NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of **AYALA LAND, INC.** will be held at the Ballroom 2, Fairmont Makati, 1 Raffles Drive, Makati Ave., Makati City, on **Wednesday, April 17, 2013** at **9:00 o'clock in the morning** with the following

A G E N D A

1. Proof of Notice and Determination of Quorum
2. Approval of Minutes of Previous Meeting
3. Annual Report
4. Ratification of All Acts and Resolutions of the Board of Directors and of the Executive Committee Adopted During the Preceding Year
5. Amendment of Article Seventh of the Articles of Incorporation to Exempt the Sale of Treasury Shares from Pre-emptive Rights
6. Election of Directors (including the Independent Directors)
7. Election of External Auditor and Fixing of their Remuneration
8. Consideration of Such Other Business as May Properly Come Before the Meeting
9. Adjournment

Only stockholders of record at the close of business on **February 18, 2013** are entitled to notice of, and to vote at, this meeting.

Makati City, March 8, 2013.

SOLOMON M. HERMOSURA
Corporate Secretary

We are not soliciting your proxy. However, if you would be unable to attend the meeting but would like to be represented thereat, you may accomplish the herein proxy form and submit the same on or before **April 5, 2013** to the Office of the Corporate Secretary at 3/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. Validation of proxies shall be held on April 10, 2013 at 9:00 a.m. at the Office of the Corporate Secretary. Thank you.

PROXY

The undersigned stockholder of **AYALA LAND, INC.** (the "Company") hereby appoints ______________________ or in his absence, the Chairman of the meeting, as *attorney* and *proxy,* with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the annual meeting of stockholders of the Company on April 17, 2013 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of minutes of previous meeting.
   ❑ Yes ❑ No ❑ Abstain

2. Approval of annual report.
   ❑ Yes ❑ No ❑ Abstain

3. Ratification of all acts and resolutions of the Board of Directors and Management adopted during the preceding year.
   ❑ Yes ❑ No ❑ Abstain

4. Amendment of Article Seventh of the Articles of Incorporation to exempt the sale of Treasury Shares from pre-emptive rights
   ❑Yes ❑No ❑Abstain

5. Election of Directors
   ❑ Vote for all nominees listed below
   Fernando Zobel de Ayala
   Jaime Augusto Zobel de Ayala
   Antonino T. Aquino
   Delfin L. Lazaro
   Aurelio R. Montinola III
   Mercedita S. Nolledo
   Francis G. Estrada (Independent)
   Jaime C. Laya (Independent)
   Oscar S. Reyes (Independent)

   ❑ Withhold authority for all nominees listed above

   ❑Withhold authority to vote for the nominees listed below:

   ________________ ________________
   ________________ ________________
   ________________ ________________

6. Election of SyCip Gorres Velayo & Co. as the independent auditor and fixing of their remuneration.
   ❑ Yes ❑ No ❑ Abstain

7. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.
   ❑ Yes ❑ No

____
PRINTED NAME OF STOCKHOLDER

____
SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY

____
DATE

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **APRIL 5, 2013**, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

NOTARIZATION OF THIS PROXY IS NOT REQUIRED.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement of

Ayala Land, Inc. (the "Registrant," "Company" or "ALI")

Pursuant to Section 20 of the Securities Regulation Code (the "Code")

1. **Check the appropriate box:**

   ______ Preliminary Information Sheet
   __✔__ Definitive Information Sheet

2. **Name of Registrant as specified in its charter:** AYALA LAND, INC.

3. **Province, country or other jurisdiction of incorporation or organization:** REPUBLIC OF THE PHILIPPINES

4. **SEC Identification Number:** 152747

5. **BIR Tax Identification Code:** 000-153-790-000

6. **Address of Principal Office:** 31st Floor, Tower One and Exchange Plaza
   Ayala Triangle, Ayala Avenue, Makati City 1226

7. **Registrant's telephone number, including area code:** (632) 908-3000 / 908-3675

8. **Date, time and place of the meeting of security holders:**

Date	-	April 17, 2013
Time	-	9:00 A.M.
Place	-	Ballroom 2, Fairmont Makati 1 Raffles Drive, Makati Avenue Makati City

9. **Approximate date on which the Information Statement is first to be sent or given to security holders:**

   March 20, 2013

10. **Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA:**

    a. **Shares of Stock**

Class	Number of Shares
Common Shares	13,752,033,376

    b. **Debt Securities**

    Bonds – PhP 21 Billion

11. **Are any or all of Registrant's securities listed in a Stock Exchange?**

    __✔__ Yes _____ No

    13,701,077,236 common shares are listed with the Philippine Stock Exchange ("PSE").

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of security holders

a.	**Date**	-	April 17, 2013
	Time	-	9:00 A.M.
	Place	-	Ballroom 2, Fairmont Makati, 1 Raffles Drive, Makati Avenue Makati City
	Principal Office	-	31st Floor, Tower One and Exchange Plaza Ayala Triangle, Ayala Avenue Makati City 1226

b. Approximate date when the Information Statement is first to be sent or given to security holders:

March 20, 2013

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

Item 2. Dissenter's Right of Appraisal

There are no matters to be acted upon that may give rise to appraisal rights under the Corporation Code.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

a. No current director or officer[1], or nominee for election as director or any of his associate, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon other than election to office.

b. No director has informed the Company that he intends to oppose any action to be taken at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

a. **Number of Shares Outstanding as of January 31, 2013**: 13,752,033,376 Common Shares

13,066,494,759 Voting Preferred Shares

Number of Votes Entitled: one (1) vote per share

b. All stockholders of record as of February 18, 2013 are entitled to notice and to vote at the meeting.

[1] References to directors, officers, Board or Committees are references to directors, officers, Board or Committees of the Company unless otherwise specified.

c. **Manner of Voting**

For common shares, Article III, Secs. 7 and 8 of the By-Laws of the Company (the "By-laws") provide:

> "Section 7 - Each share of stock entitles the person in whose name it is registered in the books of the Corporation to one vote, provided the conditions as regards payment subject to which it was issued have been complied with.
>
> Section 8 – The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him for as many persons as many votes as the number of Directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected. x x x"

d. **Security Ownership of Certain Record and Beneficial Owners and Management**

i. Security Ownership of Record and Beneficial Owners of more than 5% as of January 31, 2013:

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent (of outstanding shares)
Common Preferred	Ayala Corporation[2] 34/F, Tower One Ayala Triangle Ayala Ave., Makati City	Ayala Corporation[3]	Filipino	6,934,509,515 12,163,180,640	25.8572% 45.3536%
Common	PCD Nominee Corporation (Non-Filipino)[4] G/F MSE Bldg. Ayala Ave., Makati City	Aberdeen Asset Management Asia Limited[5]	Singaporean	2,459,610,811	9.1713%
Common	PCD Nominee Corporation (Non-Filipino)[4] G/F MSE Bldg. Ayala Ave., Makati City	Aberdeen Asset Managers Limited[5]	British	1,952,388,734	7.2800%

ii. Security Ownership of Directors and Management (Executive Officers) as of January 31, 2013:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent (of outstanding shares)
Directors				
Common	Fernando Zobel de Ayala	12,000 (direct)	Filipino	0.00004%
Common	Jaime Augusto Zobel de Ayala	12,000 (direct)	Filipino	0.00004%
Common	Antonino T. Aquino	18,204,452 (direct & indirect)	Filipino	0.06788%
Common	Mercedita S. Nolledo	406,305 (direct & indirect)	Filipino	0.00152%
Common	Jaime C. Laya	10,000 (direct)	Filipino	0.00004%

[2] Ayala Corporation ("AC") is the parent of the Company.
[3] Under the By-laws and the Corporation Code, the AC Board has the power to decide how AC's shares are to be voted.
[4] PCD is not related to the Company.
[5] Aberdeen Asset Management Asia Limited and Aberdeen Asset Managers Limited (collectively, "Aberdeen") are the clients of a participant of PCD. Aberdeen has the power to decide how their shares in the Company are to be voted.

Common	Oscar S. Reyes	231,601 (direct & indirect)	Filipino	0.00086%
Common	Delfin L. Lazaro	1 (direct)	Filipino	0.00000%
Common	Francis G. Estrada	1 (direct)	Filipino	0.00000%
Common	Aurelio R. Montinola III	3,579 (direct & indirect)	Filipino	0.00001%
CEO and Most Highly Compensated Executive Officers				
Common	Antonino T. Aquino	18,204,452 (direct & indirect)	Filipino	0.06788%
Common	Vincent Y. Tan	10,025,007 (indirect)	Filipino	0.03738%
Common	Arturo G. Corpuz	4,151,377 (direct & indirect)	Filipino	0.01548%
Common	Raul M. Irlanda	1,047,342 (indirect)	Filipino	0.00391%
Common	Emilio J. Tumbocon	8,111,401 (direct & indirect	Filipino	0.03025%
Other Executive Officers				
Common	Bernard Vincent O. Dy	7,110,248 (indirect)	Filipino	0.02651%
Common	Jose Emmanuel H. Jalandoni	3,590,760 (indirect)	Filipino	0.01339%
Common	Jaime E. Ysmael	5,936,919 (direct & indirect)	Filipino	0.02214%
Common	Dante M. Abando	1,667,629 (direct & indirect)	Filipino	0.00622%
Common	Ruel C. Bautista	506,747 (direct & indirect)	Filipino	0.00189%
Common	Augusto D. Bengzon	1,521,605 (indirect)	Filipino	0.00567%
Common	Aniceto V. Bisnar, Jr.	632,144 (indirect)	Filipino	0.00236%
Common	Manny A. Blas II	1,390,269 (direct & indirect)	Filipino	0.00518%
Common	Ma. Corazon G. Dizon	714,741 (direct & indirect)	Filipino	0.00267%
Common	Steven J. Dy	1,012,969 (indirect)	Filipino	0.00378%
Common	Anna Ma. Margarita B. Dy	3,883,010 (indirect)	Filipino	0.01448%
Common	Michael Alexis C. Legaspi	3,017,244 (direct & indirect)	Filipino	0.01125%
Common	Joselito N. Luna	3,134,631 (direct & indirect)	Filipino	0.01169%
Common	Francis O. Monera	1,049,132 (direct & indirect)	Filipino	0.00391%
Common	Rodelito J. Ocampo	659,448 (direct & indirect)	Filipino	0.00246%
Common	Maria Teresa T. Ruiz*	913,361 (indirect)	Filipino	0.00341%
Common	Ma. Rowena Victoria M. Tomeldan	1,404,745 (direct & indirect)	Filipino	0.00524%
Common	Solomon M. Hermosura	480 (direct)	Filipino	0.00000%
Common	Sheila Marie U. Tan	1,182,606 (direct & indirect)	Filipino	0.00441%
All Directors and Officers as a group		**81,543,754**		**0.30406%**

** Resigned effective December 31, 2012.*

None of the members of the Company's directors and management owns 2.0% or more of the outstanding capital stock of the Company.

iii. **Voting Trust Holders of 5% or More**

The Company knows of no persons holding more than 5% of common shares under a voting trust or similar agreement.

iv. **Changes in Control**

No change of control in the Company has occurred since the beginning of its last fiscal year.

Item 5. Directors and Executive Officers

Article IV, Section 1 of the By-Laws provides in part:

> "Section 1. x x x The Board of Directors shall have nine (9) members who shall be elected by the Corporation's stockholders entitled to vote at the annual meeting, and shall hold office for one year until their successors are elected and qualified in accordance with these By-laws."

The record of attendance of the directors at the meetings of the Board of Directors (the "Board") held in 2012 is as follows:

Directors	No. of Meetings Attended/Held[6]	Percent Present
Fernando Zobel de Ayala	5/5	100%
Jaime Augusto Zobel de Ayala	4/5	80%
Mercedita S. Nolledo	5/5	100%
Delfin L. Lazaro	5/5	100%
Aurelio R. Montinola III	4/5	80%
Oscar S. Reyes	5/5	100%
Francis G. Estrada	4/5	80%
Jaime C. Laya	5/5	100%
Antonino T. Aquino	5/5	100%

The Management Committee members and other officers, unless removed by the Board, shall serve as such until their successors are elected or appointed.

a. **Information required of Directors and Executive Officers**

i. **Directors and Executive Officers**

The following, who are all part of the final list of candidates presented by the Nomination Committee (the NomCom, composed of Oscar S. Reyes, Chairman, Antonino T. Aquino and Fernando Zobel de Ayala), have been nominated to the Board for the ensuing year and have accepted their nomination:

FERNANDO ZOBEL DE AYALA
ANTONINO T. AQUINO
DELFIN L. LAZARO
MERCEDITA S. NOLLEDO
JAIME C. LAYA
JAIME AUGUSTO ZOBEL DE AYALA
AURELIO R. MONTINOLA III
FRANCIS G. ESTRADA
OSCAR S. REYES

These nominees were formally nominated to the NomCom by a shareholder of the Company, Mr. Mildo Flor C. Sison. Messrs. Francis G. Estrada, Oscar S. Reyes and Jaime C. Laya¸ all incumbent directors, are being nominated as independent directors. Mr. Sison is not related to any of the nominees for independent directors.

The Nomination Committee pre-screened the qualifications of the nominees and prepared the final list of nominees in accordance with SRC Rule 38 (Requirements on Nomination and Election of Independent Directors) and the By-laws of the Company.

Only nominees whose names appear on the final list of candidates will be eligible for election as directors. No further nominations will be entertained or allowed on the floor during the annual stockholders' meeting.

[6] In 2012 and during the incumbency of the director.

The nominees have served as directors of the Company for more than five years except for Messrs. Francis G. Estrada, Oscar S. Reyes, Jaime C. Laya and Antonino T. Aquino. Mr. Estrada has served as a director for five years, Messrs. Reyes and Aquino for four years, and Mr. Laya for three years.

A summary of the qualifications of the incumbent directors, nominees for directors for election at the stockholders' meeting and incumbent officers is set forth in Annex A.

ii. **Significant Employees**

The Company considers its human resources working as a team as a key element for its continued success.. But the Company has no employee who is not an executive officer and who is expected to make individually on his own a significant contribution to the business.

iii. **Family Relationships**

Fernando Zobel de Ayala, the Chairman, and Jaime Augusto Zobel de Ayala, the Vice Chairman, are brothers.

iv. **Involvement in Certain Legal Proceedings**

None of the directors or executive officers is involved in any material pending legal proceedings in any court or administrative agency.

As of end-2012 the Company is not involved in any litigation it considers material. In any event, below are the legal proceedings involving the Company that may be significant.

Las Piñas Property

Certain individuals and entities have claimed an interest in ALI's properties located in Las Piñas, Metro Manila, which are adjacent to its development in Ayala Southvale.

Prior to purchasing the aforesaid properties, ALI conducted an investigation of titles to the properties and had no notice of any title or claim that was superior to the titles purchased by ALI. ALI traced its titles to their original certificates of title and ALI believes that it has established its superior ownership position over said parcels of land. ALI has assessed these adverse claims and believes that its titles are in general superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning in October 1993, ALI filed petitions in the Regional Trial Courts (RTC) in Makati and Las Piñas for quieting of title to nullify the purported titles or claims of these claimants. These cases are at various stages of trial and appeal. Some of these cases have been finally decided by the Supreme Court ("SC") in ALI's favor. These include decisions affirming the title of ALI to some of these properties, which have been developed and offered for sale to the public as Sonera, Ayala Southvale. The controversy involves the remaining area of approximately 126 hectares.

ALI has made no provision in respect of such actual or threatened litigations.

b. **Certain Relationships and Related Transactions**

The Company and its subsidiaries (the "Group"), in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of advances and reimbursement of expenses, purchase and sale of real estate properties, construction contracts, and development, management, underwriting, marketing, leasing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made on an arm's length basis and at current market prices at the time of the transactions.

However, no other transaction, without proper disclosure, was undertaken by the Group in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect) or any member of his immediate family was involved or had a direct or indirect material interest.

ALI employees are required to promptly disclose any business and family-related transactions with the company to ensure that potential conflicts of interest are surfaced and brought to the attention of management.

c. **Ownership Structure and Parent Company**

As of March 8, 2013, Ayala Corporation owns 70.08% of the total outstanding shares of the Company. Ayala Corporation owns common shares representing 25.26% of total outstanding shares and voting preferred shares comprising 44.82% of outstanding shares.

d. **Resignation of Directors**

To date, no director has resigned or declined to stand for re-election for the Board due to any disagreement with the Company relative to the Company's operations, policies and practices.

Item 6. Compensation of Directors and Executive Officers

a. **Executive Compensation**

The Company adopts a performance-based compensation scheme. The total annual compensation of the President and top four highly compensated executives amounted to ₱148.5 million in 2011 and ₱191.2 million in 2012. The projected total annual compensation for the current year is ₱168.3 million.

Total compensation paid to all senior personnel from Manager and up amounted to ₱570.91 million in 2011 and ₱755 million in 2012. The projected total annual compensation for the current year is ₱780 million.

Name and Principal Position	Year	Salary	Other Variable Pay
Antonino T. Aquino* President & CEO Vincent Y. Tan Executive Vice President Arturo G. Corpuz Senior Vice President Raul M. Irlanda Senior Vice President Emilio Lolito J. Tumbocon Senior Vice President			
CEO & Most Highly Compensated Executive Officers	Actual 2011 (restated)	₱94.5M	₱54M
	Actual 2012	₱101.2M	₱90M
	Projected 2013	₱108.3M	₱60M**
All other officers*** as a group unnamed	Actual 2011 (restated)	₱383.69M	₱187.22M
	Actual 2012	₱497M	₱258M
	Projected 2013	₱530M	₱250M**

** Compensation includes full year effect of CEO and market adjustments to selected officers for retention purposes.*
*** Exclusive of Stock Option exercise.*
**** Managers and up.*

The total annual compensation paid to all senior personnel from Manager and up was all paid in cash.

The total annual compensation includes the basic salary and other variable pay (performance bonus and exercise of Stock Option Plan).

b. **Compensation of Directors**

Article IV, Section 17 of the By-Laws provides:

> "Section 17 – Each director of the Corporation shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as director. The Board of Directors shall have the sole authority to determine the amount, form, and structure of the fees and other compensation of directors. In no case shall the total yearly compensation of directors exceed one percent (1%) of the net income before income tax of the Corporation during the preceding year.
>
> The compensation and remuneration committee of the Board of Directors shall have the responsibility for recommending to the Board of Directors the fees and other compensation for directors. In discharging this duty, the committee shall be guided by the objective of ensuring that the level of compensation should fairly pay directors for work required in a company of the Corporation's size and scope." (As amended on April 13, 2011.)

i. **Standard Arrangement (Current Compensation)**

During the 2011 annual stockholders' meeting, the stockholders ratified the resolution increasing the remuneration of non-executive directors as follows:

	From	To
Retainer Fee	₱ 500,000.00	₱ 1,000,000.00
Board Meeting Fee per meeting attended	₱ 100,000.00	₱ 200,000.00
Committee Meeting Fee per meeting attended	₱ 20,000.00	₱ 100,000.00

ii. **Other Arrangement**

None of the directors, in his personal capacity, has been contracted and compensated by the Company for services other than those provided as a director.

The Company has no other arrangement with regard to the remuneration of its directors and officers aside from the compensation received as herein stated.

c. **Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

The above named executive officers are covered by letters of appointment stating their respective job functionalities, among others.

d. **Warrants and Options Outstanding: Repricing**

i. Since 1998, the Company has offered its officers options to acquire common shares under its Executive Stock Option Plan (ESOP). Of the above named officers, there were options covering 2.7 million shares exercised in 2012 by the following officer, to wit:

Name	No. of Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Arturo G. Corpuz		Various	Various	Various
Vincent Y. Tan		Various	Various	Various
Emilio Lolito J. Tumbocon		Various	Various	Various
All above-named officers	2,731,274		4.53	6.02*

** Average prices on the dates of grant.*

ii. The Company has adjusted the exercise price of the options awarded to the above named officers due to the stock dividend paid in June 2007.

Item 7. Independent Public Accountants

a. The principal accountant and external auditor of the Company is SyCip, Gorres, Velayo & Company (SGV & Co.). The same accounting firm is being recommended for re-election at the meeting.

b. Representatives of SGV & Co. for the current year and for the most recently completed fiscal year are expected to be present at the meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

   Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor, and Ms. Jessie D. Cabaluna has been the Partner-in-charge effective audit year 2011.

c. **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

   The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There were no disagreements with the SGV & Co. on any matter of accounting and financial disclosure.

d. **Audit and Audit-Related Fees**

   ALI and its subsidiaries paid its external auditors the following fees in the past two years: *(in Php million; with VAT)*

	Audit & Audit-related Fees	Tax Fees	Other Fees
2012	15.7*	-	-
2011	11.9*	-	-

** Pertains to audit fees; no fees for other assurance and related services*

e. **Tax Fees**

   Tax consultancy services are secured from entities other than the appointed external auditor.

Under paragraph D.3.1 of the ALI Audit and Risk Committee Charter, the Audit and Risk Committee (composed of Oscar S. Reyes, Chairman, Mercedita S. Nolledo and Jaime C. Laya) recommends to the Board the appointment of the external auditor and the fixing of audit fees. The Board then recommends to the stockholders, for their approval, the said recommendation.

Item 8. Compensation Plans

There are no matters or actions to be taken up in the meeting with respect to any compensation plan pursuant to which cash or non-cash compensation may be paid or distributed. The Executive Stock Option Plan (ESOP) and the Employee Stock Ownership Plan (ESOWN) of the Company were approved by the Securities and Exchange Commission (“SEC”) in July 1991 and March 2006, respectively.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other than for Exchange

a. **Title and amount of securities to be issued**

There are no matters or actions to be taken up for the authorization or issuance of securities. But the Proposed Amendment to the Seventh Article of the Articles of Incorporation of the Company, as described below, will cover the future issuance or other disposition of treasury shares.

On March 6, 2013, the Board of Directors approved an amendment to Article Seventh of the Articles of Incorporation exempting the sale or other disposition of treasury shares from the pre-emptive rights of the stockholders (the "Proposed Amendment"). The Board of Directors recommended to the stockholders the approval of the Proposed Amendment at their 2013 annual meeting.

b. **Description of securities**

The common shares in treasury, which are exempted from pre-emptive rights under the Proposed Amendment, have the features, rights and privileges provided in Article Seventh of the Articles of Incorporation, which, as proposed to be amended, is quoted under Item 17 (***Amendment of Charter, By-Laws or Other Documents***) of this Information Statement.

c. **Description of transaction in which the securities are to be issued**

The Board of Directors of the Company shall decide when the treasury shares are to be issued and the terms and conditions of their issuance after the Proposed Amendment for the exemption of treasury shares from pre-emptive rights are approved by the stockholders and the SEC.

d. **Reason for the proposed issuance**

The denial of pre-emptive rights on the disposition of treasury shares will give the Company greater flexibility in raising capital. The issuance or sale of treasury shares does not affect the pro-rata ownership of stockholders in the outstanding shares of the Company.

e. There are no provisions in the Company's Articles of Incorporation or By-laws that would delay, defer or prevent a change in control of the Company.

Item 10. Modification or Exchange of Securities

There are no matters or actions to be taken up for the modification of any class of the Company's securities or the issuance or authorization for issuance of one class of the Company's securities in exchange for outstanding securities of another class. But as set forth in Item 9.a (***Title and amount of securities to be issued***) above, the Proposed Amendment to the Seventh Article of the Articles of Incorporation of the Company exempting the sale or other disposition of treasury shares from pre-emptive rights will cover the future issuance or other disposition of treasury shares.

The reason for the denial of pre-emptive rights on the re-issuance of treasury shares is stated in Item 9.d (***Reason for the proposed issuance***) above.

Item 11. Financial and Other Information

The audited financial statements as of December 31, 2012, Management's Discussion and Analysis, Market Price of Shares and Dividends and other data related to the Company's financial information are attached hereto as Annex "B". The Schedules required under Part IV(c) of Rule 68 will be included in the Annual Report (SEC Form 17-A).

Item 12. Mergers, Consolidations, Acquisitions, and Similar Matters

There are no matters or actions to be taken up in the meeting with respect to merger, consolidation, acquisition by sale, or liquidation of the Company.

Item 13. Acquisition or Disposition of Property

There are no matters or actions to be taken up in the meeting with respect to acquisition or disposition of any property by the Company.

Item 14. Restatement of Accounts

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the Group's consolidated financial statements are consistent with those of the previous financial year except for the adoption of the following amended PFRS which became effective January 1, 2012. Except as otherwise indicated, the adoption of the amended standards did not have any significant impact on the Group's financial statements.

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)*
  The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Group's financial position or performance. The additional disclosures required by the amendments are presented in Note 29 to the financial statements.

- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendments)*
  This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments are effective for periods beginning on or after January 1, 2012.

The Group has both investment properties at cost and assets under PAS 16 carried under the cost model. These assets are all classified as ordinary assets for income tax purposes. As the jurisdiction in which the Group operates does not have a different tax charge for 'sale' or 'use' basis of assets classified as ordinary assets for income tax purposes, the amendment has no impact on the financial statements of the Group.

D. OTHER MATTERS

Item 15. Action with Respect to Reports

a. Approval of the Minutes of the 2012 Annual Meeting of the Stockholders held on April 18, 2012 covering the following matters:

   i) Annual report;
   ii) Ratification and approval of all resolutions of the Board and the Executive Committee, and all acts of the Management after the annual stockholders' meeting on April 13, 2011 until the annual stockholders' meeting on April 18, 2012;

iii) Approval of amendments to Article Seventh of the Articles of Incorporation as recommended by the Board of Directors consisting of: (1) changing the non-redeemable feature of the preferred shares to redeemable; (2) the reclassification of 1.965Bn unissued non-voting preferred shares into a new class of preferred shares with voting rights and a par value of ₱0.10 per share; (3) the increase in the authorized capital stock from ₱21.5Bn to ₱22.803Bn by way of additional voting preferred shares; and (4) the decrease in capital stock from ₱22.803Bn to ₱21.5Bn by way of retirement of the 13Bn redeemed non-voting preferred shares upon the redemption of the outstanding non-voting preferred shares and increase in the authorized capital stock;
iv) Election of the members of the Board, including the Independent Directors, and
v) Election of the external auditor and fixing of its remuneration.

b. Approval of the annual report of the Management for the year ending December 31, 2012, including the 2012 audited financial statements.

Item 16. Matters not required to be Submitted

There are no matters or actions to be taken up in the meeting that will not require the vote of common stockholders as of the record date.

Item 17. Amendment of Charter

As stated in Item 9 above, the Proposed Amendment to the Seventh Article of the Articles of Incorporation consists in the exemption of the sale or other disposition of treasury shares from the pre-emptive rights of the stockholders.

As proposed to be amended, the third paragraph of Article Seventh of the Articles of Incorporation reads as follows (and no changes are made to the rest of the Seventh Article):

> Any and all issues of the Corporation's common stocks, except issues covered by the Corporation's Stock Option Plans for its employees and officers, <u>the issuance, sale or other disposition of treasury shares, and</u> the limited issuance of One Billion common shares in one or more offerings for the purpose of exchanging such shares for properties or assets and/or to raise funds to acquire properties or assets needed for the business of the Corporation and/or in payment of a previously contracted debt and which are approved by the stockholders representing two-thirds (2/3) of the outstanding capital stock, shall be subject to the stockholders' preemptive rights in accordance with law. (As amended on April 17, 2013.)

Item 18. Other Proposed Action

a. Ratification of all resolutions of the Board and the Executive Committee, as well as the acts of the Management after the annual stockholders' meeting on April 18, 2012 until the annual stockholders' meeting on April 17, 2013.

   The resolutions of the Board and the Executive Committee were duly adopted in the normal course of trade or business and involve –

   i) Approval of contracts, projects, investments, and other acts which have been covered by disclosures to the PSE and the SEC;
   ii) Treasury matters, including borrowings, opening of accounts and bank transactions; and
   iii) Housekeeping matters, including the appointment of signatories and amendments thereof.

b. Election of the members of the Board, including the independent directors, for the ensuing year.

c. Election of the external auditor and fixing its remuneration.

Item 19. Voting Procedures

a. **Vote required**: The affirmative vote of stockholders representing at least 2/3 of the issued and outstanding capital stock is required for the approval of the Proposed Amendment. The affirmative vote of at least a majority of the issued and outstanding capital stock entitled to vote and represented at the meeting is required for the approval of the other matters presented to the stockholders for decision. The election of directors is by plurality of votes.

b. **Method of Voting**: Straight and Cumulative Voting

In all items for approval, each voting share of stock entitles its registered owner as of the Record Date to one vote.

In the case of the election of directors, each stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate the aforesaid shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares, or he may distribute them on the same principle among as many nominees as he shall see fit; provided that, the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the total number of directors to be elected.

Voting will be by poll. Upon registration at the annual stockholders' meeting, each stockholder will be given a ballot to enable him to vote in writing on each item or proposal in the Agenda. Nonetheless, each stockholder may vote *viva voce* or by other means of communicating his approval or objection. All votes will be counted and tabulated by the Office of the Corporate Secretary and the results will be validated by the external auditor of the Company, SGV & Co.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on the 11th day of March 2013.

AYALA LAND, INC.

by: **SOLOMON M. HERMOSURA**
Corporate Secretary

ANNEX "A"
DIRECTORS AND KEY OFFICERS
(as of December 31, 2012)

The write-ups below include positions held as of December 31, 2012 and in the past five years, and personal data as of December 31, 2012, of directors and executive officers.

Board of Directors

Fernando Zobel de Ayala	Jaime C. Laya
Jaime Augusto Zobel de Ayala	Aurelio R. Montinola III
Antonino T. Aquino	Mercedita S. Nolledo
Francis G. Estrada	Oscar S. Reyes
Delfin L. Lazaro	

Fernando Zobel de Ayala, Filipino, 52, has served as Chairman of the Board of ALI since April 1999. He is the Vice Chairman, President, and COO of Ayala Corporation. He is also: Chairman of Manila Water Company, Inc., AC International Finance Ltd., Ayala International Pte Ltd., Ayala DBS Holdings, Inc., Alabang Commercial Corporation, AC Energy Holdings, Inc., and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc.; Co-Vice Chairman of Mermac, Inc.; Director of Bank of The Philippine Islands, Globe Telecom, Inc., Integrated Micro-Electronics, Inc., LiveIt Investments, Ltd., Asiacom Philippines, Inc., AG Holdings Limited, Ayala International Holdings Limited, AI North America, Inc., Vesta Property Holdings Inc., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, Pilipinas Shell Petroleum Corporation, and Manila Peninsula; Member of The Asia Society, World Economic Forum, INSEAD East Asia Council, and World Presidents' Organization; Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; Vice Chairman of Habitat for Humanity International; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, Kapit Bisig para sa Ilog Pasig Advisory Board and National Museum.

Jaime Augusto Zobel de Ayala, Filipino, 53, has served as a Director, Vice Chairman and member of the Executive Committee of ALI since June 1988. He also holds the following positions: Chairman and CEO of Ayala Corporation; Chairman of Globe Telecom, Inc., Bank of the Philippine Islands, and Integrated Micro-Electronics, Inc.; Co-Chairman of Ayala Foundation, Inc.; Vice Chairman of Manila Water Company, Inc.; Co-Vice Chairman of Mermac, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte Ltd. and AC Energy Holdings, Inc.; Chairman of Harvard Business School Asia-Pacific Advisory Board, Children's Hour Philippines, Inc.; Vice Chairman of the Asia Business Council, Makati Business Club, and Asia Society Philippine Foundation, Inc.; Member of The Asia Society, Eisenhower Fellowships, Harvard University Asia Advisory Committee, Harvard Business School Social Enterprises Initiative Advisory Board, Harvard Global Advisory Council, Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, International Business Council of the World Economic Forum, Asia Pacific Basin Economic Council, Philippine Economic Society, World Wildlife Fund Philippine Advisory Council, Pacific Basin Economic Council and Toshiba International Advisory Group; and Philippine Representative for APEC Business Advisory Council.

Antonino T. Aquino, Filipino, 65, has served as Director and President of ALI since April 2009. He also holds the following positions: Senior Managing Director of Ayala Corporation; Chairman of Alveo Land Corp., Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., Ayala Hotels, Inc., Makati Development Corp., North Triangle Depot Commercial Corp., and Station Square East Commercial Corp.; President of Fort Bonifacio Development Corp., Alabang Commercial Corp., Accendo Commercial Corp., Aurora Properties, Inc., Ceci Realty, Inc., and Vesta Property Holdings, Inc.; Director of Manila Water Company, Inc. He also serves as a member of the board of various corporate social responsibility foundations such as Ayala Foundation, Inc., Makati Commercial Estate Association, Inc., Hero Foundation, Inc. and Bonifacio Arts Foundation, Inc.. He also served as President of Manila Water Company, Inc., and Ayala Property Management Corporation and a Business Unit Manager in IBM Philippines, Inc. He was named "Co-Management Man of the Year 2009" by the Management Association of the Philippines for his leadership role in a very successful waterworks privatization and public-private sector partnership.

Francis G. Estrada, Filipino, 62, has served as an Independent Director of ALI since April 2008. His other significant positions are: Independent Director of Philamlife and General Incsurance Co. (Chairman of the Risk Management Committee and Member of the Audit and Investment Committees); Director and Member of the Technology Committee of Rizal Commercial Banking Corporation; Director, Chairman of the Risk Management Committee and Member of the Audit Committee of RCBC Savings Bank; Director and Member of the Audit Committee of Engineering Equipment, Inc; Chairman of the Board of Visitors of the Philippine Military Academy; Vice-Chairman, Trustee and Fellow of the Institute of Corporate Directors; Director and Member of the Compensation Committee of Clean Air Asia, Inc. ; Trustee of the Sociedad Espanola de Beneficiencia; Director of the Maximo T. Kalaw Foundation; Vice Chairman of Bancom Alumni, Inc.; Fellow, Institute for Solidarity in Asia; former Chairman of De La Salle University Board of Trustees; former Member of the National Mission Council and Chairman of the Investment Committee of De La Salle Philippines; former President of the Asian Institute of Management; Most Outstanding Alumnus of the Asian Institute of Management in 1989.

***Delfin L. Lazaro*,** Filipino, 66, has served as member of the Board of ALI since April 1996. He also holds the following positions: Director of Ayala Corporation; Chairman of Philwater Holdings Company, Inc., Atlas Fertilizer & Chemicals, Inc. and AYC Holdings, Inc.; Chairman and President of Purefoods International Ltd., and A.C.S.T. Business Holdings Inc.; Director of Globe Telecom, Inc., Integrated Micro-Electronics, Inc., Manila Water Company, Inc., Ayala DBS Holdings, Inc., AC Energy Holdings, Inc., Ayala International Holdings, Ltd., Bestfull Holdings Limited, AG Holdings, AI North America, Inc., Probe Productions, Inc., and Empire Insurance Company.

Jaime C. Laya, Filipino, 74, has served as an Independent Director of ALI since April 2010. He is the Chairman of the Board of Directors and President of Philippine Trust Company (Philtrust Bank). He is also: an Independent Director of GMA Network, Inc. and Philippine AXA Life Insurance Co., Inc.; and a regular director of Philippine Ratings Services Corporation; Trustee of De la Salle University-Taft, St. Paul's University - Quezon City, Cultural Center of the Philippines, and Fundacion Santiago. He has served as Minister of the Budget, Minister of Education, Culture and Sports, and Governor of the Central Bank of the Philippines; Chairman of the National Commission for Culture and Arts; and Professor and Dean of Business Administration of the University of the Philippines.

Aurelio R. Montinola, III, Filipino, 61, has served as member of the Board of ALI since February 2005. He is the President and CEO of Bank of the Philippine Islands. His other affiliations, among others, include: Chairman of BPI Direct Savings Bank, Inc., BPI Computer Systems, Inc., BPI/MS Insurance Corp., BPI-Philam Life Assurance Corp., BPI Europe Plc., Amon Trading Corporation; Vice Chairman and President of the BPI Foundation, Inc.; Vice Chairman of the Asia/Pacific Regional Advisory Board of Mastercard Incorporated, Lafarge Republic, Inc., LGU Guarantee Corp., Far Eastern University and Philippine Business for Education, Inc.; Director of the BPI Capital Corporation, BPI Family Savings Bank, Inc.; and Member of the Management Association of the Philippines; and Trustee of the Makati Business Club, and Ayala Foundation, Inc.

Mercedita S. Nolledo, Filipino, 71, has served as Director of ALI since May 1994. She currently holds the following positions: Senior Counsel of the Ayala Group of Companies; Chairman of BPI Investment Management, Inc., and Ayala Group Legal; Director of Anvaya Cove Beach and Nature Club, Inc., Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings Corporation, Bank of the Philippine Islands, BPI Capital Corporation, and BPI Family Savings Bank; member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc.; and President of Sonoma Properties, Inc. She also served as a Director of Ayala Corporation from 2004 to September 2010.

Oscar S. Reyes, Filipino, 66, has served as an Independent Director of ALI since April 2009. He is a member of the Board of Directors of the Bank of the Philippine Islands, Manila Water Company, Inc., Philippine Long Distance Telephone Company (Advisory Board), Smart Communications, Inc., Pepsi Cola Products Philippines, Inc. (Chairman), Sun Life Financial Phils., Inc., Sun Life Prosperity Funds, Basic Energy Corporation and Alcorn Gold Resources Corporation, Petrolift, Inc., among other firms. He is also the President and Chief Executive Officer of Manila Electric Company, President of Meralco PowerGen Corporation and Chairman of Meralco Industrial Engineering Services Corporation (MIESCOR), CIS Bayad Center, Meralco Energy Inc., Redondo Peninsula Energy Inc., and Link Edge, Inc. Prior to these posts, he served as Country Chairman of the

Shell Companies in the Philippines. He is a member of the Board of Trustees of One Meralco Foundation, Inc., SGV Foundation, Inc. and El Nido Foundation, Inc., and Pilipinas Shell Foundation, Inc.

Nominees to the Board of Directors for election at the stockholders' meeting:

All the above incumbent directors.

Management Committee Members / Key Executive Officers

Antonino T. Aquino*	President and Chief Executive Officer
Bernard Vincent O. Dy	Executive Vice President
Vincent Y. Tan	Executive Vice President
Arturo G. Corpuz	Senior Vice President
Raul M. Irlanda	Senior Vice President
Jose Emmanuel H. Jalandoni	Senior Vice President
Emilio J. Tumbocon	Senior Vice President
Jaime E. Ysmael	Senior Vice President & Chief Finance Officer
Dante M. Abando	Vice President
Ruel C. Bautista	Vice President
Augusto D. Bengzon	Vice President & Treasurer
Aniceto V. Bisnar, Jr.	Vice President
Manuel A. Blas II	Vice President
Maria Corazon G. Dizon	Vice President
Anna Ma. Margarita B. Dy	Vice President
Steven J. Dy	Vice President
Michael Alexis C. Legaspi	Vice President
Joselito N. Luna	Vice President
Francis O. Monera	Vice President
Rodelito J. Ocampo	Vice President
Maria Teresa T. Ruiz**	Vice President
Ma. Rowena Victoria M. Tomeldan	Vice President
Solomon M. Hermosura	Corporate Secretary
Sheila Marie U. Tan	Assistant Corporate Secretary

* *Member of the Board*

** *Resigned effective December 31, 2012*

Bernard Vincent O. Dy, Filipino, 49, is an Executive Vice President & member of the Management Committee of Ayala Land, Inc. since 2005. Currently, he is the Head of the Residential Business Group, Commercial Business Group, Human Resources Group and Corporate Marketing and Sales Group of ALI. His other significant positions include: Chairman of Ayala Land International Sales, Inc., Anvaya Cove Golf & Sports Club and Amicassa Process Solutions, Inc.; Vice Chairman of Avida Land Corp. and Alveo Land Corporation; President of Serendra, Inc. and Varejo Corporation; Director of Fort Bonifacio Development Corporation, Ayala Land Sales, Inc., Bellavita Land Corporation, Amaia Land Corporation, North Triangle Depot Commercial Corporation, Alabang Commercial Corporation, Station Square East Commercial Corporation, Ayala Greenfield Golf & Leisure Club, and Philippine FamilyMart CVS, Inc.; Treasurer of SIAL Specialty Retailers, Inc. and SIAL CVS Retailers, Inc.

Vincent Y. Tan, Filipino, 62, is an Executive Vice President and Head of the Planning Group of ALI. He is a member of the Management Committee of ALI. His other positions include: Chairman and Director of Laguna Technopark, Inc. and Ecozone Power Management, Inc.; Director of Ayala Greenfield Golf & Leisure Club, Inc., Ayala Property Partners Corporation, First Gateway Real Estate Corporation, Glensworth Development, Inc., One Dela Rosa Property Development, Inc., Gisborne Property, Inc., UP North Property Holdings, Inc., Station Square East Commercial Corp., North Triangle Depot Commercial Corporation, and Metro Rail Transit Development Corporation.

Arturo G. Corpuz, Filipino, 57, is a Senior Vice President and member of the Management Committee of ALI since 2008. He heads the Urban and Regional Planning Division and the Central Land Acquisition Unit of ALI. He is a Trustee of the Makati Parking Authority and a member of the Board of Directors of Aurora Properties, Inc. and Vesta Properties Holdings, Inc. He is a former President of the Philippine Economic Society and a Fellow of the Foundation for Economic Freedom and the Philippine Institute of Environmental Planning.

Raul M. Irlanda, 57, is a Senior Vice-President and a member of the Management Committee of ALI. He is the Chairman and board member of Ayala Property Management Corporation; President and Chief Executive Officer and Director of Philippine Integrated Energy Solutions Inc. and DirectPower; Board Member of Makati Development Corporation. MDC BuildPlus, and Tower One Condominium Corporation. He is the first and only Filipino Certified Facility Manager by the International Facility Management Association; Governor of Ayala Center Association and Makati Commercial Estate Association. Inc.; and the Group head of Ayala Security Force.

Jose Emmanuel H. Jalandoni, Filipino, 45, is a Senior Vice President and member of the Management Committee of ALI. He is the Group Head of ALI-Capital and Hotels Group. His significant positions include: President and CEO of Ayala Hotels, Inc. and AyalaLand Hotels and Resorts Corporation; Director of Ten Knots Philippines, Inc.; Chairman & Director of Cebu Insular Hotel Co. Inc. and Enjay Hotels, Inc. He is a member of the Investment Committee of Arch Capital Asian Partners, G.P. (Cayman) and KHI-ALI Manila, Inc. He joined ALI in 1996 and held various positions in the company.

Emilio Lolito J. Tumbocon, Filipino, 56, is a Senior Vice-President at Ayala Land, Inc., and a member of its Management Committee. He heads the ALI-VisMin Group and concurrently Technical Services Director of Superblock Projects since 2008. His other significant positions are: Director of Cebu Holdings, Inc., Cebu Property Ventures & Development Corporation, Cebu Insular Hotel Co., Inc., Accendo Commercial Corporation, Cagayan de Oro Gateway Corp., Makati Development Corporation, MDC Buildplus, Inc., Direct Power Services, Inc., Ecozone Power Management, Laguna Technopark, Inc., Anvaya Cove Golf & Sports Club, Inc., Asian-I Office Properties, Inc., Northgate Hotel Ventures, Inc., Southcrest Hotel Ventures, Inc., and Crest View E-Office Corporation. He is a certified Project Management Professional (PMP) of the Project Management Institute since 2006. He has 32 years of extensive work experience in the construction and real estate industry.

Jaime E. Ysmael, Filipino, 52, is a Senior Vice President, Chief Finance Officer, Compliance Officer and member of the Management Committee of Ayala Land, Inc. Concurrently, he is a Managing Director of Ayala Corporation. His other significant positions include: Chairman of the Board of Directors and Chief Executive Officer of Aprisa Business Process Solutions, Inc.; Director and President of CMPI Holdings, Inc. and CMPI Land, Inc.; Director and President of South Gateway Development Corporation; President of Tower One & Exchange Plaza Condominium Corporation; Director and Treasurer of Ayala Land International Sales, Inc., Ayala Land Sales, Inc., Alveo Land Corp., Laguna Technopark, Inc., Serendra, Inc., Ayala Hotels and Resorts Corporation and Anvaya Cove Beach & Nature Club, Inc.; Director, Treasurer and ExCom Member of Ayala Hotels, Inc., Enjay Hotels, Inc. and Cebu Holdings, Inc.; Director of Alabang Commercial Corp., Avida Land Corp., Cebu Insular Hotel Company, Inc., North Triangle Depot Commercial Corp., Station Square East Commercial Corp., Philippine Integrated Energy Solutions, Inc, Ceci Realty, Inc., Aurora Properties, Inc. and Vesta Properties Holdings, Inc. He is also a Director of the Asia Pacific Real Estate Association Ltd. and Chairman of the Board of Directors of its Philippine Chapter.

Dante M. Abando, Filipino, 48, is a Vice President and Member of the Management Committee of ALI. He is concurrently President and a Member of the Board of Directors of Makati Development Corporation and MDC BuildPlus, Inc. His other significant positions include Director of Alveo Land, Ayala Property Management Corp., Avida Land, Corp., Serendra, Inc.; and President and Director of Anvaya Cove Golf and Sports Club, Inc. Prior to joining ALI, he served as Manager of Philkoei International, Inc. and Construction Engineer for DM Consunji, Inc.

Ruel C. Bautista, Filipino, 57, is a Vice President of ALI since January 2007. He is concurrently the Executive Vice President of Makati Development Corporation and Head of the Construction Management Group. Prior to joining ALI, he served in various project management, construction operation and engineering capacities in other private institutions for close to 25years.

Augusto D. Bengzon, Filipino, 49, joined ALI in December 2004 as Vice President and Treasurer. His other significant positions include: Treasurer of Avida Land Corporation, Makati Development Corp., Aurora Properties, Inc., Vesta Properties Holdings, Inc., Ceci Realty, Inc and Hero Foundation, Inc.; Director of Anvaya Cove Golf and Sports Club; Trustee of PNP Foundation, Inc., and Dr. Fe del Mundo Medical Center Foundation

Phils., Inc. Prior to joining ALI, he was Vice President and Credit Officer in Global Relationship Banking at Citibank N.A. where he spent sixteen years in various line management roles covering Treasury, Portfolio Management, Structuring, Debt Syndication and Relationship Management.

Aniceto V. Bisnar, Jr., Filipino, 48, is a Vice President of ALI since January 2009. He is under the Strategic Land Bank Management Group (SLMG) and heads the NUVALI and FTI (ARCA South) developments of ALI. His significant positions include: member of the Board of Directors, Executive Vice President and General Manager of Ceci Realty, Inc., Aurora Properties, Inc. and Vesta Property Holdings, Inc.; and Board of Trustee of Hero Foundation, Inc. He served as the Head of Commercial Operations of Fort Bonifacio Development Corporation which developed Bonifacio Global City, and was a Director of Bonifacio Estates Services Corp., Bonifacio Water Corp., Bonifacio Transport Corp., Bonifacio Gas, Inc., Bonifacio Global City Estate Association, and Bonifacio Arts Foundation, Inc. He also served as General Manager of Ayala Greenfield Development Corporation; Chairman of Crimson Field Enterprises, Inc.; and Director of Red Creek Properties, Inc. He joined ALI in 1994 and had served in various positions covering land acquisition, planning and development and general management positions.

Manny Blas, Filipino, 57, is a Vice-President of Ayala Land Inc. since January 2008, and is currently the Head of Commercial Operations in Bonifacio Global City. He is also assigned as Managing Director of Bonifacio Arts Foundation, Inc. He spearheaded the project development of The Mind Museum, the first world class science museum in the country.

Maria Corazon G. Dizon, Filipino, 49, is a Vice President and Head of Business Development and Strategic Planning of the Commercial Business Group, which consists of malls and office leasing developments. She is also the Head of the Retailing Business Group, which handles the development and operations of ALI's new retailing businesses. She holds the following significant positions in the following companies: Director of MRT Development Corporation, North Triangle Depot Commercial Corporation, Accendo Commercial Corporation, Cagayan De Oro Gateway Corp., Station Square East Commercial Corporation, North Beacon Commercial Corp., South Innovative Theater Management, Inc., Asian I-Office Properties, Inc., Ayala Theatres Management, Inc., Philippine Family Mart CVS, Inc., SIAL Specialty Retailers, Inc., SIAL CVS Retailers, Inc, and Five Star Cinema, Inc.; Chairman and Director of Ayalaland Metro North, Inc., Cavite Commercial Town Center, Arvo Commercial Corporation, Crestview E-Office Corp., Gisborne Property Inc., Primavera Towncentre, Inc., Subic Bay Town Center, Inc., and Summerhill E-Office, Inc.; and Director and Vice President of Varejo Corp. Over the years in ALI, she occupied various key positions including Asset Management Head and Chief Finance Officer for the Ayala Malls Group, Head of Corporate Control and Analysis Division, and Head of ALI Investor Relations Unit.

Anna Ma. Margarita Bautista-Dy, Filipino, 43, is Vice President and member of the Management Committee of Ayala Land, Inc. effective August 2008. She is Head of the Strategic Landbank Management Group (SLMG). Her other significant positions include: Director and Executive Vice President of Fort Bonifacio Development Corporation and is a Director of the Nuvali Subsidiaries: Aurora Properties, Inc., Vesta Properties Holdings, Inc., and Ceci Realty, Inc. Prior to joining ALI, she was Vice President of Benpres Holdings Corporation.

Steven J. Dy, Filipino, 47, is a Vice President of ALI since December 2010 assigned to the international initiative of the Company in China. Prior to this assignment, he was with the corporate business group for three years heading one of the project development groups and the business development. He had the same responsibilities when he was with Avida Land Corporation.

Michael Alexis C. Legaspi, Filipino, 54, is a Vice President of ALI since July 2009, and is currently the Chief Operating Officer of Ayala Hotels, Inc. & AyalaLand Hotels & Resorts Corp. He serves as the President of Enjay Hotels, Inc. and Cebu Insular Hotels Co. Inc. He is a Director of AyalaLand Hotels & Resorts Corp, KHI-ALI Manila, Inc., Greenhaven Property Ventures, Inc., Southcrest Hotel Ventures, Inc, Bonifacio Hotel Ventures, Inc., Northgate Hotel Ventures, Inc., Ten Knots Development Corp., and Ten Knots Phils., Inc. He previously held the following positions: Head of Sales Division of ALI, Resident Manager of Oakwood Premier Ayala Center and Senior Vice President and Head of Operations of Ayala Property Management Corporation.

Joselito N. Luna, Filipino, 48, is a Vice President and member of the Management Committee since August 2008. He is also Ayala Land, Inc.'s Chief Architect and Head of Innovation and Design Group. His other significant positions include: Director of Vesta Properties Holdings, Inc., Aurora Properties, Inc. and Anvaya Cove Golf & Sports Club Inc. He joined ALI in 1990 as a Registered Architect and Environmental Planner.

Francis O. Monera, Filipino, 58, is a Vice President of ALI since January 2006. He is currently the President of Cebu Holdings, Inc. (CHI) and Cebu Property Ventures & Development Corp. (CPVDC). He has served as a director of CHI and CPVDC since April 2006. Before joining ALI, he was the Senior AVP/Corporate Controller of Philippine National Construction Corporation. He served as President of the Cebu Chamber of Commerce and Industry from February 2006 to 2008. He is currently the Vice President for Visayas of Philippine Chamber of Commerce and Industry.

Rodelito J. Ocampo, Filipino, 50, is a Vice President of ALI since December 2010. He is currently Makati Development Corporation's Head of Construction Operations Group 2. Before his MDC assignment, he served as Technical Services Group Head of Avida Land Corporation and Alveo Land Corporation, wholly owned subsidiaries of ALI and Construction Management Director of ALI's Residential Buildings Group. Prior to joining ALI, he was employed by a construction firm where he held various engineering and project management positions for a period of 10 years.

Maria Teresa T. Ruiz, Filipino, 57, was a Vice President and member of the Management Committee of ALI from October 2007 to December 2012. She served as Head of the Human Resources and Public Affairs Group which covers External Affairs and Corporate Communications. She was a Director of Aprisa Business Process Solutions Inc. Prior to joining ALI, she served as head of the Human Resources, Organization Development, or Corporate Communications functions in Wyeth Philippines, Zuellig Pharma, Solid Cement, Coca Cola Bottlers and PLDT.

Maria Rowena Victoria M. Tomeldan, Filipino, 51, is a Vice President of ALI since January 2005. She currently heads the Operations and Support Services, Commercial Business Group. Her other significant positions include: Director of Bonifacio Global City Estate Association, ALI-CII Development Corporation, Alabang Commercial Corporation, Cagayan De Oro Gateway Corporation and Asian I-Office Properties, Inc.; Chairman of the Board of Directors of Ayala Theatres Management, Inc., Five Star Cinema, Inc., Leisure and Allied Industries Phils., Inc., South Innovative Theatre Management, Inc., Hillsford Property Corporation, Sunnyfield E-Office Corporation and North Beacon Commercial Corporation; Vice-Chairman of the Board of Directors of Lagoon Development Corporation; President of Station Square East Commercial Corporation, North Triangle Depot Commercial Corporation, Laguna Technopark, Inc., Subic Bay Town Center, Inc., Arvo Commercial Corporation, Cavite Commercial Town Center, Inc., Ecozone Power Management, Inc., ALI Property Partners Corp., One Dela Rosa Property Development, Inc., First Gateway Real Estate Corporation, UP North Property Holdings, Inc., Glensworth Development, Inc., Gisborne Property Holdings, Inc., Ayalaland Metro North, Inc., Crestview E-Office Corporation, Summerhill E-Office Corporation, Solerte Corp., and Primavera Towncentre, Inc.; Vice President of Accendo Commercial Corporation; and Governor of the Ayala Center Association;. Presently, she is a member of the International Council of Shopping Centers (ICSC) Asia Advisory Council and the ICSC Asia Research Council.

Solomon M. Hermosura, Filipino, 50, has served as Corporate Secretary of the Company since April 2011. He is a Managing Director of Ayala Corporation and a member of its Management Committee since 2009 and the Ayala Group Management Committee since 2010. He is also the General Counsel, Compliance Officer, and Corporate Secretary of Ayala Corporation. He is the CEO of Ayala Group Legal. He serves as Corporate Secretary of Globe Telecom, Inc., Manila Water Company, Inc., and Ayala Foundation, Inc.; and a member of the Board of Directors of a number of companies in the Ayala group. He was Corporate Secretary of Integrated Micro-Electronics, Inc. until June 7, 2011.

Sheila Marie U. Tan, Filipino, 45, is the Assistant Corporate Secretary of Ayala Land, Inc. since April 2011. Currently, she also holds the Position of Corporate Secretary of Integrated Micro-Electronics, Inc., Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., Alveo Land Corp., Avida Land Corporation, Amaia Land Corp., Alabang Commercial Corporation, North Triangle Depot Commercial Corporation, Laguna Technopark, Inc., Makati Development Corporation, and Ayala Property Management Corporation. She is also the Assistant Corporate Secretary of Ayala Corporation. She graduated Cum Laude from the University of the Philippines where she finished BS Economics. She pursued her Bachelor of Laws in the same university in March 1992. She joined Sycip, Salazar, Hernandez & Gatmaitan Law Firm as Associate until she joined Ayala Land, Inc. in 1995. She was a former head of the Legal Department of Ayala Land, Inc. She is an Associate Director in Ayala Corporation from January 1, 2009 to July 1, 2012. She is now the Managing Director and Corporate Secretary of Ayala Group Legal.

ANNEX "B"

I. MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF FINANCIAL CONDITION AND RESULTS OF OPERATION

2012 vs. 2011

Results of Operations

Ayala Land, Inc. ("ALI" or "the Company") posted a record Php9.04 billion in net income for the year 2012, 27% higher than the Php7.14 billion recorded the previous year. Consolidated revenues reached Php54.52 billion, 23% higher year-on-year. Revenues from Real Estate, which comprised the bulk of consolidated revenues, increased by 21% to Php49.90 billion primarily driven by the robust performance of the Property Development business.

Margins of the Company's key business lines continued to improve with strict control of project costs and direct operating expenses (discussed below in the Business Segment review). Corporate costs remain under control with the ratio of General and Administrative Expenses (GAE) to revenues maintained at 8% for two consecutive years. With total revenue growth outpacing the growth of total expenses, net income margin before non-controlling interest improved to 19% in 2012 from 18% the previous year.

Business Segments

The details of the individual performance of each business segment are discussed as follows:

Property Development. Property Development, which includes the sale of residential units, commercial and industrial lots, registered revenues of Php33.19 billion in 2012, 31% higher than the Php25.26 billion recorded in 2011.

Revenues from the residential business reached Php30.88 billion in 2012, 29% higher than the Php23.99 billion reported the previous year, driven by higher bookings, steady project launches and continuous progress on construction across all residential brands. Ayala Land Premier (ALP) generated Php10.39 billion in revenues or an improvement of 9% year-on-year on the back of increased bookings in projects namely Park Terraces Makati, The Suites Bonifacio Global City (BGC) and Elaro in NUVALI. Alveo and Avida also registered year-on-year revenue growth of 29% and 37% to Php7.52 billion and Php8.29 billion, respectively, following the strong sales and bookings of newly-launched projects such as The Maridien Towers (BGC), Solinea Towers 1 and 2 (Cebu), Kasa Luntian Phase 1 (Tagaytay), Lerato (Makati), and Vesta in NUVALI for Alveo, and Avida Towers Centera 1-3 (Mandaluyong City), Avida 34th Street Tower 1 (BGC), Avida Cityflex Tower 2 (BGC), Avida Parkway Settings (NUVALI), Avida Settings Cavite, Avida Village NUVALI, Avida Ridgeview Estates NUVALI, Avida Cebu Tower 2, Avida Alabang Tower 2, Avida New Manila Tower 5 and Avida San Lorenzo Tower 2. Residential brand Amaia, catering to the economic housing segment, significantly increased its contribution to residential revenues in 2012 as it generated Php1.55 billion, 85% higher than the Php841 million earned in 2011, primarily from the strong performance of Amaia Scapes Bacolod and Cabanatuan and newly-launched projects in Cavite, Lipa, Novaliches, Cubao, Sta. Mesa and Avenida.

Sales take-up value in 2012 reached Php77.61 billion, equivalent to an average monthly sales take-up of Php6.47 billion that is 50% higher than the Php4.31 billion average monthly sales take-up achieved the previous year. Residential gross profit (GP) margins of vertical projects improved to 35% from 33% with the impact of various cost control initiatives to lower project construction costs, while GP margins of horizontal developments declined slightly to 45% from 46% due to a shift in mix towards more house and lot packages rather than the sale of lots. The Company's four residential brands, together with fifth brand Bella Vita that caters to the socialized housing segment, launched a total of 23,487 units in 2012. For 2013, the Company is anticipating continued demand for residential products and will be launching around 31,000 units across all residential brands.

Revenues from the sale of commercial and industrial lots grew by 81% in 2012 to Php2.31 billion, largely due to the sale of 25 commercial lots in NUVALI. However, GP margins dropped to 50% from 54% as the institutional raw land sale in NUVALI carried a lower margin.

Commercial Leasing. Commercial Leasing includes the Company's Shopping Center and Office Leasing operations. Total revenues for Commercial Leasing amounted to Php8.78 billion in 2012, 18% higher than the Php7.46 billion recorded the previous year.

Revenues from Shopping Centers increased by 18% to Php5.85 billion in 2012, driven by higher average lease rates and expanded gross leasable area (GLA). Average lease rates rose in 2012 by 3% brought about by negotiated and programmed rental escalations. The retail environment remained buoyant as same-store sales for building and land leases increased by 6% and 12%, respectively. The opening of Harbor Point Mall in Subic, Centrio Mall in Cagayan de Oro and the New Glorietta, resulted in an 8% expansion in occupied GLA. The earnings before interest, taxes, depreciation and amortization (EBITDA) margin of shopping centers increased to 62% from 60% the previous year due to improved mall operations and effective management of direct operating expenses. Average occupancy rate across all malls slightly dropped to 94% compared with 96% in 2011 due to the additional GLA from newly-opened malls.

Revenues from Office leasing operations rose by 18% to Php2.94 billion in 2012 from Php2.50 billion the previous year. Revenue growth was attained due to higher lease rates and occupied GLA of business process outsourcing (BPO) office spaces, which grew by 19% year-on-year (an increase of 56,161 square meters). Total available BPO GLA reached 354,822 square meters as of year-end, while average BPO lease rates remained steady at Php589 per square meter. This was achieved despite a change in the portfolio mix as some of the increase in occupied GLA were in provincial (and therefore lower rent) locations. The improvement in occupied BPO space accounted for the two percentage-point improvement in the EBITDA margin of the total office portfolio, which reached 82% in 2012.

Hotels and Resorts. Revenues of the Company's Hotels and Resorts business improved by 9% to Php2.45 billion in 2012. This is attributed to a 4% improvement in revenues per available room (REVPAR) for the hotel portfolio and a 30% improvement in REVPAR for the El Nido chain of resorts. A total of 42 island resort rooms in Pangulasian Island augmented the existing 150 leisure accommodations in the El Nido resort in Palawan, while Fairmont and Raffles Hotel in Makati added 312 rooms, and Seda Hotel BGC and Seda Hotel Cagayan de Oro added 179 rooms and 150 rooms, respectively. The Hotels and Resorts portfolio now operates a total of 1,467 hotel rooms including premium brands Hotel InterContinental Manila and Cebu City Marriott. EBITDA margins for Hotels and Resorts however declined to 15% from 29% due to pre-operating costs of the newly-opened facilities. The Company is set to unveil a new Holiday Inn & Suites hotel in Makati by the second quarter of 2013 and two more Seda hotels, in Davao and NUVALI, by the end of 2013 which collectively will add another 647 rooms to the total inventory.

Services. Services, comprised of the Company's wholly-owned Construction and Property Management businesses, generated combined revenues (net of inter-company eliminations) of Php5.48 billion in 2012. This was 13% lower than the Php6.26 billion posted in 2011 following Makati Development Corporation's deliberate move to focus on Ayala Land projects. Only revenues from third-party contracts, or the revenue from third-party minority interests in Ayala Land projects, are reflected as construction revenues in consolidated Company accounts. Before inter-company eliminations, construction revenues actually increased by 40% to Php19.24 billion compared to Php13.77 billion in 2011, while Property Management revenues grew 16% to Php1.29 billion in 2012 due to higher carpark revenues, compared with Php1.11 billion the previous year. The blended EBITDA margin for Services declined by one percentage-point to 7%, due to lower margins from internal contracts.

Equity in Net Earnings of Investees, Interest, Fees, Investment and Other Income

Equity in Net Earnings from Investees rose by 48% to Php1.33 billion in 2012 from Php899 million the previous year, mainly as a result of higher contributions from the projects of BG North Properties Inc., BG West Properties Inc. and BG South Properties Inc., joint venture companies for the residential condominium projects of ALP, Alveo and Avida in BGC. Interest, Investment and Other Income meanwhile grew by 58% to Php3.29 billion in 2012 compared with the Php2.08 billion the previous year. The increase was accounted for mostly by higher average cash balance, increase in management fees and the accretion of interest income from the sale of Php4.31 billion worth of receivables.

Expenses

Total expenses amounted to Php41.30 billion in 2012, 23% more than the Php33.50 billion incurred in 2011. Cost of Sales from Real Estate, which accounted for the bulk of expenses, rose 20% year-on-year to Php33.44 billion.

GAE meanwhile grew by 28% to Php4.44 billion, largely because of the increase in manpower-related expenses for the new hotels and resorts facilities. Nevertheless, GAE-to-revenue ratio remained at 8% in 2012. Interest Expense, Financing and Other Charges increased by 65% year-on year to Php3.42 billion, mostly due to higher financing charges related to the sale of receivables and additional borrowings. While total financing charges increased, the average cost of the Company's consolidated debt decreased to 5.4%, from 6.3% in 2011.

Project and Capital Expenditure

The Company spent a record high of Php71.29 billion in capital expenditures in 2012, 138% more than the Php29.91 billion spent the previous year. Residential development accounted for 23% of the total, while 57% was spent for land acquisition, which includes Php22.6 billion initial payment made in November for the 74-hectare Food Terminal Inc. property located in Taguig City. Shopping centers, hotels and resorts, offices and other land development activities accounted for the balance of 10%, 7%, 2% and 1%, respectively. For 2013, the Company has allotted another Php65.5 billion for capital expenditures primarily earmarked for the completion of ongoing developments and launches of new residential and leasing projects, which will help sustain the Company's growth trajectory over the coming years. The total value of the 69 projects that are expected to be launched this year is estimated to be at around Php129 billion.

Financial Condition

The Company's balance sheet remained strong with sufficient capacity to carry out its aggressive growth plans in the following years. Strong cash inflows from the successful pre-sales of various residential launches as well as proceeds from the Php3.0 billion notes and Php15.0 billion bonds, as well as the Php1.0 billion Homestarter Bond issued in 2012 brought Cash and Cash Equivalents to Php28.60 billion. Current Ratio stood at 1.40: 1, with total borrowings at Php69.45 billion as of December 2012. Debt-to-Equity Ratio was at 0.84: 1 while Net Debt-to-Equity Ratio increased to 0.49: 1. Return on equity increased one-percentage point year-on-year to 13% in 2012.

Key Financial Performance Indicators

The table below sets forth the comparative performance indicators of the Company and its majority-owned subsidiaries:

	End-December 2012	*End-December 2011*
Current ratio [1]	1.40:1	1.65:1
Debt-to-equity ratio [2]	0.84:1	0.55:1
Net debt-to-equity ratio [3]	0.49:1	0.16:1
Profitability Ratios:		
Return on assets [4]	5.4%	5.9%
Return on equity [5]	12.6%	11.8%
Asset to Equity ratio [6]	2.81:1	2.48:1
Interest Rate Coverage Ratio [7]	6.82	7.08

[1] *Current assets / current liabilities*
[2] *Total debt/ stockholders' equity attributable to parent (Total debt includes short-term debt, long-term debt and current portion of long-term debt)*
[3] *Net debt/ stockholders' equity attributable to parent (Net debt is total debt less cash and cash equivalents, short term investments and financial assets through fvpl)*
[4] *Total Net income attributable to equity holders of ALI / average total assets*
[5] *Net income attributable to equity holders of ALI / average total stockholders' equity*
[6] *Total Assets /Total stockholders' equity attributable to parent*
[7] *EBITDA/Interest expense*

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created in 2012.

Material changes (+/- 5% or more) in the financial statements

Income Statement items – 2012 versus 2011

21% increase in real estate revenues
Mainly due to higher sales from newly launched residential projects such as Park Terraces, Abreeza Residences and Serendra West Tower of Ayala Land Premier and Centera Towers and Parkway Settings of Nuvali, and growth in leasing and hotel businesses.

64% increase in interest and investment income
Mainly due to one-off remeasurement gain of previously held equity interest in ALI Makati Hotels & Residences Inc. (AMHRI) and ALI Makati Hotel Property Inc. (AMHPI) and higher interest income.

48% increase in equity in net earnings of associates and jointly controlled entities
Largely due to higher contribution from BG North Inc., BG West Inc. and BG South Inc.

34% increase in other income
Mainly due to higher development management fees and foreign exchange gains.

20% increase in real estate costs and expenses
Mainly due to higher real estate revenues and consolidation of AMHRI and AMHPI.

28% increase in general and administrative expenses
Primarily due to higher payroll costs and start up costs for new hotels.

68% increase in interest expense and other financing charges
Mainly due to higher debt levels.

87% increase in other charges
Largely due to provisions for impairment.

10% increase in provision for income tax
Mainly due to higher taxable income for the period.

36% increase in net income attributable to noncontrolling interests
Primarily due to higher income from NUVALI companies.

Balance Sheet items – 2012 versus 2011

16% increase in cash and cash equivalents
Mainly proceeds from the issuance of new common shares and fixed rate bonds, sale of account receivables, increased collections and loan availments.

91% decrease in short-term investments
Primarily due to maturity of short-term investments.

Increase in financial assets at fair value through profit or loss and available- for- sale financial assets
Mainly due to reclassification of investment in Arch Capital Asian Partners L.P.

58% increase in accounts and notes receivables (net)
Largely due to launch of new projects and higher bookings.

10% increase in real estate inventories
Mainly due to incremental project completion of existing and new projects.

96% increase in other current assets
Mainly due to prepayments on Alveo and Avida land acquisitions.

42% increase in non-current accounts and notes receivables
Largely due to increased sales of Ayala Land Premier, Avida and higher bookings of Alveo projects.

36% decrease in available-for-sale financial assets
Largely due to sale of fixed income securities of ALI-Parent.

155% increase in land and improvements
Mainly due to acquisition of Food Terminal Inc. property.

20% increase in investment properties
Largely due to new projects such as Holiday Inn & Suites Makati, Seda Hotels, Centrio Mall and Ayala Center redevelopment.

207% increase in property and equipment
Mainly due to acquisition of AMHRI & AMHPI.

39% increase in other noncurrent assets
Mainly due to exploratory expenses and goodwill on hotel acquisition.

36% increase in accounts and other payables
Primarily due to increase in trade payables with the completion of existing and new projects

100% increase in short-term debt
Mainly due to new loan availment of ALI-Parent, Alveo, Avida and ALI Property Partners Corporation (APPCO).

297% increase in income tax payable
Largely due to higher taxable income

310% increase in current portion of long-term debt
Primarily due to ALI-Parent bond payables.

268% increase in other current liabilities
Mainly due to increase in customer deposits.

90% increase in long-term debt – net of current portion
Mainly due to new issuance of fixed rate bonds and higher interest expense.

27% decrease in pension liabilities
Primarily due to higher contribution of companies with net liability position.

65% increase in deposits and other noncurrent liabilities
Primarily due to increase in customer and security deposits, and deferred income from projects.

14% increase in retained earnings
Mainly due to increase in income.

8% decrease in stock options outstanding
Primarily due to issuance of ESOP shares.

27% decrease in unrealized gain on available-for-sale financial assets
Primarily due to sale of fixed income securities, and lower revaluation on preferred shares of Ayala Corporation

5% decrease in noncontrolling interests in net assets of subsidiaries
Largely attributed to redemption of shares for APPCO, Accendo and AHI.

Risks

Ayala Land is subject to significant competition in each of its principal businesses. Ayala Land competes with other developers and developments to attract land and condominium buyers, shopping center and office tenants, and customers of the retail outlets, restaurants, and hotels and resorts across the country.

However, Ayala Land believes that, at present, there is no single property company that has a significant presence in all sectors of the property market.

High-End, Middle-Income, Affordable Residential, and Economic and Socialized Housing Developments

With respect to high-end and middle-income land and condominium sales, Ayala Land competes for buyers primarily on the basis of reputation, reliability, price and the quality and location of the community in which the relevant site is located. For the affordable, economic and socialized housing markets, Ayala Land competes for buyers based on quality of projects, affordability of units and availability of in-house financing. Ayala Land is also actively tapping the overseas Filipino market.

Shopping Center, Office Space and Land Rental

For its shopping centers, Ayala Land competes for tenants primarily based on the ability of the relevant shopping center to attract customers - which generally depend on the quality and location of, and mix of tenants in, the relevant retail center and the reputation of the owner of the retail center - and rental and other charges. The market for shopping centers has become especially competitive and the number of competing properties is growing. Some competing shopping centers are located within relatively close proximity of each of Ayala Land's commercial centers.

With respect to its office rental properties, Ayala Land competes for tenants primarily based on the quality and location of the relevant building, reputation of the building's owner, quality of support services provided by the property manager, and rental and other charges. The Company is addressing the continuing demand from BPOs by providing fully integrated and well maintained developments (high rise or campus facility) in key locations in the country.

Hotel and Resort Operations

The local hotel and resort sector is largely driven by foreign and local travel for leisure or business purposes. Any slowdown in tourism and business activity due to global financial and local political turmoil and security concerns could potentially limit growth of the Company's hotels and resorts.

Construction

Ayala Land's construction business is benefiting from the improved performance of the construction industry, particularly from an uptick in development activities mostly from the residential and retail sectors. Any slowdown in the construction business could potentially cap growth of the Company's construction arm.

Other risks that the company may be exposed to are the following:

- Changes in Philippine and international interest rates
- Changes in the value of the Peso
- Changes in construction material and labor costs, power rates and other costs
- Changes in laws and regulations that apply to the Philippine real estate industry
- Changes in the country's political and economic conditions
- Changes in the country’s liquidity and credit exposures

To mitigate the above mentioned risks, Ayala Land shall continue to adopt appropriate risk management tools as well as conservative financial and operational controls and policies to manage the various business risks it faces.

2011 vs. 2010

Results of Operations

Ayala Land, Inc. (“ALI” or “the Company”) posted a record consolidated net income of Php8.09 billion for the year 2011, 29% higher than the Php6.29 billion generated the previous year. Net of non-controlling interests, net income attributable to equity holders of Ayala Land, Inc. amounted to Php7.14 billion, which was 31% higher than the Php5.46 billion recorded in 2010. Consolidated revenues reached Php44.21 billion, 17% higher year-on-year. Revenues from Real Estate and Hotels, which comprised bulk of consolidated revenues, increased by 16% to Php41.23 billion with growth largely driven by the strong performance of the Property Development business.

Margins of the Company’s key business lines continued to improve with strict control of project costs and direct operating expenses (discussed below in the Business Segment review). Corporate costs have also been contained, resulting to the drop in the ratio of General and Administrative Expenses (GAE) to revenues, from 8.4% in 2010 to 7.9% in 2011. With total revenues growing faster than total expenses, net income margin improved to 16% in 2011 from 14% the previous year.

Business Segments

The details of the individual performance of each business segment are discussed as follows:

Property Development. Property Development, which includes the sale of residential units, as well as the sale of commercial and industrial lots, posted revenues of Php25.26 billion in 2011, 27% higher than the Php19.85 billion reported in 2010.
Revenues from the residential segment reached Php23.99 billion in 2011, 29% higher than the Php18.60 billion reported the previous year, driven by the higher bookings and steady progress on construction across all residential brands. Ayala Land Premier (ALP) generated Php9.51 billion in revenues or an improvement of 36% year-on-year on the back of a 35% growth in bookings and the construction progress in projects such as Park Terraces 1 and 2 in Makati City, and Santierra and Elaro in NUVALI. Alveo and Avida also posted year-on-year revenue growth of 15% and 44% to Php5.83 and Php6.06 billion, respectively, following the strong sales of newly-launched projects such as Sedona Parc (Cebu) and Venare (NUVALI) for Alveo, and Avida Towers Centera 1 and 2 (Mandaluyong City) and the second tower of Avida Towers Cebu. New residential brand Amaia further contributed to residential revenues in 2011 as it generated Php841 million largely from the full year impact of its maiden project AmaiaScapes Laguna.

Sales take-up value in 2011 reached Php51.72 billion, equivalent to an average monthly sales take-up of Php4.31 billion and 56% higher than the Php2.76 billion average monthly sales take-up achieved the previous year. Residential gross profit (GP) margins of vertical projects improved to 33% from 31% with the impact of various measures designed to lower project construction costs, while GP margins of horizontal developments declined slightly to 46% from 47% due to a shift in mix towards more house and lot packages rather than the sale of lots. The Company’s four residential brands, together with fifth brand Bella Vita that caters to the socialized housing segment, launched a total of 20,613 units in 2011. For 2012, the Company is anticipating continued demand for residential products and will be launching about 24,800 units across all residential brands.

Revenues from the sale of commercial and industrial lots grew by 2% in 2011 to Php1.27 billion, largely due to the sale of 14 commercial lots in NUVALI. GP margins improved to 54% from 45% as the NUVALI commercial lots carried higher margins compared to the industrial lots in Laguna Technopark that were sold in 2010.

Commercial Leasing. Commercial Leasing includes the Company’s Shopping Center and Office Leasing operations. Total revenues for Commercial Leasing amounted to Php7.46 billion in 2011, 16% higher than the Php6.45 billion recorded the previous year.

Revenues from Shopping Centers increased by 14% to Php4.96 billion in 2011, driven by higher average occupancy and lease rates. Average occupancy rate across all malls reached 96% compared with 94% in 2010. The opening of Abreeza Mall in Davao City and Solenad 2 in NUVALI, coupled with the continued improvements in the occupancy of Market! Market! and MarQuee Mall, resulted in a 9% expansion in occupied gross leasable area (GLA). This more than offset the additional closures in Glorietta effected in early 2011 due to the Ayala Center redevelopment. Average lease rates also rose in 2011 by 7% brought about by negotiated and programmed rental escalations. The retail environment remained buoyant as same-store sales for all building and land leases increased by 5% and 3%, respectively. The EBITDA margin of Shopping Centers improved to 60% from 59% the previous year with the higher occupancy and lease rates across all malls and effective management of direct operating expenses.

Revenues from Office leasing operations rose by 19% to Php2.50 billion in 2011 from Php2.11 billion the previous year. The revenue growth was generated by the significant increase in occupied GLA of business process outsourcing (BPO) office spaces, which increased by 22% year-on-year (equivalent to 41,220 square meters). Total available BPO GLA reached 315,736 square meters as of year-end, while average BPO lease rates remained steady at Php580 per square meter. This was achieved despite a change in the portfolio mix as most of the increase in occupied GLA occurred in provincial (and therefore lower rent) locations. The improvement in occupied BPO occupied space accounted for the one percentage-point improvement in the EBITDA margin of the total office portfolio, which reached 80% in 2011.

Hotels and Resorts. Revenues of the Company's Hotels and Resorts business improved by 18% to Php2.24 billion in 2011. This was largely due to the impact of the consolidation of the El Nido Resorts operations in Palawan, through the acquisition of a 60% stake in the Ten Knots Group in April 2010. A total of 150 island resort rooms in Lagen, Miniloc and Apulit Island (formerly Club Noah) were added to the Hotels and Resorts portfolio that operates 634 hotel rooms between Hotel InterContinental Manila and Cebu City Marriott. EBITDA margins for Hotels and Resorts however declined to 29% from 33% with the start-up costs of Apulit Island resort and the pre-operating expenses of the upcoming Kukun hotels. The Company is currently constructing its first four owner-operated businessman's hotels under its own brand Kukun in Bonifacio Global City, Cagayan de Oro, Davao and NUVALI. The first two hotels are expected to begin operations this year.

Services. Services, comprised of the Company's wholly-owned Construction and Property Management businesses, generated combined revenues (net of inter-company eliminations) of Php6.26 billion in 2011. This was 13% lower than the Php7.21 billion posted in 2010 following the Company's deliberate move to focus on internal projects in its construction operations. Only revenues from third-party contracts, or the revenue share of third-party minority interests in internal projects, are reflected as construction revenues in consolidated Company accounts. The decline in Construction revenues more than offset the 7% growth in Property Management revenues, which reached Php1.11 billion in 2011 with the addition of new carpark management contracts, compared with Php1.03 billion the previous year. Before inter-company eliminations, however, Construction revenues grew by 42% to Php13.77 billion. The blended EBITDA margin for Services improved by one percentage-point to 8%.

Equity in Net Earnings of Investees, Interest, Fees, Investment and Other Income

Equity in Net Earnings from Investees declined by 1% to Php899 million in 2011 from Php906 million the previous year, as a result of lower contribution from Fort Bonifacio Development Corporation with the deliberate slowdown in commercial lot sales at Bonifacio Global City. This was countered by the stronger performance of TriNoma, which is accounted for under the equity method, and the mark-to-market gains on the investment holdings of First Longfield Investments Ltd. (investment vehicle for ARCH Capital Partners L.P.). Interest, Investment and Other Income meanwhile increased by 38% to Php2.08 billion in 2011 compared with the Php1.50 billion the previous year. The increase was accounted for mostly by the higher interest income earned from higher average cash balances for the period and gains from the Company's divestment of its ownership stake in ARCH Capital Management Co., Ltd. in March 2011.

Expenses

Total expenses amounted to Php33.50 billion in 2011, 12% more than the Php29.95 billion incurred in the 2010. Cost of Sales from Real Estate and Hotels, which accounted for the bulk of expenses, rose 12% year-on-year amounting to Php27.94 billion. General and administrative expenses (GAE) meanwhile grew by 9% to Php3.48 billion, largely because of payroll-related expenses, but significantly slower than overall revenue growth thus allowing the GAE-to-revenue ratio to decline to 7.9% from 8.4% in 2010. Interest Expense, Financing and Other Charges increased by 14% year-on year to Php2.08 billion, mostly due to higher interest charges with the additional Php10.0 billion in fixed-rate corporate notes issued by the Company in January 2011. While total financing charges increased, the average cost of the Company's consolidated debt decreased to 6.3%, from 7.5% in 2010.

Project and Capital Expenditure

The Company spent a record high of Php29.91 billion for project and capital expenditures in 2011, 49% more than the Php20.06 billion spent the previous year. Residential development accounted for 53% of the total, while 18% was spent for land acquisition. Shopping centers, hotels and resorts, other land development activities and BPO offices accounted for the balance of 14%, 6%, 5% and 4%, respectively. For 2012, the Company has earmarked another Php37.0 billion for capital expenditures largely for the completion of ongoing developments, the launch of new residential and leasing projects, and the acquisition of new landbank which will help sustain the Company's growth trajectory over the coming years.

Financial Condition

The Company's balance sheet remained strong with sufficient capacity to carry out its aggressive growth plans in the following years. Strong cash inflows from the successful pre-sales of various residential launches as well as proceeds from the Php10.0 billion notes issued at the start of 2011 brought Cash and Cash Equivalents to Php24.60 billion, with a corresponding Current Ratio of 1.65: 1. Total Borrowings stood at Php34.53 billion as of December 2011 from Php20.97 billion the previous year, translating to a Debt-to-Equity Ratio of 0.55: 1 and a Net Debt-to-Equity Ratio of 0.16: 1.

Key Financial Performance Indicators

The table below sets forth the comparative performance indicators of the Company and its majority-owned subsidiaries:

	End 2011	*End 2010*
Current ratio [1]	*1.65:1*	*1.67:1*
Debt-to-equity ratio [2]	*0.55:1*	*0.37:1*
Net debt(cash)-to-equity ratio [3]	*0.16:1*	*0.02:1*
	FY 2011	*FY 2010*
Return on assets [4]	*5.2%5.2%*	*4.7%*
Return on equity [5]	*12.0%12.0%*	*10.0%*

[1] *Current assets / current liabilities*
[2] *Total interest-bearing debt (inclusive of bonds) / stockholders' equity*
[3] *Interest-bearing debt less cash, cash equivalents & investment in government securities/stockholders' equity*
[4] *Net income / average total assets*
[5] *Net income / average stockholders' equity*

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created in 2011.

Material changes (+/- 5% or more) in the financial statements

Income Statement Items – 2011 versus 2010

16% increase in real estate revenues
Mainly due to higher residential sales bookings, incremental project completion and sale of commercial lots in NUVALI.

18% increase in hotel revenues
Primarily due to impact of full year consolidation of El Nido Resorts operations in Palawan.

56% increase in interest and investment income
Largely due to higher income from money market placements and divestment of ownership stake in ARCH Capital Management Co., Ltd.

12% increase in real estate cost and 15% increase in hotel expenses
Mainly due to higher real estate revenues and consolidation of El Nido Resorts operations.

9% increase in general and administrative expenses
Primarily due to higher payroll costs and benefits.

22% increase in interest and financing expenses
Mainly due to higher debt levels.

30% decrease in other charges
Mainly due to lower provisions for bad debts and impairment

67% increase in provision for income tax
Mainly due to higher taxable income.

15% increase in net income attributable to minority interests
Primarily due to higher income from Ayala Property Partners Corp., Ceci Realty, Inc. and Vesta Property Holdings, Inc.

Balance Sheet Items – 2011 versus 2010

37% increase in cash and cash equivalents
Mainly due to additional borrowings and collections from new projects.

87% decrease in short-term investments
Primarily due to liquidation of short-term investments to fund property acquisition.

100% decrease in financial assets at fair value through profit or loss Primarily due to maturity of fixed income securities.

31% increase in accounts and notes receivables (net)
Largely due to launch of new residential projects.

52% increase in real estate inventories
Mainly due to incremental project completion of existing and new projects.

49% increase in other current assets
Mainly due to higher prepaid expenses for commissions and marketing fees and increase in creditable withholding tax and value-added input tax following the acquisition of properties for development by Alveo Land and Avida Land.

50% increase in non-current accounts and notes receivables
Largely due to sale of new residential projects.

17% increase in land and improvements
Primarily due to acquisition of sites for new projects.

16% increase in investments in associates and jointly controlled entities
Mainly due to additional equity infusions in Regent Wise Investments Limited, First Longfield Investments and in newly established jointly controlled entities: BG West Properties, Inc., BG South Properties, Inc., and BG North Properties, Inc.

18% increase in investment properties (net)
Primarily due to completion of malls and office buildings.

29% increase in property and equipment
Largely due to purchases of AyalaLand Hotels and Resorts Corp., Phil. Energy and Accendo Commercial Corp., and modernization of Makati Development Corp.

6% decrease in deferred tax assets (net)
Mainly due to realization of gains on real estate sales.

12% increase in other non-current assets
Largely due to increase in construction guarantee and other deposits.

47% increase in accounts and other payables
Primarily due to increase in trade payables with the completion of new projects.

61% increase in short-term debt
Mainly due to additional bank loans of ALI Parent.

149% increase in income tax payable
Primarily due to higher provisioning of Vesta Property Holdings, Inc., ALI Property Partners Corp., and Alveo Land.

33% decrease in current portion of long-term debt
Largely due to loan payments of ALI Parent.

45% decrease in other current liabilities
Mainly due to lower customer deposits from residential projects.

80% increase in long-term debt - net of current portion
Primarily due to fixed-rate corporate notes issued by ALI Parent.

16% decrease in pension liabilities
Mainly due to adjustments made to reflect latest actuarial valuation.

25% increase in deferred tax liabilities (net)
Mainly due to increase in deferred tax liabilities of Serendra, ALI Parent and Alveo Land.

19% increase in deposits and other noncurrent liabilities
Mainly due to security deposits of new shopping center tenants

13% increase in retained earnings
Primarily due to the increase in net income.

15% increase in stock options outstanding
Largely due to revaluation of unsubscribed ESOWN shares.

33% increase in unrealized gain on available-for-sale financial assets
Mainly due to revaluation of fixed income securities.

12% increase in noncontrolling interests
Primarily due to capital infusions to Solinea Inc., Cagayan de Oro Gateway Corp. and Phil. Energy of respective partners.

Upon the written request of a stockholder, the Company undertakes to furnish said stockholder with a copy of SEC Form 17-A free of charge. Any written request for a copy of SEC Form 17-A shall be addressed to the following:

Ayala Land, Inc.
30/F Tower One and Exchange Plaza
Ayala Triangle
Ayala Avenue, Makati City
1226

Attention: **Mr. Jaime E. Ysmael**
Senior Vice President & Chief Finance Officer

II. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY

A) *Principal Market where the Registrant's Common equity is traded.*

Philippine Stock Exchange
Prices (in PhP/share)

	High		Low		Close	
	2012	2011	2012	2011	2012	2011
First Quarter	22.10	16.38	15.22	13.80	20.75	15.50
Second Quarter	22.50	16.98	18.84	15.00	21.60	15.60
Third Quarter	24.50	17.10	19.90	13.50	23.85	14.58
Fourth Quarter	26.95	16.92	22.25	14.00	26.45	15.16

The market capitalization of ALI as of end-2012, based on the closing price of ₱26.45/share, was approximately ₱363.7 billion.

The price information as of the close of the latest practicable trading date March 8, 2013 is ₱31.15.

B) *Holders*

The following are the top 20 registered holders of the common equity securities of the Company:

Common Stockholders : There are approximately 10,123 holders of common shares of the Company as of January 31, 2013.

	Stockholder Name	No. of Common Shares	Percentage (of common shares)
1.	Ayala Corporation	6,934,509,515	50.4253%
2.	PCD Nominee Corp. (Non-Filipino)	5,557,328,786	40.4110%
3.	PCD Nominee Corp. (Filipino)	966,294,100	7.0265%
4.	ESOWN Administrator 2009	21,372,060	0.1554%
5.	ESOWN Administrator 2012	19,329,054	0.1405%
6.	ESOWN Administrator 2010	18,028,882	0.1311%
7.	ESOWN Administrator 2011	12,953,414	0.0942%
8.	Jose Luis Gerardo Yulo	10,653,030	0.0775%
9.	ESOWN Administrator 2006	8,455,712	0.0615%
10.	ESOWN Administrator 2008	6,754,140	0.0491%
11.	ESOWN Administrator 2005	6,124,863	0.0445%
12.	Estrellita B. Yulo	5,732,823	0.0417%
12.	Pan Malayan Management and Investment Corp.	4,002,748	0.0291%
14.	Ma. Angela Y. La O'	3,728,620	0.0271%
15.	ESOWN Administrator 2007	3,720,853	0.0270%
16.	Ma. Lourdes G. Latonio	3,624,650	0.0263%
17.	Lucio W. Yan	3,483,871	0.0253%
18.	Telengtan Brothers & Sons, Inc.	3,480,000	0.0253%
19.	Xavier P. Loinaz	2,605,550	0.0189%
20.	Edan Corporation	2,261,974	0.0164%

Voting Preferred Stockholders: There are approximately 2,673 holders of voting preferred shares of the Company as of January 31, 2013.

	Stockholder Name	No. of Common Shares	Percentage (of voting preferred shares)
1.	Ayala Corporation	12,163,180,640	93.0868%
2.	HSBC Manila OBO A/C 000-171512-554	513,222,800	3.9278%
3.	Government Service Insurance System	156,350,871	0.1966%
4.	DB MLA OBO Custody Clients	49,550,880	0.3792%
5.	HSBC Manila OBO A/C 000-171512-571	15,051,000	0.1152%
6.	Wealth Securities, Inc.	14,825,373	0.1135%
7.	Samuel Villes Santos and/or Luzviminda Lat Santos	12,001,800	0.0918%
8.	Investors Securities, Inc.	6,251,770	0.0478%
9.	First Metro Securities Brokerage Corporation	5,103,853	0.0391%
10.	HSBC Manila OBO A/C 000-171512-551	4,484,748	0.0343%
11.	Deutsche Regis Partners, Inc.	3,896,157	0.0298%
12.	Papa Securities Corporation	3,536,538	0.0271%
13.	Maybank ART Kim Eng Securities, Inc.	3,479,514	0.0266%
14.	Ansaldo, Godinez & Co., Inc.	3,388,848	0.0259%
15.	BPI Securities Corporation	3,331,800	0.0255%
16.	HSBC Manila OBO A/C 000-596528-552	3,239,600	0.0248%
17.	Belson Securities, Inc.	2,800,874	0.0214%
18.	CBNA FAO 6002079572 CITIOMNIFOR	2,725,700	0.0209%
19.	Solar Securities, Inc.	2,661,759	0.0204%
20.	Juan Miguel De Vera Yulo	2,500,000	0.0191%

C) *Dividends*

STOCK DIVIDEND (Per Share)			
PERCENT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
20%	February 1, 2007	May 22, 2007	June 18, 2007

CASH DIVIDEND (Per Share)			
PESO AMOUNT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
0.045	June 1, 2010	June 30, 2010	July 23, 2010
0.048	Nov. 30, 2010	Dec. 14, 2010	Jan. 11, 2011
0.0733	Feb. 24, 2011	March 23, 2011	April 15, 2011
0.0733	Aug. 26, 2011	Sept. 20, 2011	Oct. 5, 2011
0.109488	Feb. 20, 2012	March 7, 2012	March 27, 2012
0.10385223	Aug. 24, 2012	Sept. 17, 2012	Oct. 8, 2012
0.14787806	Feb. 19, 2013	March 5, 2013	March 19, 2013

Dividend policy

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors.

Special cash dividends are declared depending on the availability of cash, taking into account the Company's CAPEX and project requirements and the progress of its ongoing asset rationalization program.

Cash dividends are subject to approval by the Company's Board but no stockholder approval is required. Property dividends which may come in the form of additional shares of stock are subject to approval by both the Company's Board of Directors and the Company's stockholders. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and PSE.

D) *Recent Sale of Securities*

For the past three years, common shares were issued representing the exercise of stock options by the Company's executives under the Executive Stock Option Plan (ESOP) and the subscription to the common shares under the Executive Stock Ownership Plan (ESOWN) as follows:

Year	No. of Shares	
	ESOP (exercised)	ESOWN (subscribed)
2010	7.4 Million	25.2 Million
2011	3.2 Million	14.8 Million
2012	6.6 Million	25.2 Million

The aforesaid issuance of shares was covered by the Commission's approval of the Company's Stock Option Plan on July 1991 and subsequently on March 2006.

On June 29, 2012, the SEC approved the Company's application for an increase in authorized capital stock from ₱21.5B to ₱22.8B to cover the offering and issuance of new 13.034 Billion voting preferred shares to common shareholders of the Company. The said issuance of the shares is an exempt transaction under Section 10.1 (e) of the SRC, "The sale of capital stock of a corporation to its own stockholders exclusively, where no commission or other remuneration is paid or given directly or indirectly in connection with the sale of such capital stock."

On July 16, 2012, Ayala Corporation executed the placement of, and subscription to the Company's 680,000,000 common shares at ₱20 per share or an aggregate of ₱13.6B. The placement price of ₱20 per share was at a 4.988% discount to the Company's closing price of ₱21.05 per common share on July 10, 2012 and was the agreed clearing price among the purchasers of the shares and the placement agents, Goldman Sachs (Singapore) Pte., J.P. Morgan Securities plc and UBS AG.

The Company filed a Notice of Exemption with the SEC for the issuance of the 680,000,000 common shares under the following provisions of the SRC:

SRC Subsection 10.1 (h), "Broker's transaction, executed upon customer's orders, on any registered Exchange or other trading market."

SRC Subsection 10.1 (k), "The sale of securities by an issuer to fewer than twenty (20) persons in the Philippines during any twelve-month period."

SRC Subsection 10.1 (l), "The sale of securities to banks, insurance companies, and investment companies."

E) *Corporate Governance*

i. The evaluation system which was established to measure or determine the level of compliance of the Board and top level management with its Revised Manual of Corporate Governance consists of a Customer Satisfaction Survey which is filled up by the various functional groups indicating the compliance rating of certain institutional units and their activities. The evaluation process also includes a Board Performance Assessment which is accomplished by the Board indicating the compliance ratings. The above are submitted to the Compliance Officer who issues the required certificate of compliance with the Company's Revised Manual of Corporate Governance to the Securities and Exchange Commission.

ii. To ensure good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the company, as well as the mechanism for monitoring and evaluating Management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

iii. There were no deviations from the Company's Revised Manual of Corporate Governance. The Company has adopted in the Manual of Corporate Governance the leading practices and principles of good corporate governance, and full compliance therewith has been made since the adoption of the Revised Manual.

iv. The Company is taking further steps to enhance adherence to principles and practices of good corporate governance.

ANNEX "C"

NATURE AND SCOPE OF BUSINESS

Ayala Land is the largest and most diversified real estate company in the Philippines. It has organized its operations into several business lines.

Property Development

Residential Business - sale of high-end residential lots and units (including leisure community developments), middle-income residential lots and units, affordable lots, units and house and lot packages, economic housing units and house and lot packages, and socialized housing packages; lease of residential units; marketing of residential developments

Strategic Landbank Management and Visayas-Mindanao - acquisition, development and sale of large, mixed-use, masterplanned communities; sale of override units or Ayala Land's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center; development, sale and lease of the Company and subsidiaries' product offerings in key cities in the Visayas and Mindanao regions

Commercial Leasing

Shopping Centers - development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; management and operations of malls which are co-owned with partners

Corporate Business - development and lease or sale of office buildings; sale of industrial lots and lease of factory buildings

Hotels and Resorts

Hotels - development, operation and management of branded and owner-operated hotels; lease of land to hotel tenants

Resorts - development, operation and management of eco-resorts which are co-owned with partners

Services

Construction – land development and construction of ALI and third-party projects

Property management – facilities management of ALI and third-party projects; operation of water and sewage treatment facilities in some ALI projects

In addition to above business lines, Ayala Land also derives other income from its investment activities and sale of non-core assets.

AyalaLand

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Ayala Land, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Company and its subsidiaries in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

FERNANDO ZOBEL DE AYALA
Chairman, Board of Directors

ANTONINO T. AQUINO
President & Chief Executive Officer

JAIME E. YSMAEL
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FEB 1 9 2013 at Makati City, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Fernando Zobel de Ayala	XX2935162	04 February 2009 – Manila
Antonino T. Aquino	XX4033426	25 June 2009 – Manila
Jaime E. Ysmael	EB6092044	06 August 2012 – Manila

Doc. No. 4 ;
Page No. 2 ;
Book No. II ;
Series of 2013.

Notarial DST pursuant to Sec. 188 of the Tax Code affixed on Notary Public's copy

ASHLEY LENE N. TAN NOTARY PUBLIC ROLL NO. 57037 MAKATI CITY, PHILIPPINES

ASHLEY LENE N. TAN
Notary Public - Makati City
Appt. No. M-567 until December 31, 2013
Attorney's Roll No. 57037
PTR No. 3671497MC; 01-02-2013; Makati City
IBP Lifetime Roll No. 08315
MCLE Compliance No. III-0011703; 4/12/2010
3rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Ayala Land, Inc.

We have audited the accompanying consolidated financial statements of Ayala Land, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ayala Land, Inc. and its subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669666, January 2, 2013, Makati City

February 19, 2013

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 29)	**₱28,596,398**	₱24,603,213
Short-term investments (Notes 5 and 29)	**16,503**	191,987
Financial assets at fair value through profit or loss (Notes 6 and 29)	**713,716**	–
Accounts and notes receivable (Notes 7 and 29)	**34,085,935**	21,578,363
Inventories (Note 8)	**24,070,387**	21,908,571
Other current assets (Note 9)	**13,800,561**	7,034,508
Total Current Assets	**101,283,500**	75,316,642
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 7 and 29)	**10,384,045**	7,293,682
Available-for-sale financial assets (Notes 10 and 29)	**454,270**	710,442
Land and improvements (Note 11)	**47,710,153**	18,736,580
Investments in associates and jointly controlled entities (Note 12)	**13,151,138**	12,626,231
Investment properties (Note 13)	**36,496,447**	30,490,311
Property and equipment (Note 14)	**16,558,527**	5,395,471
Deferred tax assets - net (Note 23)	**2,290,118**	1,948,633
Other noncurrent assets (Notes 15 and 24)	**2,904,185**	2,023,991
Total Noncurrent Assets	**129,948,883**	79,225,341
	₱231,232,383	₱154,541,983
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 16 and 29)	**₱51,728,543**	₱38,129,385
Short-term debt (Notes 17 and 29)	**9,282,831**	4,638,844
Income tax payable	**713,975**	179,712
Current portion of long-term debt (Notes 17 and 29)	**6,386,834**	1,556,761
Other current liabilities (Note 18)	**4,141,027**	1,124,575
Total Current Liabilities	**72,253,210**	45,629,277
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 17 and 29)	**53,780,786**	28,257,971
Pension liabilities (Note 26)	**52,929**	72,204
Deferred tax liabilities - net (Note 23)	**717,976**	744,234
Deposits and other noncurrent liabilities (Notes 19 and 29)	**12,882,255**	7,795,785
Total Noncurrent Liabilities	**67,433,946**	36,870,194
Total Liabilities	**139,687,156**	82,499,471

(Forward)

	December 31	
	2012	2011
Equity (Note 20)		
Equity attributable to equity holders of Ayala Land, Inc.		
Paid-up capital	**₱34,118,600**	₱18,960,206
Retained earnings	**50,061,754**	43,925,560
Stock options outstanding (Note 28)	**213,758**	232,298
Unrealized gain on available-for-sale financial assets (Note 10)	**39,564**	53,909
Other reserves (Note 2)	**8,960**	8,960
Treasury stock	**(2,127,427)**	(823,967)
	82,315,209	62,356,966
Non-controlling interests	**9,230,018**	9,685,546
Total Equity	**91,545,227**	72,042,512
	₱231,232,383	₱154,541,983

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2012	2011	2010
REVENUE			
Real estate (Notes 21 and 25)	**₱49,904,333**	₱41,230,834	₱35,408,440
Interest and investment income (Notes 24 and 25)	**2,725,377**	1,658,896	1,065,205
Equity in net earnings of associates and jointly controlled entities (Note 12)	**1,334,255**	898,550	905,645
Other income (Note 22)	**560,850**	417,253	434,209
	54,524,815	44,205,533	37,813,499
COSTS AND EXPENSES			
Real estate (Note 22)	**33,439,039**	27,941,131	24,947,319
General and administrative expenses (Notes 22, 26 and 28)	**4,442,991**	3,479,612	3,188,353
Interest and other financing charges (Note 22)	**3,050,853**	1,879,770	1,539,111
Other charges (Note 22)	**365,446**	195,292	278,512
	41,298,329	33,495,805	29,953,295
INCOME BEFORE INCOME TAX	**13,226,486**	10,709,728	7,860,204
PROVISION FOR INCOME TAX (Note 23)			
Current	**3,259,840**	2,331,615	2,120,537
Deferred	**(367,743)**	287,530	(548,387)
	2,892,097	2,619,145	1,572,150
NET INCOME	**₱10,334,389**	₱8,090,583	₱6,288,054
Net income attributable to:			
Equity holders of Ayala Land, Inc. (Note 27)	**₱9,038,328**	₱7,140,308	₱5,458,134
Non-controlling interests	**1,296,061**	950,275	829,920
	₱10,334,389	₱8,090,583	₱6,288,054
Earnings Per Share (Note 27)			
Basic/Diluted			
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.68**	₱0.55	₱0.41

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2012	2011	2010
Net income	**₱10,334,389**	₱8,090,583	₱6,288,054
Other comprehensive income:			
Net gain (loss) on available-for-sale financial assets (Note 10)	**(20,162)**	15,764	27,733
Total comprehensive income	**₱10,314,227**	₱8,106,347	₱6,315,787
Total comprehensive income attributable to:			
Equity holders of Ayala Land, Inc.	**₱9,023,982**	₱7,153,567	₱5,482,173
Non-controlling interests	**1,290,245**	952,780	833,614
	₱10,314,227	₱8,106,347	₱6,315,787

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands, Except Par Value and Cash Dividends Per Share Figures)

	Years Ended December 31		
	2012	2011	2010
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.			
Common Shares - ₱1.00 par value (Note 20)			
Issued:			
Balance at beginning of year	**₱13,022,771**	₱13,012,004	₱13,005,338
Issuance of shares	**706,631**	10,767	6,666
Balance at end of year	**13,729,402**	13,022,771	13,012,004
Subscribed:			
Balance at beginning of year	**99,917**	96,468	75,470
Additions	**708,873**	14,216	27,664
Issuance of shares	**(706,631)**	(10,767)	(6,666)
Balance at end of year	**102,159**	99,917	96,468
Preferred Shares - ₱0.10 par value (Note 20)			
Balance at beginning of year	**1,303,460**	1,303,460	1,303,460
Issuance of shares	**1,306,649**	–	–
Balance at end of year	**2,610,109**	1,303,460	1,303,460
Additional Paid-in Capital			
Balance at beginning of year	**4,887,298**	4,614,184	4,326,935
Additions	**13,240,820**	273,114	287,249
Balance at end of year	**18,128,118**	4,887,298	4,614,184
Subscriptions Receivable			
Balance at beginning of year	**(353,240)**	(344,968)	(262,770)
Additions	**(317,697)**	(138,337)	(159,282)
Collections	**219,749**	130,065	77,084
Balance at end of year	**(451,188)**	(353,240)	(344,968)
Total Paid-up Capital	**34,118,600**	18,960,206	18,681,148
Retained Earnings (Note 20)			
Appropriated for future expansion	**6,000,000**	6,000,000	6,000,000
Unappropriated:			
Balance at beginning of year	**37,925,560**	32,756,821	28,570,354
Cash dividends			
Common share - ₱0.21 per share in 2012, ₱0.15 per share in 2011 and ₱0.09 per share in 2010	**(2,856,438)**	(1,911,088)	(1,211,186)
Preferred share - ₱0.005 or 4.64%	**(45,696)**	(60,481)	(60,481)
Net income	**9,038,328**	7,140,308	5,458,134
Balance at end of year	**44,061,754**	37,925,560	32,756,821
	50,061,754	43,925,560	38,756,821

(Forward)

	Years Ended December 31		
	2012	2011	2010
Stock Options Outstanding (Note 28)			
Balance at beginning of year	**₱232,298**	₱202,500	₱180,930
Cost of stock options	**31,751**	32,540	34,923
Stock options exercised	**(50,291)**	(2,742)	(13,353)
Balance at end of year	**213,758**	232,298	202,500
Unrealized Gain on Available-for-sale Financial Assets (Note 10)			
Balance at beginning of year	**53,909**	40,650	16,611
Net changes during the year	**(14,345)**	13,259	24,039
Balance at end of year	**39,564**	53,909	40,650
Other Reserves (Note 2)	**8,960**	8,960	–
Treasury Shares (Note 20)			
Balance at beginning of year	**(823,967)**	(823,967)	(823,967)
Redemptions during the year	**(1,303,460)**	–	–
Balance at end of year	**(2,127,427)**	(823,967)	(823,967)
NON-CONTROLLING INTERESTS			
Balance at beginning of year	**9,685,546**	8,612,976	6,802,539
Net income	**1,296,061**	950,275	829,920
Net increase (decrease) in non-controlling interests	**(1,084,905)**	672,369	1,392,471
Dividends paid to non-controlling interests	**(660,867)**	(552,579)	(415,648)
Net gain (loss) on available-for-sale financial assets	**(5,817)**	2,505	3,694
Balance at end of year	**9,230,018**	9,685,546	8,612,976
	₱91,545,227	₱72,042,512	₱65,470,128
Total Comprehensive Income			
Net income attributable to:			
Equity holders of Ayala Land, Inc.	**₱9,038,328**	₱7,140,308	₱5,458,134
Non-controlling interests	**1,296,061**	950,275	829,920
	10,334,389	8,090,583	6,288,054
Net gain (loss) on available-for-sale financial assets attributable to (Note 10):			
Equity holders of Ayala Land, Inc.	**(14,345)**	13,259	24,039
Non-controlling interests	**(5,817)**	2,505	3,694
	(20,162)	15,764	27,733
	₱10,314,227	₱8,106,347	₱6,315,787

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱13,226,486**	₱10,709,728	₱7,860,204
Adjustments for:			
Depreciation and amortization (Notes 13, 14, 15 and 22)	**2,089,795**	2,310,389	1,808,012
Interest expense (Note 22)	**2,265,272**	1,838,897	1,449,397
Dividends received from investees (Note 12)	**412,334**	311,928	273,223
Cost of share-based payments (Note 28)	**248,436**	178,791	177,201
Unrealized loss on financial assets at fair value through profit or loss (Note 22)	**–**	–	9,338
Realized loss (gain) on financial assets at fair value through profit or loss (Note 22)	**–**	4,423	466
Gain on sale of property and equipment	**(837)**	(964)	(129)
Equity in net earnings of associates and jointly controlled entities (Note 12)	**(1,334,255)**	(898,550)	(905,645)
Interest income	**(1,204,656)**	(1,532,491)	(1,065,205)
Gain on sale of investments (Note 22)	**–**	(118,403)	–
Gain on remeasurement of previously held equity interest (Note 24)	**(593,853)**	–	–
Provision for impairment losses on (Note 22):			
Other assets	**67,166**	–	–
Investment in associate	**58,996**	–	–
Receivables	**52,621**	52,550	57,206
Investment properties	**19,500**	147,000	–
Available-for-sale financial assets	**16,771**	–	–
Operating income before changes in working capital	**15,323,776**	13,003,298	9,664,068
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts and notes receivable - trade	**(7,151,850)**	(5,012,484)	(172,657)
Real estate inventories	**85,111**	(5,912,965)	(718,304)
Other current assets (Note 9)	**(6,564,054)**	(2,315,799)	(587,491)
Increase (decrease) in:			
Accounts and other payables	**10,239,670**	12,622,310	6,015,408
Other current liabilities (Note 18)	**3,016,452**	(907,557)	(118,580)
Other deposits (Note 19)	**(461,889)**	(310,662)	(378,613)
Pension liabilities (Note 26)	**(19,275)**	(14,159)	34,282
Cash generated from operations	**14,467,941**	11,151,982	13,738,113
Interest received	**1,197,865**	1,582,382	1,150,195
Income tax paid	**(3,115,974)**	(2,240,388)	(2,290,409)
Interest paid	**(2,069,724)**	(1,735,121)	(1,461,938)
Net cash provided by operating activities	**10,480,108**	8,758,855	11,135,961

(Forward)

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/redemption of investments and financial assets at fair value through profit or loss	**₱244,658**	₱1,965,357	₱6,009,428
Sale of available-for-sale financial assets	**219,238**	13,495	–
Disposal of property and equipment	**14,691**	65,792	120,146
Additions to:			
Short-term investments and financial assets at fair value through profit or loss	**–**	–	(1,434,337)
Available-for-sale financial assets (Note 10)	**–**	(16,509)	–
Land and improvements (Note 11)	**(30,168,416)**	(4,049,285)	(1,800,331)
Investments in associates and jointly controlled entities (Note 12)	**(457,819)**	(1,389,622)	(196,349)
Investment properties (Note 13)	**(7,066,485)**	(6,464,398)	(1,789,286)
Property and equipment (Note 14)	**(7,488,805)**	(2,308,560)	(1,146,018)
Accounts and notes receivable - nontrade (Note 7)	**(6,783,915)**	(2,675,802)	(586,343)
Net decrease (increase) in other noncurrent assets	**204,036**	(73,016)	(877,368)
Acquisition of subsidiary, net of cash acquired (Note 24)	**(1,096,432)**	–	(1,663,848)
Net cash used in investing activities	**(52,379,249)**	(14,932,548)	(3,364,306)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short and long-term debt (Note 17)	**33,247,264**	17,894,765	7,915,294
Payments of short and long-term debt (Note 17)	**(1,844,389)**	(4,334,927)	(5,838,147)
Increase (decrease) in deposits and other noncurrent liabilities	**5,548,359**	1,552,623	(1,025,614)
Capital infusion by non-controlling interests in consolidated subsidiaries	**212,575**	728,169	144,057
Redemption of non-controlling interests in consolidated subsidiaries	**(1,297,480)**	(55,800)	(104,930)
Proceeds from capital stock subscriptions	**14,891,418**	130,065	77,084
Acquisition of treasury shares	**(1,303,460)**	–	–
Dividends paid to non-controlling interests	**(660,867)**	(552,579)	(415,648)
Dividends paid to equity holders of Ayala Land, Inc. (Note 20)	**(2,901,094)**	(2,604,217)	(1,033,670)
Net cash provided by (used in) financing activities	**45,892,326**	12,758,099	(281,574)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**3,993,185**	6,584,406	7,490,081
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**24,603,213**	18,018,807	10,528,726
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱28,596,398**	₱24,603,213	₱18,018,807

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Ayala Land, Inc. (the Company) was incorporated and is domiciled in the Republic of the Philippines. The Company's parent is Ayala Corporation (AC). AC is a publicly-listed company, 51.15%-owned by Mermac, Inc., 10.62%-owned by Mitsubishi Corporation and the rest by the public. The Company's registered office and principal place of business is Tower One, Ayala Triangle, Ayala Avenue, Makati City.

The Company and its Subsidiaries (the Group) are incorporated to hold, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of, for itself or for others, residential including, but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; to acquire, purchase, hold, manage, develop and sell subdivision lots, with or without buildings or improvements; to erect, construct, alter, manage, operate, lease, in whole or in part, buildings and tenements of the Group or of other persons; and to engage or act as real estate broker. The Group is also involved in hotels and resorts operations.

The consolidated financial statements of Ayala Land, Inc. and Subsidiaries as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 were endorsed for approval by the Audit Committee on February 13, 2013 and were approved and authorized for issue by the Board of Directors (BOD) on February 19, 2013.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The consolidated financial statements of the Group have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency and all values are rounded to the nearest thousand (₱000) except when otherwise indicated.

<u>Statement of Compliance</u>
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

<u>Basis of Consolidation</u>
The consolidated financial statements comprise the financial statements of the Group as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly-owned and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity and within equity in the consolidated statements of financial position, separately from the Company's equity.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity.
- Recognizes the fair value of the consideration received, the fair value of any investment retained.
- Any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

The consolidated financial statements represent the consolidation of the financial statements of the Company and the following domestic and foreign subsidiaries:

	Percentages of Ownership	
	2012	2011
Real Estate:		
Alveo Land Corporation (Alveo)	**100%**	100%
Serendra, Inc.	**39**	39
Solinea, Inc. (Solinea)	**65**	65
Serendra, Inc.	**28**	28
Amorsedia Development Corporation and Subsidiaries	**100**	100
OLC Development Corporation and Subsidiary	**100**	100
HLC Development Corporation	**100**	100
Allysonia International Ltd.	**100**	100
Avida Land Corporation and Subsidiaries (Avida)	**100**	100
Buklod Bahayan Realty and Development Corp.	**100**	100
Avida Sales Corp.	**100**	100
Amicassa Process Solutions, Inc.	**100**	100
Avencosouth Corp. (Avencosouth)	**70**	–
Amaia Land Co. (Amaia)	**100**	100
Ayala Land International Sales, Inc. (ALISI)	**100**	100
Ayalaland International Marketing, Inc. (AIMI)	**100**	–
Ayala Land Sales, Inc.	**100**	100
Buendia Landholdings, Inc.	**100**	100
Crans Montana Holdings, Inc.	**100**	100
Crimson Field Enterprises, Inc.	**100**	100
Ecoholdings Company, Inc. (ECI)	**100**	100
NorthBeacon Commercial Corporation (NBCC)	**100**	100
Red Creek Properties, Inc.	**100**	100
Regent Time International, Limited (Regent Time) (British Virgin Islands)	**100**	100
Asterion Technopod, Incorporated (ATI)	**100**	100
Crestview E-Office Corporation (Crestview)	**100**	100
Gisborne Property Holdings, Inc.	**100**	100

	Percentages of Ownership	
	2012	2011
Hillsford Property Corporation (HPC)	**100%**	100%
Primavera Towncentre, Inc. (PTI)	**100**	100
Summerhill E-Office Corporation (Summerhill)	**100**	100
Sunnyfield E-Office Corporation (Sunnyfield)	**100**	100
Subic Bay Town Centre, Inc.	**100**	100
Regent Wise Investments Limited (Regent Wise) (Hongkong company)	**100**	100
AyalaLand Commercial REIT, Inc. (ALCRI)	**100**	100
Arvo Commercial Corporation (Arvo)	**100**	100
BellaVita Land Corporation (BellaVita)	**100**	100
Nuevo Centro, Inc. (Nuevo Centro)	**100**	100
Cavite Commercial Town Center, Inc.	**100**	100
ALI Property Partners Corp. (APPCo) (Note 24)	**68**	68
One Dela Rosa Property Development, Inc.	**68**	68
First Gateway Real Estate Corp.	**68**	68
Glensworth Development, Inc. (Glensworth)	**68**	68
UP North Property Holdings, Inc.	**68**	68
Laguna Technopark, Inc. (LTI)	**75**	75
Ecozone Power Management, Inc.	**75**	75
Aurora Properties Incorporated	**70**	70
Vesta Property Holdings, Inc.	**70**	70
Station Square East Commercial Corporation (SSECC)	**69**	69
Asian I-Office Properties, Inc. (AiO)	**60**	60
Accendo Commercial Corp. (Accendo)	**67**	67
Avencosouth Corp.	**20**	–
Cagayan de Oro Gateway Corp.	**70**	51
Ceci Realty, Inc. (Ceci)	**60**	60
CMPI Holdings, Inc.	**60**	60
CMPI Land, Inc.	**36**	36
ALI-CII Development Corporation (ALI-CII)	**50**	50
Roxas Land Corporation (RLC)	**50**	50
Adauge Commercial Corporation (Adauge)	**100**	–
Southgateway Development Corp. (SDC)	**100**	–
Ayalaland MetroNorth, Inc. (AMNI)	**100**	–
Construction:		
Makati Development Corporation and Subsidiaries (MDC)	**100**	100
MDC – Subic	**100**	100
MDC - Build Plus, Inc.	**100**	100
Hotels and Resorts:		
Ayala Hotels, Inc. (AHI)	**50**	50
AyalaLand Hotels and Resorts Corporation (AHRC) and Subsidiaries	**100**	100
ALI Makati Hotel & Residences, Inc. (formerly KHI-ALI Manila, Inc.) (Note 24)	**80**	–
ALI Makati Hotel Property, Inc. (formerly KHI Manila Property, Inc.) (Note 24)	**80**	–
Enjay Hotels, Inc. (Enjay)	**100**	100
Greenhaven Property Venture, Inc. (GPVI)	**100**	100
Cebu Insular Hotel Company, Inc. (CIHCI)	**63**	63
Bonifacio Hotel Ventures, Inc.	**100**	100
Southcrest Hotel Ventures, Inc.	**67**	67
Northgate Hotel Ventures, Inc.	**70**	70
North Triangle Hotel Ventures, Inc.	**100**	100
Ecosouth Hotel Ventures, Inc.	**100**	100

	Percentages of Ownership	
	2012	2011
ALI Makati Hotels & Residences, Inc.		
(formerly KHI-ALI Manila, Inc.) (Note 24)	**20%**	20%
ALI Makati Hotel Property, Inc.		
(formerly KHI Manila Property, Inc.) (Note 24)	**20**	20
Ten Knots Phils, Inc. (TKPI) (Note 24)	**60**	60
Ten Knots Development, Corp. (TKDC) (Note 24)	**60**	60
Property Management:		
Ayala Property Management Corporation (APMC)	**100**	100
Ayala Theatres Management, Inc. and Subsidiaries	**100**	100
Entertainment:		
Five Star Cinema, Inc.	**100**	100
Leisure and Allied Industries Philippines, Inc. (LAIP)	**50**	50
Others:		
MZM Holdings, Inc. (MZM)	**100**	100
ALInet.com, Inc. (ALInet)	**100**	100
First Longfield Investments Limited (First Longfield)		
(Hongkong company)	**100**	100
Green Horizons Holdings Limited	**100**	100
Food Court Company, Inc.	**100**	100
Aprisa Business Process Solutions, Inc. (Aprisa)	**100**	100
Studio Ventures, Inc.	**100**	100
Directpower Services, Inc. (Directpower)	**100**	100
Philippine Integrated Energy Solutions, Inc. (PhilEnergy)	**60**	60
Varejo Corp. (Varejo)	**100**	–

AC owns the other 50% of AHI. The Company exercises control over AHI. Likewise, the Company, through its 50% effective ownership and by virtue of a management contract or shareholders' agreement, exercises control over the operations and management of RLC, ALI-CII and LAIP. Accordingly, the accounts of AHI, RLC, ALI-CII and LAIP are consolidated to the accounts of the Company.

The following entities were organized in 2012:

AMNI was incorporated in November 29, 2012 and is a wholly-owned subsidiary of the Company. It is established primarily to develop and operate shopping malls and offices.

SDC, a wholly-owned subsidiary of the Company, was incorporated on October 19, 2012 to be involved in real estate development projects of the Group.

Adauge, a wholly-owned subsidiary of the Company, was incorporated on September 5, 2012 for the acquisition and development of a mixed-use project in Mandurriao, Iloilo City.

Varejo, a wholly-owned subsidiary of the Company, was incorporated with the Securities and Exchange Commission (SEC) on June 25, 2012. It is the holding company of the Company for its retail-related initiatives. In 2012, the Company, through Varejo, formed a partnership with Specialty Investments, Inc. (SII) to pursue opportunities in the Philippine retail sector. SII is a wholly-owned subsidiary of Stores Specialists, Inc. (SSI), one of the largest retail companies in the Philippines, with the exclusive rights to sell, distribute and market in the country a variety of brands from around the world. The partnership with SII will enable the Company to support its mixed-use developments and, at the same time, grow its recurring income portfolio.

Avencosouth was incorporated in the Philippines and is currently engaged in condominium development operations. The Company holds 90% indirect interest in Avencosouth as of December 31, 2012. It is 70% owned by Avida (wholly-owned subsidiary of the Company) and 30% owned by Accendo (67% owned by the Company). Avencosouth was registered with the SEC on April 26, 2012 and started commercial operations on August 11, 2012.

The Company, a principal shareholder of CDOGC increased its beneficial ownership to 70% or 867,680,000 shares as a result of additional securities acquired of 480,680,000 shares at ₱1 per share on May 4, 2012.

AIMI, a wholly-owned subsidiary of ALISI, was incorporated on February 28, 2012 to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

The following entities were organized in 2011:

MDC Build Plus, a wholly-owned subsidiary of MDC, was incorporated on October 17, 2011to primarily cater to projects focusing on the lower end of the base of the pyramid, particularly the residential brands Amaia and BellaVita.

Directpower, a wholly-owned subsidiary of the Company, was formed on September 14, 2011 to engage in the bulk purchase and supply of electricity and to introduce various energy solutions.

Arvo, a wholly-owned subsidiary of the Company, was established on June 23, 2011 primarily to develop and operate shopping malls within the Company's identified growth areas across the country.

Cagayan De Oro Gateway Corp. was established to pursue a mixed-use development with a 47,000 square meter regional mall as its centerpiece. A 150-room boutique hotel shall be located on top of the mall, while a single tower residential condominium with 21 floors and 522 rooms shall be located right beside the mall. The project is strategically located in the economic hub of Cagayan de Oro City.

Nuevo Centro, a wholly-owned subsidiary of the Company, was established on April 15, 2011 to acquire and hold real estate properties for the purpose of developing them into large-scale, mixed-used and masterplanned communities.

BellaVita, wholly-owned subsidiary of the Company, aims to establish the country's first social enterprise community development targeting minimum wage earners and members of the informal business sector. Its first project in General Trias, Cavite was launched in December 2011.

On March 5, 2011, the Group through Alveo acquired a landholding entity, by way of acquisition of shares of stock of Solinea which was incorporated and registered on April 2, 2007 with the purpose of developing properties particularly located in Cebu Business Park to generate future income. Alveo purchased 16.25 million shares of Solinea for ₱230.8 million, representing 65% of shares of stock, while Cebu Holdings, Inc. (CHI), an associate, purchased the remaining 8.75 million shares for ₱124.2 million, representing 35% of shares of stock.

The following entities were organized in 2010:

The Company established a wholly-owned subsidiary, AHRC, and infused cash in the latter to acquire Enjay, GPVI and CIHCI from AHI. As such, AHRC becomes the holding company for the Group's hotel operations.

Regent Wise, a wholly-owned subsidiary of the Company, signed an Equity Joint Venture Agreement with Sino-Singapore Tianjin Eco-City Investment and Development Co., Ltd for the development of a 9.78 hectare residential project in China. The project will be located in Tianjin Eco-city ("the Eco-City"), a 3,000 hectare collaboration between the Chinese and Singaporean governments which will showcase future direction of urban planning and sustainable development.

In 2010, Amaia, a subsidiary of Avida, became a wholly-owned subsidiary of the Company and is established to pursue a planned expansion of residential development operations to cater to the country's economic housing segment. Additional capital infusion amounting to ₱1,891.0 million was made by the Company in 2011 to fund Amaia's planned expansion program for the next five years.

ALCRI was formed in September as a vehicle through which the Company will own and operate selected investment properties and which the Company intends to undertake an initial public offering under Republic Act 9856 or the Philippines Real Estate Investment Trust (REIT) Law. Said investment properties shall include prime shopping center and office assets currently owned by the Company which are mature, have recurring income streams and have achieved stable occupancy rates.

PhilEnergy is a wholly-owned subsidiary established for the supply and operation of a district cooling system, performance contracting by introducing various energy solutions and bulk purchase of electricity. In 2011, the Company sold its 40% interest in PhilEnergy for ₱137.0 million. Gain on sale recognized as other reserves amounted to ₱9.0 million.

Aprisa is a wholly-owned subsidiary of the Company that will manage transactional accounting services.

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted in the preparation of the Group's consolidated financial statements are consistent with those of the previous financial year except for the adoption of the following amended PFRS which became effective January 1, 2012. Except as otherwise indicated, the adoption of the amended standards did not have any significant impact on the Group's financial statements.

PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments are effective for periods beginning on or after January 1, 2012.

The Group has both investment properties at cost and assets under PAS 16 carried under the cost model. These assets are all classified as ordinary assets for income tax purposes. As the jurisdiction in which the Group operates does not have a different tax charge for 'sale' or 'use' basis of assets classified as ordinary assets for income tax purposes, the amendment has no impact on the financial statements of the Group.

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

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 16*, Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

PAS 32*, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.

PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

Effective 2013

PFRS 7*, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

As a result of the preliminary assessment based on PFRS 10 requirements, the Company will consolidate North Triangle Depot Commercial Corporation, Cebu Holdings, Inc. and Alabang Commercial Corporation, which are currently accounted for as investments in associates in the Company's 2012 consolidated financial statements. The change in accounting for these investments will increase total consolidated assets by ₱12,673.0 million as of December 31, 2012 (₱11,032.4 million as of December 31, 2011) and total consolidated liabilities by ₱8,556.1 million as of December 31, 2012 (₱7,287.8 million as of December 31, 2011). Consolidated revenues will also increase by ₱3,384.2 million for the year ended December 31, 2012 (₱3,164.9 million for the year ended December 31, 2011) while consolidated income before income tax will increase by ₱1,023.6 million for the year ended December 31, 2012 (₱895.5 million for the year ended December 31, 2011). Adoption of PFRS 10 has no impact on the Company's EPS. These amounts have considered preliminary purchase price allocation for the entities in which it has obtained control.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The company has conducted an assessment of the impact of PFRS 11on its jointly controlled entities. It was concluded that its jointly controlled entities namely BG West Properties, Inc., BG South Properties, Inc., BG North Properties, Inc., Emerging City Holdings, Inc. and Berkshires Holdings, Inc. will be treated as Joint Ventures. The Standard has no impact in the Group's financial statements as the Group already accounts for its investment in jointly controlled entities using the equity method.

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

PAS 19, *Employee Benefits* (Revised)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard.

The effects are detailed below:

	Increase (decrease)		
	As at December 31, 2012	As at December 31, 2011	As at January 1, 2011
		(In Thousands)	
Consolidated statements of financial position			
Net defined benefit obligation	**₱428,880**	₱170,470	₱132,339
Deferred tax asset	**128,664**	51,141	39,702
Retained earnings	**144,896**	102,091	92,637
Other comprehensive income	**155,320**	17,238	–

	Increase (decrease)	
	2012	2011
	(In Thousands)	
Consolidated statements of income		
Net benefit cost	**₱61,150**	₱13,506
Income tax expense	**18,345**	4,052
Profit for the year:	**(42,805)**	(9,454)
Attributable to the owners of the Company	**(42,833)**	(9,637)
Attributable to non-controlling interests	**28**	183
Other comprehensive income	**(221,886)**	(24,625)
Tax effect on other comprehensive income	**(66,566)**	(7,388)

Equity in net earnings from investments in associates and jointly controlled entities will decrease net income attributable to owners of the Company by ₱1.1 million and ₱ 4.2 million for the year ended December 31, 2012 and 2011 respectively. The impact on EPS is less than ₱0.01 per share.

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Effective 2014

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective 2015

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently

measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

The Company has conducted an initial evaluation and has assessed that the standard does not have significant impact to the Company. No early adoption will be made as of date of this report as there are still major changes that are expected to be made in the existing draft of the standard that could impact the Company's decision to early adopt or not. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The adoption of this interpretation may significantly affect the determination of the Group's revenue from real estate sales and the corresponding costs, and the related trade receivables, deferred tax liabilities and retained earnings accounts. The Group is in the process of quantifying the impact of adoption of this interpretation.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of change in value.

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

"Day 1" difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statement of income under "Interest and investment income" and "Interest and other financing charges" accounts unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Fair value gains or losses on investments held for trading, net of interest income accrued on these assets, are recognized in the consolidated statement of income under "Other income" or "Other charges".

Financial assets may be designated at initial recognition as FVPL if any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative that would need to be separately recorded.

As of December 31, 2012, the Group holds its investment in ARCH Capital Asian Partners L.P. (ARCH Capital Fund) as held for trading and classified this as financial asset at FVPL. Management takes the view that these are held for trading and it is a portfolio of identified property funds invested and managed by professional managers. The Group's financial assets at FVPL pertaining to treasury bonds and treasury bills matured in 2011.

HTM investments
HTM investments are quoted non derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate.

The amortization is included in "Interest and investment income" in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income under "Other income" or "Other charges" when the HTM investments are derecognized and impaired, as well as through the amortization process.

As of December 31, 2012 and 2011, the Group has no HTM investments.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. This accounting policy relates to the consolidated statement of financial position captions "Short-term investments" and "Accounts and notes receivable" except for "Advances to contractors".

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. The amortization is included in the "Interest and investment income" in the consolidated statements of income. The losses arising from impairment of such loans and receivables are recognized in the consolidated statement of income under the "Other charges" account.

Loans and receivables are included in current assets if maturity is within 12 months from the reporting date, otherwise these are classified as noncurrent assets.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified or designated as at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as "Unrealized gain on available-for-sale financial assets" in the equity section of the consolidated statement of financial position.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under "Other income" account or "Other charges" account. Where the Group holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. The losses arising from impairment of such investments are recognized in the consolidated statement of income under the "Other charges" account.

When the fair value of the AFS financial assets cannot be measured reliably because of lack of reliable estimation of future cash flows and discount rates necessary to calculate the fair value of computed equity instruments, these investments are carried at cost less allowance for impairment losses. AFS financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from reporting date.

Other financial liabilities
Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral parts of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to the Group's short-term and long-term debts, accounts and other payables, and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and pension liabilities).

Deposits and Retentions Payable
Deposits and retentions payable are measured initially at fair value. After initial recognition, deposits and retentions payable are subsequently measured at amortized cost using the effective interest method.

For deposits, the difference between the cash received and its fair value is deferred and amortized using the straight-line method under the “Real estate revenue” account in the consolidated statement of income.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

a. the rights to receive cash flows from the asset have expired;
b. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
c. the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a ‘pass-through’ arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor is transferred control of the asset, the asset recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability has expired, or is discharged or has cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of income under "Other charges" account.

Interest income continues to be recognized based on the original effective interest rate of the asset. Receivable, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any difference between loss estimates and actual loss experience.

Financial asset carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS financial assets
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income in the "Other charges" account. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Interest income" account in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position, if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories
Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV).

Cost includes:
- Land cost
- Land improvement cost
- Amounts paid to contractors for construction and development
- Planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

The cost of inventory recognized in the consolidated statement of income on disposal is determined with reference to the specific costs incurred on the property and allocated to saleable area based on relative size.

Club shares are stated at the lower of cost and NRV. The cost of club shares sold is determined on the basis mainly of the actual development cost incurred plus the estimated development cost to complete the project based on the estimates as determined by the in-house engineers, adjusted with the actual costs incurred as the development progresses, including borrowing costs during the development stage. NRV is the estimated selling price less estimated cost to complete and sell.

Prepaid Expenses
Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for commissions, marketing fees, advertising and promotions, taxes and licenses, rentals and insurance.

Materials, Parts and Supplies
Materials, parts and supplies are valued at the lower of cost or NRV. Cost is determined using the moving average method. NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

An allowance for inventory losses is provided for slow-moving, obsolete and defective materials, parts and supplies based on management's physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged against operations.

Land and Improvements

Land and improvements consist of properties for future development and are carried at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale. Cost includes those costs incurred for development and improvement of the properties.

Investments in Associates and Jointly Controlled Entities

Investments in associates and jointly controlled entities (investee companies) are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

An investment is accounted for using the equity method from the day it becomes an associate or joint venture. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized. Any excess of the investor's share of the net fair value of the investee's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the investees.

Under the equity method, the investments in the investee companies are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investee companies, less any impairment in values. The consolidated statement of income reflects the share of the results of the operations of the investee companies. The Group's share of post-acquisition movements in the investee's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when their investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee companies. When the investee companies subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the investee companies and the Group are identical and the investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statement of income.

Interest in a Joint Venture
MDC has an interest in a joint venture, whereby the venturers have a contractual arrangement that establishes joint control. MDC recognizes its interest in the joint venture using proportionate consolidation. MDC combines its share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies into line with those of MDC.

Adjustments are made in MDC's financial statements to eliminate MDC's share of unrealized gains and losses on transactions between MDC and the joint venture. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the NRV of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Investment Properties
Investment properties comprise completed property and property under construction or re-development that are held to earn rentals or capital appreciation or both and that are not occupied by the companies in the Group.

The Group uses the cost model in measuring investment properties since this represents the historical value of the properties subsequent to initial recognition. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in residual value. Land is carried at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Construction in progress are carried at cost (including borrowing cost) and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation of investment properties are computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives and the depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The estimated useful lives of investment properties follow:

	Years
Land improvements	8-40
Buildings	20-40

Investment properties are derecognized when either they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

A transfer is made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. A transfer is made from investment property when and only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. A transfer between investment property, owner-occupied property and inventory does not change the carrying amount of the property transferred nor does it change the cost of that property for measurement or disclosure purposes.

Property and Equipment
Property and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and are computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years
Buildings and improvements	20-40
Machinery and construction equipment	5
Furniture, fixtures and equipment	3-10
Transportation equipment	3-5
Hotel property and equipment	20-50

The assets' residual values, estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the amounts, periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Intangible assets are amortized over the useful economic life of 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

As of December 31, 2012 and 2011, intangible asset pertaining to leasehold right is included under "Other noncurrent assets".

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree at fair value of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The following criteria are also applied in assessing impairment of specific assets:

Investments in associates and jointly controlled entities

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The Group determines at each reporting date whether there is any objective evidence that the investment in associates or jointly controlled entities is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the consolidated statement of income.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Pension Cost
Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailment or settlement.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by using risk-free interest rates of long-term government bonds that have terms to maturity approximating the terms of the related pension liabilities or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

Actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Share-based Payments
The Group has equity-settled, share-based compensation plans with its employees.

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using the Black-Scholes model, further details of which are given in Note 28.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instrument that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pre-PFRS 2 Options
For options granted before November 7, 2002 that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 27).

Employee Stock Ownership Plan
The Company has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Company's shares at a discounted price. The Company recognizes stock compensation expense over the holding period. The Company treats its ESOWN plan as option exercisable within a given period. These are accounted for similar to the PFRS 2 options. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. For the unsubscribed shares where the employees still have the option to subscribe in the future, these are accounted for as options.

<u>Equity</u>
When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

<u>Revenue and Cost Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee (PIC) Q&A No. 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included in the "Other current liabilities" account in the liabilities section of the consolidated statement of financial position.

If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Other current liabilities" account in the liabilities section of the consolidated statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of residential and commercial lots and units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Company's in-house technical staff.

Revenue from construction contracts included in the "Real estate" account in the consolidated statement of income is recognized using the percentage-of-completion method, measured principally on the basis of the estimated physical completion of the contract work.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Marketing fees, management fees from administration and property management are recognized when services are rendered.

Rooms revenue from hotel and resort operations are recognized when the services are rendered.

Revenue from banquets and other special events are recognized when the events take place.

Interest income is recognized as it accrues using the effective interest method.

Dividend income is recognized when the Group's right to receive the payment is established.

Commissions
Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included in the "Real estate costs and expenses" account in the consolidated statement of income.

Expenses
Direct operating expenses and general and administrative expenses are recognized as they are incurred.

Borrowing Costs
Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets (included in "Investment properties" and "Property and equipment" accounts in the consolidated statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized as from the commencement of the development work until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).

Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Group as lessor
Leases where the Group does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Current Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

Deferred Tax
Deferred tax is provided, using the liability method, on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic associates and interests in joint ventures.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Foreign Currency Transactions
Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate prevailing at the reporting date. Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the year.

Investments in foreign associates are translated to Philippine Peso using the closing exchange rate prevailing at reporting date. The Group's share in the results of operations of the foreign investee is translated using the exchange rate at the dates of the transactions or, where practicable, the rate that approximates the exchange rates at the dates of the transactions, such as the average rate for the period. Any resulting exchange difference is recognized as a separate component of equity.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income for the year attributable to common equity holders of the parent by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year attributable to common equity holders of the Company by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential common shares that would have an antidilutive effect on earnings per share.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 30 of the consolidated financial statements.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events after the Reporting Period
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

3. Significant Accounting Judgments and Estimates

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

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of the property as the Group considered, among others, the length of the lease term as compared with the estimated life of the assets.

A number of the Group's operating lease contracts are accounted for as noncancellable operating leases and the rest are cancellable. In determining whether a lease contract is cancellable or not, the Group considers among others, the significance of the penalty, including the economic consequence to the lessee.

Operating lease commitments - Group as lessee
The Group has entered into lease contracts with various parties to develop commercial or retail properties. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessor.

Classification of property
The Group determines whether a property is classified as investment property or inventory property as follows:

- Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential and industrial property that the Group develops and intends to sell before or on completion of construction.

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately at the reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Distinction between real estate inventories and land and improvements
The Group determines whether a property will be classified as real estate inventories or land and improvements. In making this judgment, the Group considers whether the property will be sold in

the normal operating cycle (real estate inventories) or whether it will be retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (land and improvements).

Property acquisitions and business combinations
The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in Philippine Accounting Standards 40 on ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

Collectibility of the sales price
In determining whether the sales prices are collectible, the Group considers that initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

Impairment of AFS equity investments
The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities (see Note 10).

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's consolidated financial statements (see Note 34).

<u>Management's Use of Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue and cost recognition
The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Group's revenue from real estate and construction contracts recognized based on the percentage of completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work. See Notes 21and 22 for the related balances.

Estimating allowance for impairment losses
The Group maintains allowance for impairment losses based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to classify its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. See Note 7 for the related balances.

Evaluation of net realizable value of real estate inventories
The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. See Note 8 for the related balances.

Evaluation of asset impairment
The Group reviews its investments in associates and jointly controlled entities, land and improvements, investment properties, property and equipment and other noncurrent assets for impairment of value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, plans in the real estate projects, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the net selling price and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect land and improvements, investments in associates and jointly controlled entities, investment properties, property and equipment, and other noncurrent assets. See Notes 11, 12, 13, 14 and 15 for the related balances.

Estimating useful lives of property and equipment and investment properties
The Group estimates the useful lives of its property and equipment and investment properties based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could materially be affected by changes in estimates brought about by changes in factors mentioned above. See Notes 13 and 14 for the related balances.

Deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be

available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income. See Note 23 for the related balances.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Group. See Note 28 for the related balances.

Estimating pension obligation and other retirement benefits
The determination of the Group's obligation and cost for pension and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 26 and include among others, discount rate, expected return on plan assets and salary increase rate. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations. See Note 26 for the related balances.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded or disclosed in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility and correlation. Certain financial assets and liabilities were initially recorded at its fair value by using the discounted cash flow methodology. See Notes 19 and 29 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

	2012	2011
	(In Thousands)	
Cash on hand	**₱51,015**	₱34,256
Cash in banks	**13,458,913**	5,047,564
Cash equivalents	**15,086,470**	19,521,393
	₱28,596,398	₱24,603,213

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term rates.

The range of interest rates of the cash equivalents follow:

	2012	2011
Philippine Peso	**0.4% to 3.9%**	1.3% to 4.9%
US Dollar	**0.1% to 2.0%**	0.3% to 2.0%

5. Short-term Investments

Short-term investments consists of money market placements made for varying periods of more than three (3) months and up one (1) year and earn interest at the respective short-term investment rates.

The range of interest rates of the short-term investments follows:

	2012	2011
Philippine Peso	**2.2%**	–
US Dollar	–	1.9% to 2.0%

6. Financial Assets at FVPL

This pertains to investment in ARCH Capital Fund which is previously classified as investment in associate accounted under equity method by virtue of the Company's interest in the general partner (Note 12). When the exchange between the Company, AC and The Rohatyn Group (TRG) was consummated, the Company and AC gave up their interest in the general partner resulting to only 8% stake in the ARCH Capital Fund. The investment in ARCH Capital Fund is no longer an equity investment but a monetary interest in the fund.

Management takes the view that these are held for trading and it is a portfolio of identified property funds invested and managed by professional managers.

7. Accounts and Notes Receivable

This account consists of:

	2012	2011
	(In Thousands)	
Trade:		
Residential development	**₱20,625,012**	₱14,558,803
Construction contracts	**2,525,722**	1,877,480
Corporate business	**1,391,571**	592,408
Shopping centers	**1,350,068**	1,101,053
Management fees	**90,908**	50,482
Others	**1,530,762**	741,459
Advances to other companies	**6,010,124**	2,507,834
Advances to contractors and suppliers	**5,980,101**	3,767,890
Accrued receivable	**2,315,729**	1,597,219
Receivable from related parties (Note 25)	**1,645,170**	1,750,055
Investment in bonds classified as loans and receivables	**1,000,000**	200,000
Receivables from employees	**313,036**	431,515
	44,778,203	29,176,198
Less allowance for impairment losses	**308,223**	304,153
	44,469,980	28,872,045
Less noncurrent portion	**10,384,045**	7,293,682
	₱34,085,935	₱21,578,363

The classes of trade receivables of the Group are as follows:

- Residential development - pertain to receivables from the sale of high-end, upper middle-income and affordable residential lots and units; economic and socialized housing units; and leisure community developments
- Construction contracts - pertain to receivables from third party construction projects
- Corporate business - pertain to lease receivables from office and factory buildings; and receivables from the sale of office buildings and industrial lots
- Shopping centers - pertain to lease receivables from retail spaceManagement fees - pertain to receivables from facilities management services
- Others - pertains to receivables from hotel operations and other support services

The sales contracts receivable, included under residential development, are collectible in monthly installments over a period of one (1) to ten (10) years and bear annual interest rates ranging from 2.15% to 20.00% computed on the diminishing balance of the principal. Titles to real estate properties are not transferred to the buyers until full payment has been made.

Receivables from construction contracts, shopping centers and management fees are due within 30 days upon billing.

Corporate business receivables are collectible on a monthly or quarterly basis depending on the terms of the lease contracts.

Advances to contractors and suppliers are recouped upon every progress billing payment depending on the percentage of accomplishment.

Receivables from related parties, advances to other companies and accrued receivables are due and demandable. Receivables from employees pertain to housing, car, salary and other loans granted to the Group's employees which are collectible through salary deduction, are interest-bearing and have various maturity dates.

Investment in bonds classified as loans and receivables pertain to the Group's investments in various notes and bonds as follows:

- ₱200 million investment in 7.25% unsecured subordinated notes of Land Bank of the Philippines (LBP) due 2019, callable with step-up interest in 2014.
- ₱100 million investment in 5.88% unsecured subordinated notes of Land Bank of the Philippines due 2022, callable in 2017.
- ₱200 million investment in 5.75% unsecured subordinated notes of Development Bank of the Philippines due 2022, callable in 2017.
- ₱500 million investment in 5.75% collateralized bonds of First Metro Investment Corp. due 2019, callable in 2017.

Receivables amounting to ₱308.2 million and ₱304.2 million as of December 31, 2012 and 2011, respectively, were impaired and fully provided for. Movements in the allowance for impairment losses follow:

2012

	Trade					Advances to Other Companies	Total
	Residential Development	Construction Contracts	Shopping Centers	Management Fees	Others		
				(In Thousands)			
Balance at beginning of year	**₱23,110**	**₱5,927**	**₱155,869**	**₱3,215**	**₱59,303**	**₱56,729**	**₱304,153**
Provisions during the period (Note 22)	**–**	**12,854**	**39,743**	**–**	**24**	**–**	**52,621**
Translation adjustment	**–**	**–**	**–**	**–**	**(471)**	**–**	**(471)**
Reversal (Note 22)	**–**	**–**	**–**	**–**	**(1,739)**	**–**	**(1,739)**
Accounts written off	**–**	**–**	**(45,615)**	**–**	**–**	**(726)**	**(46,341)**
Balance at end of year	**₱23,110**	**₱18,781**	**₱149,997**	**₱3,215**	**₱57,117**	**₱56,003**	**₱308,223**
Individually impaired	**₱9,555**	**₱18,781**	**₱117,877**	**₱2,048**	**₱56,521**	**₱56,003**	**₱260,785**
Collectively impaired	**13,555**	**–**	**32,120**	**1,167**	**596**	**–**	**47,438**
Total	**₱23,110**	**₱18,781**	**₱149,997**	**₱3,215**	**₱57,117**	**₱56,003**	**₱308,223**
Gross amounts of receivables individually determined to be impaired	**₱9,555**	**₱18,781**	**₱117,877**	**₱2,048**	**₱56,521**	**₱56,003**	**₱260,785**

2011

	Trade					Advances to Other Companies	Total
	Residential Development	Construction Contracts	Shopping Centers	Management Fees	Others		
				(In Thousands)			
Balance at beginning of year	₱17,122	₱5,927	₱153,725	₱4,383	₱63,902	₱12,374	₱257,433
Provisions during the period (Note 22)	5,988	–	2,144	–	63	44,355	52,550
Reversal (Note 22)	–	–	–	–	(4,219)	–	(4,219)
Accounts written off	–	–	–	(1,168)	(443)	–	(1,611)
Balance at end of year	₱23,110	₱5,927	₱155,869	₱3,215	₱59,303	₱56,729	₱304,153
Individually impaired	₱9,555	₱5,927	₱143,261	₱3,215	₱59,303	₱45,409	₱266,670
Collectively impaired	13,555	–	12,608	–	–	11,320	37,483
Total	₱23,110	₱5,927	₱155,869	₱3,215	₱59,303	₱56,729	₱304,153
Gross amounts of receivables individually determined to be impaired	₱34,813	₱5,927	₱174,475	₱3,215	₱59,301	₱51,318	₱329,049

As of December 31, 2012 and 2011, residential development, advances to other companies and receivables from employees with a nominal amount of ₱13,311.4 million and ₱13,790.2 million, respectively, were recorded initially at fair value. The fair value of the receivables was obtained by discounting future cash flows using the applicable rates of similar types of instruments.

Movements in the unamortized discount of the Group’s receivables as of December 31, 2012 and 2011 follow:

	2012	2011
	(In Thousands)	
Balance at beginning of the year	**₱2,729,328**	₱1,250,257
Additions during the year	**1,534,751**	2,379,733
Accretion for the year	**(1,310,130)**	(900,662)
Acceleration of accretion pertaining to sold receivables	**(447,029)**	–
Balance at end of the year	**₱2,506,920**	₱2,729,328

In 2012, the Group sold real estate receivables on a without recourse basis to BPI Family Bank, a related party and RCBC Savings amounting to ₱2,957.8 million and ₱1,345.3 million respectively. These were sold for a total average discount rate of 5.99% or ₱2,576.9 million to BPI Family Bank (Note 25) and ₱1,228.2 million to RCBC Savings. The total discounting cost on these receivables amounted to ₱498.0 million recognized under “Interest and other financing charges” in the consolidated statement of income (see Note 22).

In 2011, the Group sold real estate receivables on a without recourse basis to BPI Family Bank amounting to ₱322.8 million at an average discount rate of 6.27% (see Note 25). The discount on these receivables amounting to ₱37.3 million has been included under "Interest and other financing charges" in the consolidated statements of income (see Note 22).

Also during 2011, the Group entered in an agreement with BPI for the sale of interest bearing loans receivables from employees without recourse amounting to ₱306.0 million with 12% interest rate which resulted to no gain or loss (see Note 25).

8. Inventories

This account consists of:

	2012	2011
	(In Thousands)	
Real estate:		
Residential and commercial lots:		
At cost	**₱8,105,910**	₱9,273,300
At NRV	**936,183**	936,183
Residential and commercial units - at cost	**14,699,323**	11,356,871
Club shares - at cost	**328,971**	342,217
	₱24,070,387	₱21,908,571

A summary of the movement in inventories are set out below:

2012

	Residential and commercial lots	**Residential and commercial units**	**Club shares**	**Total**
		(In Thousands)		
Opening balances at January 1	**₱10,209,483**	**₱11,356,871**	**₱342,217**	**₱21,908,571**
Land acquired during the year	**228,291**	**176,519**	–	**404,810**
Land cost transferred from land and improvements	**1,194,843**	–	–	**1,194,843**
Construction/development costs incurred	**3,482,199**	**16,223,545**	–	**19,705,744**
Disposals (recognized as cost of sales) (Note 22)	**(5,586,855)**	**(13,844,426)**	**(13,246)**	**(19,444,527)**
Write-down of inventories/reversal of write-down	–	–	–	–
Transfers from investment properties	**76,726**	**39,360**	–	**116,086**
Other adjustments/reclassifications	**(562,594)**	**747,454**	–	**184,860**
	₱9,042,093	**₱14,699,323**	**₱328,971**	**₱24,070,387**

2011

	Residential and commercial lots	Residential and commercial units	Club shares	Total
		(In Thousands)		
Opening balances at January 1	₱7,933,271	₱5,331,408	₱350,017	₱13,614,696
Land acquired during the year	21,746	–	–	21,746
Land cost transferred from land and improvements	919,221	445,261	–	1,364,482
Construction/development costs incurred	5,225,000	15,427,530	–	20,652,530
Disposals (recognized as cost of sales) (Note 22	(3,843,545)	(10,121,524)	(7,800)	(13,972,869)
Write-down of inventories/reversal of write-down	(87,081)	–	–	(87,081)
Transfers to investment properties	–	–	–	0
Other adjustments/reclassifications	40,871	274,196		315,067
	₱10,209,483	₱11,356,871	₱342,217	₱21,908,571

The cost of the inventories carried at NRV amounted to ₱2,524.0 million as of December 31, 2012 and 2011. The Group recorded no provision for impairment in 2012 and 2011.

9. Other Current Assets

This account consists of:

	2012	2011
		(In Thousands)
Prepaid expenses	**₱5,442,898**	₱2,349,799
Value-added input tax – net	**4,609,604**	1,675,970
Deposits in escrow	**2,150,889**	147,529
Creditable withholding tax	**1,192,933**	2,448,600
Materials, parts and supplies - at cost	**167,337**	95,471
Advances to suppliers	**73,567**	63,336
Others	**163,333**	253,803
	₱13,800,561	₱7,034,508

Prepaid expenses mainly include prepayments for commissions, marketing fees, advertising and promotions, taxes and licenses, rentals and insurance.

The value-added input tax is applied against value-added output tax. The remaining balance is recoverable in future periods.

Deposits in escrow pertain to the proceeds from the sale of Serendra and Alveo projects without permanent license to sell. Under its temporary license to sell, all payments, inclusive of down payments, reservation, and monthly amortization, among others, made by the buyer within the selling period shall be deposited in an escrow account.

The deposits in escrow account also include cash deposit of Summerhill E-Office, Inc. (Buyer) amounting to ₱1,175.2 million with an Escrow Agent on August 15, 2012 in relation to the Buyer's purchase of parcels of land from a third party with an aggregate area of approximately 47,952 square meters located in Pasig City. The amount and document will be released only upon presentation of the Certificate Authorizing Registration duly issued by the Bureau of Internal Revenue authorizing the transfer of the Parcels from the Seller to the Buyer. The amount will be net of capital gains tax on the sale but will include accrued interests in the escrow account.

The Group will be able to apply the creditable withholding taxes against income tax payable.

10. Available-for-sale Financial Assets

This account consists of investments in:

	2012	2011
	(In Thousands)	
Shares of stock:		
Unquoted	**₱216,655**	₱253,800
Quoted	**197,241**	168,597
Treasury bonds	**–**	216,933
	413,896	639,330
Net unrealized gain	**40,374**	71,112
	₱454,270	₱710,442

Investments in unquoted shares include unlisted shares in public utility companies which the Group will continue to carry as part of the infrastructure that it provides for its real estate projects. These are carried at cost less impairment, if any.

During the year, the Group sold ₱224.2 million worth of treasury bonds and recognized gain on disposals amounting to ₱7.3 million included under "Other income" in the consolidated statements of income (see Note 22).

In 2012, the Group recorded a provision for impairment losses on investment in unquoted shares amounting to ₱16.8 million which was included under "Other charges" in the consolidated statements of income (see Note 22).

In 2008, the Group purchased preferred shares from AC amounting to ₱100.0 million at a purchase price of ₱500 per share (included under quoted shares of stock).

Movements in the net unrealized gain on AFS financial assets follow:

	2012	2011
	(In Thousands)	
Balance at beginning of year	**₱71,112**	₱55,348
Fair value changes during the year	**(20,162)**	15,764
Fair value loss transferred to income	**(10,576)**	–
Balance at end of year	**₱40,374**	₱71,112

11. **Land and Improvements**

The rollforward analysis of this account follows:

	2012	2011
	(In Thousands)	
Cost		
Balance at beginning of year	**₱19,246,705**	₱16,561,902
Additions	**30,168,416**	4,049,285
Transfers*	**(1,194,843)**	(1,364,482)
Balance at end of year	**48,220,278**	19,246,705
Allowance for Impairment		
Balance at beginning and end of year	**510,125**	510,125
	₱47,710,153	₱18,736,580

* *Transfers pertain to land to be developed for sale and included under "Inventories" account.*

During the year, the Group won the public bidding for the purchase of the 74-hectare Food Terminal, Inc. (FTI) property in Taguig. The bid was conducted in accordance with the Asset Specific Bidding Rules dated July 4, 2012 and in accordance with the provisions of Executive Order No. 323. The Group's bid was ₱22.4 billion.

In October 2012, the Company entered into a Purchase Agreement wherein the Seller (FTI) agrees to sell, convey, assign and transfer and deliver to the buyer, and the buyer agrees to purchase and acquire from the seller, all of the seller's rights and interests in the property. The property is designed to be a mixed-use development.

On August 27, 2009, the Company and the National Housing Authority (NHA) signed a Joint Venture Agreement to develop the 29.1-hectare North Triangle Property in Quezon City as a priming project of the government and the private sector. The joint venture represents the conclusion of a public bidding process conducted by the NHA which began on October 3, 2008.

The Company's proposal, which has been approved and declared by the NHA as compliant with the Terms of Reference of the public bidding and the National Economic Development Authority (NEDA) Joint Venture Guidelines, features the development of a new Central Business District (CBD) in Quezon City. The CBD will be developed as the Philippines' first transit-oriented mixed-use central business district that will be a new nexus of commercial activity. The proposal also aims to benefit the NHA in achieving its mandate of providing housing for informal settlers and transforming a non-performing asset in a model for urban renewal. The development will also generate jobs and revenue both for the local and national governments.

The Company's vision for the property is consistent with the mandate of the Urban Triangle Development (TriDev) Commission to rationalize and speed up the development of the East and North Triangles of Quezon City into well-planned, integrated and environmentally balanced, mixed-use communities. The joint venture also conforms with the NHA's vision of a private sector-led and managed model for the development of the property, similar to the development experience in Fort Bonifacio.

The total project cost is estimated at ₱22.0 billion, inclusive of future development costs and the current value of the property, which the Company and the NHA will contribute as their respective equity share in the joint venture. Development of Phase 1 commenced in the second quarter of 2012.

12. Investments in Associates and Jointly Controlled Entities

This account consists of:

	2012	2011
	(In Thousands)	
Acquisition cost	**₱7,139,669**	₱7,536,683
Accumulated equity in net earnings:		
Balance at beginning of year	**5,089,548**	4,502,926
Equity in net earnings during the year	**1,334,255**	898,550
Dividends received during the year	**(412,334)**	(311,928)
Balance at end of year	**6,011,469**	5,089,548
	₱13,151,138	₱12,626,231

The Group's equity in the net assets of associates and jointly controlled entities and the related percentages of ownership are shown below.

	Percentages of Ownership		Carrying Amounts	
	2012	2011	**2012**	2011
			(In Thousands)	
Jointly controlled entities:				
Emerging City Holdings, Inc. (ECHI)	**50%**	50%	**₱3,964,098**	₱3,682,241
Berkshires Holdings, Inc. (BHI)	**50**	50	**1,698,876**	1,578,080
BG West Properties, Inc. (BGW)	**50**	50	**323,113**	247,201
BG South Properties, Inc. (BGS)	**50**	50	**270,071**	195,419
BG North Properties, Inc. (BGN)	**50**	50	**135,238**	2,537
SIAL Specialty Retailers, Inc. (SIAL Specialty)	**50**	–	**53,611**	–
SIAL CVS Retailers, Inc. (SIAL CVS)	**50**	–	**84,289**	–
			6,529,296	5,705,478
Associates:				
Cebu Holdings, Inc. (CHI) and subsidiaries	**50**	47	**2,673,096**	2,264,852
North Triangle Depot Commercial Corporation (NTDCC)	**49**	49	**1,281,937**	1,336,389
Bonifacio Land Corp. (BLC)	**10**	10	**1,278,772**	1,160,722
Tianjin Eco-City Ayala Land Development Co., Ltd.	**40**	40	**693,759**	729,374
Alabang Commercial Corporation (ACC)	**50**	50	**634,188**	616,562
Lagoon Development Corporation (LDC)	**30**	30	**55,730**	58,301
ALI Makati Hotels & Residences, Inc. (formerly KHI-ALI Manila, Inc.) (Note 24) (AMHRI)	–	20	–	12,375
ALI Makati Hotel Property, Inc. (formerly KHI Manila Property, Inc.) (Note 24) (AMHPI)	–	20	–	572
ARCH Capital Asian Partners L.P. (ARCH Capital Fund)	–	8	–	739,106
Others	–	–	**4,360**	2,500
			6,621,842	6,920,753
			₱13,151,138	₱12,626,231

As of December 31, 2012 and 2011, the Group had total commitments relating to the Group's interests in the joint ventures amounting to ₱398.2 million and ₱826.7 million, respectively.

The Company, a principal shareholder of CHI increased its beneficial ownership to 49.80% or 956,241,738 shares as a result of additional 48,890,905 shares acquired at ₱5.11 per share on October 9, 2012.

The fair value of the investment in CHI amounted to ₱3,825.0 million and ₱2,270.5 million as of December 31, 2012 and 2011, respectively. CHI's subsidiary, Cebu Property Ventures Development Corp. (CPVDC), owns 40% interest in AiO (see Note 2).

Financial information on the Company's proportionate share in its significant jointly controlled entities follows (in thousands):

ECHI and Subsidiaries	**2012**	2011
Current assets	**₱2,449,117**	₱2,734,449
Noncurrent assets	**2,868,667**	2,546,734
Total assets	**5,317,784**	5,281,183
Current liabilities	**315,443**	466,259
Noncurrent liabilities	**647,394**	481,457
Total liabilities	**962,837**	947,716
Net operating revenue	**886,508**	701,559
Costs and expenses	**786,156**	528,770
Net income	**100,352**	172,789

BHI and Subsidiaries	**2012**	2011
Current assets	**₱30,070**	₱30,087
Noncurrent assets	**1,871,038**	1,878,180
Total assets	**1,901,108**	1,908,267
Total liabilities	**3,296**	3,283
Net operating revenue	**47,209**	57,203
Costs and expenses	**39**	28
Net income	**47,170**	57,175

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

CHI and Subsidiaries	**2012**	2011
Total assets	**₱10,920,248**	₱7,130,254
Total liabilities	**5,638,170**	2,101,863
Net operating revenue	**1,337,299**	1,348,890
Costs and expenses	**896,175**	883,876
Net income	**441,124**	465,014
Earnings per share	**0.23**	0.22

NTDCC	**2012**	2011
Total assets	**₱7,057,288**	₱7,242,779
Total liabilities	**4,697,251**	4,771,355
Net operating revenue	**1,875,670**	1,776,526
Costs and expenses	**1,373,243**	1,358,854
Net income	**502,427**	417,672

ACC	2012	2011
Total assets	**₱2,119,369**	₱1,849,402
Total liabilities	**1,073,502**	851,189
Net operating revenue	**858,417**	713,247
Costs and expenses	**535,782**	429,380
Net income	**322,635**	283,867

BLC and Subsidiaries	2012	2011
Total assets	**₱42,586,417**	₱42,852,341
Total liabilities	**7,756,498**	7,769,318
Net operating revenue	**7,154,345**	4,064,943
Costs and expenses	**6,353,297**	2,893,927
Net income	**801,048**	1,171,016

ARCH Capital Fund	2011
Total assets	₱17,984,045
Total liabilities	6,948,333
Net operating revenue	1,373,595
Costs and expenses	486,186
Net income	887,409

AMHRI (formerly KHI Manila Property, Inc.)	2011
Total assets	₱2,274,563
Total liabilities	2,316,271
Net operating revenue	32,426
Costs and expenses	53,827
Net loss	(21,401)

AMHPI (formerly KHI-ALI Manila, Inc.)	2011
Total assets	₱7,848,738
Total liabilities	6,144,342
Net operating revenue	–
Costs and expenses	(21,474)
Net loss	(21,474)

Investment in ECHI and BHI
In 2011, BLC redeemed its 3,485,050 preferred shares with an aggregate redemption price of ₱500.0 million.

The Company's 5.32% direct investment in BLC and 4.78% through Regent are accounted for using the equity method because the Company has significant influence over BLC.

On July 31, 2008, the Group acquired, through the Company, Regent and Columbus, additional 4,360,178 shares of BLC from FBDC amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC. In January and October 2009, a total of 2,295,207 BLC shares were acquired from Development Bank of the Philippines and MPIC, pertaining to the pledged shares, through Columbus amounting to ₱362.6 million. This resulted in an increase in the Group's effective interest in BLC to 45.05% as of December 31, 2009.

On April 17, 2003, the following transactions were consummated pursuant to the terms and conditions of the Assignment Agreement (Agreement), dated February 8, 2003, among the Company, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among the Company, EHI and Metro Pacific Investment Corporation (MPIC) as amended:

(a) The assignment to the Company and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPIC, pursuant to which, Larouge extended MPIC a loan in the principal amount of US$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by the Company and EHI for such assignment was approximately US$90 million, subject in part to foreign exchange adjustment.

(b) The assignment to the Company and EHI acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus) of the controlling interest in BLC represented 50.38% of BLC's outstanding capital stock. This assignment was effected by MPIC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.55% of its outstanding capital stock.

The Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.

The Company and EHI jointly hold the 50.38% equity interest in BLC through ECHI and BHI. The Company and EHI assigned the notes receivable from MPIC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method, resulting in a negative goodwill of ₱1.4 billion.

Subsequent to this, the Company and EHI acquired additional shares of BLC through a combination of direct acquisition and through its associates at varying dates:

Investments in BGW, BGS and BGN
BGW, BGS and BGN were incorporated on August 5, 10 and 5, 2011, respectively, to engage in the development of high-end, upper middle income and affordable residential and retail projects, respectively, in Bonifacio Global City.

Investment in ARCH Capital
In 2006, the Company and AC entered into a Shareholders' Agreement with ARCH Capital and Great ARCH Co. Limited, wherein the Company and AC committed to invest a total of US$75.0 million in a private equity fund that will explore property markets in Asia, excluding Japan and Philippines. On the same year, an Amendment and Adherence Agreement was entered into by the same parties, together with Fine State Group Limited (Fine State) and Green Horizons Holdings Limited (Green Horizons), a wholly-owned subsidiary of First Longfield, transferring the interests of AC and the Company in ARCH Capital into Fine State and Green Horizons, respectively. Fine State and First Longfield are 100% owned Hong Kong subsidiaries of AC and the Company, respectively.

The Company (through Green Horizons) and AC (through Fine State) both have interests in the fund management company, ARCH Capital, which is tasked to raise third party capital and pursue investments for the Fund. The Company (through Green Horizon) and AC (through Fine State) owned interest of 7.58% and 15.15%, respectively in ARCH Capital.

In 2007, the private equity fund, called ARCH Capital Asian Partners, L.P. (Fund) was established. As at December 31, 2007, the Fund achieved its final closing, resulting in a total investor commitment of US$330.0 million. As a result, portion of the funds disbursed by the Company and AC and invested into the Fund have been returned in 2007, reducing the Company's overall capital invested to ₱214.5 million as of December 31, 2007. In 2009, 2010 and 2011, the Fund made capital call where the Company's share amounted to $2.1 million, and $9.1 million and $2.2 million, respectively.

As of December 31, 2012 and 2011, the Company's remaining capital commitment with the Fund amounted to US$4.5 million and US$4.6 million, respectively.

On March 7, 2011, the Company, AC and TRG completed an exchange of ownership interests in Arch Capital and ARCH Capital Asian Partners G.P. (a Cayman Islands company), with proceeds and carrying value of the investments as of the date of exchange amounting to US$3.8 million and US$0.4 million, respectively, resulted to a gain of US$2.9 million, net of transaction costs, lodged in "Interest and investment income" account. The exchange in ownership interest resulted in TRG acquiring the Company's 17% stake and AC's 33% interest. The completed exchange of ownership interests did not change the activities, management, focus, and shareholder structure of the ARCH Fund, with the Company retaining its current 8% interest in the fund.

During the year, the Company's investment over the Fund was reclassified from associate to FVPL. The Company lost significant influence over the Fund since its investments pertain to monetary interest and no longer equity interest.

<u>Investment in AMHRI</u>
In December 2007, the Company entered into a joint venture with Kingdom Hotel Investments, Inc. (KHI) to develop a 7,377-square meter property along Makati Avenue corner Arnaiz Avenue (formerly Pasay Road) into a luxury hotel complex comprised of a 300-room Fairmont Hotel, a 30-suite Raffles Hotel and 189 Raffles branded private residences. The total project cost will be approximately US$153.0 million.

The 7,377-square meter property to be developed was conveyed by the Company to AMHRI in exchange for 37,250 common shares, 38,250 redeemable preferred shares A and 16,758 preferred shares.

During the year, the Group obtained control over AMHRI and AMHPI through step acquisition as discussed in Note 24.

<u>Investment in SIAL Specialty</u>
SIAL Specialty was incorporated on September 27, 2012 as a joint venture between Varejo and SII, wholly-owned subsidiaries of the Company and SSI, respectively. SSI is one of the largest specialty retail companies in the Philippines with the exclusive distribution rights to a variety of brands from around the world.

The partnership, which combines the Company's expertise in developing mixed-use developments and SSI's proven track record in retail, is aimed at pursuing retail solutions to address the growing and changing lifestyle needs of the market.

SIAL Specialty was organized primarily for the investment and operation of mid-market department stores and to pursue other investment opportunities in the Philippine retail sector.

Investment in SIAL CVS
SIAL CVS is an equally-owned joint venture between Varejo, the Company's wholly-owned subsidiary and SII, SSI's wholly-owned subsidiary.

SIAL CVS shall be the vehicle for the investment in the operation of convenience stores in the Philippines. SIAL CVS capitalizes on the Company's expertise in mixed-use developments and SSI's experience in the Philippine retail market. The Parties agreed to incorporate a special purpose vehicle that shall form a partnership with FamilyMart Co. Ltd. and Itochu Corporation for the operation of FamilyMart convenience stores in the Philippines.

13. Investment Properties

The rollforward analysis of this account follows:

2012

	Land	**Building**	**Construction in Progress**	**Total**
		(In Thousands)		
Cost				
Balance at beginning of year	**₱3,183,759**	**₱32,533,864**	**₱3,905,505**	**₱39,623,128**
Additions	**36,305**	**834,403**	**6,385,677**	**7,256,385**
Disposals	**–**	**(3,215)**	**–**	**(3,215)**
Transfers (Note 35)	**(116,086)**	**4,231,454**	**(4,327,500)**	**(212,132)**
Balance at end of year	**3,103,978**	**37,596,506**	**5,963,682**	**46,664,166**
Accumulated Depreciation				
Balance at beginning of year	**–**	**9,132,817**	**–**	**9,132,817**
Depreciation	**–**	**1,018,617**	**–**	**1,018,617**
Disposals	**–**	**(3,215)**	**–**	**(3,215)**
Impairment losses (Note 22)	**–**	**19,500**	**–**	**19,500**
Balance at end of year	**–**	**10,167,719**	**–**	**10,167,719**
Net Book Value	**₱3,103,978**	**₱27,428,787**	**₱5,963,682**	**₱36,496,447**

2011

	Land	Building	Construction in Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of year	₱1,893,826	₱28,215,394	₱3,223,649	₱33,332,869
Additions	1,323,748	1,689,313	3,595,369	6,608,430
Transfers (Note 35)	(33,815)	2,776,157	(2,913,513)	(171,171)
Write-off (Note 22)	–	(147,000)	–	(147,000)
Balance at end of year	3,183,759	32,533,864	3,905,505	39,623,128
Accumulated Depreciation				
Balance at beginning of year	–	7,588,043	–	7,588,043
Depreciation	–	1,544,774	–	1,544,774
Balance at end of year	–	9,132,817	–	9,132,817
Net Book Value	₱3,183,759	₱23,401,047	₱3,905,505	₱30,490,311

Certain parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove any and all improvements (like buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its use and benefit.

On March 5, 2011, the Group, through Alveo, acquired Solinea, a landholding entity, whose investment properties amounted to ₱417.3 million (see Note 2).

The aggregate fair value of the Group's investment properties amounted to ₱213,059.3 million and ₱182,387.4 million as of December 31, 2012 and 2011, respectively.

The fair values of the investment properties were determined by independent professionally qualified appraisers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

The values of the land and buildings were arrived at using the Market Data Approach and Cost Approach, respectively. In market data approach, the value of the land is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property. In the cost approach, the value of the buildings is determined by the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear, and obsolescence.

Interest capitalized amounted to ₱188.9 million and ₱144.0 million in 2012 and 2011, respectively.

Consolidated rental income from investment properties amounted to ₱9,744.6 million, ₱8,137.2 million and ₱7,211.5 million in 2012, 2011 and 2010, respectively (see Note 21). Consolidated direct operating expenses arising from the investment properties amounted to ₱2,439.3 million in 2012, ₱2,588.8 million in 2011 and ₱2,096.7 million in 2010, respectively (see Note 22).

Depreciation and amortization expense pertaining to investment properties amounted to ₱1,018.6 million, ₱1,544.8 million and ₱1,038.9 million in 2012, 2011 and 2010, respectively (see Note 22).

14. **Property and Equipment**

The rollforward analysis of this account follows:

2012

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Total
			(In Thousands)			
Cost						
January 1	**₱1,610,333**	**₱2,370,358**	**₱1,903,923**	**₱696,050**	**₱5,127,850**	**₱11,708,514**
Additions	**1,833,354**	**2,081,922**	**399,742**	**23,136**	**3,150,651**	**7,488,805**
Acquisitions through business combination (Note 24)	**–**	**–**	**–**	**–**	**5,421,000**	**5,421,000**
Disposals/Write-offs	**(4,610)**	**(25,015)**	**(17,378)**	**(53,127)**	**(4,175)**	**(104,305)**
Transfers	**–**	**89,895**	**6,152**	**–**	**(771,910)**	**(675,863)**
December 31	**3,439,077**	**4,517,160**	**2,292,439**	**666,059**	**12,923,416**	**23,838,151**
Accumulated Depreciation and Amortization						
January 1	**673,171**	**1,701,981**	**1,293,928**	**442,820**	**2,201,143**	**6,313,043**
Depreciation and amortization (Note 22)	**162,563**	**342,795**	**300,309**	**97,930**	**160,903**	**1,064,500**
Disposals	**(4,416)**	**(22,261)**	**(12,590)**	**(47,009)**	**(4,175)**	**(90,451)**
Transfers	**–**	**–**	**–**	**–**	**(7,468)**	**(7,468)**
December 31	**831,318**	**2,022,515**	**1,581,647**	**493,741**	**2,350,403**	**7,279,624**
Net Book Value	**₱2,607,759**	**₱2,494,645**	**₱710,792**	**₱172,318**	**₱10,573,013**	**₱16,558,527**

2011

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Total
			(In thousands)			
Cost						
January 1	₱1,487,708	₱2,036,787	₱1,555,574	₱619,470	₱4,094,610	₱9,794,149
Additions	356,986	369,117	244,286	137,427	1,200,744	2,308,560
Disposals/Write-offs	(8,526)	(35,291)	(23,048)	(60,847)	(9,172)	(136,884)
Transfers	(225,835)	(255)	127,111	–	(158,332)	(257,311)
December 31	1,610,333	2,370,358	1,903,923	696,050	5,127,850	11,708,514
Accumulated Depreciation and Amortization						
January 1	565,445	1,515,206	1,136,489	368,336	2,040,684	5,626,160
Depreciation and amortization	114,420	217,564	167,285	90,470	169,200	758,939
Disposals	(6,694)	(30,789)	(9,846)	(15,986)	(8,741)	(72,056)
December 31	673,171	1,701,981	1,293,928	442,820	2,201,143	6,313,043
Net Book Value	₱937,162	₱668,377	₱609,995	₱253,230	₱2,926,707	₱5,395,471

The consolidated depreciation and amortization of property and equipment (included under various consolidated statements of income accounts) amounted to ₱1,064.5 million, ₱758.9 million and ₱715.9 million in 2012, 2011 and 2010, respectively.

Additions includes capitalized interest amounted to ₱50.4 million and ₱8.2 million in 2012 and 2011, respectively (see Note 22).

15. **Other Noncurrent Assets**

Other noncurrent assets totaling ₱2,904.2 million and ₱2,024.0 million as of December 31, 2012 and 2011 consist of deferred charges, deposits, goodwill (see Note 24), pension assets (see Note 26) and other assets.

As of December 31, 2012 and 2011, this account also includes leasehold right of a subsidiary amounting to ₱113.5 million and ₱120.2 million, respectively. This pertains to the right to use an island property expiring on December 31, 2029. The cost amounted to ₱127.4 million and accumulated amortization as of December 31, 2012 and 2011 amounted to ₱13.9 million and ₱7.2 million, respectively. Amortization expense (included under "Hotels and resorts operations") both amounted to ₱6.7 million each in 2012 and 2011 and ₱0.5 million in 2010.

16. Accounts and Other Payables

This account consists of:

	2012	2011
		(In Thousands)
Accounts payable	**₱29,026,136**	₱23,435,637
Accrued project costs	**10,810,152**	7,458,627
Taxes payable	**3,120,390**	2,461,943
Payable to related parties (Note 25)	**2,354,642**	1,049,592
Retentions payable	**1,055,802**	218,979
Accrued professional and management fees	**877,916**	136,950
Interest payable	**864,300**	478,852
Accrued advertising and promotions	**560,726**	157,506
Accrued salaries and employee benefits	**521,824**	342,491
Accrued utilities	**386,313**	103,693
Accrued rentals	**334,334**	275,066
Accrued repairs and maintenance	**273,939**	353,949
Dividends payable	**8,153**	7,113
Accrued expenses – others	**1,533,916**	1,648,987
	₱51,728,543	₱38,129,385

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

Accrued expenses consist mainly of light and power, marketing costs, film share, professional fees, postal and communication, supplies, repairs and maintenance, transportation and travel, security, insurance and representation.

17. Short-term and Long-term Debts

The short-term debt of ₱9,282.8 million and ₱4,638.8 million in 2012 and 2011, respectively, represent unsecured peso-denominated bank loans and dollar-denominated bank loans of the Company and its subsidiaries. Interest rates for peso-denominated bank loans ranged from 1.21% to 5.15% per annum (p.a.) in 2012 and from 3.50% to 5.00% p.a. in 2011. Interest rates for dollar-denominated bank loans of the Company, which amounted to ₱1,885.8 million and ₱1,509.8 million in 2012 and 2011, respectively, ranged from 1.05% to 1.95% in 2012 and 1.18% to 2.01% in 2011.

Long-term debt consists of:

	2012	2011
	(In Thousands)	
Company:		
Bonds:		
Due 2012	₱–	₱325,390
Due 2013	**4,630,680**	4,417,900
Due 2014	**397,705**	173,715
Due 2015	**999,950**	–
Due 2019	**9,350,000**	–
Due 2022	**5,650,000**	–
Floating rate corporate notes (FRCNs)	**4,500,000**	1,000,000
Fixed rate corporate notes (FXCNs)	**12,675,000**	12,675,000
Bank loan -US Dollar	**2,402,862**	–
	40,606,197	18,592,005
Subsidiaries:		
Bank loans - Philippine Peso	**14,336,009**	10,963,669
Bank loans - US Dollar	**4,127,550**	336,253
Fixed rate corporate notes	**1,300,000**	–
	19,763,559	11,299,922
	60,369,756	29,891,927
Less unamortized transaction costs	**202,136**	77,195
	60,167,620	29,814,732
Less current portion	**6,386,834**	1,556,761
	₱53,780,786	₱28,257,971

The Company

Philippine Peso 5-Year Bond due 2013
In 2008, the Company issued ₱4,000.0 million bond due 2013 with fixed rate equivalent to 8.75% p.a. The Philippine Rating Services Corporation (PhilRatings) assigned a PRS AAA rating on the bond indicating that it has the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS AAA is the highest credit rating possible on PhilRatings' rating scales for long-term issuances. PhilRatings maintained its rating of PRS AAA for the ₱4,000.0 million bond in 2012 and 2011.

Philippine Peso Homestarter Bond due 2012
The Company launched a new issue of the Homestarter Bond in October 2009. The bond is to be issued over a series of 36 issues, once every month which commenced on October 16, 2009, up to ₱14.0 million per series or up to an aggregate issue amount of ₱504.0 million over a 3-year period. The bond carries an interest rate of 5% p.a., payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by the Company or its affiliates. In the event of application of the bond to partial or full payment for property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. From maturity date, a total of ₱410.8 million of bonds were redeemed. As of December 31, 2012 and 2011, outstanding bonds amounted to nil and ₱325.4 million, respectively.

Philippine Peso Homestarter Bond due 2013
The Company launched another new issue of the Homestarter Bond in April 2010. The bond is to be issued over a series of 36 issues, once every month which commenced on April 16, 2010, up to ₱28.0 million per series or up to an aggregate issue amount of ₱1,008.0 million over a 3-year period. The bond carries an interest rate of 5% p.a., payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by the Company or its affiliates. In the event of application of the bond to partial or full payment for property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is subject to a maximum of 5% of the net selling price of the property selected by the bondholder except Ayala Land Premier properties, or 4% of the net selling price of the Ayala Land Premier property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2012 and 2011, bond issued amounted ₱630.7 million and ₱417.9 million, respectively.

Philippine Peso Homestarter Bond due 2014
The Company launched a new issue of the Homestarter Bond in May 2011. The bond is to be issued over a series of 36 issues, once every month which commenced on May 16, 2011, with an initial issue amount of up to ₱56.0 Million or up to an aggregate issue amount of ₱2.0 billion million over a 3-year period. The bond carries an interest rate of 5% per annum, payable at the final maturity date or upon the bondholder's exercise of the option to apply the bond to partial or full payment for a residential property offered for sale by the Company or its affiliates. In the event of application of the bond to partial or full payment for a property, the bondholder shall be entitled to, in addition to interest, a notional credit equivalent to 10% of the aggregate face value of the bond. The bonus credit is also subject to a maximum of 5% of the net selling price of the property selected. The bond is alternatively redeemable at par plus accrued interest on the third anniversary of the initial issue date. As of December 31, 2012 and 2011, bond issued amounted to ₱397.7 million and ₱173.7 million, respectively.

Philippine Peso Homestarter Bond due 2015
In October 2012, the Company issued ₱1,000.0 million bond due 2015 with fixed rate equivalent to 5.00% p.a. The Credit Rating and Investors Services Philippines, Inc. (CRISP) assigned a AAA issuer rating on the Company indicating that it has the smallest degree of investment risk for the bond. AAA is the highest credit rating possible on CRISP's rating scale for issuers. CRISP also assigned a stable credit outlook for Company's issuer rating as CRISP continues to believe that the Company's strong financial performance will continue and roll out of its new development projects will sustain its leadership position.

Philippine Peso 7-Year and 10-year Bonds due 2019 and 2022
In 2012, the Company issued a total of ₱15,000.0 million bonds, broken down into a ₱9,350.0 million bond due 2019 at a fixed rate equivalent to 5.625% p.a. and a ₱5,650.0 million bond due 2022 at a fixed rate equivalent to 6.000% p.a. The PhilRatings assigned a PRS AAA rating on the bonds indicating that it has the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS AAA is the highest credit rating possible on PhilRatings' rating scales for long-term issuances.

Philippine Peso 5-, 7- and 10-year FXCNs due 2011, 2013 and 2016
In 2006, the Company issued ₱3,000.0 million FXCNs consisting of 5-, 7- and 10-year notes issued to various financial institutions and will mature on various dates up to 2016. The FXCNs bear fixed interest rates ranging from 7.25% to 7.75% p.a. depending on the term of the notes. In January 2011, simultaneous to a new corporate note offering, the Company undertook a liability management exercise by offering to prepay holders of the corporate notes issued in 2006 while inviting the same institutions to participate in the new issuance. A number of investors holding up to ₱875.0 million of notes maturing in 2013 and 2016 accepted the offer to be prepaid. On September 23, 2011, the 5-year and one (1) day FXCNs amounting to ₱1,830.0 million matured and were fully repaid by the Company.

Philippine Peso 5-, 7- and 10-year FXCN due 2014, 2016 and 2019
In 2009, the Company issued an aggregate ₱2,380.0 million in 5-, 7- and 10-year notes to various financial institutions and retail investors. The notes will mature on various dates up to 2019. The FXCNs bear fixed interest rates ranging from 7.76% to 8.90%.

Philippine Peso 7-year FRCN due 2016
In 2009, the Company executed a ₱1,000.0 million committed FRCN facility with a local bank, of which an initial ₱10.0 million was drawn on October 12, 2009. The balance of ₱990.0 million was subsequently drawn on November 18, 2011. The FRCN bears a floating interest rate based on the 3-month PDST-R1 plus a spread of 0.96%, repriceable quarterly. The FRCNs will mature on the seventh anniversary of the initial drawdown date.

Philippine Peso 10-year FRCN due 2022
In 2012, the Company executed a ₱5,000.0 million committed Corporate Note facility with a local bank, of which an initial ₱3,500.0 million was drawn in 2012. The FRCN currently bears a floating interest rate of 4.00% based on the 3-month PDST-R1 plus a spread of 0.75%, repriceable quarterly. The Corporate Notes will mature on the third month succeeding the tenth anniversary of the initial drawdown date.

Philippine Peso 5-, 10-, 15-Year FXCN due on 2016, 2021 and 2026
In 2011, the Company issued ₱10.0 billion FXCNs to various financial institutions and retail investors. The notes will mature on various dates up to 2026. The FXCNs bear fixed interest rates ranging from 5.62% to 7.50% p.a. depending on the term of the notes.

US Dollar-denominated Long-term Loan
In 2012, the Company executed and fully drew on a US$58.5 million long-term facility. The loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriceable quarterly. The loan will mature on the third month succeeding the tenth anniversary of the initial drawdown date.

Transaction costs capitalized amounted to ₱140.1 million and ₱88.2 million in 2012 and 2011 respectively. Amortization amounted ₱21.7 million and ₱10.8 million was expensed as part of "Interest and other financing charges" in 2012 and 2011, respectively (see Note 22).

<u>Subsidiaries</u>
The subsidiaries' loans will mature on various dates up to 2020. Peso-denominated loans bear floating interest rates at 50 bps to 112.5 bps spread over the benchmark 91-day PDST-R1/R2 and fixed interest rates of 4.50% to 10.21% p.a. Certain loans which are subject to floating interest rates are subject to floor floating interest rates at the Overnight Reverse Repurchase Agreement Rate of the Bangko Sentral ng Pilipinas (BSP Overnight Rate) or at the BSP Overnight Rate plus a spread of 25 to 50 bps. A term loan facility of a subsidiary is secured by a Mortgage Trust

Indenture over land and building with a total carrying value ₱690.0 million and ₱701.5 million as of December 31, 2012 and 2011, respectively. This term loan facility was subsequently refinanced in February 2013 on a clean basis. Dollar-denominated loans bear floating interest rates at a credit spread over the benchmark three-month US Dollar LIBOR, repriceable quarterly.

The loan agreements contain some or all of the following restrictions: material changes in nature of business; maintenance of debt-to-equity ratio; payment of dividends and additional loans maturing beyond a year which will result in a violation of the required debt-to-equity ratios; merger or consolidation where the Company/subsidiary is not the surviving corporation; guarantees or advances; encumbrance for borrowed money; and sale of substantially all assets. These restrictions and requirements were complied with by the Group.

Interest capitalized amounted to ₱239.4 million and ₱152.3 million in 2012 and 2011, respectively. The average capitalization rates are 6.88% in 2012 and 2011, respectively.

18. Other Current Liabilities

Other current liabilities consist of tenants' deposits and construction bonds to be refunded by the Group through the application of the amount thereof against the rent and service due which amounted to ₱4,141.0 million and ₱1,124.6 million as of December 31, 2012 and 2011, respectively.

19. Deposits and Other Noncurrent Liabilities

Deposits and other noncurrent liabilities consist of:

	2012	2011
	(In Thousands)	
Deposits	**₱10,363,823**	₱5,124,065
Retentions payable	**2,180,590**	2,338,399
Other liabilities (Note 25)	**337,842**	333,321
	₱12,882,255	₱7,795,785

Deposits are initially recorded at fair value, which was obtained by discounting its future cash flows using the applicable rates of similar types of instruments.

Retentions payable pertains to retention from the contractors' progress billings which will be later released after the completion of contractors' project. The retention serves as a security from the contractor should there be defects in the project.

20. **Equity**

The details of the number of shares in thousands follow:

	2012		2011		2010	
	Preferred	**Common**	Preferred	Common	Preferred	Common
			(In Thousands)			
Authorized	**28,000,000**	**20,000,000**	15,000,000	20,000,000	15,000,000	20,000,000
Issued	**26,101,099**	**13,729,402**	13,034,604	13,022,771	13,034,604	13,012,004
Subscribed	–	**102,159**	–	99,917	–	96,468
Treasury	**(13,034,604)**	**(79,528)**	–	(79,528)	–	(79,528)
Outstanding	**13,066,495**	**13,752,033**	13,034,604	13,043,160	13,034,604	13,028,944

Preferred Shares

The Company's preferred shares prior to 2012 were subscribed and issued through a stock rights offer with the following features: (a) non-voting; (b) dividend rate of 4.64% p.a., payable annually, noncumulative; (c) nonparticipating; (d) convertible at the option of the holder at a ratio of one (1) preferred share to one (1) common share commencing on the 10th year from issue date at an exercise price equivalent to the higher of (i) the 30-day average closing price or (ii) closing price of common shares immediately preceding the exercise date, less the par value of the preferred shares; (e) no pre-emptive rights; (f) non-redeemable; (g) non-listed; and, (h) preferred in liquidation to the extent of par value.

The dividends for preferred shares are declared upon the sole discretion of the Company's BOD.

On February 20, 2012, the BOD approved the following restructuring exercise in order to comply with the regulatory requirement on Filipino-ownership following the Supreme Court's ruling that nonvoting shares do not count as equity when computing for a company's Filipino-ownership level:

a. Redemption and retirement of the 13.0 billion outstanding preferred shares.
b. Reclassification of the 1.97 billion unissued preferred shares to voting preferred shares through an amendment of Article Seventh of the Articles of Incorporation.
c. Increase in authorized capital stock by ₱1.3 billion creating new voting preferred shares and a stock rights offer of 13.0 billion voting preferred shares from the increase in the authorized capital stock.

On April 18, 2012, the stockholders ratified the BOD resolution on the capital restructuring. The voting preferred shares shall have the following features, rights, and privileges (a) voting; (b) dividend rate of 4.74786% per annum, equivalent to 90% of the 10-year PDST R2 (repriced every ten (10) years from issue date), payable annually, non-cumulative (c) convertible at the option of the holder at a ratio of one (1) voting preferred share to one (1) common share commencing on the 10th year from issue date at an exercise price equivalent to the higher of (i) the 30-day average closing price or (ii) closing price of common shares immediately preceding the exercise date, less the par value of the preferred shares; (d) no pre-emptive rights; (e) redeemable at par at the sole option of the corporation; (f) non-listed; and, (g) preferred in liquidation to the extent of par value.

Common Shares
The rollforward analysis of the outstanding number of common shares follows:

	2012	2011	2010
		(In Thousands)	
At beginning of year	**13,043,160**	13,028,944	13,001,280
Additional subscriptions	**708,873**	14,216	27,664
At end of year	**13,752,033**	13,043,160	13,028,944

No transfer of stock or interest which will reduce the ownership of Filipino citizens to less than the required percentage of the capital stock as provided by existing laws shall be allowed or permitted to be recorded in the books of the Company.

On July 10, 2012, the Company's executive committee approved the placement of 680 million listed common shares of stock with par value of ₱1.00 per share, at a price of ₱20 per share, and the issuance of equal number of new shares of the Company, at the same price of ₱20 per share, with Ayala Corporation as the seller of the placement tranche and subscriber of the subscription tranche. The Company completed the top-up placement, raising an aggregate of ₱13.6 billion in paid up capital. The price was at 4.988% discount to the closing price. Transaction cost charged to additional paid-in capital amounted to ₱200.0 million.

On February 12, 2008, the BOD approved the allotment and subsequent issuance of up to 1 billion common shares of stock with an aggregate par value of ₱1,000.0 million for the purpose of exchanging such shares for properties or assets and/or to raise funds to acquire properties or assets needed for the business of the Company via issuance of equity or equity-linked instruments, the price and the terms and conditions of which shall be determined by the BOD based on prevailing market conditions or on agreements negotiated.

On April 2, 2008, the Company's stockholders approved the allotment and subsequent issuance of the shares for the above-mentioned purposes and for the further amendment of the Amended Articles of Incorporation of the Company to exclude the issuance of shares from the pre-emptive rights of the stockholders pursuant to Section 39 of the Philippine Corporation Code.

On July 5, 1991, the Company launched its Initial Public Offering where a total of 400.00 million common shares were offered at an offering price of ₱26 per share. The registration statement was approved on July 20, 1992. The Company has 10,146 and 10,515 existing certified shareholders as of December 31, 2012 and 2011, respectively.

Treasury Shares
On July 16, 2012, the Company redeemed the 13.0 billion outstanding non-voting preferred shares through payment of the redemption price of ₱0.10 per share. As of December 31, 2012, the redeemed preferred shares were treated as treasury shares and will be subsequently retired upon approval of the Company's SEC application for the decrease in authorized capital stock.

On August 12, 2008, the BOD approved a share buyback program. It is part of the Company's balance sheet management program and aims to (i) improve the Company's balance sheet structure and capital efficiency and (ii) enhance shareholder value through the repurchase of shares whenever the stock is trading at a price discount perceived by the Company as not reflective of its fair corporate value.

In 2008, the Company repurchased a total of 79,528,228 of its common shares through open market purchases using the trading facilities of the Philippine Stock Exchange for a total purchase price of ₱823.9 million in relation to its share buyback program.

Retained Earnings

The BOD approved the declaration and payment from unappropriated retained earnings of cash dividends of ₱0.21, ₱0.15 and ₱0.09 per share in 2012, 2011 and 2010, respectively, to all issued and outstanding shares.

On October 3, 2011 and August 26, 2010, the BOD approved the declaration and payment from unappropriated retained earnings of cash dividends at the dividend rate of 4.64% p.a. to all issued and outstanding preferred shares.

Retained earnings of ₱6.0 billion are appropriated for future expansion. The amount represents a continuing appropriation for land banking activities and planned building construction projects. Each year, the Company incurs capital expenditures for property development which include among others land banking and building construction projects. The appropriation is being fully utilized to cover part of the annual expenditure requirement of the Company. In 2013, it is expected that the capital expenditure requirement will exceed the ₱6.0 billion appropriation, hence the Company will provide future appropriation as the need arises.

The Company has earmarked additional funds for expansion projects in the residential, shopping centers, office and hotel business segments, as well as various infrastructure projects for the Company's mixed-use developments.

The following are among the major capital expenditures of the Company which were approved by the BOD:

The Suites at One Bonifacio High Street, Ayala Land Premier's (ALP) 63-story iconic single tower that will feature 298 residential suites and limited edition sky villas, approved on May 21, 2012.

Garden Towers, ALP's two-tower condominium in Ayala Center, the first tower of which will have 340 high-end residential units; High Street South Corporate Plaza, Alveo's first office development for sale, a 2-tower Grade A, LEED Certified office with 286 office and 34 storage units; Luscara, ALP's latest subdivision development in Nuvali, with 276 lots for sale; Avida Woodhill Settings, the sequel to the highly successful Avida Parkway Settings Village in Nuvali, with 1,363 units for sale; Amaia Steps Bicutan 1, the first of six Amaia walk-up buildings in Bicutan, approved on November 23, 2012.

Fairview Terraces, mixed use development in Northeastern Metro Manila with Regional Mall and BPO components, approved on August 26, 2011.

Ayala Center Cebu Corporate Center in Cebu Business Park, 20-storey Grade A BPO building; Circuit Tower in Sta. Ana by Alveo, high-rise residential condominium development offering 477 units, approved on February 19, 2013.

Retained earnings also include undistributed net earnings amounting to ₱13,948.6 million, ₱16,918.6 million and ₱13,173.5 million as of December 31, 2012, 2011 and 2010, respectively, representing accumulated equity in the net earnings of subsidiaries, associates and joint ventures.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2012 and 2011 amounted to ₱19.9 billion and ₱19.2 billion, respectively.

Capital Management

The primary objective of the Group's capital management policy is to ensure that debt and equity capital are mobilized efficiently to support business objectives and maximize shareholder value. The Group establishes the appropriate capital structure for each business line that properly reflects its premier credit rating and allows it the financial flexibility, while providing it sufficient cushion to absorb cyclical industry risks.

The Group considers debt as a stable source of funding. The Group lengthened the maturity profile of its debt portfolio and makes it a point to spread out its debt maturities by not having a significant percentage of its total debt maturing in a single year.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. It monitors capital using leverage ratios on both a gross debt and net debt basis. As of December 31, 2012 and 2011, the Group had the following ratios:

	2012	2011
Debt to equity	**84.4%**	55.3%
Net debt to equity	**48.8%**	15.5%

Debt consists of short-term and long-term debts. Net debt includes short-term and long-term debt less cash and cash equivalents, short-term investments, financial assets at FVPL and the current portion of AFS financial assets. Equity, which the Group considers as capital, pertains to the equity attributable to equity holders of the Company less unrealized gain on AFS financial assets.

The Group is not subject to externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2012 and 2011.

Financial risk assessment

The Company's financial condition and operating results would not be materially affected by the current changes in liquidity, credit, interest, currency and market conditions.

Credit risks continue to be managed through defined credit policies and continuing monitoring of exposure to credit risks. The Company's base of counterparties remains diverse. As such, it is not exposed to large concentration of credit risk.

Exposure to changes in interest rates is reduced by a debt portfolio mix of both fixed and floating interest rates. The Company's ratio of fixed to floating rate debt stood at 57:43 and 62:38 as of December 31, 2012 and 2011, respectively. As a result, any adverse movement in interest rates is mitigated.

Exposure to foreign currency holdings is at US$64.3 million and US$31.2 million as of December 31, 2012 and 2011, respectively.

Liquidity risk is addressed with long term funding already locked in, while funds are placed on a short term investment.

21. Real Estate Revenue

This account consists of:

	2012	2011	2010
		(In Thousands)	
Land and residential unit sales	**₱32,324,532**	₱24,835,560	₱19,427,182
Leasing (Note 13)	**9,744,568**	8,137,247	7,211,531
Construction	**4,313,717**	5,135,115	6,177,446
Hotels and resorts	**2,451,992**	2,244,159	1,894,917
Management and marketing fees	**1,069,524**	878,753	697,364
	₱49,904,333	₱41,230,834	₱35,408,440

22. Other Income and Costs and Expenses

Other income consists of:

	2012	2011	2010
		(In Thousands)	
Marketing and management fees	**₱349,018**	₱360,371	₱397,554
Loss on sale financial assets at FVPL (Note 6)	–	(4,423)	(466)
Unrealized loss on financial assets at FVPL (Note 6)	–	–	(9,338)
Others - net	**211,832**	61,305	46,459
	₱560,850	₱417,253	₱434,209

Other income mainly consists of gain on sale of equipment, gain on sale of waterworks and sewerage facilities and equipment and other properties, and foreign exchange gains and losses. It also include reversal of impairment losses amounted to ₱1.7 million and ₱4.2 million in 2012 and 2011, respectively (see Note 7).

In 2012 and 2011, the financial impact of net foreign exchange transactions included under other income amounted to ₱106.8 million gain and ₱12.0 million loss, respectively.

Real estate costs and expenses consist of:

	2012	2011	2010
		(In Thousands)	
Cost of real estate sales (Note 8)	**₱19,444,527**	₱13,972,869	₱12,136,886
Hotels and resorts operations	**2,008,886**	1,423,399	1,239,938
Marketing and management fees	**1,726,089**	1,902,581	975,319
Depreciation and amortization	**1,657,160**	1,881,987	1,470,474
Materials and overhead	**1,328,906**	3,276,623	4,338,807
Manpower costs	**1,309,121**	1,104,370	1,191,111
Rental	**1,247,470**	921,614	998,654
Direct operating expenses:			
Taxes and licenses	**943,157**	828,601	738,152
Repairs and maintenance	**684,792**	612,396	342,163
Professional fees	**630,561**	387,041	289,156
Light and water	**602,771**	445,166	376,713
Insurance	**97,355**	94,367	110,943
Transportation and travel	**77,362**	56,442	24,698
Commission	**17,955**	23,470	32,018
Entertainment, amusement and recreation	**11,114**	13,710	10,804
Others	**1,651,813**	996,495	671,483
	₱33,439,039	₱27,941,131	₱24,947,319

General and administrative expenses consist of:

	2012	2011	2010
		(In Thousands)	
Manpower costs (Note 26)	**₱2,653,799**	₱2,186,465	₱1,894,708
Professional fees	**358,224**	213,162	181,314
Depreciation and amortization	**243,586**	230,302	160,291
Taxes and licenses	**179,704**	140,844	135,042
Utilities	**151,376**	119,462	113,439
Repairs and maintenance	**111,677**	84,034	73,118
Rent	**92,948**	87,565	60,216
Transportation and travel	**75,835**	55,867	69,972
Supplies	**66,627**	43,423	33,166
Advertising	**61,156**	49,360	62,411
Entertainment, amusement and recreation	**56,034**	22,646	59,884
Insurance	**54,460**	29,692	38,411
Security and janitorial	**45,469**	47,101	34,963
Dues and fees	**31,187**	23,882	18,071
Training and seminars	**22,547**	19,143	7,022
Donations and contribution	**22,025**	14,790	23,430
Others	**216,337**	111,874	222,895
	₱4,442,991	₱3,479,612	₱3,188,353

Manpower costs included in the consolidated statements of income follow:

	2012	2011	2010
		(In Thousands)	
Real estate costs and expenses			
Cost of real estate	**₱1,309,121**	₱1,104,370	₱1,191,111
Hotels and resorts operations	**310,760**	194,458	179,445
General and administrative expenses	**2,653,799**	2,186,465	1,894,708
	₱4,273,680	₱3,485,293	₱3,265,264

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

	2012	2011	2010
		(In Thousands)	
Real estate costs and expenses			
Cost of real estate	**₱1,657,160**	₱1,881,987	₱1,470,474
Hotels and resorts operations	**189,049**	198,100	177,247
General and administrative expenses	**243,586**	230,302	160,291
	₱2,089,795	₱2,310,389	₱1,808,012

Interest and other financing charges consist of:

	2012	2011	2010
		(In Thousands)	
Interest expense on:			
Short-term debt (Note 17)	**₱152,008**	₱131,592	₱51,656
Long-term debt (Note 17)	**2,113,264**	1,707,305	1,397,741
Other financing charges	**785,581**	40,873	89,714
	₱3,050,853	₱1,879,770	₱1,539,111

Other charges consist of:

	2012	2011	2010
		(In Thousands)	
Provision for impairment losses on:			
Receivables (Note 7)	**₱52,621**	₱52,550	₱57,206
Investment in associate (Note 12)	**58,996**	–	–
Investment properties (Note 13)	**19,500**	–	–
AFS financial asset (Note 10)	**16,771**	–	–
Other assets	**67,166**	–	–
Write-offs and other charges	**150,392**	142,742	221,306
	₱365,446	₱195,292	₱278,512

23. **Income Tax**

The components of deferred taxes are as follows:

Net deferred tax assets:

	2012	2011
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱1,534,857**	₱1,071,486
Allowance for impairment losses	**861,813**	877,258
Retirement benefits	**246,044**	252,574
Outstanding share-based payments	**116,434**	90,057
Advanced rentals	**77,869**	129,087
Unrealized foreign exchange losses	**16,881**	13,154
Accrued expenses	**212**	5,179
Others	**9,815**	1,204
	2,863,925	2,439,999
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(543,529)**	(477,015)
Unrealized foreign exchange gain	**(22,791)**	(748)
Others	**(7,487)**	(13,603)
	(573,807)	(491,366)
	₱2,290,118	₱1,948,633

Net deferred tax liabilities:

	2012	2011
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱360,289**	₱97,392
Retirement benefits	**3,554**	1,842
Unrealized foreign exchange losses	**591**	1,105
Allowance for impairment losses	**514**	3,916
NOLCO	–	1,075
Advanced rentals	–	407
Others	**1,387**	–
	366,335	105,737
Deferred tax liabilities on:		
Fair value adjustment arising from business combination	**(789,539)**	(399,140)
Difference between tax and book basis of accounting for real estate transactions	**(264,901)**	(325,558)
Unrealized foreign exchange gain	**(29,835)**	(367)
Prepaid expenses	–	(120,134)
Capitalized interest and other expenses	–	(3,586)
Others	**(36)**	(1,186)
	(1,084,311)	(849,971)
	(₱717,976)	(₱744,234)

Certain subsidiaries of the Company have NOLCO amounting to ₱108.0 million and ₱194.0 million as of December 31, 2012 and 2011, respectively, and MCIT amounting to ₱5.4 million and ₱6.6 million as of December 31, 2012 and 2011, respectively, which were not recognized. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The subsidiaries will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As of December 31, 2012, carryover NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities are as follows:

NOLCO:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
2009	₱96,573	₱96,573	₱–	2012
2010	95,790	1,965	93,825	2013
2011	5,582	–	5,582	2014
2012	8,629	–	8,629	2015
	₱206,574	₱98,538	₱108,036	

MCIT:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
2009	₱1,665	₱1,665	₱–	2012
2010	2,671	–	2,671	2013
2011	2,244	–	2,244	2014
2012	511	–	511	2015
	₱7,091	₱1,665	₱5,426	

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

	2012	2011	2001
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effect of:			
Interest income and capital gains taxed at lower rates	**(1.70)**	(0.09)	(3.52)
Interest income subject to final tax and income under tax holiday (Note 31)	**(1.79)**	(1.14)	(1.79)
Equity in net earnings of associates and jointly controlled entities	**(2.46)**	(2.52)	(3.46)
Others - net	**(2.18)**	(1.79)	(1.23)
Effective income tax rate	**21.87%**	24.46%	20.00%

Board of Investments (BOI) Incentives

On May 4, 2012, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Amaia Scapes North Point located in Brgy. Minulu-an and Matab-ang, Talisay City, Negros Occidental. Pursuant thereto, project has been granted an income tax holiday for a period of four (4) years commencing from May 2012.

On June 28, 2012, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Steps Novaliches and Amaia Skies Cubao Tower 1. Amaia Steps project is located at Susano Road, Brgy.170, Zone 15, Depara, Caloocan City and in Brgy. San Agustin in Novaliches, Quezon City while Amaia Skies, on the other hand, is located in P. Tuazon Blvd.corner 5th Avenue, Brgy.Socorro in Cubao, Quezon City. These projects have been granted an income tax holiday for a period of three (3) years commencing from June 2012.

On June 28, 2012, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Amaia Scapes Cavite located in Brgy.Santiago, General Trias, Cavite. Pursuant thereto, project has been granted an income tax holiday for a period of four (4) years commencing from June 2012.

On October 11, 2012, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Cabanatuan and Amaia Scapes Lipa. The projects are located in Bangad, Cabanatuan, Nueva Ecija and Sto.Tomas, Lipa Road, Brgy. Dagatan, Lipa City, Batangas, respectively. These projects have been granted an income tax holiday for a period of four (4) years commencing from October 2012.

On November 12, 2012, the BOI issued in favor of Avida a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Avida Towers Intima Tower 1, Brgy. 678 Zone 74, 497 Pres. Quirino Ave. Ext. cor. Zulueta St., Paco, Manila in accordance with the Omnibus Investment Code of 1987 (Executive Order No. 226). Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from November 2012.

On November 13, 2012, the BOI issued in favor of Avida a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Avida Towers Riala Tower 1, Cebu IT Park, Brgy. Apas, Cebu City in accordance with the Omnibus Investment Code of 1987 (Executive Order No. 226). Pursuant thereto, the project has been granted an Income Tax Holiday for a period of four (4) years commencing from November 2012.

On March 23, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Laguna, Brgy. Barandal, Calamba City, Laguna. Pursuant thereto, the project has been granted an Income Tax Holiday for a period of four (4) years commencing from March 2011.

On December 13, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Avida Towers Cebu Tower 1, Asiatown I.T. Park, Lahug, Cebu City. The project has been granted an Income Tax Holiday for a period of four (4) years commencing from December 2011.

On December 14, 2011, the BOI issued in favor of a subsidiary a Certificate of Registration as an Expanding Developer of Low-Cost Mass Housing Project for its Avida Towers San Lazaro Tower 5, Lot 5 E Block 50 C Pista St., Brgy. 350, Zone 035 Sta. Cruz, Manila , Avida Towers Cebu Tower 2, Asiatown I.T. Park, Lahug, Cebu City and Avida Towers Sucat Tower 7, Dr. A. Santos Ave., Brgy. San Dionisio, Parañaque City. The projects have been granted an Income Tax Holiday for a period of three (3) years commencing from December 2011.

On February 9, 2010, the BOI issued in favor of a subsidiary a Certificate of Registration as an Expanding Developer of Low-Cost Mass Housing Project for its Celadon Park Tower 2, Felix Huertas Street, Manila in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from February 2010.

24. Business Combinations

ALI Makati Hotel & Residences, Inc. (AMHRI) and ALI Makati Hotel Property, Inc. (AMHPI)
On October 2, 2012, AHRC, a wholly-owned subsidiary of the Company, entered into an agreement to acquire the interests of Kingdom Manila B.V., an affiliate of Kingdom Hotel Investments (KHI), and its nominees in KHI-ALI Manila Inc. (now renamed AMHRI) and 72,124 common shares in KHI Manila Property Inc. (now renamed AMHPI).

AMHRI and AMHPI are the project companies for the Fairmont Hotel and Raffles Suites and Residences project in Makati which opened last December 2012.

A total of ₱2,430.4 million was paid to acquire the interests of KHI in AMHRI and AMHPI.

This acquisition is in line with KHI's value realization strategy and with the Company's thrust to grow its commercial leasing business. 32 Raffles Suites and 280 Fairmont Hotel rooms were added to AHRC's growing hotel portfolio. The continuing sale of units in the Raffles Residences will also generate immediate cash, while the operations of the hotel and serviced apartments will augment and diversify the sources of recurring revenue. Furthermore, this landmark project will complement the various offerings of the Makati Central Business District, and fortify its position as the country's premier financial district.

Prior to the acquisition, the Company effectively owned 20% economic interest in AMHRI and AMHPI (see Note 12), and through this acquisition, AHRC and the Company's ownership in AMHRI and AMHPI now stands at 100%. The fair value of the Company's interest prior to the acquisition amounting to ₱606.8 million was determined using the adjusted net asset value method. Remeasurement of the Company's equity interest in both companies resulted to the recognition of a gain (included under "interest and investment income") amounting to ₱593.9 million.

The purchase price allocation has been prepared on a preliminary basis as the fair values are being finalized. The following are the preliminary fair values of the identifiable assets and liabilities assumed (in thousands):

Assets	
Cash	₱1,334,000
Trade and other receivables	1,708,000
Real estate inventories	936,000
Other current assets	202,000
Hotel property and equipment (Note 14)	5,421,000
	9,601,000

(Forward)

Liabilities	
Accounts and other payables	₱2,973,000
Loans payable	3,594,000
Deferred tax liabilities	390,398
	6,957,398
Total net assets acquired	2,643,602
Acquisition cost	3,037,232
Goodwill	₱393,630

The Company's share in the fair values of the net assets amounted to ₱2,643.6 million, which resulted in a goodwill amounting to ₱393.6 million (included under "Other noncurrent assets").

From the date of acquisition, the Group's share in AMHRI and AMHPI's revenue and net loss amounted to ₱898.9 million and ₱96.4 million, respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have been ₱58,862.3 million, while the Group's net income would have been ₱9,899.2 million.

TKPI and TKDC

The Company entered into an agreement with Asian Conservation Company and ACC Resorts, Inc. (the ACC Group) to create a company which will serve as a holding vehicle for TKPI and TKDC (wholly-owned subsidiaries of the ACC Group before the Company's entry). TKPI and TKDC are mainly involved in the development of parcels of land and islands into resorts in Miniloc, Lagen, Pangulasian and Apulit islands in the municipalities of El Nido and Taytay in Northern Palawan.

The agreement eventually resulted in the Company obtaining 60% interest in the new company and ACC Group acquiring 40%. The Company infused ₱2.0 billion cash to obtain the 60% stake.

The Company subscribed to 60% of the shares of TKPI and TKDC, thereby providing the Company with the ability to exercise control over TKPI and TKDC effective April 23, 2010. Accordingly, TKPI and TKDC financial statements were consolidated on a line-by-line basis with that of the Group as of December 31, 2010.

The following were the fair values of the identifiable assets and liabilities assumed (in thousands) at the time of acquisition:

Assets	
Cash and cash equivalents	₱365,652
Trade and other receivables	1,455,940
Inventories	16,393
Other current assets	25,401
Land and improvements	1,361,645
Deposit on land purchase	444,622
Property and equipment	493,328
Other assets	140,640
	4,303,621

(Forward)

Liabilities	
Accounts and other payables	₱310,177
Deposits and other current liabilities	21,446
Due to related parties	89,232
Loans payable	81,621
Income tax payable	18,630
Deferred tax liabilities – net	399,155
	920,261
Net assets	3,383,360
Non-controlling interest in TKDC and TKPI	1,353,344
Total net assets acquired	2,030,016
Acquisition cost	2,029,500
Negative goodwill	₱516

The Company's share in the fair values of the net assets amounted to ₱2,030.0 million, which resulted in a negative goodwill amounting to ₱0.52 million (included under "other income").

The fair value of the trade and other receivables approximate their carrying amounts since these are short-term in nature. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interest has been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

In 2011, the shareholders of ECI, a subsidiary of the Company, approved the increase in its authorized capital stock and the subsequent issuance of these shares in exchange for the investment of the Company and ACC Group in TKDC and TKPI. The application for the increase in authorized capital stock has been filed with the SEC. Upon approval of the SEC, the Company and ACC Group will obtain 60% and 40% ownership interest in ECI, respectively. Also, TKDC and TKPI will become wholly-owned subsidiaries of ECI.

In 2011, the Company finalized its purchase price allocation and there were no changes to the fair market values of the assets acquired and liabilities assumed for TKDC and TKPI.

APPHC

On November 16, 2011, the SEC approved the merger of APPHC and APPCo, with APPCo as the surviving entity. The merger was meant to streamline administrative processes and achieve greater efficiency. From the perspective of the Company, the merger did not affect its effective interest (68%) in the merged entity.

On December 8, 2008, the Company acquired from FIL its 20% ownership in APPHC and APPCo. This resulted in an increase in the Company's effective ownership interest in APPHC from 60% to 80% and APPCo from 36% to 68%, thereby providing the Company with the ability to control the operations of APPHC and APPCo following the acquisition. Accordingly, APPHC and APPCo's financial statements are consolidated on a line-by-line basis with that of the Group as of December 31, 2008.

In 2006, the Company signed an agreement with MLT Investments Ltd. (MIL) and Filipinas Investments Ltd. (FIL) to jointly develop a BPO office building in Dela Rosa Street and to purchase the existing PeopleSupport Building.

APPHC, the joint-venture company formed, is 60% owned by the Company. APPHC owns 60% interest in its subsidiary, APPCo. The remaining 40% interest in both APPHC and APPCo are split evenly between MIL and FIL. APPHC and APPCo are jointly controlled by the Company, MIL, and FIL.

25. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates.

Terms and Conditions of Transactions with Related Parties
In its regular conduct of business, the Group has entered into transactions with associates and other related parties principally consisting of advances and reimbursement of expenses, purchase and sale of real estate properties, construction contracts, development, management, underwriting, marketing, leasing and administrative service agreements.

Transactions with related parties are made at normal market prices. There have been no guarantees provided or received for any related party receivables or payables. The Group does not provide any allowance relating to receivable from related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

The following tables provide the total amount of transactions that have been entered into with related parties for the relevant financial year (in thousands):

a. Transactions with BPI, an associate of AC

As of December 31, 2012 and 2011, the Group maintains current and savings account, money market placements and Long-term debt payable with BPI broken down as follows:

	2012	2011
	(In Thousands)	
Cash in bank	**₱11,467,210**	₱2,880,037
Cash equivalents	**13,302,950**	12,192,731
Long-term debt	**8,054,138**	3,239,900

b. Outstanding balances from/to related parties follow (amounts in thousands):

2012

	Amounts owed by related parties			Amounts owed to related parties		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Parent Company:						
AC	**₱83,195**	**₱–**	**₱83,195**	**₱223,232**	**₱–**	**₱223,232**
Associates:						
ACC	**131,377**	**–**	**131,377**	**74,235**	**–**	**74,235**
CHI	**64,103**	**–**	**64,103**	**340,237**	**–**	**340,237**
NTDCC	**50,252**	**–**	**50,252**	**16,571**	**–**	**16,571**
BLC	**2**	**–**	**2**	**212,696**	**–**	**212,696**
	245,734	**–**	**245,734**	**643,739**	**–**	**643,739**

(Forward)

	Amounts owed by related parties			**Amounts owed to related parties**		
	Current	**Noncurrent**	**Total**	**Current**	**Noncurrent**	**Total**
Other related parties:						
Columbus	**₱888,810**	**₱–**	**₱888,810**	**₱1,156,308**	**₱–**	**₱1,156,308**
Ayala International North America (AINA)	**184,725**	**–**	**184,725**	**–**	**–**	**–**
FBDC	**71,833**	**–**	**71,833**	**34**	**–**	**34**
Globe Telecom	**56,281**	**–**	**56,281**	**497**	**–**	**497**
Ayala Life FGU	**50,000**	**–**	**50,000**	**67**	**–**	**67**
AG Counselors Corp.	**20,369**	**–**	**20,369**	**–**	**–**	**–**
BPI	**17,088**	**–**	**17,088**	**130,186**	**–**	**130,186**
CPVDC	**8,074**	**–**	**8,074**	**200,236**	**–**	**200,236**
Manila Water Company, Inc. (MWC)	**–**	**–**	**–**	**343**	**–**	**343**
Others	**19,061**	**–**	**19,061**	**–**	**89,111**	**89,111**
	1,316,241	**–**	**1,316,241**	**1,487,671**	**89,111**	**1,576,782**
	₱1,645,170	**₱–**	**₱1,645,170**	**₱2,354,642**	**₱89,111**	**₱2,443,753**

2011

	Amounts owed by related parties			Amounts owed to related parties		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Parent Company:						
AC	₱89,925	₱–	₱89,925	₱29,478	₱–	₱29,478
Associates:						
ACC	17,802	–	17,802	–	–	–
CHI	82,638	–	82,638	–	–	–
NTDCC	17,160	–	17,160	–	–	–
BLC	50,522	–	50,522	–	–	–
	168,122	–	168,122	–	–	–
Other related parties:						
Columbus	888,810	–	888,810	988,808	–	988,808
Ayala International North America (AINA)	196,825	–	196,825	–	–	–
FBDC	271,096	–	271,096	–	–	–
Globe Telecom	44,267	–	44,267	–	–	–
Ayala Life FGU	–	–	–	62	–	62
AG Counselors Corp.	1,835	–	1,835	–	–	–
BPI	12,292	–	12,292	31,176	9,233	40,409
CPVDC	58,571	–	58,571	–	–	–
Manila Water Company, Inc. (MWC)	–	–	–	–	32	32
Others	18,312	–	18,312	68	27	95
	1,492,008	–	1,492,008	1,020,114	9,292	1,029,406
	₱1,750,055	₱–	₱1,750,055	₱1,049,592	₱9,292	₱1,058,884

c. Income and expenses from related parties follow:

Revenue from related parties:

	2012	2011	2010
Parent Company			
AC	**₱2,434**	₱35,489	₱25,420
Jointly Controlled Entities			
BGW	**177,436**	–	–
BGS	**223**	–	–
	177,659	–	–
Associates			
ACC	**171,114**	–	19,293
NTDCC	**82,489**	7,675	8,497
LDC	**9,295**	–	–
CHI	**5,140**	16,548	60,650
	268,038	24,223	88,440

(Forward)

	2012	2011	2010
Other Related Parties			
Manila Water Company, Inc.	**₱278,097**	₱1,851,582	₱699,085
Globe Telecom, Inc.	**61,463**	67,071	7,813
BPI	**17,887**	15,168	9,447
HR Mall, Inc.	**9,516**	–	–
CIHCI	**7,964**	–	7,585
IMI	**7,463**	7,632	8,418
Lamcor	**679**	650	–
Ayala Life FGU	**237**	–	–
Innove Communications, Inc.	**221**	210	1,732
MD Distripark	**115**	132	–
Cebu Leisure Company, Inc.	**65**	–	130
Manila Jockey Club, Inc.	**45**	–	–
CPVDC	**–**	–	9,759
	383,752	1,942,445	743,969
	₱831,883	₱2,002,157	₱857,829

Expenses from related parties:

	2012	2011	2010
Parent Company			
AC	**₱40**	₱–	₱–
Associates			
ACC	**37,408**	9,002	-
CHI	**33,753**	4,700	-
NTDCC	**25,966**	25,567	-
LDC	**–**	1,817	64
	97,127	41,086	64
Other Related Parties			
Manila Water Company, Inc.	**109,284**	8,847	9,433
Globe Telecom, Inc.	**42,911**	13,033	11,588
FBDC	**16,959**	6,768	–
Innove Communications, Inc.	**14,950**	6,892	8,035
BPI	**10,701**	15,817	–
Cebu Leisure Company, Inc.	**6,754**	6,828	–
BPI/MS Insurance Corp.	**4,501**	–	–
CPVDC	**3,831**	2,839	–
Isuzu Alabang	**1,669**	1,840	–
HR Mall, Inc.	**68**	–	–
Ayala Foundation	**4**		
Honda Cars Makati	**–**	10	813
Honda Global City	**–**	2,113	–
	211,632	64,987	29,869
	₱308,799	₱106,073	₱29,933

The revenue earned from associates pertains mostly to income from leasing and development projects.

Receivables from/payables to related parties pertain mostly to advances and reimbursement of operating expenses related to development cost and land acquisitions. These are generally trade related, noninterest-bearing and payable within one year.

The following describes the nature of the material transactions of the Group with related parties as of December 31, 2012 and 2011:

Parent Company:

- The Company made interest-bearing advances to AINA, an AC subsidiary, for AINA's project in Northern California with outstanding balance of ₱196.9 million in 2011 and ₱184.7 million in 2012.

Affiliates:

- Amounts owed from CHI represents management fee of the Company for CHI's Cebu Business Park & Amara projects in Cebu; and systems cost & various advances made by the Company for CHI which consists of advances and interest due from CHI's subsidiary to the Company's subsidiary (Ayala Hotels, Inc.).

- Amount owed to CHI comprises substantially of the share of CHI's subsidiary, in the collections from joint development project with the Company's subsidiary (AiO).

- The Company, through its subsidiary Avida, advanced ₱107.2 million for selling expenses and transfer costs for AC allocated units on projects under joint development agreement between AC and Avida.

- The Company advanced ₱888.8 million to Columbus for acquisition of shares in BLC. Columbus, on the other hand, advanced ₱988.8 million to the Company for stocks redemption of ECHI and BHI.

- Receivable from FBDC largely pertains to management fees which is included under "other income."

- Payable to BPI pertains to availments of services in the normal course of business.

- The Company, through its subsidiary Avida, advanced ₱6.1 million representing CPVDC's share in expenses for the Garden Village project, a joint development project between CPVDC and Avida. CPVDC, on the other hand, has advanced ₱268.3 Million for the cost of the lots acquired for joint development projects with the Company's subsidiaries - Avida and AIO.

- The Company, through its subsidiary MDC, has an existing pipe laying contract with MWC, a subsidiary of AC. MDC has reported revenues in the amount of ₱275.5 million and ₱1,851.6 million in 2012 and 2011, respectively, from the contract.

- Revenue from Globe pertains to development management fee which is included under "other income".

Compensation of key management personnel by benefit type follows:

	2012	2011	2010
		(In Thousands)	
Short-term employee benefits	**₱158,514**	₱151,381	₱157,934
Post-employment benefits (Note 26)	**1,325**	3,183	23,061
Share-based payments (Note 28)	**46,474**	13,301	20,850
	₱206,313	₱167,865	₱201,845

26. **Retirement Plan**

The Group has funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on a defined benefit formula.

The Group's annual contributions to their respective plans consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

The components of expense (included in manpower costs under "General and administrative expenses") in the consolidated statements of income follow:

	2012	2011	2010
		(In Thousands)	
Current service cost	**₱192,918**	₱293,419	₱134,199
Interest cost on benefit obligation	**127,936**	128,006	120,538
Expected return on plan assets	**(182,951)**	(206,309)	(109,972)
Amortization of actuarial losses (gains)	**718**	(23,671)	36,186
Past service cost	**2,777**	3,355	2,777
Total pension expense	**₱141,398**	₱194,800	₱183,728
Actual return on plan assets	**₱294,182**	₱153,487	₱324,916

The funded status and amounts recognized in the consolidated statement of financial position for the pension plan as of December 31, 2012 and 2011 follow:

	2012	2011
		(In Thousands)
Benefit obligations	**₱2,629,085**	₱1,987,763
Plan assets	**(2,155,554)**	(1,811,967)
	473,531	175,796
Unrecognized net actuarial losses	**(454,743)**	(157,865)
Unrecognized past service cost	**(19,116)**	(21,893)
Asset recognized in the consolidated statement of financial position	**(₱328)**	(₱3,962)

As of December 31, 2012 and 2011, pension assets (included under "other noncurrent assets") amounted to ₱53.3 million and ₱76.2 million, respectively, and pension liabilities amounted to ₱52.9 million and ₱72.2 million, respectively.

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

	2012	2011	2010
		(In Thousands)	
Balance at January 1	**₱1,987,763**	₱1,707,890	₱1,384,799
Interest cost	**127,936**	128,006	120,538
Current service cost	**192,918**	293,419	134,199
Curtailments	–	(7,209)	–
Settlements	–	(13,279)	(2,118)
Transfer of employees	–	158	–
Benefits paid	**(71,906)**	(189,818)	(59,692)
Actuarial losses	**392,374**	68,596	130,164
Balance at December 31	**₱2,629,085**	₱1,987,763	₱1,707,890

Changes in the fair value of plan assets follow:

	2012	2011	2010
		(In Thousands)	
Balance at January 1	**₱1,811,967**	₱1,615,477	₱1,212,764
Expected return	**182,951**	206,309	109,972
Contributions	**121,311**	173,900	183,359
Settlements	–	–	(2,118)
Benefits paid	**(71,906)**	(130,896)	(59,692)
Actuarial gains (losses)	**111,231**	(52,823)	171,192
Balance at December 31	**₱2,155,554**	₱1,811,967	₱1,615,477

The Group's fund is in the form of a trust being maintained by trustee banks such as BPI Asset Management and Trust Group and Deutsche Bank. The investing decisions of the plan are made by certain officers of the Group duly authorized by the Board.

As of December 31, 2012, the carrying value of the plan assets amounted to ₱2,111.6 million.

The Group expects to make contributions of ₱247.1 million to its retirement fund in 2013.

The allocations of the fair value of plan assets follow:

	2012	2011	2010
Investments in debt securities	**56.58%**	60.32%	58.70%
Investments in equity securities	**42.00%**	22.55%	36.30%
Others	**1.42%**	17.13%	5.00%

Funds invested in debt securities include government securities, corporate notes and bonds, unit investment trust funds and special deposit accounts. Investments in equity securities consist of investments in PSE listed stocks and unit investment trust funds. Others were in the form of cash and cash equivalents.

As of December 31, 2012 and 2011, the funds include investment in securities to its related parties. Details of the investment per type of security are as follows:

2012

	Carrying Value	**Fair Value**	**Unrealized Gains (Losses)**
		(In Thousands)	
Investments in debt securities	**₱100,504**	**₱100,411**	**(₱93)**
Investments in equity securities	**38,900**	**39,679**	**779**
Others	**4,168**	**4,169**	**1**
	₱143,572	**₱144,259**	**₱687**

2011

	Carrying Value	Fair Value	Unrealized Gains (Losses)
		(In Thousands)	
Investments in debt securities	₱31,306	₱26,787	(₱4,519)
Investments in equity securities	28,000	29,090	1,090
	₱59,306	₱55,877	₱(3,429)

The plan assets include shares of stock of the Company with fair value amounting to ₱34.7 million and ₱12.4 million as of December 31, 2012 and 2011 respectively. The Company gives the trustee bank the discretion to exercise voting rights over the shares. In 2012, the gains or losses of the fund arising from investments in debt and equity securities of the Company amounted to ₱5.4 million and ₱0.3 million, respectively.

The plan assets include debt securities of the Company amounting to ₱5.05 million and nil as of December 31, 2012 and 2011, respectively.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The assumptions used to determine pension benefits for the Group are as follows:

	2012	2011	2010
Discount rate	**5.8 to 7.0%**	5.8 to 8.0%	8.0 to 10.0%
Salary increase rate	**6.0 to 8.0%**	1.0 to 8.0%	1.0 to 9.0%
Expected rate of return on plan assets	**5.0 to 10.5%**	3.7 to 10.0%	4.0 to 9.0%

Amounts for the current and the previous periods follow:

	2012	2011	2010	2009	2008
			(In Thousands)		
Defined benefit obligation	**₱2,629,085**	₱1,987,763	₱1,707,890	₱1,384,799	₱1,277,155
Plan assets	**(2,155,554)**	(1,811,967)	(1,615,477)	(1,212,764)	(1,057,896)
Deficit	**₱473,531**	₱175,796	₱92,413	₱172,035	₱219,259

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

	2012	2011	2010	2009
		(In Thousands)		
Liabilities	**(₱2,019)**	(₱31,779)	(₱132,522)	(₱295,911)
Assets	**121,206**	61,881	220,012	14,255

27. **Earnings Per Share**

The following tables present information necessary to compute EPS in thousands except EPS:

EPS on net income attributable to equity holders of the Company are as follows:

	2012	2011	2010
		(In Thousands)	
Net income attributable to equity holders of the Company	**₱9,038,328**	₱7,140,308	₱5,458,134
Less dividends on preferred stock	**45,696**	60,481	60,481
Net income attributable to equity holders for basic and diluted earnings per share	**₱8,992,632**	₱7,079,827	₱5,397,653
Weighted average number of common shares for basic EPS	**13,301,128**	12,938,672	13,016,525
Dilutive shares arising from stock options	**26,858**	14,650	22,069
Adjusted weighted average number of common shares for diluted EPS	**13,327,986**	12,953,322	13,038,594
Basic EPS	**₱0.65**	₱0.55	₱0.41
Diluted EPS	**₱0.68**	₱0.55	₱0.41

In 2012, the convertible preferred shares are ignored in the calculation of diluted EPS since the convertibility of the preferred shares will start on the 10th year from the issue date.

In 2011 and 2010, the convertible preferred shares are ignored in the calculation of diluted EPS since these are antidilutive.

28. **Stock Options and Ownership Plans**

The Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (ESOWN) covering 2.5% of the Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

ESOP

Movements in the number of stock options outstanding under ESOP are as follows:

Pre-PFRS 2 Options

	2012	**Weighted average exercise price**	2011	Weighted average exercise price
At January 1	**14,013,031**	**₱4.34**	17,449,397	4.26
Exercised	**(4,776,273)**	**4.47**	(2,087,014)	3.80
Cancelled	**(2,812,690)**		(1,349,352)	
At December 31	**6,424,068**	**₱4.23**	14,013,031	4.34

PFRS 2 Options

	2012	**Weighted average exercise price**	2011	Weighted average exercise price
At January 1	**12,886,159**	**₱4.34**	14,025,648	4.26
Exercised	**(1,846,493)**	**4.47**	(1,139,489)	3.80
At December 31	**11,039,666**	**₱4.23**	12,886,159	4.34

The options exercised had a weighted average exercise price of ₱4.47 per share or ₱29.6 million in 2012 and ₱3.80 per share or ₱12.3 million in 2011. The average fair market value of the shares at the exercise date was ₱21.98 per share or about ₱145.5 million in 2012 and ₱15.50 or about ₱50.1 million in 2011.

The fair values of stock options granted are estimated as at the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The fair value of stock options granted under ESOP at June 30, 2005 grant date, and the assumptions used to determine the fair value of the stock options are as follows:

Weighted average share price	₱8.36
Exercise price	₱6.75
Expected volatility	46.30%
Option life	10 years
Dividend yield	3.21%
Interest rate	12.60%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

In November 2001, the Company offered all its ESOWN subscribers with outstanding ESOWN subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

In 2005, the Company introduced a revised ESOWN wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of the Company or any of its subsidiaries during the ten (10)-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the ten (10)-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Company's Right to Repurchase.

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of these options are estimated on the date of grant using the Binomial Tree Model. In computing for the stock option value for the 2012 grant, the Company assumed 33%, 0% and 5.7% as the volatility, dividend yield and interest rate, respectively.

For the unsubscribed shares, the employee still has the option to subscribe within seven (7) years.

Movements in the number of options outstanding and weighted average exercise prices (WAEP) under ESOWN follow:

	2012	**WAEP**	2011	WAEP
At January 1	**30,873,518**	**₱9.52**	27,412,217	₱8.67
Granted	**23,032,967**		19,670,333	
Subscribed	**(25,669,757)**	**13.41**	(14,817,990)	13.63
Cancelled	**–**		(1,391,042)	
At December 31	**28,236,728**	**₱8.28**	30,873,518	₱9.52

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation. Option maturity is four years from the date of grant.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Date			
	March 13, 2012	March 31, 2011	March 31, 2010	April 30, 2009
Number of unsubscribed shares	3,967,302	3,843,057	2,298,247	5,418,619
Fair value of each option	₱6.23	₱7.27	₱8.88	₱4.05
Weighted average share price	₱21.98	₱15.5	₱13.00	₱6.40
Exercise price	₱14.69	₱13.2	₱9.74	₱4.96
Expected volatility	33.00%	36.25%	43.57%	37.45%
Dividend yield	0.9%	1.01%	0.48%	0.85%
Interest rate	5.70%	5.60%	5.95%	5.94%

	Grant Date			
	May 15, 2008	September 20, 2007	June 5, 2006	November 16, 2005
Number of unsubscribed shares	15,057,840	494,400	5,270,333	3,036,933
Fair value of each option	₱6.77	₱6.93	₱7.33	₱5.58
Weighted average share price	₱10.50	₱15.00	₱13.00	₱9.30
Exercise price	₱9.74	₱12.00	₱10.35	₱7.03
Expected volatility	32.04%	34.67%	46.03%	46.32%
Dividend yield	0.49%	0.41%	1.56%	0.77%
Interest rate	8.53%	6.93%	10.55%	11.30%

Total expense recognized in 2012, 2011 and 2010 in the consolidated statements of income arising from share-based payments amounted to ₱248.4 million, ₱178.8 million and ₱177.2 million, respectively (see Note 22).

29. Financial Assets and Liabilities

Fair Value Information

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2012 and 2011:

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	(In Thousands)			
Financial Assets at FVPL	**₱713,716**	**₱713,716**	₱–	₱–
Loans and Receivables				
Cash and cash equivalents	**28,596,398**	**28,596,398**	24,603,213	24,603,213
Short-term investments	**16,503**	**16,503**	191,987	191,987
Accounts and notes receivable:				
Trade:				
Residential development	**20,601,902**	**20,787,665**	14,535,693	15,203,042
Construction contracts	**2,506,941**	**2,506,941**	1,871,553	1,871,553
Corporate business	**1,381,547**	**1,381,547**	580,197	580,197
Shopping centers	**1,200,071**	**1,200,071**	945,184	945,184
Management fees	**87,693**	**87,693**	47,267	47,267
Others	**1,483,669**	**1,483,669**	694,367	694,367
Advances to other companies	**5,954,121**	**5,954,121**	2,451,105	2,520,009
Accrued receivable	**2,315,729**	**2,315,729**	1,597,219	1,597,219
Related parties	**1,645,170**	**1,645,170**	1,750,055	1,750,055
Receivable from employees	**313,036**	**313,361**	431,515	432,308
Investment in bonds classified as loans and receivables	**1,000,000**	**1,040,801**	200,000	214,518
Total loans and receivables	**67,816,496**	**68,043,385**	49,899,355	50,650,919
AFS financial assets				
Unquoted	**216,655**	**216,655**	253,800	253,800
Quoted	**237,615**	**237,615**	456,642	456,642
Total AFS financial assets	**454,270**	**454,270**	710,442	710,442
Total financial assets	**₱68,270,766**	**₱68,497,655**	₱50,609,797	₱51,361,361

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Other Financial Liabilities				
Current:				
Accounts payable	**₱28,557,849**	**₱28,557,849**	₱21,674,756	₱21,674,756
Accrued project costs	**10,810,152**	**10,810,152**	7,458,627	7,458,627
Accrued expenses	**3,632,810**	**3,632,810**	2,402,085	2,402,085
Payable to related parties	**2,354,642**	**2,354,642**	1,049,592	1,049,592
Retentions payable	**1,055,802**	**1,055,802**	218,979	218,979
Interest payable	**864,300**	**864,300**	478,852	478,852
Accrued salaries and employee Benefits	**521,824**	**521,824**	341,491	341,491
Accrued rentals	**334,334**	**334,334**	275,066	275,066
Dividends payable	**8,153**	**8,153**	7,113	7,113
Short-term debt	**9,282,831**	**9,282,831**	4,638,844	4,638,844
Current portion of long-term debt	**6,386,834**	**6,386,834**	1,556,761	1,556,761
Noncurrent:				
Long-term debt	**53,780,786**	**54,916,354**	28,257,971	29,496,949
Deposits and other noncurrent Liabilities	**12,882,255**	**12,850,356**	7,795,785	7,805,949
Total other financial liabilities	**₱130,472,572**	**₱131,576,241**	₱76,155,922	₱77,405,064

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are as follows:

Cash and cash equivalents, short-term investments and current receivables, accounts and other payables, current payables and short term debt - Carrying amounts approximate fair values due to the relatively short-term maturities of these financial instruments.

Financial assets at FVPL - These are investments in fund. Fair value is based on quoted prices and net asset values as of reporting dates.

Noncurrent accounts and notes receivables - The fair values of residential accounts and notes receivable, advances to other companies and receivable from employees, are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 8.00% to 13.25% as of December 31, 2012 and 2011.

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

AFS unquoted equity securities - These are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value.

Liabilities - The fair value of noncurrent unquoted instruments (long-term debt and deposits) are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used ranged 1.80% to 7.18% and 2.88% to 7.60% as of December 31, 2012 and 2011, respectively. The fair value of noncurrent unquoted debt instruments with floating rates are estimated using discounted cash flow - last repricing method.

Fair Value Hierarchy
As at December 31, 2012, quoted AFS financial assets have been measured at fair value.

The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Level 1: quoted (unadjusted prices) in active markets for identical assets and liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Financial assets at FVPL amounting to ₱713.7 million and nil in 2012 and 2011, respectively and quoted AFS financial assets amounting to ₱204.3 million in 2012 and ₱456.6 million in 2011 were classified under Level 1 in 2012 and 2011. There are no financial assets and liabilities which have been classified under the Level 2 or 3 category.

There have been no reclassifications from Level 1 to Level 2 categories in 2012 and 2011. Transfers into Level 3 category amounted to ₱713.7 million in 2012.

Financial Risk Management Objectives and Policies
The Group's principal financial instruments comprise of cash and cash equivalents, short-term investment, financial assets at FVPL, AFS quoted and unquoted equity securities, investments in bonds, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as trade receivables and trade payables which arise directly from the conduct of its operations.

Exposure to liquidity, credit, interest rate, currency and equity risks arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:
- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The use of derivative financial instruments, if any, is solely for management of the Group's financial risk exposures. It is the Group's policy not to enter into derivative transactions for speculative purposes.

The Group's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Group.

There were no changes in the Group's financial risk management objectives and policies in 2012.

Liquidity risk
Liquidity risk is defined by the Group as the risk of losses arising from funding difficulties due to deterioration in market conditions and/or the financial position of the Group that make it difficult for the Group to raise the necessary funds or that forces the Group to raise funds at significantly higher interest rates than usual.

This is also the possibility of experiencing losses due to the inability to sell or convert marketable securities into cash immediately or in instances where conversion to cash is possible but at loss due to wider than normal bid-offer spreads.

The Group employs scenario analysis and contingency planning to actively manage its liquidity position and guarantee that all operating, investing and financing needs are met. The Group has come up with a three-layered approach to liquidity through the prudent management of sufficient cash and cash equivalents, the potential sale of accounts receivables and the maintenance of short-term revolving credit facilities.

Cash and cash equivalents are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise. Management develops viable funding alternatives through a continuous program for the sale of its receivables and ensures the availability of ample unused short-term revolving credit facilities from both local and foreign banks as back-up liquidity.

The Group ascertains that its cash is invested in short-term bank placements and special deposit accounts, as well as in high-quality and marketable government and corporate securities.

The table summarizes the maturity profile of the Group's financial liabilities at December 31, 2012 and 2011 based on contractual undiscounted payments:

2012

	< 1 year	**>1 to < 5 years**	**> 5 years**	**Total**
		(In Thousands)		
Accounts and other payables	**₱47,272,762**	**₱–**	**₱–**	**₱47,272,762**
Short-term debt	**9,282,831**	**–**	**–**	**9,282,831**
Long-term debt	**6,386,834**	**20,764,005**	**33,218,917**	**60,369,756**
Deposits and other noncurrent liabilities	**–**	**12,867,857**	**14,398**	**12,882,255**
	₱62,942,427	**₱33,631,862**	**₱33,233,315**	**₱129,807,604**
Interest payable	**₱2,386,227**	**₱10,836,781**	**₱3,430,127**	**₱16,653,135**

2011

	< 1 year	>1 to < 5 years	> 5 years	Total
		(In Thousands)		
Accounts and other payables	₱33,427,710	₱–	₱–	₱33,427,710
Short-term debt	4,638,844	–	–	4,638,844
Long-term debt	1,556,761	22,406,001	5,929,165	29,891,927
Deposits and other noncurrent liabilities	–	7,769,403	26,382	7,795,785
	₱39,623,315	₱30,175,404	₱5,955,547	₱75,754,266
Interest payable	₱1,350,500	₱5,055,533	₱1,545,783	₱7,951,816

Cash and cash equivalents, short-term investments, financial assets at FVPL and treasury bonds and treasury bills classified as AFS financial assets are used for the Group's liquidity requirements. Please refer to the terms and maturity profiles of these financial assets shown on the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section. Treasury bonds with maturity of more than a year from December 31, 2012 are marketable securities and could be sold as and when needed, prior to its maturity in order to meet the Group's short-term liquidity needs.

Credit risk
The Group's credit risks are primarily attributable to installments receivable, rental receivables and other financial assets. To manage credit risks, the Group maintains defined credit policies and monitors its exposure to credit risks on a continuous basis.

In respect of installments receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. The Group's stringent customer requirements and policies in place contribute to lower customer default than its competitors. Customer payments are facilitated through various collection modes including the use of post dated checks and auto-debit arrangements. Exposure to bad debts is not significant as title to real estate properties are not transferred to the buyers until full payment has been made and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants. For existing tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

Other financial assets are comprised of cash and cash equivalents excluding cash on hand, short-term investments, financial assets at FVPL and AFS financial assets. The Group adheres to fixed limits and guidelines in its dealings with counterparty banks and its investment in financial instruments. Bank limits are established on the basis of an internal rating system that principally covers the areas of liquidity, capital adequacy and financial stability. The rating system likewise makes use of available international credit ratings. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations. Nevertheless, the Group closely monitors developments over counterparty banks and adjusts its exposure accordingly while adhering to pre-set limits.

The Group's maximum exposure to credit risk as of December 31, 2012 and 2011 is equal to the carrying values of its financial assets, except for the following:

2012

	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	Financial effect of collateral or credit enhancement
Accounts and notes receivable:				
Trade receivables:				
Residential	**₱20,601,902**	**₱38,243,858**	**₱–**	**₱20,601,902**
Shopping center	**1,200,071**	**1,965,605**	**–**	**1,200,071**
Corporate business	**1,381,547**	**1,616,725**	**–**	**1,381,547**
Receivables from employees	**313,036**	**597,614**	**–**	**313,036**
	₱23,496,556	**₱42,423,802**	**₱–**	**₱23,496,556**

<u>2011</u>

	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	Financial effect of collateral or credit enhancement
Accounts and notes receivable:				
Trade receivables:				
Residential	₱14,535,693	₱22,559,145	₱–	₱14,535,693
Shopping center	945,184	1,558,644	–	945,184
Corporate business	580,197	768,496	–	580,197
Receivables from employees	431,515	617,431	–	431,515
	₱16,492,589	₱25,503,716	₱–	₱16,492,589

Given the Group’s diverse base of counterparties, it is not exposed to large concentrations of credit risk.

As of December 31, 2012 and 2011, the aging analysis of past due but not impaired trade receivables presented per class, follow:

2012

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	61-90 days	91-120 days	>120 days	Total		
					(In Thousands)				
Trade:									
Residential development	₱19,478,074	₱453,167	₱197,412	₱145,845	₱92,250	₱248,709	₱1,137,383	₱9,555	₱20,625,012
Construction contracts	1,810,791	255,816	241,648	162,137	16,045	20,504	696,150	18,781	2,525,722
Corporate business	1,261,072	3,552	17,720	6,077	16,342	77,380	121,071	9,428	1,391,571
Shopping centers	706,406	74,644	91,281	27,844	14,281	317,735	525,785	117,877	1,350,068
Management fees	71,537	–	6,833	3,420	2,444	4,626	17,323	2,048	90,908
Others	1,480,231	1,346	80	–	–	2,012	3,438	47,093	1,530,762
Advances to other companies	5,431,590	54,580	47,904	34,398	9,521	376,128	522,531	56,003	6,010,124
Accrued receivable	2,314,692	178	54	714		91	1,037	–	2,315,729
Related parties	1,353,676	3,087	5,058	4,574	8,072	270,703	291,494	–	1,645,170
Receivables from employees	276,045	25,251	439	563	524	10,214	36,991	–	313,036
Investment in bonds classified as loans and receivables	1,000,000	–	–	–	–	–	–	–	1,000,000
	₱35,184,114	₱871,621	₱608,429	₱385,572	₱159,479	₱1,328,102	₱3,353,203	₱260,785	₱38,798,102

2011

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
					(In Thousands)				
Trade:									
Residential development	₱13,337,616	₱360,022	₱258,231	₱130,057	₱98,938	₱339,126	₱1,186,374	₱34,813	₱14,558,803
Construction contracts	1,315,179	109,201	97,646	48,654	36,171	264,702	556,374	5,927	1,877,480
Corporate business	280,665	137,432	42,571	53,278	11,197	55,055	299,533	12,210	592,408
Shopping centers	501,529	105,576	57,028	49,472	27,689	185,284	425,049	174,475	1,101,053
Management fees	16,554	–	6,022	1,628	5,106	17,957	30,713	3,215	50,482
Others	667,264	5,985	4,673	2,351	8,729	5,366	27,104	47,091	741,459
Advances to other companies	2,389,947	15,446	18,210	8,056	14,712	10,145	66,569	51,318	2,507,834
Accrued receivable	1,564,789	–	–	–	–	32,430	32,430	–	1,597,219
Related parties	1,678,753	301	112	72	2,359	68,458	71,302	–	1,750,055
Receivables from employees	399,283	18,894	2,940	558	968	8,872	32,232	–	431,515
Investment in bonds classified as loans and receivables	200,000	–	–	–	–	–	–	–	200,000
	₱22,351,579	₱752,857	₱487,433	₱294,126	₱205,869	₱987,395	₱2,727,680	₱329,049	₱25,408,308

The table below shows the credit quality of the Company's financial assets as of December 31, 2012 and 2011:

2012

	Neither Past Due nor Impaired					Past Due but	Individually	
	High Grade	Medium Grade	Low Grade	Unrated	Total	not Impaired	Impaired	Total
					(In Thousands)			
Cash and cash equivalents	₱28,596,398	₱–	₱–	₱–	₱28,596,398	₱–	₱–	₱28,596,398
Short-term investments	16,503	–	–	–	16,503	–	–	16,503
Financial assets at FVPL	713,716	–	–	–	713,716	–	–	713,716
Accounts and notes receivables:								
Trade:								
Residential development	17,468,022	996,808	1,013,244	–	19,478,074	1,137,383	9,555	20,625,012
Construction contracts	1,810,791	–	–	–	1,810,791	696,150	18,781	2,525,722
Corporate business	1,229,088	23,802	8,182	–	1,261,072	121,071	9,428	1,391,571
Shopping centers	642,556	28,845	35,005	–	706,406	525,785	117,877	1,350,068
Management fees	56,255	8,205	7,077	–	71,537	17,323	2,048	90,908
Others	1,480,070	161	–	–	1,480,231	3,438	47,093	1,530,762
Advances to other companies	5,293,653	2,703	135,234	–	5,431,590	522,531	56,003	6,010,124
Accrued receivable	2,314,692	–	–	–	2,314,692	1,037	–	2,315,729
Related parties	1,323,088	6,391	24,197	–	1,353,676	291,494	–	1,645,170
Receivable from employees	190,700	–	85,345	–	276,045	36,991	–	313,036
Investment in bonds classified as loans and receivables	1,000,000	–	–	–	1,000,000	–	–	1,000,000
AFS financial assets:								
Unquoted	–	–	–	216,655	216,655	–	–	216,655
Quoted	237,615	–	–	–	237,615	–	–	237,615
	₱62,373,147	₱1,066,915	₱1,308,284	₱216,655	₱64,965,001	₱3,353,203	₱260,785	₱68,578,989

2011

	Neither Past Due nor Impaired					Past Due but	Individually	
	High Grade	Medium Grade	Low Grade	Unrated	Total	not Impaired	Impaired	Total
					(In Thousands)			
Cash and cash equivalents	₱24,603,213	₱–	₱–	₱–	₱24,603,213	₱–	₱–	₱24,603,213
Short-term investments	191,987	–	–	–	191,987	–	–	191,987
Accounts and notes receivables:								
Trade:								
Residential development	11,210,707	1,317,086	809,823	–	13,337,616	1,186,374	34,813	14,558,803
Construction contracts	1,315,179	–	–	–	1,315,179	556,374	5,927	1,877,480
Corporate business	264,705	15,918	42	–	280,665	299,533	12,210	592,408
Shopping centers	365,694	130,150	5,685	–	501,529	425,049	174,475	1,101,053
Management fees	11,064	–	5,490	–	16,554	30,713	3,215	50,482
Others	667,264	–	–	–	667,264	27,104	47,091	741,459
Advances to other companies	2,107,029	3,755	279,163	–	2,389,947	66,569	51,318	2,507,834
Accrued receivable	1,564,546	–	243	–	1,564,789	32,430	–	1,597,219
Related parties	1,159,769	–	518,984	–	1,678,753	71,302	–	1,750,055
Receivable from employees	209,097	–	190,186	–	399,283	32,232	–	431,515
Investment in bonds classified as loans and receivables	200,000	–	–	–	200,000	–	–	200,000
AFS financial assets:								
Unquoted	–	–	–	253,800	253,800	–	–	253,800
Quoted	456,642	–	–	–	456,642	–	–	456,642
	₱44,326,896	₱1,466,909	₱1,809,616	₱253,800	₱47,857,221	₱2,727,680	₱329,049	₱50,913,950

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, short-term investments, financial assets at FVPL, AFS quoted securities - based on the nature of the counterparty and the Group's internal rating system

Receivables - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment; and low grade pertains to receivables with more than 3 defaults in payment

The unquoted AFS financial assets are unrated.

Interest rate risk
The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group manages its interest rate risk by leveraging on its premier credit rating and increasing the fixed interest component of its debt portfolio. The Company's ratio of fixed to floating rate debt stood at around 57:43 and 62:38 as of December 31, 2012 and 2011, respectively.

The following tables demonstrate the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates on December 31, 2012 and 2011, with all variables held constant, (through the impact on floating rate borrowings and changes in fair value of financial assets at FVPL and AFS financial assets):

2012

	Effect on income before income tax Increase (decrease)	
Change in basis points	**+ 100 basis points**	**- 100 basis points**
	(In Thousands)	
Floating rate borrowings	**(₱297,888)**	**₱297,888**

	Effect on equity Increase (decrease)	
Change in basis points	**+ 100 basis points**	**- 100 basis points**
	(In Thousands)	
AFS financial assets	**(₱1,663)**	**₱1,663**

2011

	Effect on income before income tax Increase (decrease)	
Change in basis points	+ 100 basis points	- 100 basis points
	(In Thousands)	
Floating rate borrowings	(₱129,987)	₱129,987

Change in basis points	Effect on equity Increase (decrease) + 100 basis points	- 100 basis points
	(In Thousands)	
AFS financial assets	(₱3,196)	₱3,196

The assumed change in rate is based on the currently observable market environment. There is no other impact on the Group's equity other than those already affecting the net income.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with their corresponding nominal amounts and carrying values are shown in the following table (in thousands):

2012

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents							
(excluding cash on hand)	Fixed at the date of investment	Various	₱28,545,383	₱28,545,383	₱–	₱–	₱28,545,383
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	16,503	16,503	–	–	16,503
Financial assets at FVPL	Fixed at the date of investment or revaluation cut-off	Various	713,716	–	713,716	–	713,716
Accounts and notes receivable	Fixed at the date of sale	Date of sale	12,001,093	4,839,928	5,765,012	1,147,356	11,752,296
			₱41,276,695	₱33,401,814	₱6,478,728	₱1,147,356	₱41,027,898
Company							
Short-term debt - US Dollar	Variable at prevailing market rates	Monthly	₱1,849,964	₱1,849,964	₱–	₱–	₱1,849,964
Short-term debt – Peso	Variable at prevailing market rates	Monthly	850,000	850,000	–	–	850,000
Long-term debt							
Fixed							
Peso	Fixed at 7.375% to 7.75%	7 and 10 years	295,000	195,000	100,000	–	295,000
Peso	Fixed at 7.75% to 8.90%	5, 7 and 10 years	2,380,000	–	1,050,000	1,330,000	2,380,000
Peso	Fixed at 8.75%	5 years	4,000,000	4,000,000	–	–	4,000,000
Peso	Fixed at 5%	3 years	630,680	630,680	–	–	630,680
Peso	Fixed at 5%	3 years	397,705	–	397,705	–	397,705
Peso	Fixed at 5%	3 years	999,950	–	999,950	–	999,950
Peso	Fixed at 5.625%	7 years	9,350,000	–	–	9,269,696	9,269,696
Peso	Fixed at 6.00%	10 years	5,650,000	–	–	5,599,719	5,599,719
Peso	Fixed at 5.625% to 7.50%	5, 10 and 15 years	10,000,000	–	5,780,458	4,154,506	9,934,964
Floating							
USD	Variable at prevailing market rates	6 years	2,402,862	–	–	2,402,862	2,402,862
Peso	Variable at prevailing market rates	10.25 years	4,500,000	–	1,000,000	3,500,000	4,500,000
Subsidiaries							
Short-term debt							
Peso	Variable at prevailing market rates	Monthly, quarterly	6,547,000	6,547,000	–	–	6,547,000
US Dollar	Variable at prevailing market rates	Monthly, quarterly	35,868	35,868	–	–	35,868
Long-term debt							
Fixed							
Peso	Fixed at 4.50% to 10.211%	5 to 7 years	6,160,468	712,341	4,033,887	1,407,725	6,153,953
Floating							
Peso	Variable at 0.50% to 1.125% over 91-day PDST-R1/R2	Quarterly	9,475,540	848,813	6,076,797	2,549,930	9,475,540
US Dollar	Variable at 0.75% to 1.70% over 3-month LIBOR	Quarterly	4,127,550	–	1,130,922	2,996,628	4,127,550
			₱69,652,587	₱15,669,666	₱20,569,719	₱33,211,066	₱69,450,451

2011

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents							
(excluding cash on hand)	Fixed at the date of investment	Various	₱24,568,957	₱24,568,957	₱–	₱–	₱24,568,957
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	191,987	191,987	–	–	191,987
Financial assets at FVPL	Fixed at the date of investment or revaluation cut-off	5 years	–	–	–	–	–
AFS financial assets	Fixed at the date of investment or revaluation cut-off	Various	216,933	–	216,933	–	216,933
Accounts and notes receivable	Fixed at the date of sale	Date of sale	13,990,171	4,978,814	5,930,444	351,585	11,260,843
			₱38,968,048	₱29,739,758	₱6,147,377	₱351,585	₱36,238,720
Company							
Short-term debt - US Dollar	Variable at prevailing market rates	Monthly	₱1,471,538	₱1,471,538	₱–	₱–	₱1,471,538
Long-term debt							
Fixed							
Peso	Fixed at 7.375% to 7.75%	7 and 10 years	295,000	–	295,000	–	295,000
Peso	Fixed at 7.76% to 8.90%	5, 7 and10 years	2,380,000	–	1,103,200	1,276,800	2,380,000
Peso	Fixed at 8.75%	5 years	4,000,000	–	4,000,000	–	4,000,000
Peso	Fixed at 5%	3 years	325,390	325,390	–	–	325,390
Peso	Fixed at 5%	3 years	417,900	–	417,900	–	417,900
Peso	Fixed at 5%	3 years	173,715	–	173,715	–	173,715
Peso	Fixed at 5.625% to 7.50%	5, 10 and15 years	10,000,000	–	5,728,973	4,193,832	9,922,805
Floating							
Peso	Variable at prevailing market rates	7 years	1,000,000	–	1,000,000	–	1,000,000
Subsidiaries							
Short-term debt							
Peso	Variable at prevailing market rates	Monthly, quarterly	3,129,000	3,129,000	–	–	3,129,000
US Dollar	Variable at prevailing market rates	Monthly, quarterly	38,306	38,306	–	–	38,306
Long-term debt							
Fixed							
Peso	Fixed at 4.50% to 9.72%	5 to 7 years	3,940,019	821,261	3,109,533	9,225	3,940,019
Floating							
Peso	Variable at 0.50% to 2.00% over 91-day PDST-R1/R2	Quarterly	7,118,783	410,110	6,279,533	429,140	7,118,783
US Dollar	Variable at 1.30% over 3-month LIBOR	Quarterly	241,120	–	241,120	–	241,120
			₱34,530,771	₱6,195,605	₱22,348,974	₱5,908,997	₱34,453,576

Foreign currency risk
Financial assets and credit facilities of the Group, as well as major contracts entered into for the purchase of raw materials, are mainly denominated in Philippine Peso. The Group's placements in foreign currencies and the amount of foreign currency-denominated debt are minimal. As such, the Group's foreign currency risk is minimal.

The following table shows the Group's consolidated foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2012 and 2011:

	2012		2011	
	US Dollar	**Php Equivalent**	US Dollar	Php Equivalent
		(In Thousands)		
Financial Assets				
Cash and cash equivalents	**$29,788**	**₱1,222,797**	$24,511	₱1,074,565
Short-term investments	–	–	2,199	96,415
Financial Assets at FVPL	**16,990**	**697,455**	–	–
Accounts and notes receivable - net	**17,550**	**720,428**	4,472	196,045
Total	**64,328**	**2,640,680**	31,182	1,367,025
Financial Liabilities				
Accounts and other payables	**24,825**	**1,019,066**	1,008	44,178
Short-term debt	**45,940**	**1,885,831**	34,440	1,509,844
Long-term debt	**159,084**	**6,530,412**	7,670	336,253
Other noncurrent liabilities	**744**	**30,541**	978	42,877
Total	**230,593**	**9,465,850**	44,096	1,933,152
Net foreign currency denominated financial instruments	**($166,265)**	**(₱6,825,170)**	($12,914)	(₱566,127)

In translating the foreign currency-denominated monetary assets in peso amounts, the exchange rates used were ₱41.05 to US$1.00, ₱43.84 to US$1.00 and ₱43.84 to US$1.00, the Philippine Peso - US dollar exchange rates as of December 31, 2012, 2011 and 2010, respectively.

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

	Effect on profit before tax Increase (decrease)	
Change in exchange rate	**2012**	2011
	(In Thousands)	
₱1.00	**(₱166,265)**	(₱12,914)
(₱1.00)	**166,265**	12,914

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

Equity price risk
Quoted AFS financial assets are acquired at a certain price in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. Depending on several factors such as interest rate movements, country's economic performance, political stability, domestic inflation rates, these prices change, reflecting how market participants view the developments.

The Group's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each country, sector and market.

The analysis below demonstrates the sensitivity to a reasonably possible change of market index with all other variables held constant, of the Group's equity (in thousands).

	Effect on equity Increase (decrease)	
Change in PSEi index	**2012**	2011
	(In Thousands)	
+5%	**₱1,217**	₱622
-5%	**(1,217)**	(622)

30. **Segment Information**

The industry segments where the Group and its associates and joint ventures operate follow:

- Residential developments - sale of high-end and upper middle-income residential lots and units, affordable housing units and lots, economic housing and leisure community developments; lease of residential developments under joint venture
- Shopping centers - development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; management and operation of malls which are co-owned with partners
- Corporate business - development and lease or sale of office buildings; sale of industrial lots and lease of factory building
- Hotels and Resorts - development and management of hotels and resorts/serviced apartments and lease of land to hotel tenants
- Strategic landbank management and Visayas-Mindanao - acquisition, development and sale of large-scale, mixed-use, masterplanned communities; sale of override units or the Company's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center. This also includes development, sale and lease, shopping centers and residential developments of the Group's product offerings in key cities in the Visayas and Mindanao regions
- Construction - land development and construction of the Group and third-party projects
- Property management - facilities management of the Group and third-party projects
- Others - other income from investment activities and sale of non-core assets.

In 2010, the Visayas-Mindanao business segment was combined with Strategic Landbank Management.

The Company and its subsidiaries generally account for inter-segment sales and transfers as if the sales and transfers were to third parties at current market prices.

Business segments

The following tables regarding business segments present assets and liabilities as of December 31 and revenue and profit information for each of the three years in the period ended December 31 (in millions).

2012

	Residential Development	Shopping Centers	Corporate Businesses	Hotels and Resorts	Strategic Landbank Management and Visayas-Mindanao	Construction	Property Management and Others	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	**₱27,760**	**₱5,847**	**₱2,731**	**₱2,452**	**₱5,471**	**₱4,356**	**₱1,287**	**₱–**	**₱–**	**₱49,904**
Intersegments sales	**976**	**462**	**–**	**–**	**186**	**14,888**	**248**	**340**	**(17,100)**	**–**
Equity in net earnings of associates and jointly controlled entities	**200**	**337**	**–**	**–**	**765**	**–**	**–**	**32**	**–**	**1,334**
Total revenue	**28,936**	**6,646**	**2,731**	**2,452**	**6,422**	**19,244**	**1,535**	**372**	**(17,100)**	**51,238**
Operating expenses	**21,834**	**3,327**	**1,329**	**1,928**	**4,087**	**17,927**	**1,315**	**1,333**	**(15,198)**	**37,882**
Operating profit	**7,102**	**3,319**	**1,402**	**524**	**2,335**	**1,317**	**220**	**(961)**	**(1,902)**	**13,356**
Interest and investment income										**2,725**
Interest and other financing charges										**(3,051)**
Other income										**561**
Other charges										**(365)**
Provision for income tax										**(2,892)**
Net income										**₱10,334**
Net income attributable to:										
Equity holders of Ayala Land, Inc.										**₱9,038**
Non-controlling interests										**1,296**
										₱10,334
Other Information										
Segment assets	**₱117,256**	**₱36,251**	**₱25,321**	**₱18,596**	**₱36,702**	**₱20,886**	**₱2,196**	**₱33,677**	**(₱75,094)**	**₱215,791**
Investment in associates and jointly controlled entities	**733**	**2,110**	**–**		**9,614**	**–**	**–**	**694**	**–**	**13,151**
	117,989	**38,361**	**25,321**	**18,596**	**46,316**	**20,886**	**2,196**	**34,371**	**(75,094)**	**228,942**
Deferred tax assets	**165**	**14**	**65**	**57**	**229**	**14**	**13**	**1,002**	**731**	**2,290**
Total assets	**₱118,154**	**₱38,375**	**₱25,386**	**₱18,653**	**₱46,545**	**₱20,900**	**₱2,209**	**₱35,373**	**(₱74,363)**	**₱231,232**
Segment liabilities	**₱43,538**	**₱16,805**	**₱9,340**	**₱11,069**	**₱3,704**	**₱18,632**	**₱1,240**	**₱54,829**	**(₱20,188)**	**₱138,969**
Deferred tax liabilities	**300**	**–**	**42**	**430**	**19**	**–**	**–**	**–**	**(73)**	**718**
Total liabilities	**₱43,838**	**₱16,805**	**₱9,382**	**₱11,499**	**₱3,723**	**₱18,632**	**₱1,240**	**₱54,829**	**(₱20,261)**	**₱139,687**
Segment additions to:										
Property and equipment	**₱933**	**₱1,028**	**₱2**	**₱1,358**	**₱129**	**₱3,221**	**₱1,011**	**₱27**	**₱–**	**₱7,489**
Investment properties	**–**	**3,172**	**3,336**	**–**	**748**	**–**	**–**	**–**	**–**	**7,256**
Depreciation and amortization	**₱267**	**₱629**	**₱570**	**₱312**	**₱11**	**₱137**	**₱52**	**₱112**	**₱–**	**₱2,090**
Non-cash expenses other than depreciation and amortization	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Impairment losses	**₱–**	**₱59**	**₱–**		**₱–**	**₱13**	**₱–**	**₱143**	**₱–**	**₱215**

2011

	Residential Development	Shopping Centers	Corporate Businesses	Hotels and Resorts	Strategic Landbank Management and Visayas-Mindanao	Construction	Property Management and Others	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	₱22,149	₱4,965	₱2,550	₱2,244	₱3,060	₱5,151	₱1,112	₱–	₱–	₱41,231
Intersegments sales	367	459	–		100	8,620	209	–	(9,755)	–
Equity in net earnings of associates and jointly controlled entities	(3)	291	–		580	–	–	30	–	898
Total revenue	22,513	5,715	2,550	2,244	3,740	13,771	1,321	30	(9,755)	42,129
Operating expenses	16,928	3,028	1,295	1,568	2,218	13,052	1,130	1,446	(9,244)	31,421
Operating profit	5,585	2,687	1,255	676	1,522	719	191	(1,416)	(511)	10,708
Interest and investment income										1,659
Interest and other financing charges										(1,880)
Other income										417
Other charges										(195)
Provision for income tax										(2,619)
Net income										₱8,090
Net income attributable to:										
Equity holders of Ayala Land, Inc.										₱7,140
Non-controlling interests										950
										₱8,090
Other Information										
Segment assets	₱89,602	₱28,184	₱22,475	₱6,391	₱11,920	₱15,795	₱1,065	₱14,173	₱ (49,637)	₱139,968
Investment in associates and jointly controlled entities	448	2,011	–		8,686	–	–	1,481	–	12,626
	90,050	30,195	22,475	6,391	20,606	15,795	1,065	15,654	(49,637)	152,594
Deferred tax assets	110	8	32	13	253	14	12	1,378	128	1,948
Total assets	₱90,160	₱30,203	₱22,507	₱6,404	₱20,859	₱15,809	₱1,077	₱17,032	(₱49,509)	₱154,542
Segment liabilities	₱31,002	₱12,020	₱7,777	₱2,030	₱3,517	₱13,623	₱427	₱21,860	(₱10,436)	₱81,820
Deferred tax liabilities	274	–	19	–	4	–	–	437	(55)	679
Total liabilities	₱31,276	₱12,020	₱7,796	₱2,030	₱3,521	₱13,623	₱427	₱22,297	₱(10,491)	₱82,499
Segment additions to:										
Property and equipment	₱80	₱104	₱95	₱1,358	₱5	₱404	₱209	₱54	₱–	₱2,309
Investment properties	210	4,787	1,611	–	–	–	–	–	–	6,608
Depreciation and amortization	₱152	₱939	₱534	₱193	₱60	₱143	₱20	₱269	₱–	₱2,310
Non-cash expenses other than depreciation and amortization	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Impairment losses	₱6	₱2	₱–	₱–	₱–	₱–	₱–	₱45	₱–	₱53

2010

	Residential Development	Shopping Centers	Corporate Businesses	Hotels and Resorts	Strategic Landbank Management and Visayas-Mindanao	Construction	Property Management and Others	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	₱16,404	₱4,597	₱2,402	₱1,644	₱3,149	₱6,177	₱1,035	₱–	₱–	₱35,408
Intersegments sales	157	404	–	168	467	3,514	26	–	(4,736)	–
Equity in net earnings of associates and jointly controlled entities	–	250	–	–	620	–	–	36	–	906
Total revenue	16,561	5,251	2,402	1,812	4,236	9,691	1,061	36	(4,736)	36,314
Operating expenses	13,251	2,875	1,261	1,463	2,693	9,388	1,043	1,134	(4,972)	28,136
Operating profit	3,310	2,376	1,141	349	1,543	303	18	(1,098)	236	8,178
Interest and investment income										1,065
Interest and other financing charges										(1,539)
Other income										434
Other charges										(278)
Provision for income tax										(1,572)
Net income										₱6,288
Net income attributable to:										
Equity holders of Ayala Land, Inc.										₱5,458
Non-controlling interests										830
										₱6,288
Other Information										
Segment assets	₱75,887	₱22,785	₱24,119	₱4,933	₱10,378	₱8,546	₱1,396	₱40	(₱38,701)	₱109,383
Investment in associates and jointly controlled entities	–	2,119	501	–	8,226	–	–	–	–	10,846
	75,887	24,904	24,620	4,933	18,604	8,546	1,396	40	(38,701)	120,229
Deferred tax assets										2,073
Total assets	₱75,887	₱24,904	₱24,620	₱4,933	₱18,604	₱8,546	₱1,396	₱40	(₱38,701)	₱122,302
Segment liabilities	₱24,436	₱8,930	₱6,879	₱778	₱3,001	₱6,984	₱420	₱13,121	(₱8,315)	₱56,234
Deferred tax liabilities										598
Total liabilities										₱56,832
Segment additions to:										
Property and equipment	₱211	₱61	₱9	₱353	₱2	₱–	₱371	₱139	₱–	₱1,146
Investment properties	–	1,664	1,246	–	–	–	–	–	–	2,910
Depreciation and amortization	₱95	₱638	₱454	₱128	₱277	₱–	₱154	₱62	₱–	₱1,808
Non-cash expenses other than depreciation and amortization	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Impairment losses	₱4	₱6	₱–	₱–	₱–	₱–	₱–	₱47	₱–	₱57

31. **Registration with Philippine Economic Zone Authority (PEZA)**

LTI was registered with PEZA on October 27, 1999 as a non-pioneer "ecozone developer/operator." The PEZA registration entitled the subsidiary to a four-year income tax holiday from the start of its commercial operations. At the expiration of its four-year tax holiday, the subsidiary pays income tax at the special tax rate of 5% on its gross income earned from sources within the PEZA economic zone in lieu of paying all national and local income taxes.

Likewise, Ceci. also became registered with PEZA in 2007 as the "developer/operator" of the Lakeside Ecozone.

Glensworth, a wholly-owned subsidiary of APPCo, was registered with PEZA as an Economic Zone Information IT Facility Enterprise last December 14, 2007 to construct a 4-storey building at the Lakeside Evozone, Barangay Sta. Rosa, Laguna for lease to PEZA-registered enterprises. As a PEZA-registered enterprise, the Company is entitled to incentives which, among others, include a lower income tax rate of 5% on gross income in lieu of all national and local taxes.

HPC, a wholly-owned subsidiary of the Company, was registered with PEZA last January 29, 2009 as an Ecozone Facilities Enterprise at the John Hay Special Tourism Economic Zone located in Baguio.

Sunnyfield, a wholly-owned subsidiary of the Company, was registered with PEZA last December 17, 2010 as a Developer/Operator of Iloilo Technohub.

Crestview, a wholly-owned subsidiary of Ayala Land Inc, was registered with PEZA last December 17, 2010 as an Ecozone Facilities Enterprise at the Ayala Northpoint Technohub located in Bacolod.

32. **Leases**

Operating Leases - Group as Lessor

The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals receivable under noncancellable operating leases of the Group follow:

	2012	2011
	(In Thousands)	
Within one year	**₱2,552,833**	₱2,210,918
After one year but not more than five years	**6,866,075**	5,560,887
More than five years	**1,037,174**	1,384,795
	₱10,456,082	₱9,156,600

Operating Leases - Group as Lessee

The Group entered into lease agreements with third parties. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals payable under noncancellable operating leases of the Group follow:

	2012	2011
	(In Thousands)	
Within one year	**₱279,588**	₱128,971
After one year but not more than five years	**601,598**	496,304
More than five years	**1,691,857**	1,256,247
	₱2,573,043	₱1,881,522

On January 28, 2011, a notice was given to the Company for the ₱4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. The Company signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for another 25 years by mutual agreement. The rental commencement date will be on the date when the first paying customer registers sale in any of the outlets in the building.

The project involves the construction of a retail establishment with 63,000 square meters of available gross leasable area and a combination of Headquarter-and-BPO- type buildings with an estimated 8,000 square meters of office space. For the years ended December 31, 2012 and 2011, the Company has not yet recognized lease expense for this agreement as the project is still in progress.

33. Interest in a Joint Venture

MDC has a 51% interest in Makati Development Corporation - First Balfour, Inc. Joint Venture (the Joint Venture), a jointly controlled operation whose purpose is to design and build St. Luke's Medical Center (the Project) in Fort Bonifacio Global City, Taguig.

The Project, which started on January 31, 2007, is a world-class medical facility comprising, more or less, of a 611-bed hospital and a 378-unit medical office building, with an approximate gross floor area of 154,000 square meters, which meets international standards, and all standards and guidelines of applicable regulatory codes of the Philippines and complies with the criteria of the Environment of Care of the Joint Commission International Accreditation. The project was completed on October 30, 2009. Activities in 2011 to 2012 mainly pertain to winding down operations and punch listing works.

The share of MDC in the net assets and liabilities of the Joint Venture at December 31, 2012 and 2011 which are included in the consolidated financial statements follow:

	2012	2011
	(In Thousands)	
Current assets:		
Cash and cash equivalents	**₱33,217**	₱24,622
Amounts due from customers for contract work	**10,582**	10,582
Other current assets	**55,317**	54,809
Total assets	**₱99,116**	₱90,013
Total liabilities	**₱49,330**	₱66,968

The following is the share of the MDC on the net income of the Joint Venture:

	2012	2011
	(In Thousands)	
Revenue from construction contracts	**₱–**	₱2,069
Contract costs	**(994)**	(9,687)
Interest and other income	**1,175**	2,490
Loss before income tax	**181**	(5,128)
Provision for income tax	**(181)**	(148)
Net loss	**₱–**	(₱5,276)

The Joint Venture's Management Board declared and paid cash dividends amounting to ₱185.3 million 2010. Based on 51% share, MDC received ₱94.5 million cash dividends in 2010.

Provision for income tax pertains to the final tax on interest income.

34. **Long-term Commitments and Contingencies**

Commitment

The Company and Manila Water Company (MWC) entered into a joint venture agreement to establish a water utility services company which will manage and operate all water systems in Nuvali, as well as, adjacent projects of the Company in Laguna. The joint venture between the Company and MWC will be incorporated in 2013.

The joint venture company has estimated project cost of ₱1.7 billion. During the past 2 years, the required activities according to the MOA between MWC and the Company were accomplished- like auditing and re-design of the existing water/sewerage assets of several NUVALI and the Company projects in Laguna, water system design reviews and repairs, and developing plans and proposals for the expansion of the area coverage of the water and sewerage system.

The Company has signed a 50-year lease agreement with the Subic Bay Metropolitan Authority, for the development of a 7.5-hectare property along Rizal Highway within the Subic Bay Freeport Zone, located between the two main gates linking the Freeport Zone to Olongapo City.

On October 27, 2006, a subsidiary entered into a land lease agreement with a third party for a term of 25 years. The lease generally provides for a monthly rent based on a certain percentage of gross revenue.

The Company has an existing contract with BCDA to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, the Company transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity.

As part of the bid requirement, the Company procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, SSECC obtained standby letters of credit to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement.

MDC, in the normal course of business, furnishes performance bonds in connection with its construction projects. These bonds shall guarantee MDC's execution and completion of the work indicated in the respective construction contracts.

<u>Development Commitment</u>
On October 18, 2010, the Company undertook to cause the planning, developing and construction of Anvaya Cove Golf and Sports Club, Inc's leisure and recreational facilities. The Company shall ensure the development and construction by second half of the year 2013 for an estimated total development cost of ₱920.0 million.

Contingencies
The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations.

35. **Note to Consolidated Statements of Cash Flows**

The noncash activities of the Group pertains to transfers from land and improvements to inventories amounting to ₱1,194.8 million, ₱1,364.5 million and ₱5,148.9 million in 2012, 2011 and 2010 respectively; transfers from investment properties to inventories amounting to ₱116.1 million in 2012; transfers from property and equipment to inventories amounting to ₱262.5 million in 2011; transfers from investment properties to property and equipment amounting to ₱96.1 million and ₱160.7 million in 2012 and 2011 respectively; transfers from property and equipment to other assets amounting to ₱764.4 million and ₱155.5 million in 2012 and 2011 respectively; transfers from investment properties to other assets amounting to ₱10.5 million in 2011; transfer from investments in associates and jointly controlled entities to financial assets at FVPL amounting to ₱713.7 million in 2012; other noncash items pertain to business combinations in 2012 and 2010 (see Note 24).

36. **Events After Reporting Date**

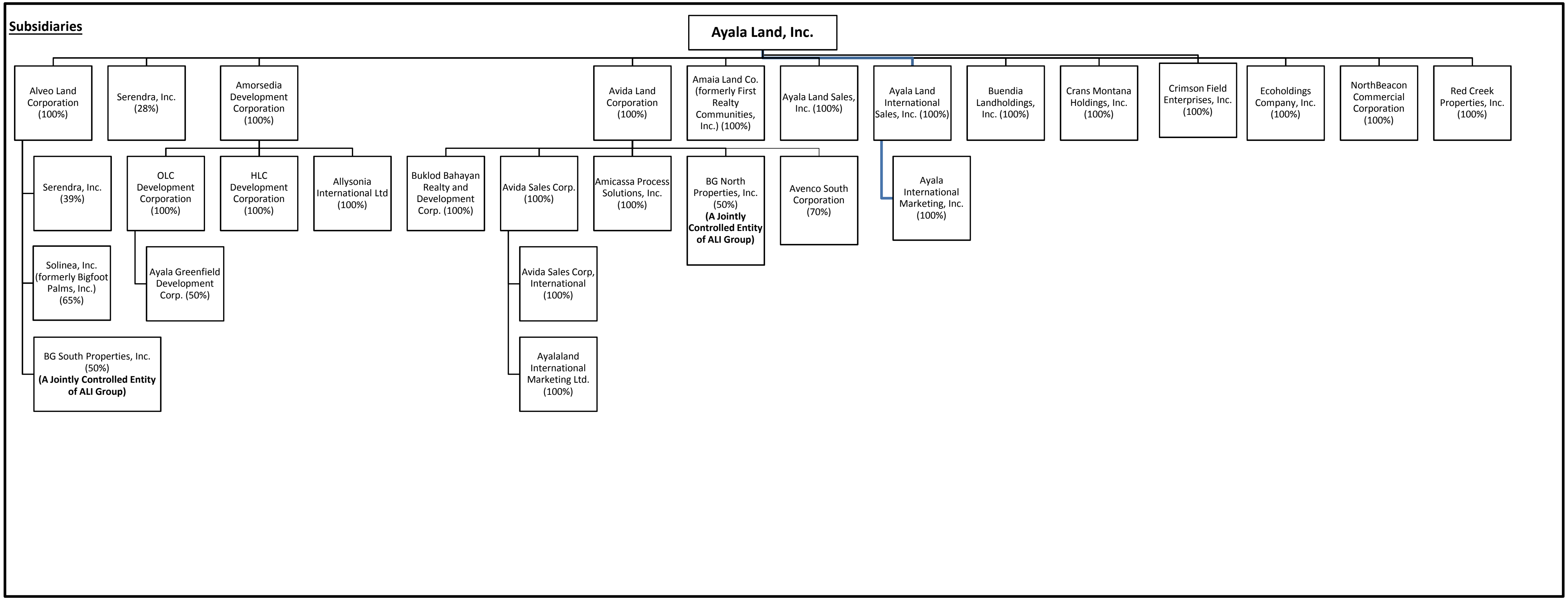
The SEC approved last January 31, 2013 the following:

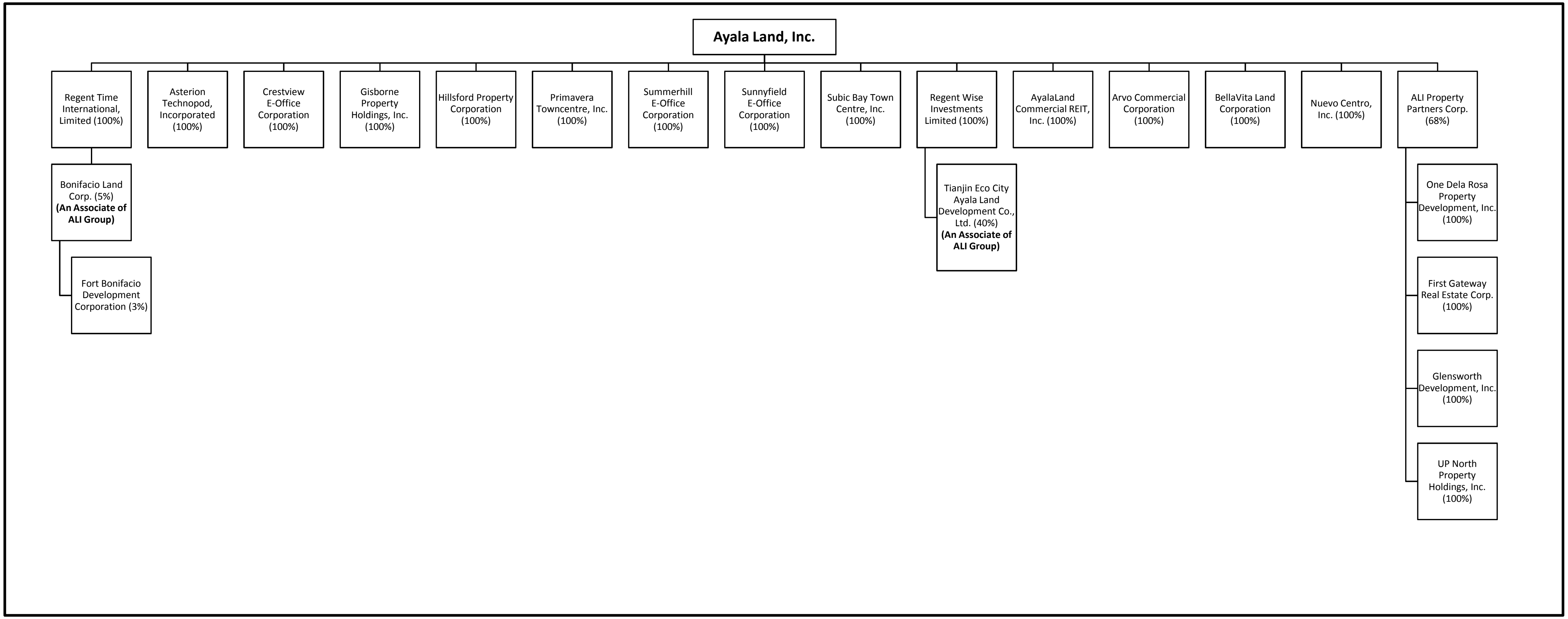
a. The decrease in authorized capital stock by ₱1,303.5 million, the aggregate par value of the 13,034.6 preferred shares which have been redeemed and eliminated, from ₱22,803.5 million to ₱21,500.0 million, and
b. The amendments to Articles of Incorporation reflecting the decrease in capital stock.

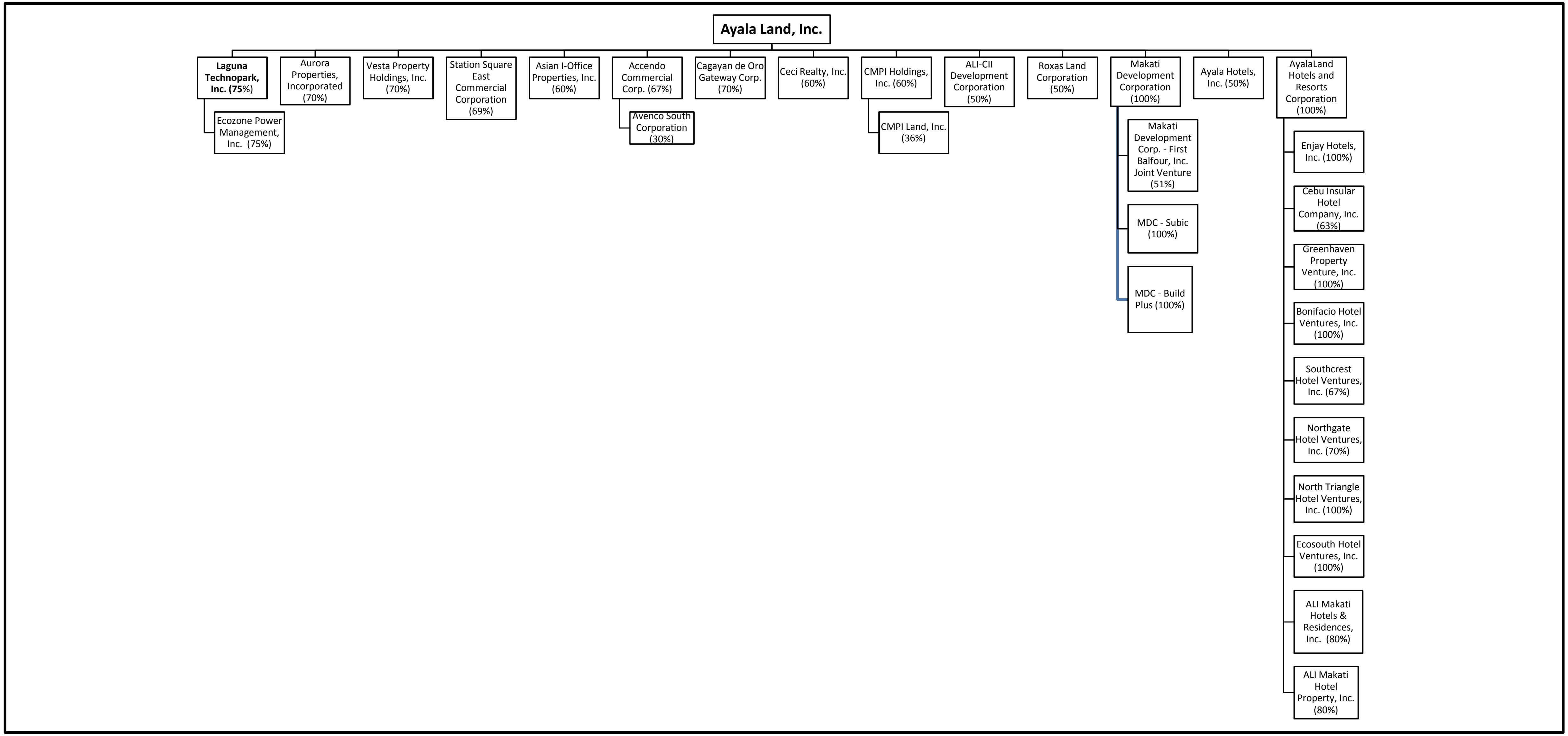
On February 19, 2013, the BOD declared cash dividends of ₱0.14787806 per outstanding share payable on March 19, 2013 amounting to ₱2,033.6 million to stockholders as of record date March 5, 2013.

On the same date, BOD declared annual cash dividends of 4.74786% per annum amounting to ₱62.0 million or ₱0.00474786 per share to all shareholders of the Company's outstanding unlisted voting preferred shares with record date of June 14, 2013 and payment date of July 1, 2013.

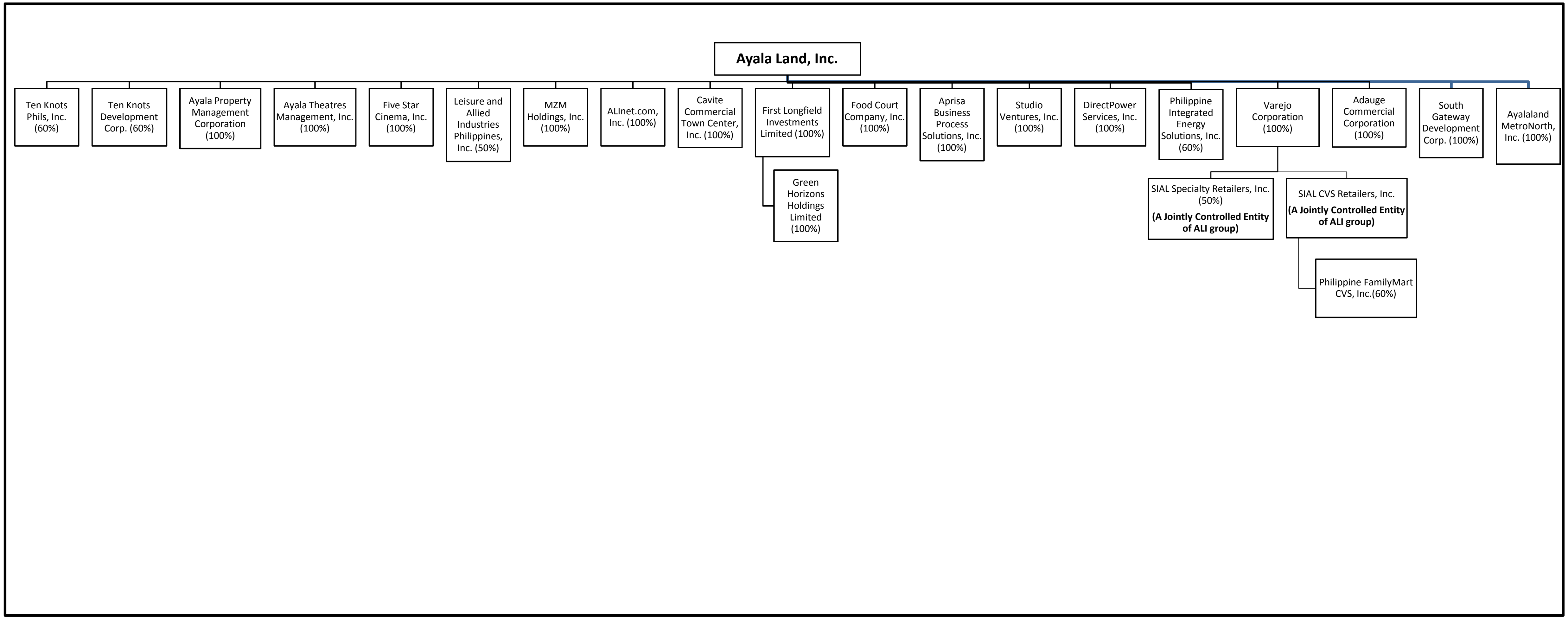
Ayala Land, Inc. & Subsidiaries
Family Tree
December 31, 2012



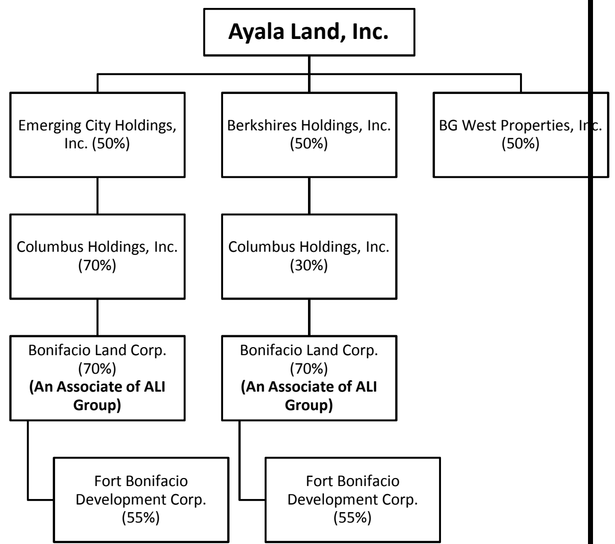

Ayala Land, Inc.
Regent Time International, Limited (100%)
Asterion Technopod, Incorporated (100%)
Crestview E-Office Corporation (100%)
Gisborne Property Holdings, Inc. (100%)
Hillsford Property Corporation (100%)
Primavera Towncentre, Inc. (100%)
Summerhill E-Office Corporation (100%)
Sunnyfield E-Office Corporation (100%)
Subic Bay Town Centre, Inc. (100%)
Regent Wise Investments Limited (100%)
AyalaLand Commercial REIT, Inc. (100%)
Arvo Commercial Corporation (100%)
BellaVita Land Corporation (100%)
Nuevo Centro, Inc. (100%)
ALI Property Partners Corp. (68%)
Bonifacio Land Corp. (5%) (An Associate of ALI Group)
Fort Bonifacio Development Corporation (3%)
Tianjin Eco City Ayala Land Development Co., Ltd. (40%) (An Associate of ALI Group)
One Dela Rosa Property Development, Inc. (100%)
First Gateway Real Estate Corp. (100%)
Glensworth Development, Inc. (100%)
UP North Property Holdings, Inc. (100%)



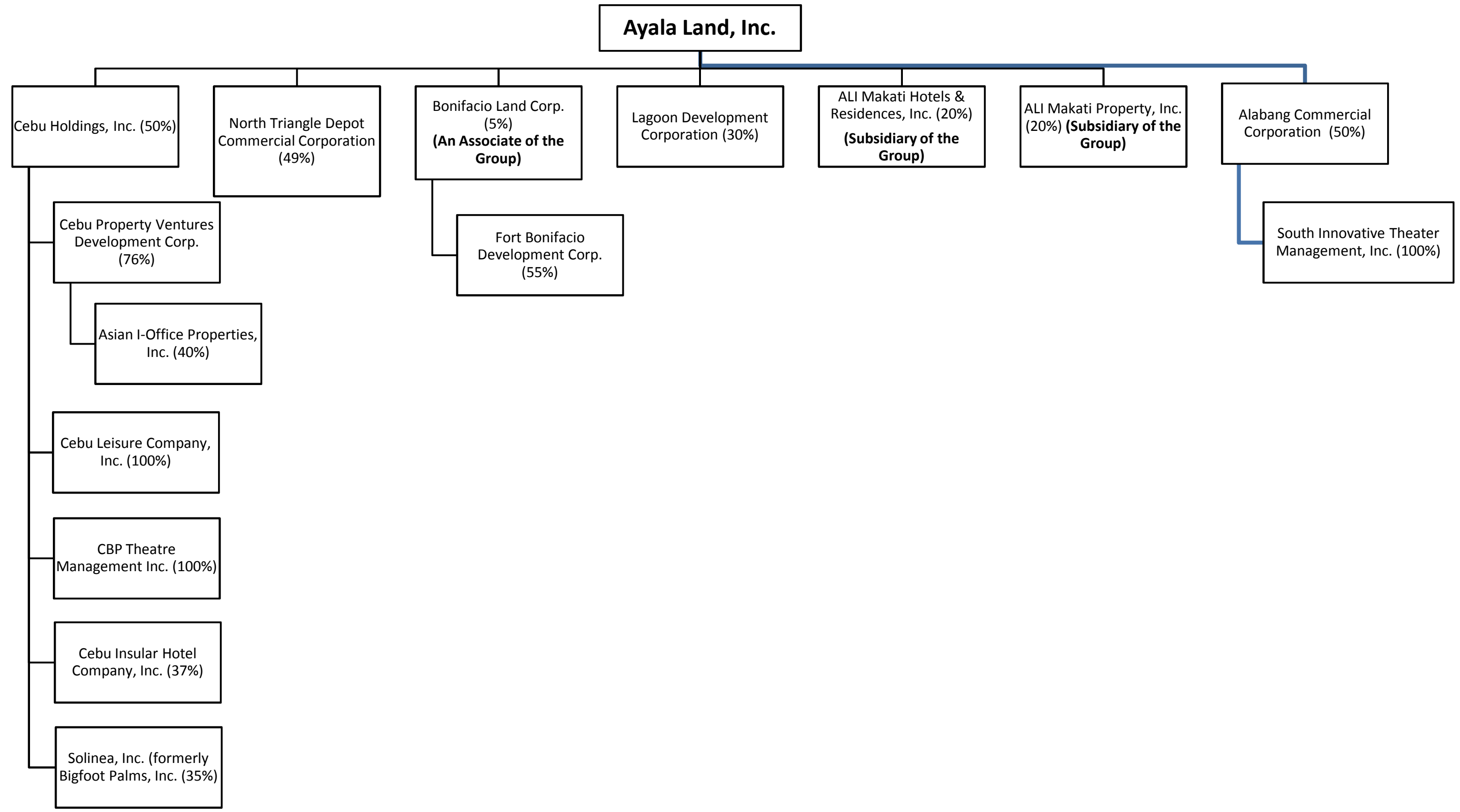
Ayala Land, Inc.
Laguna Technopark, Inc. (75%)
Ecozone Power Management, Inc. (75%)
Aurora Properties, Incorporated (70%)
Vesta Property Holdings, Inc. (70%)
Station Square East Commercial Corporation (69%)
Asian I-Office Properties, Inc. (60%)
Accendo Commercial Corp. (67%)
Avenco South Corporation (30%)
Cagayan de Oro Gateway Corp. (70%)
Ceci Realty, Inc. (60%)
CMPI Holdings, Inc. (60%)
CMPI Land, Inc. (36%)
ALI-CII Development Corporation (50%)
Roxas Land Corporation (50%)
Makati Development Corporation (100%)
Makati Development Corp. - First Balfour, Inc. Joint Venture (51%)
MDC - Subic (100%)
MDC - Build Plus (100%)
Ayala Hotels, Inc. (50%)
AyalaLand Hotels and Resorts Corporation (100%)
Enjay Hotels, Inc. (100%)
Cebu Insular Hotel Company, Inc. (63%)
Greenhaven Property Venture, Inc. (100%)
Bonifacio Hotel Ventures, Inc. (100%)
Southcrest Hotel Ventures, Inc. (67%)
Northgate Hotel Ventures, Inc. (70%)
North Triangle Hotel Ventures, Inc. (100%)
Ecosouth Hotel Ventures, Inc. (100%)
ALI Makati Hotels & Residences, Inc. (80%)
ALI Makati Hotel Property, Inc. (80%)


Ayala Land, Inc.
Ten Knots Phils, Inc. (60%)
Ten Knots Development Corp. (60%)
Ayala Property Management Corporation (100%)
Ayala Theatres Management, Inc. (100%)
Five Star Cinema, Inc. (100%)
Leisure and Allied Industries Philippines, Inc. (50%)
MZM Holdings, Inc. (100%)
ALInet.com, Inc. (100%)
Cavite Commercial Town Center, Inc. (100%)
First Longfield Investments Limited (100%)
Green Horizons Holdings Limited (100%)
Food Court Company, Inc. (100%)
Aprisa Business Process Solutions, Inc. (100%)
Studio Ventures, Inc. (100%)
DirectPower Services, Inc. (100%)
Philippine Integrated Energy Solutions, Inc. (60%)
Varejo Corporation (100%)
SIAL Specialty Retailers, Inc. (50%)
(A Jointly Controlled Entity of ALI group)
SIAL CVS Retailers, Inc.
(A Jointly Controlled Entity of ALI group)
Philippine FamilyMart CVS, Inc.(60%)
Adauge Commercial Corporation (100%)
South Gateway Development Corp. (100%)
Ayalaland MetroNorth, Inc. (100%)

Direct Investments in Jointly Controlled Entities



Direct Investments in Associates



Ayala Land, Inc. & Subsidiaries
List of Applicable Standards and Interpretations
December 31, 2012

PFRSs and PIC Q&As		Adopted/Not adopted/Not applicable
Framework for the Preparation and Presentation of Financial Statements *Conceptual Framework Phase A: Objectives and qualitative characteristics*		Adopted
PFRSs Practice Statement Management Commentary		Adopted
Philippine Financial Reporting Standards		
PFRS 1 (Revised)	*First-time Adoption of Philippine Financial Reporting Standards*	Not applicable
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	Not applicable
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	Not applicable
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	Not applicable
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	Not applicable
	Amendments to PFRS 1: Government Loans	Not applicable
PFRS 2	*Share-based Payment*	Adopted
	Amendments to PFRS 2: Vesting Conditions and Cancellations	Adopted
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	Adopted
PFRS 3 (Revised)	*Business Combinations*	Adopted
PFRS 4	*Insurance Contracts*	Not applicable
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	Not applicable
PFRS 5	*Non-current Assets Held for Sale and Discontinued Operations*	Not applicable
PFRS 6	*Exploration for and Evaluation of Mineral Resources*	Not applicable
PFRS 7	*Financial Instruments: Disclosures*	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	Adopted
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	Adopted
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	Adopted
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	Not adopted
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Adopted
PFRS 8	*Operating Segments*	Adopted
PFRS 9	*Financial Instruments*	Not adopted
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not adopted
PFRS 10	*Consolidated Financial Statements*	Not adopted
PFRS 11	*Joint Arrangements*	Not adopted
PFRS 12	*Disclosure of Interests in Other Entities*	Not adopted
PFRS 13	*Fair Value Measurement*	Not adopted
Philippine Accounting Standards		
PAS 1	*Presentation of Financial Statements*	Adopted
	Amendment to PAS 1: Capital Disclosures	Adopted
	Amendments to PAS 32 and PAS 1: Puttable	Adopted

PFRSs and PIC Q&As		Adopted/Not adopted/Not applicable
	Financial Instruments and Obligations Arising on Liquidation	
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	Not adopted
PAS 2	*Inventories*	Adopted
PAS 7	*Statement of Cash Flows*	Adopted
PAS 8	*Accounting Policies, Changes in Accounting Estimates and Errors*	Adopted
PAS 10	*Events after the Reporting Period*	Adopted
PAS 11	*Construction Contracts*	Adopted
PAS 12	*Income Taxes*	Adopted
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	Adopted
PAS 16	*Property, Plant and Equipment*	Adopted
PAS 17	*Leases*	Adopted
PAS 18	*Revenue*	Adopted
PAS 19	*Employee Benefits*	Adopted
	Amendments to PAS 19: Actuarial gains and Losses, Group Plans and Disclosures	Adopted
PAS 19 (Amended)*	*Employee Benefits*	Not adopted
PAS 20	*Accounting for Government Grants and Disclosure of Government Assistance*	Not applicable
PAS 21	*The Effects of Changes in Foreign Exchange Rates*	Adopted
	Amendment: Net Investment in a Foreign Operation	Not applicable
PAS 23 (Revised)	*Borrowing Costs*	Adopted
PAS 24 (Revised)	*Related Party Disclosures*	Adopted
PAS 26	*Accounting and Reporting by Retirement Benefit Plans*	Not applicable
PAS 27	*Consolidated and Separate Financial Statements*	Adopted
PAS 28	*Investments in Associates*	Adopted
PAS 28 (Amended)	*Investments in Associates and Joint Ventures*	Not adopted
PAS 29	*Financial Reporting in Hyperinflationary Economies*	Not applicable
PAS 31	*Interests in Joint Ventures*	Adopted
PAS 32	*Financial Instruments: Presentation*	Adopted
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	Adopted
	Amendment to PAS 32: Classification of Rights Issues	Adopted
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	Not adopted
PAS 33	*Earnings per Share*	Adopted
PAS 34	*Interim Financial Reporting*	Adopted
PAS 36	*Impairment of Assets*	Adopted
PAS 37	*Provisions, Contingent Liabilities and Contingent Assets*	Adopted
PAS 38	*Intangible Assets*	Adopted
PAS 39	*Financial Instruments: Recognition and Measurement*	Adopted
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	Adopted
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	Adopted
	Amendments to PAS 39: The Fair Value Option	Adopted
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	Not applicable
	Amendments to PAS 39 and PFRS 7: Reclassification	Adopted

PFRSs and PIC Q&As		Adopted/Not adopted/Not applicable
	of Financial Assets	
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	Adopted
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	Adopted
	Amendment to PAS 39: Eligible Hedged Items	Adopted
PAS 40	*Investment Property*	Adopted
PAS 41	*Agriculture*	Not applicable
Philippine Interpretations		
IFRIC 1	*Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Not applicable
IFRIC 2	*Members' Shares in Co-operative Entities and Similar Instruments*	Not applicable
IFRIC 4	*Determining whether an Arrangement contains a Lease*	Adopted
IFRIC 5	*Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Not applicable
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	Not applicable
IFRIC 7	*, Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*	Not applicable
IFRIC 8	*Scope of PFRS 2*	Adopted
IFRIC 9	*Reassessment of Embedded Derivatives*	Adopted
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	Adopted
IFRIC 10	*Interim Financial Reporting and Impairment*	Adopted
IFRIC 11	*PFRS 2- Group and Treasury Share Transactions*	Adopted
IFRIC 12	*Service Concession Arrangements*	Not applicable
IFRIC 13	*Customer Loyalty Programmes*	Not applicable
IFRIC 14	*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Not applicable
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	Not applicable
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*	Not applicable
IFRIC 17	*Distributions of Non-cash Assets to Owners*	Not applicable
IFRIC 18	*Transfers of Assets from Customers*	Not applicable
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*	Not applicable
IFRIC 20	*Stripping Costs in the Production Phase of a Surface*	Not applicable
SIC-7	*Introduction of the Euro*	Not applicable
SIC-10	*Government Assistance - No Specific Relation to Operating Activities*	Not applicable
SIC-12	*Consolidation - Special Purpose Entities*	Not applicable
SIC-13	*Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	Adopted
SIC-15	*Operating Leases – Incentives*	Adopted
SIC-25	*Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*	Not applicable
SIC-27	*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	Adopted
SIC-29	*Service Concession Arrangements: Disclosures*	Not applicable
SIC-31	*Revenue - Barter Transactions Involving Advertising Services*	Not applicable
SIC-32	*Philippine Interpretation SIC–32, Intangible Assets - Web Site Costs*	Not applicable
PIC Q&A		
PIC Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts		Adopted
PIC Q&A No. 2006-02: PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements		Not applicable

PFRSs and PIC Q&As	Adopted/Not adopted/Not applicable
PIC Q&A No. 2007-03: PAS 40.27 – Valuation of bank real and other properties acquired (ROPA)	Not applicable
PIC Q&A No. 2007-04: PAS 101.7 - Application of criteria for a qualifying NPAE	Not applicable
PIC Q&A No. 2008-01 (Revised): PAS 19.78 – Rate used in discounting post-employment benefit obligations	Adopted
PIC Q&A No. 2008-02: PAS 20.43 – Accounting for government loans with low interest rates under the amendments to PAS 20	Not applicable
PIC Q&A No. 2009-01: Framework.23 and PAS 1.23 – Financial statements prepared on a basis other than going concern	Not applicable
PIC Q&A No. 2010-01: PAS 39.AG71-72 – Rate used in determining the fair value of government securities in the Philippines	Not applicable
PIC Q&A No. 2010-02: PAS 1R.16 – Basis of preparation of financial statements	Adopted
PIC Q&A No. 2011-01: PAS 1.10(f) – Requirements for a Third Statement of Financial Position	Adopted
PIC Q&A No. 2011-02: PFRS 3.2 – Common Control Business Combinations	Not applicable
PIC Q&A No. 2011-03: Accounting for Inter-company Loans	Not applicable
PIC Q&A No. 2011-04: PAS 32.37-38 - Costs of Public Offering of Shares	Not applicable
PIC Q&A No. 2011-05: PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost	Not applicable

Ayala Land, Inc.
Tower One, Ayala Triangle, Ayala Avenue, Makati City
December 31, 2012

Unappropriated Retained Earnings, beginning		21,006,912,237
Adjustments:		
(see adjustments in previous year's Reconciliation)		(1,765,977,954)
Unappropriated Retained Earnings, as adjusted, beginning		19,240,934,283
Net Income based on the face of AFS	5,510,695,991	
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture		
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents) Unrealized actuarial gain		
Fair value adjustment (M2M gains)		
Fair value adjustment of Investment Property resulting to gain Adjustment due to deviation from PFRS/GAAP-gain		
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	(593,852,588)	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)		
Adjustment due to deviation from PFRS/GAAP – loss		
Loss on fair value adjustment of investment property (after tax)		
Net Income Actual/Realized	4,916,843,403	
Less: Other adjustments		
Amount of provision for deferred tax during the year	(60,772,609)	
Dividend declarations during the period	(2,902,133,399)	
Treasury shares	(1,303,460,389)	650,477,007
Unappropriated Retained Earnings, as adjusted, ending		**19,891,411,290**
		-

AYALA LAND, INC. AND SUBSIDIARIES
FINANCIAL RATIOS (SRC RULE 68, AMENDED)
DECEMBER 31,2012

Financial Soundness Indicators	**2012**	2011
a. Current/ liquidity ratios		
Current ratios	**140.2%**	165.1%
Quick ratios	**106.9%**	117.0%
b. Solvency/ debt-to-equity ratios		
Debt-to equity ratios	**84.4%**	55.3%
Net debt- to-equity ratios	**48.8%**	15.5%
c. Asset-to-equity ratios	**281.0%**	248.0%
d. Interest rate coverage ratios	**6.82**	7.08
e. Profitability ratios		
Net income margin	**16.6%**	16.2%
Return on total assets	**5.4%**	5.9%
Return on equity	**12.6%**	11.8%
f. Other relevant ratios	**None**	None

Please see Annex A for the supporting computations

AYALA LAND, INC. AND SUBSIDIARIES
FINANCIAL RATIOS (SRC RULE 68, AMENDED)
DECEMBER 31,2012

Annex A- Financial ratios

	2012	**2011**
	(AMOUNTS IN THOUSANDS)	
Current / liquidity ratios		
Current Assets	101,283,501	75,316,642
Current liabilities	72,253,210	45,629,278
Current ratios	**140.2%**	**165.1%**
Current Assets	101,283,501	75,316,642
Inventory	24,070,387	21,908,571
Quick assets	77,213,114	53,408,071
Current liabilities	72,253,210	45,629,278
Quick ratios	**106.9%**	**117.0%**
Solvency/ debt-to-equity ratios		
Short-term debt	9,282,831	4,638,844
Current portion of long-term debt	6,386,834	1,556,761
Long-term debt - net of current portion	53,780,786	28,257,971
Debt	**69,450,451**	**34,453,576**
Equity	91,545,228	72,042,512
Less: Noncontrolling interest	9,230,018	9,685,546
Equity attributable to parent	82,315,210	62,356,966
Less: Unrealized gain - AFS	39,564	53,909
Equity, net of unrealized gain	**82,275,646**	**62,303,057**
Debt to equity ratio	**84.4%**	**55.3%**
	75.9%	47.8%
Debt	69,450,451	34,453,576
Cash and cash equivalents	28,596,398	24,603,213
Short term investments	16,503	191,987
Financial assets at FV through P&L	713,716	
Net Debt	40,123,834	9,658,376
Equity	82,275,646	62,303,057
Net Debt to equity ratio	**48.8%**	**15.5%**

	2012	2011
	(AMOUNTS IN THOUSANDS)	
Asset to equity ratios		
Total Assets	231,232,384	154,541,983
Total Equity (attributable to Parent)	82,275,646	62,303,057
Asset to Equity Ratio	**281.0%**	**248.0%**

	(AMOUNTS IN THOUSANDS)	2011
Interest rate coverage ratio		
Net income after tax	**10,334,389**	**8,090,583**
Add:		
provision for income tax	2,892,096	2,619,145
Interest expense and other financing charge	3,050,853	1,879,770
Other charges	365,446	195,292
	6,308,395	4,694,207
Less:		
Interest and investment income	*2,725,377*	*1,658,896*
Other income	*560,850*	*417,253*
	3,286,227	2,076,149
EBIT	**13,356,557**	**10,708,641**
Depreciation and amortization	2,089,795	2,310,389
EBITDA	**15,446,352**	**13,019,030**
Interest expense	2,265,272	1,838,897
Short-term debt		*131,592*
Long-term debt		*1707305*
interest rate coverage ratio	**6.82**	**7.08**

	2012	2011
	(AMOUNTS IN THOUSANDS)	
Profitability ratios		
Net Income Attributable to Equity holders of Ayala Land, Inc.	9,038,328	7,140,308
Revenue	54,524,815	44,205,533
Net income margin	**16.6%**	**16.2%**
Net income after tax	10,334,389	8,090,583
Total Assets CY	231,232,384	154,619,179
Total Assets PY	154,619,179	121,675,262
Average Total Assets	192,925,782	138,147,221
Return on total assets	**5.4%**	**5.9%**
Net income after tax	10,334,389	8,090,583
Total Equity-CY (with NCI)	91,545,228	72,042,512
Total Equity-PY (with NCI)	72,042,512	65,470,128
Average total equity (with NCI)	81,793,870	68,756,320
Return on Equity	**12.6%**	**11.8%**

₱15Bn BONDS
Schedule and Use of Proceeds

	ESTIMATE PER PROSPECTUS	ACTUAL
Gross Proceeds	**15,000,000,000.00**	**15,000,000,000.00**
Less: Upfront Expenses		
Documentary Stamp Tax	75,000,000.00	75,000,000.00
Underwriting Fee	54,035,000.00	52,954,300.00
Rating Fee	5,040,000.00	4,125,000.00
SEC Registration		
SEC Registration Fee	4,312,500.00	4,312,500.00
SEC Legal Research Fee	43,125.00	43,125.00
Professional Expenses	1,960,000.00	3,064,146.00
Marketing/Printing/Photocopying Costs and OPEs	500,000.00	383,755.82
Registry and Paying Agency Fee	337,500.00	729,169.96
Trustee Fees	112,500.00	
Listing Fee	100,000.00	443,666.68
	141,440,625.00	**141,055,663.46**
Net Proceeds	**14,858,559,375.00**	**14,858,944,336.54**

Balance of Proceeds as 12.31.12 **Nil**

Ayala Land raised from the Bonds gross proceeds of ₱15.0Bn. After issue-related expenses, actual net proceeds amounted to approximately ₱14.9Bn. Net proceeds were used to partially finance various projects including, but not limited to, (i) the development of various residential projects such as Park Terraces and Garden Towers (₱1.2Bn), (ii) the construction of various leasing assets including the redevelopment of Glorietta I and II malls, Glorietta BPO and the Holiday Inn hotel at Ayala Center (₱1.5Bn) and (iii) the acquisition of 74 hectares located in the FTI Complex, Taguig City (₱12.2Bn).

HOMESTARTER BONDS 5
Schedule and Use of Proceeds

	PER PROSPECTUS	ACTUAL
Estimated proceeds from the sale of the Bonds	1,000,000,000.00	1,000,000,000.00
Less: Estimated expenses		
SEC Registration	1,325,625.00	1,325,625.00
Underwriting and Other Professional Fees	8,000,000.00	9,421,000.00
Marketing/Printing/Photocopying Costs and out-of-pocket	2,200,000.00	1,587,085.83
Registry and Paying Agency Fees	200,000.00	154,090.30
Documentary Stamp Tax	10,000,000.00	5,000,000.00
	21,725,625.00	17,487,801.13
Estimated/actual net proceeds to Ayala Land, Inc.	Php978,274,375.00	Php982,512,198.87

Balance of Proceeds as 12.31.12	Nil	

Ayala Land raised from the Bonds gross proceeds of ₱1.0Bn. After issue-related expenses, actual net proceeds amounted to approximately ₱982.5Mn. Net proceeds were used to partially finance costs related to the acquisition of 74 hectares located in the FTI Complex, Taguig City.