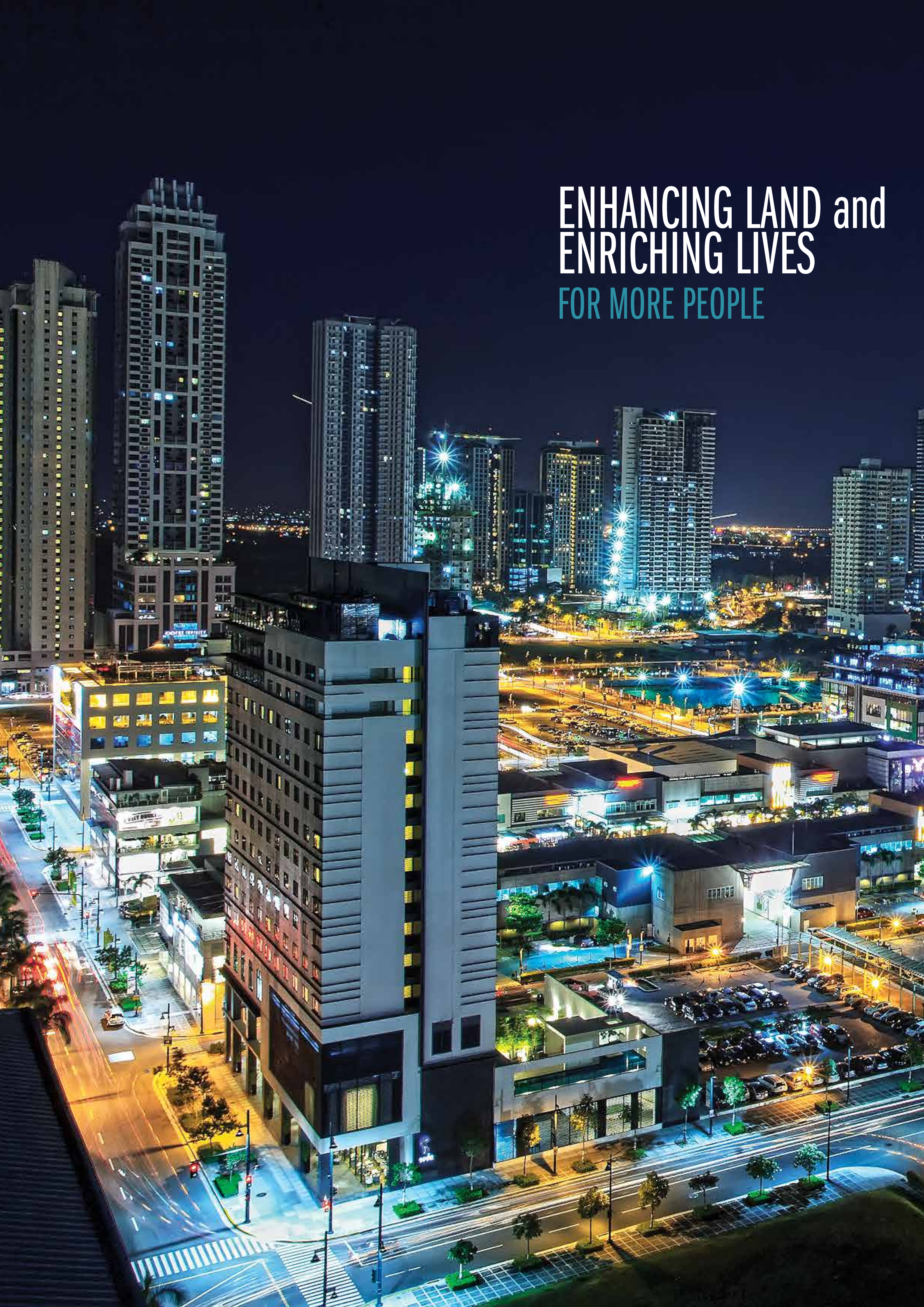
AyalaLand

BROAD

2012 ANNUAL REPORT

ENHANCING LAND and ENRICHING LIVES FOR MORE PEOPLE



Our vision is to enhance our standing and reputation as the Philippines' leading real estate developer and to be a strong partner in nation building.

By developing integrated, masterplanned and sustainable mixed-use communities in vibrant growth centers all over the country, we strive to continually elevate the quality of life for all of our customers.

We shall be a responsible corporate citizen and act with integrity, foresight and prudence. We shall empower our employees to deliver products that exceed our customers' expectations and build long-term value for our shareholders.

ABOUT THIS INTEGRATED
ANNUAL & SUSTAINABILITY REPORT

This integrated Annual and Sustainability Report is a reflection of how we do business in Ayala Land. Year after year, we continue to pursue our triple bottom line target of strong financial results, environmental protection and community stewardship.

For this reporting period, we report on 81 indicators under the Global Reporting Initiative (GRI) G3.1 guidelines and added eight sector-specific indicators. We have secured an external assurance report from TUV Rhineland in order to validate our compliance with the GRI standard of reporting and further strengthen the report's transparency and credibility, demonstrating management's total commitment to sustainability.

The sustainability section of this report covers the performance of Ayala Land, Inc., Alveo Land Corporation, Avida Land Corporation, Makati Development Corporation, and Ayala Property Management Corporation. This report, together with our past publications, may be downloaded from our websites at www.ayalaland.com.ph and ir.ayalaland.com.ph.
We would appreciate your feedback to help us further improve our sustainability practices. You may contact us about this report via e-mail at integratedreport@ayalaland.com.ph.

*This report generally complies with the Asia Pacific Real Estate Association (APREA) Best Practices Handbook.

INSIDE THIS REPORT

2012 in Review

Read the messages from our Chairman, President and Chief Executive Officer and Chief Finance Officer, which include a discussion of the Company's performance in 2012. Pages 4-21.

Our Businesses

The highlights and accomplishments of each of our business units are discussed in more detail in this section, which begins on page 22.

Corporate Governance

Our continuous journey towards good corporate governance, as well as our risk management programs are elaborated in this section. Read more about it on pages 34-53.

Sustainability Report

This year, we progressed to A+ level sustainability reporting on 81 indicators, added eight sector specific indicators and secured external assurance from TUV Rhineland. Know more about our sustainability initiatives beginning on page 54.

Financial Review

Management's Discussion and Analysis of our 2012 financial performance and your Company's audited financial statements can be found in this section, which begins on page 97.

YEAR IN SUMMARY

13%
RETURN ON EQUITY

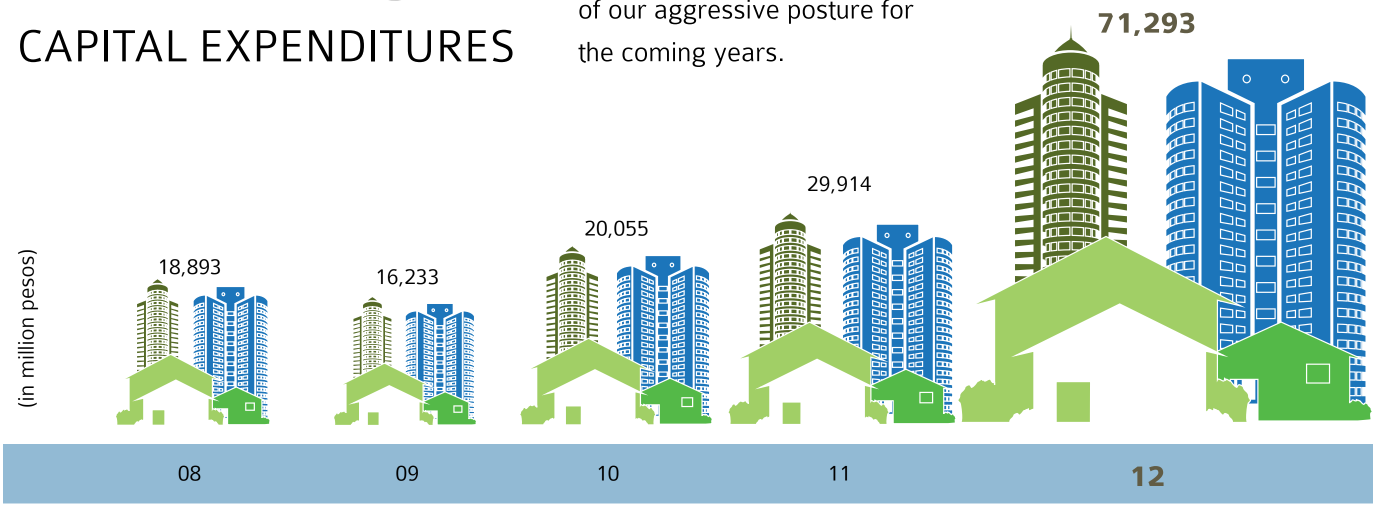
We increased our dividend payout ratio to 40% and distributed P2.9 billion in cash dividends.

P9B
IN NET INCOME

This is a new record for earnings and is a 27% increase over the previous year.

P71.3B
CAPITAL EXPENDITURES

This is Ayala Land's highest level of capital expenditures in a single year and an indication of our aggressive posture for the coming years.



23,487

RESIDENTIAL UNITS LAUNCHED

42% of our launched units were in the economic and socialized housing segments.

1.7M

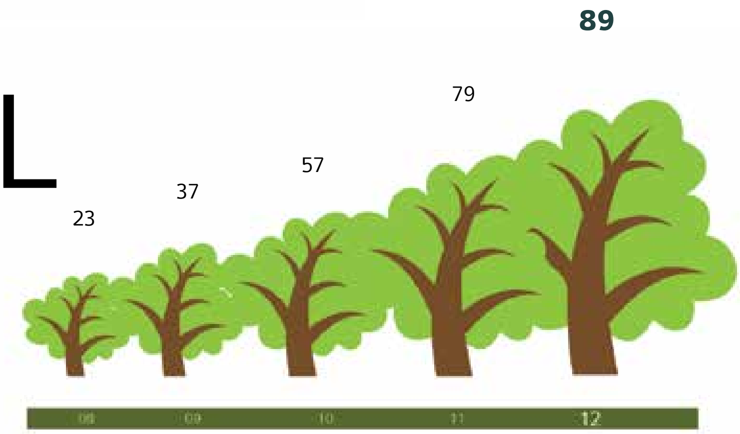
SQUARE METERS OF GROSS LEASABLE AREA

We continue to build up our commercial leasing portfolio to increase the level of our recurring revenues.

A+ LEVEL

SUSTAINABILITY REPORT

We progressed to A+ level reporting, with external assurance secured from TUV Rheinland.



WHO WE ARE

Ayala Land, Inc. is the Philippines' largest, most diversified and fully-integrated property developer. We offer a full line of end-to-end real estate products – ranging from residential, retail and office developments, as well as hotels and island resorts, to construction and property management services.

We are the only player in the country with a rich history of building large-scale, masterplanned, mixed-use and sustainable communities. These developments have become the centers of commerce across the country, such as the Makati Central Business District, Bonifacio Global City, Alabang Business District, Bonifacio Global City, Cebu Park District, and our fast-growing NUVALI township.

These growth centers serve as platforms for Ayala Land's various product offerings, integrated into thriving communities that continue to generate value over time.

Since the start of 2009, we have identified 31 growth centers across the country – chosen for their strategic location, attractive demographics, advanced infrastructure and rich economic potential – where we will be replicating this market leading platform of fully-functional and environment-friendly communities.

By creating masterplanned, mixed-use communities in vibrant growth centers all over the country, we continually strive to elevate the quality of life for all of our customers. On a larger scale, we believe that these developments will be engines for economic activity and catalysts for growth as we forge ahead with fulfilling our vision of becoming a strong partner in nation building and our mission of enhancing land and enriching lives for more Filipinos.

30
GROWTH CENTERS
FROM 9 IN 2009

5,694
HECTARES
OF LANDBANK

NORTHERN LUZON
Baguio | Cabanatuan | Pangasinan | Tarlac

CENTRAL LUZON
Pampanga | Bataan
Zambales (Subic)

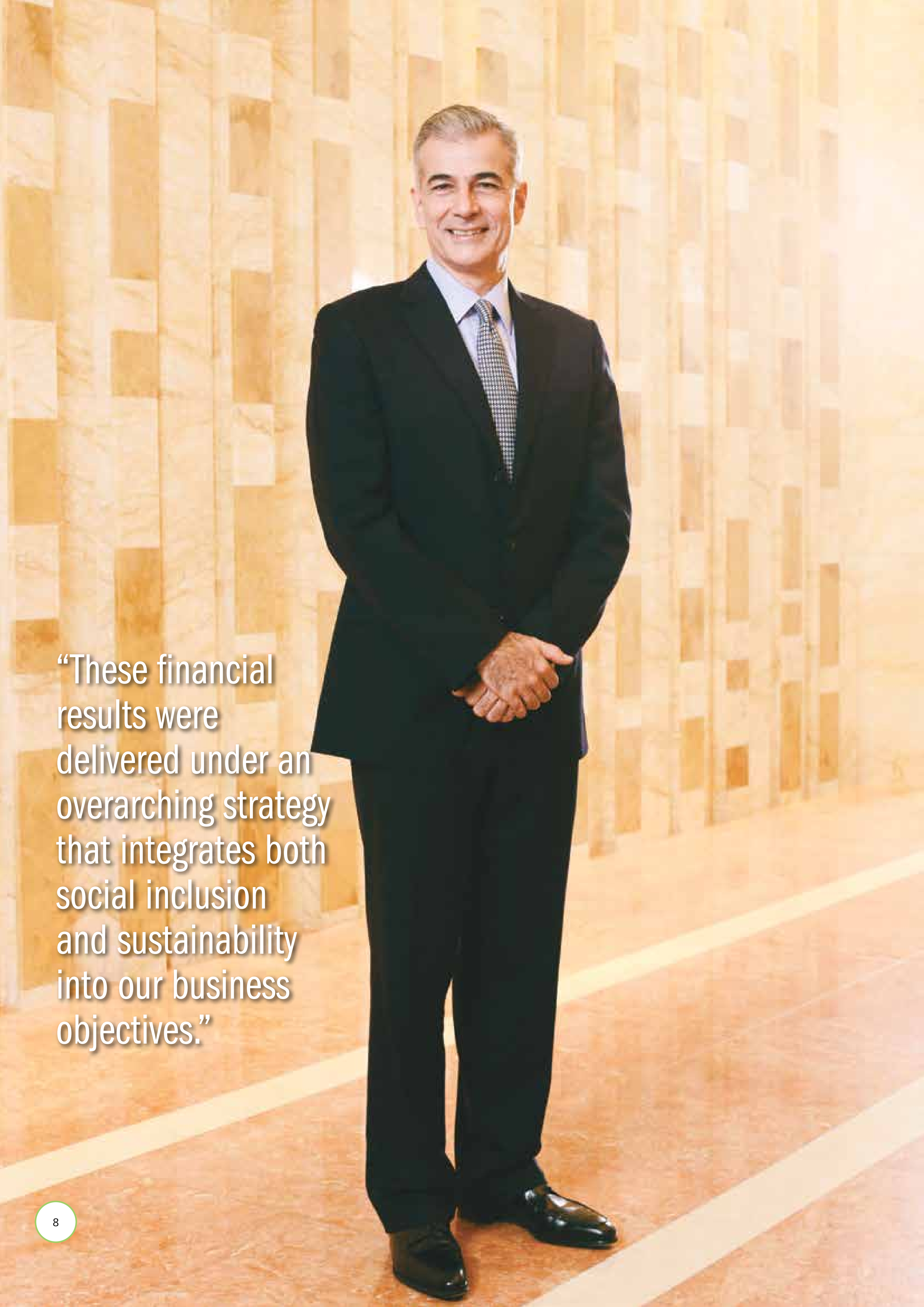
CALABARZON
Cavite | NUVALI | Batangas
| Rizal/Marikina | Quezon

METRO MANILA
Makati | Bonifacio Global City |
Ortigas | Mandaluyong | Pasig
| Manila | North Triangle |
Alabang | Cubao | Monumento
| Batasan/Fairview

VISAYAS
Cebu | Bacolod | Iloilo

SOUTHERN LUZON
Palawan | Camarines Sur (Naga)

MINDANAO
Davao | Cagayan de Oro



"These financial results were delivered under an overarching strategy that integrates both social inclusion and sustainability into our business objectives."

CHAIRMAN'S LETTER

My Fellow Shareholders,

The past year has been rewarding for both the country and our Company.

The Philippines posted GDP growth of 6.6% last year, the highest in Southeast Asia, as key sectors driving the economy remained strong. Both business and consumer sentiment remained bullish, as reflected in the PSE index that hit a record of 5,800 by year end. Along with this, Ayala Land's stock price closed at P26.45 per share, resulting in a market capitalization of P363.7 billion at the end of 2012. Our net income reached a record of P9 billion, and we paid a total of P2.9 billion in cash dividends to our shareholders. This brought total shareholder return to 76% in a single year.

These financial results were delivered under an overarching strategy that integrates both social inclusion and sustainability into our business objectives. Last year, Ayala Land gained further ground in providing more homes across the country through Amaia and Bella Vita, which together launched a total of 12,000 residential units. These brands provide high quality residential products that suit the needs of customers at much lower price points. We have similarly expanded the product formats of our commercial developments as we created fiesta markets, value malls and community centers. Across all our residential and commercial developments, we have endeavoured to keep our commitment to sustainable business practices to ensure the protection of the environment and promote the welfare of the people in and around the communities we build.

Moving forward, we remain optimistic that the positive economic trend will be sustained in the coming year. We expect interest rates to remain low and consumer spending to be robust, given the continued growth of overseas remittances and an active BPO sector. These are fundamental drivers that will underpin the growth of our residential and commercial leasing businesses. We also see the potential for other sectors to expand, which could further boost the growth of our economy. In the immediate horizon, we anticipate the tourism sector to accelerate, with the government's plan to improve infrastructure and promote the country as a tourist destination. There are also indicative signs of a revival in the manufacturing sector, as the country becomes a compelling alternative to our Asian neighbors. We believe our company is well-positioned to take advantage of these opportunities and we have begun to do so, particularly with the expansion of our hotels and resorts portfolio.

While prospects remain bright, we anticipate that the competitive environment and uncertainties in the global economy may pose challenges. However, I am confident that our time-tested values of integrity and excellence will help us overcome these and keep us ahead of competition.

In closing, I extend my sincere gratitude to the management team under Tony Aquino. Their leadership and commitment have led Ayala Land to achieve exceptional growth and profitability. I also thank the Board of Directors for their guidance and support and of course you, our shareholders, for your trust and confidence. I also thank our business partners and customers who have remained loyal for many years. We hope to count on all of you for your continued support and together we look forward to more rewarding years ahead.

FERNANDO ZOBEL DE AYALA
Chairman

"At the heart of our shareholder value creation model is our market-leading platform and unique capability of developing large-scale, fully-integrated, mixed-use and sustainable communities."

PRESIDENT'S MESSAGE

Fellow shareholders,

We have concluded yet another successful year in 2012, when your Company delivered another record performance that brought us closer to the goals we have set three years ago.

Looking back at 2012

Last year, our revenues reached P54.5 billion – 23% more than 2011 – and we generated a net income of P9.0 billion, which is 27% higher than the previous year. With two more years before the end of our 5-10-15 Plan, we are confident of meeting our net income target one year ahead of schedule.

We launched a total of 67 projects with an aggregate value of P110 billion, which is 17% higher than the previous year. This included 47 projects in the residential segment, among which are: Ayala Land Premier's The Suites in Bonifacio Global City (BGC) and Garden Towers in Makati; Alveo's Mirala in NUVALI and Escala in Makati; Avida's Madera Grove Estates in Bulacan, Asilo in Tagaytay, and Avida Towers in Davao; Amaia Scapes Capas and the twin projects in Manila - Amaia Skies Avenida and Sta. Mesa; and BellaVita's second project in Laguna.

We broke ground on 142,000 sqm of new shopping centers, which included our first Fiesta Market format and other value mall concepts, and 130,000 sqm of office space, which included the Philippine Stock Exchange building at BGC and BPO buildings in key areas around the country. These projects will further boost our commercial leasing portfolio and provide us a stronger base of recurring income in the coming years.

We also acquired our partner's 80% stake in the newly-opened Fairmont Hotel and Raffles Suites and Residences in Makati, and this helped double our available stock of hotel rooms to 1,467 keys last year. The rest of the major accomplishments as well as the forward plans and programs of each of our businesses will be discussed in more detail under the business review section, which begins on page 22.

These launches, together with the continued completion of ongoing projects, formed part of our record capital expenditures of P71.3 billion in 2012. However, the bulk of last year's outlay was spent for the acquisition of key parcels of land that will provide us with the development platforms to sustain our growth momentum over the medium term. These included the Food Terminal, Inc. (FTI) property in Taguig, new areas adjacent to NUVALI, and strategic areas in Alabang, Pasig, Bulacan and Pampanga, among others.

To fund this record capital expenditures, we raised a significant amount of debt early in the year at very competitive terms – via our P15 billion corporate bond issue and several bilateral bank loans – to augment our existing cash. While raising debt remains highly attractive due to the prevailing low interest rate environment, we need to keep within our internally-set debt ceiling and secure long-term capital to match

FIVE PILLAR STRATEGY SCORECARD

GROWTH

Geographic
Market
Product

- Spent P71.3B in capital expenditures
- Launched 23.5K residential units
- Broke ground on 142K sqm GLA for retail and 130K sqm GLA for office buildings
- Acquired Fairmont Hotel and Raffles Suites and Residences, and opened two Seda Hotels
- Acquired more than 800 hectares in key strategic areas (FTI, Valenzuela, Alabang, Tarlac, Bulacan, Pampanga, Cavite, NUVALI)

Acquired Fairmont Hotel and Raffles Suites, the latest addition to Makati City's hotel offering

the development timetable for our new and existing landbank. To this end, we raised P13.6 billion via an overnight top-up equity placement, an offering that was highly successful and allowed us to make some value-accretive acquisitions that resulted in further stock price appreciation. This, we believe, was an affirmation from the investment community that we are taking steps in the right direction towards creating shareholder value.

Despite our higher capital base, we still managed to improve our return on equity to 13% due to our strong financial results. The details of our financial performance will be found in the management discussion and analysis which begins on page 97. Our major achievements last year vis-a-vis the Five Pillar Strategy, on the other hand, are summarized in the upper section of these pages.

"We are pursuing an even more aggressive expansion program, with a more balanced and long-term orientation anchored on growing our recurring income, accelerating our developments, and landbanking in strategic areas to maximize shareholder value."

Improved efficiencies in all stages of the project life cycle

MARGIN IMPROVEMENT

Design
Procurement
Construction
Operations

- Increased net income margin (before non-controlling interest) to 19% from 18% in 2011
- Maintained GAE*-to-Revenue ratio at 8% despite significant growth in business
- Generated additional savings from e-bidding, standardization, aggregation, vendor partnering and international sourcing

**General and Administrative Expenses*

Replicating our market leading platform

At the heart of our shareholder value creation model is our market-leading platform and unique capability of developing large-scale, fully-integrated, mixed-use and sustainable communities.

We have had much success in the integrated communities and business districts we built in Makati, Cebu, Alabang and BGC. Over the past few years, the same development principle has transformed NUVALI into the fastest growing suburban community south of Metro Manila.

Within each of these growth centers, we showcase our diverse offerings and push for the integration of all our different products to maximize synergies and create a functioning community. Moving forward, we will continue to leverage on this unique model to drive long-term growth as we replicate it in our developments across the country.

For instance, we have recently launched The Circuit in Sta. Ana, which will integrate our residential, retail, office and hotel products and will soon be transformed into Makati's entertainment district. We are likewise fast-tracking the development of our recently acquired FTI property in Taguig to build the next business district in close proximity to Makati and Bonifacio Global City. Given the government's plan to build one of the three intermodal transport systems (ITS) in FTI, this development, which we have named Arca South, will soon be Metro Manila's gateway to the south. In addition, we plan to launch this year our maiden residential and commercial leasing projects in Vertis, Quezon City, which will be the site of the second ITS and serve as the city's gateway to the north.

Capitalizing on strong economic prospects

Over the last two years, we have seen the impressive growth of our Company supported by a buoyant macroeconomic environment. Currently, the Philippine economic landscape is in the midst of a historic phase, with above-average GDP growth – buoyed by several factors like record low interest rates, continued influx of overseas remittances, rising BPO revenues, and growing tourist arrivals, to name a few – projected to be sustained in the medium term. We believe that most of these drivers are the same engines that will drive the continued growth of the real estate sector.

CAPITAL EFFICIENCY

Dividends

Cost of capital

Asset-light modes

Pursued asset-light modes of land acquisition

- Increased our dividend payout ratio to 40% from 35% in 2011, which resulted in a 50% increase in cash dividends
- Raised P13.6B in equity and P15B in corporate bonds at competitive terms
- Reduced aggregate cost of debt to 5.4% from 6.3%
- Stretched average debt maturities to 4.7 years from 3.7 years

To take advantage of the rosy prospects and achieve a more sustainable pace of growth, we are pursuing an even more aggressive expansion program, with a more balanced and long-term orientation anchored on growing our recurring income, accelerating our developments, and landbanking in strategic areas to maximize shareholder value.

Growing our recurring income base

To complement the rapid pace of the property development business driven by a vibrant residential market and robust commercial lot sales, we have been building up our investment portfolio to provide a steady and reliable source of income over the long run.

Last year, we opened 108,000 sqm of new shopping center GLA. We have kicked off our Fiesta Market model with its maiden product launch within our BellaVita development in Cavite, and have inaugurated our first community mall with the opening of The District in Cavite and the launch of the same format in Pasig. These are on top of the premium malls, like the redeveloped Glorietta 1 & 2 in Makati, Centrio Mall in Cagayan de Oro and Harbor Point in Subic, which we opened last year.

We have also signed a deal with one of the country's leading retailers that will provide us the opportunity to operate our own department stores and support the growth of our shopping center portfolio moving forward. Together with them, we have also sealed a partnership with one of the world's leading convenience store chains, FamilyMart, for the roll out of at least 300 stores nationwide.

In the office segment, we will continue to expand our base of traditional headquarters and BPO office buildings to further increase our market share. Last year, 60,000 sqm of new office GLA became operational in Makati, BGC and Quezon City. We have also re-entered the office-for-sale market with the launch of the High Street South Corporate Plaza in BGC.

Our hotels and resorts expansion is likewise on track with the plan of completing 4,000 rooms by 2015 as we have almost doubled the number of available rooms last year, from only 784 in 2011. We are adding 534 more keys before the end of 2013 with the opening of Holiday Inn & Suites in Makati and our SEDA boutique hotel in Davao.

ORGANIZATIONAL DEVELOPMENT

Risk Management
Employee Productivity
Operational Efficiency

- Strengthened risk management across the organization
- Expanded use of shared- service schemes across the group

Completed the 8th run of our Professionals-in-Development (PID) program and other employee training courses

Accelerating the rate of development

Meanwhile, we believe that our huge landholdings built over the past few years offer significant opportunities for value creation. To ensure that we capture the value at the soonest possible time, we will prioritize the development of our existing landbank. We are actually doing this already in prime areas where there is sufficient market demand to support our project launches – like what we are doing in FTI, Sta. Ana, Vertis, Alabang, Valenzuela and Pasig – so we can quickly monetize the investment and add to our fast-growing portfolio of ongoing projects.

Continuing landbanking activities

As a large-scale property developer, our landbank serves as the growth platform for our products and provides us with the greatest store of value. As such, we will continue to pursue a selective landbanking approach, with particular focus on the 31 growth centers that we have earlier identified, and explore partnerships and joint-development agreements whenever possible, to minimize the strain on our balance sheet.

"We intend to be present in areas where there is great potential for long-term value creation as we aim to replicate our market-leading platform and build more Ayala Land communities across the country. "

AyalaLand

BRAND BUILDING

Product differentiation

Unique value proposition

Customer service

- Increased overall market share in the residential market despite tight competition
- Successfully launched Seda boutique hotels in Bonifacio Global City and Centrio
- Received various awards across several areas such as corporate governance, management, financial performance, sustainability, marketing, design, energy efficiency and eco-tourism

Garnered an excellent rating for Customer Turnover Experience in the high end residential segment

We intend to be present in areas where there is great potential for long-term value creation as we aim to replicate our market-leading platform and build more Ayala Land communities across the country. Some of the areas we have targeted this year are Bulacan, Pampanga, Cavite, Rizal and Bacolod, where we plan to pursue a phased development to maximize value capture and minimize risks.

Promoting sustainability

On balance, we believe this development framework perfectly complements the expansion and diversification programs we started in the previous years. Together, these will be central in achieving sustainable growth for the long term.

In addition to sustaining excellent financial results and profitability, we are equally cognizant of the other aspects of sustainability – the environmental and social components – that will help us achieve our triple bottom line goal.

As such, we have embedded sustainability in all aspects of our operations to ensure that we practice it day in and day out, literally making it a way of life at Ayala Land. We have also progressed towards the next higher level of sustainability reporting, to Level A+ under the Global Reporting Initiative, complete with external assurance from TUV Rheinland.

We encourage you to read more of the sustainability initiatives across the entire organization in the Sustainability Section, which begins on page 54 of this report.

In closing, let me thank our shareholders and board of directors for their constant support. I would also like to thank our suppliers and business partners for sharing our vision and for their unwavering cooperation. Lastly, let me acknowledge the tireless men and women of the Ayala Land organization who are largely responsible for bringing the Company to where it is today.

We will again count on your support for all our endeavours in 2013 and the years ahead.

Thank you very much.

ANTONINO T. AQUINO
President and Chief Executive Officer

FINANCIAL HIGHLIGHTS

(in thousand pesos, except as indicated)	**2012**	2011	2010
STATEMENT OF INCOME			
Revenues	54,524,815	44,205,533	37,813,499
EBITDA*	15,446,352	13,019,030	9,986,425
Net Income (attributable to equity holders of ALI)	9,038,328	7,140,308	5,458,134
STATEMENT OF FINANCIAL POSITION			
Cash and Cash Equivalents**	29,326,617	24,795,200	19,857,152
Total Assets	231,232,383	154,541,983	121,675,262
Total Borrowings	69,450,451	34,453,576	20,970,933
Stockholders' Equity	82,315,209	62,356,966	56,857,152
STATEMENT OF CASH FLOWS			
Net Cash Provided by Operating Activities	10,480,108	8,758,855	11,135,961
Net Cash Provided by (Used in) Investing Activities	(52,379,249)	(14,932,548)	(3,364,306)
Net Cash Provided by (Used in) Financing Activities	45,892,326	12,758,099	(281,574)
CONSOLIDATED PROJECT AND CAPITAL EXPENDITURES (in billion pesos)	71.3	29.9	20.1
FINANCIAL RATIOS			
Current Ratio	1.40:1	1.65:1	1.67
Debt-to-Equity Ratio	0.84:1	0.55:1	0.37:1
Net Debt-to-Equity Ratio	0.49:1	0.16:1	0.02:1
Return on Equity***	13%	12%	10%
Return on Assets***	5%	5%	5%
STOCK INFORMATION (in pesos except as indicated)			
Market Capitalization (in billion pesos, as of end-2012)	364	198	215
Stock Price (per share, as of end-2012)	26.45	15.16	16
Earnings per Share	0.68	0.55	0.41

* Earnings before interest, taxes, depreciation, and amortization
** Includes short-term investments and financial assets at fair value through profit or loss
*** Return on average equity and average assets

"The Company aims to take full advantage of a much-improved macroeconomic landscape by embarking on an equally aggressive push this year and the years to come."

CFO & COMPLIANCE OFFICER'S REPORT

It was another record-breaking year for your Company in 2012 as we continued to capitalize on the vibrant economy and the strong growth drivers for the real estate sector.

Our revenues of P54.5 billion and net income of P9.0 billion were both record highs and were 23% and 27% higher than the previous year, respectively. We are also very pleased to report that this performance continued to put us ahead of the five-year plan we launched three years ago.

All of these were made possible by the smooth execution of our plans, allowing for the continued investments across our various businesses and supported by the transformation we engineered within the organization. This enabled us to further enhance shareholder value, as measured by the increase in our market capitalization by P166 billion and our return on equity (RoE) to almost 13% at the end of 2012.

The Company aims to take full advantage of a much-improved macroeconomic landscape by embarking on an equally aggressive push this year and the years to come.

Supporting growth

Our growth aspirations remain central to your Company's overall value creation. Last year, we spent a record of P71.3 billion for the completion of ongoing projects and the acquisition of strategic land assets – including the Food Terminal Inc. property in Taguig, expansion parcels in NUVALI, and new land positions in areas like Alabang, Bulacan, Pampanga, and Pasig – that will sustain our growth momentum over the long run.

To support this huge capital outlay, we raised a significant amount of capital, through the issuance of P15 billion in 7 and 10-year fixed-rate corporate bonds, issued at very competitive terms, and an overnight top-up equity placement of P13.6 billion, which was an unprecedented offering in the Philippines and the real estate sector in general.

We also continued to introduce innovative financing schemes that will boost the sale of our residential products. On top of the new series of Homestarter Bonds issued during the year, we likewise improved the attractiveness of our 5-95 payment scheme and accredited additional partner banks to reach a larger base of home buyers.

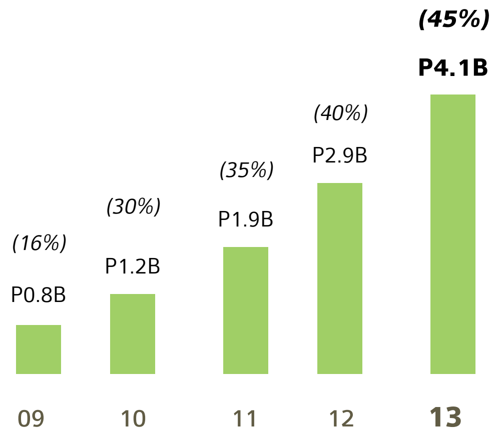
For the buyers of our Avida, Amaia and BellaVita products, we introduced new Pag-Ibig payment schemes and unlocked new payment channels, through the likes of Bayad Centers, credit card and online facilities, phone banking and "Pay Pal" schemes to improve affordability and provide more convenient modes of payment. With a concerted effort across the entire organization, we hope to expand our coverage and increase the utilization of these financing schemes by the broader market.

Improving profitability

Over the last three years, your Company consistently raised net income margin through various cost-reduction and spend-management programs that were implemented. Last year, we posted a net income margin of 19%, which was one percentage point higher than what we recorded in 2011.

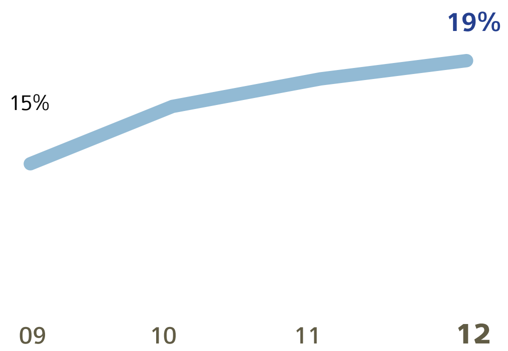
In addition to consciously managing the growth of direct operating expenses (DOE), strategic

CASH DIVIDENDS AND PAYOUT RATIO



NIAT MARGIN*

** Net Income After Tax (before non-controlling interest)*



procurement initiatives like standardization and aggregation, international sourcing and partnering for major commodity items like steel, cement, and other construction inputs generated a substantial amount of savings for your Company. On top of these, we continue to enhance procurement processes by strengthening and streamlining our procurement standards, expanding our pool of accredited vendors and implementing a new project savings capture system, which are all designed to enable your Company to realize further savings in the coming years.

Within the organization, we are also transforming mindsets and driving a conscious effort to increase employee productivity and operational efficiencies to manage the growth of our overhead expenses. These initiatives include outsourcing non-value adding tasks and implementing shared-service platforms. As a result, the ratio of general and administrative expenses (GAE) to revenue was maintained at 8% despite the significant growth in our business.

Optimizing the use of capital

As we continue to grow, our capital sourcing and deployment schemes should be structured in the most efficient way possible and aligned with our goal of maximizing shareholder value.

As I mentioned earlier, we were able to raise a significant amount of debt and equity last year at very competitive terms to fund our unprecedented capital expenditure program. Our bond issuance early last year was sold out – with the P5 billion oversubscription option fully exercised by the close of the offer period, and at more than a 30-basis point discount compared to our peers. On top of this, more than P20 billion in standby credit facilities were secured at levels that are at least 20 basis points lower than banks' prime lending rates.

With respect to the P13.6 billion overnight top-up equity placement, we are very pleased to report that the exercise set several capital market records along a number of categories. Not only was it the largest primary raising through an overnight block in the Philippines, it was also the largest real estate equity offering in Southeast Asia in 2012 and the largest real estate accelerated book-built offering after the 2008 global financial crisis.

In addition, an estimated P4 billion worth of accounts receivable were sold by Ayala Land Premier, Alveo and Avida to several banks, on a non-recourse basis, to raise additional cash and de-risk our balance sheet. We also tapped excess internal liquidity within the system to fund group requirements as part of our drive to improve capital efficiency. All these initiatives enabled the company to manage the build-up of debt, helping us control group-wide interest expense.

Equally important, the dividends we paid to our shareholders, as well as our payout ratio, continued to increase as committed under our five-year plan. Last year, P2.9 billion in dividends, which was 50% more than the previous year and equivalent to 40% of 2011's net income, were paid out to shareholders. This year, we are programmed to pay out P4.1 billion in dividends, equivalent to 45% of 2012's net income.

Strengthening risk management

Risk management is essential to sustain these strong financial results. To this end, we continue to enhance our risk management systems and internal processes as part of our overall organizational development initiatives.

In the residential business, for instance, we continuously monitored and further tightened our contingent liability limits to ensure that we cover the development risks inherent to our growing portfolio of vertical developments.

Across the wider organization, a regular review and update of our risk exposure is conducted, putting in place risk management, monitoring, and reporting structures and procedures to ensure that all types of risks are identified early, addressed immediately and mitigated to the extent possible.

We have also expanded the scope of shared services under Aprisa Business Process Solutions, Inc. (APRISA) to enhance efficiencies within the group. As of last year, the transactional accounting processes of some of our newly opened malls and offices were already being handled by this wholly-owned subsidiary. Certain IT, procurement, and treasury functions were also outsourced to this entity.

We also continued to enhance our management information systems through the application of the most up-to-date software that will accelerate report generation and facilitate the evaluation of our operating and financial performance. On top of this, we are in the final stages of rolling out our IT-enabled management dashboards – covering critical operating metrics, market statistics, financial information, and specific project details – to improve monitoring and enhance corporate decision-making.

We believe that business continuity management (BCM) is critical in managing the risks associated with our products and services. Last year, the company's BCM organization was formally established and rolled out to ensure the timely resumption and delivery of the Company's essential services in any eventuality and guarantee uninterrupted operations under any business condition.

Enforcing compliance and corporate governance

Alongside all these initiatives and accomplishments, your Company continued to perform its responsibilities as a good corporate citizen. We believe that good corporate governance is a constant journey, and we continue to improve on our discipline and company practices to ensure that we exercise the highest level of governance and compliance.

As Compliance Officer and Chief Information Officer of the Company, I am happy to report that we have fully complied with and ensured strict adherence to the Code of Corporate Governance, the Anti-Money Laundering Act, insider trading rules, and the various disclosure and listing requirements and regulations prescribed by the Securities and Exchange Commission, the Philippine Stock Exchange, the Philippine Dealing and Exchange Corporation, and the Bangko Sentral ng Pilipinas.

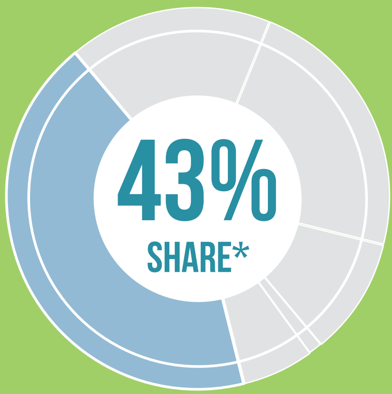
We are equally pleased that our efforts in the areas of financial management, corporate governance and investor relations were recognized by local and international institutions, garnering for us several awards and citations. The details of our compliance activities as well as the list of our awards will be found under the Corporate Governance Report section which begins on page 40.

JAIME E. YSMAEL
Chief Finance Officer and Compliance Officer

RESIDENTIAL

Innovative and best-in-class products across a broad spectrum of economic market segments

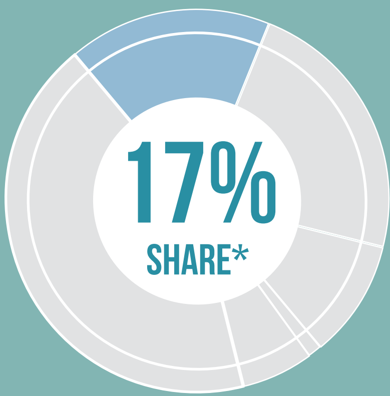
- 5 brands
  - Ayala Land Premier
  - Alveo
  - Avida
  - Amaia
  - BellaVita
- 140 ongoing projects all over the country (worth P240B in sales value)



COMMERCIAL & INDUSTRIAL LOTS

World-class commercial and industrial lots for sale and lease in prime locations

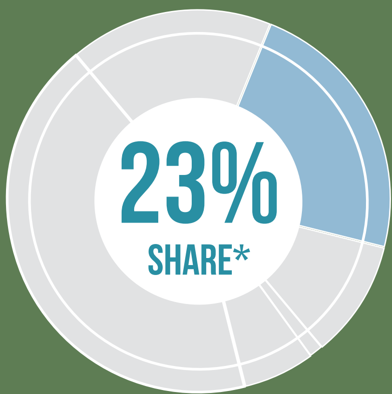
- Commercial Lots
  - NUVALI
  - FTI
- Industrial Lots
  - Laguna Technopark



SHOPPING CENTERS

Rewarding and memorable shopping and lifestyle experiences

- 35 shopping centers
  - 1.2M sqm retail GLA
  - 272k sqm GLA located outside Metro Manila



AT A GLANCE

OFFICES

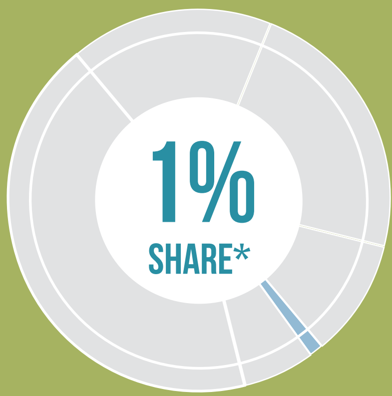
Excellence in office real estate solutions

- 5 HQ type buildings
  - 72k sqm GLA
- 32 BPO office buildings
  - 437k sqm GLA
  - 94k sqm GLA located outside Metro Manila

HOTELS AND RESORTS

Convenient and attractive facilities for business travelers and world-class resorts for the leisure market

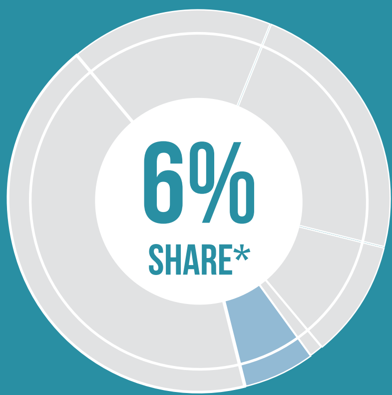
- Branded hotels (947 rooms): Hotel Intercon (Makati), Cebu Marriott, and Fairmont Hotel and Raffles Suites & Residences (Makati)
- Boutique Hotels (329 rooms): SEDA (Bonifacio Global City and Centrio Cagayan de Oro)
- Eco-tourism Resorts (150 rooms and 42 villas): Lagen, Miniloc, Apulit and Pangulasian Island Resorts (El Nido, Palawan)



SERVICES

Sustaining competitive advantage in quality, cost, and speed to market delivery. Enriching customer experience and enhancing property values over time

- 251 construction projects
- P85B outstanding construction contracts
- 153 managed facilities
- P1.4 B outstanding property management contracts



* Share in Earnings Before Interest and Taxes (EBIT)

RESIDENTIAL

HIGH END

The performance of Ayala Land Premier (ALP) in 2012 reinforced its position at the top of the country's high-end residential market. The brand launched a record of 1,432 units, with an estimated value of P24.3 billion that is 58% higher than 2011. Among ALP's latest projects are The Suites in Bonifacio Global City (BGC), The Garden Towers in Makati, Elaro in NUVALI and Park Point Residences in Cebu.

The strong market take-up for these projects – 94% for The Suites, 24% for Garden Towers, and 85% for Elaro – all within one month from their respective launches, helped deliver ALP's year-end sales of P25.5 billion and likewise drove ALP to an all-time high record in booked sales of P19.5 billion, 21% higher than 2011.

ANVAYA COVE GOLF COURSE, MORONG, BATAAN

Paramount to ALP is its unwavering commitment to the highest levels of quality and customer satisfaction. 812 residential units were turned over to buyers in 2012, and 98% of these were accepted without any punchlisting. As a result, the brand was given a 98% overall client satisfaction mark, equivalent to an excellent rating.

To ensure its growth, ALP has secured new sites around key growth centers for the high-end residential market. ALP has likewise identified strategic areas around the country where it plans to enter the high-end market with new and exciting products in 2013 and in the years to come.

A VIEW OF AYALA LAND'S ONE SERENDRA (ALP) AND TWO SERENDRA (ALVEO) DEVELOPMENTS FROM BONIFACIO HIGH STREET

UPSCALE SEGMENT

Alveo Land Corp. (Alveo) finished another strong year in 2012, delivering record-breaking results and creating new platforms for sustaining long-term growth.

Alveo introduced to the market last year a total of 4,112 units with an estimated value of P30 billion, 38% higher than 2011, which reinforced Alveo's standing as a leading player in its segment. Supported by an aggressive selling platform, Alveo posted a record sales level of P24.8 billion, 70% higher than 2011. Bookings likewise doubled from 2011 levels, reaching P17.3 billion, allowing the brand to gain a bigger share of the upscale market.

LEFT: BONIFACIO HIGH STREET SOUTH MASTERPLAN. RIGHT: PERSPECTIVE OF ESCALA, SALCEDO VILLAGE, MAKATI

Last year, Alveo introduced fresh projects to diversify its offerings and broaden its market base. These included prime lots through the launch of Mirala in NUVALI and prime condos via the launch of Escala in Makati. In addition, Alveo anchored the development of Bonifacio High Street South, where it was able to tap the office-for-sale market through the successful launch of High Street South Corporate Plaza. Alveo is also gearing up for its residential play in Makati's lifestyle playground, The Circuit.

Alveo continued its strategic landbanking initiatives in Makati, BGC, Pasig, Laguna, Cavite, Cebu and Tagaytay, ensuring a healthy pipeline of projects into the future for the brand as well as for other Ayala Land businesses in areas that create opportunities for synergy through mixed-use developments.

MIDDLE CLASS

Avida Land Corp. (Avida) continues to be one of the fastest growing players in the highly competitive middle income housing segment. In 2012, 19 projects – nine of which were in new locations – with a total of 7,981 units valued at P23.8 billion were launched in different areas nationwide.

Three of these projects are located in new growth centers, namely Tagaytay (Asilo Tagaytay), Bulacan (Madera Grove Estates) and Davao (Avida Towers Davao), as Avida continues to extend its reach across the country.

MASTERPLAN FOR SOUTH PARK DISTRICT, ALABANG

Banking on its new corporate campaign, "Finally, an Avida for me!" aimed at the younger segment of the local population, Avida intensified its sales efforts by developing local sales channels in multiple geographies, and conducting international roadshows. This, coupled with increased seller productivity and higher efficiencies, enabled Avida to deliver P21.3 billion in gross sales and P12.8 billion in bookings, 38% and 63% higher than 2011, respectively, amid the intense competition prevailing in this particular market segment.

AVIDA GREEN HOME AT AVIDA PARKWAY SETTINGS, NUVALI

Last year also marked the launch of Avida's maiden township development, the South Park District in Alabang. This project will be a mixed-use community that will be anchored primarily by Avida towers and integrated with Ayala Land's retail and office products.

As Avida gears up for a vibrant real estate market ahead, eight new sites were acquired last year in highly marketable areas such as Makati, Fairview, Bulacan and Cagayan de Oro. These sites will provide the stage for Avida's sustainable long-term growth.

PERSPECTIVE OF AMAIASCAPES CAPAS, TARLAC

ECONOMIC AND SOCIALIZED HOUSING

Amaia Land Corp. (Amaia) sustained its growth momentum on its second full year of operations with the launch of six new projects with 7,493 units valued at P10.2 billion, highlighted by its entry in Central Luzon, with Amaia Scapes Capas, and the twin projects in Manila, Amaia Skies Avenida and Sta. Mesa. This extends Amaia's presence to 11 sites, 12 cities, six provinces in four regions around the country.

With an expanded footprint and a diverse product offering, Amaia was able to generate sales of P6.0 billion and bookings of P1.9 billion – more than twice the figures posted in 2011.

Surging forward, Amaia is bent on capturing the growth potential in the economic housing segment by penetrating more territories around the country and offering more options for overseas Filipinos and the local market. Amaia will also focus on strengthening synergies with other strategic business units to further sharpen its value proposition and enhance its competitive advantage.

Meanwhile, BellaVita Land Corp. (BellaVita) successfully launched two projects in Cavite and Laguna – with a total of 2,469 units valued at P1.4 billion.

BellaVita plans to build on these early gains by securing sites in strategic locations nationwide, initially focusing on Luzon – in Quezon, Pampanga, Batangas, and Laguna – in order to expand its geographical footprint and allow the company to develop more social enterprise communities in the near future.

The successful execution of the integrated marketing brand campaign "I am Amaia" resulted in an unprecedented 83% in brand awareness and 70,000 hits in its social media page, topping other players in the economic housing segment.

Even at its nascent stage, BellaVita proved its commitment to quality by achieving an 87% zero-punchlist for the 200 units delivered last year.

HARBOR POINT IN SUBIC BAY

SHOPPING CENTERS

The resilient consumer spending, buoyed by a strong local economy and the steady flow of overseas remittances, continues to benefit the business of Ayala Malls Group (AMG). To take advantage of this favorable environment, AMG sustained its portfolio build up with the opening of 108,000 sqm of new shopping center gross leasable area (GLA) in some of the country's fastest growing corridors.

This includes the redeveloped Glorietta 1 & 2 at the Ayala Center, the San Antonio Plaza Arcade in Makati, Harbor Point in Subic, Centrio Mall in Cagayan de Oro, and The District in Cavite. All together, these were largely responsible for boosting AMG's retail space to 1.2 million sqm of GLA as of the end of last year.

Prospects remain bright for AMG as healthy demand across different market segments is expected to fuel consumer spending. To capitalize on these drivers, the group is planning to start construction on160,000 sqm of retail GLA this year in key locations across the country. Likewise, new formats, like the Fiesta Market and value malls, will be rolled out to tap into the broader market segment.

Last year, AMG embarked on a strategic initiative that supports the expansion of its leasing portfolio and enhances its business model. Through partnerships forged with one of the country's leading retailer and the world's second largest convenience store chain, AMG will engage in the operation of department stores and roll out a number of FamilyMart convenience outlets nationwide.

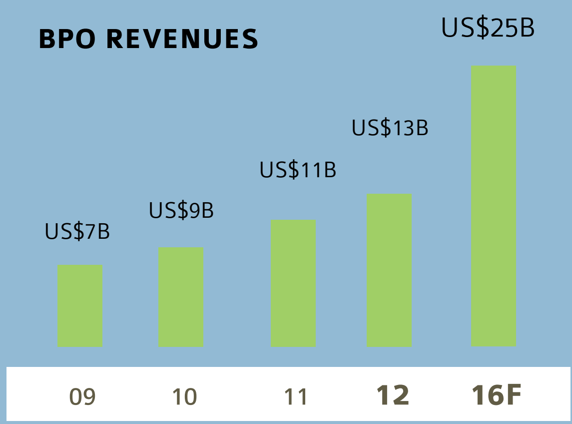
SHOPPERS AT ABREEZA MALL, DAVAO

BAGUIO AYALALAND TECHNOHUB

OFFICES

The Offices Group continues to ride the wave of strong economic growth and the country's status as a preferred BPO destination. Last year, development of 130,000 sqm of new office space began, which included the new Philippine Stock Exchange Building in Bonifacio Global City. When these new projects come online, they will boost Ayala Land's office stock by 26%.

2012 also saw the completion of 60,000 sqm of new BPO space in key locations across the country, bringing to 509,000 the total available leasable office space under Ayala Land's portfolio. These include the ADP Building and the Sykes Building that were part of the Ayala Center redevelopment, the Maybank Corporate Office in Bonifacio Global City, and the 11th building in the campus-type development of U.P.-AyalaLand Technohub in Quezon City. The second BPO building in Baguio-AyalaLand Technohub was likewise completed to address the growing demand in key markets outside Mega Manila.



Source: Business Process Outsourcing Association of the Philippines (BPAP)

The growth in demand for office space across different formats is expected to continue as the country draws interest from both local and international players. To capitalize on this, 45,000 sqm of new office space GLA will break ground this year in key locations nationwide, including the recently-launched Ayala Center Cebu Corporate Center.

HOTELS & RESORTS

TOP: FAIRMONT HOTEL AND RAFFLES SUITES & RESIDENCES
RIGHT: GUEST ROOM AT FAIRMONT HOTEL, MAKATI CITY

Our Hotels and Resorts Group opened several facilities in 2012 as it aims to quadruple the number of keys in its portfolio by 2015.

Last year, we consolidated our ownership by completing the acquisition of the 80% stake in the 280-room Fairmont Hotel and the 32-room Raffles Suites from Kingdom Hotels, Inc. In addition, Ayala Land's owner-operated, boutique hotel brand SEDA opened in Bonifacio Global City and Cagayan de Oro, adding 329 more keys to its room offerings. Meanwhile, the fourth island resort in Palawan, Pangulasian Island Resort, welcomed guests late last year with its 42 new villas. For 2013, SEDA Hotel Davao will open with 186 rooms. Additionally, the 348-room Holiday Inn & Suites in Makati is expected to open its doors to the public this year. The Company has also identified the sites for its eco-tourism estate projects that will serve the growing number of visitors into the country's most attractive destinations.

SEDA HOTEL, BGC

SKY LOUNGE AT SEDA BGC

10M
TOURIST ARRIVALS
BY 2016

As the tourism industry shows strong signs of steady growth with the expected influx of more than five million visitors this year, the Hotels & Resorts Group continues to expand and diversify its portfolio.

PANGULASIAN ISLAND RESORT, EL NIDO, PALAWAN

MDC PRE-CAST PLANT

CONSTRUCTION

Makati Development Corp. (MDC) completed another productive year in 2012 and preserved its position as the biggest company in the local construction industry.

MDC continued with its journey towards becoming a "world class builder of choice," providing engineering, procurement, construction, and construction management (EPC/CM) services to both internal and external parties. The Company's ongoing equipment refleeting program, continuous investments for the production of pre-cast walls, upgrades of existing pre-fabrication plants and construction of concrete batch plants, coupled with enhanced operational efficiencies, enabled MDC to increase capacity, improve equipment uptime, and effectively secure a bigger order book.

Last year, MDC completed 26 developments and handled a total of 251 projects – 87% of which are from the Ayala Land group of companies – with a gross contract value of P85 billion that is 60% higher than 2011.

In all these undertakings, MDC demonstrated sustainability and excellence by delivering projects within its defined safety, quality, time and cost targets. In 2012, MDC recorded a total of 46.9 million safe man-hours, resulting to 15 Safety Milestone awards from the Department of Labor and Employment. In addition, the company achieved a 98% zero-punchlist record on the 1,669 units it turned over last year.

MDC's outstanding workmanship was demonstrated by the Leadership in Energy and Environmental Design (LEED) Gold Certification for the design and construction of the US Embassy expansion project in Manila – the first for a non-American contractor. LEED consists of a suite of rating systems for the design, construction and operation of high performance green buildings, homes and neighborhoods developed by the U.S. Green Building Council. Alongside these accomplishments, MDC also maintained its international certifications – ISO 14001:2004, OHSAS 18001:2007 and ISO 9001 – in 2012.

CONSTRUCTION & PROPERTY MANAGEMENT

PROPERTY MANAGEMENT

Ayala Property Management Corporation (APMC) continued to be a source of competitive advantage for Ayala Land by providing world-class service across its managed properties. Last year, APMC secured 30 new accounts that brought to 153 the total number of facilities being supervised by APMC as of the end of last year.

APMC also continued to reduce occupancy costs for its tenants through several spend management programs, while maintaining a 99.75% uptime for all its equipment. For instance, average annual energy usage across all its facilities went down to 54.79 kilowatt hours per square meter (kwh/sqm) last year from 60.46 kwh/sqm in 2011. Average annual water usage likewise declined to 0.38 cubic meter per sqm (cu. m/sqm) from 0.40 cu. m/sqm the previous year. Its various spend management initiatives, along with other sustainability programs earned APMC numerous citations from several award-giving bodies like the ASEAN Energy Awards and the Department of Energy's Don Emilio Abello Awards, among others. As of the end of last year, APMC remains the only property manager in the country with three international certifications, namely the ISO 9001:2008, ISO 14001:2004, and OHSAS 18001:2007.

EQUIPMENT ROOM AT AYALA TOWER ONE & EXCHANGE PLAZA

DISTRICT COOLING SYSTEM IN ALABANG TOWN CENTER

Meanwhile, Philippine Integrated Energy Solutions, Inc. (PhilEnergy) completed the construction and started operations of energy-saving district cooling systems (DCS) at the Alabang Town Center and the redeveloped Ayala Center in Makati. To extend the energy-saving benefits of DCS across more Ayala Land properties, PhilEnergy is currently putting up the DCS structures for the mixed-use projects in Cagayan de Oro and Davao.

BOARD OF DIRECTORS

FERNANDO ZOBEL DE AYALA

ANTONINO T. AQUINO

JAIME AUGUSTO ZOBEL DE AYALA

OSCAR S. REYES

DELFIN L. LAZARO

MERCEDITA S. NOLLEDO

AURELIO R. MONTINOLA III

JAIME C. LAYA

FRANCIS G. ESTRADA

BOARD OF DIRECTORS

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, 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

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 Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., Alveo Land Corp., Avida Land Corp., Amaia Land Corp., BellaVita Land Corp., Ayala Hotels, Inc., Makati Development Corp., Ayala Property Management Corp., North Triangle Depot Commercial Corp., Ayala Center Association, 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., Hero Foundation, Inc. and Bonifacio Arts Foundation, Inc. & Makati Commercial Estate Association Inc. He also served as President of Manila Water Company, Inc. and Ayala Property Management Corporation. He was named Management Man of the Year in 2009 by the Management Association of the Philippines.

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 Insurance 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 and 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 Española 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 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 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., El Nido Foundation, Inc., and Pilipinas Shell Foundation, Inc.

MANAGEMENT COMMITTEE

FROM LEFT TO RIGHT:

ANTONINO T. AQUINO
President and CEO

BERNARD VINCENT O. DY
Group Head, Residential Business
Group Head, Commercial Business
Group Head, Corporate Marketing and Sales
Group Head, Human Resources and Public Affairs*

VINCENT Y. TAN
Group Head, Planning

ARTURO G. CORPUZ
Group Head, Urban and Regional Planning
and Central Land Acquisition

* effective January 2013

FROM LEFT TO RIGHT:

JOSE EMMANUEL H. JALANDONI
Group Head, ALI Capital and Hotels

JAIME E. YSMAEL
Chief Finance Officer
Compliance Officer
Group Head, Finance

RAUL M. IRLANDA
Group Head, Property Management

EMILIO J. TUMBOCON
Group Head, Visayas-Mindanao and Superblock Projects

FROM LEFT TO RIGHT:

JOSELITO N. LUNA
Group Head, Innovation and Design

ANNA MA. MARGARITA B. DY
Group Head, Strategic Landbank Management

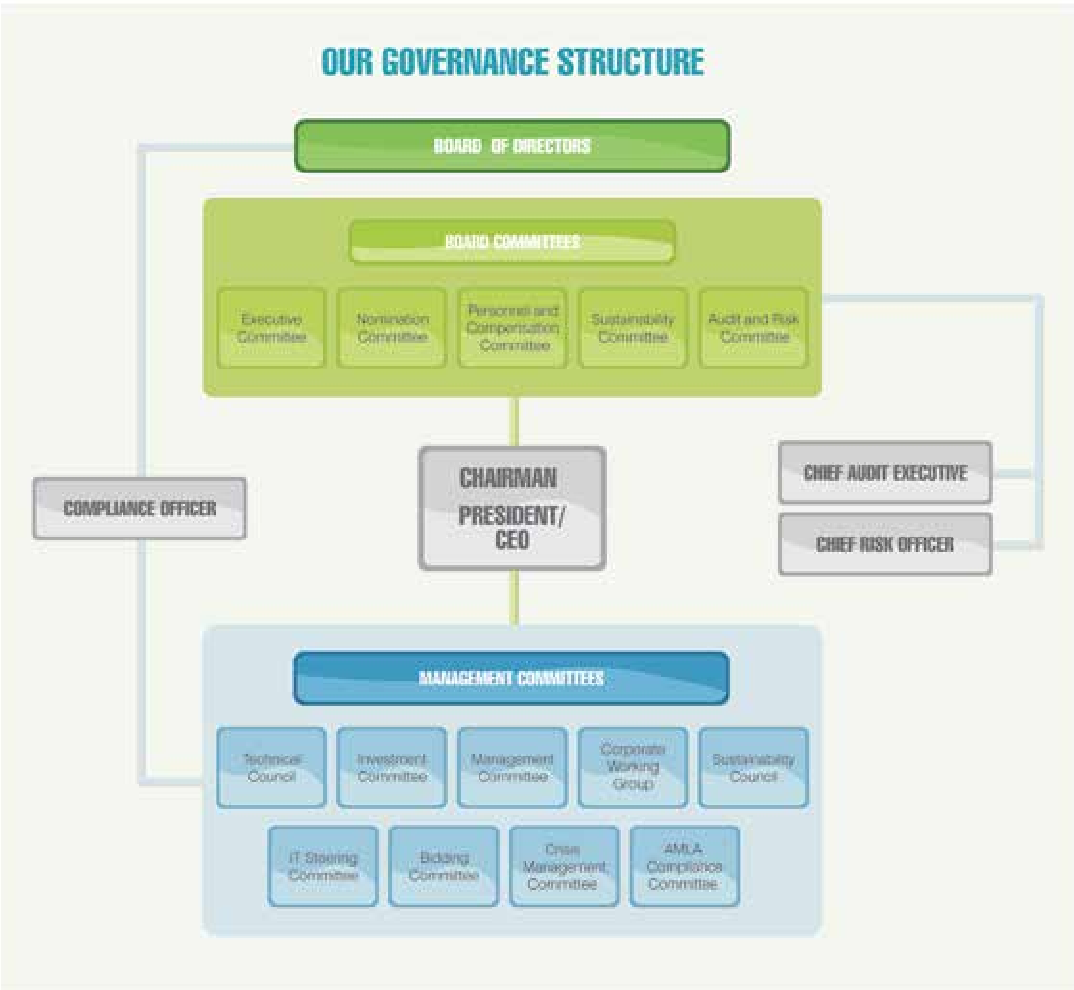
DANTE M. ABANDO
Group Head, Construction

MA. TERESA T. RUIZ** (not in picture)
Group Head, Human Resources and Public Affairs
Resigned effective December 31, 2012

CORPORATE GOVERNANCE

A structured and reliable corporate governance framework is our utmost priority. We strongly believe that maximizing shareholder wealth is principally anchored on sound and value-based management decisions, exemplary employee practices and sustainable development, all executed within the highest levels of transparency.

Ayala Land's corporate governance practices are principally contained in our Articles of Incorporation and By-Laws, their amendments and our Manual of Corporate Governance. The Company is in full compliance with the Code of Corporate Governance and all listing rules of the Philippine Stock Exchange (PSE) and regulations adopted by the Securities and Exchange Commission (SEC). The following report describes our corporate governance framework and discusses initiatives taken by the Company in 2012 to further strengthen our commitment to integrity, transparency, the equitable treatment of all shareholders, and a well-functioning Board and management team that are closely aligned in representing and working for the interests of our various stakeholders. It is our belief that this framework is critical in achieving our corporate goals, including the targets that we have set under the 5-year plan that we announced to the market in 2009. Our corporate governance program is implemented through the structure shown below:



BOARD OF DIRECTORS

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 adequacy of internal controls and risk management practices, accuracy and reliability of financial reporting, and compliance with applicable laws and regulations.

Ayala Land is led by a Board consisting of nine members who hold office for a minimum of one year until such time that their successors are nominated, qualified, and elected in accordance with the Company's By-Laws. The Board represents a mix of general business, industry, legal, and finance competencies, with each director capable of adding value and rendering independent judgment in relation to the formulation of sound corporate policies. All non-executive Board members had undergone training in corporate governance and had been certified by the Institute of Corporate Directors (ICD).

ICD is a professional organization that is based in the Philippines and is accredited by the SEC and the PSE. ICD works closely with the Organisation for Economic Co-operation and Development (OECD), the Global Corporate Governance Forum, and the International Corporate Governance Network and is committed to promoting world-class corporate governance principles in the East Asia region.

ICD releases an annual survey based on an independently verified "scorecard" rating of corporate governance for publicly listed companies in the Philippines. Ayala Land topped the ICD Corporate Governance ratings in 2010 with a score of 99% and was given a Platinum award for garnering Gold awards (with a score of at least 95%) for three consecutive years. The average score of the 214 companies in the 2010 survey was 77%. Survey results for 2011 and 2012 have not yet been made available as of the printing date of this publication.

The roles of the Chairman and the Chief Executive Officer (CEO) are separate to ensure Board independence from management, an appropriate balance of power and increased accountability. Of the nine members of the Board, only the President and CEO is an executive director. The rest are non-executive directors who are neither officers nor consultants of the Company.

Ayala Land Board of Directors

DIRECTOR	POSITION	NATURE OF APPOINTMENT
Fernando Zobel de Ayala	Chairman	Non-executive
Jaime Augusto Zobel de Ayala	Vice Chairman	Non-executive
Antonino T. Aquino	Director	Executive
Francis G. Estrada	Director	Non-executive/Independent
Jaime C. Laya	Director	Non-executive/Independent
Delfin L. Lazaro	Director	Non-executive
Aurelio R. Montinola III	Director	Non-executive
Mercedita S. Nolledo	Director	Non-executive
Oscar S. Reyes	Director	Non-executive/Independent

Awards and Recognition in 2012

AWARD GIVING BODY	AWARD	AWARDEE
The Asset	Platinum Award for All Around Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility, Environmental Responsibility and Investor Relations	Ayala Land, Inc.
Euromoney	Best Overall Developer in the Philippines	Ayala Land, Inc.
Asia Pacific Real Estate Association (APREA)	Merit Award for Best Practices in: Emerging Markets – Market Disclosure Category | Emerging Markets – Portfolio Performance Reporting Category | Emerging Markets – Best Property Development Organisation | Country Award – Best Submission from the Philippines	Ayala Land, Inc.
Asian CSR Awards	Environment & Value Chain Management Category	Ayala Land, Inc.
Asia CEO Awards	Executive Leadership Team of the Year	Ayala Land, Inc.
Asiamoney Awards	Best Large-Cap Corporate of the Year	Ayala Land, Inc.
	Best Executive	Antonino T. Aquino
The Philippine Stock Exchange	Bell Awards for Corporate Governance	Ayala Land, Inc.
ICSC Asia Pacific	EAT DINING FESTIVAL: Gold Award for Marketing Excellence - Public Relations	Ayala Land, Inc.
	INSPIRE: Silver Award for Marketing Excellence - Cause-related Marketing	
Public Relations Society of the Philippines: 48th ANVIL Awards	Award of Excellence: Ayala Malls' Inspire (PR Tools- Special Events category) | Alay sa Komunidad: Ayala Land's CSR Program Award of Merit: Sustaining Sustainability, Ayala Land's Integrated Annual and Sustainability Report (PR Tools/Publication - Annual Reports category), Outstanding Campaign: Alabang Town Center's program to engage its loyal patrons while the mall goes through redevelopment (PR Program on a sustained basis- issue management) | The Fun is in the Festivities-Market Market's sustained program in support of Philippine culture (PR Program on a sustained basis- Art and Culture) | Balik Cebu 2012- Cebu Holdings Inc.'s program pushing the re-discovery of Cebu's heritage (PR Program on a sustained basis- Art and Culture)	Ayala Land, Inc.
Don Emilio Abello Energy Efficiency Awards	Outstanding Performance in Energy Efficiency and Conservation	Hotel Intercontinental Manila
Makati Fire Safety Foundation Inc.	Fire Safety Compliance, Corporate Fire Safety, and Fire Brigade Awards	Hotel Intercontinental Manila
23rd TTG Travel Awards	Best City Hotel	Hotel Intercontinental Manila
6th National Food Showroom	Gold Medal - Flambee Category | Silver Medal - Pastry Chocolate category Bronze Medal - Pastry Mini Cake and Cold Kitchen Carving Categories	Hotel Intercontinental Manila
Wild Asia Responsible Tourism Award	Finalist "Most Inspiring Responsible Tourism Operator"	El Nido Resorts
Travel +Leisure Southeast Asia's World Travel & Tourism Council	One of the 7 Top Eco Resorts Finalist - 2013 Tourism for Tomorrow Awards	El Nido Resorts
Smart Travel Asia Best in Travel Poll	9th Best Leisure Hotel/Resort, Asia 16th Best Leisure Hotel/Resort, Asia	Lagen Island Resort Miniloc Island Resort

As a company listed on the PSE, Ayala Land exceeds the regulatory requirement of having at least two independent directors on the Board. Ayala Land has three independent directors equivalent to 33% of the nine-man board. A director is considered independent if he holds no interests in or relationships with the Company that may hinder his independence from the Company or its management and which would interfere with the exercise of independent judgment in carrying out the responsibilities expected of a director. A director ceases to be independent if his beneficial ownership in the Company or in its related companies exceed the 10% limit, or if the independent director subsequently becomes an officer or employee of the Company.

Summary of Directors' Attendance: 2012

DIRECTOR	NO. OF MEETINGS ATTENDED/HELD	%
Fernando Zobel de Ayala	5/5	100%
Jaime Augusto Zobel de Ayala	4/5	80%
Antonino T. Aquino	5/5	100%
Francis G. Estrada	4/5	80%
Jaime C. Laya	5/5	100%
Delfin L. Lazaro	5/5	100%
Aurelio R. Montinola III	4/5	80%
Mercedita S. Nolledo	5/5	100%
Oscar S. Reyes	5/5	100%

Board Performance

Regular meetings of the full Board are scheduled at the onset of the year and held at least once every quarter. In 2012, the Board had five regular meetings. The average attendance rate of members of the Board was 93%, with each member individually complying with the SEC's minimum attendance requirement of 50%. The Executive Committee likewise convenes regularly in lieu of the Board.

Board members have separate and independent access to the Corporate Secretary who oversees the adequate flow of information to other Board members prior to meetings and serves as an adviser to the directors on their responsibilities and obligations. Discussions during Board meetings are open and independent views are encouraged and given due consideration.

One of the tools used by the Board to monitor and improve its performance is an annual self-assessment exercise. This is administered in the form of a formal questionnaire that is answered by each member of the Board and where they rate their individual performance and that of the Board as a whole. The results are compiled by the Compliance Officer and submitted back to the Board for discussion and appropriate action through the Corporate Secretary. This self-assessment survey covers four broad areas of Board performance: Fulfilment of the Board's Key Responsibilities, Quality of the Board–Management Relationship, Effectiveness of Board Processes and Meetings, and the Performance of Individual Board Members. The self-assessment survey questions are reviewed regularly and administered every May (after the Annual Stockholders' Meeting). The Board also conducts its annual assessment of the President and CEO. An assessment of the Board committees will be added in future surveys.

Five committees support the Board in the performance of specific governance functions. These committees – including their members, specific responsibilities and 2012 accomplishments – are discussed in the following sections:

** Independent, non-executive directors*

Executive Committee

- Acts on specific matters delegated by the Board of Directors except with respect to the following: distribution of cash dividends; filling of vacancies on the Board or in the Executive Committee; amendment or repeal of By-Laws or the adoption of new By-Laws; amendment or repeal of any resolution of the Board of Directors; and the exercise of powers delegated by the Board exclusively to other committees.
- Discusses strategic plans and directions in detail.
- Held three meetings with an average attendance of 80% and deliberated on, among others, various projects and business proposals.

Nomination Committee

- Implements and maintains a process which ensures that all directors nominated for election at the Annual Stockholders' Meeting have all the qualifications and none of the disqualifications for directors as stated in the By-Laws and the Manual of Corporate Governance.
- Reviews the qualifications of key executives prior to movement, promotion or hiring
- Held a single meeting which was attended by all members. Reviewed the profiles of the nominees for directors for the year 2012-2013, approved the final list of nominees and approved the appointments and promotions of key officers.

Personnel and Compensation Committee

- Establishes a formal and transparent process for developing and reviewing policies related to the remuneration of corporate directors, officers and other key personnel.
- Held a single meeting which was attended by all members. Approved the grant of the 2012 performance bonus, Executive Stock Ownership Plan (ESOWN) and Executive Housing Privilege to qualified officers of the Company.

Audit and Risk Committee

- Assists the Board of Directors in the fulfilment of its oversight responsibility relating to the accuracy of the Company's financial statements and the soundness of its financial reporting process, the robustness of its internal control and risk management systems and processes, internal audit activities, the annual independent audit of the financial statements, and compliance with legal and regulatory requirements.
- Held five meetings which was attended by all members. The Committee reviewed and approved the 2012 Audited Financial Statements of the Company as prepared by the external auditors SyCip, Gorres, Velayo & Co. (SGV), as well as the quarterly unaudited financial statements.
- The Committee gave its recommendation on the re-appointment of SGV as the Company's external auditors for 2013 and the corresponding audit fee structure.
- The Committee likewise reviewed and/or approved specific matters presented by the Internal Audit Division and SGV. In addition, the Committee reviewed and discussed the Company's enterprise-wide risk management process and risk mitigation plans. The Audit and Risk Committee's activities are further discussed in its Report to the Board of Directors on page 101.
- In 2012, the Board, through the Audit and Risk Committee, conducted a thorough review of the company's operational methods, financial controls, compliance procedures and risk management systems. It was determined that all internal processes remain satisfactory and in accordance with best business practices.

Sustainability Committee

- Provides oversight to the sustainability initiatives of the Company, guides policymaking in the Company's sustainability program, and ensures full Company support and alignment with the Ayala Group of Companies' commitment to Sustainable Development.
- In lieu of convening at the board level, the Sustainability Council of the management committee held five meetings in 2012, fully attended by all members.

Director and Senior Executive Compensation

Non-executive directors receive remuneration consisting of a fixed annual retainer fee of P1,000,000 and a fixed per diem of P200,000 for each regular Board meeting attended. There were a total of five regular Board meetings in 2012. In addition, non-executive directors are also entitled to a per diem of P100,000 per Board Committee meeting attended. The remuneration of non-executive directors was approved and ratified during the 2012 Annual Stockholders' Meeting.

The total compensation paid to the CEO and key officers of management is disclosed in the Definitive Information Statement sent to all shareholders. The total annual compensation reported includes the basic salary and other variable pay, such as performance-based cash bonuses and the exercise of previously granted Employee Stock Option Plans or the current ESOWN, if any.

MANAGEMENT

In addition to the various Board-level committees, the Company has also put in place a management committee to guide the critical decision-making and key governance processes required at the management level in overseeing individual business units, projects and support functions, as shown in our Governance Structure chart. The Company is cognizant of the importance of having clear policies, adopting best practices and maintaining strong internal controls to support effective corporate governance.

Along with the members of the Board, the Company requires members of the Management Committee and other key officers to receive periodic training in corporate governance. As of year-end 2012, 11 members of the Management Committee and an additional four key officers, were certified for having attended accredited corporate governance training programs. We also rolled out in 2010 an internal training module for corporate governance that is attended by all new employees of the Company to effectively broaden their awareness of the principles of good corporate governance.

Shareholder Value Creation

We seek to consistently improve the Company's business fundamentals and prospects in order to deliver increasing value to our shareholders' investments in the Company over time. Our strategies, business models and operating plans are all oriented towards the achievement of consistent progress in our operating and financial results and, therefore, the underlying determinants of firm value. Specific targets relating to key metrics such as growth, profitability, return on equity, asset efficiency and total shareholder return are set and incorporated into the management team's Key Result Areas on a corporate, divisional and individual basis. These are approved, measured and tracked by the Board, and form the basis of management promotions, allocation of a performance-based cash bonus, and ESOWN grants. This process ensures optimal alignment of incentives between shareholders and management. Consistent with the company's announced 5-year plan, we are targeting a 50% dividend payout ratio by 2014, which we feel will be a sustainable level.

ACCOUNTABILITY AND AUDIT

The Audit and Risk Committee provides oversight to internal and external auditors.

Internal Audit

The Internal Audit Division (IAD), headed by Leovigildo D. Abot as Chief Audit Executive, reports to the Audit and Risk Committee of the Board. The IAD provides independent and objective assurance and advisory services to the Company. Through the Audit and Risk Committee, the IAD assists the Board in the discharge of its duties and responsibilities as provided for in the SEC's 2009 Revised Code of Corporate Governance.

AYALA LAND'S INTERNAL AUDIT DIVISION RECEIVES EXTERNAL QUALITY ASSURANCE REVIEW (EQAR) CERTIFICATE FROM PUNONGBAYAN & ARAULLO

The IAD executed its audit activities for 2012 in accordance with the risk-based and process-focused audit approach. This approach is in accordance with the Institute of Internal Auditors, Inc. (IIA) International Standards for the Professional Practice of Internal Auditing (Standards) and likewise complies with the SEC's 2009 Revised Code of Corporate Governance.

External Quality Assurance Review

An external assessment opinion by Manabat, San Agustin & Co. (KPMG) in 2007 concluded that the Company's internal audit activities generally comply with the Standards and Code of Ethics. Subsequent to this study, the IAD introduced strategic changes to the positioning, people management system and processes of the function in support of overall business goals. "Generally complies" means that KPMG has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the Standards and Code of Ethics in all material respects.

Internal Auditing Standard 1312 of IIA requires that external assessments be conducted by a qualified independent reviewer or review team from outside the Company at least once every five years. In compliance with this standard, IAD has undergone a thorough assessment and review for the second time since 2007. For 2012, Ayala Land engaged Punongbayan & Araullo (P & A), a member firm of Grant Thornton International Ltd., to determine whether Ayala Land's internal audit activities are in accordance with the standard.

The IAD received a "Generally Conforms" opinion with a high rating of 92%, which is almost at par with the average international results for External Quality Assurance Review (EQAR) engagements by IIA from 2007 to 2011 and higher than the average local results for EQAR engagements performed by P&A from 2010 to 2012. With this opinion, the IAD can continue to report and clearly express that its activities are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA) as issued by IIA.

Aside from compliance with IIA's International Professional Practices Framework which includes the definition of Internal Auditing, the ISPPIA and the Code of Ethics, the EQAR covered the assessment of IAD's compliance with its charter, plans, policies, procedures, practices, and applicable legislative and regulatory requirements; expectations of the IAD as expressed by stakeholders (includes the Board of Directors and Audit and Risk Committee, Senior Management and IAD's

Auditees); integration of the IAD into the organization's governance process, including the attendant relationships between and among the key groups involved in that process, tools and techniques employed by the IAD; mix of knowledge, experience, and disciplines within the staff, including staff focus on process improvement; and areas on which the IAD is able to add value to help improve the organization's operations.

Independent Public Accountants

The principal accountant and external auditor of the Company is the accounting firm of SGV, with Jessie D. Cabaluna as the Partner-in-Charge for the 2012 audit year. The Company and its various subsidiaries and affiliates paid SGV a total of P15.7 million and P11.9 million (inclusive of VAT) for audit and audit-related fees in 2012 and 2011, respectively. No other fees have been paid for assurance and other related services for the past two years.

Risk Management

The Board and Management Team remain firmly committed to the effective management and mitigation of strategic, operational, financial and compliance-related risks throughout the organization. A key joint responsibility of the Board and the Management Team is to ensure the presence of adequate and effective organizational and procedural controls, supported by management information systems and a risk identification, mitigation, monitoring and reporting system. Key risk management initiatives implemented in 2012 are discussed in the Risk Management Report on page 52.

ETHICS AND INTEGRITY

Ayala Land has consistently affirmed its commitment and fidelity to its values and to doing things the right way. We have established a Code of Ethical Behavior for all employees, a Code of Ethical Procurement Conduct for all those who influence the procurement process, as well as a Vendor's Code of Ethics.

Conflict of Interest

The IAD aligned the policies on conflict of interest of Ayala Land with the subsidiaries and affiliates to facilitate a group-wide implementation. The amended group-wide policy will continue to require strict compliance by all employees to file their Annual Business Interests and Related Party Disclosure forms with their respective Human Resources Divisions (HRD) which will then be submitted for consolidation and filing. IAD will then review the disclosures and conduct audit to check compliance.

Whistle-blowing Policy

The Company has expanded the coverage of its whistle-blowing policy to include employees of Ayala Land's subsidiaries, affiliates, agents, suppliers or vendors, customers, and the general public. The amended and expanded policy defines conditions or concerns which can be reported by any individual who becomes aware of or suspects any illegal or unethical activities in the organization.

Business Integrity Channels

The Company's business integrity channels are communication facilities that enable individuals to freely report fraud, violations of laws, rules and regulations, or misconduct to people of authority without fear of retaliation. These channels provide concerned individuals all possible means to come forward and report their concerns either through electronic mail, telephone, fax, post mail, website or face-to-face discussions.

Ethics Committee

The Ethics Committee, which has a direct reporting line to the Audit and Risk Committee, shall be chaired by the Head of HRD and will be composed of selected members of IAD, Risk Management Division, and Ayala Group Legal Counsel. The committee shall evaluate and resolve concerns received via the business integrity channels to ensure just and prompt resolution.

Vendor Audit

The IAD has likewise started implementing vendor audits in accordance with the provisions of the Vendor's Code of Ethics. This is to ensure that vendors strictly comply with Company policies to prevent the occurrence of fraudulent activities.

MANAGEMENT OF STAKEHOLDER RELATIONS

We believe that our long-term success rests on the support and contribution of different stakeholders, including our shareholders, customers, business partners, employees, the communities around our developments, the government, non-government organizations (NGOs) and the media.

Shareholders

- We are committed to disclosing timely, accurate and materially relevant information to our shareholders and the investing public about the Company.
- We place high importance to the Annual Stockholders' Meeting (ASM) and its voting exercise to protect the rights and interests of all our shareholders.
- We have also established a shareholder communication program to address the various information requirements of the investing community on a daily basis.

Customers

- Our customers contribute significantly to the success of our Company.
- We are unrelenting towards further strengthening the trust and confidence of our customers by constantly ensuring on-time delivery of best-in-class products and services.
- We continuously sharpen customer focus and accountability and have considerably improved our service levels across all customer-facing units through dedicated service and relationship management teams.

Business Partners

- We strive to forge long term and mutually-beneficial relationships with our business partners through impartial dealings and adherence to the highest level of moral and ethical conduct.
- We acknowledge the rights of creditors as stakeholders and are committed to honoring our contracted financial obligations and any financial covenants these may contain.
- We present creditors with readily available information required to evaluate the Company's credit standing.
- We also believe in granting equal opportunities to, and promoting fair and open competition among vendors and trade partners by encouraging the highest level of productivity, efficiency, quality and cost-competitiveness.

Employees

- We endeavor to establish a suitable environment for continuous learning and development for our people.
- We offer quality training opportunities and custom-fit courses under the Individual Development Plan (IDP) process that enable our employees to upgrade their skill-set and perform at optimum levels.
- These training modules cover business and technical knowledge, skill-building, values, ethics and corporate governance.
- We have also implemented a "Professionals-in-Development" (PID) program designed to systematically introduce and train new recruits of the organization.

Communities

- As a premier and responsible land and community developer, we are aware that our projects have a significant impact in the areas in which we operate.
- We are dedicated to improve the quality of life not only of our customers but also of the families and people in the communities that surround our developments and society as a whole.
- Details of our community engagement and the beneficiaries of our programs are discussed in the Community Stewardship section of this report, which starts on page 74.

Government

- The Company is steadfast in its role in economic development and nation-building.
- We consistently work hand in hand with the government, both at the national and local levels, to address various environmental and social issues.
- We constantly seek to partner with the public sector in developing business solutions, initiatives, and infrastructure platforms that may serve as catalysts for social progress and contribute to raising the standard of living of people in the communities we serve and develop.

NGOs

- We team up with reputable NGOs and corporate foundations for their expertise in providing meaningful and effective engagement with the communities that we serve.
- We also make available additional resources to augment their capacity and capability to increase their contribution to society.
- We have lasting partnerships with established NGOs who assist us in addressing some of the needs of the communities surrounding our developments through livelihood programs and employment opportunities.
- We likewise coordinate with Ayala Foundation for the provision of educational grants to qualified students in public schools around the country.

Media

- We work closely with the media to properly disseminate timely and accurate news and information on the Company's activities to the general public.
- We consider the media as partners in our open and transparent approach to communication.
- Our Corporate Communications Division engages the media on a regular basis through multiple channels such as media conferences, briefings, news releases, fact sheets, social gatherings, one-on-one meetings and through third-party consultants.
- We occasionally support media initiated causes and events that are aligned with our principles and advocacies.

DISCLOSURE AND TRANSPARENCY

We are committed to the highest standards of disclosure, transparency and fairness in information dissemination. We provide the public with strategic, operating and financial information through adequate and timely disclosure filings submitted to the regulatory authorities such as the SEC, PSE and Philippine Dealing and Exchange Corporation (PDEx). Along with regular periodic reports, we disclose any and all material information about the Company that may have an impact on the Company's valuation and therefore its stock price and the trading volume of its securities. All disclosures are immediately posted on our Investor Relations website and may be accessed through the following link: http://ir.ayalaland.com.ph/Disclosures/Current_Reports_(SEC_Form_17-C)/default.aspx

Analyst Briefings and Conferences

We address the various information requirements of the investing public through our Investor Communications and Compliance Division, which reports directly to the Chief Finance Officer (CFO). We conduct quarterly analyst briefings for both equity and credit analysts and communicate directly with institutional and individual investors through one-on-one meetings, conference calls and written communications such as electronic mail. Analysts and investors who are unable to attend our quarterly briefings in person are also invited to participate through a teleconference facility. We also have a continuing program of enhancing our Investor Relations website, which includes podcasts of our quarterly briefings. A playback facility on our website is available for three business days after each briefing.

Throughout the year, our CEO, CFO, Head of Investor Communications and Compliance, and other members of the Management Committee (where appropriate) make themselves available for meetings with institutional investors through pre-arranged company visits, teleconferences, analyst briefings and attendance in local and international investor conferences, corporate days and non-deal roadshows. In 2012, senior management met with institutional investors and fund managers in 23 conferences and corporate day events held in Manila, Singapore, Hong Kong, Kuala Lumpur, Tokyo, Sydney, New York, San Francisco, Boston, the mid-Atlantic states, London, Edinburgh, Frankfurt and Paris.

Ownership Structure

We regularly disclose the top 100 holders of our common and preferred shares, the security ownership of beneficial owners having more than 5% of the Company's total outstanding stock, and the shareholdings of members of the Board of Directors and key management officers in the Company. This information is submitted to the SEC, PSE and PDEx and made available to the general public on a quarterly basis through postings on our Investor Relations website and annually in the Definitive Information Statement sent to our shareholders. We also disclose the percentage of foreign ownership in the Company on a monthly basis.

As of December 31, 2012, total number of shares owned by the public amounted to 6,708,038,019 shares, equivalent to 49% of total outstanding shares.

Financial Reporting

Our financial statements comply with Philippine Financial Reporting Standards (PFRS), which are in general compliance with International Accounting Standards. The accounting policies adopted in 2012 are consistent with those of the previous financial year, except for the implementation of new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective January 1, 2012. These changes in Accounting Policies are fully explained in the Notes to the Audited Consolidated Financial Statements, beginning on page 111.

DEALINGS IN SECURITIES

We continue to strictly implement guidelines covering securities dealings to comply with existing government regulations.

Reporting of Transactions and Trading Black-outs

Any change in personal shareholdings in the Company of Directors and key officers resulting from open market transactions or the grant of shares from incentive-based schemes implemented by the Company are reported to the SEC, PSE and PDEx within specified deadlines. The Company strictly enforces, and monitors compliance with, its policy on insider trading which prohibits the buying or selling of Company securities during prescribed periods by covered persons which include members of the Board of Directors, all members of the Management Team, consultants, advisers, and other employees who have been made aware of undisclosed material information with respect to the Company and its operations. This restriction is expanded to include the immediate family members of the parties mentioned.

The trading black-outs cover 10 trading days before and three trading days after the date of disclosure of quarterly and annual financial results. For cases of non-structured disclosure of other material information, the black-out covers three trading days before and after the date of disclosure. All members of the Company's Management Team are required to submit an annual certification signifying that they have not transacted in the Company's shares during any of the previous year's trading black-out periods. This process of certification is conducted during the month of January of each year.

Insider Trading

We consistently enforce a policy encompassing share transactions in compliance with active government laws against insider trading. There has not been any case of insider trading involving company directors or management in the last five years.

ANTI-MONEY LAUNDERING

As a covered institution, the Company complies with all the rules, regulations and directives issued by the Bangko Sentral ng Pilipinas and its Anti-Money Laundering Council (AMLC). These cover general information and documentation requirements for customers, record-keeping standards, and the reporting of covered and/or suspicious transactions. We have an internal Anti-Money Laundering Compliance Committee that meets quarterly to review and discuss specific transactions (if any), possible changes in the regulatory environment, enhancements to documentation and front-liner training, and other issues. We cooperate fully with any investigation proceedings or request for documentation or information initiated by the AMLC. We also engage them regularly in productive discussions on how we can further enhance our participation in the prevention of money laundering activities.

COMPLIANCE OFFICER

Jaime E. Ysmael, who is our Chief Finance Officer and holds the position of Senior Vice President, is the Compliance Officer designated to ensure adherence with corporate governance best practices as well as compliance with all regulations that cover the Company. Pamela Ann T. Perez, who is our Head for Investor Communications and Compliance Division, is our Deputy Compliance Officer.

ASIA PACIFIC REAL ESTATE ASSOCIATION

As a full member of the Asia Pacific Real Estate Association (APREA), Ayala Land is committed to promoting and preserving best industry practices in the region. To the extent applicable, most of the recommendations by APREA contained in the 2nd edition of its Best Practices Handbook under Market Disclosure, Accounting and Financial Reporting and Corporate Governance categories that are also required under Philippine laws and conform with global accounting and reporting standards, are being adopted by Ayala Land. Further, with respect to Corporate Governance, the Company has received multiple citations from various award-giving bodies in recognition of its adherence to the highest standards and practices.

RISK MANAGEMENT REPORT

The Enterprise Wide Risk Management (EWRM) program has gone a long way two years after its formal implementation in the Company. In 2012, major milestones included the roll-out of the program to the Company's support groups, as well as the full integration of the Company's Business Continuity Management and Insurance Management Programs into the EWRM umbrella.

EWRM Program

While the risk management process remains the same, Ayala Land has expanded the program's review and monitoring coverage to include the Company's operating and critical support units (i.e. Aprisa, AmicaSSa, Finance), further underscoring their roles in achieving the overall objectives of the Company.

Likewise, as the Company's entry into new lines of business presented new opportunities, these new businesses also brought forth new risks and challenges.

This year, airport operations and the energy business were included in the expanded coverage of EWRM, and both were tagged as part of the Company's top risk management priorities for 2012.

While 2011 was about embedding the EWRM program into the Company's operations and establishing a risk-aware culture within the organization, this year's focus was on strengthening the controls and mitigation strategies of the Company – ensuring that risk strategies bridge the gaps posed by both business-specific and company-wide risks that could prevent the Company from achieving its business targets. Metrics and risk indicators were consistently reviewed, updated and monitored to guarantee that such risks are managed to acceptable levels.

BUSINESS CONTINUITY MANAGEMENT

Business Continuity Management (BCM) is among the crucial activities that the Company undertakes to manage the risks surrounding its key products and services. Delivery of these products and services, especially in this period of aggressive growth, can be disrupted by a wide variety of incidents that could happen in any of its business units or operations. BCM focuses on the impact of such disruptions and identifies the required actions and resources for the Company to mitigate, prepare and ensure immediate recovery from foreseeable disruptive events, thereby enabling the Company to continue its business critical functions in spite of unwanted occurrences.

In 2012, the Company's BCM organization was formally established to provide strategic direction and ensure the timely resumption and delivery of essential business activities in the event of a major disruption to operations.

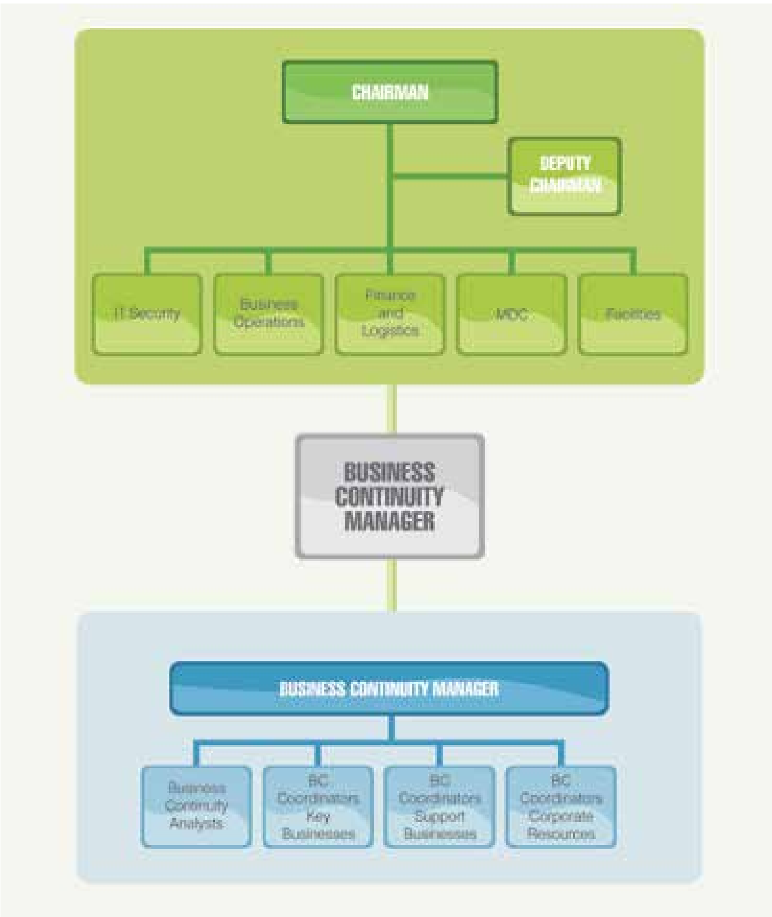
Subsequent BCM initiatives included the roll-out of the program to the different business units, formulation of Business Continuity Plans (BCPs), tabletop reviews and drills with the major groups, as well as pilot full testing of the BCP readiness of the Finance Group's nine support units. These BCM activities provide the Company with reasonable assurance that it will be able to avoid preventable delays in delivering its products and services should operational disruptions occur.

INSURANCE MANAGEMENT

Insurance Management is also a major risk mitigation and transfer strategy of the Company. The Risk Management office continuously reviews its insurance programs and renews the same based on sound corporate due diligence and operational requirements.

On top of the Company's culture of proactive loss prevention and conduct of due diligence activities, it also believes that maintaining positive partnering relationships is key to managing its risks. Ayala Land, Inc., as a company with several business units, is always confronted with varied operational and physical risks or exposures to manage. The continuing partnering relationship with key insurers and risk advisors enables the Company to properly mitigate and address said exposures as well as rationalize resulting cost on premiums.

2012 BCM Organization



SUSTAINABILITY AT A TIME OF GROWTH

Enhance natural landscapes, biodiversity and ecology to create value; increase climate change resilience through designs, plans, and products

- Won the Asian CSR Award in Environment and Value Chain Management from the Asian Institute of Management
- Cited by Asian CSR awards for having "implemented innovative approaches to sustainability in its land development activities"

ENVIRONMENT

Collaborate with local stakeholders to ensure that projects establish social cohesion and community ownership of sustainability principles

- Increased local hiring from 70% to 90% in NUVALI
- Won the Anvil Award for Alay sa Komunidad community development program

COMMUNITY

Enhance personal and professional productivity and innovation for experiencing, learning, initiating, and maintaining sustainable and healthy practices

- Launch of New Managers training program and intensifed Professionals in Development program to meet growth targets
- 100% of 1,411 employees received their performance and career development reviews
- Almost 50 million safe man-hours

PERSONNEL

Build and capture the demand for healthy and sustainable living in ecologically responsible, socially responsive, and economically vibrant communities

- Launched Appreciating Earth campaign to communicate how environmental management and social development goals are taken into account in Ayala Land's flagship estates and leisure developments

MARKET SHAPING

Regularly review and communicate policies, practices, and targets to employees and publics to ensure a culture of continuous improvement and innovation in sustainability

- Externally assured level A+ sustainability report
- Launched ALI's Business Integrity Program

ACCOUNTABILITY

SUMMARY OF ECONOMIC VALUE GENERATED AND DISTRIBUTED
(IN MILLIONS OF PESOS)

GENERATED	2012	2011*	2010*
Revenues	**54,524**	44,205	37,814
Net Income	**9,038**	7,140	5,458
DISTRIBUTED			
Suppliers/contractors/business partners	**37,175**	29,976	26,427
Employees (salaries and benefits)	**4,274**	3,485	3,265
Government (taxes)	**4,015**	3,589	2,445
Community investment (charitable contributions and donations)	**22**	15	219
Sub- Total	**45,486**	37,065	32,356
Stockholders (dividends)	**2,902**	1,972	1,271
TOTAL VALUE DISTRIBUTED	**48,388**	39,037	33,627
INVESTMENT CAPEX	**71,293**	29,914	20,055

*Prior year figures were restated to conform to current year's presentation.

SUSTAINABILITY FRAMEWORK

Circuit Makati. A 21-hectare development located a few kilometers north of the Makati Central Business District, it is another example of Ayala Land's integrated,mixed-use and sustainable development. Located near the Pasig River, Circuit Makati will soon offer innovative residential, retail and leisure places that enhance its natural environs.

Economic growth with improvements for environment and society
Ayala Land's continuing expansion into new geographies and markets provides us with more opportunities for creative and sustainable solutions that distinguish our products. Our projects prime and support local economies through mixed-use developments that create the density, economic activity, and infrastructure crucial to progress. As we share our framework of balanced urban and regional planning and development with local and national stakeholders, we intensify the economic multiplier effects of construction and real estate development and balance growth with improvements for society as well as the environment.

Climate-conscious property development and management
Through our Enterprise-Wide Risk Management initiative, we have estimated the impact of climate change on our properties, including financial implications based on declared values and the extent of business interruption. We continue to plan for minimum land and water resource disturbance, ensure judicious use of construction materials, and respect native vegetation and resident trees. To support low-carbon lifestyles, we incorporate sustainability master-planning must-haves in our developments such as pedestrian-priority features, connectivity to public transport, ecosystem-appropriate landscaping and green spaces, as well as passive and active energy and water saving features. We continuously strive to improve our land acquisition approaches, technical due diligence, master-planning and construction practices to protect our projects and surrounding areas from the negative impacts of climate change. We recognize that expanded operations mean higher GHG emissions from the use of fuel and energy, so our initiatives focus on maintaining our consumption within target limits per unit area.

Sustainability and large scale mixed use communities
Large-scale developments enable us to plan, develop, and construct in consideration of watersheds as well as protect native vegetation, soil, water resources, and biodiversity. EC2, 1.2, 4.11

Economic growth drives the demand for more property developments and urbanization, but the limits of buildable land in the archipelago necessitate judicious use of available space. Our emphasis on large-scale, integrated, and mixed-use

Access and Convenience. Transport terminals are an integral part of our various developments. To provide infrastructure so that customers will have easy access to and from their homes, offices, and commercial areas is a primary consideration in the planning stage of the project.

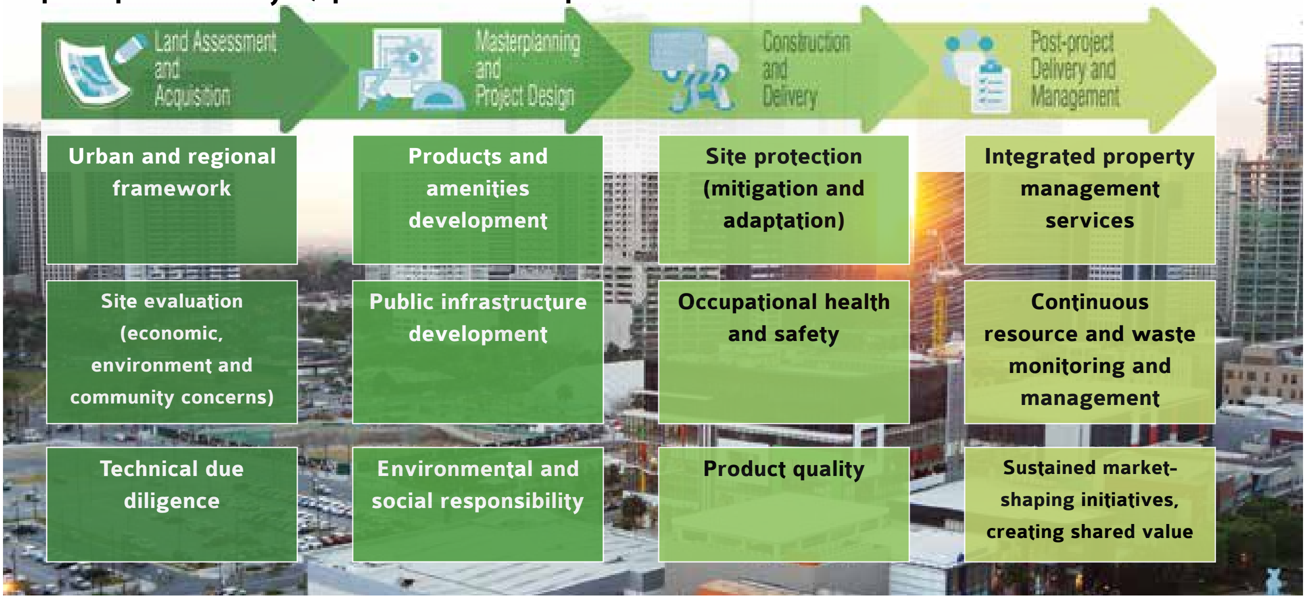
developments enables us to plan with the right densities and allows for compatible diverse uses. We can allocate natural corridors and protect waterways through buffer zones that allow biodiversity to thrive. We respond to changing demands and adopt low-carbon technologies through redevelopment, upgrading, and maintenance of our properties in built-up areas. Due diligence practices ensure that land acquisition choices uphold environmental integrity and indigenous rights. We endeavor to uphold our social license to operate to ensure that we are welcome neighbors where we operate.

By being catalysts for inclusive development, we enable a broader segment of the population to become active participants in the economy. Our commitment to the triple bottom line ensures that our planning and decision-making processes and practices protect the built and natural environments, uphold shareholder interests, and contribute to nation building.

Embedding sustainability in the business process

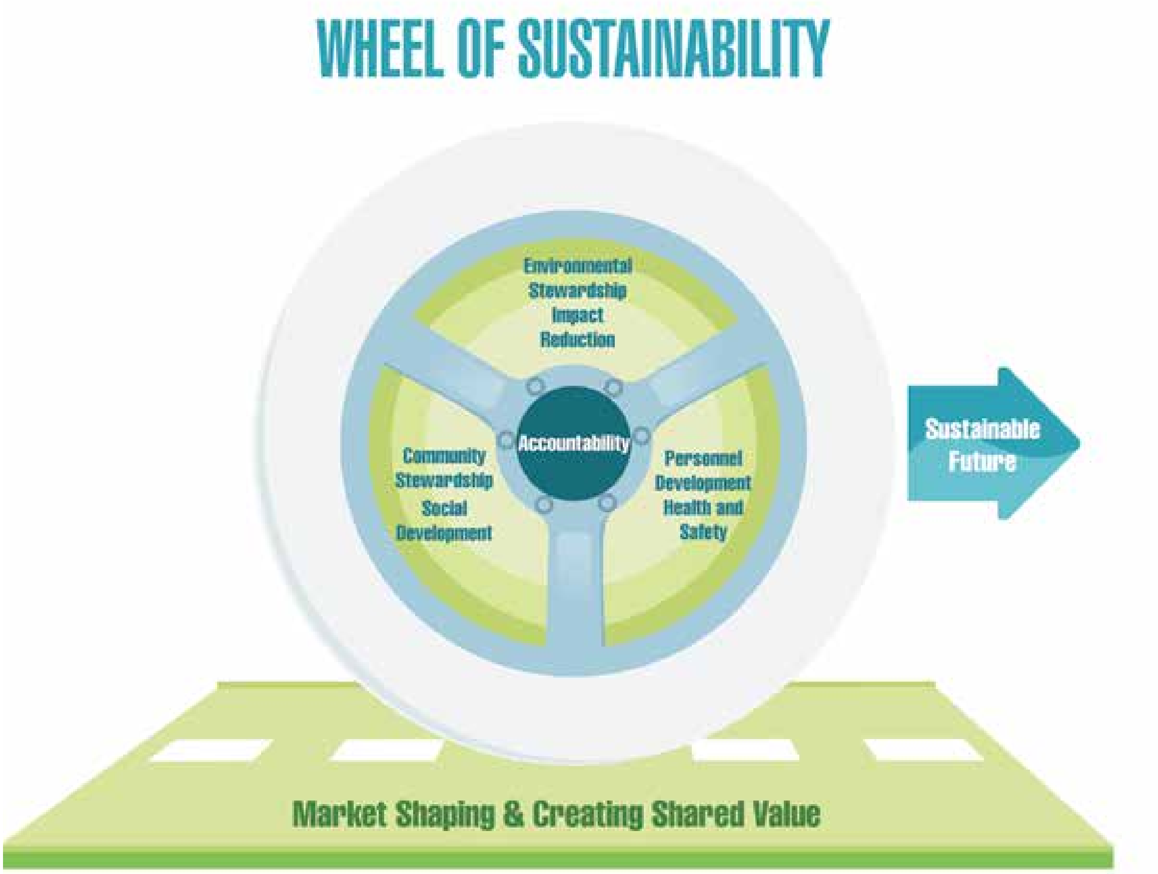
Over the years, we have been intensifying the integration of sustainability principles in every step of our business processes. Conscientious application of our sustainability framework and our practice of measuring and reporting on sustainability indicators give us the opportunity to increase the value of our businesses beyond the bottom line. Our entire business process – from acquisition, assessment, and planning to project design to construction and delivery, and property management – focuses on long-term benefits and shared value for stakeholders while foreseeing and managing risks and protecting all investments.

Over the years, we have been intensifying the integration of sustainability principles in every step of our business process.



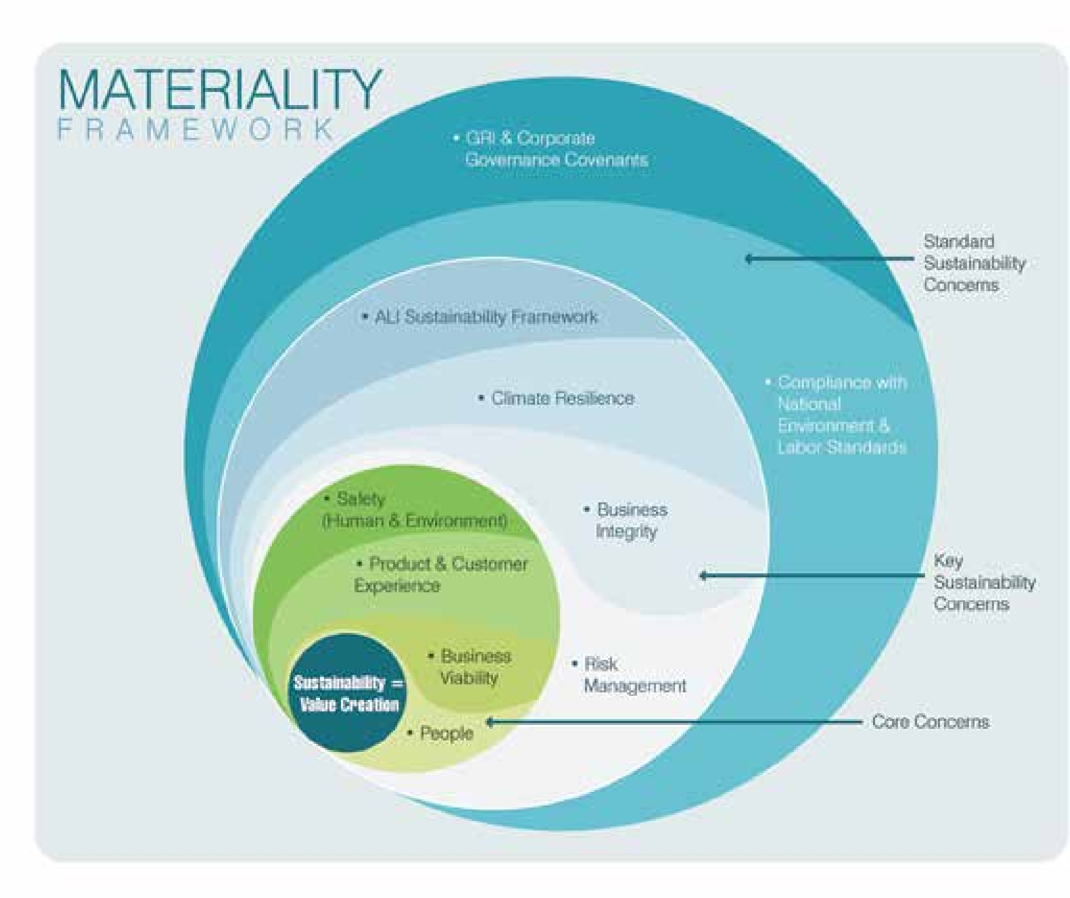
Sustainability framework

The Ayala Land Sustainability Framework continues to evolve. We initially depicted our five principles of sustainability composed of Environmental Stewardship and Impact Reduction; Community Stewardship and Social Development; Personnel Development, Health and Safety; Market Shaping; and Accountability as pillars to denote our commitment to strengthen our sustainability framework. We now represent our framework with a wheel using Environment, Community and Personnel as spokes, held together at the center by Accountability. The dual principle of Market Shaping and Creating Shared Value with our stakeholders forms a bedrock that provides a path for the Sustainability Wheel to keep turning toward a sustainable future.



Materiality

Ayala Land's materiality framework emanates from core issues of safety, product and customer experience, profitability, and concern for the community. To guide the preparation of our report, we focus on outcomes that are relevant to our Sustainability Framework, our contributions to climate resilience and biodiversity protection. Our business integrity and risk management processes are designed to ensure compliance with the covenants that we have embraced and the laws we are committed to uphold. We continue to subscribe to the indicators of the Global Reporting Initiative (GRI) as these are consistent with both.



Sustainability management

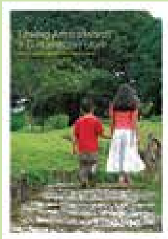
It is our goal to establish Ayala Land as the leader and role model in science-based, measurable real estate development in five years. To facilitate the immediate implementation and integration of sustainability targets crucial to this goal, Ayala Land's Technical Council took over some of the roles of the Sustainability Council in 2012. The Technical Council aligns the sustainability targets with the Company's project due diligence mechanisms. The president of the Company continues to head the Sustainability Committee and provides oversight. The committee oversees the development and execution of strategies, key performance indicators, and targets under each of the five principles. In line with our decentralized approach to management, we encourage autonomy among our subsidiaries and the sharing of best practices. Sustainability champions in different SBUs continue to pursue already established sustainability targets and periodically monitor, manage, and improve performance. A Sustainability Manager is in charge of shepherding sustainability efforts and responding to sustainability-related opportunities from the different SBUs year-round.

Stakeholder engagement

In 2008, our second year of reporting, Ayala Land conducted comprehensive stakeholder consultations across all strategic business units to determine their key sustainability concerns. These issues were mostly

ADVANCES IN SUSTAINABILITY REPORTING

2007. Sustainability formalized as guiding principle to Ayala Land's brand of land use and development. Identifies 6 key sustainable practices based on previous performance.



2008. Articulation of five sustainability guiding principles for a more holistic approach. Creation of an organizational structure to oversee sustainability journey.

2009. Sustainability framework integrates GRI performance indicators with SBUs and personnel key result areas. Integrates financial, environmental, and social performance.

confined to business operations, risk management, profitability, product quality and value for money, after-sales service, safety and security, and regulatory procedures. Environmental and social issues were confined to capability building and resource conservation.

Over the last five years, we have been responding to these issues through continuous programs under our five sustainability principles and embedding them in our business process. Our market-shaping programs educate the public on real estate development that pushes for the adoption of sustainable lifestyles. Stakeholder awareness for greater environmental responsibility and the role of business in social development have heightened so that their issues have evolved to encompass broader goals such as inclusivity and biodiversity protection, and bolder targets in our water, energy, emissions, and waste management metrics.

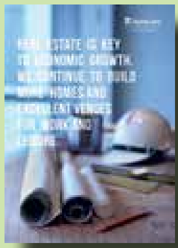
Sustainability reporting

Our sustainability report articulates the value we create in our developments by taking steps to conserve the natural environment, reduce our carbon footprint, and improve people's lives in and around them. This year, we further enhanced transparency and credibility through external assurance. This ensures that the information reflects and provides sufficient coverage to guide the stakeholders in their evaluation of the Company. Where applicable, year-on-year data is presented for comparability. Data for this sustainability report was contributed by the finance, human resources, supply chain management division, Ayala Property Management Corporation (APMC), Makati Development Corporation (MDC) and the relevant business units.

Report boundaries

The report covers the performance of the companies that make up our core businesses: the corporate head

2010. Major milestones in environmental stewardship such as LEED certification, Green Procurement Initiative, creation of energy solutions company PhilEnergy, contribution to national green design metrics, and 100% merchant participation in SWM program.



2011. Broader-based approach to growth and expansion through product lines for various segments of the economic pyramid. Support to government's national housing program. More deliberate local hiring and local sourcing.

2012. Externally assured report that highlights efforts to achieve the seamless assimilation of the Company's five principles of sustainability into the business process to become the bedrock of master-planning for future developments.

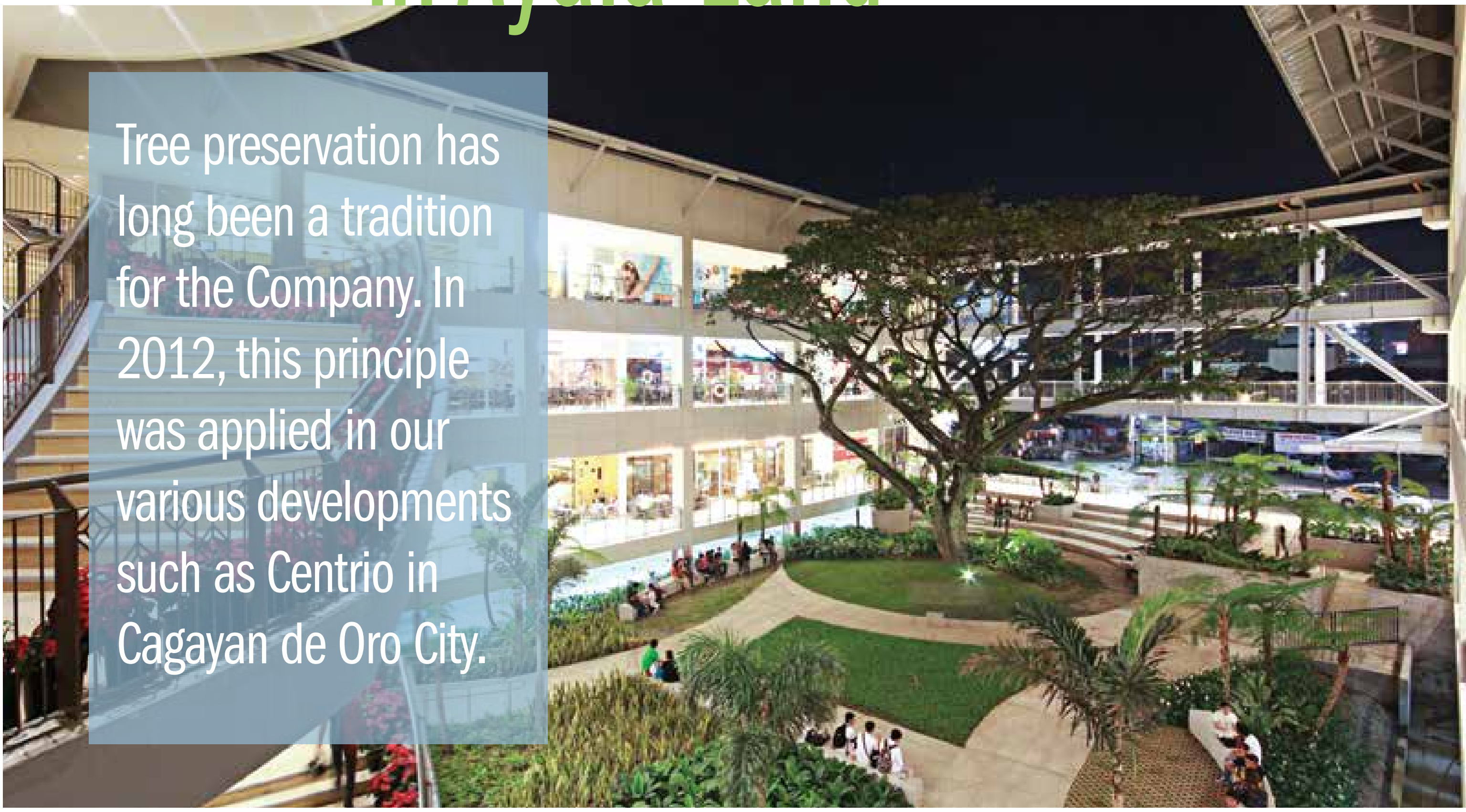
office; our residential brands AyalaLand Premier, Alveo, Avida, Amaia, BellaVita; the Ayala Malls Group; our office leasing business; our construction company Makati Development Corporation (MDC); and our property management arm Ayala Property Management Corporation (APMC). More details about these companies are discussed in the previous sections of this integrated report. The support businesses for the internal operations of the company are not covered and we hope to include subsequent business lines, such as our hotels group, in our future reports. Cebu Holdings, our property arm in Cebu, publishes its own sustainability report.

As we enter the seventh year of sustainability reporting, we deepen Ayala Land's commitment to sustainable development by intensifying and clarifying its correlation with risk management, corporate governance, and control and analysis. This ensures the consistent inclusion of sustainability targets and key result areas of each strategic unit and support groups into the basis of annual performance reviews.

Aware of the influence that our diverse stakeholder groups have on the company's longevity and success, we will conduct another comprehensive stakeholder engagement process in 2013 to revisit impacts and expectations and to evaluate and keep improving on our responses.

As we enter the seventh year of sustainability reporting, we deepen Ayala Land's commitment to sustainable development by intensifying and clarifying its correlation with risk management, corporate governance and control and analysis.

EMBEDDING SUSTAINABILITY in Ayala Land



Tree preservation has long been a tradition for the Company. In 2012, this principle was applied in our various developments such as Centrio in Cagayan de Oro City.

In 2012, we received the Asian CSR Award in Environment and Value Chain Management from the Asian Institute of Management, recognizing our efforts in embedding environment principles throughout our business process. The awards body recognizes companies "embodying the principles of corporate responsibility in their business philosophy and operations." Ayala Land, in particular, was cited for having "implemented innovative approaches to sustainability in its land development activities, especially by providing opportunities for everyone, regardless of social class, to live in a more sustainable environment." The Asian CSR Award and our other recognitions strengthen our company's commitment to expand on the current scope to integrate sustainability in other aspects of the business. The following approaches demonstrate how we have committed ourselves to this goal.

Intensifying our technical due diligence

In 2012, investments in technical due diligence (TDD) conducted on all projects increased from P39 million to P78 million. Our TDD and land evaluation processes are sustainability tools to assess and enhance the development potential of project sites. Appreciating site characteristics enables us to design for and maintain an area's ability to continue providing ecosystem services. We further mitigate the impacts of our operations through erosion and sedimentation control guidelines, native plant policy, monitoring of our use of water and energy, waste management, and dust control programs. Social sustainability issues are identified early in the land acquisition process. Among key indicators we consider in our guidelines are watershed areas, significant ecosystems and landscapes, presence of indigenous cultural communities, settlements, and communities that will be affected or can affect the project. Given these practices in due diligence, we did not receive any fines for non-compliance with laws and regulations concerning our products and services. There were no reported incidents of non-compliance with voluntary codes concerning the health and safety impact of our products during their life cycles. (PR-2, PR-4)

Creating value from the ground up

At Ayala Land, environmental protection starts with our choices of land and location. Our master-planning teams work with a site's natural features with sensitivity to soil, water, and native vegetation. In 2012, we invested P104.3 M in environmental protection and P22.5 M for remediation and restoration of habitats, bringing last year's total to 126.8 M. (EN30) Consistent with our environmental stewardship and impact reduction principle, we continue to monitor and manage major developments that are found either within or adjacent to 2,215 hectares of high-biodiversity areas in Bataan, Palawan, Laguna, and Quezon City. This action is done voluntarily by Ayala Land, even if these areas are not declared as protected areas for their high biodiversity value by the government. We continue to focus on minimum land disturbance, the least cut-and-fill, respect for open spaces and ecosystem functions, and pedestrian orientation. Natural lifecycles continue to influence our planning and development approaches. We also began to institutionalize through policy the consistent use of ecosystem-appropriate native plants and trees in our project sites last year. (EN26)

Strategizing our social interventions

Using various social development approaches such as capacity building through training and education, livelihood development, job creation, and local hiring, Ayala Land fosters equitable growth and self-sufficiency in our partner communities. A key objective of our programs is to allow communities to grow with us and not be dependent on us. We have started to mentor partner communities in professional business management practices to enable them to be more competitive. In the future, we intend to apply more social development metrics on our partner communities to monitor their progress. Along with our regular impact assessments and stakeholder consultations, these additional metrics prepare us for our goal to measure the multiplier effect of our interventions and community partnerships.

The Company regularly conducts sessions that enable employees to discuss new sustainability approaches which may be applied in various projects.

Sharing best practices

A work-in-progress by managers from construction, design, and project development, Ayala Land's Book of Standards on Sustainability (BoSS) compiles the Company's best practices and our projects' standard sustainability features to ensure the least impact on natural ecosystems and the consistent application of our five principles. In 2012, we started with land and biodiversity issues. Last year's extreme weather events provided us with opportunities to further improve protection methods such as erosion and sedimentation control. Principles for storm water management were immediately incorporated into design, project planning, and construction guidelines. BoSS is a "live" document that standardizes ways to protect and enhance our sustainability priorities while pursuing aggressive targets. The use of native vegetation, topsoil management, and a life cycle approach to land development were also emphasized.

ENVIRONMENTAL STEWARDSHIP & IMPACT REDUCTION

To institutionalize sustainability in the project development process, Ayala Land has developed its first-generation guidelines called Book of Standards on Sustainability. We have started innovating our land development process with the Native Plants Project, a Native Tree Inventory, and a Native Tree Technical Working Group for the planning, development and property management phases. Native and endemic trees minimize the demand for exotic landscapes and revive biodiversity corridors that contribute to climate change resilience.

Its lush flora and fauna has made NUVALI's Wildlife and Bird Sanctuary a favorite destination of bird-watchers and nature-lovers.

Efforts to protect native vegetation continue to pay off as birds and other wildlife thrive, breed and, multiply in our developments. Top: Olive-backed Sunbirds *(Cyuniyris jugularis)*, locally known as Tamasi are common residents in El Nido Resorts. Right: Whiskered Tern *(Chlidonias hybrida)* are commonly found near the multi-functional lake of NUVALI.

We are now more focused on ensuring that the trees we plant survive by planting them during rainy season.

A sustainable, scientific approach

The use of Philippine native trees for streetscaping and landscaping purposes is our contribution to the conservation of the country's unique tree species.

Well aware that Ayala Land's development cycle has impact on the environment—from land grading and clearing to the transport of materials and the various human activities generated—it is our policy that biodiversity disturbance must be kept at a minimum. (EN 11, EN12, EN13) We have biodiversity monitoring and management efforts in project sites such as NUVALI, Anvaya and El Nido. Covering 25 hectares of land within a protected area, El Nido Resorts is looked at as a model for ecologically sound resort management. NUVALI and Anvaya, while not declared by government as areas of high diversity value, are being enhanced through the planting of native tree species and monitored for new bird sightings. We seek to conserve the Philippines' fragile biodiversity through conscientious planning and planting of native trees. We also help nature continue to provide ecosystem services that protect our projects from the impact of erosion, flooding, and consequently the people who live and work in and around them. We have proactive biodiversity management efforts in our project sites, such as NUVALI and Anvaya. (EN26)

Ayala Land developments have used native trees appropriate for urban landscaping, such as the dita *(Alstonia scholaris)* along Ayala Avenue and the bitaog *(Calophylum inophylum)* at Serendra. Endemic Antipolo trees *(Artocarpus blancoi),* a species which was in the International Union for Conservation of Nature (IUCN) Red List of 2004, also now thrive at the UP-AyalaLand Technohub.

By promoting the use of native and endemic trees in our developments, we increase awareness and appreciation of such trees, minimize the demand for exotic landscapes, and revive biodiversity corridors that contribute to climate change resilience. Our efforts in nurturing native saplings contribute to the genetic stock of native vegetation threatened by habitat loss and the proliferation of invasive exotic species.

Three new landscaping projects in NUVALI and employee tree-planting activities in 2012 utilized stocks of native and endemic trees. A Technical Working Group from various strategic business units has been formed so that our approach to landscaping with native trees is scientific and economically feasible.

Three IUCN Red List species are also found in some of our developments. The Olive Ridley Turtle *(lepidochelys olivacea)* species are found in Anvaya where they are protected by ensuring that nests along the beach are protected with wire mesh until the eggs are ready to hatch. The Palawan Peacock Pheasant *(Polyplectron napoleonis)* and Palawan Hornbill *(Anthracoceros marchei)*, both Philippine endemics, are found in El Nido among other marine and terrestrial wildlife.

High biodiversity, low impact

Developing Pangulasian required sustainable land use and development methods for the least possible impact on vegetation and resources of the small island. Sustainable construction methods were used to preserve the environment. Stilt foundations minimized impact on the land. Endemic plants were used for landscaping. Rainwater catchment, a double-piping system, and LEED-compliant bathroom fixtures reduced water consumption. The design also maximized natural lighting and ventilation to reduce power consumption, while energy-saving technologies were also installed where needed.

The hawksbill sea turtle (Eretmochelys imbricata) is one of the two species of sea turtle that have been able to nest and hatch along the coasts of El Nido resorts. This hatchling is among the 324 turtles that swam to sea in 2012 after being allowed to crawl on the sand for imprinting on the beaches of the resort.

13,500
NEW TREES PLANTED
IN NUVALI IN 2012

100% NATIVE
AND ENDEMIC

Continuing the tradition of tree preservation

As in the past, the preservation principles were observed in our developments in 2012. Centrio in Cagayan De Oro, Baguio-AyalaLand TechnoHub in Camp John Hay in Baguio City, and Fairview Terraces in Quezon City were also developed with full consideration of the existing vegetation in the area. To further enhance biodiversity corridors within and around our developments, we conduct volunteer tree planting activities using native and endemic saplings. Moreover, we now conduct our tree planting activities during the rainy season to ensure the high survival rate of the trees. As a result of this new direction, 81% or 13,500 trees out of 16,567 that were planted in NUVALI in 2012 survived. These will add to the 23,812 mature trees in the development, 89% of which are native and endemic.(EN14,EN15)

The U.S. Embassy Manila's new Consular Affairs Office is LEED Gold Certified by the U.S. Green Building Council

A prestigious construction project
Makati Development Corporation (MDC) completed the U.S. Embassy Manila's New Office Annex (MNOX) Project, a compound that is composed of the Consular Affairs Office (NOX-1), the NOX-2 Building for the non-consular operations, the NOX-3 Veteran Affairs Clinic, the Marine Security Guards Quarters, a parking facility, and a utility building.

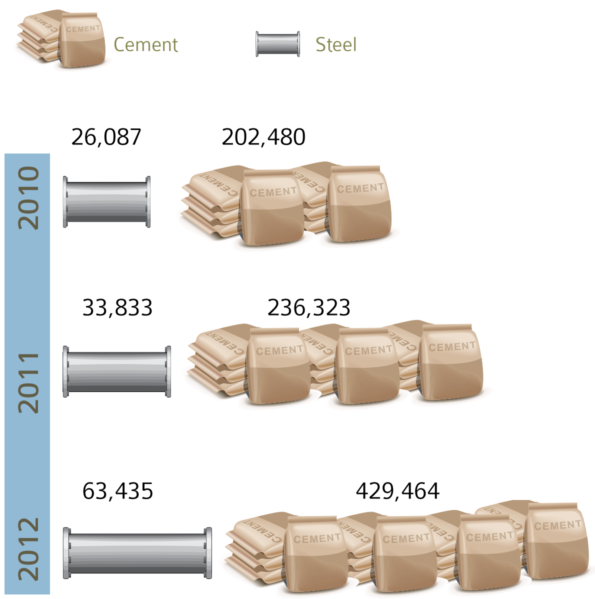
NOX-1 is LEED Gold Certified and NOX-3 is LEED Green Building Certified. A LEED (Leadership in Energy and Environmental Design) Certification from the U.S. Green Building Council means that a building or neighborhood demonstrates practical, measurable, and innovative components that promote environmental stewardship and social responsibility, such as energy efficiency, cost efficiency, and the health and safety of its users. Apart from satisfying the strict standards of the LEED rating system, MNOX was also built in adherence to rigorous international standards and engineering code provisions of the U.S. State Department's Bureau of Overseas Buildings Operations, the U.S. Life Safety Code, American Disabilities Act, and the International Building Code, among others. MDC's completion of the MNOX project achieved a safety record of 10 million safe man-hours over a three-year construction period.

Ayala Land's business hotel brand Seda, which opened in Taguig and Cagayan de Oro, and soon in Davao, was likewise designed and developed with standard sustainability features. To decrease energy consumption resulting from heat radiation, Low E glass was used on areas exposed to the sun, with a 20-25% window-to-wall ratio. Covered walkways allow for a more pleasant pedestrian experience, and encourages more walking. Low VOC paint was used on interior walls. We continue to add to the list of must-haves for sustainability as more information and technology become available.

Growing and expanding responsibly
Over the past three years and given our growth targets, legal and technical due diligence efforts have intensified to make sure that the land can be safely developed at all stages and will appreciate in value over time.

We have been more conscientious in our use of raw materials, especially with consumption of steel and cement, while varying from one project stage to another, increasing almost two-fold in 2012. With a construction floor area (CFA) of 1.16 million sqm in 2012, consumption of steel and cement were at 54.53 kg/sqm and 9.21 bags/sqm, respectively. (EN1) Our Green Procurement Initiative continued to promote the wider adoption of the sustainability imperative in our construction arm as well as our suppliers and contractors. Through it, we are able to prioritize materials, products, and services from environmentally responsible suppliers, who are encouraged to align with our Vendors' Code of Ethics.

(EN1) **Materials Used by Weight and Volume (in Metric Tons)**



An additional 1.16 million sqm. of construction floor area resulted in an increase of steel and cement consumption

We also used a total of 314,718 cubic meters of recycled materials, which included wood, steel, and concrete debris as backfill. (EN27) Sustainability-conscious project design by our Innovation and Design Group (IDG) and project scheduling by MDC made it possible for high-quality materials such as railings and glass from walkways in Ayala Center to be re-used in the Marquee mall in Pampanga. Conscious efforts to measure and monitor the percentage will be done in the next period. (EN2) In addition, most of our construction materials are also sourced locally, thus having minimum transport requirement. Transporting vehicles are also checked periodically for their emission levels. (EN29) We seek to improve comparability of these figures starting next year.

As expected from increased activities and additional developments in a year of growth, carbon emissions, total energy and water consumption, and waste outputs have increased for APMC and MDC. For APMC, the average per square meter consumption

Green technologies were used in 2012, such as solar lamp posts and solar home systems.

CARBON EMISSIONS (EN16, EN17)

BUSINESS TYPE	SCOPE	EMISSIONS PER YEAR (in metric tons)		
		2012	2011	2010
Property Management	APMC- Managed Company- controlled properties	226,803	52,968	40,718
Construction	MDC	14,650	13,119	10,867

Total Area monitored in 2012: Ayala Property Management Corporation (APMC) - 11,341,083 sqm Gross Floor Area (GFA) | Makati Development Corporation (MDC) – 1,163,283.85 sqm Constructed Floor Area (CFA)

of energy (scope 2) remains within target limits per square meter based on ASEAN standards. The Energy and Water Management Committee of APMC also manages to keep consumption per square meter below or at its target limits for energy, water, and waste. Our property managers monitor utilities on a daily basis to assess load demand over time and other factors that cause increases in demand for energy. Equipment usage is adjusted accordingly, without affecting quality of service. Building monitoring systems facilitate immediate response and solutions so that we stay within consumption targets. APMC is currently working on a knowledge management system that will enable property managers to analyze trends and share information even more quickly.

For better comparability given the mix of development types throughout the business, we present consumption data for property management and construction separately starting 2012. Residential developments continue to report only the common

PROPERTY MANAGEMENT ENERGY CONSUMPTION

INDICATORS	RESIDENTIAL (Common Areas)		MALLS, OFFICES, ESTATES, CAR PARKS		NON-APMC MANAGED ACCOUNTS		TOTAL
	RB	L&H	COMMON AREAS	ALL	COMMON AREAS	ALL	
(EN3) DIRECT ENERGY CONSUMPTION (Diesel Usage, scope 1, in million liters)	0.0294	0.0134		0.2618		0.0098	0.31
(EN4) INDIRECT ENERGY CONSUMPTION (Purchased Electricity, scope 2, in million kilowatt hours)	15.71	3.40	121.05	321.33	30.99	71.94	412.38

CONSTRUCTION ENERGY CONSUMPTION

INDICATORS	MDC OPERATIONS
	TOTAL
(EN3) DIRECT ENERGY CONSUMPTION (Diesel Usage, scope 1, in million liters)	3.54 (outside diesel included)
(EN4) INDIRECT ENERGY CONSUMPTION (Purchased Electricity, scope 2, in million kilowatt hours)	8.99

Note: Scope 1 Emission Factor = 2.745 kg C02/liter of diesel (based on the Greenhouse Gas Accounting Protocol of the World Research Institute). Scope 2 Emission Factor = 0.548 kg C02/kWh

District Cooling System. In 2012, the Company delivered on its promise to build sustainable, energy-saving facilities in its large-scale developments. PhilEnergy, a subsidiary, built and now operates its second District Cooling System at the re-developed Ayala Center in Makati. Its first facility in Alabang Town Center in Muntinlupa has resulted in 33% savings in electricity for the mall. This is equivalent to 4,363,399 kWh per year.

areas because we do not have direct control over the consumption of households. However, in terms of commercial spaces, we monitor and report on both common and all areas to help us engage our tenants for future conservation programs.

Energy audits and investigations are undertaken in properties that exceed their target limits. Where applicable, energy-saving technologies are applied, such as LED lights and motion control systems in place of conventional lighting. Green technologies used in 2012, such as solar lampposts and solar home systems in Trinoma and NUVALI, respectively, generated savings of 2,100KWh per month. EN5, EN6, EN7

In terms of our water consumption, we draw surface water through Manila Water for our projects in Metro Manila, which taps its own supply from the La Mesa Reservoir. Our developments in the regions draw from the local water districts with their own bulk water sources. Total water discharge into the Laguna de Bay watershed area from APMC's sewage treatment plants in Metro Manila was 1.31 million cubic meters and in compliance with the water quality standards of the Department of Environment and Natural Resources. (EN21)

PROPERTY MANAGEMENT WATER CONSUMPTION

INDICATORS	**RESIDENTIAL (Common Areas)**		**MALLS, OFFICES, ESTATES, CAR PARKS**		**NON-APMC MANAGED ACCOUNTS**		**TOTAL**
	RB	L&H	COMMON AREAS	ALL	COMMON AREAS	ALL	
(EN8) WATER CONSUMPTION (Purchased water, in million cubic liters)	0.23	0.29	1.73	3.45	0.55	0.88	4.85

CONSTRUCTION WATER CONSUMPTION

INDICATORS	MDC OPERATIONS
	TOTAL
(EN8) WATER CONSUMPTION (Purchased water, in million cubic meters)	0.41

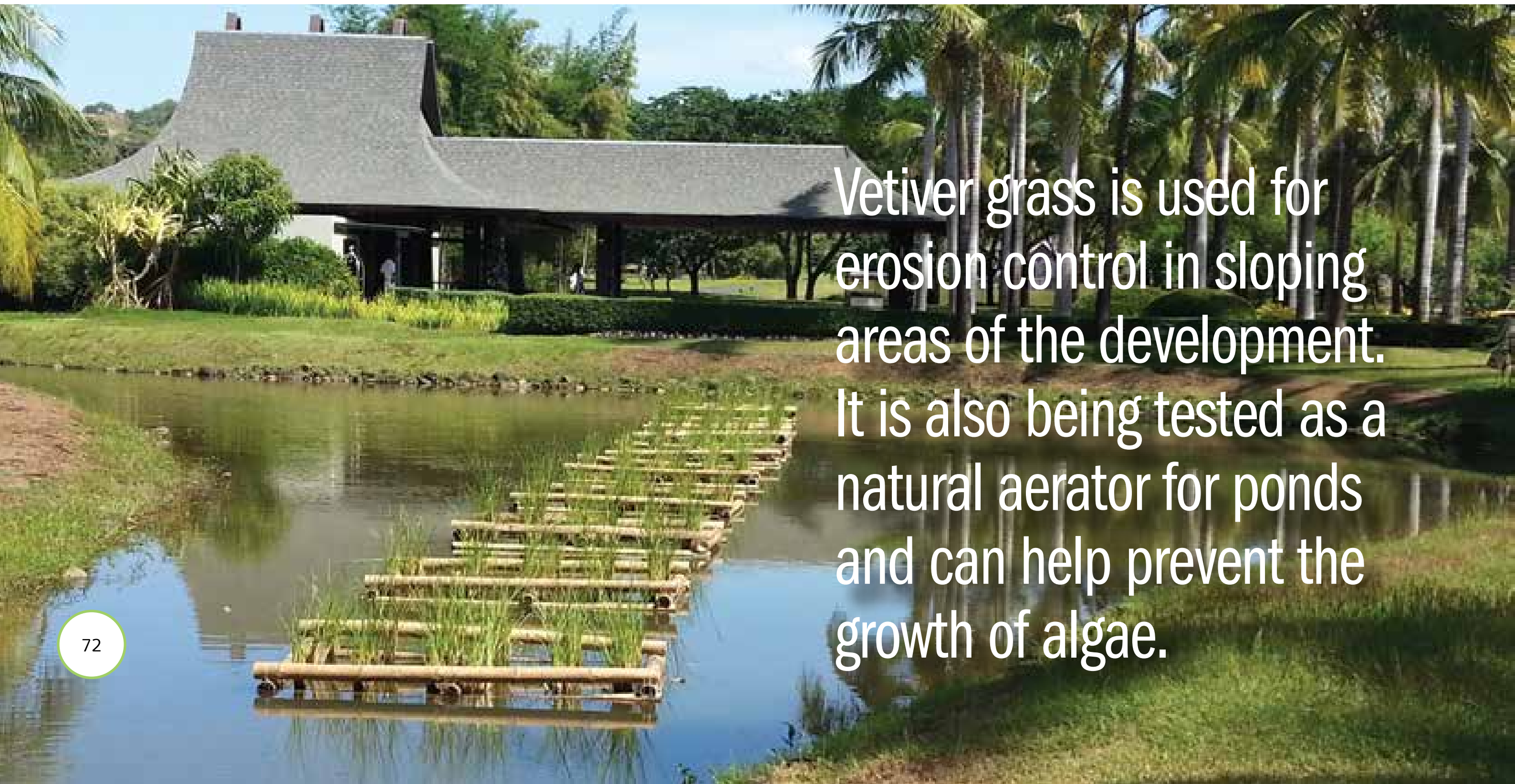
ENERGY, WATER, AND CARBON EMISSION INTENSITY (CRE1, CRE2, CRE3)

		Malls	Office (Traditional)	Office (BPO)	Residential (Vertical)	Residential (Horizontal)
ENERGY KWH/SQM/YEAR	*Target*	*194*	*151*	*132*	*54.33*	*2.18*
	Actual	186	121.09	96.92	36.01	0.34
WATER Cu.M./SQM/YEAR	*Target*	*1.49*	*0.51*	*0.45*	*0.86*	*0.19*
	Actual	1.60	0.55	0.43	0.74	0.04
CO_2 INTENSITY KgCO2/SQM/YEAR		101.93	66.36	53.11	19.73	0.19

Rainwater is also being collected by MDC and used in projects for dust suppression, as part of the company's water conservation initiatives. Water is also recycled and reused for landscape maintenance at the UP-AyalaLand TechnoHub, however, its use in toilets at the facility has been stopped, pending regulatory clarifications. Recycled water at the facility thus dropped to 34,374 cubic meters or 0.34% of total consumption in 2012. Monitoring of the use of recycled rainwater,will start in 2013 and be set against international and national benchmarks for better comparability. (EN10)

Environmental controls continue to be in place throughout our project development process such as a dust control program, an oil-spill response plan, and emergency response, among others. (EN22, EN24) We have an award-winning solid waste management program that monitors the segregation and proper disposal of various waste products generated in company-controlled properties and construction sites. The total weight of solid waste increased from 24,617 tons in 2011 to 28,836 tons in 2012 due to increase in occupancy and in the number of existing properties. Residuals were brought to government-accredited sanitary landfills. MDC labels all waste generated according to the standards and provisions of the law and secures all permits for all types of waste produced during the project cycle. Almost 25,000 liters of used oil and 138 pieces of used batteries were disposed of through authorized government-accredited, third-party recyclers. (EN24)

(EN22) **TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD (IN TONS)**	**2012**	2011	2010
Recyclable Waste (traded with recyclers)	**4,125**	3,870	3,635
Food Waste (sold to pig farms)	**6,315**	5,369	5,530
Compostable Waste (green waste for composting)	**5,699**	5,221	3,556
Residual Waste (hauled to sanitary landfills)	**12,697**	10,157	9,714
Total:	**28,836**	**24,617**	**22,435**



To deal with extreme weather events, we strengthened our systems for erosion and sedimentation and control on site by improving policies for the application of best management practices. Geographic Sub-Crisis Management Teams and Occupational Safety and Health Committees are always part of our project sites to respond to potential project emergencies following our Emergency Response Plan. Periodic reviews of our Business Continuity Management program regularly introduce best practices as business grows, and post-implementation reviews are conducted to identify areas for improvement based on actual challenges. Ayala Land remains a member of the Asian Tsunami Network and Philippine Business for the Environment.

As in the past, there were no significant spills in 2012, and no bodies of water were significantly affected by water discharges and runoffs. No significant fines that resulted in work stoppage due to non-compliance with environmental laws and regulations were charged against the company. (EN23, EN25, EN28)

Recognizing the ozone-depletion potential of CFC refrigerants, we have undertaken the replacement of 22 chillers in seven of our office buildings to use HCFC. These chillers have a combined capacity of 13,462 refrigeration tons. All new buildings (built after 2008) are now using HCFCs, and we will undertake all inventory of old buildings still using CFCs. (EN19)

Initiatives to provide energy-efficient/ renewable energy products and to reduce indirect energy consumption/ carbon footprint (EN6, EN7, EN18)

	NUMBER OF UNITS	TOTAL ENERGY SAVED IN KWH IN ONE YEAR	CARBON EMISSION REDUCTIONS ACHIEVED
Conversion of lights to LED	203	15,071.62	9.1 tons
T5 Retrosave	2,662	26,367	15.9 tons
Installation of solar-powered lamp-posts	55	3,298	2.0 tons
Mature trees from tree planting activities in NUVALI	23,812		23,812 tons
Total:			23,839.03 tons

1:1

Each mature tree has the capacity to absorb one ton of CO_2 per year.

To manage our emissions, we monitor our properties on a monthly basis to ensure that average per square meter emission does not go beyond the limits. As a result, average emission per square meter for APMC-managed areas remain below the target limits based on ASEAN benchmarks and our established performance indicators.

Our initiatives (see table above) enabled us to achieve a reduction in carbon emission by 23,839.03 tons. We shall continue to look for ways to further reduce our carbon footprint and our impact on the environment in the coming periods through new technologies, designs and offsetting programs.

COMMUNITY STEWARDSHIP & SOCIAL DEVELOPMENT

We want the communities around our developments to grow with us and not be dependent on us. To build the capacity of those at the lower levels of the economic pyramid, whether they are directly or indirectly affected by our projects, we harness the power of concerted effort and work with social development organizations that help plan workshops and program development.

Livelihood. Community members were provided start-up capital to put up a pavers-manufacturing plant near the NUVALI development. The pavers they produce are currently used as material for the sidewalks and garden paths of NUVALI.

Understanding and addressing impacts

All real estate projects can have significant environmental and social impacts on the communities, such as increase in traffic, storm-water runoff due to decreased permeability, and possible impacts on local business. Recognizing this, we take necessary steps to not only mitigate negative impacts but to contribute to socio-economic development. We endeavor to make Ayala Land's impacts positive. At present, strategic land bank projects such as NUVALI, Vertis North in Quezon City, Makati Central Business District, and Bonifacio Global City have ongoing community development programs. Anvaya and El Nido Resorts have specific programs that are closely tied with environmental conservation objectives. As we expand into new growth areas, we evaluate our initiatives and engage with the stakeholders to ensure responsiveness to actual needs.

When necessary, we engage NGOs with expertise in community development and consultations, such as I-Serve, which conducted stakeholder mapping for the relocation program for NUVALI. As dutiful partners, we collaborate closely with local stakeholders, such as in Makati CBD and El Nido, where we contributed our expertise and participated in local planning and visioning events to enable others to learn from our experience in creating livable communities.

All projects have multi-partite monitoring teams and submit quarterly self-monitoring reports to the Environmental Management Bureau to cover environmental metrics (water and air quality, solid waste, and waste water) and people development data. Impact assessments are undertaken in compliance with the government-issued environmental clearance certificates. During construction, we prioritize water and land management to prevent adverse impacts on the community's resources such as contamination. Our Sta. Ana development has programs in conjunction with multi-lateral efforts to rehabilitate the Pasig River, a major water system that affects numerous cities and municipalities from Manila Bay to Laguna de Bay. We have an erosion, sedimentation, and stormwater management policy so that stormwater flowing from our developments does not affect surrounding communities. Project measures such as the construction of detention ponds, use of permeable pavers, proper drainage design, and planning for minimum land disturbance protect the surrounding communities. Given our strict external relations protocols, we did not receive any sanctions for non-compliance with laws and regulations concerning our community development projects. (SO8, PR1, SO10)

While we recognize Ayala Land's role in nation building, we are an apolitical and non-partisan organization. We do not contribute to political organizations, parties, politicians, and other institutions with political interests and advocacies. We participate as stakeholders and private sector representatives in local planning bodies and industry associations, where we contribute to a common advocacy and to the improvement of industry performance metrics. Last year, we did not face any legal actions for anti-competitive behavior, anti-trust, and monopoly practices. (SO5, SO6, SO7)

Centex. Ayala Land remained supportive of non-profit organizations such as Center of Excellence in Public Elementary Education or CENTEX, a school for academically gifted youth from under-resourced communities. To spark creativity, innovation, and an appreciation for sustainable practices, we invited the students to conduct their field trip at the Mind Museum in BGC and avail of the outdoor educational adventure program in NUVALI.

Public Library. *Silid Booklatan* is a project of Barangay Fort Bonifacio in Taguig City. Ayala Land, together with its subsidiaries and partners – Filipinas Heritage Library, Alveo Land, Fort Bonifacio Development Corporation, and Makati Development Corporation – transformed a floor of an existing town hall into a library for the community.

Our approaches to developing sustainable communities

Using our core competencies to respond to community needs. We harness the Company's strengths and core competencies to respond to community needs, make the environment habitable, and maintain a productive level of economic activity in the areas. Project-affected people include 500 families successfully relocated from the NUVALI development, and 65% of the informal settlers in the Vertis North site who were relocated by the National Housing Authority. The relocation program is complemented by Alay sa Komunidad, including the creation of close to 200,000 new jobs during the Vertis North development lifecycle. (CRE7)

Alay sa Komunidad is a sustained, customized community development program that runs year-round and throughout the project lifecycle. It promotes inclusive and equitable social growth by raising the standard of living in the partner communities through livelihood development, job creation, education, and health and sanitation.

In 2012, livelihood opportunities through skills training in basic services, paper- and basket-weaving, landscaping, pavers-making, and hollow-blocks making continued to be offered to the NUVALI partner community. Our Supply Chain Management Division works with suppliers and contractors to procure necessary materials and services from these livelihood programs and support local business. Over the last three years, the community has become a constant supplier of NUVALI pavers and food services for the construction group, paper weaving for corporate gifts, food service for various events, and manpower for estate management, security, and special projects. Training sessions on masonry and carpentry, beauty and hair-styling services, and food sanitation for small business owners were also made available. A sewing training center was set up in NUVALI in partnership with the barangay.

Graduates of the various training programs use their new skills to work in the businesses managed by the Sigla Buhay Multi-purpose Cooperative under NUVALI's estate management program, or other nearby industries. The cooperative continues to deliver food services to the various construction sites. The Pag-asa Vesta Plains Producers Cooperative supplies the pavers used in NUVALI's sidewalks. Both community cooperatives underwent trainings for their businesses.

In 2012, the cooperative revenue was P2.5Million, which marked the stability and viability of the organization. They were also able to procure their own truck to aid in their operations. Membership has grown from 20 to 40 families since its establishment. Livelihood programs for 2012 were also expanded to cover topics such as basic meat processing, carinderia business, and waitering and bartending for Bonifacio Global City in Taguig, and business management guidance courses for two community cooperatives for NUVALI in Laguna. The new courses showed the improvement in the skills and economic activity flourishing in the areas.

Other components of the Alay sa Komunidad are Alay sa Kabataan, which works with the Department of Education's Brigada Eskwela through the donation of school kits; and Alay Kalusugan, which includes free medical-dental missions and donation of medicines. In 2012, Ayala Land employees volunteered in the cleaning and repair of four elementary schools near NUVALI, Anvaya, and Ayala Greenfield for Brigada Eskuwela. A total of 47 barangays received Alay sa Kabataan school kits, which consisted of school bags and school supplies, while 10 areas were beneficiaries of the Alay Kalusugan program. In response to the priority agenda of the partner barangay of Bonifacio Global City, Ayala Land built Silid Booklatan, a community library that also serves as a training and meeting venue. (EC8)

Building Up Community Strengths. To increase the employability of our beneficiaries, we mentor them. We build on their existing strengths and enable them to have a professional relationship with us and other business enterprises and/or employers.

(EC7) We have a deliberate local (barangay-level) hiring policy for the various construction projects no matter the scale. At present, NUVALI's local hiring quota from host barangays, Bgy. Sto. Domingo in Sta. Rosa, Laguna, and Bgy. Canlubang in Calamba, Laguna, has been increased from 70% to 90%. MDC sources its workforce from the local community as much as it can to help the community become more productive and stimulate economic activity. Employee referrals also help in attracting talents from the area where the construction site is located. Academic linkages are

Local hiring in NUVALI increased from 70% to 90% in 2012.

BellaVita offers those at the base of the economic pyramid—a largely underserved market—with a chance to own and live in an Ayala Land property, known for its eco-friendly amenities, long-term quality, and safety.

also critical in sourcing local talents. By partnering with the schools in the area where MDC is operating, we have direct access to their students and alumni who are actively looking for employment.

Ayala Land brings in experts in the required skills for production or employment, who share their knowledge with the community members. Training based on TESDA's Carpentry and Masonry National Certificate courses is offered to interested male residents, consisting of lectures and a course practicum, under Bonifacio Global City's Believes, Grows, Cares program. Early in 2012, 40 unemployed residents graduated from TESDA's masonry and carpentry national certificate courses as certified skilled workers. The graduates refurbished a multi-purpose facility in Sitio Tres of the barangay as practicum. Ayala Land also has existing partnerships with its contractors for the hiring of program beneficiaries to further assist them in finding jobs outside project developments.

Creating social enterprise communities

BellaVita, our newest brand, offers socialized housing opportunities to those at the base of the economic pyramid as our support for government efforts to address the national housing shortage. BellaVita developments are complemented by Fiesta Market, a commercial development that promotes local entrepreneurship and formal retail activities. BellaVita launched its Cavite and Laguna projects in late 2012, thus providing a largely underserved market with a chance to own and live in an Ayala Land property, known for its eco-friendly amenities and long-term quality. We look forward to turning over 300 BellaVita units in the first half of 2013, and launching the Fiesta Market in Cavite.

PERSONNEL DEVELOPMENT HEALTH&SAFETY

Employee engagement is an integral part of the Company's over-all strategy for organizational development. Ayala Land's personnel development program is anchored on the belief that a highly engaged organization nurtures the most productive, effective, and fulfilled employees.

Engaging, learning, and nurturing at a time of growth

Given the competitiveness of a thriving real estate industry and the intensified growth of the company, employee retention was a sustainability issue in 2012, with an attrition of 16% of 1,411 employees. (LA1, LA2) To meet the demands of intensified growth, Ayala Land focused its 2012 programs on championing sustainability while addressing the needs of employees for employee productivity, job satisfaction, and increased competency.

Training sessions and activities were designed to enhance team performance, boost knowledge in sustainability practices, address new issues and challenges, and build camaraderie. A total of 33,860

Training sessions and activities were designed to enhance team performance.

Annual team-building activities are conducted by the Company to enhance communication and build better work relationships among its employees.

33,860
Training hours for 29 learning events

average
24.2 hours
per employee

training hours for 29 learning events, or an average of 24.2 hours per employee, were recorded by Human Resources in 2012.

Because of the diverse needs and specializations of the various groups–from construction and design to property management, sales, and marketing–training hours and averages varied greatly between subsidiaries. Our Training and Development unit makes sure that it provides the necessary learnings for upgrading skills and assists in requests for external trainings and mentoring. There are also specialized lectures and presentations by resource speakers on topics such as transport, soil conservation, and climate change, among others. Business units such as Alveo, Anvaya, and El Nido Resorts also conduct regular sustainability-related learning activities and workshops that mobilize employees to adopt sustainability practices in the workplace. (LA10)

Integrative, multidisciplinary learning was encouraged through sharing of best practices among employees. For example, valuable insights into issues such as environment, health and safety; quality assurance and control; technical service and design; and procurement, among others, were documented and shared through the MNOX Learning Sessions. Extreme weather events in 2012 also provided the backdrop for reinforcing Ayala Land's commitment to environmental protection through learning sessions on best management practices for erosion and sedimentation control. These sessions were designed to enable project team members throughout the value chain to incorporate improvements and innovation in their planning and implementation. Trainings on environmental controls and risk management, occupational health, the protection of human rights, and security practices continued to be undertaken last year.

All employees received their annual performance reviews, the results of which were discussed with them. These reviews help us tailor-fit our personnel development programs year-round. (LA10, LA12) Career transitions are supported by financial wellness programs, a severance pay based on years of service, regular orientation on retirement claims, recognition programs, and service awards and benefits such as hospitalization insurance coverage for the retirees. (LA12)

Protecting human rights, preserving integrity

We make sure that our organization protects the dignity of our employees and the people we meet and work with daily. We want an organization that our employees can be proud of because it upholds integrity, ethical practice, and human rights, believing that this enhances our employees' sense of ownership and boosts the morale crucial to productivity.

We protect gender equality at the workplace. While actual figures and ratios vary when taken in the context of actual competencies, tenure, and expertise, our policies on hiring and promotion, and our salary structure are based on merit. Entry-level wage compared to minimum wage is at 1.25:1.
We have in place a Business Integrity Program that analyzed all business units for risks to fraud and corruption last year. (SO2) We trained 4.4% of 1,411 employees or 62 key personnel, who lead departments, on the first year of the program, but rolled out to 100% of employees through work bulletins and other employee communication tools. Vendors, consultants and subject matter experts were included in the training. Any violation, once proven after due process, may constitute grounds for termination of employment. Moving forward, we will require the inclusion of our integrity program as part of the training for both new hires and existing employees in all subsidiaries. Other programs to ensure that the Business Integrity Program will have the full support of the organization, vendors, and partners will be implemented in 2013.This includes providing vendors the ALI Vendors' Code of Ethics and a letter from our CEO on the implementation of the program. (SO3, SO4)

Our employees enjoy freedom of association. In 2012, only 24% of our employees opted to join the

In 2012, the Company launched its first in-house learning program for newly promoted managers. The 3-day "boot camp" facilitates the participants' transition from "individual contributor" to "manager of others."

Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations (HR8)

Total Training hours	Total Employees Attended	Total Employees	Percentage
293	12	32	38%

100%
of employees receive regular performance and career development reviews (LA12)

100%
of total workforce is represented in formal joint management-worker health and safety committees (LA6)

company's labor union, despite the fact that no aspect of our operations prohibits anyone from exercising this freedom to unionize and the right to collective bargaining. Results of the CBAs benefit all non-management employees whether they are members of the union or otherwise. A minimum of 30 days is given as notice regarding significant operational changes as stipulated in the collective bargaining agreement. (LA4, LA5, HR5)

We conduct our own training of security supervisors to make sure security practices are aligned with the values of the Company and not just with the security agency. Last year, 38% or 12 supervisors attended a cumulative 293 hours of training. Security personnel, on the other hand, are trained by our partner agencies. In 2012, none of our operations or the areas where we operate was at risk for instances of child labor, discrimination, or possible violations of the rights of indigenous peoples. All units have been assessed for risks to human rights violations, 12% of employees were trained, and we have formal and informal grievance mechanisms in place for any violations that might arise, such as the Organizational Climate Survey every two years, regular town hall meetings, and a whistle-blower policy, all of which are outlined as clear guidelines in the ALI Code of Ethics. No grievances against human rights were filed against the company in 2012. (HR3, HR4, HR6, HR8, HR9)

Ninety-seven% of our spending goes to local (i.e., Philippine-based, Filipino-owned) suppliers. Analysis of supplier operations is also part of our due diligence. We have a supplier pre-qualification program being implemented by Dun and Bradstreet, and protection of human rights is a priority when awarding contracts to suppliers and in deciding on investments. This designated third party checks all suppliers for violations to fundamental rights such as freedom of association, the right to collective bargaining, forced and compulsory labor; and for the protection of the rights of indigenous groups and children. It facilitates the communication between Ayala Land and the suppliers on issues of sustainability and human rights. (EC6, HR1, HR2, HR5, HR6, HR7, HR9)

Workplace safety and wellbeing

Occupational health and safety is of utmost priority. We reached almost 50 million safe man-hours last year, and 100% of all employees are represented in joint management-and-worker health and safety committees. MDC's U.S. Embassy Manila New Office Annex Project (MNOX), with its 1,200-manpower component, was especially cited by U.S. Ambassador Harry K. Thomas for reaching 10 million-plus hours of work without any record of Lost Time Accident throughout the three-year construction period.
To support MDC work safety programs, a Safety Officer, who doubles as Pollution Control Officer, is responsible for the orientation of all field personnel

and oversees the program's proper implementation, including the mandatory use of Personal Protective Equipment, safety glasses, and dust masks. A detailed Emergency Response Plan and fire and earthquake drills outline the steps that all personnel should take during emergency situations. (LA6, LA7, LA8, PR1)

APMC and MDC are certified OSHAS 18001:2007 for Health and Safety, representing 37% of the total Ayala Land population. (CRE8)

All permanent employees are advised to undergo annual physical examinations. Routine flu shots, eye checkups and refractions were also made accessible to all employees, who also receive timely information on prevention of serious diseases, such as the AH1N1 virus. (LA8, LA9) Benefits include life and health insurance (some are extended to eligible family members), disability and invalidity coverage, retirement provision, and leave benefits, such as sick, vacation, parental leaves. (LA3) Beyond physical wellness, our engagement program nurtures productive, effective and fulfilled employees through fun and meaningful activities.

Such activities are designed to promote open communication among employees belonging to various levels in the organization. We provide opportunities for our employees to participate in activities that showcase talents beyond job-related skills such as a sport, a craft or a hobby that they can share with their workmates. Our Annual JZA Cup, an inter-Ayala company sports tournament, fosters camaraderie and teamwork in the spirit of friendly competition.

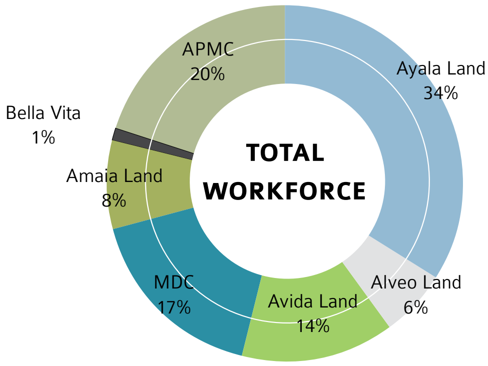
Employees engage in various sports activities and tournaments that drive the values of hard work and excellence, synergy and trust.

ALI Personnel Report Card

Total workforce by employment type, employment contract, and region, broken down by gender. (LA1)

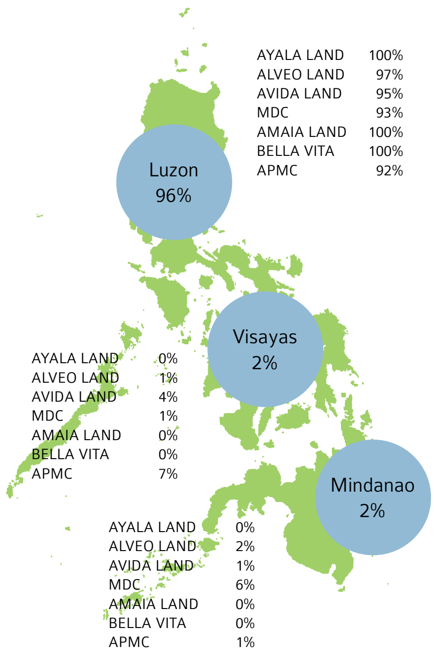
	PERMANENT	PROBATIONARY	TOTAL HEADCOUNT
AYALA LAND	470	16	486
ALVEO LAND	82	8	90
AVIDA LAND	169	27	196
MDC	239	3	242
AMAIA LAND	93	18	111
BELLA VITA	4	7	11
APMC	252	23	275
TOTAL	**1,309**	**102**	**1,411**

TOTAL WORKFORCE (Total for 2011 = 1,298)



Employee Distribution

		GENDER DISTRIBUTION		AGE DISTRIBUTION			DISTRIBUTION BY POSITION		
	TOTAL HEAD-COUNT	% MALE	% FEMALE	% UNDER 30	% 30-49	% 50-ABOVE	% SENIOR MGT	% MID-MGT	% STAFF
AYALA LAND	486	46%	54%	22%	67%	11%	4%	41%	55%
ALVEO LAND	90	36%	64%	56%	44%	0%	0%	22%	78%
AVIDA LAND	196	35%	65%	53%	46%	1%	0%	18%	82%
MDC	242	76%	24%	13%	68%	19%	1%	23%	76%
AMAIA LAND	111	36%	64%	42%	58%	0%	0%	16%	84%
BELLA VITA	11	45%	55%	91%	97%	0%	0%	0%	100%
APMC	275	67%	33%	49%	46%	5%	3%	9%	88%
TOTAL	**1,411**	**52%**	**48%**	**35%**	**57%**	**8%**	**2%**	**25%**	**73%**



Employee Turnover: Total number and rate of employee turnover by age group and gender (LA2)

		GENDER DISTRIBUTION*		AGE DISTRIBUTION*			DISTRIBUTION BY REGION*		
	TOTAL # TURNOVER IN 2012	% MALE	% FEMALE	% UNDER 30	% 30-49	% 50-ABOVE	LUZ	VIS	MIN
AYALA LAND	25	2%	3%	2%	3%	0%	100%	0%	0%
ALVEO LAND	7	6%	2%	6%	2%	0%	100%	0%	0%
AVIDA LAND	89	25%	20%	21%	23%	1%	98%	2%	0%
MDC	28	8%	3%	2%	8%	1%	100%	0%	0%
AMAIA LAND	32	17%	12%	16%	13%	0%	100%	0%	0%
BELLA VITA	4	18%	18%	9%	27%	0%	100%	0%	0%
APMC	48	12%	6%	9%	8%	1%	98%	2%	0%
TOTAL	**233**	**10%**	**7%**	**8%**	**8%**	**3%**	**16%**	**2%**	**0%**

* Percentage of resigned employees over total headcount

Benefits provided to full time, regular employees of ALI (LA3, EC3)

- Life insurance (inpatient and outpatient), health coverage
- Disability / Invalidity coverage
- Retirement benefit
- Leave Benefits
- Medical allowance

Number of employees entitled to parental leave – 486

- Number of employees by gender that took parental leave: Male = 4; Female = 11
- Number of employees who returned to work: Male = 4; Female = 11
- Number of employees still employed twelve months after their return to work: Male = 4; Female = 11
- The return to work and retention rates: 100% (Male and Female)

ZERO

Rate of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities (LA7)

Average hours of training per year per employee by gender, and by employee category (LA10)

	TOTAL TRAINING HRS	TOTAL EMPLOYEES	AVE TRAINING HRS
Senior Management	320	22	14.55
Middle Management	2,827	197	14.35
Staff	2,504	267	9.38

*Training Hours of Regular Employees (parent company)

	Total Training Hours	Total Employees	Average Training Hours
		Alveo Land	
Management	249	20	12.45
Staff	991	70	14.16
		MDC	
Senior Management	16	2	8.00
Middle Management	1,658	57	29.09
Staff	3,367	183	18.40
		Avida Land	
Management	2265.5	35	64.73
Staff	11387.5	161	70.73
		Amaia	
Management	120	18	6.67
Staff	260	93	2.80
		APMC	
Senior Management	160	9	18
Middle Management	444	23	19
Staff	7,291	243	30

Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.
(LA8, LA9)

- Company and its subsidiaries undergo annual physical exams and routine flu shots
- Employees receive timely information on prevention of serious diseases, such as AH1N1 virus
- Extensive health insurance coverage for both employees and eligible family members
- Company conducts eye check-ups and refraction
- Company clinic at head office with company nurse and doctor
- Program and orientation on Safety and Pollution Control for all field personnel
- Mandatory use of personal protective equipment, safety glasses, and dust masks for construction personnel
- Detailed Emergency Response Plan outlining the steps that personnel should take during emergency situations
- Regular fire, earthquake and emergency response drills

Ratio of basic salary and remuneration of women to men by employee category (LA14)

	Women	Men
Manager	0.51	1
Staff	1.35	1

Note: Computed as total of remuneration for all women and men in each employee category.

Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. (HR3)

	Total Employees	Percentage
Senior Management	1	3%
Middle Management	9	2.57%
Staff	152	15%
Total	**162**	

Composition of governance bodies and breakdown of employees per employee category according to gender and age group (LA13)

	% MALE	% FEMALE	% UNDER 30	% 30 TO 50	% OVER 50
Board of Directors	89%	11%	0%	0%	100%
Management Committee	83%	17%	0%	42%	58%

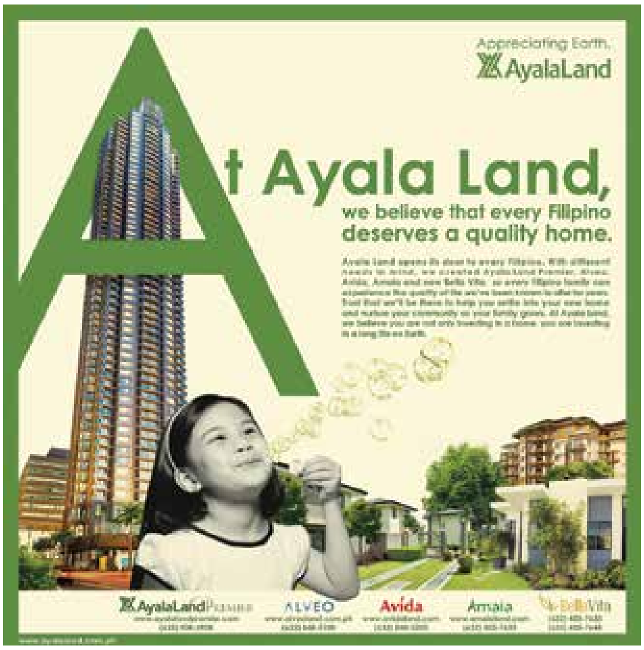
Total Board of Directors: 9 | Total Management Committee: 12

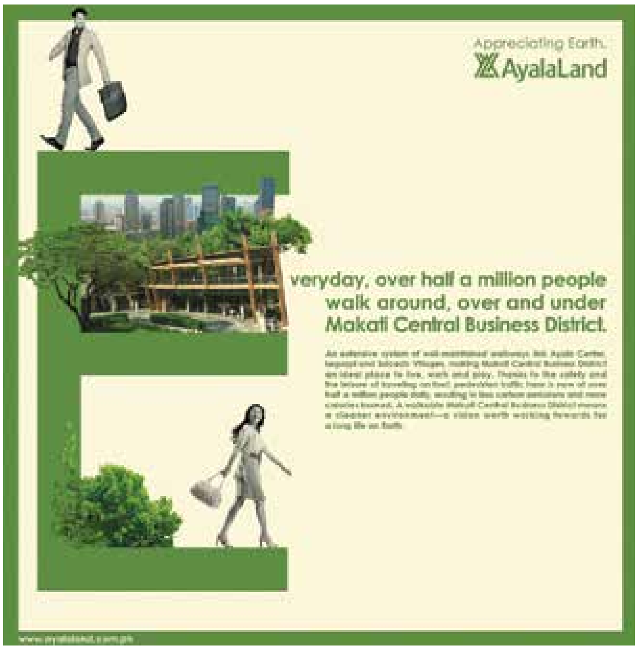
Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
(LA11)

1. Training and Development Unit provides assistance for upgrading skills of the employees after a Training Needs Assessment
2. External trainings supported by departments
3. Regular orientation on retirement claims from government agencies (e.g. SSS, Philhealth, PAG-IBIG)
4. Hospitalization insurance coverage for retirees (not extended to dependents)
5. Mentoring programs by retirees
6. Recognition programs and Service Awards
7. Severance pay based on employee's years of service.
8. Financial Wellness Program

MARKET SHAPING

As market leader, Ayala Land recognizes it is in a position to serve as role model for sustainable property development. Each project endeavors to provide consumers and users with an experience of healthy living and recreation, productive enterprise, and social cohesion. Through our deliberate gathering of information on customer, user, resident, and other stakeholder feedback throughout the project development cycle, we are able to plan responsibly. Through market shaping, we create shared value among customers and the general public and stimulate a demand for sustainable lifestyles.





Appreciating earth: communicating Ayala Land's commitment to sustainability

The Appreciating Earth program was launched in the first quarter of 2012 through a communications campaign to demonstrate to the public Ayala Land's commitment to make sustainability a purposeful and consistent part of everything it does. Eleven print ads accompanied by twelve newspaper articles articulated that, for Ayala Land, sustainability means building communities that provide for the needs of diverse customers as well as future generations. The series also showed that sustainability goes beyond green and that it involves principles such as inclusive advancement, community stewardship, and social development. The ads and the articles communicated to the public that, for Ayala Land, sustainability is ultimately a way of operating that uplifts the lives of people in and around its developments. Ayala Land's top management and business unit heads were interviewed for newspaper articles to explain how the environment and community are considered throughout its value chain, from product development to planning, procurement, construction, and property management. (PR6)

Communicating responsibly, listening actively

Throughout our communication campaigns, we always adhere to the standards found in our operations manual and voluntary codes of the industry. Marketing heads and relevant resource persons in the company check and vouch for the information found in our marketing materials before their release. We make sure that scientific data and research can back up our claims about our sustainability practice. We also adhere to the codes of the Housing and Land Use Regulatory Board (HLURB) and the Advertising Board of the Philippines. Our marketing and sales staff are also trained on laws, standards, and codes on advertising and promotion. As such, our company did not receive any sanctions concerning our communication tools and practices in 2012. (PR3, PR6, PR7, PR9)

As customers and the general public understand better how sustainability principles are incorporated into actual programs in Ayala Land, regular engagements with them measure their satisfaction and identify areas of improvement. Discussions and interactions with stakeholders such as local governments, civil society, and special interest groups such as conservation NGOs, bicycle users, birdwatchers, and native plant enthusiasts, were undertaken through focus group discussions and shared activities. Social media is monitored for comments and insights that may contribute to the improvement of services and operations. We also conducted focus group discussions, public briefings, and analysts' briefings to this end. We have a website and other social media accounts through which the public can communicate feedback and concerns. (PR5)

Satisfaction studies were conducted last year covering a sample of 1,148 residents, buyers, shoppers, store managers, employees, and facilities managers. Overall results of the 2012 Customer Satisfaction Survey were at par with the results of the 2011 survey and within Ayala Land's 4/5 target score. Posted were slight increases in the results in the CBG group, especially among mall store managers and office facilities managers, offsetting the minimal downturn among the recent residential buyers and mall shoppers.

Satisfaction drivers among residents of our developments are the locations of our properties, while mall store managers and office facilities managers cite security, maintenance, and professionalism (accessibility and timely communications). Given the company's aggressive growth, however, there were areas of improvement that caused dips in the ratings of some residential and commercial projects from 2011 to 2012, such as staff knowledge and response time to requests and inquiries, communication of pertinent information, issues regarding billings and dues, and safety and

emergency programs for residents. Our employee engagement and additional trainings in 2013 are designed to address these shortfalls. Additional covered walkways to the malls and office buildings and additional services such as WiFi in select areas are being studied to increase satisfaction ratings.

In the next survey period, we shall be measuring the effectiveness and reach of our sustainability communications campaign, and see how we may better create shared value with the public towards creating sustainable communities. As in the past, there were no complaints regarding breaches of privacy and losses of customer data, and no significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (PR8, PR9)

STAKEHOLDER COMMENTARIES

The insufficient attention on education in the past has strengthened the Barangay's commitment to implement education-related projects for its residents. However, we lack the financial resources to make these efforts possible. The assistance of the private sector is vital.

Ayala Land has been Barangay Fort Bonifacio's significant private partner. Among the projects we've accomplished together is bringing to life the Silid Booklatan, a community reading room open to children of all ages and aimed at increasing awareness and love for reading. The barangay has also benefited from Ayala Land through various community-building events, such as the recent BGC Passionfest. They've also made complimentary trips to the Mind Museum possible which supports our commitment to education. To increase employability among our constituents, several training sessions have been conducted in collaboration with Ayala Land, TESDA and DOST Technology Resource Center.

Through Ayala Land and Barangay Fort Bonifacio's Council, we are able to deliver fundamental education-related services to our constituents.

LINO CAYETANO | Barangay Captain
Barangay Fort Bonifacio, Taguig City

I have worked for several other companies in the past but I have never experienced a company that truly lives up to its promise like Ayala Land. From design consideration to development and program implementation, and even up to engagement activities, Ayala Land religiously includes sustainable principles in its core activities.

Ayala Land truly stands out as a business and organization that is committed to environmental sustainability. It ensures that the public appreciate and contribute to sustainable growth when they patronize the company's various residential developments, offices, hotels, resorts, and malls. Noteworthy are efforts such as NUVALI's green environment, water-recycling process, bird sanctuary and green education as well as El Nido's marine eco-system protection and pollution control activities. I appreciate Ayala Malls' green design, energy efficiency, earth-friendly activities and waste management system. These sustainability commitments have been delivered by the company and I believe it will continue to do so for future projects and programs. All these make me even more proud to be an Ayala Land employee.

MAPHI S. TANDOC | Chief Risk Officer, Ayala Land, Inc.

This principle guides us in the City of Santa Rosa as we try to achieve balance in everything — development and sustainability.

Being a city known for its industrial and commercial development, Santa Rosa still advocates and pushes for a clean environment believing that it must never be sacrificed because of our desire to embrace growth and development. As demanded by the needs of the times, it is imperative that we build not only a modern city but a greener Santa Rosa as well by improving the quality of our air and water, manage our solid waste well, and introduce innovative practices for the environment.

For this reason, we will always be grateful for having found an ally in Ayala Land, Inc. who shares the same vision, belief and advocacy as the city. With this commonality, we are confident that Ayala Land and the City of Santa Rosa will continue to be partners in our cohesive efforts of building and strengthening communities that meet the diverse needs of the people we serve, in consonance with the City's slogan SERBISYONG MAKATAO, LUNGSOD NA MAKABAGO.

Congratulations to Ayala Land, Inc. Mabuhay po kayo!

HON. ARLENE B. ARCILLAS | City Mayor, Sta. Rosa Laguna

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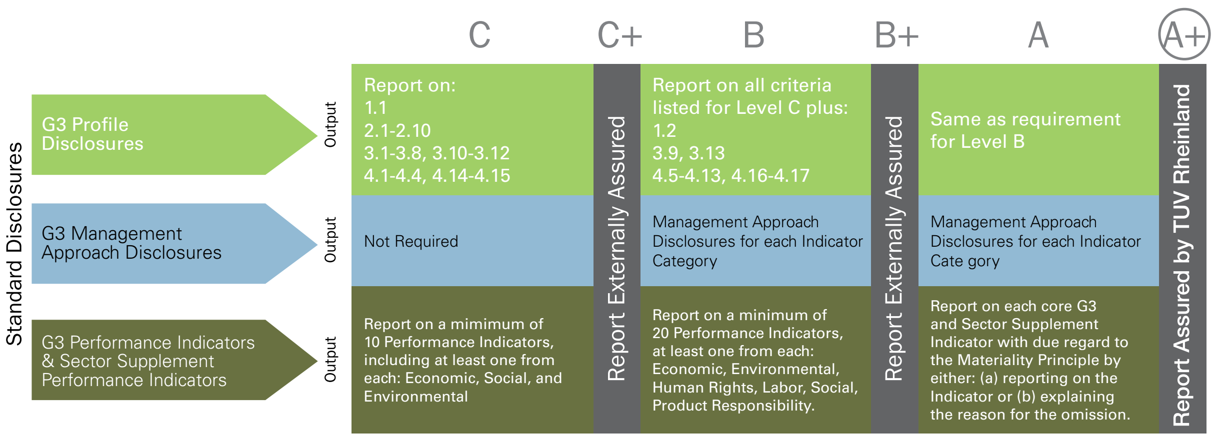
Disclosures on Management Approach (DMA) and Standard Disclosures	59-61	
DMA ECONOMIC (9 indicators)		
EC1 Economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and government (C)	55	(P) Not all community investments have been computed
EC2 Financial implications and other risks and opportunities. (C)	56	✓
EC3 Coverage of defined benefit plan obligations. (C)	84	✓
EC4 Significant financial assistance from government. (C)	153, 180	(P)
EC5 Range of ratios of standard entry level wage compared to local minimum wage. (A)	81	(P)
EC6 Policy, practices, and proportion of spending on locally-based suppliers. (C)	82	✓
EC7 Procedures for local hiring and proportion of senior management hired from the local community. (C)	77	✓
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit. (C)	63, 66, 77	(P)
EC9 Significant indirect economic impacts, including the extent of impacts. (A)	56	(P)
ENVIRONMENTAL (30+5 sector specific = 35)		
EN1 Major Materials used by weight or volume. (C)	68	(P)
EN2 Percentage of materials used that are recycled input materials. (C)	68	(P)
EN3 Direct energy consumption by primary energy source. (C)	70	(P)
EN4 Indirect energy consumption by primary source. (C)	70	✓
EN5 Energy saved due to conservation and efficiency improvements. (A)	70	✓
CRE1 Building energy intensity	71	(P)
EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and resulting reductions. (A)	70, 73	✓
EN7 Initiatives to reduce indirect energy consumption and results. (A)	70, 73	✓
EN8 Total water withdrawal by source. (C)	71	(P) Only Metro Manila reported
EN9 Water sources significantly affected by water withdrawal. (A)	71	(P)
EN10 Percentage and total volume of water recycled and reused. (A)	72	(P) Not all initiatives are monitored
CRE2 Building water intensity	71	(P) Reported by building type
EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. (C)	63, 65	(P) Areas of high biodiversity are reported, including ALI-declared buffer zones
EN12 Significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. (C)	65	(P) Not all areas are covered by biodiversity surveys
EN13 Habitats protected or restored. (A)	63	(P)
EN14 Strategies, current actions, and future plans for managing impacts on biodiversity. (A)	63	(P)
EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations. (A)	66	(P)
EN16 Total direct and indirect GHG emissions by weight. (C)	70	(P)
EN17 Other relevant indirect GHG emissions by weight. (C)	73	x Only scope 1 & 2 are currently significant to operations
EN18 Initiatives to reduce GHG emissions and reductions achieved. (A)	73	✓
EN19 Emissions of ozone-depleting substances by weight. (C)	73	(P)
EN20 NOx, SOx, and other significant air emissions by type and weight. (C)	-	X No significant contribution to NOX and SOX
EN21 Total water discharge by quality and destination. (C)	71	(P)
EN22 Total weight of waste by type and disposal method. (C)	72	✓
EN23 Total number and volume of significant spills. (C)	73	(P)

Legend: (C) Core; (A) Additional

GRI INDICATOR AND DESCRIPTION	REFERENCE/ PAGE NUMBER	REMARKS
EN24 Weight of transported, imported, exported, or treated waste deemed hazardous, and percentage of transported waste shipped internationally. (A)	72	(P)
EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff. (A)	73	(P)
CRE3 GHG emission intensity from buildings	71	(P)
CRE4 GHG emission intensity from new construction and redevelopment activity	71	✓
CRE5 Land remediated and in need of remediation for the existing or intended land use, according to applicable legal designation	-	x No land in need of remediation in 2012
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. (C)	63, 65	✓
EN27 Percentage of products sold and their packaging materials that are reclaimed by category. (C)	68	(P)
EN28 Significant fines and non-monetary sanctions for non-compliance with environmental laws and regulations. (C)	73	✓
EN29 Significant environmental impacts of transporting products, goods, materials, and employees. (A)	68	(P)
EN30 Total environmental protection expenditures and investments by type. (A)	63	(P)
LABOR PRACTICES (14+1 sector specific = 15 indicators)		
LA1 Total workforce by employment type and contract. (C)	79, 84	✓
LA2 Employee turnover by age group, gender, and region. (C)	79, 84	✓
LA3 Benefits provided to full-time employees only. (A)	83, 84	✓
LA4 Percentage of employees covered by CBAs. (C)	82	✓
LA5 Minimum notice period(s) regarding significant operational changes. (C)	82	✓
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees. (A)	83, 84	✓
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region. (C)	83,84	(P)
LA8 Education, training, counseling, prevention, and risk-control programs to assist workforce members, their families, or community members regarding serious diseases. (C)	83, 85	✓
CRE6 Percentage of the organization operating in verified compliance with an internationally recognized health and management system	83	(P)
LA9 Health and safety topics covered in formal agreements with trade unions. (A)	83, 85	✓
LA10 Average hours of training per year per employee by employee category. (C)	80,81,85	✓
LA11 Programs for skills management and lifelong learning of employees. (A)	85	✓
LA12 Percentage of employees receiving regular performance and reviews. (A)	81, 84	✓
LA13 Composition of governance bodies and breakdown of employees according to indicators of diversity. (C)	85	✓
LA14 Ratio of basic salary of men to women by employee category. (C)	85	✓
HUMAN RIGHTS (9 indicators)		
HR1 Percentage and number of significant investment agreements with human rights clauses or screened for human rights. (C)	82	(P)
HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (C)	82	(P)
HR3 Percentage of employees and training hours on policies and procedures concerning human rights. (A)	82, 85	(P)
HR4 Total number of incidents of discrimination and actions taken. (C)	82	✓
HR5 Operations which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. (C)	82	(P)
HR6 Operations that may have/prone to/identified as having significant risk for incidents of child labor, and measures taken to contribute to its elimination. (C)	82	(P)
HR7 Operations prone to significant risk for incidents of forced or compulsory labor, and measures to contribute to its elimination. (C)	82	(P)
HR8 Percentage of security personnel trained in aspects of human rights. (A)	82, 85	✓
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken. (A)	82	✓
SOCIETY (10 +1 sector specific = 11 indicators)		
SO1 Programs and practices that assess and manage the impacts of operations on communities. (C)	75	✓
SO2 Percentage and total number of business units analyzed for risks related to corruption. (C)	81	✓
SO3 Percentage of employees trained in anti-corruption policies and procedures. (C)	81	(P)

GRI INDICATOR AND DESCRIPTION	REFERENCE/ PAGE NUMBER	REMARKS
SO4 Actions taken in response to incidents of corruption. (C)	81	(P)
SO5 Public policy positions and participation in public policy development and lobbying. (C)	75	✓
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (A)	75	✓
SO7 Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. (A)	75	✓
SO8 Significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. (C)	75	✓
SO9 Operations with significant potential or actual negative impacts on neighboring communities (C)	61	(P)
CRE7 Number of persons voluntarily and involuntarily displaced and/or resettled by development, broken down by project	76	(P) Only large developments covered
SO10 Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities (C)	75	✓
PRODUCT RESPONSIBILITY (9+1 sector specific = 10 indicators)		
PR1 Life cycle stages in which health and safety impacts of products and services are assessed. (C)	75, 83	✓
PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle. (A)	88	✓
PR3 Type of product and service information required by procedures. (C)	87	✓
CRE8 Type and number of sustainability certification, rating and labeling schemes for new construction, management, occupation and redevelopment	83	(P)
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling. (A)	87	✓
PR5 Practices related to customer satisfaction. (A)	87	✓
PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications. (C)	87	✓
PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications. (A)	87	✓
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (A)	88	✓
PR9 Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (C)	88	✓

*A complete description of each indicator is found in the GRI website.
Legend:
✓ Fully reported
(P) Partially reported
X not reported (with explanation)



EXTERNAL ASSURANCE

Independent Assurance Statement:

Introduction:

TÜV Rheinland India Private Ltd., member of TÜV Rheinland Group, Germany (TÜV, We) has been entrusted by the management of Ayala Land, Inc. (Ayala Land, the Company) to conduct independent assurance of Ayala Land Integrated Annual & Sustainability Report 2012 (the Report). All contractual contents for this assurance engagement rest entirely within the responsibility of Ayala Land. Our task was to give a fair and adequate judgment on the Ayala Land Report 2012.

The intended users of this assurance statement are stakeholders having relevance to the Ayala Land overall Sustainability Performance and impacts of its business activities during 2012 (January 2012 – December 2012). TÜV Rheinland is a global service provider of CSR & Sustainability Services in over 61 countries, having qualified professionals in the field of Corporate Sustainability Assurance, Environment, Social and Stakeholder Engagement. We have maintained complete impartiality and independence during the assurance engagement and were not involved in the preparation of report contents.

Assurance Standard:

The Independent Assurance was carried out in accordance with AccountAbility, U.K Standard AA 1000 AS (2008) and related standards AA 1000 APS(2008), AA 1000 SES 2011 (Final exposure draft), Principles of Inclusivity, Materiality & Responsiveness, Global Reporting Initiative (GRI) Reporting guidelines Version 3.1(G3.1) and TÜV STAR (Sustainability-Trustworthy-Accountability-Responsiveness) assessment protocol.

Scope & Type of Assurance:

Our assurance engagement covers the following:

- Ayala Land Corporate Sustainability performance as described in the report in accordance with GRI reporting guidelines and performance indicators from Economic, Environment & Social category (GRI application Level "A"), also defined in Reporting boundaries.
- Evaluation of disclosed information in the report as per the Assurance Standards.
- Type-1, Moderate as per AA 1000 AS (2008).

Limitation: The assurance engagement was carried out at Ayala Land Corporate office: 30 F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City and visits to its construction site at Bonifacio Global City, NUVALI Township, MDC construction company of Ayala Land. We have not observed any significant situations to limit our assurance activity. The verification is carried out based on the data and information provided by Ayala Land, assuming they are complete and true. We did not verify the reported financial data as same is verified by another third party.

Assurance Methodology:

TÜV has challenged the report contents and assess the process undertaken by Ayala Land from source to aggregate in disclosure of information/data related to Sustainability performance. Our judgment is based on the objective review of reported information as per criteria defined under Assurance standards.

Analytical methods and the performance of interviews as well as verification of data, done as random sampling, to verify and validate the correctness of reported data and contents in light of contractual agreement and the factual Ayala Land strategy as mentioned in the report. Our work included consultation with over 50 Ayala Land representatives including senior management and relevant employees as well as consultations with external stakeholders (Re-habilitated & Re-settled community by Ayala Land) at NUVALI township were carried out. The approach deemed to be appropriate for the purpose of assurance of the report since all data therein could be verified through original proofs, verified database entries.

The Assurance was performed by our multidisciplinary team of experienced professionals in the field of Corporate Sustainability, Environment, Social and Stakeholder Engagement. We are of the opinion that our work offers a sufficient and substantiated basis to enable us to come to a conclusion mentioned below and based on the content of our contract.

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Positive Observation:

We would like to mention some of the positive aspects observed during Ayala Land assurance engagement as below:

- The Ayala Land undertake real estate property development and management using innovative eco-friendly building design, re-use of construction material, energy efficiency for all segment of society right from high end to marginalized (BoP).
- The Ayala Land undertake water conservation and preservation through rain water harvesting at construction project sites.

Opportunity for Improvement:

During assurance engagement, we found further opportunity for improvements reported back to Ayala Land management as below. However, these do not affect our conclusion on the report.

- To further align existing CSR management system with International standards like Guidance on Social responsibility ISO 26000 (2010).
- To develop the strategy for improved stakeholder participation & communication both internal & external, leading to Innovation, Learning and Sustainability Performance improvement.
- Integrate Enterprise Risk Management to include more emphasis on societal & environmental risk.

Adherence to AA 1000 principles:

Inclusivity: Ayala Land has identified, prioritize and engaged with its internal and external stakeholders through formal and informal mechanism like customer survey , Intranet & Employees blogs as a response to sustainable development issue.

Materiality: Ayala Land has identified the material issues related to sustainable development viz. economic, environment & social performance and provide balance information in the report. The Corporate strategy is align to address identified material issues.

Responsiveness: Ayala Land has responded to its stakeholders against identified material issues critical to sustainable development through disclosure made in report 2012, Corporate Strategy strategy, Policies, implementation systems and processes, allocation of resources to stakeholder engagement and communication.

Conclusion:

In conclusion, we can mention that no instances or information came to our attention that would be to the contrary of the statement made below:

- Ayala Land Integrated Annual & Sustainability Report 2012 meets the requirement of Type-1, Moderate Assurance according to AA1000AS(2008) and GRI application level "A+"
- The Report includes statements and claims that reflects Ayala Land achievements and challenges supported by documentary evidences and internal records
- The performance data we found in the report are collected, stored and analyzed in a systematic and professional manner and were plausible.
- TÜV Rheinland shall not bear any liability or responsibility to a third party for perception and decision about Ayala Land based on this Assurance Statement.

For TÜV Rheinland Group

AA1000
Licensed Assurance Provider
000-51

Dr. Manish Chandekar — Verifier

Ganga C. SHARMA — Lead Verifier

New Delhi, 28th March, 2013

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FINANCIAL REPORTS

Management's Discussion and Analysis of Financial Results
Report of Audit and Risk Committee to the Board of Directors
Statement of Management's Responsibility for Financial Statements
Independent Auditors' Report
Financial Statements
Notes to Financial Statements

Management's Discussion on Results of Operations and Analysis of Financial Results

Results of Operations
Ayala Land, Inc. posted a record P9.04 billion in net income for the year 2012, 27% higher than the P7.14 billion recorded the previous year. Consolidated revenues reached P54.52 billion, 23% higher year-on-year. Revenues from Real Estate, which comprised the bulk of consolidated revenues, increased by 21% to P49.90 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 P33.19 billion in 2012, 31% higher than the P25.26 billion recorded in 2011.

Revenues from the residential business reached P30.88 billion in 2012, 29% higher than the P23.99 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 P10.39 billion in revenues or an improvement of 9% year-on-year on the back of increased bookings in projects namely Park Terraces Makati, and Elaro in NUVALI. Alveo and Avida also registered year-on-year revenue growth of 29% and 37% to P7.52 billion and P8.29 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

Revenue Breakdown

	REVENUES		Change	
(in million pesos)	FY12	FY11	Amount	%
Residential	30,880	23,986	6,894	29%
Commercial/Industrial lot sales	2,309	1,274	1,035	81%
Retail	5,847	4,965	882	18%
Office	2,936	2,499	437	17%
Hotels & Resorts	2,452	2,244	208	9%
Services	20,530	14,883	5,647	38%
Inter-company eliminations	(15,050)	(8,620)	(6,430)	75%
Other Income	4,620	2,975	1,645	55%
TOTAL	**54,524**	**44,206**	**10,318**	**23%**

1-3 (Mandaluyong City), 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 P1.55 billion, 85% higher than the P841 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 P77.61 billion, equivalent to an average monthly sales take-up of P6.47 billion that is 50% higher than the P4.31 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 P2.31 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 P8.78 billion in 2012, 18% higher than the P7.46 billion recorded the previous year.

Revenues from Shopping Centers increased by 18% to P5.85 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 P2.94 billion in 2012 from P2.50 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 P589 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

MARGIN PERFORMANCE OF BUSINESS UNITS

	2012	2011
Property Development (Gross Profit)		
Residential		
Horizontal	**45%**	46%
Vertical	**35%**	33%
Commercial and Industrial Lots	**50%**	54%
Commercial Leasing (EBITDA)		
Shopping Centers	**62%**	60%
Office	**82%**	80%
Hotels and Resorts (EBITDA)	**15%**	29%
Services (EBITDA)	**7%**	8%

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 P2.45 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 Seda Hotel in Davao by the end of 2013 which collectively will add another 543 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 P5.48 billion in 2012. This was 13% lower than the P6.26 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 P19.24 billion compared to P13.77 billion in 2011, while Property Management revenues grew 16% to P1.29 billion in 2012 due to higher carpark revenues, compared with P1.11 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 P1.33 billion in 2012 from P899 million the previous year, mainly as a result of higher contributions from the projects of BG West Properties Inc., BG South Properties Inc. and BG North 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 P3.29 billion in 2012 compared with the P2.08 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 P4.31 billion worth of receivables.

Expenses

Total expenses amounted to P41.30 billion in 2012, 23% more than the P33.50 billion incurred in 2011. Cost of Sales from Real Estate, which accounted for the bulk of expenses, rose 20% year-on-year to P33.44 billion. GAE meanwhile grew by 28% to P4.44 billion, partly because of the increase in manpower-related expenses for the new hotels and resorts facilities. Nevertheless, GAE-to-revenue ratio remained

CONSOLIDATED LANDHOLDINGS

(in hectares)	**End-2012**	End-2011
Makati	**71**	71
Taguig	**111**	23
NUVALI	**1,749**	1,382
Cebu	**187**	125
Other Manila	**307**	273
Other Luzon, Visayas, and Mindanao	**3,269**	3,011
Total landbank	**5,694**	**4,885**

2012 Capital Expenditure

(in million pesos)

Land acquisition	40,711	57%
Residential	16,314	23%
Retail	7,544	10%
Hotels and Resorts	4,854	7%
Offices	1,161	2%
Land development	709	1%
Total	**71,293**	**100%**

at 8% in 2012. Interest Expense, Financing and Other Charges increased by 65% year-on year to P3.42 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 P71.29 billion in capital expenditures in 2012, 138% more than the P29.91 billion spent the previous year. Residential development accounted for 23% of the total, while 57% was spent for land acquisition, which includes P22.6 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 P65.5 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 P129 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 P3.0 billion notes and P15.0 billion bonds, as well as the P1.0 billion Homestarter Bond issued in 2012 brought Cash and Cash Equivalents to P28.60 billion. Current Ratio stood at 1.40: 1, with total borrowings at P69.45 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.

Retained earnings amounting to P6.0 billion was appropriated for future expansion. 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 Ayala Land's mixed-use developments. Each year Ayala Land incurs residential capital expenditures for property development which includes among others land banking and building construction projects. The annual appropriation by Ayala Land 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 P6.0 billion appropriation, hence the Company will provide future appropriation as the need arises.

Ayala Land's retained earnings available for dividend declaration as of December 31, 2012 and 2011 amounted to P19.9 billion and P19.2 billion, respectively. Subsequently, the Company declared dividends at P0.14787806 per common share on February 19, 2013, payable on March 19, 2013 to stockholders of common shares as of record date on March 5, 2013.

Report of the Audit & Risk Committee to the Board of Directors

The Audit and Risk Committee's roles and responsibilities are defined in the Audit and Risk Committee Charter approved by the Board of Directors. The Audit and Risk Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to:

- the integrity of Ayala Land Inc.'s (the "Company") financial statements and the financial reporting process;
- the appointment, remuneration, qualifications, independence and performance of the independent auditors and the integrity of the audit process as a whole;
- the effectiveness of the systems of internal control and the risk management process;
- the performance and leadership of the internal audit function;
- the Company's compliance with applicable legal and regulatory requirements; and
- the preparation of a year-end report of the Committee for approval of the Board and to be included in the annual report.

In compliance with the Audit and Risk Committee Charter, we confirm that:

- An independent director chairs the Audit and Risk Committee. The Committee has two out of three members who are independent directors;
- We had five meetings during the year with all the members present ;
- We recommended to the Board of Directors the re-appointment of SGV & Co. as independent external auditor for 2013, based on the review of their performance and qualifications, including consideration of management's recommendation;
- We reviewed and discussed the quarterly consolidated financial statements and the annual consolidated financial statements of Ayala Land, Inc. and subsidiaries, including Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2012, with the Company's management and SGV & Co. These activities were performed in the following context:
    - – That management has the primary responsibility for the financial statements and the reporting process.
    - – That SGV & Co. is responsible for expressing an opinion on the conformity of the Company's consolidated audited financial statements with Philippine Financial Reporting Standards.
- We reviewed and approved the management representation letter before submission to the Company's independent external auditors;
- We discussed and approved the overall scope and the respective audit plans of the Company's Internal Auditors and SGV & Co. We have also discussed the results of their audits and their assessment of the Company's internal controls and the overall quality of the financial reporting process;
- We also reviewed the reports of the Internal Auditors, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal controls and compliance issues. All the activities performed by Internal Audit were conducted in conformance with the International Standards for the Professional Practice of Internal Auditing;
- We reviewed and approved all audit, audit-related, and permitted non-audit services provided by SGV & Co. to Ayala Land, Inc. and the related fees for such services. We also assessed the compatibility of non-audit services with the auditor's roles and responsibilities to ensure that such services will not impair their independence;
- We reviewed and discussed the adequacy of the Company's enterprise-wide risk management process, including the major risk exposures, the related risk mitigation efforts and initiatives, and the status of risk mitigation plans. The review was undertaken in the context that management is primarily responsible for the risk management process.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit and Risk Committee recommended to the Board of Directors the inclusion of the Company's consolidated financial statements as of and for the year ended December 31, 2012 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

February 13, 2013

OSCAR S. REYES Committee Chair	JAIME C. LAYA Member	MERCEDITA S. NOLLEDO Member

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 attained therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the 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

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.
Tower One, Ayala Triangle
Ayala Avenue, Makati City

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

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

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
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.

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.

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.

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
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

(Forward)

	Years Ended December 31		
	2012	2011	2010
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.

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
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)

(Forward)

	Years Ended December 31		
	2012	2011	2010
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.

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

Basis of Preparation
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.

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

Basis of Consolidation
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
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. (CDOGC)	**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

	Percentages of Ownership	
	2012	2011
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
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. and Subsidiary (TKPI) (Note 24)	**60**	60
Ten Knots Development, Corp. and Subsidiaries (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.

CDOGC 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 11 on 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.

Equity
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.

Revenue and Cost Recognition
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	–	–	–	–
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 ₱24.3 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.

Investment in AMHRI
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.

Investment in SIAL Specialty
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 include 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 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%. ₱220.0 million and ₱830.0 million note due in 2014 and 2016, respectively were prepaid on January 28, 2013.

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. ₱1.95 billion note due in 2016 was prepaid on January 19, 2013.

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).

Subsidiaries
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) on-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
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.

<u>TKPI and TKDC</u>
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
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
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

(Forward)

	2012	2011	2010
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	**₱0.68**	₱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
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 1, 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. As of December 31, 2012, undrawn loan commitments from long-term credit facilities amounted to ₱3,534.0 million.

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**

2011

	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

	Effect on equity Increase (decrease)	
Change in basis points	+ 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	₱1,138	₱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.

Development Commitment
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.

SUBSIDIARIES & AFFILIATES

	2012 By Ayala Land	By Subsidiary
Property Development:		
Alveo Land Corporation	100%	
Serendra Inc.	28	39
Solinea Inc.		65
Amorsedia Development Corporation	100	
OLC Development Corporation		100
Ayala Greenfield Development Corp.		50
HLC Development Corporation		100
Allysonia International Ltd.		100
Avida Land Corporation	100	
Buklod Bahayan Realty and Development Corp.		100
Avida Sales Corporation		100
Amicassa Process Solutions Inc.		100
Avencosouth Corporation		70
Amaia Land Co.	100	
Ayala Land International Sales Inc.	100	
Ayalaland International Marketing Inc.		100
Ayala Land Sales Inc. 100		
Buendia Landholdings Inc.	100	
Crans Montana Landholdings Inc.	100	
Crimson Field Enterprises Inc.	100	
Ecoholdings Company Inc.	100	
Red Creek Properties Inc	100	
Regent Wise Investment Limited	100	
BellaVita Land Corporation	100	
Nuevo Centro Inc.	100	
BG West Properties Inc	50	
BG South Properties Inc	50	
BG North Properties Inc	50	
Aurora Properties Incorporated	70	
Vesta Properties Incorporated	70	
Bonifacio Land Corporation	5.3	4.8
Fort Bonifacio Development Corp.	5.3	55
Emerging City Holdings Inc.	50	
Columbus Holdings Inc.		70
Bonifacio Land Corporation	10	69.9
Fort Bonifacio Development Corp.		55
Berkshires Holdings Inc.	50	
Columbus Holdings Inc.		30
Bonifacio Land Corporation	5.3	69.9
Fort Bonifacio Development Corp.		55
Regent Time International Limited	100	
Bonifacio Land Corporation	5.3	4.8
Fort Bonifacio Development Corp.		55
Ceci Realty, Inc.	60	
CMPI Holdings Inc.	60	
CMPI Land Inc.		60
ALICII Development Corporation	50	
Roxas Land Development Corporation	50	
Adauge Commercial Corporation	100	
Southgateway Development Corporation	100	
Cebu Holdings Inc.	49.29	
Cebu Property Ventures	7.8	76.3
Asian I Office Properties Inc.	60	40
Cebu Leisure Company Inc,		100
CBP Theatre Management Inc.		100
Cebu Insular Hotel Company Inc.		37.1
Solinea Inc.		35
Commercial Leasing:		
NorthBeacon Commercial Corporation	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	

	By Ayala Land	By Subsidiary
Sunnyfield E-Office Corporation	100	
Subic Bay Town Centre Inc.	100	
Ayala Land Commercial REIT Inc.	100	
Arvo Commercial Corporation	100	
North Triangle Depot Commercial Corporation	49	
Lagoon Development Corp.	30	
Alabang Commercial Corporation	50	
South Innovative Theater Management Inc.		100
Cavite Commercial Town Centre Inc.	100	
Ayalaland MetroNorth Inc.	100	
ALI Property Partners Corporation	68	
One Dela Rosa Property Development Inc.		100
First Gateway Real Estate Corporation		100
Glensworth Development Inc		100
UP North Property Holdings Inc.		100
Laguna Technopark Inc.	75	
Ecozone Power Management Inc.		100
Station Square East Comm Corporation	69	
Asian I Office Properties Inc.	60	
Accendo Commercial Corporation	67	
Avencosouth Corporation		30
Cagayan De Oro Gateway Corporation	70	
Five Star Cinema Inc	100	
Leisure and Allied Industries Philippines Inc.	100	
Food Court Company Inc.	100	
Varejo Corporation	100	
Sial Specialty Retailers Inc.		50
Sial CVS Retailers Inc.		50
Philippine FamilyMart		60
Hotels & Resorts:		
Ayala Hotels Inc.	50	
Ayalaland Hotels & Resort Corporation	100	
ALI Makati Hotel & Residences, Inc.		80
ALI Makati Hotel Property Inc.		80
Enjay Hotels Inc.		100
Greenhaven Property Venture Inc.		100
Cebu Insular Hotel Company Inc.		62.9
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 Hotel & Residences, Inc.	20	
ALI Makati Hotel Property Inc.	20	
Ten Knots Development Corporation	60	
Chirica Resorts Corp.		100
Kingfisher Capital Resources		100
Ten Knots Phils. Inc.	60	
Bacuit Bay Development Corp.		100
Services:		
Makati Development Corporation	100	
MDC - Subic		100
MDC- Build Plus Inc.		100
Ayala Property Management Corporation	100	
Ayala Theatres Management Inc. And Subsidiaries	100	
Others :		
MZM Hodlings Inc	100	
Alinet.com Inc	100	
First Longfield Investment Limited	100	
Green Horizons Holdings Limited		100
Aprisa Business Process Solutions Inc.	100	
Studio Ventures Inc	100	
Direct Power Services Inc.	100	
Philippine Integrated Energy Solutions Inc.	60	
First Longfield Investments Limited	100	
Green Horizons Holdings Limited		100
Arch Capital Partners L.P.		8
Regent Wise Investment Limited	100	
Tiajin Eco-City Ayala Land Development Co., Ltd	40	

Key Officers & Consultants

President and Chief Executive Officer
Antonino T. Aquino

Executive Vice President

Bernard Vincent O. Dy	Group Head, Residential Business and Commercial Business Groups Group Head, Corporate Marketing and Sales Group Head, Human Resources and Public Affairs
Vincent Y. Tan	Group Head, Planning

Senior Vice Presidents

Arturo G. Corpuz	Head, Urban and Regional Planning and Central Land Acquisition
Raul M. Irlanda	Chief Executive Officer, Ayala Property Management Corp. Group Head, Property Management
Jose Emmanuel H. Jalandoni	Group Head, ALI Capital and Hotels
Emilio J. Tumbocon	Group Head, Visayas-Mindanao and Superblock Projects
Jaime E. Ysmael	Chief Finance Officer Compliance Officer Group Head, Finance

Vice Presidents

Dante M. Abando	Chief Executive Officer, Makati Development Corp. Group Head, Construction
Ruel C. Bautista	Head, Construction Management Group, Makati Development Corp.
Augusto Cesar D. Bengzon	Head, Treasury
Aniceto V. Bisnar, Jr.	General Manager, NUVALI
Manny A. Blas II	Head of Commercial Operations, Fort Bonifacio Development Corp. Managing Director, Bonifacio Arts Foundation, Inc.
Ma. Corazon G. Dizon	Head, Business Development and Strategic Planning, Commercial Business Group
Anna Ma. Margarita B. Dy	Group Head, Strategic Landbank Management
Steven J. Dy	Deputy General Manager, Tianjin Project
Michael Alexis C. Legaspi	Chief Operating Officer, Ayala Hotels, Inc. and Ayala Hotels & Resorts Corp.
Joselito N. Luna	Group Head, Innovation and Design
Francis O. Monera	President, Cebu Holdings, Inc. and Cebu Property Ventures and Development Corp.
Rodelito J. Ocampo	Head, Construction Operations Group 2, Makati Development Corp.
Ma. Rowena Victoria M. Tomeldan	Head, Operations and Support Services, Commercial Business Group

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For inquiries regarding dividend payments, change of address and account status, lost or damaged stock certificates, please contact BPI Stock Transfer Agency at:

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