MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FY21 vs FY20 Highlights

Ayala Corporation's net profits grew 62 percent to ₱27.8 billion in 2021, primarily driven by realized income from the execution of strategic initiatives in the group, boosted by the improved performance of Ayala Land and BPI.

Ayala posted gains from executed transactions during the year, including the remeasurement of its stake in Manila Water following the sale of secondary shares to Trident Water, the sale of the Ayala group's stake in GNPower Kauswagan, and the entry of a new investor in Mynt.

Ayala's businesses recorded higher net profits during the year:

- **Ayala Land's** net income grew 40 percent to ₱12.2 billion on the account of resilient operations, supported by relaxed quarantine restrictions in the fourth quarter of 2021.
- **BPI's** net income increased 12 percent to ₱23.9 billion because of lower loan loss provisions and record-high fee income.
- **Globe's** net income rose 27 percent to ₱23.7 billion from higher results from all data-related revenues, gain from the deemed sale of investment in Mynt, and the impact of the CREATE law. These offset the impairment costs from the network related damages caused by Typhoon Odette.
- **ACEN's** net income increased 22 percent to ₱5.3 billion as robust earnings from its international assets supported softness in Philippine operations.

Excluding gains and other one-offs, Ayala's core net income decreased 10 percent to ₱23.5 billion, mainly driven by weaker net interest income in BPI, higher depreciation expense in Globe, and reduced stake in ACEN following the completion of its capital market issuances and sale of secondary shares to GIC combined with higher financing cost taken up at the AC Energy parent level.

4Q21 vs 4Q20 Highlights

Ayala's net income grew 46 percent to ₱8.4 billion in the fourth quarter compared to the same period in the previous year, also driven by the abovementioned realized gains.

Consolidated Sales of Goods and Rendering of Services

Sale of goods and rendering services increased 17 percent to ₱225.6 billion mainly due to higher residential bookings, incremental project completion, and construction services in Ayala Land, better operation across all sites in IMI, higher vehicle sales in AC Motors on the back of looser quarantine restrictions, and higher revenues in AC Energy from the consolidation of Islasol and Sacasol, and the consolidation of QualiMed into AC Health.

Real Estate

AyalaLand

- Total revenues increased 10 percent to ₱106.1 billion and its net income grew 40 percent to ₱12.2 billion on the account of resilient operations, supported by relaxed quarantine restrictions in the fourth quarter of 2021.
- Property development revenues were up 14 percent to ₱75.9 billion on continuing construction progress and higher bookings.
- Residential sales reservations in 2021 grew 13 percent to ₱92.2 billion largely from the strong demand for horizontal projects in Southern Luzon by Ayala Land Premier and ALVEO. Sales reservations from lot sales alone jumped 36 percent to ₱41.5 billion during the year.
  - Fourth quarter sales take-up posted a five percent growth to ₱22.1 billion compared to the same quarter in 2020.
  - Launched a total of 22 projects worth ₱75.3 billion, seven times more in 2020.
- Commercial leasing revenues declined five percent to ₱20.6 billion given limited operations most of the year.
  - Shopping center leasing revenues went down 13 percent to ₱7.9 billion. With improved mobility in the fourth quarter, revenues reached ₱3 billion, double the level generated in the same quarter a year ago.
  - Office leasing income grew five percent to ₱9.9 billion as BPO and HQ operations remained stable throughout the period.
  - Hotels and resorts revenues decreased 12 percent to ₱2.8 billion, improving from the first nine months as resort operations were able to host 35 travel bubbles in the fourth quarter, partially cushioning travel restrictions and lower hotel occupancy earlier in the year.
- Capital expenditures reached ₱64 billion in 2021, more than half of which went to the completion of its residential projects.
- The company has earmarked ₱90 billion in capital expenditures and is prepared to launch ₱100 billion-worth of residential projects in 2022.
- In January 2022, the Boards of Ayala Corporation and Ayala Land approved the property-for-share swap with each other and Mermac, Inc. Under the transaction, AC and Mermac will transfer five assets to ALI in exchange for 311,580,000 primary common shares at a value of ₱55.80 per share, as validated by a third-party fairness opinion. The acquisition further expands Ayala Land's land bank and commercial assets, which will create value for stakeholders.

Power

ACEN

- Net income increased 22 percent to ₱5.3 billion as robust earnings from its international assets supported softness in Philippine operations.
- Equity earnings from international plants soared 51 percent to ₱4.9 billion, driven by operating capacity with the commencement of operations of new wind farms in Vietnam and solar farms in India.
- Earnings contribution from its Philippine plants decreased 17 percent to ₱3.1 billion as the start of operations of the Palauig and Alaminos solar farms was outweighed by increased cost of purchased power due to higher spot market prices. Without one-off retroactive feed-in tariff adjustment booked in 2020, earnings from the Philippine assets would have been flat.
- Attributable output increased 21 percent to 4.6 gigawatt hours, driven by higher operating capacity and increased dispatch of thermal plants.
  - Generation from international plants grew 24 percent because of additional capacity from new wind farms in Vietnam and solar farms in India.

- ▹ Output from Philippine plants was up 20 percent to 2.7 gigawatt hours due to improved utilization of peaking thermal plants, in addition to the start of operations of the Alaminos and Palauig solar farms.
- The company has 3,751 MW of attributable capacity in its portfolio (pro forma), of which 87 percent is renewable. 63 percent of the portfolio is already operating.
- In line with its aggressive portfolio expansion in the Philippines, Vietnam, India, and Australia, ACEN invested a total of ₱33.1 billion in capital expenditures in 2021.
  - With various projects and announced acquisitions slated in 2022, ACEN has earmarked a CAPEX budget of ₱55 billion this year.
- In February, ACEN, through its wholly owned subsidiary, AC Energy Vietnam, signed an agreement to acquire a 49 percent stake in Solar NT, which is owned by Thailand's Super Energy Corporation.
  - Upon completion of internal restructuring, Solar NT will fully own and operated 837 MW of solar projects in Vietnam.
  - The investment brings ACEN's attributable international capacity to more than 2,200 MW, of which more than 1,000 MW are in Vietnam.

Share in Net Profits of Associates and JV

Share in net profits of associates and joint ventures increased 33 percent to ₱23.4 billion due to higher revenues from home broadband and the lower tax expense from the impact of the CREATE law in Globe, lower loan loss provisions in BPI, higher equity in net earnings resulting from GNPD's liquidating damages in AC Energy, and better performance from associates and joint ventures of Ayala Land. This also includes share in net earnings of Manila Water from June to December 2021. As a percentage of total revenues, this account was nine percent and eight percent on December 31, 2021 and December 31, 2020, respectively.

Banking

BPI

- Net income increased 12 percent to ₱23.9 billion because of lower loan loss provisions and record-high fee income.
- Total revenues decreased four percent to ₱97.4 billion because of softer net interest income and non-interest income.
  - Net interest income was down four percent to ₱69.6 billion as net interest margin contracted by 19 basis points to 3.3 percent, driven by lower yields across most loan portfolios and treasury assets.
  - Non-interest income went down six percent to ₱27.8 billion on the back of lower trading income that was tempered by a 23 percent growth in fee income.
- Total loans rose five percent to ₱1.5 trillion primarily from higher mortgage, credit card, and microfinance loans.
- Total deposits grew 14 percent to ₱2 trillion with CASA and time deposits expanding 10 percent and 28 percent, respectively.
  - CASA ratio stood at 77 percent.
  - Loan-to-deposit ratio ended at 75.5 percent.
- NPL ratio stood at 2.49 percent and NPL coverage ratio settled at 136.1 percent. These improved by 19 basis points and 21 percentage points, respectively.
- Operating expenses increased five percent to ₱50.7 billion because of higher technology cost.
  - Cost-to-income ratio stood at 52.1 percent.
- Total assets grew eight percent to ₱2.4 trillion. Total equity amounted to ₱293.1 billion.
  - Indicative common equity tier 1 ratio stood at 15.8 percent.
  - Indicative capital adequacy ratio stood at 16.7 percent.
  - Return on assets was 1.1 percent.
  - Return on equity was 8.4 percent.
- In line with the increased demand for banking services in the digital space, BPI created its digital governance framework and launched its 7 Client Engagement Platforms in 2021 to better serve its clients across different segments.
  - On top of its four existing platforms Express Online, BPI Trade, BizLink, and BanKo app, BPI is on track to launch BizKo for its SME partners. BizKo is tailored to the needs of SME clients providing them solutions for payments, payroll, invoicing, billing, and collection.
  - BPI is also working on the sixth and seventh installments of the framework, which are both slated to be launched in the second half of 2022. BPI will also launch its BPI Trade app within the year.

Telco

Globe

- Net income rose 27 percent to ₱23.7 billion from higher results from all data-related revenues, gain from the deemed sale of investment in Mynt, and the impact of the CREATE law. These offset the impairment costs stemming from Typhoon Odette.
  - Lower Non-operating expenses were mainly due to the gain of ₱4.3 billion from the deemed sale of investment in Mynt, partially offset by the impairment cost of ₱1.2 billion from the network related damages caused by Typhoon Odette. These also include the upside impact of the CREATE law and higher equity share in affiliates.
- The company's core net income, which excludes the impact of non-recurring charges and foreign exchange and mark-to-market changes, increased nine percent to ₱21.2 billion.
- Total service revenues grew four percent to ₱151.5 billion due to home broadband and corporate data from increased data consumption. Total data revenues accounted for 80 percent of Globe's service revenues compared to the year-ago level of 76 percent.
- Growth in demand for data was evident in the upward momentum of all data-related segments of Globe.
  - Mobile data revenues increased seven percent to ₱77.8 billion.
  - Mobile data traffic jumped 48 percent to 3,733 petabytes.
  - Home broadband revenues grew 10 percent to a record-high ₱29.4 billion.
  - Home broadband subscriber base stood at 3.7 million subscribers as fixed wired subscribers grew by 31 percent, leading to a 26 percent improvement in fixed wired revenues. Fixed wireless subscribers declined 11 percent as users shift out of the fixed wireless service to the more consistent and reliable wired service.
  - Corporate data revenues grew 12 percent to ₱14.2 billion mostly from growth from domestic services and information and communication technology.
- Operating expenses including subsidies increased five percent to ₱76.6 billion due to higher spending to support its aggressive upgrades and expenses related to restoration, repair, and services costs resulting from Typhoon Odette.
- EBITDA increased two percent to ₱74.9 billion due to topline improvement while EBITDA margin slightly contracted to 49 percent because of the impact of Typhoon Odette.
- Aligned with its thrust to expand its data businesses, Globe's CAPEX increased by 54 percent to an all-time high of ₱92.8 billion, representing 61 percent of gross service revenues and 124 percent of EBITDA. About 86 percent went to data-related requirements:
  - Built 1,407 new cell sites nationwide for both 4G LTE and 5G
  - Upgraded over 22,300 mobile sites
  - Expanded 5G coverage to over 2,000 sites
  - Rolled out 1.4 million FTTH lines on the home broadband front
- For 2022, Globe is earmarking ₱89 billion in CAPEX to continue its aggressive network expansion to boost internet quality and coverage in the country.

- Globe is moving towards becoming a digital solutions company, leveraging its core telco business to tap the shifting consumer landscape, which is being heavily influenced by digital adoption. Within its portfolio are high-growth enterprises in fintech, healthtech, adtech, and e-commerce among others.
    - GCash reached positive full year EBITDA and profitability three years ahead of its target. It has 55 million registered users, which drove gross transaction value to increase three times to ₱3.8 trillion in 2021.
    - In healthtech, HealthNow has 800,000 customers, processing 15,000 to 20,000 medicine delivery orders daily. KonsultaMD exhibited strong growth with more than a doubling of revenue, reaching over 1 million members across 50,000 retail outlets nationwide.
    - AdSpark, the largest locally-based ad agency, grew its revenues 32 percent to ₱1.2 billion.
    - RUSH, the leading loyalty solutions provider in the Philippines, doubled its revenue in 2021 and has 3.8 million registered users.

Cost and Expenses

- Cost of sales and services increased 22 percent to ₱175.9 billion, in line with higher sale of goods and rendering services. As a percentage of total costs and expenses, this account was 85 percent and 82 percent on December 31, 2021 and December 31, 2020, respectively.
- General and administrative expenses decreased six percent to ₱30.3 billion due to cost- saving measures across business units, lower overhead costs in **Ayala Land** and **AC Industrials** offset by higher taxes and licenses in **AC Energy**. As a percentage of total cost and expenses, this account was 15 percent and 18 percent on December 31, 2021 and December 31, 2020, respectively.

Balance Sheet Highlights

- Total assets decreased four percent to ₱1.35 trillion from end-2020 level mainly due to the 94 percent decrease of Assets under PFRS 5 to ₱12.4 billion because of the deconsolidation of Manila Water.
    - Cash & cash equivalents and Short-term investments jointly increased two percent to ₱91.4 billion resulting from dividend collection, proceeds from the SRO, FOO, and issuance of shares to GIC in ACEN, inflows from bond issuances in **AC Energy**, AYCFL, and AC, net borrowings of AC and certain BUs, and sale of receivables by ALI. These were partially offset by capital infusions, purchase of **Ayala Land** shares, redemption of treasury shares by AC and ALI, dividend payout, and payment of trade payables and lower cash collections in certain business units.
    - Noncurrent receivables increased 45 percent to ₱83.3 billion from higher accounts of **AC Energy** group.
- Investments in associates and joint ventures increased 15 percent to ₱294.1 billion due to retained investments in Manila Water, equity earnings partially offset by dividends from **BPI** and **Globe**, additional investments of **Ayala Land** and **AC Energy**, higher equity earnings from their investees, and restructuring of receivable to investment in BHL.
- Parent level cash stood at ₱20.2 billion.
- Net debt stood at ₱115 billion.
- Parent net debt-to-equity ratio stood at 90 percent.
- Consolidated net debt-to-equity stood at 68 percent.
- Loan-to-value ratio, the ratio of its parent net debt (excluding the fixed-for-life perpetuals which have no maturity) to the total value of its assets, was at 6.7 percent.
- Parent blended cost of debt at 4.3 percent ending December 2021, with average remaining life of 19.5 years.
- In 2021, the Ayala group's combined capital expenditure reached ₱228 billion and ₱18 billion at the parent level. Ayala parent capex was channeled mostly to the purchases of shares in **Ayala Land.**
- For 2022, Ayala has allocated ₱285 billion in group CAPEX, with ₱24 billion earmarked for Ayala parent to fund investment opportunities.