

SEC No. _____
File No. _____

AYALA CORPORATION

(Company's Full Name)

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

(Company's Address)

908-30-00

(Telephone Number)

June 30, 2011

(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 semi-annual period ended: **June 30, 2011**
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) 908 3000**
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
Voting Preferred	200,000,00
Common*	484,156,681

*Net of 16,325,654 treasury shares

Amount of debt outstanding as of June 30, 2011: **P112.2 billion**

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


A total of 495,676,911 Common shares, 12,000,000 Preferred "A" shares and 58,000,000 Preferred "B" shares are listed with the Philippine Stock Exchange as of June 30, 2011.
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 June30, 2011 and December 31, 2010		
(Amounts in Thousands)		
	June	December
	2011	2010
	(Unaudited)	(Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	73,611,151	53,142,777
Short-term investments (Note 5)	3,870,018	3,993,533
Accounts and notes receivable - net (Note 6)	30,343,708	26,184,128
Inventories (Note 8)	20,359,430	18,374,656
Other current assets	11,136,724	6,911,634
Total Current Assets	139,321,030	108,606,728
Noncurrent Assets		
Noncurrent accounts and notes receivable	4,999,806	4,793,315
Land and improvements - net	16,852,674	16,433,698
Investments in associates and jointly controlled entities-net (Note 9)	74,628,904	72,004,879
Investment in bonds and other securities (Note 7)	4,693,521	4,854,337
Investment properties - net	30,730,256	29,488,275
Property, plant and equipment - net	11,673,628	11,698,923
Service concession assets	61,187,439	59,097,769
Intangible assets - net	3,520,314	3,083,089
Deferred tax assets - net	2,585,757	2,749,148
Pension assets	200,108	190,658
Other noncurrent assets	2,667,140	2,587,255
Total Noncurrent Assets	213,739,550	206,981,346
Total Assets	353,060,580	315,588,074
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 10)	41,168,888	37,896,575
Short-term debt (Note 11)	5,300,988	4,519,287
Income tax payable	533,409	440,834
Current portion of:		
Long-term debt (Note 11)	10,102,094	11,237,343
Service concession obligation	1,016,851	794,473
Other current liabilities (Note 12)	2,585,594	2,631,344
Total Current Liabilities	60,707,824	57,519,856
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 11)	96,816,301	67,079,948
Service concession obligation - net of current portion (Note 12)	5,951,961	7,025,751
Deferred tax liabilities	5,727,185	5,893,442
Pension liabilities	376,439	340,903
Other noncurrent liabilities (Note 12)	11,247,750	10,942,291
Total Noncurrent Liabilities	120,119,636	91,282,335
Total Liabilities	180,827,460	148,802,191
Equity		
Equity attributable to equity holders of the parent		
Paid-up capital (Note 13)	42,786,708	37,855,466
Share-based payments	1,330,083	1,243,055
Retained earnings	73,124,648	74,011,144
Cumulative translation adjustment	(1,827,031)	(1,763,471)
Net unrealized gain/(loss) on available -for-sale financial assets	710,762	1,128,734
Parent Company preferred shares held by subsidiaries	(250,000)	(250,000)
Equity reserve	215,219	148,302
Treasury stock	(5,410,952)	(4,832,262)
Total Equity	110,679,438	107,540,968
Non-controlling interests	61,553,682	59,244,915
Total Equity	172,233,120	166,785,883
Total Liabilities and Equity	353,060,580	315,588,074

See accompanying Notes to Condensed Consolidated Financial Statements.

	AYALA CORPORATION AND SUBSIDIARIES			
	UNAUDITED CONSOLIDATED STATEMENTS OF INCOME			
	For the Three Months and Six Months Ended June 30, 2011 and June 30, 2010 (In Thousand Pesos)			
	2011		2010	
	April to June	Jan. to June	April to June	Jan. to June
INCOME				
Sales and Services	21,643,711	42,119,057	19,544,842	36,768,968
Equity in net earnings of associates and jointly controlled entities	2,130,347	3,979,330	1,154,776	3,139,992
Interest income	769,632	1,356,082	644,424	1,150,390
Other income	258,614	869,828	2,547,965	3,133,908
	24,802,304	48,324,297	23,892,007	44,193,258
COSTS AND EXPENSES				
Cost of sales and services	15,041,531	29,282,877	13,115,221	27,014,702
General and administrative	2,873,235	5,842,853	3,888,813	5,444,028
Interest expense and other financing charges	1,687,877	3,192,726	1,493,032	2,625,145
Other charges	-	0	705,766	705,766
	19,602,643	38,318,456	19,202,832	35,789,641
INCOME BEFORE INCOME TAX	5,199,661	10,005,841	4,689,175	8,403,617
Provision for income tax	1,069,983	1,974,554	938,051	1,599,118
NET INCOME	4,129,678	8,031,287	3,751,124	6,804,499
ATTRIBUTABLE TO:				
Equity holders of Ayala Corporation	2,484,462	4,934,957	2,308,616	4,420,708
Noncontrolling interests	1,645,216	3,096,330	1,442,508	2,383,791
	4,129,678	8,031,287	3,751,124	6,804,499
EARNINGS PER SHARE (Note 14)				
Basic		9.05		7.81
Diluted		9.01		7.78
<i>See accompanying Notes to Condensed Consolidated Financial Statements.</i>				

AYALA CORPORATION AND SUBSIDIARIES				
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME				
For the Three Months and Six Months Ended June 30, 2011 and June 30, 2010				
(Amounts in thousands)				
	2011		2010	
	April to June	Jan. to June	April to June	Jan. to June
NET INCOME FOR THE PERIOD	4,129,678	8,031,287	3,751,124	6,804,499
Other comprehensive income:				
Exchange differences arising from translations of foreign investments	(24,905)	(127,501)	408,703	267,274
Changes in fair value of available-for-sale investment in equity securities	(38,296)	(4,295)	46,595	60,914
Share of other comprehensive income of associates:				
Exchange differences arising from translations of foreign investments	(41,036)	35,545	9,797	(16,459)
Changes in fair value of available-for-sale investment in equity securities	104,150	(436,463)	37,505	279,150
Other comprehensive income (loss) for the period	(87)	(532,714)	502,600	590,879
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	4,129,591	7,498,573	4,253,724	7,395,378
Total comprehensive income attributable to:				
Equity holders of Ayala Corporation	2,506,713	4,453,424	2,735,393	4,990,310
Noncontrolling interests	1,622,878	3,045,149	1,518,331	2,405,068
	4,129,591	7,498,573	4,253,724	7,395,378

XX AYALA CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

As of June 30, 2011 and 2010

(Amounts in thousands)

	Paid-up Capital	Share-based Payments	Cumulative Translation Adjustments	Retained Earnings	Net Unrealized gain on Available for Sale-Financial	Equity Reserve	Parent Company Preferred Shares Held by Subsidiaries	Treasury Stock	Non- controlling Interests	Total Equity
As at January 1, 2011 as previously reported	37,855,466	1,243,055	(1,763,471)	74,011,144	1,128,734	148,302	(250,000)	(4,832,262)	59,244,915	166,785,883
Net Income	-	-	-	4,934,957	-	-	-	-	3,096,329	8,031,287
Other comprehensive income	-	-	(63,559)	-	(417,974)	-	-	-	(51,181)	(532,714)
Total comprehensive income	-	-	(63,559)	4,934,957	(417,974)	-	-	-	3,045,148	7,498,572
Issuance of shares	4,931,242	-	-	-	-	-	-	-	-	4,931,242
Cost of share-based payments of Parent	-	68,667	-	-	-	-	-	-	-	68,667
Cost of share-based payments of investees	-	18,361	-	-	-	-	-	-	-	18,361
Acquisition of treasury stocks	-	-	-	-	-	-	-	(578,689)	-	(578,689)
Increase in non-controlling interests	-	-	-	-	-	-	-	-	(736,382)	(736,382)
Stock dividends	-	-	-	(4,842,316)	-	-	-	-	-	(4,842,316)
Cash dividends	-	-	-	(979,026)	-	-	-	-	-	(979,026)
Adjustment during the period	-	-	-	-	-	66,917	-	-	-	66,917
Balances of June 30, 2011	42,786,708	1,330,083	(1,827,030)	73,124,759	710,760	215,219	(250,000)	(5,410,951)	61,553,681	172,233,229
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)	33,157,723	135,418,150
Net Income	-	-	-	4,420,708	-	-	-	-	2,383,791	6,804,499
Other comprehensive income	-	-	252,606	-	316,997	-	-	-	21,276	590,879
Collection of subscriptions receivable	84,486	-	-	-	-	-	-	-	-	84,486
Issuance of shares	200,000	-	-	-	-	-	-	-	-	200,000
Cost of share-based payments of Parent	-	28,076	-	-	-	-	-	-	-	28,076
Cost of share-based payments of investees	-	20,189	-	-	-	-	-	-	(18,094)	2,095
Parent Company preferred shares held by a Subsidiary	-	-	-	-	-	-	(150,000)	-	-	(150,000)
Acquisition of treasury stocks	-	-	-	-	-	-	-	-	-	-
Adjustment during the period	-	-	-	-	-	136,398	-	(3,877,432)	10,219,667	6,478,633
Cash dividends	-	-	-	(974,435)	-	-	-	-	(720,306)	(1,694,741)
Balances of June 30, 2010	37,762,361	1,107,853	(1,098,728)	69,185,369	440,913	136,398	(250,000)	(4,566,146)	45,044,057	147,762,077



AYALA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2011 and 2010
(In Thousand Pesos)

	June 30, 2011	June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	10,005,841	8,403,617
Adjustments for:		
Interest and other financing charges	3,192,726	2,625,145
Depreciation and amortization	3,043,988	2,131,129
Cost of share-based payments	87,028	48,265
Equity in net earnings of associates and joint ventures	(3,979,330)	(3,139,992)
Other investment income	(86,781)	(186,345)
Gain on sale of assets	(437,799)	(50,759)
Interest income	(1,356,082)	(1,150,390)
Operating income before changes in working capital	10,469,592	8,680,670
Decrease (increase) in:		
Accounts and notes receivable	(4,350,730)	(2,634,487)
Inventories	(1,994,970)	(5,425,077)
Other current assets	(4,225,090)	259,404
Increase (decrease) in:		
Accounts payable and accrued expenses	3,490,641	2,610,197
Net pension liabilities	26,086	13,979
Net Service concession obligation	(3,362,801)	0
Other current liabilities	(97,022)	816,711
Cash generated from operations	(44,294)	4,321,397
Interest received	1,340,741	1,335,361
Interest paid	(2,872,767)	(2,522,791)
Income tax paid	(1,835,936)	(1,802,771)
Total cash provided by (used in) operating activities	(3,412,256)	1,331,196
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Sale of investments	232,486	2,652,854
Disposal of property, plant and equipment	(316,918)	(589,247)
Maturities of (additions to) short-term investments	123,515	4,207,504
Additions to:		
Investments	(5,501,644)	(2,450,431)
Property, plant and equipment	(1,243,167)	(1,272,740)
Dividends received from associates and jointly controlled entities	1,844,261	2,658,119
Decrease (increase) in other noncurrent assets	(1,303,317)	1,154,814
Acquisition through business combination	(1,015,771)	3,486,141
Net cash provided by investing activities associated with noncurrent assets held for sale, including cash balance	0	0
Net cash provided by (used in) investing activities	(7,180,554)	9,847,013
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term and long-term debt	35,264,466	10,045,206
Issuance of common shares	4,850,340	200,001
Collections of (additions to) subscription receivable	80,904	84,485
Payment of short-term and long-term debt	(5,881,660)	(2,035,163)
Dividends paid	(2,548,363)	(2,277,997)
Acquisition of treasury shares	(578,690)	(3,877,432)
Parent Co. preferred shares held by a subsidiary	0	(150,000)
Equity reserves	66,916	136,398
Increase (decrease) in:		
Other noncurrent liabilities	305,459	824,881
Minority interest in consolidated subsidiaries	(498,189)	(445,626)
Net cash provided by (used in) financing activities	31,061,184	2,504,752
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,468,374	13,682,961
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	53,142,777	45,656,889
CASH AND CASH EQUIVALENTS AT END OF PERIOD	73,611,151	59,339,850

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, 2010 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, 2010.

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 11 August 2011, 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, 2011. The Group will also adopt several amended and revised standards and interpretations in 2012.

Effective 2011

PAS 24 (Amended), Related Party Disclosures

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

PAS 32 (Amendment), Financial Instruments: Presentation - Classification of Rights Issues

The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010. It amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

Philippine Interpretation IFRIC 14 (Amendment), Prepayments of a Minimum Funding Requirement

The Amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The Amendment provides guidance on

assessing the recoverable amount of a net pension asset and permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments

This Philippine Interpretation is effective for annual periods beginning on or after July 1, 2010. The Philippine Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRS

The omnibus amendments to PFRSs issued in May 2010 were issued primarily with a view to removing inconsistencies and clarifying wordings. The amendments are effective for annual periods beginning January 1, 2011, except as otherwise stated.

- **PFRS 3 (Revised), *Business Combination***
This Amendment clarifies that the Amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32 and PAS 39 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

It also limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interest are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS.

The amendment also requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. It further specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of non-controlling interest and measured at their market-based measure; if unvested - they are measured at market based value as if granted at acquisition date, and allocated between non-controlling interest and post-combination expense.

- **PFRS 7, *Financial Instruments: Disclosures***
This Amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendments to quantitative and credit risk disclosures are as follows:
 - a. Clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk.
 - b. Requires, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk).
 - c. Remove disclosure of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired.
 - d. Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired.
 - e. Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

- *PAS 1, Presentation of Financial Statements*
This Amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.
- *PAS 27, Consolidated and Separate Financial Statements*
This Amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier.
- *Philippine Interpretation IFRIC 13, Customer Loyalty Programmes*
This Amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Future Changes in Accounting Policies

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

Effective in 2012

Philippine Interpretation IFRIC 15, Agreement 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 Philippine 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 Philippine Interpretation will be accounted for retrospectively, and will result to restatement of prior period financial statements. The adoption of this Philippine Interpretation may significantly affect the determination of 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 Philippine Interpretation when it becomes effective in 2012.

PAS 12 (Amendment), Income Taxes - Deferred Tax: Recovery of Underlying Assets

The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

PFRS 7 (Amendments), Financial Instruments: Disclosures - Disclosures - Transfers of Financial Assets

The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Effective 2013

PFRS 9, Financial Instruments: Classification and Measurement

PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The Standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a more comprehensive picture.

While the standard permits early adoption by entities given certain requirements, as of June 30, 2011, the Group has not yet decided to adopt, thus, has not reflected the impact of the standard in the interim financial statements. The Group is currently evaluating the impact on its financial statements.

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	
			June 2011	December 2010
Real Estate and Hotels:				
	Ayala Land, Inc. (ALI) and subsidiaries *		53.2	53.2
	Ayala Hotels, Inc. (AHI) and subsidiaries		76.6	76.6
	Technopark Land, Inc.		78.8	78.8
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
	Integrated Microelectronics, Inc. (IMI) and subsidiaries**		67.2	67.2
	Livelt Solutions, Inc.		100.0	100.0
Automotive:				
	Ayala Automotive Holdings Corporation (AAHC) and subsidiaries		100.0	100.0
Water Utilities:				
	Manila Water Company, Inc. (MWCI) and subsidiaries		43.1	43.1
	Philwater Holdings Company, Inc.		100.0	100.0
	Water Capital Works, Inc.		100.0	100.0
International and Others:				
	AC International Finance Limited (ACIFL) and subsidiary (Cayman Island Company)		100.0	100.0
	Ayala Aviation Corporation		100.0	100.0
	AG Counselors Corporation		100.0	100.0
	AYC Finance Ltd. (AYC) (Cayman Island Company)		100.0	100.0
	Bestfull Holdings Limited (incorporated in HongKong) and subsidiaries (BHL Group)		100.0	100.0
	Darong Agricultural and Development Corporation		100.0	100.0
	Michigan Holdings, Inc. and subsidiary		100.0	100.0
	Michigan Power Inc. (MPI)		100.0	100.0
	MPM Noodles Corporation		100.0	100.0
	Purefoods International Ltd.		100.0	100.0

*The Company owns 75.20% of the total common and preferred shares of ALI.

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

On February 21, 2011, AIVPL and AC entered into a subscription agreement wherein AC subscribed to 2,371,699 shares of AIVPL and paid \$1 per share (equivalent to par value) for a total of \$2,371,699. Such amount was infused to Livelt Investments Ltd. (LIL), for its operating expenses.

Consequently, AIVPL & LIL entered into a subscription agreement wherein AIVPL subscribed to 237,169 shares of LIL and paid \$10 per share (equivalent to par value) for a total of \$2,371,690.

On February 21, 2011, AIVPL and AC entered into a deposit for future subscription wherein AC deposited \$550,000 to AIVPL which will be infused to Livelt Investments, Ltd. for Affinity's loan availment.

Moreover, on the same date, AIVPL and LIL entered into a deposit for future subscription wherein AIVPL deposited \$550,000 to LIL which will be used for Affinity's loan availment.

On March 16, 2011, the Company, through MPI (recently renamed to AC Energy Holdings, Corp.), a 100%-owned subsidiary, acquired a 50% effective stake in NorthWind Power Development Corporation (NorthWind). NorthWind owns and operates the 33-MW wind farm located in Bangui Bay, Ilocos Norte. The wind farm has 20 wind turbines and is the first commercial wind farm ever established in Southeast Asia.

MPI is the holding company established by AC to be its primary vehicle for investments in the power sector. The acquisition entailed the purchase by MPI of 100% stake in three privately held companies which have a combined 50% stake in NorthWind. MPI paid a base consideration of P513 million (inclusive of P21 million advances) which would be subject to adjustments depending on the plant capacity factor achieved and the feed-in-tariff approved by the government within one year from the acquisition date. The acquired companies, whose assets are essentially NorthWind shares, will be merged with MPI with the latter as the surviving entity.

As of June 30, 2011, the purchase price allocation relating to the Group's effective acquisition of Northwind has been prepared on preliminary basis. The provisional fair values of the assets acquired and liabilities assumed as of date of acquisition were based on the net book values of the identifiable assets and liabilities since these approximate the fair values. The difference between the total consideration and the net assets amounting to P211.7 million was initially allocated to goodwill as of June 30, 2011.

On April 28, 2011, Liveit Investment Ltd's (LIL) subsidiary, HRMall BVI (HRMall) acquired IQ BackOffice LLC amounting to US\$12.5M through an Asset Purchase Agreement. IQBackOffice is a BPO company based in the United States specializing in Finance and Accounting Services. Consequently, LIL partially sold its share in HRMall at book value to IQB Management's Schnitt & Jablonski for \$2.6M giving them a 17.48% stake in HRMall. LIL will continue to hold the remaining 82.52% in HRMall. As of June 30, 2011, the purchase price allocation relating to the Group's acquisition of IQBackOffice has been prepared on preliminary basis. The difference between the total consideration and the net assets amounting to P156.2 million was initially allocated to goodwill as of June 30, 2011.

On April 26, 2011, IMI, through its subsidiary in Singapore, IMI International (Singapore) Pte. Ltd., established a wholly-owned subsidiary Monarch Elite Ltd. domiciled in Hongkong to serve as the holding company of Cooperatief IMI Europe U.A. (based in Netherlands). Cooperatief established subsidiary IMI France (based in France), in preparation for the acquisition of EPIQ NV. EPIQ is an EMS provider that designs, produces, and sells electronic and electro-mechanical systems and sub-system.

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

	June 2011	December 2010
Cash on hand and in banks	18,262,521	8,822,040
Cash equivalents	55,348,630	44,320,737
	73,611,151	53,142,777

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):

	June 2011	December 2010
Money market placements	3,870,018	3,993,533

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):

	June 2011	December 2010
Trade:		
Real estate	16,182,180	13,898,871
Electronics manufacturing	4,936,969	4,215,059
Water utilities	1,053,240	1,006,082
Automotive	918,914	869,557
Information technology & business process (BPO)	162,568	67,227
International and others	25,268	2,770
Related parties	3,931,201	2,367,653
Advances to contractors	4,060,789	3,586,985
Investment in bonds classified as loans and receivables	200,000	200,000
Advances and others	4,966,375	5,923,468
	36,437,505	32,137,672
Less allowance for doubtful accounts	1,093,991	1,160,229
	35,343,514	30,977,443
Less noncurrent portion	4,999,806	4,793,315
	30,343,708	26,184,128

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

	June 2011	December 2010
Quoted/unquoted equity/debt investments	4,693,521	4,854,337

This account consists of available-for-sale financial assets which are composed of quoted and unquoted equity investments as well as quoted and unquoted debt instruments. The corresponding unrealized gain on these assets is reflected in the Net Unrealized Gain (Loss) on Available for Sale Assets under the Equity portion of the Company's Balance Sheets.

8. Inventories (in Thousand Pesos):

	June 2011	December 2010
Real estate inventories:		
Subdivision for sale	9,067,039	8,230,322
Condominium and commercial units for sale	8,070,231	6,984,154
Materials, supplies and others - at NRV (cost of P1,892,814 in 2011 and P1,886,526 in 2010)	1,892,814	1,736,949
Vehicles - at cost	513,816	621,358
Work in process - at NRV (cost of P513,816 in 2011 and P319,441 in 2010)	360,449	312,709
Finished Goods - at NRV (cost of P316,008 in 2011 and P348,967 in 2010)	316,008	345,711
Parts and accessories - at NRV (cost of P139,073 in 2011 and P230,719 in 2010)	139,074	143,453
	20,359,430	18,374,656

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 June 30, 2011 are as follows:

	Percentage of Ownership		Carrying Amounts	
	June 2011	December 2010	June 2011	December 2010
			(In Millions)	
Domestic:				
Bank of the Philippine Islands and Subsidiaries (BPI)	23.9	23.9	P 25,038	P 24,645
Globe Telecom, Inc. and Subsidiaries (Globe) *	30.5	30.5	17,502	17,053
Ayala DBS Holdings, Inc. (ADHI) *	45.5	45.5	10,116	9,649
Emerging City Holdings, Inc. (ECHI) *	50.0	50.0	3,608	3,492
Cebu Holdings, Inc. and Subsidiaries (CHI)	47.0	47.0	2,200	2,105
North Triangle Depot Commercial Corporation	49.3	49.3	1,400	1,436
Berkshire Holdings, Inc. (BHI) *	50.0	50.0	1,546	1,496
Bonifacio Land Corporation (BLC)	10.0	10.0	1,147	1,133
Asiacom Philippines, Inc. (Asiacom) *	60.0	60.0	971	918
Alabang Commercial Corporation (ACC) *	50.0	50.0	619	617
Foreign:				
Stream Global Services, Inc. (Stream)	25.8	25.8	3,634	3,882
Integreon, Inc. (Integreon) *	56.4	56.4	2,269	2,804
Arch Asian Partners L.P.	19.2**	19.2**	2,356	2,022
Others	Various	Various	2,222	753
			74,629	72,005

* Jointly controlled entities.

** Effective ownership interest of the Company.

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

			June 2011 Unaudited	December 2010 Audited
Total Resources			<u>855,362</u>	<u>878,146</u>
Total Liabilities			771,423	795,871
Capital Funds for Equity Holders			82,639	81,030
Noncontrolling interest			1,300	1,245
Total Liabilities and Capital Funds			<u>855,362</u>	<u>878,146</u>

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

			June 2011 Unaudited	December 2010 Audited
Interest Income			19,020	36,987
Other Income			7,389	15,369
Total Revenues			<u>26,409</u>	<u>52,356</u>
Operating expenses			10,958	20,954
Interest expense			6,406	13,359
Impairment losses			1,181	3,454
Provision for Income Tax			1,545	3,110
Total Expenses			<u>20,089</u>	<u>40,877</u>
Net Income for the period			<u>6,320</u>	<u>11,479</u>
Attributable to:				
Equity holders of BPI			6,198	11,312
Noncontrolling Interest			121	167
			<u>6,320</u>	<u>11,479</u>
EPS:			1.74	3.38
Based on 3,556M common shares as of June 30, 2011 and 3,556M common shares as of December 31, 2010				

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

			June 2011 Unaudited	December 2010 Audited
Total Current Assets			22,701	21,585
Non-current Assets			108,608	109,043
Total Assets			131,309	130,628
Current Liabilities			38,281	35,309
Non-current Liabilities			44,685	48,450
Stockholders' Equity			48,344	46,869
Total Liabilities & Stockholders' Equity			131,309	130,628

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

			June 2011 Unaudited	December 2010 Audited
Net Operating Revenues			35,603	66,623
Other Income			92	52
Total Revenues			35,695	66,676
Costs and Expenses			27,710	52,638
Provision for Income Tax			2,394	4,294
Total Expenses			30,104	56,931
Net Income			5,591	9,745
EPS:				
Basic			41.42	73.63
Diluted			41.25	73.12
As of June 30, 2011				
Basic based on 132,348K common shares				
Diluted based on 133,307K common shares				
As of December 31, 2010				
Basic based on 132,343K common shares				
Diluted based on 133,275K common shares				

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

	JUNE 2011		DECEMBER 2010	
	Unaudited		Audited	
	In US \$	In Php	In US \$	In Php
Total Current Assets	218	9,451	218	9,551
Total Non-current Assets	402	17,423	421	18,462
Total Assets	620	26,874	639	28,013
Current Liabilities	126	5,442	119	5,200
Non-current Liabilities	261	11,324	261	11,427
Equity Holders	233	10,108	259	11,387
Total Liabilities & Stockholders' Equity	620	26,874	639	28,013

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

	JUNE 2011		DECEMBER 2010	
	Unaudited		Audited	
	In US \$	In Php	In US \$	In Php
Total Revenues	419	18,225	800	36,089
Costs and expenses	437	19,007	818	36,871
Provision for income tax	-	-	38	1,746
	437	19,007	856	38,617
Net Income	(18)	(782)	(56)	(2,528)
EPS:				
Basic	(0.23)	(10.01)	(0.67)	(29.37)
Diluted	(0.23)	(10.01)	(0.67)	(29.37)
Basic and diluted based on 79,566K common shares as of June 30, 2011 and 79,905K common shares as of December 31, 2010				

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

	June 2011	December 2010
Accounts payable	26,628,635	21,654,637
Accrued expenses	11,081,094	12,766,160
Dividends payable	916,611	2,226,117
Accrued personnel costs	683,672	557,589
Interest payable	895,600	572,921
Retention payable	963,276	119,151
	41,168,888	37,896,575

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):

	June 2011	December 2010
Short-term debt:		
Philippine Peso with various interest rates	3,939,106	2,483,413
Foreign Currency with various interest rates	1,361,883	2,035,874
	5,300,988	4,519,287
Long-term debt:		
Company:		
Bank loans with various interest rates	8,188,383	6,730,000
Fixed Rate Corporate Notes (FXCNs)	7,914,866	11,432,500
Bonds, due 2012	5,981,770	6,000,000
Bonds, due 2017	9,709,275	9,800,000
Bonds, due 2021	9,903,088	
Syndicated term loan	1,485,338	1,496,667
	43,182,720	35,459,167
Subsidiaries:		
Loans fr banks & other financial institutions:		
Foreign currency with various interest rates	19,688,389	18,041,456
Philippine Peso with various interest rates	10,850,631	11,020,041
Bonds:		
Due 2012	239,230	194,600
Due 2013	10,270,715	8,212,027
Floating Rate Corporate Notes (FRCNs)	10,000	10,000
FXCNs	22,676,710	5,380,000
	63,735,675	42,858,124
	106,918,395	78,317,291
Less current portion	10,102,094	11,237,343
	96,816,301	67,079,948

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 and deferred credits. 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):

	Preferred Stock- A	Preferred Stock- B	Preferred Stock-Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-up Capital
As of January 31, 2011	1,200,000	5,800,000	200,000	24,784,980	231,114	6,243,383	(604,011)	37,855,466
Issuance of shares	-	-	-	4,848,009	2,330	53,579	27,324	4,931,242
As of June 30, 2011	1,200,000	5,800,000	200,000	29,632,989	233,444	6,296,962	(576,687)	42,786,708
As of December 31, 2009	1,200,000	5,800,000		24,773,540	235,251	6,080,755	(611,671)	37,477,875
Issuance of shares			200,000					200,000
Collection of subscriptions receivable	-	-		-	-	81,103	3,383	84,486
As of June 30, 2010	1,200,000	5,800,000	200,000	24,773,540	235,251	6,161,858	(608,288)	37,762,361

Dividends

	Six months ended June 30	
	2011	2010
	(In thousands)	
Dividends to common shares		
Cash dividends declared during the period	968,463	974,436
Cash dividends per share	2.00	2.00
Stock dividends	4,842,316	-
Dividends to equity preferred declared during the period	10,563	-

On December 10, 2010, the BOD approved the declaration and payment of the quarterly dividends amounting to P807.1 million to all shareholders of the Company's Preferred A for the calendar year 2011 and the declaration and payment of the quarterly dividends for the first three quarters of 2011 to all Preferred B shareholders for calendar year 2011.

On December 10, 2009, the BOD approved the declaration and payment of the quarterly dividends amounting to P944.2 million to all shareholders of the Company's Preferred A and Preferred B shares for calendar year 2010.

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

	Six months ended June 30	
	2011	2010
	(In thousands except EPS figures)	
Net income applicable to common	4,934,957	4,420,708
Less Dividends on Preferred stocks	(551,240)	(540,676)
Net Income Applicable to Common	4,383,717	3,880,032
Weighted average number of common shares	484,594	496,984
Dilutive shares arising from stock options	2,030	1,976
Adjusted wieghted average number of common shares for diluted EPS	486,624	498,960
Basic EPS	9.05	7.81
Diluted EPS	9.01	7.78

	Six months ended June 30	
	2011	2010
	(In thousands except EPS figures)	
Income before income associated with noncurrent assets held for sale	8,031,287	6,804,499
Less income before income associated with noncurrent assets held for sale associated to minority interests	(3,096,330)	(2,383,791)
Less dividends on preferred stock	(551,240)	(540,676)
	4,383,717	3,880,032
Weighted average number of common shares for basic EPS	484,594	496,984
Dilutive shares arising from stock options	2,030	1,976
Adjusted weighted average number of common shares for diluted EPS	486,624	498,960
Basic EPS	9.05	7.81
Diluted EPS	9.01	7.78

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:

- 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.
- Electronics - electronics manufacturing services provider for original equipment manufacturers in the computing, communications, consumer, automotive, industrial and medical electronics markets, service provider for test development and systems integration and distribution of related products and services.
- Information technology and BPO services - venture capital for technology businesses and emerging markets; provision of value-added content for wireless services, on-line business-to-business and business-to-consumer services; electronic commerce; technology infrastructure hardware and software sales and technology services; and onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, IT support, graphics, advertising production, marketing and communications, human resources, sales, retention, technical support and customer care areas.
- Water utilities - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery services and sewerage services in the East Zone Service Area.
- Automotive - manufacture and sale of passenger cars and commercial vehicles.
- International - investments in overseas property companies and projects.
- Others - air-charter services, agri-business and others.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment results include transfers between operating segments. Those transfers are eliminated in consolidation.

The 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 six months ended June 30, 2011 and 2010 and total assets and total liabilities for the business segments as of June 30, 2011 and December 31, 2010 :

June 2011											
(in thousands)											
	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecom munications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment Eliminations	Consolidated
INCOME											
Sales to external customers	23,599	19,644,775	-	-	5,618,160	11,411,517	520,392	3,933	4,896,681		42,119,057
Intersegment	39,799	455,600	-	-	56,886	-	10,105	-	44,088	(606,479)	-
Equity in net earnings of associates and jointly controlled entities	184,457	517,750	1,949,824	1,715,828	(1,566)	-	(389,705)	21,239	(18,498)		3,979,330
Interest income	623,818	501,527	-	-	207,829	5,832	25,487	7,340	1,450	(17,201)	1,356,082
Other income	209,831	130,718	-	-	38,958	115,617	45,862	319,601	91,660	(82,419)	869,828
Total income	1,081,504	21,250,370	1,949,824	1,715,828	5,920,267	11,532,966	212,141	352,113	5,015,382	(706,098)	48,324,297
Operating Expenses	737,155	15,074,930	-	-	2,795,663	11,392,696	677,324	104,653	4,978,313	(634,996)	35,125,738
Operating profit	344,350	6,175,440	1,949,824	1,715,828	3,124,604	140,269	(465,182)	247,460	37,069	(71,102)	13,198,559
Interest expense and other financing	1,288,339	1,150,958	-	-	721,490	23,841	5,094	12,633	7,563	(17,201)	3,192,719
Other charges	-	-	-	-	-	-	-	-	-	-	-
Provision for income tax	110,974	1,159,805	-	-	608,482	89,203	11,873	(6,361)	18,773	(18,194)	1,974,553
Net income	(1,054,964)	3,864,677	1,949,824	1,715,828	1,794,632	27,225	(482,149)	241,188	10,733	(35,707)	8,031,287
Other information											
Segment Assets	113,607,185	128,365,903			83,096,728	15,750,677	2,990,810	5,015,961	2,906,256	(75,887,601)	275,845,919
Investments in associates and jointly controlled entities	52,830,907	12,227,427			5,595	-	6,741,867	2,510,736	312,372		74,628,904
Deferred tax assets	736	1,912,581			390,743	4,844	-	-	26,444	250,409	2,585,757
Total Assets	166,438,828	142,505,911	-	-	83,493,065	15,755,521	9,732,676	7,526,697	3,245,072	(75,637,191)	353,060,580
Segment liabilities	48,373,199	69,756,101			42,481,999	7,797,028	336,362	139,821	1,060,374	5,155,392	175,100,275
Deferred tax liabilities	-	525,986			5,183,207	-	5,594	7,462	4,937		5,727,185
Total Liabilities	48,373,199	70,282,086	-	-	47,665,206	7,797,028	341,956	147,283	1,065,311	5,155,392	180,827,460

December 2010											
(in thousands)											
							AC Capital				
	Parent Company	Real Estate and Hotels	Financial Services and Bancassurance	Telecommunications	Water Utilities	Electronics	Information Technology and BPO Services	International	Automotive and Others	Intersegment	Consolidated
REVENUE											
Sales to external customers	521,769	35,352,051			14,747,578	18,611,373	1,129,219	21,704	11,696,222		82,079,916
Intersegment	-	453,944			-	-	13,143	-	60,149	(527,236)	-
Equity in net earnings of associates and jointly controlled entities	(84,111)	905,645	3,806,580	2,988,501	222,401	-	(1,602,876)	(160,832)	48,829	-	6,124,137
Interest income	1,150,173	1,044,289			244,462	16,023	52,704	41,259	2,281	(30,533)	2,520,658
Other income	4,748,235	26,813			415,772	198,707	2,111,151	34,660	251,187	(439,936)	7,346,589
Total revenue	6,336,066	37,782,742	3,806,580	2,988,501	15,630,213	18,826,103	1,703,341	(63,209)	12,058,668	(997,705)	98,071,300
Operating Expenses	1,699,460	28,192,880	-	-	10,751,407	18,416,783	1,501,956	958,314	11,831,724	(994,637)	72,357,887
Operating profit	4,636,606	9,589,862	3,806,580	2,988,501	4,878,806	409,320	201,385	(1,021,523)	226,944	(3,068)	25,713,413
Interest expense and other financing charges	2,353,180	1,539,111			720,095	41,109	50,111	61,318	12,146	(21,081)	4,755,989
Other charges	348,394	221,306			(14,718)	5,458	-	1,511,504	10,800	(10,835)	2,071,909
Provision for income tax	208,682	1,562,090			947,509	155,120	(37,498)	2,451	61,236	-	2,899,590
Income before income associated with noncurrent assets held for sale	1,726,350	6,267,355	3,806,580	2,988,501	3,225,920	207,633	188,772	(2,596,796)	142,762	18,013	15,985,925
Net income	1,726,350	6,267,355	3,806,580	2,988,501	3,225,920	207,633	188,772	(2,596,796)	142,762	18,013	15,985,925
Other information											
Segment Assets	108,855,535	112,035,771			70,664,757	15,501,750	2,419,367	4,630,257	3,073,310	(76,346,697)	240,834,050
Investments in associates and jointly controlled entities	51,346,763	10,846,046			5,595	-	7,152,191	2,323,414	330,870	-	72,004,879
Deferred tax assets	736	2,537,814			31,627	5,049	-	-	26,629	(232,204)	2,369,651
Total Assets	160,203,034	125,419,631	-	-	70,701,979	15,506,799	9,571,558	6,953,671	3,430,809	(76,578,901)	315,208,580
Segment liabilities	54,376,004	56,234,114			30,106,266	7,488,329	353,207	2,939,373	1,654,722	(10,243,267)	142,908,748
Deferred tax liabilities	-	597,668			4,899,775	-	4,111	7,213	5,182	-	5,513,949
Total Liabilities	54,376,004	56,831,782	-	-	35,006,041	7,488,329	357,318	2,946,586	1,659,904	(10,243,267)	148,422,697

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 or 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

In line with its corporate governance infrastructure, Ayala adopted a group-wide enterprise risk management framework in 2002. The Audit and Risk Committee approved the Enterprise Risk Management Policy in 2003 and regularly reviews and updates it. The policy enhances the risk management process and institutionalizes a focused and disciplined approach to managing the company's business risks. The risk management policy was updated in 2008 following the framework and standards recommended by the Committee of Sponsoring Organization.

The risk management framework covers the following:

- Identification and assessment of business risks;
- Development of risk management strategies;
- Assessment, design, and implementation of risk management capabilities;
- Monitoring and evaluation of risk mitigation strategies and management performance; and
- Identification of areas and opportunities for improvement in the risk management process.

The Audit and Risk Committee provides oversight of the risk management function.

In 2008, a more focused enterprise risk management framework was rolled out with the help of an external consultant. This included a formal risk-awareness session and self-assessment workshops with the functional units of the company. The Audit and Risk Committee has initiated efforts to institutionalize an enterprise risk management function across all the subsidiaries and affiliates.

In May 2010, the Chief Finance Officer was appointed as the Chief Risk Officer (CRO) in concurrent capacity.

The CRO oversees the risk management function and provides periodic reports on risk management initiatives and mitigation efforts to the Audit and Risk Committee.

At present, the policy, procedures and processes are under study for further enhancement and a review of the assessment done in 2008 will be undertaken in 2011. The work is in progress and the company shall continue to engage external technical support as it deems necessary to strengthen its Enterprise Risk Management expertise and capabilities.

Ayala's internal auditors monitor the compliance with risk management policies to ensure that an effective control environment exists within the entire Ayala group.

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 June 30, 2011.

	June 2011	
	US\$	Php Equivalent
Assets		
Cash and cash equivalents	113,521	4,920,573
Short-term investments	12,248	530,498
Accounts and notes receivables	5,673	246,373
Other current assets	4,420	191,805
Investment in bonds and other securities	838	36,304
Other noncurrent assets	3,593	155,673
Total assets	140,294	6,081,225
Liabilities		
Accounts payable and accrued expenses	3,399	160,620
Short-term debt	32,419	1,404,708
Long-term debt	294,066	12,741,880
Other noncurrent liabilities	110,138	4,772,128
Total liabilities	440,022	19,079,336
Net foreign denominated liabilities	(299,728)	(12,998,111)

The table below summarizes the exposure to foreign exchange risk of the subsidiaries with functional currency of US\$ (in thousands).

	June 2011	
	Net asset (liabilities)	US\$ equivalent
Foreign currency		
Philippine peso (PhP)	(669,335)	(14,970)
Japanese yen (JPY)	(78,435)	(1,101)
Indian rupee (INR)	(37,301)	(829)
Thai baht (THB)	(1,256)	(37)
Singapore dollar (SGD)	(876)	(438)
Chinese RMB (RMB)	106,837	16,509
Hongkong dollar (HKD)	95,828	12,323
Malaysian rupee (MYR)	4,641	1,531
Euro	1,885	2,799

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).

Currency	Increase (decrease) in Peso per foreign currency depreciation (appreciation)	Effect on profit before tax
US\$	PhP 1.00	(PhP299,728)
	-1.00	299,728
Currency	Increase (decrease) in USD per foreign currency depreciation (appreciation)	Effect on profit before tax
PhP	US\$1.00	(\$669,335)
	-1.00	669,335
JPY	1.00	(78,435)
	-1.00	78,435
INR	1.00	(37,301)
	-1.00	37,301
THB	1.00	(1,256)
	-1.00	1,256
SGD	1.00	(876)
	-1.00	876
RMB	1.00	106,837
	-1.00	(106,837)
HKD	1.00	95,828
	-1.00	(95,828)
MYR	1.00	4,641
	-1.00	(4,641)
Euro	1.00	1,885
	-1.00	(1,885)

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

Consolidated Sales and Services in the first half of 2011 increased by 15% year-on-year to P42.1 billion. This was mainly driven by the strong revenue growth posted by Ayala Land, Inc. (ALI), which rose by 15% as result of higher residential sales and robust commercial leasing businesses. Revenues from Integrated Microelectronics, Inc. (IMI) were likewise up 39% reflecting both organic and inorganic growth following the purchase of PSI Technology. First half consolidated sales and services also reflect six months' revenues of Manila Water Co. (MWC) this year versus only four months' revenues in the same period last year as the company was fully consolidated beginning March of 2010. The growth in consolidated sales and services, however, was partly tempered by the decline in revenues of the automotive unit which was impacted by supply disruptions after the calamities that hit Japan early this year.

Consolidated cost of sales rose at a manageable rate of 7% year-on-year as a result of cost management efforts implemented by both ALI and MWC. Combined with lower interest expense and financing charges, income before tax increased by 19% to P10 billion. Net income attributable to equity holders of Ayala Corporation rose by 12% to P4.9 billion in the first half of the year.

REAL ESTATE

ALI hit a record high in quarterly earnings in the second quarter, pushing first half net income 35% higher to P3.4 billion as revenues increased and margins expanded across its businesses. Revenues grew by 15% driven by strong residential sales and commercial leasing business. Property development revenues grew by 27% with steady completion and bookings of its projects. Residential project launches continued to be well received by the market resulting in record take-up in the second quarter. Revenues from the commercial leasing business of both retail and offices were up 17% as a result of improved occupancy and higher gross leasable areas.

ELECTRONICS

IMI recorded healthy revenue growth with sales up 39% year-on-year, reflecting both organic and inorganic growth. China operations grew by 23% while IMI Philippines' operations also posted growth of 6% driven by volumes from key customers. Higher direct labor costs, however, resulted in a decline in gross profit and margins in the first half of the year, which put net income 52% lower during the period.

WATER

Manila Water achieved steady growth in revenues and earnings. Revenues grew by 6% in the first half of the year to P5.8 billion driven by a combination of tariff adjustment and modest billed volume growth from the East concession zone and from operations in Laguna and Boracay. Net income increased by 2% to P2 billion, inclusive of a mark-to-market loss on its P4-billion bond and higher financing cost due to the P10-billion bond issued earlier this year. Manila Water's customer base continued to expand with 36,000 new service connections coming from the current area as well as expansion areas in the East Zone. Non-revenue water continued to improve across all the three service areas ending at 11.5% in the East zone from 13.5%, 38% in Laguna from 44%, and 24% in Boracay from 35%.

Equity in Net Earnings

Equity in Net Earnings amounted to P3.98 billion in the first half of the year, 27% higher than the P3.14 billion in the first half of 2010 mainly due to the strong performance of Bank of the Philippine Islands, the continued recovery of Globe Telecom, and improvements in Livelt.

BANKING

Bank of the Philippine Islands saw double-digit growth in business volumes, revenues and net income. Net interest income increased by 12% and fee-based income rose by 7% year-on-year. Despite an 11% increase in operating expenses due to one-time CBA-related payments, the bank's net income grew by 11% to P6.2 billion. Loans to customers increased by 16% driven the 24% growth in middle market loans, 20% increase in SMEs, 15% rise in top tier corporate loans and a 13% increase in

consumer loans. Despite an expansion in loan book, asset quality continued to improve with non-performing loan ratio down to 1.8%.

TELECOM

Globe Telecom sustained the momentum of its mobile and broadband businesses with consolidated revenues reaching a new high of P16.6 billion in the second quarter. This put total service revenues in the first half of the year to P33 billion, 7% higher than last year's. This was achieved despite a market that remains fiercely competitive and amidst price and cost pressures. Revenue growth was broad-based with mobile revenues up 5% as bulk and unlimited voice and SMS services continued to grow, along with mobile browsing revenues. Its broadband revenues jumped by 42% as a result of robust subscriber growth and stabilizing ARPU's. Globe's mobile subscribers reached 28.4 million by the end of June, 15% higher year-on-year. Its broadband subscriber base also reached a new high of 1.3 million. As robust revenue growth outpaced the rise in operating expenses and other costs, consolidated EBITDA margin held steady at 55%. Net income in the first six months of the year rose by 9% to P5.5 billion with core net income at P5.6 billion.

BUSINESS PROCESS OUTSOURCING (BPO)

The investee companies of Livelt also achieved healthy revenue growth. Combined revenues were US\$489 million in the first half of the year, of which Livelt's share was US\$152 million, 16% higher than last year, due to the growth of client volumes across all investees. Greater scale and cost efficiencies resulted in Livelt's share of EBITDA increasing by 55% to US\$11 million, Operating Net Income improving to a profit of nearly \$1 million, and Reported Net Loss declining to \$12 million. The Reported Net Loss was driven largely by non-cash charges such as amortization of intangibles for Stream and Integreon's acquisitions, and interest expense related to the leverage buyout of Stream.

Interest & Other Income

Interest income increased by 18% to P1.36 billion due mainly to a higher level of funds invested by the parent company as well as ALI. This also reflects the full semester's interest income of MWC compared to only four months' interest income reflected in the first half of 2010.

Other income declined by 72% to P870 million from P3.1 billion as last year included a revaluation gain of P2.3 billion on the investments in Integreon arising from the entry of Actis in Integreon.

Costs and Expenses

Consolidated cost of sales increased by 8% to P29.3 billion, lower than the rate of growth of consolidated sales and services. This mainly reflects the impact of the continued cost containment measures implemented by ALI and MWC.

General and Administrative Expenses

Consolidated general and administrative expenses increased by 7% to P5.8 billion, largely reflecting the full consolidation of Manila Water into the accounts and higher general and administrative expenses at ALI and IMI.

Interest Expense and Other Financing Charges

Consolidated interest expense and other financing charges increased by 22% to P3.2 billion largely because of higher interest expense of ALI and AC as a result of higher loan balances. This also included the consolidation of MWC's interest expense which amounted to P721 million versus only P452 million in the first half of 2010.

Balance Sheet Highlights

Consolidated cash and cash equivalents and short term investments was at P77.5 billion as of the end of the first half of this year compared to levels at the beginning of the year. This was mainly due to proceeds from fund raising initiatives of ALI, AC parent company, and MWC in anticipation of planned capital expenditures. As a result, consolidated loans payable rose by 35% or nearly P30 billion to P112.2 billion due to new loans availed by AC, ALI, and MWC early this year. Despite the increase in

debt level, consolidated current ratio and net debt to equity ratio remain healthy at 2.29 and 0.31, respectively as of the end of the first half of 2011.

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 and planned expenditures amidst increases in borrowing.

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

	YTD June 30, 2011	YTD June 30, 2010
Revenue	48,324 million	44,193 million
Net income	4,935 million	4,421 million
Basic earnings per share 1/	9.05	7.81
	As of June 30, 2011	As of June 30, 2010
Current Ratio 2/	2.29	2.54
Debt-to-Equity Ratio 3/	1.03	0.79

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 2011, Ayala Land's consolidated budget for project and capital expenditures amount to P32.6 billion. About 46% is earmarked for residential developments, 14% for offices, 13% for shopping centers, and the balance for hotels and resorts, commercial and industrial lot development, land acquisition, and other land development activities in the Company's strategic landbank areas. This will be financed through a combination of internally-generated funds, borrowings and pre-selling.

For the first six months of 2011, ALI's consolidated project and capital expenditures amounted to P12.5 billion, about 38% of the P32.6 billion budget for the whole year. About 66% was spent for residential projects, 17% for land acquisition, 9% for shopping centers, 11% for hotels and resorts, and the balance spent on offices, commercial and industrial lot development, and other land development activities in the Company's strategic landbank areas.

MWCI expects P11.7 billion capital expenditures in 2011 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.

At the parent Company level, projected capital expenditure will be at P8.1 billion to complement allotment by its major subsidiaries, all to address opportunities in the existing market and certain new sectors.

- 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. Significant fluctuations of the foreign exchange rates may also impact on the electronics manufacturing and information technology and business process groups.

- 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
(June 30, 2011 Vs. December 30, 2010)**

Cash and cash equivalents – 39% increase from P53,143mln to P73,611mln

Dividends received net of dividends paid and disbursements to fund various investments by the parent company. Also contributing were proceeds from loans of the parent company, real estate and water utilities groups; improvement in sales of various groups partially offset by investments of the real estate and international operations groups. As a percentage to total assets, cash and cash equivalents increased to 21% from 17% as of June 30, 2011 and December 31, 2010, respectively.

Accounts receivable – 16% increase from P26,184mln to P30,344mln

Increase due to the higher sales of the real estate, electronics and water utilities groups. This account is at 9% of the total assets as of June 30, 2011 and 8% as of December 31, 2010.

Inventories – 11% increase from P18,375mln to P20,359mln

Increase due to the reclassification from land and improvements to saleable inventories and developments in new and existing projects of the real estate group; higher inventory of the electronics manufacturing and automotive groups. This account is at 6% of the total assets as of June 30, 2011 and December 31, 2010.

Other current assets – 61% increase from P6,912mln to P11,137mln

Increase due to the higher prepaid expenses arising from new projects offset by matured fixed income securities of the real estate group; acquisition of certain investments of the international operations group. This account is at 3% and 2% of the total assets as of June 30, 2011 and December 31, 2010, respectively.

Deferred tax assets – 6% decrease from P2,750mln to P2,586mln

Due to lower deferred tax items of the real estate group. As of June 30, 2011 and December 31, 2010, this account remained at 1% of the total assets.

Pension assets – 5% increase from P191mln to P200mln

Increase in pension assets of the electronics manufacturing group. This account is at 0.1% of the total assets as of June 30, 2011 and December 31, 2010.

Intangible assets – 14% increase from P3,083mln to P3,520mln

Mainly caused by recording of preliminary goodwill arising from acquisition by a subsidiary under information technology & business process and power initiatives groups. As of June 30, 2011 and December 31, 2010, this account is at 1% of the total assets, respectively.

Accounts payable and accrued expenses – 9% increase from P37,897mln to P41,169mln

Primarily caused by increase in payables of the real estate group arising from new projects and expansion; and higher payables due to better operations of water utilities and electronics manufacturing groups. This account is at 23% and 25% of the total liabilities as of June 30, 2011 and December 31, 2010.

Short-term debt – 17% increase from P4,519mln to P5,301mln

Mainly caused by availments of the real estate and electronics manufacturing groups to support higher sales and inventory purchases; partially offset by lower loans balance of automotive group on account of lower inventories. Short-term debt remained at 3% of the total assets as of June 30, 2011 and December 31, 2010.

Income tax payable – 21% increase from P441mln to P533mln

Higher taxable income of most of the subsidiaries. As a percentage to total liabilities, this account is at 0.3% as of June 30, 2011 and December 31, 2010.

Current portion of long-term debt – 10% decrease from P11,237mln to P10,102mln

Largely due to payment of matured loans of electronics manufacturing, water utilities and other groups. As of June 30, 2011 and December 31, 2010, current portion of long-term debt is at 6% and 8% of the total liabilities, respectively.

Service concession obligation – current portion – 28% increase from P794mln to P1,017mln

A liability account of the water utilities group which was fully consolidated starting 2010. Increase was mainly due to higher computed and actual obligation due within one year. This account is at 3% and 5% of the total liabilities as of June 30, 2011 and December 31, 2010.

Non-current portion of long-term debt – 44% increase from P67,080mln to P96,816mln

Mainly new loans availed and new notes payable/bonds issued by the parent company, real estate and water utilities groups offset by payments by the international operations group. As of June 30, 2011 and December 31, 2010, non-current portion of long-term debt is at 54% and 45% of the total liabilities, respectively.

Service concession obligation – non-current portion – 15% decrease from P7,026mln to P6,101mln

A liability account of the water utilities group which was fully consolidated starting 2010. Decline mainly due to settlement and to reclassification to current portion. This account is at 3% and 5% of the total liabilities as of June 30, 2011 and December 31, 2010, respectively.

Pension liabilities – 10% increase from P341mln to P367mln

Largely on account of increase in water utilities group. This account stood at 0.2% of the total liabilities as of June 30, 2011 and December 30, 2010, respectively.

Paid-up capital – 13% increase from P37,855mln to P42,786mln

Declaration of the company of stock dividend during the semester. This account is 25% and 23% of total equity as of June 30, 2011 and December 31, 2010.

Subscriptions receivable – 5% decrease from P604mln to P577mln

Collection of subscriptions by the parent company for the first semester of the year. This account is 0.3% of total equity as of June 30, 2011 and December 31, 2010.

Net unrealized gain on available-for-sale financial assets – 37% decrease from P1,129mln to P711mln

Mainly due to decline in the market prices of securities held by the financial services group.

Equity reserve – 45% increase from P148mln to P215mln

Arising from business combination transactions of real estate, electronics and electronics manufacturing groups.

Treasury stock – 12% increase from P4,832mln to P5,411mln

Mainly due to continuous share buy-back program of the company.

Income Statement items

(YTD June 30, 2011 Vs YTD June 30, 2010)

Sales and services revenue – 15% increase from P36,769mln to P42,119mln

Improved sales performance of real estate, electronics and water utilities groups plus effect of full consolidation of the water utilities group for six months in 2011 vs. four months in 2010; offset by lower sales performance of the automotive and others group. As a percentage to total income, sales and services is 83% to 87% in 2010 and 2011, respectively.

Equity in net earnings of associates and jointly ventures – 27% increase from P3,140mln to P3,979mln

Increase mainly due to improved earnings of financial services and tele-communications groups. As a percentage to total income, this account is 7% to 8% in 2010 and 2011, respectively.

Interest income – 18% increase from P1,150mln to P1,356mln

Improved income arising from higher investible funds by the parent company, real estate and water utilities groups. This account is 3% of the total income in 2011 and 2010.

Other income – 72% decrease from P3,134mln to P870mln

2010 income included a gain of the information and business process group. This account is at 2% and 7% of the total income in 2011 and in 2010, respectively.

Costs of sales and services – 8% increase from P27,015mln to P29,283mln

Increase attributable to higher sales of the real estate, electronics and water utilities groups; offset partially by lower costs of automotive and others group. Cost of sales account is at 76% and 75% of total costs and expenses in 2011 and 2010.

General and administrative – 7% increase from P5,444mln to P5,843mln

Increase mainly due to impact of consolidating water utilities group for whole semester vs. its four-month consolidated results in 2010. General and administrative expense is at 15% of the costs and expenses in 2011 and 2010.

Interest expense and other financing charges – 22% increase from P2,625mln to P3,193mln

Increase mainly due to higher borrowings of the parent company, real estate and water utilities groups. This expense classification accounts for 8% and 7% of costs and expenses in 2011 and 2010.

Other charges – 100% decrease from P706mln in 2010

Decrease mainly due to impairment provisions by the international group in 2010. This expense classification accounts for 2% of costs and expenses in 2010.

Provision for income tax – 23% increase from P1,599mln to P1,975mln

Primarily due to higher taxable income of the majority of the subsidiaries significant part of which comes from real estate, electronics and water utilities 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, with higher sales experienced in the fourth quarter from shopping centers due to holiday spending.

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.

Awarding by the Provincial Government of Negros Occidental to ALI of the right to purchase 3.66 hectares of the Provincial Capitol Property, and to lease the remaining 4.04 hectares for a period of 50 years

3.0 Other material events or transactions during the interim period.

The Company on May 12, 2011 issued the P10,000,000,000.00 6.80% Fixed Rate Multiple Put Bond, due 2021. Part of the proceeds were used to redeem the P5.8 Bn Ayala Corporation Preferred B shares in July 2011.

ALI raised Php10 billion through an issuance of fixed-rate corporate notes consisting of Php5.7 billion in 5-year notes, Php3.3 billion in 10-year notes and Php1.0 billion in 15-year notes with interest rates of 5.625%, 6.875% and 7.500%, respectively.

ALI secured a 7.4-hectare property along Katipunan Avenue in Quezon City through a long-term lease with the University of the Philippines for a mixed-use retail and office development.

Signed MoA between Alveo and the Philippine Racing Club, Inc. for the joint development of a 21-hectare property in Makati (former Sta. Ana racetrack).

Divestment of ALI's 17% effective stake in ARCH Capital Management Co., Ltd and ARCH Capital Asian Partners, G.P.

MWCI issued P10.0 billion notes ("Fixed Rate Corporate Notes"), P5.0 billion with an interest rate of 6.3385% payable in 5 years ("Five-Year FXCN Note"). The balance of P 5.0 billion has an interest rate of 7.3288% with a 10 year ("Ten-Year FXCN Note") term from the issue date. Interest on both notes is payable quarterly.

PART II – OTHER INFORMATION

1. The annual meeting of stockholders of Ayala Corporation was held at the grand Ballroom of the Hotel InterContinental Manila on April 18, 2011.
2. The Board of Directors at its special meeting held on February 22, 2011 approved the following:
 - a. The increase of the authorized capital stock from P37 billion to P56.2 billion through the increase in the number of common shares from 596,000,000 shares to 900,000,000 shares with a par value of P50 per share, and the creation of 40,00,000 Series C preferred shares with par value of P100 per share and the same basic features as the Series A and Series B preferred shares.
 - b. The amendment of Article VII of the Articles of Incorporation to reflect the increase and other changes in the capital stock as stated above.
 - c. The declaration of a 20% stock dividend to all common stockholders to be issued from the issuance in authorized capital stock of the Corporation.
 - d. The increase in the compensation of non-executive directors from P11M to P2.4M effective 2011-2012 board term.
 - e. The amendment of (i) Article IV, Section 21 of the By-laws to authorize the Board to fix the compensation of directors subject to certain limits, and (ii) Article III, Section 3 of the By-laws to provide for electronic communication to shareholders.
3. Ayala Corporation (AC) and Ayala Land, Inc. (ALI) exchanged their ownership interests in ARCH Capital Management Company Limited (ARCH Capital) and ARCH Capital Asian Partners, G.P., (together ARCH) with the Rohatyn Group (TRG), resulting in TRG acquiring AC's and ALI's combined 50% interest in ARCH.
4. Ayala Corporation posts 37% increase in profits to P11.2B in 2010.
5. The Board of Directors at its regular meeting held on March 14, 2011 approved the following:
 - a. The offer and issuance of the Ayala Peso Multiple Puttable Bonds (the Bonds) in the principal amount of P6 Billion with an oversubscription of up to P4 Billion.
 - b. The exercise of the call option on the Preferred B shares on the 5th year from Issue Date of the said shares or on July 21, 2011. The Preferred B shares shall be redeemed at a redemption price equal to the Issue price plus all accrued and unpaid dividends up until July 21, 2011 based on the dividend rate of 9.4578% per annum.
 - c. The declaration and payment of the annual cash dividends of 5.2817% per annum to all shareholders of the company's outstanding unlisted Voting preferred Shares with record date of April 26, 2011 and payment date of May 20, 2011.
6. Ayala Corporation, through Michigan Power, Inc., a 100%-owned subsidiary, acquired a 50% effective stake in Northwind Power Development Corporation (Northwind). Northwind owns and operates the 33-MW wind farm located in Bangui Bay, Ilocos Norte.
7. Ayala Corporation on March 14, 2011 filed with the Securities and Exchange Commission the Registration Statement covering the offering and issuance of the Ayala Peso 6.80% Multiple Put Bonds due 2021 in the principal amount of P6 Billion, with an oversubscription option of up to P4 Billion to refinance the 5.8Bn Preferred B shares which were called July 2011.
8. Ayala Corporation reported various purchases of common shares pursuant to the share buyback program approved by the Board of Directors on 10 September 2007, 02 June 2010 and 10 December 2010.
9. Ayala Corporation through its wholly-owned subsidiary Michigan Power, Inc. (MPI) entered into a joint venture (JV) with Sta. Clara Power Corporation (SCP) for the development of run-of-the-river hydroelectric power projects across the Philippines. MPI will take a 70% stake in the JV and has committed an initial equity infusion of about P600 million.

10. At the annual meeting of stockholders held April 18, 2011, the stockholders approved the following:

- a. The ratification of increase of the authorized capital stock from P37 billion to P56.2 billion through the increase in the number of common shares from 596,000,000 shares to 900,000,000 shares with a par value of P50 per share, and the creation of 40,00,000 new Series C preferred shares with par value of P100 per share.
- b. The ratification of amendment of Article VII of the Articles of Incorporation to reflect the increase and other changes in the capital stock as stated above.
- c. The declaration of a 20% stock dividend to all common stockholders equivalent to 96,983,420 common shares to be issued from the increase in authorized capital stock of the Corporation.
- d. Election of Sycip, Gorres, Velayo & Co. as the external auditors of the Company for the fiscal year 2011.
- e. Election of the following as directors:

Jaime Augusto Zobel de Ayala	Delfin L. Lazaro
Fernando Zobel de Ayala	Xavier P. Loinaz*
Ramon R. del Rosario, Jr.*	Antonio Jose U. Periquet*
Nobuya Ichiki	

 Elected as independent directors*
- f. The increase in the compensation of non-executive directors

	From	To
Retainer fee	500,000.00	1,200,000.00
Board Meeting Fee per meeting attended	100,000.00	200,000.00
Audit Com Meeting Fee per meeting attended	20,000.00	100,000.00
Other Com Meeting Fee per meeting attended	20,000.00	50,000.00

At its organizational meeting held immediately after the stockholders' meeting, the Board of Directors elected the following:

Board Committees and Memberships:

Executive Committee

Jaime Augusto Zobel de Ayala – Chairman
 Fernando Zobel de Ayala – Member
 Nobuya Ichiki – Member

Audit and Risk Committee

Xavier P. Loinaz – Chairman
 Nobuya Ichiki - Member
 Ramon R. del Rosario, Jr.- Member

Nomination Committee

Ramon R. del Rosario, Jr.- Chairman
 Jaime Augusto Zobel de Ayala – Member
 Fernando Zobel de Ayala – Member

Proxy Validation Committee

Soloman M. Hermosura – Chairman
 Jaime P. Villegas - Member
 Rufino F. Melo III – Member

Personnel and Compensation Committee

Ramon R. del Rosario, Jr. – Chairman
 Delfin L. Lazaro – Member
 Nobuya Ichiki – Member

Finance Committee

Delfin L. Lazaro – Chairman
 John Eric T. Francia – Member
 Antonio Jose U. Periquet – Member
 Gerardo C. Abalza, Jr. – Member
 Delfin C. Gonzalez – Member

Officers:

Jaime Augusto Zobel de Ayala
 Fernando Zobel de Ayala
 Mercedita S. Nolleto
 Gerardo C. Ablaza, Jr.
 Antonino T. Aquino
 Rufino Luis T. Manotok
 Arthur R. Tan
 Alfredo I. Ayala
 John Eric T. Francia
 Victoria P. Garchitorena
 Delfin C. Gonzalez, Jr.
 Solomon M. Hermosura

Chairman & Chief Executive Officer
 Vice Chairman, President & Chief Operating Officer
 Senior Counsel
 Senior Managing Director
 Senior Managing Director
 Senior Managing Director
 Senior Managing Director
 Senior Managing Director
 Managing Director
 Managing Director
 Managing Director
 Managing Director & Chief Finance Officer
 Managing Director, General Counsel, Corporate Secretary & Compliance Officer

Rufino F. Melo III	Managing Director
Ramon G. Oplencia	Managing Director and Treasurer
John Philip S. Orbeta	Managing Director
Ginaflor C. Oris	Managing Director
Sheila Marie U. Tan	Assistant Corporate Secretary

Ayala Group of Companies Management Committee:

Jaime Augusto Zobel de Ayala	Chairman & Chief Executive Officer, Ayala Corp.
Fernando Zobel de Ayala	President & Chief Operating Officer, Ayala Corp.
Gerardo C. Ablaza, Jr.	President, Manila Water Company, Inc.
Antonino T. Aquino	President, Ayala Land, Inc.
Alfredo I. Ayala	Chief Executive Officer, Livelt Investments, Ltd.
Ernest Lawrence L. Cu	President, Globe Telecom, Inc.
John Eric T. Francia	Group Head, Corporate Strategy and Development, Ayala Corporation
Victoria P. Garchitorena	President, Ayala Foundation, Inc.
Delfin C. Gonzalez, Jr.	Chief Finance Officer, Ayala corporation
Solomon M. Hermosura	Group Head, Legal and Compliance, Ayala Corp.
Rufino Luis T. Manotok	Chairman, Ayala Automotive Holdings Corporation
Aurelio R. Montinola III	President, Bank of the Philippine Islands
John Philip S. Orbeta	Group Head, Corporate Resources, Ayala Corp.
Arthur R. Tan	President, Integrated Micro-Electronics, Inc.

Ayala Corporation Management Committee:

Jaime Augusto Zobel de Ayala
Fernando Zobel de Ayala
Gerardo C. Ablaza, Jr.
John Eric T. Francia
Delfin C. Gonzalez, Jr.
Solomon M. Hermosura
John Philip S. Orbeta

11. There were changes in the figures presented in the Audited Financial Statements contained in Ayala Corporation's Definitive Information Statement. These changes or adjustments pertain to certain items in the Notes to Consolidated Financial Statements and will not change the Company's Consolidated Statements of Financial Position as of December 31, 2010 and 2009 and the related Consolidated Statements of Income for the years then ended. These changes will be incorporated in the Company's Annual Report (with Audited Financial Statements).
12. Ayala Corporation's Business Process Outsourcing (BPO) investment company, LiveIT Investments Ltd., announced that its investee company HRMall (the "Company"), which provides outsourced IT-enabled HR services out of Manila, has entered into a definitive agreement to acquire IQ Back Office, LLC of Angeles, California, which delivers high quality, software-enabled, real-time, SAS70 Type II-certified finance and accounting BPO services to mid-sized companies in the U.S.
13. The Board of Directors, at its regular meeting, considered and approved the declaration of a regular cash dividend of P2.00 per share corresponding to the first semester ending June 30, 2011, on outstanding common shares of the Corporation's capital stock as of record date June 30, 2011, paid on July 26, 2011.

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:



RUFINO F. MELO III
Authorized Signatory
Managing Director and Controller
(Principal Accounting Officer)

Date: August 15, 2011

