

COVER SHEET

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(Company's Full Name)

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(Business Address: No. Street City / Town / Province)

Victoria D. Frejas

Contact Person

848-5643

Company Telephone Number

0	3		3	1
<i>Month</i>			<i>Day</i>	
Fiscal Year				

1	7	-	Q
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<i>Month</i>			<i>Day</i>	
Annual Meeting				

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Secondary License Type, if Applicable

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Amended Articles Number/Section

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Total No. Of Stockholders

Total Amount of Borrowings																											
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SEC No. _____
File No. _____

AYALA CORPORATION

(Company's Full Name)

**Tower One, Ayala Triangle
Ayala Avenue, Makati City**

(Company's Address)

848-56-43

(Telephone Number)

March 31, 2010

(Quarter Ending)
(Month & Day)

SEC Form 17- Q Quarterly Report

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE (SRC) AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended: **March 31, 2010**
2. SEC Identification No.: **34218**
3. BIR Tax Identification No. **000-153-610-000**
4. Exact name of the registrant as specified in its charter: **AYALA CORPORATION**
5. Province, country or other jurisdiction of incorporation or organization: **Makati City, Philippines**
6. Industry Classification Code: _____ (SEC Use Only)
7. Address of principal office: **34th Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City**
Postal Code: **1226**
8. Registrant's telephone number: **(632) 848-5643**
9. Former name, former address, former fiscal year: **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA:

Title of each class	Number of shares outstanding
Preferred A	12,000,000
Preferred B	58,000,000
Common*	496,468,208

*Net of 3,707,624 treasury shares

Amount of debt outstanding as of March 31, 2010: **P72.1 billion**

11. Are any of these securities listed on the Philippine Stock Exchange? Yes [] No []

A total of 495,179,690 Common shares, 12,000,000 Preferred "A" shares and 58,000,000 Preferred "B" shares are listed with the Philippine Stock Exchange as of December 31, 2009.
12. Check whether the registrant:
 - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports): Yes [] No []
 - (b) has been subject to such filing requirements for the past 90 days: Yes [] No []

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SIGNATURES

PART I – FINANCIAL INFORMATION
Item I - Financial Statements



AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of March 31, 2010 and December 31, 2009
(Amounts in Thousands)

	March 2010 (Unaudited)	December 2009 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	52,092,573	45,656,889
Short-term investments (Note 5)	2,717,651	4,560,976
Accounts and notes receivable - net (Note 6)	25,210,646	25,232,799
Inventories (Note 8)	16,089,759	10,797,048
Other current assets	7,958,933	6,547,004
Total Current Assets	104,069,562	92,794,716
Noncurrent Assets		
Noncurrent accounts and notes receivable	4,528,927	2,657,623
Land and improvements - net	13,692,290	17,582,562
Investments in associates and jointly controlled entities-net (note 9)	66,463,797	71,556,952
Investment in bonds and other securities (Note 7)	5,423,048	3,543,458
Investment properties - net	28,999,784	29,089,730
Property, plant and equipment - net	9,677,329	7,771,863
Deferred tax assets - net	1,753,341	1,395,992
Pension assets	351,292	132,419
Intangible assets - net	36,002,193	4,611,884
Other noncurrent assets	1,896,169	1,341,836
Total Noncurrent Assets	168,788,170	139,684,319
Total Assets	272,857,732	232,479,035
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 10)	32,290,437	27,664,537
Short-term debt (Note 11)	2,263,288	2,638,658
Income tax payable	793,751	506,114
Current portion of long-term debt	5,295,620	2,453,144
Other current liabilities (Note)	2,882,760	2,821,932
Total Current Liabilities	43,525,856	36,084,385
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 11)	64,597,713	51,431,583
Deferred tax liabilities	166,058	207,425
Pension liabilities	244,481	228,312
Other noncurrent liabilities (Note 12)	16,497,137	9,109,180
Total Noncurrent Liabilities	81,505,389	60,976,500
Total Liabilities	125,031,245	97,060,885
Equity		
Equity attributable to equity holders of the parent		
Paid-up capital (Note 13)	37,513,172	37,477,875
Share-based payments	1,074,669	1,059,588
Cumulative translation adjustment	(1,464,352)	(1,351,334)
Retained earnings	67,851,188	65,739,096
Net unrealized gain/(loss) on available -for-sale financial assets	386,621	123,916
Effect of change in ownership interests in subsidiaries	32,839	
Parent Company preferred shares held by subsidiaries	(250,000)	(100,000)
Treasury stock	(1,239,535)	(688,714)
	103,904,602	102,260,427
Noncontrolling Interests	43,921,885	33,157,723
Total Equity	147,826,487	135,418,150
Total Liabilities and Equity	272,857,732	232,479,035

See accompanying Notes to Condensed Consolidated Financial Statements.

X AYALA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended March 31, 2010 and 2009
(In Thousand Pesos)

	March 2010	March 2009
REVENUE		
Sales and Services	17,224,126	14,560,792
Equity in net earnings of associates and jointly controlled entities	1,985,216	2,358,393
Interest income	505,966	730,656
Other income	585,943	379,390
	20,301,251	18,029,231
COSTS AND EXPENSES		
Cost of sales and services	13,048,427	11,689,854
General and administrative	2,406,269	2,221,741
Interest expense and other charges	1,132,113	971,043
	16,586,809	14,882,638
INCOME BEFORE INCOME TAX	3,714,442	3,146,593
Provision for income tax	661,067	458,926
NET INCOME	3,053,375	2,687,667
ATTRIBUTABLE TO:		
Equity holders of the parent	2,112,092	2,156,554
Noncontrolling interests	941,283	531,113
	3,053,375	2,687,667
EARNINGS PER SHARE (Note 14)		
Basic	3.71	3.80
Diluted	3.69	3.79

See accompanying Notes to Condensed Consolidated Financial Statements.

XX AYALA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Periods Ended March 31, 2010 and 2009
(Amounts in thousands)

	March 2010	March 2009
NET INCOME FOR THE PERIOD	3,053,375	2,687,667
Other comprehensive income:		
Exchange differences arising from translations of foreign investments	(141,429)	278,086
Changes in fair value of available-for-sale investment in equity securities	14,319	660,658
Share of other comprehensive income of associates:		
Exchange differences arising from translations of foreign investments	(26,256)	8,119
Changes in fair value of available-for-sale investment in equity securities	241,645	(73,755)
Other comprehensive income for the period	<u>88,279</u>	<u>873,108</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>3,141,654</u>	<u>3,560,775</u>
Total comprehensive income attributable to:		
Equity holders of Ayala Corporation	2,254,917	2,989,581
Noncontrolling interests	886,737	571,194
	<u>3,141,654</u>	<u>3,560,775</u>

XX AYALA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
As of March 31, 2010 and 2009
(Amounts in thousands)

	Paid-up Capital	Share-based Payments	Cumulative Translation Adjustments	Retained Earnings	Net Unrealized gain on Available for Sale-Financial Assets	Effect of Change in Ownership Interests in Subsidiaries	Parent Company Preferred Shares Held by a Subsidiary	Treasury Stock
As at January 1, 2010 as previously reported	37,477,875	1,059,588	(1,351,334)	65,739,096	123,916	-	(100,000)	(688,714)
Collection of subscriptions receivable	35,297	-	-	-	-	-	-	-
Cost of share-based payments of Parent	-	1,107	-	-	-	-	-	-
Cost of share-based payments of investees	-	13,974	-	-	-	-	-	-
Adjustment during the period	-	-	-	-	-	32,839	(150,000)	(550,821)
Dividends on preferred shares	-	-	-	-	-	-	-	-
Net Income	-	-	-	2,112,092	-	-	-	-
Other comprehensive income	-	-	(113,018)	-	262,705	-	-	-
Balances of March 31, 2010	37,513,172	1,074,669	(1,464,352)	67,851,188	386,621	32,839	(250,000)	(1,239,535)
As at January 1, 2009 as previously reported	37,251,714	705,457	(968,778)	61,604,466	(631,127)	-	(100,000)	(550,540)
Collection of subscriptions receivable	30,252	-	-	-	-	-	-	-
Cost of share-based payments of investees	-	5,139	-	-	-	-	-	-
Adjustment during the period	-	-	-	-	-	-	-	-
Dividends on preferred shares	-	-	-	(270,339)	-	-	-	-
Net Income	-	-	-	2,156,554	-	-	-	-
Other comprehensive income	-	-	245,373	-	587,653	-	-	-
Balances of March 31, 2009	37,281,966	710,596	(723,405)	63,490,681	(43,474)		(100,000)	(550,540)

X AYALA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2010 and 2009
(In Thousand Pesos)

	March 31, 2010	March 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	3,714,442	3,146,593
Adjustments for:		
Interest and other financing charges	1,132,113	971,043
Depreciation and amortization	1,114,107	728,935
Cost of share-based payments	15,081	0
Equity in net earnings of associates and joint ventures	(1,985,216)	(2,358,393)
Other investment income	(158,811)	(181,629)
Gain on sale of assets	(86,718)	(7,155)
Interest income	(505,966)	(770,656)
Operating income before changes in working capital	3,239,033	1,528,738
Decrease (increase) in:		
Accounts and notes receivable	(1,558,484)	(100,495)
Inventories	(5,292,711)	222,265
Other current assets	(562,361)	349,618
Increase (decrease) in:		
Accounts payable and accrued expenses	2,961,796	(655,078)
Net pension liabilities	(202,704)	57,924
Other current liabilities	(21,539)	(8,337)
Cash generated from operations	(1,436,970)	1,394,636
Interest received	629,894	730,611
Interest paid	(1,294,493)	(1,181,280)
Income tax paid	(946,519)	(229,075)
Total cash provided by (used in) operating activities	(3,048,087)	714,893
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Sale of investments	4,720,759	1,527,470
Disposal of property, plant and equipment	(1,009,982)	5,696,862
Maturities of (additions to) short-term investments	3,486,508	(379,305)
Additions to:		
Investments	(1,719,040)	(8,334,405)
Property, plant and equipment	(751,925)	(1,070,018)
Dividends received from associates and jointly controlled entities	2,375,468	2,348,304
Decrease (increase) in other noncurrent assets	2,767,166	(133,189)
Acquisition through business combination	3,486,141	
Net cash provided by (used in) investing activities	13,355,094	(344,281)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term and long-term debt	688,786	7,354,928
Issuance of common shares	1	1
Collections of (additions to) subscription receivable	35,296	30,252
Payment of short-term and long-term debt	(985,246)	(201,123)
Dividends paid	(1,287,358)	(1,300,448)
Acquisition of treasury shares	(550,821)	0
Parent Co. preferred shares held by a subsidiary	(150,000)	
Effect of change in ownership interests in subsidiaries	32,839	
Increase (decrease) in:		
Other noncurrent liabilities	(809,230)	458,243
Noncontrolling interests in consolidated subsidiaries	(845,591)	455,226
Net cash provided by (used in) financing activities	(3,871,323)	6,797,079
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,435,684	7,167,691
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	45,656,889	42,885,792
CASH AND CASH EQUIVALENTS AT END OF PERIOD	52,092,573	50,053,483

AYALA CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Financial Statement Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and disclosures required in the December 31, 2009 annual audited consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2009.

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

The unaudited condensed consolidated financial statements include the accounts of Ayala Corporation (herein referred to as "the Company") and its subsidiaries collectively referred to as "Group."

The unaudited condensed consolidated financial statements are presented in Philippine peso (Php), and all values are rounded to the nearest thousands except when otherwise indicated.

On 14 May 2010, the Audit Committee approved and authorized the release of the accompanying unaudited condensed financial statements of Ayala Corporation and Subsidiaries.

2. Significant Accounting Policies

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new and amended Philippine Financial Reporting Standards (PFRS) and the Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) which became effective beginning January 1, 2010 and 2009. The Group will also adopt several amended and revised standards and interpretations in 2012.

PAS 1, Presentation of Financial Statements

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

PAS 23, Borrowing Costs

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

PFRS 8, *Operating Segments*

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

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

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

Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

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

Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*

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

Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* and PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS. The Amendments to PAS 27 has changes in respect of the holding companies' separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss.

However, the payment of such dividends requires the entity to consider whether there is any indicator of impairment. The new requirement does not have an impact on the consolidated financial statements.

Amendments to PFRS 2, Share-based Payment - Vesting Condition and Cancellations

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

Amendment to PFRS 7, Financial Instruments: Disclosures

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

Amendment to Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives and PAS 39, Financial Instruments: Recognition and Measurement

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

Improvements to PFRS

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

- *PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*
When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a noncontrolling interests in the subsidiary after the sale.
- *PAS 1, Presentation of Financial Statements*
Assets and liabilities classified as held for trading are not automatically classified as current in the consolidated statement of financial position.
- *PAS 16, Property, Plant and Equipment*
This amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5 and PAS 36, *Impairment of Assets*.

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

- PAS 18, *Revenue*

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

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

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

- PAS 19, *Employee Benefits*

Revises the definition of 'past service cost' to include reduction in benefits related to past services ('negative past service cost') and to exclude reduction in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

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

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

- PAS 23, *Borrowing Costs*

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

- PAS 28, *Investments in Associates*

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

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

- PAS 29, *Financial Reporting in Hyperinflationary Economies*

Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interests in Joint Ventures*

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

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

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

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

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

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

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

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

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

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

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

Effective in 2010

Revised PFRS 3, Business Combinations and PAS 27, Consolidated and Separate Financial Statements

The revised PFRS 3 and revised PAS 27 will be effective for annual periods beginning on or after July 1, 2009. Revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results the period that an acquisition occurs, and future reported results. Revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and noncontrolling interests (previously referred to as 'minority interests'); even if the losses exceed the noncontrolling equity investment in the subsidiary; and

(c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively, while changes introduced by revised PAS 27 must be applied retrospectively with a few exceptions. The changes will affect future acquisitions and transactions with noncontrolling interest.

Amendment to PAS 39, Financial Instruments: Recognition and Measurement - Eligible hedged items

The Amendment to PAS 39 will be effective for annual periods beginning on or after July 1, 2009. This Amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. This amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Philippine Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners

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

Philippine Interpretation IFRIC 18, Transfers of Assets from Customers

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

Amendments to PFRS 2, Group Cash-settled Share-based Payment Transactions

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

Improvements to PFRS

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

- *PFRS 2, Share-based Payment*
The Amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3. The amendment is effective for financial years on or after July 1, 2009.
- *PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*
The Amendment clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- *PFRS 8, Operating Segment Information*
The Amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- *PAS 1, Presentation of Financial Statements*
The Amendment clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- *PAS 7, Statement of Cash Flows*
The Amendment explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- *PAS 17, Leases*
The Amendment removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- *PAS 36, Impairment of Assets*
The Amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- *PAS 38, Intangible Assets*
The Amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- *PAS 39, Financial Instruments: Recognition and Measurement*
The Amendment clarifies the following:
 - i. that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
 - ii. that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
 - iii. that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- *Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives*
The Amendment clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- *Philippine Interpretation IFRIC 16, Hedge of a Net Investment in a Foreign Operation*
The Amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Future Changes in Accounting Policies

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

Effective in 2012

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services, in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The adoption of this Interpretation will be accounted for retrospectively, and will result to restatement of prior period financial statements. The adoption of this Interpretation may significantly affect the determination of revenue for real estate sales and the corresponding cost, and the related trade receivables, deferred tax liabilities and retained earnings accounts. The Group is in the process of quantifying the impact of adoption of this Interpretation when it becomes effective in 2012.

3. Principles of Consolidation

The unaudited condensed consolidated financial statements included the financial statements of the Company and the following wholly and majority owned domestic and foreign subsidiaries:

Effective Percentages of Ownership

	31-Mar-10	31-Dec-09
Real Estate and Hotels:		
Ayala Land, Inc. (ALI) and subsidiaries *	53.3	53.3
Ayala Hotels, Inc. (AHI) and subsidiaries	76.7	76.7
Electronics, Information Technology and Business Process Outsourcing Services:		
Azalea Technology Investments, Inc. and subsidiaries (Azalea Technology)	100.0	100.0
Azalea International Venture Partners, Limited (AIVPL) (British Virgin Islands Company)	100.0	100.0
LiveIT Investments, Ltd. (LIL) and subsidiaries	100.0	100.0
Technopark Land, Inc.	78.8	78.8
Integrated Microelectronics, Inc. (IMI) and subsidiaries**	67.8	67.8
Automotive:		
Ayala Automotive Holdings Corporation (AAHC) and subsidiaries	100.0	100.0
Water Utilities:		
Manila Water Company, Inc. (MWCI) and subsidiaries ***	43.1	31.5
Philwater Holdings Company, Inc. ***	100.0	60.0
Water Capital Works, Inc. ***	100.0	72.0
International and Others:		
Bestfull Holdings Limited (incorporated in HongKong) and subsidiaries (BHL Group)	100.0	100.0
AC International Finance Limited (ACIFL) and subsidiary (Cayman Island Company)	100.0	100.0
AYC Finance Ltd. (AYC) (Cayman Island Company)	100.0	100.0
Ayala Aviation Corporation	100.0	100.0
Darong Agricultural and Development Corporation	100.0	100.0
Michigan Holdings, Inc. and subsidiary	100.0	100.0

*The Company owns 75.33% of the total common and preferred shares of ALI.

** a subsidiary of ACIFL through AYC Holdings, Ltd.

*** consolidated full line starting March 2010

4. Cash and Cash Equivalents (in Thousand Pesos):

	March 2010	December 2009
Cash on hand and in banks	9,522,785	3,960,792
Cash equivalents	42,569,788	41,696,097
	<u>52,092,573</u>	<u>45,656,889</u>

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

5. Short-term Investments (in Thousand Pesos):

	March 2010	December 2009
Money market placements	2,717,651	4,560,976

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

6. Accounts and Notes Receivable (in Thousand Pesos):

	March 2010	December 2009
Trade:		
Real estate	14,427,955	13,011,442
Electronics manufacturing	3,356,361	3,881,439
Automotive	1,118,558	849,301
Information technology & business process outsourcing	75,142	877,188
International and others	881,999	3,803
Related parties	3,512,632	3,390,161
Advances to contractors	3,043,543	2,604,816
Investment in bonds classified as loans and receivables	200,000	200,000
Advances and others	4,053,494	3,445,254
	30,669,684	28,263,404
Less allowance for doubtful accounts	930,111	372,982
	29,739,573	27,890,422
Less noncurrent portion	4,528,927	2,657,623
	25,210,646	25,232,799

7. Investments in Bonds and Other Securities (in Thousand Pesos):

	March 2010	December 2009
Quoted/unquoted equity/debt investments	5,423,048	3,543,458

8. Inventories (in Thousand Pesos):

	March 2010	December 2009
Real estate inventories:		
Subdivision for sale	8,684,078	4,846,039
Condominium and commercial units for sale	4,846,314	3,521,952
Club shares at cost	236,444	242,320
Materials, supplies and others - at NRV (cost of P1,580,312 in 2010 and P1,473,369 in 2009)	1,324,468	1,215,129
Vehicles - at cost	378,513	398,849
Work in process - at cost	330,743	253,622
Finished Goods - at cost	195,511	222,446
Parts and accessories - at NRV (cost of P123,437 in 2010 and P124,925 in 2009)	93,688	96,691
	16,089,759	10,797,048

9. Investments in Associates and Jointly Controlled Entities

Investments in associates and joint ventures are accounted for under the equity method of accounting. Major associates and joint ventures and the related percentages of ownership as of March 31, 2010 are as follows:

	Percentage of Ownership			Carrying Amounts	
	31-Mar-10	31-Dec-09		31-Mar-10	31-Dec-09
(In Millions)					
Domestic:					
Bank of the Philippine Islands and Subsidiaries (BPI)	33.5*	33.5**	P	29,836	29,406
Globe Telecom, Inc. and Subsidiaries (Globe) *	30.5	30.5		16,614	17,313
Stream Global Services, Inc. (Stream)	25.7	25.7		4,762	4,879
Manila Water Company, Inc. (MWCI) ***	0.0	31.5		-	4,308
Emerging City Holdings, Inc. (ECHI) *	50.0	50.0		3,393	3,371
Cebu Holdings, Inc. and Subsidiaries (CHI)	47.2	47.2		2,017	1,972
North Triangle Depot Commercial Corporation	49.2	49.0		1,440	1,417
Berkshire Holdings, Inc. (BHI) *	50.0	50.0		1,454	1,445
Philwater Holdings Company, Inc. ***	0.0	60.0		-	1,430
Bonifacio Land Corporation (BLC)	5.3	5.0		1,473	1,465
Asiacom Philippines, Inc. (Asiacom) *	60.0	60.0		905	887
Alabang Commercial Corporation (ACC) *	50.0	50.0		645	609
Foreign:					
Arch Asian Partners L.P.	19.2**	19.2**		1,451	1,437
Others	Various	Various		2,474	1,618
				66,464	71,557

* Jointly controlled entities.

** Effective ownership interest of the Company.

*** Consolidated full-line starting March 2010.

Below is BPI's balance sheet information (in Million Pesos):

	MARCH 31 2010 Unaudited	DECEMBER 31 2009 Audited
Total Resources	<u>695,499</u>	<u>724,420</u>
Total Liabilities	627,069	656,655
Capital Funds for Equity Holders	67,428	66,798
Minority Interest	1,002	967
Total Liabilities and Capital Funds	<u>695,499</u>	<u>724,420</u>

Below is BPI's income statement information (in Million Pesos Except EPS Figures):

	MARCH 31 2010 Unaudited	DECEMBER 31 2009 Audited
Interest Income	8,456	33,887
Other Income	<u>3,421</u>	<u>12,993</u>
Total Revenues	<u>11,877</u>	<u>46,880</u>
Operating expenses	4,809	19,676
Interest expense	2,972	12,485
Impairment losses	624	2,535
Provision for Income Tax	<u>711</u>	<u>3,519</u>
Total Expenses	<u>9,115</u>	<u>38,215</u>
Net Income for the period	<u>2,761</u>	<u>8,665</u>
Attributable to:		
Equity holders of BPI	2,732	8,516
Minority Interest	<u>29</u>	<u>149</u>
	<u>2,761</u>	<u>8,665</u>
EPS:	0.84	2.62
Based on 3,247,022K common shares as of March 31, 2010 and 3,246,597K common shares as of December 31, 2009		

Below is Globe's balance sheet information (in Million Pesos):

	MARCH 31 2010 Unaudited	DECEMBER 31 2009 Audited
Total Current Assets	17,098	18,415
Non-current Assets	110,393	109,228
Total Assets	<u>127,491</u>	<u>127,643</u>
Current Liabilities	33,688	33,576
Non-current Liabilities	48,377	46,359
Stockholders' Equity	45,427	47,709
Total Liabilities & Stockholders' Equity	<u>127,491</u>	<u>127,643</u>

Below is Globe's income statement information (in Million Pesos Except EPS Figures):

	MARCH 31 2010 Unaudited	DECEMBER 31 2009 Audited
Net Operating Revenues	15,839	63,862
Other Income	375	1,945
Total Revenues	<u>16,214</u>	<u>65,807</u>
Costs and Expenses	12,022	47,834
Provision for Income Tax	1,246	5,404
Total Expenses	<u>13,268</u>	<u>53,238</u>
Net Income	<u>2,947</u>	<u>12,569</u>
EPS:		
Basic	22.17	94.59
Diluted	22.11	94.31

As of March 31, 2010

 Basic based on 132,343K common shares

 Diluted based on 133,249K common shares

As of December 31, 2009

 Basic based on 132,342K common shares

 Diluted based on 133,275K common shares

Below is Stream's balance sheet information (in Million Pesos):

	MARCH 31, 2010		DECEMBER 31, 2009	
	Unaudited		Audited	
	In US \$	In Php	In US \$	In Php
Total Current Assets	225	10,149	227	10,505
Total Non-current Assets	436	19,686	453	20,949
Total Assets	661	29,835	680	31,454
Current Liabilities	113	5,125	115	5,329
Non-current Liabilities	253	11,415	262	12,108
Equity Holders	295	13,295	303	14,018
Total Liabilities & Stockholders' Equity	661	29,835	680	31,454

Below is Stream's income statement information (in Million Pesos Except EPS Figures):

	MARCH 31, 2010		DECEMBER 31, 2009	
	Unaudited		Audited	
	In US \$	In Php	In US \$	In Php
Total Revenues	197	9,042	585	27,016
Costs and expenses	205	9,441	613	28,336
Provision for income tax	2	83	-	-
	207	9,524	613	28,336
Net Income	(10)	(482)	(28)	(1,320)
EPS:				
Basic	(0.13)	(5.98)	(3.46)	(159.85)
Diluted	(0.13)	(5.98)	(3.46)	(159.85)

As of March 31, 2010

Basic based on 80,009 common shares

Diluted based on 80,009 common shares

10. Accounts Payable and Accrued Expenses (in Thousand Pesos):

	March 2010	December 2009
Accounts payable	17,177,766	14,584,321
Accrued expenses	11,703,971	8,289,542
Dividends payable	841,107	2,264,306
Accrued personnel costs	529,918	427,502
Interest payable	240,632	402,278
Retention payable	116,557	120,938
Related parties	2,487	105,355
Taxes payable	1,677,999	1,470,295
	32,290,437	27,664,537

Accounts payable and accrued expenses are noninterest-bearing and are normally settled on 15-to-60-day terms. Other payables are noninterest-bearing and are normally settled within one year.

11. Short-term Debt and Long-term Debt (in Thousand Pesos):

	March 2010	December 2009
Short-term debt:		
Philippine Peso with various interest rates	1,513,436	1,669,875
Foreign Currency with various interest rates	749,852	968,783
	2,263,288	2,638,658
Long-term debt:		
Company:		
Bank loans with various interest rates	6,985,000	6,985,000
Fixed Rate Corporate Notes (FXCNs)	11,485,000	11,485,000
Bonds, due 2012	6,000,000	6,000,000
Syndicated term loan	1,496,667	1,498,333
	25,966,667	25,968,333
Subsidiaries:		
Loans fr banks & other financial institutions:		
Foreign currency with various interest rates	18,287,828	10,724,816
Philippine Peso with various interest rates	9,582,501	7,759,743
Bonds:		
Due 2012	83,750	41,835
Due 2013	8,114,465	4,000,000
Due 2016	10,000	10,000
Fixed Rate Corporate Notes	5,380,000	5,380,000
Syndicated term loan	2,468,122	-
	43,926,666	27,916,394
	69,893,333	53,884,727
Less current portion	5,295,620	2,453,144
	64,597,713	51,431,583

12. Other Current/Noncurrent Liabilities

Other Liabilities consists of deposits from commercial center tenants and sale of condominium/subdivision lots and long-term retention payables. A detailed breakdown is unavailable since the Company's consolidation process is based only on the various group companies' financial statements and not on their trial balances. Obtaining said details would involve an unreasonable effort and/or expense since the accounts' changes since the end of the most recent calendar year are not significant.

13. Equity

Details of the Company's paid-up capital (in Thousand Pesos):

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

	Preferred Stock- A	Preferred Stock- B	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-up Capital
As of December 31, 2009	1,200,000	5,800,000	24,773,540	235,251	6,080,755	(611,671)	37,477,875
Collection of subscriptions receivable	-	-	-	-	27,504	7,793	35,297
As of March 31, 2010	1,200,000	5,800,000	24,773,540	235,251	6,108,259	(603,878)	37,513,172
As of December 31, 2008	1,200,000	5,800,000	24,772,493	145,598	5,734,748	(401,125)	37,251,714
Collection of subscriptions receivable	-	-	-	-	25,513	4,739	30,252
As of March 31, 2009	1,200,000	5,800,000	24,772,493	145,598	5,760,261	(396,386)	37,281,966

Dividends

	Three months ended March 31	
	2010	2009
	(In thousands)	
Dividends to common shares		
Cash dividends declared during the period	-	-
Cash dividends per share	-	-
Stock dividends	-	-
Dividends to equity preferred declared during the period	270,338	270,338

14. The following table presents information necessary to calculate EPS:

	Three months ended March 31	
	2010	2009
	(In thousands except EPS figures)	
Net income applicable to common	2,112,092	2,156,554
Less Dividends on Preferred stocks	(270,338)	(270,338)
Net Income Applicable to Common	1,841,754	1,886,216
Weighted average number of common shares	496,984	496,984
Dilutive shares arising from stock options	1,794	986
Adjusted weighted average number of common shares for diluted EPS	498,778	497,970
Basic EPS	3.71	3.80
Diluted EPS	3.69	3.79

15. Segment Information

Business segment information is reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources among operating segments. Accordingly, the primary segment reporting format is by business segment.

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

- a. Real estate and hotels
 - b. Financial services and bancassurance
 - c. Telecommunications
 - d. AC Capital
- Real estate and hotels - planning and development of large-scale fully integrated residential and commercial communities; development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of upper middle-income and affordable housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.
 - Financial services and bancassurance - universal banking operations, including savings and time deposits in local and foreign currencies; commercial, consumer, mortgage and agribusiness loans; leasing; payment services, including card products, fund transfers, international trade settlement and remittances from overseas workers; trust and investment services including portfolio management, unit funds, trust administration and estate planning; fully integrated bancassurance operations, including life, non-life, pre-need and reinsurance services; internet banking; on-line stock trading; corporate finance and consulting services; foreign exchange and securities dealing; and safety deposit facilities.
 - Telecommunications - provider of digital wireless communications services, wireline voice communication services, consumer broadband services, other wireline communication services, domestic and international long distance communication or carrier services and mobile commerce services.
 - AC Capital - the business unit that oversees the financial performance of subsidiaries other than the three major businesses of the Group. AC Capital also provides support to subsidiaries' growth initiatives and seeks new investment opportunities for the Group that will complement existing business and further enhance the Group's value. AC Capital has the following operating segments:
 - Electronics - electronics manufacturing services provider for original equipment manufacturers in the computing, communications, consumer, automotive, industrial and medical electronics markets, service provider for test development and systems integration and distribution of related products and services.
 - Information technology and BPO services - venture capital for technology businesses and emerging markets; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; technology infrastructure hardware and software sales and technology services; and onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, IT support, graphics, advertising production, marketing and communications, human resources, sales, retention, technical support and customer care areas.
 - Water utilities - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery services and sewerage services in the East Zone Service Area.

- Automotive - manufacture and sale of passenger cars and commercial vehicles.
- International - investments in overseas property companies and projects.
- Others - air-charter services, agri-business and others.

The Group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices.

The following tables present revenue and net income information regarding business segments for the three months ended March 31, 2010 and 2009 and total assets and total liabilities for the business segments as of March 31, 2010 and December 31, 2009 :

March 2010
(in millions)

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	AC Capital Information					Intersegment Eliminations	Consolidated
					Water Utilities	Electronics	Technology and BPO Services	International	Automotive and Others		
REVENUE											
Sales to external customers	-	8,800	-	-	820	4,188	198	-	3,218	-	17,224
Intersegment	-	8	-	-	-	-	(1)	-	-	(7)	-
Equity in net earnings of associates and jointly controlled entities	212	147	915	917	-	-	(256)	34	16	-	1,985
Interest income	241	178	-	-	51	6	29	1	1	(1)	506
Other income	248	105	-	-	44	152	(4)	22	54	(35)	586
Total revenue	701	9,238	915	917	915	4,346	(34)	57	3,289	(43)	20,301
Operating Expenses	412	6,997	-	-	389	4,156	260	63	3,210	(33)	15,454
Operating profit	289	2,241	915	917	526	190	(294)	(6)	79	(10)	4,847
Interest expense and other charges	565	421	-	-	122	9	2	7	7	(1)	1,132
Provision for income tax	40	445	-	-	95	54	3	2	21	2	662
Income before income associated with noncurrent assets held for sale	(316)	1,375	915	917	309	127	(299)	(15)	51	(11)	3,053
Net income	(316)	1,375	915	917	309	127	(299)	(15)	51	(11)	3,053
Other information											
Segment Assets	104,926	103,166	-	-	45,115	13,110	2,785	4,782	3,090	(72,333)	204,641
Investments in associates and jointly controlled entities	46,502	10,948	-	-	-	-	6,429	2,268	317	-	66,464
Deferred tax assets	-	1,104	-	-	381	-	-	-	48	220	1,753
Total Assets	151,428	115,218	-	-	45,496	13,110	9,214	7,050	3,455	(72,113)	272,858
Segment liabilities	43,252	52,259	-	-	28,036	5,447	1,978	1,297	1,754	(9,158)	124,865
Deferred tax liabilities	1	151	-	-	-	(5)	10	5	5	-	167
Total Liabilities	43,253	52,410	-	-	28,036	5,442	1,988	1,302	1,759	(9,158)	125,032

March 2009
(in millions)

	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	AC Capital Information					Intersegment Eliminations	Consolidated
					Water Utilities	Electronics	Technology and BPO Services	International	Automotive and Others		
REVENUE											
Sales to external customers	-	7,212	-	-	-	3,882	676	-	2,791	-	14,561
Intersegment	-	16	-	-	-	-	(15)	-	-	(1)	-
Equity in net earnings of associates and jointly controlled entities *	2	146	967	1,221	164	-	(133)	-	(9)	-	2,358
Interest income	492	249	-	-	-	11	1	17	1	(40)	731
Other income	219	68	-	-	-	18	22	13	39	-	379
Total revenue	713	7,691	967	1,221	164	3,911	551	30	2,822	(41)	18,029
Operating Expenses	365	5,941	-	-	-	3,901	871	71	2,805	(43)	13,911
Operating profit	348	1,750	967	1,221	164	10	(320)	(41)	17	2	4,118
Interest expense and other charges	615	347	-	-	-	29	9	2	9	(40)	971
Provision for income tax	67	328	-	-	-	50	7	(4)	8	3	459
Income before income associated with noncurrent assets held for sale	(334)	1,075	967	1,221	164	(69)	(336)	(39)	-	39	2,688
Net income	(334)	1,075	967	1,221	164	(69)	(336)	(39)	-	39	2,688
Other information											
Segment Assets	102,302	98,700	-	-	-	14,019	6,248	4,276	2,862	(68,881)	159,526
Investments in associates and jointly controlled entities	52,517	10,798	-	-	-	-	5,341	2,531	370	-	71,557
Deferred tax assets	-	1,523	-	-	-	10	40	-	45	(222)	1,396
Total Assets	154,819	111,021	-	-	-	14,029	11,629	6,807	3,277	(69,103)	232,479
Segment liabilities	45,248	48,726	-	-	-	6,241	3,097	893	1,627	(8,979)	96,853
Deferred tax liabilities	-	151	-	-	-	5	42	5	5	-	208
Total Liabilities	45,248	48,877	-	-	-	6,246	3,139	898	1,632	(8,979)	97,061

December 2009
(in millions)

16. Financial Instruments

The following methods and assumptions are used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

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

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

Noncurrent trade and nontrade receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments.

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

AFS unquoted shares - The fair value of unquoted shares are not reasonably determinable due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

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

Liabilities - The fair values of accounts payable and accrued expenses and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

The fair value of noncurrent other financial liabilities (fixed rate and variable rate loans repriced on a semi-annual/annual basis and deposits) are estimated using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

Risk Management and Financial Instruments

General

In line with the corporate governance infrastructure of the Company, the Company has adopted a group-wide enterprise risk management framework in 2002. An Enterprise Risk Management Policy was approved by the Audit Committee (the Committee) in 2003 and subsequently revised and approved on February 14, 2008. The policy was designed primarily to enhance the risk management process and institutionalize a focused and disciplined approach to managing the Company's business risks. By understanding and managing risks, the Company provides greater certainty and confidence to its shareholders, employees, customers and for the communities where the Company operates.

The risk management framework encompasses the following:

- identification and assessment of business risks;
- development of risk management strategies;
- assessment, design and implementation of risk management capabilities;
- monitoring and evaluating the effectiveness of risk mitigation strategies and management performance; and,
- identification of areas and opportunities for improvement in the risk management process.

A Chief Risk Officer is the ultimate champion of enterprise wide risk management and oversees the entire risk management function and is responsible for overall continuity. Beginning 2008, under its expanded charter, the Committee will provide a more focused oversight role over the risk management function. A quarterly report on the risk portfolio of the Group and the related risk mitigation efforts and initiatives are provided to the Committee.

The Company's internal audit monitors the compliance with the Group's risk management policies in order to ensure that an effective control environment exists within the Group as a whole.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of financial assets at FVPL, AFS financial assets, HTM investments, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The main purpose of the Group's financial instruments is to fund its operational and capital expenditures. The main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, liquidity risk and credit risk. The Group also enters into derivative transactions, the purpose of which is to manage the currency and interest rate risk arising from its financial instruments.

The Group's risk management policies are summarized below:

Interest Rate Risk

The Group's exposure to market risk for changes in Interest rates relates primarily to the Company's and its subsidiaries' long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

Foreign Exchange Risk

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

The table below summarizes the Group's exposure to foreign exchange risk as of March 31, 2010. Included in the table are the Group's monetary assets and liabilities at carrying amounts, categorized by currency.

	Mar-10	
	USD	Php Equivalent
	(In thousands)	
Assets		
Cash and cash equivalents	194,873	8,801,674
Short-term investments	36,576	1,652,149
Accounts and notes receivables	26,880	1,217,637
Other current assets	39,204	1,770,860
Investment in bonds and other securities	9,605	434,160
Other noncurrent assets	11,953	539,929
Total assets	319,092	14,416,408
Liabilities		
Accounts payable and accrued expenses	34,470	1,557,915
Other current liabilities	4,034	182,231
Short-term debt	36,565	1,651,661
Long-term debt	155,048	7,003,515
Other noncurrent liabilities	752	33,976
Total liabilities	230,870	10,429,299
Net foreign currency denominated assets	88,222	3,987,110

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (in thousands).

	US\$ depreciates (appreciates)	Effect on profit before tax
March 2010	P1.00	(88.222)
	(P1.00)	88.222

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

Liquidity Risk

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues both on-shore and off-shore.

Credit Risk

The Group's holding of cash and short-term investments exposes the Group to credit risk of the counterparty. Credit risk management involves dealing only with institutions for which credit limits have been established. The treasury policy sets credit limits for each counter party. Given the Group's diverse base of counterparties, it is not exposed to large concentration of credit risk.

Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Ayala Corporation's consolidated net income in 1Q10 reached P2.1 billion, at par with the P2.2 billion net earnings in the same period in 2009. Equity earnings from its business units rose by 6%, driven by higher equity earnings from its real estate unit Ayala Land, Inc. and a significant turnaround in equity earnings from AC Capital.

Equity earnings from Ayala Land rose by 31% year-on-year driven by the sustained recovery in the real estate sector. Ayala Land attained record-high quarterly net income of P1.2 billion in the first quarter, 32% higher than 1Q09 as it achieved record sales and bookings from its residential project launches. Its leasing portfolio likewise performed steadily with occupancy rate in its malls rising to 94% and occupied business process outsourcing office leasable area expanding by 20% from 4Q09 and by 59% from 1Q09.

All companies under Ayala's AC Capital unit contributed to the turnaround. Manila Water, IMI, and Ayala Automotive posted substantial growth year-on-year, while AG Holdings and Livelt recorded lower losses during the period. Combined equity earnings from AC Capital companies improved to P228 million in the first quarter, a turnaround from a P132 million loss in 1Q09.

Equity earnings from Manila Water grew by 78% as its net income rose by 35% to P839 million. Manila Water continued to grow within its concession area as well as in other areas in the Philippines. Revenues rose by 18% to P2.5 billion as a result of higher water sales volume and new service connections in the East Zone. Operating efficiency improved further with better supply and water pressure management and network enhancements. This reduced non-revenue water to 13.7% and kept the company's service levels unaffected by the El Nino dry spell. The substantial growth in equity earnings was also due to Ayala's increased ownership stake in the company following its purchase of United Utilities' 11.6% interest. Manila Water continues to make headway in other parts of the country with operations running in Laguna and Boracay.

A recovery in the global electronics exports sector sustained IMI's positive momentum. IMI posted earnings of US\$3.2 million in 1Q10, reversing the loss in the same period last year. Sales grew by 11% driven by its Philippine and China operations. China operations contributed substantially, making up 58% of revenues. IMI continues to increase its presence in China as it becomes increasingly in the center of the global manufacturing industry. It opened its 6th manufacturing facility in Chengdu last April.

Ayala's automotive dealerships delivered a 9% growth in unit sales, reflecting the country's vibrant domestic consumption. This pushed Ayala's dealership income up by 124% year-on-year as a result of higher vehicle sales, better service income, and improved income from collateral businesses.

Its business process outsourcing investment company, Livelt, grew its share of investee company revenues to US\$67 million in the first quarter, which represents 48% growth over last year, primarily as a result of the eTelecare-Stream merger and Integreon's acquisitions of Onsite and Grail Research. Revenue growth and enhanced operating efficiencies resulted in a 23% increase in Livelt's share of investee company EBITDA to US\$3.7 million. Livelt's consolidated net loss improved from last year's P306 million to this year's P279 million, which includes acquisition related expenses of P131 million.

Ayala's other core business units, Globe Telecom and Bank of the Philippine (BPI) Islands reported lower net earnings year-on-year. Globe's reported net income declined by 26% in 1Q10 vs 1Q09 to P2.9 billion mainly due to the soft performance of the mobile business. Mobile revenues fell by 10% year-on-year and by 3% quarter-on-quarter as the mobile market was weighed down by intense competition and price pressures. Despite this, Globe sustained positive net additions in 1Q10, an improvement from the net reductions last year when the company deliberately recalibrated acquisition efforts. As a result, cumulative mobile subscribers increased by 3% year-to-date to 23.9 million. Recent programs that focused on acquiring new subscribers, stimulating usage, and rewarding loyal Globe customers helped stem the decline in the mobile business. Globe's broadband business and corporate data business, however, grew at double-digit rate. Its broadband subscriber base nearly tripled from last year's level driven by wireless broadband, which contributed over 80% of the net adds during the quarter.

Its banking unit, BPI, posted 1Q10 net income of P2.7 billion, 5% lower than same period last year, but remains substantially higher than earnings in the past three successive quarters. The bank's revenues were steady at P9 billion despite the 54 basis point decline in net interest spreads and weaker trading profits. Compensating for the drop in spreads was an 11% improvement in the bank's average asset base. Loan growth improved by 8% over the previous year with strong growth registered in the consumer and middle market. Middle market loans were up by 20%, credit card receivables up by 18%, and SME loans were up by 15%. Retail mortgages and auto loans grew by 13%. The bank's total asset base increased by 8% versus last year with deposits growing by 8% to P558 billion.

Key Performance indicators:

For the balance sheet items (current ratio and debt to equity ratios), the company aims to maintain for its current ratio not to be lower than 0.5:1 and for its debt to equity ratio not to exceed 3:1. The company and its subsidiaries' ratios are considered better than these levels as a result of prudent debt management policies.

The key performance indicators (consolidated figures) that the Company monitors are the following:

	<u>YTD March 31, 2010</u>	<u>YTD March 31, 2009</u>
Revenue	20,301 million	18,029 million
Net income	2,112 million	2,156 million
Basic earnings per share 1/	3.80	3.80
	<u>As of March 31, 2010</u>	<u>As of March 31, 2009</u>
Current Ratio 2/	2.39	2.89
Debt-to-Equity Ratio 3/	0.69	0.62

1/ *Net income applicable to common shareholders / weighted average number of common shares*

2/ *Current assets / current liabilities*

3/ *Short-term debt, current & non-current long-term debt / equity attributable to equity holders of the parent*

- 2.1 Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. The following conditions shall be indicated: whether or not the registrant is having or anticipates having within the next twelve (12) months any cash flow or liquidity problems; whether or not the registrant is in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments; whether or not a significant amount of the registrant's trade payables have not been paid within the stated trade terms.

The company does not expect any liquidity problems and is not in default of any financial obligations.

- 2.2 Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation:
None
- 2.3 Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period:
None
- 2.4 Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.

For year 2010, ALL's consolidated budget for project and capital expenditures amount to P27.2 billion. About 54% is earmarked for residential developments, 15% for strategic landbank management, 13% for shopping centers, and the balance for corporate business, Visayas-Mindanao, and support businesses. This will be financed through a combination of internally-generated funds, borrowings, and pre-selling. For the first three months of 2010, consolidated project and capital expenditures amounted to P3.4 billion, about 13% of the P27.2 billion budget for the whole year. About 62% was spent for residential projects, 15% for geographic businesses, 10% for strategic landbank management, and the balance for shopping centers, corporate business and support businesses.

Aside from the normal water and wastewater CAPEX disbursements of MWCI, the Company did not acquire assets or incur liabilities that are material in amount for the period ended March 31, 2010. The Company expects P10.05 billion capital expenditures in 2010 for the rehabilitation and construction of facilities to improve water and sewer services in the East Zone Service Area. These will be funded from the current cash reserves, internal funds generation and proceeds of available loan facilities.

- 2.5 Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described.

The Company's and its subsidiaries' performance will continue to hinge on the overall economic performance of the Philippines and other countries where its subsidiaries operate. Interest rate movements may affect the performance of the real estate, banking and automotive groups, including the Company.

- 2.6 Any significant elements of income or loss that did not arise from the registrant's continuing operations
None

- 2.7 **Causes for any material changes
(Increase or decrease of 5% or more in the financial statements)**

**Balance Sheet items
(March 31, 2010 Vs. December 31, 2009)**

Cash and cash equivalents – 14% increase from P45,657mln to P52,092mln

Inclusion of financial reports of the water utilities group and a new subsidiary under international and others group, in the full-line consolidation effective March 2010. This was offset by the de-consolidation of a subsidiary of the information technology and BPO services group. Dividends received net of dividends paid, offset by disbursements to fund various investments, share buy-back and net interest expense by the parent company; proceeds from liquidation of short-term investments of the real estate group; funds from equity infusion offset by advances in projects of other subsidiaries. As a percentage to total assets, cash and cash equivalents slightly increased from 20% to 19% as of December 31, 2009 and March 31, 2010, respectively.

Short-term investments – 40% decrease from P4,561mln to P2,718mln

Lower money market placements with liquidation of more than 3 months up to 6 months by the real estate group offset by new placements by the parent company. As a percentage to total assets, short-term investments are at 2% and 1% and as of December 31, 2009 and March 31, 2010, respectively.

Inventories – 49% increase from P10,797mln to P16,090mln

Completion of development, thus, reclassification into saleable inventories certain land and residential units by the real estate group; higher raw materials inventory by the electronics group. This account is at 5% and 6% of the total assets as of December 31, 2009 and March 31, 2010, respectively.

Other current assets – 22% increase from P6,547mln to P7,959mln

Largely due to consolidation of the water utilities group offset by de-consolidation of a subsidiary of the information technology and BPO services group; and increase in prepaid expenses for project costs and payment of real property tax of the real estate group. This account remained at 3% of the total assets as of December 31, 2009 and March 31, 2010, respectively.

Non current accounts and notes receivable – 70% increase from P2,658mln to P4,529mln

Higher receivables from land sales and advances for purchase of land and development projects of the real estate group. This account is at 1% and 2% of the total assets as of December 31, 2009 and March 31, 2010, respectively.

Land and improvements – 22% decrease from P17,582mln to P13,692mln

Completion of development, thus, reclassification of certain projects into saleable inventories partly offset by advances for new project development by the real estate group. This account is at 8% and 5% of the total assets as of December 31, 2009 and March 31, 2010.

Investments in associates and jointly controlled entities – 7% decrease from P71,557mln to P66,464mln

Investments in associates and jointly controlled entities account includes the Company's and its subsidiaries' investments in various associates which are being accounted for under the equity method. These associates are Bank of the Philippine Islands and Globe Telecom, among others. Reduction in the account was mainly due to consolidation of the water utilities group and a new subsidiary under international and others group; and offset by de-consolidation of a subsidiary of information technology and BPO services group. There was also increase due to the equity share in net earnings of the associates and joint ventures and reduction due receipt of dividends from these entities. This account is at 31% and 24% of the total assets as of December 31, 2009 and March 31, 2010, respectively.

Investment in bonds and other securities – 53% increase from P3,543mln to P5,423mln

Primarily due to consolidation of the water utilities group. This account is at 2% of the total assets as of December 31, 2009 and March 31, 2010, respectively.

Property, plant and equipment – 25% increase from P7,772mln to P9,677mln

Largely due to consolidation of the water utilities group and a new subsidiary under international and others group; and offset by de-consolidation of a subsidiary of information technology and BPO services group. As of December 31, 2009 and March 31, 2010, the group's property, plant and equipment account is at 3% and 4% of the total assets, respectively.

Deferred tax assets – 26% increase from P1,396mln to P1,753mln

Due to consolidation of financials of water utilities group. As of December 31, 2009 and March 31, 2010, this account remained at 1% of the total assets.

Pension assets – 167% increase from P132mln to P352mln

Mainly due to consolidation of financials of water utilities group. As of December 31, 2009 and March 31, 2010, this account is at 0.1% of the total assets.

Intangible assets – 681% increase from P4,612mln to P36,002mln

Mainly due to consolidation of financials of water utilities group representing concession assets. As of December 31, 2009 and March 31, 2010, this account is at 2% and 13% of the total assets.

Other non-current assets – 41% increase from P1,341mln to P1,896mln

Mainly due to consolidation of financials of water utilities group. As of December 31, 2009 and March 31, 2010, this account is at 1% of the total assets.

Accounts payable and accrued expenses – 17% increase from P27,664mln to P32,290mln

Increase attributable to consolidation of financials of water utilities group; increase in trade payables of the real estate group as a result of several project completion offset by payment of dividends payable by the Company. As of December 31, 2009 and March 31, 2010, this account is at 29% and 26% of the total liabilities, respectively.

Short-term debt – 14% decrease from P2,639mln to P2,263mln

Payment of loans by the real estate group and effect of de-consolidation of a subsidiary of information technology and BPO services group. As of December 31, 2009 and March 31, 2010, this account remained at 3% and 2% of the total liabilities.

Income tax payable – 57% increase from P506mln to P794mln

Higher taxable income of the real estate and automotive groups and effect of consolidating water utilities group. As a percentage to total liabilities, this account is at 1% as of December 31, 2009 and March 31, 2010, respectively.

Current portion of long-term debt – 116% increase from P2,453mln to P5,296mln

Mainly due to consolidation of financials of water utilities group. As of December 31, 2009 and March 31, 2010, current portion of long-term debt remained at 3% and 4% of the total liabilities, respectively.

Long-term debt – 26% increase from P51,432mln to P64,597mln

Mainly due to consolidation of financials of water utilities group. As a percentage to total liabilities, this account is at 53% and 52% as of December 31, 2009 and March 31, 2010, respectively.

Deferred tax liabilities – 20% decrease from P207mln to P166mln

Mainly due to deconsolidation of a subsidiary of information technology and BPO services group. As a percentage to total liabilities, this account is at 0.2% and 0.1% as of December 31, 2009 and March 31, 2010.

Pension liabilities – 7% increase from P228mln to P245mln

Largely due to the adjustment made to reflect the latest actuarial valuation of the real estate group. This account is at 0.2% of the total liabilities as of December 31, 2009 and March 31, 2010.

Other noncurrent liabilities – 81% increase from P9,109mln to P16,498mln

Mainly due to consolidation of financials of water utilities group representing concession liabilities; partly offset by reclassification of tenant's deposits from noncurrent to current accounts and decline in retentions payable of the real estate group. As a percentage to total liabilities, this account slightly increased from 9% to 13% as of December 31, 2009 and March 31, 2010, respectively.

Cumulative translation adjustment – 8% increase from (P1,351mln) to (P1,465mln)

Mainly due to foreign exchange rate changes.

Net unrealized gain on available-for-sale financial assets – 212% increase from P124mln to P387mln

Mainly due to improvement in the market prices of securities held by the group.

Income Statement items

(YTD March 31, 2010 Vs YTD March 31, 2009)

Sales and services – 18% increase from P14,561mln to P17,224mln

Inclusion of financial reports of the water utilities group and a new subsidiary under international and others group in the full-line consolidation effective March 2010. This was offset by reduction in sales due to de-consolidation of a subsidiary of information technology and BPO services group. As a percentage to total revenues, sales and services is 81% to 85% in 2009 and 2010, respectively.

Equity in net earnings of associates and jointly ventures – 16% decrease from P2,358mln to P1,985mln

Reduction mainly due to consolidation of the water utilities group plus lower equity earnings from the telecommunications group. As a percentage to total revenues, this account is 13% to 10% in 2009 and 2010, respectively.

Interest income – 31% decrease from P731mln to P506mln

Due to lower investible funds in 2010 by the parent company and most of the operating groups plus collection by a subsidiary of interest-bearing receivables; offset partially by the impact of consolidation of the water utilities group. This account is 4% of the total revenue in 2009 and 2% in 2010.

Other income – 54% increase from P379mln to P586mln

Increase collectively due to impact of consolidating water utilities group plus higher forex gains, dividend income and other miscellaneous gains of the group. This account is 2% and 3% of the total revenue in 2009 and in 2010, respectively.

Costs of sales and services – 12% increase from P11,689mln to P13,048mln

Increase attributable to higher sales of the real estate, electronics and automotive groups; offset partially by lower costs of the information technology and BPO services group when it deconsolidated one of its subsidiaries. Cost of sales account is at 76% of total costs and expenses in both 2009 and 2010.

General and administrative – 8% increase from P2,222mln to P2,406mln

Increase mainly due to impact of consolidating water utilities group coupled by higher personnel costs of other subsidiaries. This was offset by de-consolidation of information technology and BPO services group subsidiary and cost-cutting measures of the electronics group. General and administrative expense is at 14% of the costs and expenses in both 2009 and 2010.

Interest expense and other charges – 17% increase from P971mln to P1,132mln

Increase mainly due to impact of consolidating water utilities and higher interest rates and debt levels in real estate group. This expense classification accounts for 3% and 4% of costs and expenses in 2009 and 2010.

Provision for income tax – 44% increase from P459mln to P1,289mln

Primarily due to higher taxable income of the real estate, electronics and automotive groups on account of better sales and other operating results.

2.8 Any seasonal aspects that had a material effect on the financial condition or results of operations.

Ayala Corporation being a holding company has no seasonal aspects that will have any material effect on its financial condition or operational results.

ALI's leasing portfolio generates a fairly stable stream of revenues throughout the year. ALI's development operations do not show any seasonality. Projects are launched anytime of the year depending on several factors such as completion of plans and permits and appropriate timing in terms of market conditions and strategy. Development and construction work follow target completion dates committed at the time of project launch.

In the case of MWCI, except for the usually higher demand during summer months of April and May, it does not have seasonality of operation.

For the other subsidiaries, there is no significant seasonality that would materially affect their operations.

2.9 Any material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

ALI's signing of a Memorandum of Agreement with Manila Water Company (MWC) for the joint development and operation of a water and wastewater facility service company that will serve the needs of ALI projects, primarily NUVALI.

ALI's signing of a Joint Development Agreement between Amaia Land Corp. and Eton Properties Inc. for the development of a 4-hectare property in Calamba, laguna that will form part of Amaia Scapes Laguna.

ALI's signing of a Joint Development Agreement between Avida land Corp. and Phil. National Bank (PNB) for the development of a 2.3-hectare property along EDSA corner Reliance and Mayflower sts. in Mandaluyong City onto a residential complex.

3.0 Other material events or transactions during the interim period.

ALI's launch in January of Ayala Land premier's park Terraces, a high-rise condominium project in Makati.

ALI's signing of a Joint Venture Agreement with the Anflogroup for the development of a mall within a 3.2-hectare property in Cagayan de Oro City.

ALI's signing of a 35-year Lease Agreement with the Pison group for a 2-hectare property in Iloilo City that will be used for the development of BPO buildings.

PART II – OTHER INFORMATION

1. Further to Ayala Corporation's disclosure on November 12, 2009, Ayala announced the closing of the agreements for the acquisition of United Utilities's 81.9 million common shares and economic interest in 2 billion preferred shares in Manila Water Co., Inc. thereby increasing the company's economic interest to 43.3% from 31.7%.
2. In compliance with SEC Code of Corporate Governance, a certification was issued by Ayala Corporation that both Messrs. Meneleo J. Carlos and Xavier P. Loinaz, the independent directors of the Corporation, attended all six meetings of the Board of Directors in 2009.

That each of the directors of the Corporation attended at least 50% of the six meetings of the Board.

3. The annual meeting of stockholders of Ayala Corporation was held at the grand ballroom of the Hotel interContinental Manila on April 16, 2010.
4. Integreon, a global leader in integrated knowledge process outsourcing is an investee company of LiveIT Investments Ltd., Ayala's holding company in the business process outsourcing sector, announced the US\$ 50 million purchase of newly issued Integreon preferred shares by Actis, an emerging markets private equity firm.
5. Ayala Corporation's 2009 net income reached P8.2 billion at par with prior year's earnings with substantially lower capital gains from share sales in 2009. Excluding capital gains, net income grew by 34% which was driven by the strong performance of its major business units, even amidst a sluggish economic environment.
6. The Board of Directors of Ayala Corporation approved on 15 March 2010, amendments to the seventh Article of the Articles of Incorporation providing for (1) the reclassification of four million unissued common shares, par value p50 per share, to new series of preferred shares: 200,000,000 voting preferred shares, par value p1 per shares; and (2) the denial of pre-emptive rights to issues of common shares in exchange for properties needed for corporate purposes and to issues or re-issues of treasury or redeemed shares.
7. Ayala Corporation filed on 16 March 2010 the Registration Statement covering the offering of the Ayala Peso Bonds in the amount of P8 Billion, with an oversubscription option of up to P2 Billion, subject to the registration requirements of the Securities & Exchange Commission (SEC).
8. Ayala Corporation executed and paid on 17 March 2010 a subscription Agreement with First Gen Northern Energy Corp. (FGNEC) for subscription to 250,000 common shares of stock in FGNEC for a subscription price of PHP 250,000.00 equal to the total par value of the shares. The shares constitute 33 1/3% of the outstanding capital stock of FGNEC. FGNEC is participating in the privatization of the 246 MW Angat Hydroelectric Power Plant located in Norzagaray, Bulacan, which is subject of the bidding process (Bidding) initiated by the Power Sector Assets & Liabilities Management Corporation (PSALM).
9. Ayala Corporation's proposed putable bond of up to P10.0 billion due in 2017 received a rating of PRS Aaa. According to Philippine Rating Services Corporation (PhilRatings), obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligations is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant

AYALA CORPORATION

By:



SOLOMON M. HERMOSURA
Compliance Officer and General Counsel

Date: May 14, 2010



RUFINO F. MELO III
Managing Director
(Principal Accounting Officer)

Date: May 14, 2010





AYALA CORPORATION AND SUBSIDIARIES
AGING OF RECEIVABLES (Based on Unaudited Figures)
As of March 31, 2010
(In Thousand Pesos)

	Up to 6 months	Over 6 Mos. to One year	Over One Year	Past Due	TOTAL
Trade Receivables	11,136,881	5,049,197	2,521,629	338,695	19,046,402
Non-Trade Receivables	5,595,722	3,078,151	2,007,298	12,000	10,693,171
Total	16,732,603	8,127,348	4,528,927	350,695	29,739,573