."*

Ms. Rocio N. Lobregat  
Merchandise Mix Unit, Ayala Malls Group

# Personnel Development, Health and Safety

## EMPLOYEE VOLUNTEERISM

Last year, a total of 376 employees participated in our employee volunteerism program known as VoluntarALI, which provides each employee with four days of paid leave for volunteer projects every year. The total number of hours of paid leave availed by our employees was logged at 2,456 man-hours for 2009, up from 1,968 man-hours in 2008. Within the Company and its subsidiaries, the spirit of volunteerism continues to burn brightly throughout the entire organization, as captured in the images below.



Earth Day tree planting in Makati



Intercon team at Child Haus, Quezon City



Cebu Marriott team at Garing Elementary School, Cebu

Due to the success of the Ayala Group of Companies' unified efforts in volunteer projects last year – Project 175kb and Typhoon Ondoy Relief Operations – the group is pushing forward with an inter-Ayala employee volunteerism program called “Engage Ayala”. Through this program, employees can participate in volunteer projects of any other Ayala company, and vice versa. Engage Ayala was formally launched in January 2010 with a well-attended Ayala Group tree-planting event at NUVALI. The major group-wide volunteer project highly anticipated this year will be the Habitat for Humanity home-building activities for relocatees at the Calauan Resettlement Site in Laguna.



*“During our Ondoy relief efforts, I kept thinking of a quote from Mother Teresa... ‘We do no great things -- only small things with great love.’ And that’s what I did, spread the love that I had to share by helping out in my own little way...”*

Ms. Catherine O. Advincula  
Corporate Marketing and Sales Group

# Market Shaping



The grand opening of NUVALI, our flagship eco-city development, gave a major boost to our market shaping efforts in 2009. The strong, continuous take-up of our product offerings in NUVALI indicates a healthy market demand for real estate products that embody the live-work-relax-grow concept (“Evoliving”, as we call it in NUVALI) through sustainable land use planning and green product design. With the continuing success of NUVALI, the Company’s efforts in building sustainable communities are recognized and validated by the real estate market.

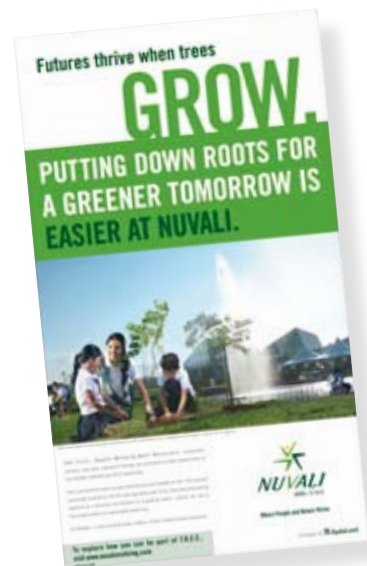
To further strengthen our market shaping program, we cascaded the Green Training Series to the various Company sales and marketing units. A total of 12 workshops were conducted, with over 250 participants as of end-2009. Through these interactive workshops, the sales teams aligned themselves with the Company’s sustainability framework. In so doing, they learned to appreciate the green features of our projects, and understood the importance of engaging their customers towards green living. The workshops also expedited the flow of sustainability-related project information from our design teams to the sales force.

Moving forward, we will build on the success of our market shaping programs last year. We will continue to educate our sales force and engage our customers towards sustainable living, not just as a marketing strategy but a necessity for our generation. Dedicated research on the fledgling green market is also underway, which will help us to refine our strategies and campaigns. Our dedication and innovation for sustainability in our real estate projects will ultimately be our competitive advantage.



*“Ayala Land has a long and successful history of innovation, and now we must take the lead again to make sustainability a core element in our business strategy. In two or three years, our market will want real-estate products that help them live more responsibly, and we expect to be ready to give them those products within that time-frame. This requires a sustained effort at product development, built on a deep understanding of what will be needed to achieve our society’s objectives in the 21st century”*

Mr. Vincent Y. Tan  
Group Head, Planning



## Market Shaping



Ayala Malls Green Merchant Awards



*"Ayala has championed itself in raising the green quotient. Our Greenology Campaign has made me even more responsibly green in my work as a designer and as a child of Mother Earth."*

Mr. Vic Barba,  
Owner of the Barba Shop at Greenbelt 5

In our malls business, where our customers include our tenants, merchants and the general public, our Ayala Malls Group (AMG) carried our market shaping campaign to new heights last year. In May, as part of the 11th Ayala Malls Merchant Rewards Night, AMG handed out its first ever Green Merchant Awards, to recognize merchants from each mall who demonstrated leadership and best practices for sustainability.

The 5th Ayala Malls Merchant Forum was also held the same week, where various experts exchanged views with our merchants on key environmental issues affecting the retail industry (e.g., climate change). Partnering with our merchants for promoting a green lifestyle is an essential component of our market shaping campaign, since they are at the front line of engagement with the mall-going public.

In August 2009, AMG launched “Greenology”, our flagship sustainability campaign directed towards the general public. All Ayala malls were united in this milestone campaign, which received official recognition and accolades from Makati City and Cebu City. Greenology advocates green living to the millions of people who pass through our malls each day, and celebrates the legacy of environmental stewardship programs implemented at our malls through the years, such as tree preservation (e.g. Greenbelt), solid waste management, energy efficiency, and water stewardship. A series of earth-friendly events kicked off last year’s Greenology campaign:

- Eco Tote – reusable tote bags from six of the country’s top fashion designers;
- Eco Dash – a fun run for the environment led by ALI and Globe Telecom, held at Bonifacio High Street;
- Eco Art – “Recycled Art” sculptures and 3D models exhibited at the Ayala Malls;
- The Green Line – Clothes and accessories made of eco-friendly materials, made available for a limited time at the Filipino Zone, Greenbelt 5;
- The Green Concert – An evening of nature-inspired music with top international artist Kenji Williams.

Proceeds from the Greenology events benefited various foundations, including Bantay Kalikasan, WWF-Philippines and the individual beneficiaries of our Eco Tote designers. Details on the Greenology campaign are available at [www.ayalaland.com.ph](http://www.ayalaland.com.ph). This year’s campaign is envisioned to be larger in scope and wider in coverage as we align all our business units’ marketing strategies towards a common market-shaping program that builds on our legacy of sustainability.



*“We have pioneered environmental programs in Philippine malls, and these programs have now become models in the industry. Now we’re affirming our commitment to Mother Nature by responding to the global call for sustainable living and sustainable environment. With Greenology, we have come up with an integrated approach to strengthen our environmental efforts and our campaign for sustainable development. And we would like our merchants and mall-goers to be our partners in making Greenology a success.”*

Ms. Ma. Victoria E. Añonuevo  
Group Head, Ayala Malls and  
AyalaLand Businesscapes

# Market Shaping

## TOTAL CUSTOMER SATISFACTION

A basic prerequisite for market shaping is customer satisfaction. At Ayala Land, our dedication to total customer satisfaction has helped build the Company’s reputation as a trustworthy developer. Across all our business units, programs have long been in place to measure, monitor, and enhance customer satisfaction. Surveys are regularly conducted by the different business units to measure their customers’ experiences with the help and guidance of the Corporate Knowledge Division (CKD) of our Corporate Marketing and Sales Group.

In 2009, CKD conducted a comprehensive study to assess the “Customer Living Experience” for customers of our three residential brands. The study provided valuable insights on our customers’ main considerations when they buying property and whether those priorities remain relevant after having resided in those properties. Through the study, we were able to measure our customers’ quality of living experience

– their functional and emotional satisfaction and the factors that drive these – and how loyal they are to Ayala Land versus its competitors. These research findings help guide our project development teams to improve our products and services with the ultimate goal of achieving the highest level of customer satisfaction.

Our residential brands also conducted their own customer satisfaction surveys last year, such as Ayala Land Premier’s Turnover Surveys for owners of condominium units at One Serendra and The Residences at Greenbelt. The surveys aim to measure our customers’ satisfaction with the product as well as their overall customer service experience. A summary of their survey findings is shown in Table 7.

In parallel with the various customer satisfaction programs of our strategic business units, APMC also conducts semi-annual surveys for their customers in all the properties they manage. Table 8 presents a summary of APMC’s Customer Satisfaction Survey results for 2009. Similarly, MDC conducts their own annual Customer Satisfaction Surveys. They received an overall rating of 4 out of 5 (5 being the highest), up from 3.6 in 2008.

In our malls, we strengthened our customer satisfaction program with the launch of Ayala Malls’ “It’s always U-First at Ayala Malls” customer service campaign last October. The objective of the campaign is to emphasize the customer as the center of the mall experience, consistent with Ayala Land’s core value of customer orientation, where the customer is first and foremost

**Table 7.**  
Ayala Land Premier Summary of Turnover Survey Results  
(Rating Scale of 1 to 100%, Highest is 100%)

	One Serendra		The Residences of Greenbelt
	2008	2009	
In thinking about your most recent experience with Ayala Land Premier, what was the over-all quality of customer service you received?	78%	78%	97%
I would recommend an Ayala Land Premier purchase to my friends and relatives.	85%	94%	95%

**Table 8.**  
2009 APMC Customer Satisfaction Survey Results  
(Rating Scale of 1 to 5, Highest is 5)

Particulars	Malls	Office Buildings	Residential Properties	Car Parks and External Accounts	Estates	Total
Property Manager	4.08	4.22	4.11	4.02	3.67	4.04
Procedures	4.01	4.02	4.03	4.11	3.69	3.99
Facilities & Environment	4.08	4.05	3.91	4.01	3.85	3.95
Services	4.12	4.01	4.13	4.22	3.62	4.03
Equipment & Utilities	4.21	3.95	3.69	3.94	4.07	3.93
<b>Average</b>	<b>4.10</b>	<b>4.05</b>	<b>4.02</b>	<b>4.08</b>	<b>3.78</b>	<b>4.01</b>

in our minds. The campaign comprises five different service programs:

- Our U-First Priority Shopping provides easy navigation for persons with disability (PWD) and senior citizens while inside Ayala Malls. It also offers the convenience of a reduced waiting time in elevators, cinema and food court payment lanes and taxi stands. Priority seats are also pre-identified for them in common areas and food courts.
- The Family Corner is for the special needs of the family to relax in a safe and comfortable environment after long hours of spending their time at Ayala Malls.
- The Networker's Station gives free Wi-Fi access to tech-savvy individuals and businessmen while inside Ayala Malls.

- Traveler's Advantage Service focuses on the needs of tourists and OFWs to feel special by offering them the perks and privileges of the Ayala Malls "A card" as well as hotel-like Concierge services.
- "U Talk, We Listen" offers all shoppers an opportunity to connect with us and share their feedback through the Ayala Malls hotline, text program and website.

With the ongoing success of the U-First campaign, we have established customer service as another competitive advantage of the Ayala Malls over other mall operators. Our customers now enjoy the benefits of being "first" at the Ayala Malls, with front-liners who are ready and willing to be of service to them, more facilities and amenities that address their needs, and more mall services that are relevant to them.

**It's always U-First at Ayala Malls.**

**U-First Priority Shopping**  
Conveniences for Senior Citizens and Persons with Disabilities

**The Networker's Station** connects U  
Connectivity for businessmen, netizens, and other social networkers.

**The Family Corner and U**  
A safe, quiet, and comfortable place for families to bond.

**The Traveler's Advantage Service**  
Perks and conveniences for tourists and OFWs.

**U Talk, We Listen**  
Comments?  
Suggestions?  
Feedback?  
Just call, text, or visit our Virtual Concierge.

**The Bean Bag and U**  
A cool place for teens to meet, hang out and even listen to their favorite music.  
(Opens by 2010 in Ayala Malls)

Just ask our Concierge about our U-First brand of customer service.

782-7272  
 757-4883  
 842-2782 / 772-1860  
 (02)214-2038  
 886-7514  
 859-0523  
 901-3000

Text AYALA MALLS to 2948 • www.ayalamalls.com.ph

It's always U-First at

# The Journey Ahead



For Ayala Land, our journey towards a sustainable future continues, and we have a long road ahead in our efforts to improve the environment, our communities and people's lives. We are undaunted by the many challenges we face, and inspired by the boundless opportunities that lie ahead.

As we continue to further ingrain sustainability into our business strategies and into the corporate culture, we will also continue to raise our level of accountability towards achieving impact and measurable results, guided as much by the GRI standards as what our stakeholders tell us.

With a Board level Sustainability Committee now in place and chaired by our CEO, we will move forward with greater strategic focus towards seamlessly integrating social and environmental goals with our business goals. We will continue to lead the way in developing sustainable communities that minimize environmental impact and promote healthy lifestyles for more people. We will also work to progress further on the key performance indicators identified under each of the five pillars of our sustainability framework so as to achieve the desired results of our triple bottom line approach to sustainability.

## Environmental Sustainability

As we expand our footprint across the country and broaden our market to serve a greater number of Filipinos, sustainability will remain a key competitive advantage and differentiating factor of our developments. Our master-plans will apply new trends and technologies to ensure our developments are environmentally sound and truly sustainable for many generations.

Our latest CBD and community center projects, such as those in the North Triangle and Subic, as well as the ongoing Ayala Center redevelopment, will reflect our long-standing commitment to sustainable land use and development. These mixed-use districts will be master-planned for increased density, where pedestrians will be "king," less dependence on the automobile will be encouraged, and greater community interaction fostered.

We will continue to integrate principles of responsible land development and green building design into our project development process to ensure our new buildings contribute to the continuous reduction in energy and water consumption and waste generation.



### Social Sustainability

In our pursuit of sustainable development, we have realized that our communities cannot be truly sustainable if our neighbors lack the basic tools and social infrastructure that would ensure their own sustainability. We will pursue more programmed community stewardship initiatives this year to ensure that communities neighboring our developments will continue to thrive and become more progressive. We will put greater focus on job creation and livelihood generation to help uplift their way of life, complemented by education and health programs that are essential for sustainable living.

We will further strengthen our partnerships with various sectors such as non-government organizations, local government units, community organizations and associations, and socially conscious companies and corporations that will enable us to more effectively progress our programs.

Our conscious push towards servicing a broader base of Filipinos has begun with the launch of new brands in the economic residential housing and small format retail segments. We believe that by providing housing opportunities to public sector employees, overseas Filipino workers, business process outsourcing employees

and the like, we would significantly improve the quality of life of this large segment of the population. And as we expand in key growth centers around the archipelago, we will be better positioned to serve and uplift the lives of more people, true to our commitment towards nation building and the economic development of the country.

### Economic Sustainability

Ayala Corporation Chairman Jaime Augusto Zobel de Ayala once said: “business cannot flourish in a society that fails.” In the same vein, we cannot help communities become progressive if our own business fails to sustain its growth and deliver the proper returns. Thus we remain steadfast in our commitment to create value for our shareholders, investors, employees, and various other stakeholders for the long term, so that we continue to be well equipped to help address broad social and environmental issues.

We have set ambitious goals for the next five years and put in place a four-pillar strategy to help us achieve those goals. Along the way, we will leverage on our core competency in master-planning and developing integrated, mixed-use communities as we enhance our position as the Philippines’ leading full-line property developer. Ultimately we will stay true to our mission of “enhancing land and enriching lives for more people.”

# Stakeholders' Commentaries



**Mr. Jose Ma. Lorenzo Tan**  
CEO /Vice-Chairman, Board of Trustees  
World Wide Fund for Nature - Philippines

Sustainability is a process. Although much has been achieved, the key for Ayala, and any organization for that matter, is to constantly aim for bigger and better things. From what has begun as an internal self-evaluation, it is important to keep the ball in play, involving staff, customers and “critical friends”. Going beyond structural tweaks such as efficiencies and savings, toward shifts in organizational behavior and attitude that will open doors to innovative technology, greater staff involvement, product innovations, building a green customer base and mainstreaming the concept of operating “beyond one’s fence”. It is a good idea to start small, but it is important to learn fast, and scale rapidly. Sustainability is innovation’s new frontier. And ultimately, it is sustainability that will build national competitiveness.



**Ms. Marife B. Zamora**  
Vice President and Country  
General Manager, Philippines  
Convergys Corporation

Sustainability is very important to us at Convergys Corporation. Our unwavering commitment to building sustainable relationships extends not only to people but also to the environment. As part of Convergys’ core set of values, we nurture working environments designed to optimize performance and efficiency while reducing energy consumption, waste, and pollution. By deploying alternative energy sources, creating paperless environments, maintaining an active corporate recycling program, reusing water, providing group transportation, and developing energy efficient client solutions, we conserve precious resources and strive to minimize negative environmental impact.

With this in mind, it was important for Convergys to collaborate with a developer that shares this vision with us. We laud Ayala Land for its buildings and campuses that are built based on the principle of sustainability. In particular, we are proud to be your anchor tenant at One Evotech in the Nuvali Technohub, which is in the process of securing the prestigious LEED certification from the US Green Building Council. Since Convergys is a global leader in relationship management, the opening of our facility at Nuvali not only helps us effectively support our global clients and their customers, it also allows us to have a minimal impact on the environment for the benefit of the whole community. Convergys’ Nuvali Technohub contact center is not only “green” or environmentally friendly, it also promotes a healthy lifestyle for our employees.

We laud Ayala Land as it continues to build more sustainable sites that we can consider for our facilities, as we continue to expand our contact centers in the Philippines.

On behalf of the City Government and the people of Makati, I proudly extend our warmest congratulations to all the hardworking men and women of Ayala Land as it presents its Integrated Annual and Sustainability Report for 2009.

For the past years, Ayala Land has been a staunch partner of the City Government in continuing its commitment for sustainable development in terms of protecting and conserving the environment, particularly through enhancing public awareness on the importance of protecting and preserving the city's natural resources.

The Company has been vital to the success of our efforts to promote a clean and healthy environment for our city. We are honored that Makati has been one of the long-term partners of Ayala Land, and we take this as a great opportunity to share the city's initiatives on environmental protection and conservation geared towards economic sustainability and progress.

Through this effective partnership, our city has been successful in its environmental programs and projects, and a clear proof of this is the growing number of investors and visitors that continue to flock to Makati. A healthy and clean environment is undoubtedly a key factor in their decision to do business here in our city, and even live here.



**Mr. Danilo V. Villas**  
Department Head II  
Department of  
Environmental Services  
Makati City Government

**Ms. Marjorie R. Duque**  
Head of Customer Relations for Ayala Land Premier

It was upon joining Ayala Land in 1993 when my sense of responsibility towards the environment was awakened. There was no stopping me after that. We started with solid waste management. Introducing the concept to our customers was one thing. Making everybody embrace it was something else. We have had numerous sustainability efforts since then, such as vermi-composting in the villages, and activities to support challenged communities to earn from the sale of recyclables and by-products of recyclables, etc. I am excited to know that we have already incorporated sustainability in designing our new developments. All of these translate to lower operating costs. Moreover, it says a lot about how we care for our customers and Mother Nature. That in itself is a challenge but we are consistently focused on making a difference. Being a frontliner for a company that takes sustainability seriously gives me great pride and fulfillment whenever we deliver our products to our customers. Moving forward, I believe we can safely say we are there when I see every ALIzen's home implementing basic sustainability efforts like waste management that we practice at work.



# Sustainability Awards and Recognition



In 2009, Ayala Land was recognized by prestigious award-giving bodies for various sustainability initiatives. This underscores the Company's commitment to pursue greater efforts in order to maintain its focus and leadership in sustainable development. Chosen among hundreds of inspired corporations with the same sustainability goals, Ayala Land prides itself as one of the first few companies to advocate the sustainability concept and drive it right at the heart of its operations.

Looking past the recognition, Ayala Land pursues its vision for the future inspired by the urgent need to sustain an ailing planet and alleviate an economically-challenged population.

**ANVIL Award of Merit**

Market! Market! Tarpaulin Bag Promotion  
Given by Public Relations Society of the Philippines  
February 2009

**5-Star Award of Distinction for Fire Safety Compliance, Building Fire Brigade Award, Corporate Fire Safety Award**

Hotel InterContinental Manila  
Given by Makati City government  
May 2009

**Finalist for Green / Sustainable Project**

Anvaya Cove  
2009 Hospitality Design Awards  
Given by Hospitality Design Magazine  
June 2009

**Tambuli Award**

Market! Market! Tarpaulin Bag Promotion  
Given by University of Asia and the Pacific  
July 2009

**Garbology Master Award**

TriNoma Solid Waste Management Program  
Zero Basura Olympics  
Given by Quezon City government  
September 2009

**Gold Award for Design and Development**

Greenbelt 5  
Given by International Council of Shopping Centers  
October 2009

**Excellence Awardee for Best Workplace Practices**

ALI Green Training Series  
2009 Asian CSR Awards  
Presented by Asian Institute of Management  
November 2009

**Cebu City Council Resolution**

Ayala Center Cebu – Greenology Campaign  
November 2009

**Makati Government Certificate of Recognition**

Ayala Malls – Greenology Campaign  
December 2009

**Gawad Aguinaldo sa Kapaligiran Award**

Ayala Westgrove Heights  
Solid Waste Management Program  
Given by Cavite provincial government  
December 2009

**Green Globe Bronze Certificate**

Hotel InterContinental Manila  
Re-certified in December 2009

**Don Emilio Abello Energy Efficiency Awards**

Ayala Property Management Corporation and Ayala Land-affiliated property managers  
Given by the Department of Energy  
December 2009

***Outstanding Awardees and their Respective Property Managers***

Makati Stock Exchange Building	Felices Valencia (APMC)
Greenbelt 3	Allan Ang (APMC)
People Support Center	Ryan Briones (APMC)
U.P.-AyalaLand TechnoHub	Angelo Arevalo (APMC)
Ayala Life FGU Building	Reb Lastrella (APMC)
Metropoint Mall	Anthony Iremedio
Market!Market!	Jonathan David

***Citations***

Convergys (@ Ayala Avenue)  
Greenbelt 1  
HSBC (@ Bonifacio Global City)  
Serendra  
TriNoma  
Tower One & Exchange Plaza  
Hotel InterContinental Manila

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THE FABRIC WAREHOUSE

CELINE

JAS

THE BLUE

# Financial Review

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# Management's Discussion and Analysis of Financial Results

## 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 Php9.06 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 (see Table 9) and a 12% 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 below, with Table 10 showing the revenue breakdown across our major businesses.

*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

Table 9.  
NOI Contribution / Margins

(Php millions)	NOI		NOI Margin	
	FY09	FY08	FY09	FY08
Residential	3,852	4,376	27%	29%
Leasing	3,447	2,733	53%	51%
Strategic Landbank	849	606	35%	31%
Support	910	1,616	18%	20%
TOTAL	9,058	9,331	32%	30%

Table 10.  
Revenue Breakdown

(Php millions)	Revenues		Change	
	FY09	FY08	Amount	%
Residential	14,228	15,217	(989)	-6%
Leasing	6,436	5,369	1,067	20%
Strategic Landbank	2,452	1,984	468	24%
Support	4,958	8,047	(3,088)	-38%
Others	2,381	3,132	(751)	-24%
TOTAL	30,455	33,749	(3,294)	-10%

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 turnaround 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 MarQueue 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 MarQueue 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 MarQueue Mall. NOI for Shopping Centers meanwhile improved by 10% to Php2.37 billion and accounted for 26% of the Company's total NOI. NOI margins also improved to 53% from 51% 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

## Management's Discussion and Analysis of Financial Results

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.

Table 11 shows our consolidated landholdings as of end-2009.

*Support Businesses.* 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 Php910 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 Php19.2 billion, declined by 11%, reflecting the strong project cost control initiatives. GAE was also contained at Php2.79 billion, dropping by 12% 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 52% to Php2.80 billion, mostly due to the increase in average loan balances for 2009 as the Company ramped up its borrowing program.

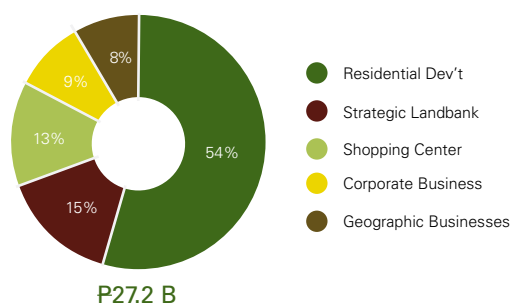
### Project and Capital Expenditures

ALI 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

Table 11.  
Consolidated Landholdings as of end-2009

Location	Size (hectares)	% Ownership
<b>Strategic Landbank</b>		
Makati CBD	51	97%
Bonifacio Global City	32	25%
NUVALI	1,434	68%
<b>Visayas-Mindanao</b>	<b>747</b>	<b>83%</b>
<b>Non-Strategic Landbank for Disposal</b>		
	<b>468</b>	<b>99%</b>
<b>Other Landholdings</b>		
For Development (raw land)	533	89%
Under Development	140	76%
<b>SUBTOTAL</b>	<b>3,405</b>	<b>80%</b>
<b>Properties under lease / JDA</b>	<b>525</b>	
<b>GRAND TOTAL</b>	<b>3,930</b>	

Figure 25.  
Capital Expenditure (2010F)



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 (see Figure 25) 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 0.36:1 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.

### ECONOMIC PERFORMANCE SUMMARY FOR GRI SUSTAINABILITY REPORT

In our 2007 and 2008 GRI Sustainability Reports, we disclosed the economic value generated and distributed by ALL, in accordance with GRI Economic Performance Indicator EC1. The table below presents our three-year performance data for this indicator, which reflects the magnitude and scale of the company's impact on nation building. The data for "Distribution to Employees" has been updated to include the compensation of Hotel, Construction and other Facility workers which were not previously included in the EC1 disclosures.

Table 12.  
Economic Value Generated and Distributed

Economic Value (in Php '000)	2009	2008*	2007**
Revenues	30,455,244	33,748,983	25,707,229
Operating Cost	21,809,136	24,458,465	17,769,935
Distribution to Stockholders (Dividends)	840,521	845,976	782,162
Distribution to Employees (Compensation)	2,536,740	3,179,204	2,379,355
Distribution to Community (Donations)	29,193	35,724	30,575
Distribution to Government (Taxes)	3,744,596	4,576,832	4,440,367

\* 2008 figures were restated as a result of fair value adjustment of APPHC and APPCo (please refer to Note 24 of the Audited Financial Statements)  
\*\*2007 figures were restated due to reclassification of accounts

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

## For the Year Ended December 31, 2009

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

- the integrity of ALI's financial statements and the financial reporting process.
- the appointment, remuneration, qualifications, independence and performance of the independent auditors and the integrity of the audit process as a whole.
- the effectiveness of the systems of internal control and the risk management process.
- the performance and leadership of the internal audit function.
- ALI's compliance with applicable legal and regulatory requirements.
- the preparation of a year-end report of the Committee for approval of the Board and to be included in the annual report.

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

- An independent director chairs the Audit and Risk Committee;
- We had five (5) meetings during the year with all the members present except on May 11, 2009 when one of the members was unable to join.
- We recommended to the Board of Directors the re-appointment of SGV & Co. as independent external auditor for 2010, based on the review of their performance and qualifications, including consideration of management's recommendation;
- We reviewed and discussed the quarterly consolidated financial statements and the annual consolidated financial statements of Ayala Land, Inc. and subsidiaries (the "Company"), including Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2009, with the Company's management and SGV & Co. These activities were performed in the following context:
  - That management has the primary responsibility for the financial statements and the reporting process.
  - That SGV & Co. is responsible for expressing an opinion on the conformity of the Company's consolidated audited financial statements with Philippine Financial Reporting Standards.
- We discussed and approved the overall scope and the respective audit plans of the Company's Internal Auditors and SGV & Co. We have also discussed the results of their audits and their assessment of the Company's internal controls and the overall quality of the financial reporting process;
- We reviewed and approved all audit services provided by SGV & Co. to the Company and the related fees for such services, and have concluded that such services do not impair their independence;
- We reviewed the reports of the Internal Auditors, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance with legal and regulatory issues;
- We revised the charter of the Audit Committee to reflect the change to "Audit and Risk Committee", and included additional roles and activities related to ALI's focus on enterprise risk management. The changes were approved by the Chairman of the ALI Board in November 2009.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit and Risk Committee recommended to the Board of Directors the inclusion of the Company's consolidated financial statements as of and for the year ended December 31, 2009 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

February 18, 2010



Oscar S. Reyes  
Committee Chair



Corazon S. De La Paz-Bernardo  
Member



Mercedita S. Nollo  
Member

# Statement of Management's Responsibility

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



Antonino T. Aquino  
President and Chief Executive Officer



Jaime E. Ysmael  
Chief Finance Officer

## 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.

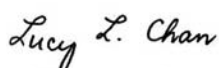
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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  
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

# Consolidated Statements of Financial Position

(Amounts in Thousands)

	December 31	
	2009	2008
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 4 and 29)	P10,528,726	P12,655,402
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
<b>Noncurrent Assets</b>		
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
	<b>P108,071,463</b>	<b>P100,588,883</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts and other payables (Notes 15 and 29)	P19,309,169	P20,654,472
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
<b>Noncurrent Liabilities</b>		
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)

# Consolidated Statements of Financial Position

(Amounts in Thousands)

	December 31	
	2009	2008
<b>Equity</b> (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)
	<b>52,392,361</b>	49,027,640
Noncontrolling interests in net assets of subsidiaries	<b>6,802,539</b>	6,151,050
Total equity	<b>59,194,900</b>	55,178,690
	<b>₱108,071,463</b>	₱100,588,883

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Income

(Amounts in Thousands, Except Earnings Per Share Figures)

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

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Income

(Amounts in Thousands, Except Earnings Per Share Figures)

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

See accompanying Notes to Consolidated Financial Statements.

# 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
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.</b>			
<b>Common Shares - ₱1 par value (Note 19)</b>			
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
<b>Preferred Shares - ₱0.10 par value (Note 19)</b>			
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
<b>ADDITIONAL PAID-IN CAPITAL</b>			
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
<b>SUBSCRIPTIONS RECEIVABLE</b>			
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)
<b>TOTAL PAID-UP CAPITAL</b>	<b>18,448,433</b>	<b>18,357,905</b>	<b>18,202,647</b>
<b>RETAINED EARNINGS (Note 19)</b>			
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, 2008 and 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
	<b>34,570,354</b>	<b>31,371,619</b>	<b>27,405,247</b>

(Forward)

# 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
<b>STOCK OPTIONS OUTSTANDING</b> (Note 28)			
Balance at beginning of year	P106,281	P95,901	P107,973
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
<b>UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE</b>			
<b>FINANCIAL ASSETS</b> (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
<b>TREASURY STOCK</b> (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)
<b>NONCONTROLLING INTERESTS</b>			
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
	<b>P59,194,900</b>	<b>P55,178,690</b>	<b>P50,745,771</b>
<b>Total Income and Expense Recognized for the Year</b>			
Net income attributable to:			
Equity holders of Ayala Land, Inc.	P4,039,256	P4,812,348	P4,386,362
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
	<b>P4,681,269</b>	<b>P5,398,646</b>	<b>P5,108,039</b>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

(Amounts in Thousands)

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

# Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
Available-for-sale financial assets (Note 11)	(P1,256,622)	(P100,000)	P-
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
<b>Net cash provided by (used in) investing activities</b>	<b>(9,406,398)</b>	<b>(4,913,688)</b>	<b>793,797</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
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)
<b>Net cash provided by (used in) financing activities</b>	<b>2,869,873</b>	<b>2,609,817</b>	<b>(2,468,453)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,126,676)</b>	<b>1,383,496</b>	<b>6,641,315</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)</b>	<b>12,655,402</b>	<b>11,271,906</b>	<b>4,630,591</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>P10,528,726</b>	<b>P12,655,402</b>	<b>P11,271,906</b>

See accompanying Notes to Consolidated Financial Statements.

# 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
Echoldings Company, Inc.	100	100
(Forward)		

## Notes to Consolidated Financial Statements

	<b>Percentages of Ownership</b>	
	<b>2009</b>	<b>2008</b>
Northbeacon Commercial Corporation (NBCC)	<b>100%</b>	100%
Red Creek Properties, Inc.	<b>100</b>	100
Regent Time International, Limited (Regent) (British Virgin Islands)	<b>100</b>	100
Asterion Technopod, Incorporated (ATI)	<b>100</b>	100
Crestview E-Office Corporation (CeOC)	<b>100</b>	100
Gisborne Property Holdings, Inc. (GPHI)	<b>100</b>	100
Hillsford Property Corporation (HPC)	<b>100</b>	100
Primavera Towncentre, Inc. (PTI)	<b>100</b>	–
Summerhill E-Office Corporation (Summerhill)	<b>100</b>	100
Sunnyfield E-Office Corporation (Sunnyfield)	<b>100</b>	100
ALI Property Partners Holding Corp. (APPHC) (Note 24)	<b>80</b>	80
ALI Property Partners Corp. (APPCo) (Note 24)	<b>60</b>	60
APPCo (Note 24)	<b>20</b>	20
Asian I-Office Properties, Inc. (AiO)	<b>78</b>	78
Laguna Technopark, Inc.	<b>75</b>	75
Aurora Properties Incorporated	<b>70</b>	70
Vesta Property Holdings, Inc.	<b>70</b>	70
Station Square East Commercial Corporation (SSECC)	<b>69</b>	69
Serendra, Inc.	<b>67</b>	67
Ceci Realty, Inc.	<b>60</b>	60
CMPI Holdings, Inc.	<b>60</b>	60
Accendo Commercial Corp. (Accendo)	<b>57</b>	–
ALI-CII Development Corporation (ALI-CII)	<b>50</b>	50
Roxas Land Corporation (RLC)	<b>50</b>	50
Construction:		
Makati Development Corporation (MDC)	<b>100</b>	100
Hotels:		
Ayala Hotels, Inc. (AHI) and Subsidiaries	<b>50</b>	50
Enjoy Hotels, Inc.	<b>100</b>	100
Greenhaven Property Venture, Inc. (GPVI)	<b>100</b>	–
Cebu Insular Hotel Company, Inc. (CIHCI)	<b>63</b>	63
Property Management:		
Ayala Property Management Corporation (APMC)	<b>100</b>	100
Ayala Theatres Management, Inc. and Subsidiaries	<b>100</b>	100
Entertainment:		
Five Star Cinema, Inc.	<b>100</b>	100
Leisure and Allied Industries Philippines, Inc. (LAI)	<b>50</b>	50
Others:		
ALInet.com, Inc. (ALInet)	<b>100</b>	100
First Longfield Investments Limited (First Longfield) (Hongkong Company)	<b>100</b>	100
Food Court Company, Inc.	<b>100</b>	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 of 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.

## Notes to Consolidated Financial Statements

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

## Notes to Consolidated Financial Statements

- **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.

## Notes to Consolidated Financial Statements

### *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.

## Notes to Consolidated Financial Statements

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.

## Notes to Consolidated Financial Statements

### 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.

## Notes to Consolidated Financial Statements

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 noncancelable and cancelable 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).

## Notes to Consolidated Financial Statements

### *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 are 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.

# Notes to Consolidated Financial Statements

## 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.

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### 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).

#### Management's Use of Estimates

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.

## Notes to Consolidated Financial Statements

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	<b>₱1,482,094</b>	₱2,029,724
Cash equivalents	<b>9,046,632</b>	10,625,678
	<b>₱10,528,726</b>	₱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	<b>1.5% to 4.8%</b>	2.3% to 8.3%
U.S. Dollar	<b>0.3% to 2.1%</b>	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%
U.S. 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
	<b>₱433,821</b>	<b>₱1,778,720</b>

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	–
	<b>18,849,029</b>	<b>17,778,552</b>
Less allowance for impairment losses	217,584	202,650
	<b>18,631,445</b>	<b>17,575,902</b>
Less noncurrent portion	1,976,678	1,780,191
	<b>₱16,654,767</b>	<b>₱15,795,711</b>

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

## Notes to Consolidated Financial Statements

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)
<b>Balance at end of year</b>	<b>₱176,946</b>	<b>₱13,008</b>	<b>₱5,927</b>	<b>₱4,383</b>	<b>₱2,546</b>	<b>₱14,774</b>	<b>₱217,584</b>
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
<b>Total</b>	<b>₱176,946</b>	<b>₱13,008</b>	<b>₱5,927</b>	<b>₱4,383</b>	<b>₱2,546</b>	<b>₱14,774</b>	<b>₱217,584</b>
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)
<b>Balance at end of year</b>	<b>₱96,588</b>	<b>₱13,008</b>	<b>₱13,054</b>	<b>₱3,814</b>	<b>₱10,265</b>	<b>₱65,921</b>	<b>₱202,650</b>
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
<b>Total</b>	<b>₱96,588</b>	<b>₱13,008</b>	<b>₱13,054</b>	<b>₱3,814</b>	<b>₱10,265</b>	<b>₱65,921</b>	<b>₱202,650</b>
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	<b>₱4,230,063</b>	₱3,156,622
At NRV	<b>936,184</b>	1,020,981
Condominium, residential and commercial units for sale - at cost	<b>3,521,952</b>	3,681,273
Club shares - at cost	<b>242,320</b>	281,022
Construction materials - at cost	<b>91,818</b>	173,615
	<b>₱9,022,337</b>	<b>₱8,313,513</b>

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	<b>₱1,581,509</b>	₱2,113,930
Value-added input tax	<b>1,291,576</b>	1,089,283
Creditable withholding tax	<b>754,992</b>	1,109,270
Materials and supplies	<b>199,258</b>	29,423
Others	<b>186,664</b>	71,865
	<b>₱4,013,999</b>	<b>₱4,413,771</b>

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

\*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.

## Notes to Consolidated Financial Statements

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 nonperforming 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
	<b>₱10,798,078</b>	<b>₱9,916,380</b>

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)			
<b>Jointly controlled entities:</b>				
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
			<b>5,424,173</b>	4,626,973
<b>Associates:</b>				
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
			<b>5,373,905</b>	5,289,407
			<b>₱10,798,078</b>	<b>₱9,916,380</b>

\*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):

<b>ECHI and Subsidiaries</b>	<b>2009</b>	<b>2008</b>
Current assets	<b>₱11,689,729</b>	₱12,915,914
Noncurrent assets	<b>9,255,171</b>	8,962,343
Total assets	<b>20,944,900</b>	21,878,257
Current liabilities	<b>1,741,262</b>	1,676,696
Noncurrent liabilities	<b>3,701,700</b>	3,673,139
Total liabilities	<b>5,442,962</b>	5,349,835
Net operating revenue	<b>1,943,837</b>	2,763,257
Costs and expenses	<b>1,103,266</b>	2,667,843
Net income	<b>840,571</b>	95,414
<b>BHI</b>	<b>2009</b>	<b>2008</b>
Current assets	<b>₱137</b>	₱134
Noncurrent assets	<b>1,804,563</b>	1,617,686
Total assets	<b>1,804,700</b>	1,617,820
Total liabilities	<b>626</b>	605
Net operating revenue	<b>185,650</b>	124,404
Costs and expenses	<b>19</b>	487
Net income	<b>185,631</b>	123,917
<b>ACC</b>	<b>2009</b>	<b>2008</b>
Current assets	<b>₱298,497</b>	₱496,858
Noncurrent assets	<b>592,607</b>	1,240,893
Total assets	<b>891,104</b>	1,737,751
Current liabilities	<b>257,650</b>	500,683
Noncurrent liabilities	<b>136,232</b>	271,110
Total liabilities	<b>393,882</b>	771,793
Net operating revenue	<b>344,843</b>	693,325
Costs and expenses	<b>209,238</b>	450,599
Net income	<b>135,605</b>	242,726

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

<b>CHI and subsidiaries</b>	<b>2009</b>	<b>2008</b>
Total assets	<b>₱5,773,426</b>	₱5,769,287
Total liabilities	<b>1,333,008</b>	1,501,555
Net operating revenue	<b>1,283,174</b>	1,500,031
Costs and expenses	<b>953,744</b>	1,100,552
Net income	<b>329,430</b>	399,479
Earnings per share	<b>0.16</b>	0.19
<b>NTDCC</b>	<b>2009</b>	<b>2008</b>
Total assets	<b>₱7,757,930</b>	₱7,803,482
Total liabilities	<b>5,122,088</b>	5,006,509
Net operating revenue	<b>1,532,048</b>	1,478,474
Costs and expenses	<b>1,444,878</b>	1,427,003
Net income	<b>87,170</b>	51,471
<b>BLC and Subsidiaries</b>	<b>2009</b>	<b>2008</b>
Total assets	<b>₱41,043,049</b>	₱43,780,740
Total liabilities	<b>5,773,898</b>	6,297,943
Net operating revenue	<b>2,896,812</b>	4,300,677
Costs and expenses	<b>2,200,149</b>	5,330,168
Net income (loss)	<b>696,663</b>	(1,029,491)

## Notes to Consolidated Financial Statements

### 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 NTDC

In 2004, the Company acquired additional 30.89% interest in NTDC 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 NTDC amounting to ₱112.0 million for an additional 1.85% equity interest in the latter.

A series of capital calls was made by NTDC 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.

NTDC 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. NTDC was primarily organized to own and operate the commercial center atop the MRT Depot. NTDC 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	-
	<b>1,634,653</b>	453,058
Net unrealized gain	16,611	15,802
	<b>1,651,264</b>	468,860
Less current portion	925,694	-
	<b>₱725,570</b>	₱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	<b>₱16,611</b>	₱15,802

## Notes to Consolidated Financial Statements

### 12. Investment Properties

The movements in this account are:

#### 2009

	Land	Building	Total
	(In Thousands)		
<b>Cost</b>			
Balance at beginning of year	P2,751,756	P20,402,122	P23,153,878
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 end of year	3,007,952	28,912,679	31,920,631
<b>Accumulated Depreciation</b>			
Balance at beginning of 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 end of year	-	6,508,094	6,508,094
<b>Net Book Value</b>	<b>P3,007,952</b>	<b>P22,404,585</b>	<b>P25,412,537</b>

#### 2008

	Land	Building	Total
	(In Thousands)		
<b>Cost</b>			
Balance at beginning of year	P2,781,041	P15,893,168	P18,674,209
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 end of year	2,751,756	20,402,122	23,153,878
<b>Accumulated Depreciation and Amortization</b>			
Balance at beginning of 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 end of year	-	5,384,871	5,384,871
<b>Net Book Value</b>	<b>P2,751,756</b>	<b>P15,017,251</b>	<b>P17,769,007</b>

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 P165.8 billion and P129.2 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 P7,867.0 million and P9,512.6 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)							
<b>Cost</b>							
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
<b>Accumulated Depreciation and Amortization</b>							
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
<b>Net Book Value</b>	<b>₱882,357</b>	<b>₱589,946</b>	<b>₱339,647</b>	<b>₱168,460</b>	<b>₱1,384,174</b>	<b>₱–</b>	<b>₱3,364,584</b>

#### 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)							
<b>Cost</b>							
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
<b>Accumulated Depreciation and Amortization</b>							
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
<b>Net Book Value</b>	<b>₱338,802</b>	<b>₱1,070,549</b>	<b>₱37,965</b>	<b>₱126,623</b>	<b>₱1,427,179</b>	<b>₱5,944,984</b>	<b>₱8,946,102</b>

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.

## Notes to Consolidated Financial Statements

### 15. Accounts and Other Payables

This account consists of:

	2009	2008
	(In Thousands)	
Accounts payable (see Note 25)	<b>₱10,856,233</b>	₱12,995,821
Accrued expenses	<b>3,503,741</b>	2,867,691
Accrued project costs	<b>2,136,700</b>	2,022,903
Taxes payable	<b>1,421,452</b>	1,616,435
Dividends payable	<b>394,651</b>	405,753
Accrued salaries and employee benefits	<b>360,339</b>	317,945
Accrued rentals	<b>325,792</b>	176,785
Interest payable	<b>189,362</b>	151,689
Retentions payable	<b>120,899</b>	99,450
	<b>₱19,309,169</b>	₱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	<b>₱—</b>	₱106,930
Due 2012	<b>41,835</b>	—
Due 2013	<b>4,000,000</b>	4,000,000
Floating rate corporate notes (FRCNs)	<b>10,000</b>	—
Fixed rate corporate notes (FXCNs)	<b>5,380,000</b>	3,580,000
	<b>9,431,835</b>	7,686,930
Subsidiaries:		
Bank loans - Philippine Peso	<b>7,749,430</b>	7,785,100
	<b>17,181,265</b>	15,472,030
Less current portion	<b>377,669</b>	244,142
	<b>₱16,803,596</b>	₱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 FRCN due 2016

In 2009, the Company executed a ₱1.0 billion committed FRCN facility with the LBP, of which an initial ₱10 million was drawn on October 12, 2009. The FRCN bears a floating interest rate based on the 3-month PDST-R1 plus a spread of 0.96%, repriced 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.

## Notes to Consolidated Financial Statements

### 18. Deposits and Other Noncurrent Liabilities

Deposits and other noncurrent liabilities consist of:

	2009	2008
		(In Thousands)
Deposits	<b>₱3,896,194</b>	₱3,238,071
Retentions payable	<b>1,967,042</b>	1,766,831
Other liabilities	<b>1,459,621</b>	596,024
	<b>₱7,322,857</b>	₱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	<b>15,000,000</b>	<b>20,000,000</b>	15,000,000	20,000,000	15,000,000	20,000,000
Issued	<b>13,034,604</b>	<b>13,005,338</b>	13,034,604	13,003,443	13,034,604	13,002,821
Subscribed	-	<b>75,470</b>	-	39,088	-	31,811
Treasury	-	<b>(79,528)</b>	-	(79,528)	-	(24)
Outstanding	<b>13,034,604</b>	<b>13,001,280</b>	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) nonvoting; (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) nonredeemable; (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	<b>12,963,003</b>	13,034,608	10,844,238
Additional subscriptions	<b>38,277</b>	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	<b>13,001,280</b>	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, 2008 and 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 billion 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:

	<b>2009</b>	2008
Debt to equity	<b>35.9%</b>	34.2%
Net debt to equity	<b>4.5%</b>	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.

## Notes to Consolidated Financial Statements

### *Financial risk assessment*

The Company's financial condition and operating results would not be materially affected by the current changes in liquidity, credit, interest, currency 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	P16,903,991	P17,618,117	P14,148,015
Rental income (Note 12)	7,223,996	5,987,813	5,543,694
Construction contracts	2,713,941	5,689,369	1,798,639
	<b>P26,841,928</b>	<b>P29,295,299</b>	<b>P21,490,348</b>

### 21. Revenue from Hotel Operations

This account consists of:

	2009	2008	2007
		(In Thousands)	
Rooms	P724,720	P724,081	P751,458
Food and beverage	333,787	374,726	393,195
Rental	151,870	189,070	169,193
Others	22,066	33,608	43,060
	<b>P1,232,443</b>	<b>P1,321,485</b>	<b>P1,356,906</b>

### 22. Other Income and Costs and Expenses

Other income consists of:

	2009	2008	2007
		(In Thousands)	
Management fees and marketing fees	P337,006	P328,852	P215,285
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
	<b>P632,410</b>	<b>P1,321,499</b>	<b>P1,486,333</b>

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 P983.2 million. The Company recognized a net gain amounting to P598.7 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	<b>₱11,053,597</b>	₱13,876,177	₱9,218,296
Depreciation and amortization	<b>1,484,796</b>	1,061,432	1,040,753
Rental	<b>1,160,470</b>	1,417,351	801,806
Manpower costs	<b>827,112</b>	1,063,374	720,217
Marketing and management fees	<b>656,034</b>	740,550	632,311
Direct operating expenses			
Taxes and licenses	<b>716,769</b>	530,341	557,449
Repairs and Maintenance	<b>516,781</b>	373,833	296,853
Light & water	<b>416,071</b>	317,270	357,983
Commission	<b>264,447</b>	306,870	187,459
Professional fees	<b>190,781</b>	50,024	61,505
Insurance	<b>120,629</b>	138,625	33,697
Transportation and travel	<b>46,140</b>	52,074	37,513
Representation	<b>13,294</b>	25,565	13,365
Others	<b>682,383</b>	456,198	270,625
	<b>₱18,149,304</b>	₱20,409,684	₱14,229,832

Hotel operations expenses consist of:

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

## Notes to Consolidated Financial Statements

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

	2009	2008	2007
	(In Thousands)		
Manpower costs (Note 26)	P1,573,867	P1,959,544	P1,459,474
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
	<b>P2,792,633</b>	<b>P3,172,288</b>	<b>P2,654,073</b>

Manpower costs included in the consolidated statements of income follow:

	2009	2008	2007
	(In Thousands)		
Included in:			
Cost of:			
Real estate	P827,112	P1,063,374	P720,217
Hotel operations	135,761	156,286	199,664
General and administrative expenses	1,573,867	1,959,544	1,459,474
	<b>P2,536,740</b>	<b>P3,179,204</b>	<b>P2,379,355</b>

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

	2009	2008	2007
	(In Thousands)		
Included in:			
Cost of:			
Real estate	P1,484,796	P1,061,432	P1,040,753
Hotel operations	128,746	102,523	111,231
General and administrative expenses	173,856	94,214	158,473
	<b>P1,787,398</b>	<b>P1,258,169</b>	<b>P1,310,457</b>

Interest expense and other financing charges consist of:

	2009	2008	2007
	(In Thousands)		
Interest expense on:			
Short-term debt	P137,428	P165,315	P210,472
Long-term debt	1,190,465	868,441	663,392
Other financing charges	17,598	16,285	18,907
	<b>P1,345,491</b>	<b>P1,050,041</b>	<b>P892,771</b>

Other charges consist of:

	2009	2008	2007
	(In Thousands)		
Provision for impairment losses on:			
Land and improvements (Note 9)	P568,672	P-	P-
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
	<b>P1,454,679</b>	<b>P792,520</b>	<b>P964,387</b>

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
	<b>1,550,086</b>	<b>1,371,961</b>
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)
	<b>(471,778)</b>	<b>(577,427)</b>
	<b>₱1,078,308</b>	<b>₱794,534</b>

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)
	<b>(150,953)</b>	<b>(226,403)</b>
	<b>(₱150,953)</b>	<b>(₱162,360)</b>

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, respectively, 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.

## Notes to Consolidated Financial Statements

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
	<b>₱391,666</b>	<b>₱146,391</b>	<b>₱245,275</b>	

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
	<b>₱21,330</b>	<b>₱1,363</b>	<b>₱19,967</b>	

Reconciliation between the statutory and the effective income tax rates follows:

	2009	2008	2007
Statutory income tax rate	<b>30.00%</b>	35.00%	35.00%
Tax effect of:			
Interest income and capital gains taxed at lower rates	<b>(0.04)</b>	(1.68)	(8.39)
Income subjected to lower income tax rates (Note 31)	<b>(0.72)</b>	(0.43)	(1.86)
Equity in net earnings of associates and jointly controlled entities	<b>(4.97)</b>	(4.16)	(3.52)
Effect of change in statutory income tax rate	–	0.30	–
Others - net	<b>(4.34)</b>	(1.30)	4.48
<b>Effective income tax rate</b>	<b>19.93%</b>	<b>27.73%</b>	<b>25.71%</b>

### 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):

<b>Assets</b>	
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
<b>Liabilities</b>	
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
<b>Total net assets acquired</b>	<b>638,874</b>
Acquisition cost	638,874
Cash and cash equivalents acquired with the subsidiary	227,266
<b>Acquisition cost, net of cash acquired</b>	<b>₱411,608</b>

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
<b>Jointly controlled entities:</b>		
ACC	₱15,929	₱-
<b>Associates:</b>		
CHI	120,791	509
NTDCC	25,383	-
LDC	15,337	-
ARCH Capital	908	-
BLC	-	79,829
	162,419	80,338

(Forward)

## Notes to Consolidated Financial Statements

	Amounts owed by related parties	Amounts owed to related parties
<b>Other related parties:</b>		
Columbus	P520,066	P484,888
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
	<b>644,699</b>	<b>654,054</b>
	<b>P823,047</b>	<b>P734,392</b>

2008

	Amounts owed by related parties	Amounts owed to related parties
<b>Jointly controlled entities:</b>		
ACC	P7,279	P-
<b>Associates:</b>		
CHI	85,587	1,341
NTDCC	64,854	-
Accendo	63,510	-
LDC	25,626	-
ARCH Capital	611	-
	240,188	1,341
<b>Other related parties:</b>		
Columbus	520,061	-
FBDC	247,428	-
AC	47,640	945
CSCC	833	-
CPVDC	7	4,937
	815,969	5,882
	<b>P1,063,436</b>	<b>P7,223</b>

Revenue from related parties:

	2009	2008	2007
<b>Jointly controlled entities:</b>			
ACC	P1,503	P-	P-
<b>Associates:</b>			
BLC	810,753	-	-
CHI	139,973	109,260	164,666
NTDCC	5,918	-	-
	956,644	109,260	164,666
<b>Other related parties:</b>			
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	-
Cebu Leisure Company, Inc.	-	65	65
South Innovative Theater	-	65	65
One Dela Rosa Property Development, Inc.	-	-	711,000
First Communities Finance Corporation	-	-	138,742
Integrated Microelectronics, Inc.	-	-	9,978
Others	-	1,709	-
	87,756	662,422	993,147
	<b>P1,045,903</b>	<b>P771,682</b>	<b>P1,157,813</b>

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	<b>₱128,932</b>	₱130,943	₱114,379
Share-based payments (Note 28)	<b>13,719</b>	3,635	59,586
Post-employment benefits (Note 26)	<b>21,313</b>	14,930	3,308
	<b>₱163,964</b>	₱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	<b>₱115,005</b>	₱127,510	₱120,836
Interest cost on benefit obligation	<b>135,482</b>	103,157	41,704
Expected return on plan assets	<b>(99,062)</b>	(124,743)	(53,210)
Curtailement gain	-	(11,447)	-
Amortization of actuarial losses (gains)	<b>44,330</b>	-	(346)
Past service cost	<b>2,777</b>	2,777	98,539
Total pension expense	<b>₱198,532</b>	₱97,254	₱207,523
Actual return on plan assets	<b>₱99,277</b>	(₱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	<b>₱1,384,799</b>	₱1,277,155
Plan assets	<b>(1,212,764)</b>	(1,057,896)
	<b>172,035</b>	219,259
Unrecognized net actuarial losses	<b>(91,555)</b>	(90,409)
Unrecognized past service cost	<b>(27,447)</b>	(30,224)
Liability recognized in the consolidated statement of financial position	<b>₱53,033</b>	₱98,626

## Notes to Consolidated Financial Statements

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

	2009	2008	2007
		(In Thousands)	
Balance at January 1	P1,277,155	P1,574,083	P1,389,916
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	<b>P1,384,799</b>	<b>P1,277,155</b>	<b>P1,574,083</b>

Changes in the fair value of plan assets follow:

	2009	2008	2007
		(In Thousands)	
Balance at January 1	P1,057,896	P1,428,976	P1,382,179
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	<b>P1,212,764</b>	<b>P1,057,896</b>	<b>P1,428,976</b>

The Group expects to make contributions of P186.4 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 P6.5 million and P6.2 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	P1,384,799	P1,277,155	P1,574,083	P1,389,916	P1,489,168
Plan assets	(1,212,764)	(1,057,896)	(1,428,976)	(1,382,179)	(1,281,464)
Deficit	<b>P172,035</b>	<b>P219,259</b>	<b>P145,107</b>	<b>P7,737</b>	<b>P207,704</b>

Amounts of experience adjustment losses (gains) for the current and previous periods follow:

	2009	2008	2007	2006
		(In Thousands)		
Liabilities	(P295,911)	P408,988	P83,292	P21,294
Assets	<b>P14,255</b>	<b>P316,733</b>	<b>P50,967</b>	<b>P3,311</b>

## 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	<b>₱4,039,256</b>	₱4,812,348	₱4,386,362
Less dividends on preferred stock	<b>60,481</b>	66,114	–
Net income attributable to equity holders for basic and diluted earnings per share	<b>₱3,978,775</b>	₱4,746,234	₱4,386,362
Weighted average number of common shares for basic EPS	<b>12,985,331</b>	13,011,387	13,026,949
Dilutive shares arising from stock options and preferred shares	<b>21,904</b>	22,932	150,916
Adjusted weighted average number of common shares for diluted EPS	<b>13,007,235</b>	13,034,319	13,177,865
Basic EPS	<b>₱0.31</b>	₱0.36	₱0.34
Diluted EPS	<b>₱0.31</b>	₱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	<b>₱4,039,256</b>	₱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	<b>60,481</b>	66,114	–
Net income before income associated with noncurrent assets held for sale attributable to equity holders for basic and diluted earnings per share	<b>₱3,978,775</b>	₱4,746,234	₱4,087,029
Weighted average number of common shares for basic EPS	<b>12,985,331</b>	13,011,387	13,026,949
Dilutive shares arising from stock options and preferred shares	<b>21,904</b>	22,932	150,916
Adjusted weighted average number of common shares for diluted EPS	<b>13,007,235</b>	13,034,319	13,177,865
Basic EPS	<b>₱0.31</b>	₱0.36	₱0.31
Diluted EPS	<b>₱0.31</b>	₱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.

## Notes to Consolidated Financial Statements

### 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)			
<b>Financial Assets at FVPL</b>	<b>₱433,821</b>	<b>₱433,821</b>	<b>₱1,778,720</b>	<b>₱1,778,720</b>
<b>Loans and Receivables</b>				
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
	<b>12,129,515</b>	<b>12,224,995</b>	<b>10,730,885</b>	<b>11,420,998</b>
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	—	—
	<b>3,621,368</b>	<b>3,576,069</b>	<b>4,378,559</b>	<b>4,332,215</b>
<b>Total loans and receivables</b>	<b>30,840,585</b>	<b>30,890,766</b>	<b>28,773,769</b>	<b>29,417,538</b>
<b>AFS financial assets</b>				
Unquoted	255,183	255,183	270,606	270,606
Quoted	1,396,081	1,396,081	198,254	198,254
<b>Total AFS financial assets</b>	<b>1,651,264</b>	<b>1,651,264</b>	<b>468,860</b>	<b>468,860</b>
<b>Total financial assets</b>	<b>₱32,925,670</b>	<b>₱32,975,851</b>	<b>₱31,021,349</b>	<b>₱31,665,118</b>

(Forward)

## Notes to Consolidated Financial Statements

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In Thousands)			
<b>Other Financial Liabilities</b>				
Current				
Accounts payable	<b>₱10,856,233</b>	<b>₱10,856,233</b>	₱12,995,821	₱12,995,821
Accrued expenses	<b>3,503,741</b>	<b>3,503,741</b>	2,867,691	2,867,691
Accrued project costs	<b>2,136,700</b>	<b>2,136,700</b>	2,022,903	2,022,903
Dividends payable	<b>394,651</b>	<b>394,651</b>	405,753	405,753
Accrued salaries and employee benefits	<b>360,339</b>	<b>360,339</b>	317,945	317,945
Accrued rentals	<b>325,792</b>	<b>325,792</b>	176,785	176,785
Interest payable	<b>189,362</b>	<b>189,362</b>	151,689	151,689
Retentions payable	<b>120,899</b>	<b>120,899</b>	99,450	99,450
Short-term debt	<b>1,630,900</b>	<b>1,630,900</b>	1,279,500	1,279,500
Current portion of long-term debt	<b>377,669</b>	<b>377,669</b>	244,142	244,142
Noncurrent				
Long-term debt	<b>16,803,596</b>	<b>16,767,032</b>	15,227,888	15,191,324
Deposits and other noncurrent liabilities	<b>7,322,857</b>	<b>7,281,739</b>	5,600,926	5,607,019
<b>Total other financial liabilities</b>	<b>₱44,022,739</b>	<b>₱43,945,057</b>	<b>₱41,390,493</b>	<b>₱41,360,022</b>

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 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

## Notes to Consolidated Financial Statements

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:

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

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 (In Thousands)				Total	Impaired	Total
	<30 days	30-60 days	60-90 days	>120 days			
Trade:							
Residential development	₱8,712,971	₱257,246	₱123,152	₱72,163	₱64,695	₱213,267	₱730,523
Construction contracts	119,405	327,432	93,946	158,885	158,729	155,917	894,909
Shopping centers	402,454	100,177	65,896	45,914	35,008	143,080	390,075
Corporate business	287,621	21,278	8,265	13,809	599	92,129	136,080
Management fees	35,993	-	18,490	5,692	4,368	35,864	64,414
Others	247,070	-	-	-	-	-	-
Advances to other companies	1,194,505	2,018	6,058	8,335	869	166,954	184,234
Accrued receivable	899,367	-	-	-	-	-	-
Related parties	743,515	71,631	5,686	-	-	2,215	79,532
Receivables from employees	316,424	4,426	196	-	587	7,302	12,511
Investment in bonds classified as loans and receivables	200,000	-	-	-	-	-	-
	<b>₱13,159,325</b>	<b>₱784,208</b>	<b>₱321,689</b>	<b>₱304,798</b>	<b>₱264,855</b>	<b>₱816,728</b>	<b>₱2,492,278</b>

## 2008

Neither Past Due nor Impaired	Past Due but not Impaired (In Thousands)				Total	Impaired	Total
	<30 days	30-60 days	60-90 days	>120 days			
Trade:							
Residential development	₱6,826,451	₱582,193	₱136,962	₱116,545	₱52,335	₱62,215	₱950,250
Construction contracts	754,468	168,035	36,006	201,343	13,199	132,405	550,988
Shopping centers	587,368	33,849	17,394	19,201	36,190	427,508	534,142
Corporate business	120,718	73,704	28,882	12,581	14,492	3,845	133,504
Management fees	104,379	-	18,127	5,354	3,459	320	27,260
Others	80,454	14,132	30,288	14,748	12,765	42,575	114,508
Advances to other companies	1,204,651	108,184	138,312	149,682	165,436	151,336	712,950
Accrued receivable	934,120	1,674	242	-	-	76,881	78,797
Related parties	739,326	50,404	62,975	67,109	76,264	67,358	324,110
Receivable from employees	366,694	11,618	2,788	4,182	7,096	4,273	29,957
	<b>₱11,718,629</b>	<b>₱1,043,793</b>	<b>₱471,976</b>	<b>₱590,745</b>	<b>₱381,236</b>	<b>₱968,716</b>	<b>₱3,456,466</b>
							<b>₱136,999</b>
							<b>₱15,312,094</b>

## Notes to Consolidated Financial Statements

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			Total (In Thousands)	Past due but not impaired	Impaired	Total
	High Grade	Medium Grade	Low Grade				
Cash and cash equivalents	P10,528,726	P-	P-	P10,528,726	P-	P-	P10,528,726
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
	<b>P28,726,481</b>	<b>P888,260</b>	<b>P719,371</b>	<b>P30,334,112</b>	<b>P2,492,278</b>	<b>P316,864</b>	<b>P33,143,254</b>

2008

	Neither past due nor impaired				Total	Past due but not impaired	Impaired	Total
	High Grade	Medium Grade	Low Grade	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	

## Notes to Consolidated Financial Statements

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	(P3,796)	P3,846
Subsidiaries - floating rate borrowings	(27,690)	27,690
	<b>(P31,486)</b>	<b>P31,536</b>

	Change in basis points	
	Effect on equity	
	+ 100 basis points	- 100 basis points
	(In Thousands)	
AFS financial assets	(P12,106)	P12,438

### **2008**

	Change in basis points	
	Effect on income before income tax	
	+ 100 basis points	- 100 basis points
	(In Thousands)	
Financial assets at FVPL	(P10,295)	P10,475
Subsidiaries - floating rate borrowings	(29,045)	29,045
	<b>(P39,340)</b>	<b>P39,520</b>

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

Group	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	Carrying Value		
				< 1 year	1 to 5 years	> 5 years
Cash and cash equivalents	Fixed at the date of investment	Various	P10,528,726	P-	P-	P10,528,726
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	4,560,976	-	-	4,560,976
Financial assets at FVPL	Fixed at the date of investment or revaluation cut-off	Various	433,821	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	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
			P28,853,133	P25,315,107	P1,768,633	P27,133,300
<b>Company</b>						
Short-term debt - U.S. Dollar	Variable at 2.30%	Monthly, quarterly	P207,900	P-	P-	P207,900
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
Peso	Fixed at 7.76% to 8.9%	5, 7 and 10 years	2,380,000	-	220,000	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
<b>Subsidiaries</b>						
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	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	1,346,017
			P18,818,946	P2,008,569	P11,802,911	P5,008,685
						P18,812,165

## Notes to Consolidated Financial Statements

2008	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
<b>Group</b>							
Cash and cash equivalents	Fixed at the date of investment	Various	P12,655,402	P12,655,402	P-	P-	P12,655,402
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
			<b>P24,872,810</b>	<b>P22,309,916</b>	<b>P1,719,480</b>	<b>P-</b>	<b>P24,029,396</b>
<b>Company</b>							
Long-term debt							
Fixed							
Peso	Fixed at 7.25% to 7.75%	5, 7 and 10 years	P3,000,000	P-	P2,080,000	P920,000	P3,000,000
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
<b>Subsidiaries</b>							
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	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
Peso			<b>P16,759,630</b>	<b>P1,523,642</b>	<b>P10,318,868</b>	<b>P4,909,020</b>	<b>P16,751,530</b>

*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	
	U.S. Dollar	Php Equivalent	U.S. Dollar	Php Equivalent
	(In Thousands)			
<b>Financial Assets</b>				
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
<b>Financial Liabilities</b>				
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-U.S. 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.

Increase (decrease) in exchange rate	Effect on profit before tax	
	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)

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## 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.

### 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 Adjustments	Intersegment Adjustments	Consolidated
<b>Revenue</b>										
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
<b>Total revenue</b>	<b>5,065</b>	<b>1,993</b>	<b>14,613</b>	<b>3,086</b>	<b>297</b>	<b>8,201</b>	<b>2,456</b>	<b>4</b>	<b>(6,673)</b>	<b>29,042</b>
Operating expenses	2,700	1,078	11,676	1,745	226	7,767	2,155	862	(6,401)	21,908
<b>Operating profit</b>	<b>2,365</b>	<b>915</b>	<b>2,937</b>	<b>1,341</b>	<b>71</b>	<b>434</b>	<b>301</b>	<b>(858)</b>	<b>(272)</b>	<b>7,234</b>
Interest income										780
Interest expense										(1,345)
Other income										632
Other charges										(1,455)
Provision for income tax										(1,165)
<b>Net income</b>										<b>₱4,681</b>
Net income attributable to: Equity holders of Ayala Land, Inc. Noncontrolling interests										₱4,039 642 ₱4,681
<b>Other Information</b>										
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
Deferred tax assets	₱20,503	₱17,938	₱59,806	₱15,973	₱3,204	₱6,466	₱2,760	₱11,284	(₱30,941)	₱106,993
<b>Total assets</b>										<b>₱108,071</b>
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
<b>Total liabilities</b>										<b>₱48,877</b>
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
Noncash 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

# Notes to Consolidated Financial Statements

2008

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
<b>Revenue</b>										
Sales to external customers	P4,281	P1,088	P15,297	P1,743	P161	P5,689	P2,358	P-	P-	P30,617
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
<b>Total revenue</b>	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
<b>Operating profit</b>	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)
<b>Net income</b>										P5,383
Net income attributable to: Equity holders of Ayala Land, Inc. Noncontrolling interests										P4,812 571 P5,383
<b>Other Information</b>										
Segment assets	P17,250	P15,971	P57,823	P9,477	P2,116	P7,163	P3,252	P4,668	(P27,842)	P89,878
Investment in associates and jointly controlled entities	2,521	-	-	5,163	1,940	-	-	292	-	9,916
Deferred tax assets	P19,771	P15,971	P57,823	P14,640	P4,056	P7,163	P3,252	P4,960	(P27,842)	P99,794
<b>Total assets</b>										P100,589
Segment liabilities	P7,142	P5,042	P17,345	P2,328	P806	P5,893	P1,413	P11,051	(P5,772)	P45,248
Deferred tax liabilities										162
<b>Total liabilities</b>										P45,410
Segment additions to property and equipment and investment properties	P1,967	P1,389	P273	P-	P880	P172	P267	P54	P-	P5,002
Depreciation and amortization	P761	P189	P50	P-	P2	P100	P53	P103	P-	P1,258
Noncash expenses other than depreciation and amortization	P49	P-	P-	P-	P379	P11	P-	P23	P-	P462
Impairment losses	P49	P-	P-	P-	P379	P11	P1	P23	P-	P463

2007

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
<b>Revenue</b>										
Sales to external customers	P4,175	P993	P12,918	P414	P176	P1,799	P2,372	P-	P-	P22,847
Intersegment sales	360	-	197	-	-	4,317	17	-	(4,891)	-
Equity in net earnings of associates and jointly controlled entities	125	86	-	420	138	-	-	18	-	787
<b>Total revenue</b>	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
<b>Operating profit</b>	P2,271	P482	P2,295	P451	P109	P412	P265	(P847)	P399	5,837
Interest income										586
Interest expense										(893)
Other income										1,486
Other charges										(964)
Provision for income tax										(1,556)
<b>Net income before income associated with noncurrent assets held for sale</b>										4,496
<b>Income associated with noncurrent assets held for sale, net of tax</b>										599
<b>Net income</b>										P5,095
Net income attributable to: Equity holders of Ayala Land, Inc. Minority interests										P4,497 598 P5,095
<b>Other Information</b>										
Segment assets	P16,937	P9,071	P45,596	P8,848	P1,449	P5,797	P2,830	P7,704	(P24,961)	P73,271
Investment in associates and jointly controlled entities	2,176	238	-	4,497	1,810	-	-	318	-	9,039
Deferred tax assets	P19,113	P9,309	P45,596	P13,345	P3,259	P5,797	P2,830	P8,022	(P24,961)	P82,310
<b>Total assets</b>	P5,815	P626	P11,889	P1,808	P99	P4,694	P1,032	P11,873	(P5,715)	P32,121
Segment liabilities										114
Deferred tax liabilities										
<b>Total liabilities</b>										P32,235
Segment additions to property and equipment and investment properties	P1,127	P321	P89	P-	P4	P159	P88	P80	P-	P1,868
Depreciation and amortization	P862	P97	P51	P-	P1	P86	P127	P86	P-	P1,310
Noncash expenses other than depreciation and amortization	P213	P-	P-	P-	P-	P-	P-	P54	P-	P267
Impairment losses	P28	P-	P-	P-	P-	P-	P-	P61	P-	P89

## Notes to Consolidated Financial Statements

### 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	<b>₱1,616,618</b>	₱1,361,011
After one year but not more than five years	<b>4,789,404</b>	3,783,220
More than five years	<b>3,349,840</b>	1,403,205
	<b>₱9,755,862</b>	₱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	<b>₱104,581</b>	₱104,581
After one year but not more than five years	<b>418,323</b>	418,323
More than five years	<b>1,359,550</b>	1,464,131
	<b>₱1,882,454</b>	₱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	<b>₱150,805</b>	₱181,953
Receivables	<b>191,809</b>	440,569
Due from customers for contract work	<b>61,379</b>	229,596
Inventory	<b>–</b>	18,349
Other current assets	<b>46,326</b>	135,674
Property and equipment	<b>22</b>	16,978
Total assets	<b>450,341</b>	1,023,119
(Forward)		

	2009	2008
	(In Thousands)	
Current liabilities	<b>₱226,545</b>	<b>₱802,821</b>
Revenue	<b>835,615</b>	1,422,023
Contract costs	<b>(730,779)</b>	(1,218,026)
Interest and other income	<b>(583)</b>	16,516
Income before income tax	<b>104,253</b>	220,513
Income tax expense	<b>(831)</b>	(2,250)
Net profit	<b>₱103,422</b>	<b>₱218,263</b>

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.

# Subsidiaries and Affiliates

<b>OWNERSHIP (%)</b>		
<b>CORE BUSINESSES</b>		
<b>STRATEGIC LANDBANK MANAGEMENT</b>	<i>By ALI</i>	<i>By the Subsidiary/Affiliate</i>
Aurora Properties, Inc.	70.0	
Vesta Property Holdings, Inc.	70.0	
Ceci Realty, Inc.	60.0	
Emerging City Holdings, Inc.	50.0	
Columbus Holdings, Inc.		70.0
Bonifacio Land Corporation (a)	5.3	69.9
Fort Bonifacio Development Corp. (b)		55.0
Berkshires Holdings, Inc.	50.0	
Columbus Holdings, Inc.		30.0
Bonifacio Land Corporation (a)	5.3	69.9
Fort Bonifacio Development Corp. (b)		55.0
Regent Time International Limited	100.0	
Bonifacio Land Corporation (a)	5.3	4.8
Fort Bonifacio Development Corp. (b)		55.0
Buendia Landholdings, Inc.	100.0	
Red Creek Properties, Inc.	100.0	
Crimson Field Enterprises, Inc.	100.0	
Crans Montana Property Holdings Corporation	100.0	
Amorsedia Development Corporation	100.0	
HLC Development Corporation		100.0
Ecoholdings Company, Inc.	100.0	
<b>RESIDENTIAL DEVELOPMENT</b>		
Avida Land Corp.	100.0	
Buklod Bahayan Realty and Development Corp.		100.0
First Communities Realty, Inc.		100.0
Avida Sales Corp.		100.0
Amicassa Process Solutions, Inc.		100.0
Alveo Land Corp. (formerly Community Innovations, Inc.)	100.0	
Serendra, Inc.	28.1	38.9
Roxas Land Corporation	50.0	
Amorsedia Development Corporation	100.0	
OLC Development Corporation		100.0
Ayala Greenfield Development Corporation		50.0
Ayala Land Sales, Inc.	100.0	
Ayala Land International Sales, Inc.	100.0	
<b>SHOPPING CENTERS</b>		
NorthBeacon Commercial Corporation	100.0	
Station Square East Commercial Corporation	69.0	
ALI-CII Development Corporation	50.0	
Alabang Commercial Corporation	50.0	
South Innovative Theater Management, Inc.		100.0
North Triangle Depot Commercial Corporation	49.3	
Accendo Commercial Corp	56.7	
Lagoon Development Corporation	30.0	
Primavera Towncentre, Inc.	100.0	
Ayala Theatres Management, Inc.	100.0	
Five Star Cinema, Inc.	100.0	
Food Court Company, Inc.	100.0	
Leisure and Allied Industries Phils., Inc.	50.0	

<b>OWNERSHIP (%)</b>		
<b>CORE BUSINESSES</b>		
<b>CORPORATE BUSINESS</b>	<i>By ALI</i>	<i>By the Subsidiary/Affiliate</i>
Laguna Technopark, Inc.	75.0	
Asian I-Office Properties, Inc.	60.0	
ALI Property Partners Holdings Corp. (c)	80.0	
ALI Property Partners Corp. (d)	20.0	60.0
One Dela Rosa Property Development Inc.		100.0
First Gateway Real Estate Corp.		100.0
Glensworth Development, Inc.		100.0
UP North Property Holdings, Inc.		100.0
Gisborne Property Holdings, Inc.	100.0	
Sunnyfield E-Office Corporation	100.0	
Asterion Technopod, Inc.	100.0	
Crestview E-Office Corporation	100.0	
Summerhill E-Office Corporation	100.0	
Hillsford Property Corp.	100.0	
<b>VISAYAS-MINDANAO</b>		
Cebu Holdings, Inc.	47.3	
Cebu Property Ventures & Development Corp.	7.8	76.3
Asian I-Office Properties, Inc.		40.0
Cebu Leisure Company, Inc.		100.0
CBP Theatre Management Inc.		100.0
Cebu Insular Hotel Company, Inc.		37.1
<b>INTERNATIONAL</b>		
First Longfield Investments Limited	100.0	
Green Horizons Holdings Limited		100.0
ARCH Capital Management Co. Ltd.		17.0
ARCH Capital Asian Partners, L.P.		8.0
<b>SUPPORT BUSINESSES</b>		
<b>CONSTRUCTION</b>		
Makati Development Corporation	100.0	
<b>PROPERTY MANAGEMENT</b>		
Ayala Property Management Corporation	100.0	
<b>HOTELS</b>		
Ayala Hotels, Inc.	50.0	
Enjay Hotels, Inc.		100.0
Cebu Insular Hotel Company, Inc.		62.9
Greenhaven Property Venture, Inc.		100.0
<b>OTHERS</b>		
KHI-ALI Manila, Inc.	60.0	
KHI Manila Property, Inc.	20.0	
Astoria Investment Ventures, Inc.(e)	100.0	
ALInet.com, Inc.	100.0	
CMPI Holdings, Inc.	60.0	
CMPI Land, Inc.		60.0

a. ALI's effective ownership in Bonifacio Land Corporation is 45.05%

b. ALI's effective ownership in Fort Bonifacio Development Corporation is 24.78%

c. ALI's effective ownership in APPHC is 80%

d. ALI's effective ownership in APPCo. is 68%

e. Pertains to common shares

# Key Officers and Consultants

## **PRESIDENT**

Antonino T. Aquino Chief Executive Officer

## **EXECUTIVE VICE PRESIDENT**

Vincent Y. Tan Group Head, Planning

## **SENIOR VICE PRESIDENTS**

Ma. Victoria E. Añonuevo Group Head, AyalaLand Businesscapes  
Group Head, Ayala Malls

Bernard Vincent O. Dy Group Head, Residential Business

Raul M. Irlanda Group Head, Construction  
Group Head, Property Management

Rex Ma. A. Mendoza Chief Marketing and Sales Officer  
Group Head, Corporate Marketing and Sales

Emilio J. Tumbocon Group Head, Visayas-Mindanao and Superblock Projects

Jaime E. Ysmael Chief Finance Officer  
Compliance Officer  
Group Head, Finance

## **VICE PRESIDENTS**

Dante M. Abando President, Alveo Land Corp.  
Group Head, Construction Management

Ruel C. Bautista Head, Operations, Makati Development Corp.

Augusto D. Bengzon Head, Treasury

Aniceto V. Bisnar, Jr. General Manager, NUVALI

Manny A. Blas II Head, Bonifacio Arts Foundation, Inc.

Arturo G. Corpuz Head, Urban and Regional Planning and Land Acquisition

Ma. Corazon G. Dizon Head, Business Development and Strategic Planning, Ayala Malls

Anna Ma. Margarita B. Dy Group Head, Strategic Landbank Management

Jose Emmanuel H. Jalandoni Group Head, ALI Capital and Hotels

Michael Alexis C. Legaspi Chief Operating Officer, Ayala Hotels

Joselito N. Luna Group Head, Innovation and Design

Francis O. Monera President, Cebu Holdings, Inc.

Rosaleo M. Montenegro President, Avida Land Corp.

Ma. Teresa T. Ruiz Group Head, Human Resources and Public Affairs

Ma. Rowena Victoria M. Tomeldan Chief Operating Officer, Ayala Malls

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