



13 Aug 2010

**Securities & Exchange Commission**

Attn.: Director Justina F. Callangan  
Corporation and Finance Department  
S.E.C. Building EDSA  
Mandaluyong City

**Philippine Stock Exchange**

Attn.: Ms. Janet A. Encarnacion  
Head - Disclosure Department  
4F PSE Center Exchange Road  
Ortigas Center Pasig City

**Philippine Dealing & Exchange Corporation**

Attn.: Mr. Cesar B. Crisol  
President and Chief Operating Officer  
37/F Tower 1 The Enterprise Center  
6766 Ayala Avenue corner Paseo de Roxas  
Makati City

Subject: **Ayala Corporation Net Income Up 21% in Second Quarter**

Gentlemen:

Ayala Corporation's net income grew by 21% to P2.3 billion in the second quarter of 2010 versus the same period last year. This was driven by the robust performance of its real estate and banking units Ayala Land and Bank of the Philippine Islands (BPI) as well as Manila Water, Integrated Microelectronics, the automotive and business process outsourcing (BPO) units. Altogether this resulted in a 24% growth year-on-year in equity earnings during the quarter.

This pushed Ayala's consolidated net income in the first half of the year to P4.4 billion, 9% higher year-on-year. Equity earnings in the first semester rose by 15% to P5.7 billion with equity earnings from Ayala Land and BPI up by 31% and 14%, respectively. This cushioned the impact of a 29% decline in equity earnings from Globe Telecom. Equity earnings from AC Capital units also improved significantly reaching P915 million from P77 million in the same period last year fuelled by a significant rise in earnings of Manila Water, IMI, Ayala Auto, and Livelt. Livelt realized a revaluation gain of P2.3 billion during the period which helped offset the impact of the P1.7 billion impairment provisions undertaken by AG Holdings for its real estate assets in North America.

Ayala President & COO, Mr. Fernando Zobel de Ayala noted that "the results in the second quarter reflect a strong rebound from the lows of the recent economic slowdown. Domestic consumption has been robust and benefitted our real estate, banking, and auto businesses. Meanwhile, our water distribution business continues to expand and improve efficiencies, while our telecom business faces significant competitive challenges. The fundamental drivers of the local economy remain in place which we believe will continue to fuel the growth of our key

businesses. The improved global economic conditions also favorably impacted our electronics manufacturing and business process outsourcing services.”

#### REAL ESTATE

Ayala Land's net income in the second quarter reached a record high and put first half net income at P2.5 billion, 34% higher than the same period last year. Revenue growth was at 28% in the first half of the year to P18.4 billion driven by residential development revenues which rose by 27% on the back of strong growth in bookings from residential brands Ayala Land Premiere, Alveo and Avida. Demand for Ayala Land's residential projects remained strong leading the company to increase the number of residential launches this year by 25% from its earlier planned launches at the start of this year. Ayala Land's leasing business meanwhile grew by 7% year-on-year with shopping center, office leasing and hotel operations all contributing to overall revenue growth. Occupancy rates at Ayala Malls remained high while its office occupancy rate continued to improve with the increased absorption of BPO offices in step with the resurgence in the growth of the BPO sector.

#### BANKING

BPI's net income in the second quarter grew by 17%, an improvement from the 5% year-on-year decline in the first quarter of this year. This put profits in the first semester to P5.6 billion, 5% higher than the same period last year. The bank's core businesses remained strong with double-digit growth in loans and deposits. The bank's total revenues rose by 4% in the first half with net interest income up by the same rate, mainly as a result of a 12% increase in its average asset base. Non-interest income increased marginally on account of lower securities trading gains compared to last year. Loan growth was strong across all segments indicative of the renewed business and consumer confidence. Net loans grew by 13% with large corporates posting a 13% growth, SMEs growing by 14%, and consumer loans up by 16%. The bank recently announced it is offering stock rights to existing eligible shareholders. The offer covers around 307 million common shares which will raise P10 billion. This will further strengthen the bank's Tier 1 capital position and also enable it to support its growth strategy towards more aggressive customer acquisition, prudent lending, and deeper cross selling penetration.

#### TELECOM

Globe's consolidated revenues were down 3% year-on-year in the first semester mainly due to lower mobile revenues. Mobile revenues declined by 9% in the first half consistent with the trends in the over-all industry and reflecting the impact of pricing pressures from an intense competitive environment. Broadband revenues, however, continued to grow with revenues up 89% year-on-year and is gaining market share. Fixed line data and fixed line voice revenues rose by 18% and 8% year-on-year, respectively. This resulted in reported net income of P5.1 billion in the first half of 2010, 30% lower year-on-year. Excluding all forex and mark-to-market charges, as well as one-off gains from last year's equipment exchange transaction, Globe's core net income was down 25% to P5.2 billion. Globe ended the period with a SIM base of 24.6 million, 3% higher versus last quarter and a total of 930,000 broadband subscribers, 145% higher than subscriber levels in the same period last year.

#### WATER DISTRIBUTION

Manila Water's net income grew by 34% to nearly P2 billion in the first half of the year. The 14% decline in depreciation costs as a result of the renewal of the Concession Agreement partly drove the increase in net income. Revenues in the same period grew to P5.5 billion, 18% higher than the same period last year due to a 5% increase in billed volume, tariff adjustments and improved revenue contribution from the Laguna and Boracay concessions. Operating expenses increased at a much slower rate than revenues, which helped improve operating margins.

Operating efficiencies remain high with non-revenue water continuing to decline to 13.5% and increasing the number of household water connections by 8% year-on-year.

#### ELECTRONICS MANUFACTURING

The electronics industry continues to improve along with the gradual recovery of the global economy. This led to an 11% growth in IMI's revenues in the first half of the year as larger orders from its major customers in the storage device, telecom, automotive, and consumer electronics picked up driven by a rise in demand for their products. IMI's net income in the first half of the year amounted to US\$4.7 million inclusive of a one-time gain. Excluding gains this year and last year, IMI's net income for the first semester was at US\$2.8 million compared to a US\$1.3 million loss in the same period last year.

#### AUTOMOTIVE

Ayala Automotive continued to benefit from the strong growth of the auto industry in the first half of the year. Ayala Auto's revenues rose by 15% to P6.2 billion driven by an increase in the share of Ayala dealership network and the improved performance of its collateral business. This resulted in a net income growth of 80% to P172 million as of the end of the first half.

#### BUSINESS PROCESS OUTSOURCING

Liveit, Ayala's holding company for its BPO investments delivered a net profit of P1.6B in the first half versus last year's loss of P449M. This was due to the revaluation gain of P2.3B recognized in the second quarter, following the \$50M investment in Integreon by Actis, a UK based leading emerging markets private equity firm, which diluted Liveit's ownership from 86% to 56%. The gain more than offset the first half operating net loss of P363M and net interest expense of P183M and validated Liveit's potential for value creation. With the proceeds of Actis's investment, Integreon plans to grow its range of services and technologies, seek strategic acquisitions and launch new delivery centers, including a second site in the Philippines.

#### INTERNATIONAL REAL ESTATE

AG Holdings, the company's vehicle for international investments, reported a loss of P1.8 billion due mainly to impairment provisions for certain real estate assets in North America given the sluggish state of real estate recovery in the U.S. This allows AG Holdings to focus more on its Asian portfolio which grew by 3% in terms of net asset value during the period.

Ayala Corporation Chairman & CEO, Mr. Jaime Augusto Zobel de Ayala said, "The development trends we see in various areas in the Philippines present opportunities for expansion and growth for each of our businesses. We consider our businesses well placed not only to capture these but also to expand their participation in the broader infrastructure space as we seek to contribute as a group to the country's development agenda."

Attached are Ayala Corporation's unaudited consolidated financial statements for your reference.

The above information is being submitted in compliance with the disclosure rules of the Securities and Exchange Commission and the Philippine Stock Exchange.

Very truly yours,



**Delfin C. Gonzalez, Jr.**  
Chief Finance Officer



**AYALA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in Thousands)

	June 30, 2010	Dec. 31, 2009
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	59,339,850	45,656,889
Short-term investments	1,996,655	4,560,976
Accounts and notes receivable - net	27,583,502	25,232,799
Inventories	16,222,125	10,797,048
Other current assets	7,137,167	6,547,004
Total Current Assets	112,279,299	92,794,716
<b>Noncurrent Assets</b>		
Noncurrent accounts and notes receivable	3,867,659	2,657,623
Land and improvements	13,990,202	17,582,562
Investments in associates and jointly controlled entities - net	68,930,598	71,556,952
Investments in bonds and other securities	5,480,397	3,543,458
Investment properties - net	29,160,629	29,089,730
Property, plant and equipment - net	8,989,396	7,771,863
Deferred tax assets - net	1,750,297	1,395,992
Pension assets	132,907	132,419
Intangible assets - net	37,175,870	4,611,884
Other noncurrent assets	2,334,844	1,341,836
Total Noncurrent Assets	171,812,799	139,684,319
Total Assets	284,092,098	232,479,035
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	32,907,669	27,664,537
Short-term debt	3,275,969	2,638,658
Income tax payable	686,069	506,114
Current portion of long-term debt	3,552,015	2,453,144
Other current liabilities	3,721,010	2,821,932
Total Current Liabilities	44,142,732	36,084,385
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion	73,635,140	51,431,583
Deferred tax liabilities	178,122	207,425
Pension liabilities	242,779	228,312
Other noncurrent liabilities	18,131,248	9,109,180
Total Noncurrent Liabilities	92,187,289	60,976,500
Total Liabilities	136,330,021	97,060,885
<b>Equity</b>		
Equity attributable to equity holders of Ayala Corporation		
Paid-up capital	37,762,361	37,477,875
Share-based payments	1,107,853	1,059,588
Cumulative translation adjustments	(1,098,728)	(1,351,334)
Retained earnings	69,185,369	65,739,096
Net unrealized gain on available-for-sale-investments	440,913	123,916
Effect of change in ownership interests in subsidiaries	136,398	-
Parent Company preferred shares held by subsidiaries	(250,000)	(100,000)
Treasury stock	(4,566,146)	(688,714)
Total Equity	102,718,020	102,260,427
<b>Noncontrolling interests</b>	45,044,057	33,157,723
Total Equity	147,762,077	135,418,150
Total Liabilities and Equity	284,092,098	232,479,035

**XX** AYALA CORPORATION AND SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Amounts in Thousands)

	<b>Semesters Ended June 30</b>	
	<b>2010</b>	<b>2009</b>
<b>REVENUE</b>		
Sales and services	<b>36,768,968</b>	28,844,798
Equity in net earnings of associates and jointly controlled entities	<b>3,139,992</b>	4,333,702
Interest Income	<b>1,150,390</b>	1,307,055
Investment and other income	<b>3,133,908</b>	940,878
	<b>44,193,258</b>	35,426,433
<b>COSTS AND EXPENSES</b>		
Costs of sales and services	<b>26,163,648</b>	22,811,603
General and administrative	<b>6,295,082</b>	4,463,226
Interest expense and other financing charges	<b>2,625,145</b>	2,288,157
Other charges	<b>705,766</b>	-
	<b>35,789,641</b>	29,562,986
<b>INCOME BEFORE INCOME TAX</b>	<b>8,403,617</b>	5,863,447
<b>PROVISION FOR INCOME TAX</b>	<b>1,599,118</b>	852,311
<b>NET INCOME</b>	<b>6,804,499</b>	5,011,136
<b>ATTRIBUTABLE TO:</b>		
Equity holders of Ayala Corporation	<b>4,420,708</b>	4,070,152
Noncontrolling interests	<b>2,383,791</b>	940,984
	<b>6,804,499</b>	5,011,136