Ayala Land

2011 Integrated Annual and Sustainability Report

"REAL ESTATE IS KEY TO ECONOMIC GROWTH. WE CONTINUE TO BUILD MORE HOMES AND EXCELLENT VENUES FOR WORK AND LEISURE."

ABOUT THE COVER

Our cover quote is taken from the Message of our President, Antonino T. Aquino, which begins on page 8.

From residential homes to office buildings, from shopping districts to hotels and resorts, our cover image illustrates the focus of our development process. While every undertaking in Ayala Land begins with a vision, rigorous planning and a firm commitment to deliver quality in everything we do ensures that we remain the largest and most diversified property developer in the Philippines.

ABOUT THIS INTEGRATED ANNUAL AND SUSTAINABILITY REPORT

This fully integrated Annual and Sustainability Report is a testament to our commitment to sustainable business practices. This year, we continue to report our financial performance together with the sustainability initiatives that we have adopted, as we believe these two are invariably linked.

More and more, sustainability has become relevant to our business, and your Company has likewise progressed in assimilating various systems to ensure that our business will continue through the years and that our buildings make the least impact to the environment. For this reporting period, we tracked our performance on 79 Global Reporting Initiative (GRI) indicators, 39% more than the indicators tracked in 2010, making this self-declared report compliant with GRI application level A guidelines.

The sustainability section of this report covers the performance of Ayala Land, Inc., Alveo Land Corporation, Avida Land 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 any feedback you may want to share in order for us to further improve our sustainability practices. You may also contact us about this report via e-mail at integratedreport@ayalaland.com.ph.

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.

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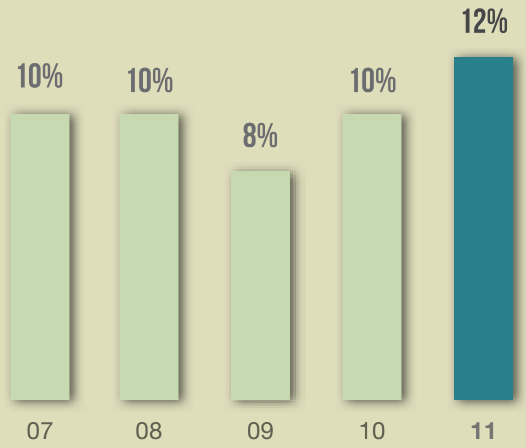
HOW DID WE DO?

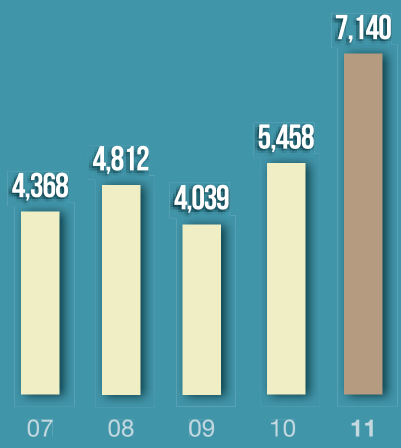
1 RETURN ON EQUITY



We increased our cash dividend by 58% and the dividend payout ratio from 30% to 35%.

12%
RETURN ON EQUITY

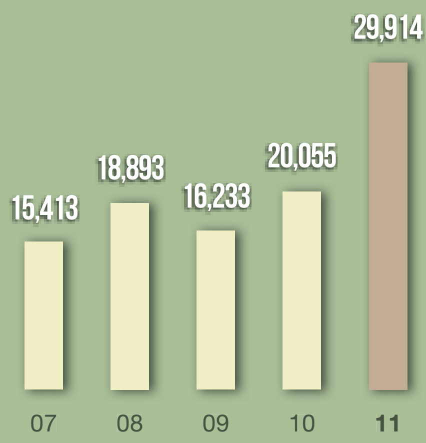
PROFITABILITY (IN MILLION PESOS) 2



P7.1B
NET INCOME

We achieved a record net income of P7.1 billion, 31% higher than 2010.

3 CAPITAL EXPENDITURE (IN MILLION PESOS)

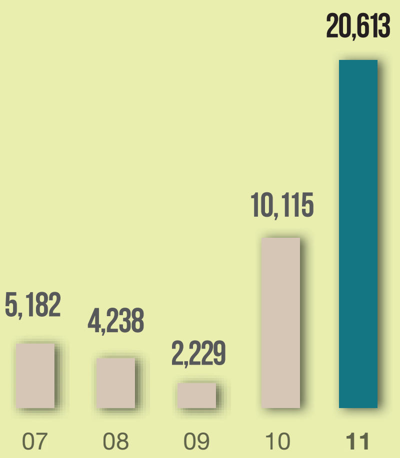


We spent P29.9 billion in capital expenditure (CAPEX), a new record that was 49% higher than 2010.

P29.9B
CAPEX

> WE CONTINUED TO BUILD ON OUR INITIAL GAINS AS WE POSTED ANOTHER RECORD YEAR IN TERMS OF NET INCOME AND REVENUES.

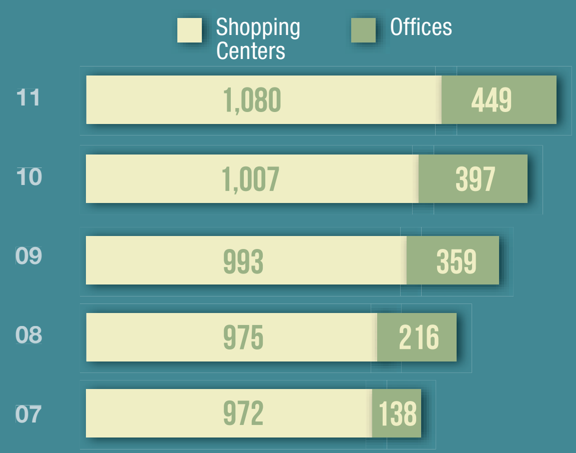
4 NUMBER OF RESIDENTIAL UNITS LAUNCHED



20,613
RESIDENTIAL UNITS LAUNCHED

We doubled our number of residential units launched, setting a new all-time high.

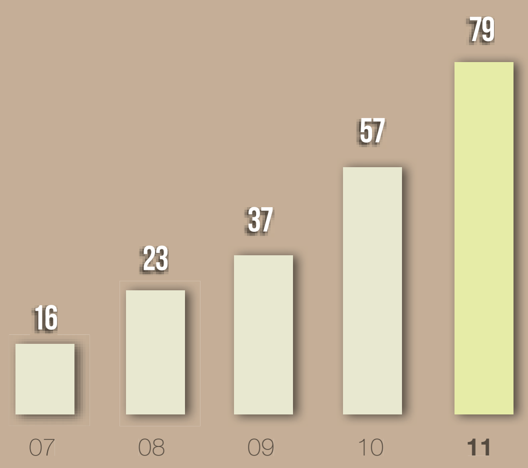
5 LEASABLE COMMERCIAL AREA (IN THOUSAND SQUARE METERS)



1.5M
SQUARE METERS OF GROSS LEASABLE AREA (GLA)

We expect an additional 274,000 sqm. of shopping center GLA and 91,000 sqm. of BPO office GLA to come on stream in the next two years.

6 SUSTAINABILITY INDICATORS TRACKED

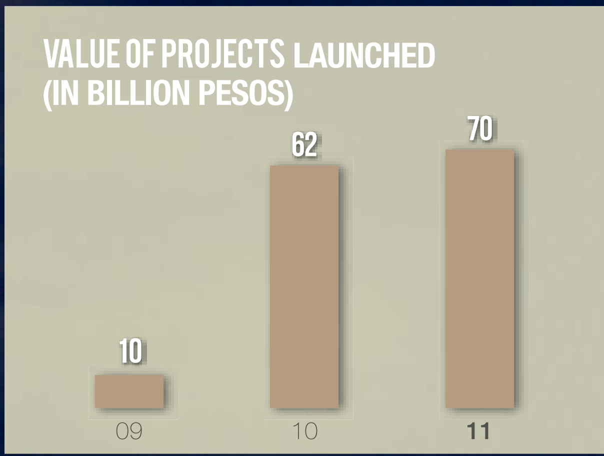


A-LEVEL
SUSTAINABILITY REPORT

We progressed to A-level, reporting this year with 79 sustainability indicators, 22 (or 39%) more than 2010.

GROWTH

P70B WORTH OF PROJECTS LAUNCHED



6 NEW GROWTH CENTERS ADDED TO THE PORTFOLIO

The Company's growth objectives are anchored along the three elements of geographic expansion, product diversity, and market diversification. Last year, we entered into and strengthened our presence in six new areas out of the 31 growth centers that we identified. These include prime locations within Metro Manila and nearby areas, as well as strategic properties in the provinces. These new growth centers will soon showcase Ayala Land's mixed-use projects where we integrate our diverse portfolio of residential, leasing, and hotel products within a single development.

In line with our 5-10-15 Plan, we launched a total of 67 projects worth P70 billion in 2011. We likewise continued to innovate as we unveiled new product concepts in our residential business to diversify our portfolio. The Company broadened its reach towards the base of the economic pyramid with the official launch of our fifth residential brand, BellaVita, which will cater to the socialized housing segment.

"I HAVE NO DOUBT THAT OUR COMPANY WILL CONTINUE TO GROW AND ACHIEVE OUR GOAL TO REACH P10 BILLION IN NET INCOME AND A 15% RETURN ON EQUITY BY 2014."

My Fellow Shareholders,

The Philippine economy was resilient in 2011 even amidst the challenges that confronted the global environment. Philippine domestic consumption remained robust, partly underpinned by the sustained growth of overseas Filipino (OF) remittances which increased by 7% during the year. The country's fiscal position remained healthy, driving interest rates to lower levels and reducing over-all perceived risk for the country. This in turn improved our country's credit rating to just below investment grade. Liquidity and credit both remained supportive of growth, benefitting many domestic businesses across various sectors, particularly real estate.

It was against this backdrop that your Company posted another record-breaking year in 2011. As the property sector experienced sustained demand across the residential, retail, office, and hotel sectors, Ayala Land continued its aggressive investment plan, which began in earnest in 2010.

We followed through in 2011 with a number of successful product launches in the residential segment under the Ayala Land Premier, Alveo and Avida brands. In addition to this, we expanded our reach to cover new geographies and capture consumers in even lower income segments. Through our Amaia brand, we launched six projects and introduced two new formats—Amaia Steps and Amaia Skies. These completed our offering in the economic housing segment. We further expanded our reach in this end-user market and launched our fifth residential brand under BellaVita which shall cater to the socialized housing segment. These two brands, Amaia and BellaVita, will allow us to diversify our residential portfolio and expand the growth of our residential business in the coming years. We believe these two brands will also help uplift the living standard of more Filipinos as we provide good quality, affordable homes for this segment of the market. Across all our five brands, the Residential Business Group generated record sales in 2011.

Our leasing business likewise reported good results as we expanded our footprint to take advantage of increasing disposable incomes from OF remittances and rising employment and revenues in the business process outsourcing (BPO) sector. We completed several projects in provincial areas like Laguna, Negros Occidental, Iloilo, Baguio, Cebu and Davao. We also made significant headway in building our hotels and resorts portfolio as we increased capacity in our Pangulasian Island Resort in Palawan and broke ground in two additional sites for our own hotel brand, Kukun.

As a result of this aggressive expansion, our Company posted a record net income of P7.1 billion in 2011, a 31% increase over the previous year. Combined with better capital efficiency, we also increased our return on equity to 12%. During the year, we declared and paid out cash dividends amounting to P1.9 billion, which translates to a higher pay-out ratio of 35%.

The prospects for the year ahead are encouraging. Significant growth in both government and private sector spending will fuel the country's economy further and build infrastructure capacity. We anticipate competition to remain intense in the property sector, which will once again test Ayala Land's agility and resilience. I have no doubt that our Company will continue to grow and achieve our goal to reach P10 billion in net income and a 15% return on equity by 2014. This confidence is drawn from our Company's highly capable and talented management team, our steadfast adherence to our Company's values of integrity and excellence, and our firm commitment to sustainable business practices. These enduring values will constantly steer our Company as we face the challenges and cycles of a competitive real estate market.

Allow me to close by expressing my heart-felt gratitude to the Board of Directors, the management team and our colleagues at Ayala Land. I also thank our shareholders, partners and loyal customers who have been with us for many years. Our achievements would not have been possible without your constant guidance and unwavering support.

Thank you.

FERNANDO ZOBEL DE AYALA
Chairman

> "We continue to pursue a broad-based approach to our expansion —that is throughout the country, along various product lines, and across different market segments of the economic pyramid..."

To Our Valued Shareholders,

2011 was another banner year for your Company as we continued to forge ahead with our goal of delivering P10 billion in net income and a 15% return on equity (ROE) by 2014.

The Year that Was

In the second year of this ambitious plan, we continued to build on our initial gains as we posted another record year in terms of net income and revenues, reaching P7.1 billion and P44.2 billion, respectively. This net income figure was 31% higher than the previous year, and revenues for the period were 17% more than the 2010 level. Together with this, your Company generated an ROE of 12% for 2011, significantly higher than our ROE when we started our "5-10-15" Plan.

Alongside this impressive performance was also the all-time high capital expenditure of P29.9 billion, 49% higher than the previous record of P20.1 billion in 2010, which we spent on various projects across our portfolio to create an even bigger and stronger Company.

Our Five-Pillar Strategy of Growth, Margin Improvement, Capital Efficiency, Organizational Development, and Brand Building has been our constant guide in helping us achieve these results. The summary of our accomplishments along these different pillars is found on the next page.

Sustaining Growth

Against the backdrop of global economic uncertainties and financial difficulties, the Philippines continued to thrive under a sound economic environment. In addition to the healthy growth in OF remittances and revenues generated by the BPO sector, our business was supported by record-low interest rates that made housing purchases affordable to more Filipinos. Furthermore, we remain hopeful that the timely implementation of projects under the government's Public-Private Partnership (PPP) program will enhance the value of land along strategic locations where we operate in. We took advantage of the robust prospects by launching 67 projects across our business lines last year – ten more than the record number of 57 projects launched in 2010. This was highlighted by the 20,613 residential units we introduced across our now five brands, more than double that of our accomplishment in 2010.

We would also like to highlight that we continue to pursue a broad-based approach to our expansion – that is throughout the country, along various product lines, and across different market segments of the economic pyramid – to develop a bigger and more stable base of consumers and customers.

In our residential business, for instance, you will see that our new offerings extend down to the south in areas like Cebu, Davao, Cagayan de Oro, and Negros Occidental, where we launched Alveo's Solinea and Abreeza Residences, Avida Centrio, and AmaiaScapes Northpoint, respectively. In the north, we have unveiled Ayala Land Premier's Anvaya Cove Golf Course inside the Seaside Leisure Community in Bataan, Alveo's MarQuee Residences in Pampanga, and Avida Settings and AmaiaScapes, both in Cabanatuan.

We have also expanded deeper into Mega Manila and the suburbs where we established our presence in new areas like Manila (Avida Prime Taft), Mandaluyong (Avida Towers Centera), Cubao (Amaia Skies), Novaliches (Amaia Steps), and Tagaytay (Alveo's Kasa Luntian), to name a few, while continuing to build around our strategic landbank in Makati, Bonifacio Global City (BGC), and NUVALI.

As we expand and penetrate new markets, we likewise continue to innovate and expand our offerings to our traditional customer base. These include the shophouse and the small-office home-office (SOHO) building formats in Avida Shophouse Technopark, Laguna and Avida CityFlex Towers in BGC, which integrate both residential and small business spaces in a single development. In addition, we also introduced mid-rise residential buildings in the economic housing segment through our Amaia Steps project, which we feel is currently being served broadly by either horizontal or high-rise offerings.

Earlier, I made mention of our five brands and perhaps one of our major breakthroughs last year in the residential business was our entry into the socialized housing segment, where the bulk of the housing backlog in the country lies. Our maiden offering of BellaVita in Cavite, anchored on its strong value proposition of integrating comfortable living and livelihood, generated strong interest from the market. With this, we now have a full range of residential brands that will cater to the different segments of the Philippine economic pyramid. Moving forward, BellaVita and Amaia will account for half of our residential unit launches as they target and serve mostly the end-user residential market, which represents more than 90% of the Philippine household population.

In our commercial leasing business, we are likewise duplicating this strategy of geographic expansion, product diversification and market broadening as we aim to double our gross leasable area (GLA) by 2014.

Last May, we have successfully opened to the public our Abreeza Mall in Davao with occupancy and rental rates that are comparable with that of Metro Manila malls. We also launched a total of 141,000 square meters of shopping center GLA last year, including the expansion of Ayala Center Cebu, the renovation of San Antonio Plaza Arcade in Makati, the retail component

OUR PERFORMANCE VIS-À-VIS OUR FIVE-PILLAR STRATEGY

STRATEGY	ACCOMPLISHMENT
GROWTH	• Launched over 20K residential units – more than double that of record level in 2010 • Broke ground on 141K sqm GLA for shopping centers and 46K sqm GLA for BPO office buildings • Launched projects in areas outside Mega Manila (Davao, Tagaytay, Batangas, Cagayan de Oro, Cabanatuan) and within Mega Manila (Mandaluyong, Manila, Novaliches, Cubao) • Acquired new land in key strategic areas (Pampanga, Manila, Cebu, Cavite, Bataan) • Entered the socialized housing segment (BellaVita) and ventured into new formats under economic housing segment (mid and high-rise developments) • Launched new businesses (Arvo Commercial Corp., MDC BuildPlus, PhilEnergy)
MARGIN IMPROVEMENT	• Increased 2011 NIAT margin to 16% from 14% in 2010; reduced GAE ratio from 8.4% to 7.9% • Completed MDC-CMD integration; formed MDC BuildPlus and started official operations of PhilEnergy • Generated additional savings from e-bidding, standardization, aggregation, vendor partnering and international sourcing
CAPITAL EFFICIENCY	• Raised P10 billion in 5, 10, and 15-year notes in local currency at credit spreads lower than peers • Structured 47% of land area acquired in 2011 via asset-light Joint Development Agreements (JDAs) or long-term leases • Increased cash dividends by 58% and payout ratio to 35% from 30% in 2010
ORGANIZATIONAL DEVELOPMENT	• Strengthened risk management in the residential business by assigning exposure limits per brand • Advanced full roll-out of Aprisa Business Process Solutions, Inc. (a shared-service company) across the group to handle transactional accounting processes
BRAND BUILDING	• Leveraged on strong product differentiation and distinct value proposition of Ayala Land

"WE CONTINUED TO PROGRESS ON OUR SUSTAINABILITY INITIATIVES... REPORTING ON ALL 79 GRI INDICATORS, WHICH IS 39% HIGHER THAN END-2010."

of Ayala Northpoint TechnoHub in Negros Occidental, Fairview Terraces in Quezon City, and The District along Daang Hari in Cavite – which are expected to come on stream in the next couple of years.

In the office segment, the second Cebu e-Bloc Tower commenced operations with more than 60% lease-out in August, with Iloilo Ayala Land TechnoHub and Ayala Northpoint TechnoHub in Negros Occidental also coming on stream. Up north, the first of our planned multiple mixed-use BPO office and retail buildings in Baguio started operations in April. In all, a total of 46,000 square meters of BPO office GLA broke ground last year in various growth centers like Quezon City, BGC, Baguio, Cavite, and Davao to ramp up our BPO office portfolio.

We also continued to build up our hotels and resorts portfolio, as we broke ground for two more Kukun Hotels in NUVALI and Cagayan de Oro – bringing to four the total number of Kukun Hotels under construction. In our resorts business, the construction of the Pangulasian Island Resort is nearly complete and will soon join the list of our award-winning portfolio – Apulit, Miniloc, and Lagen Island Resorts – in the popular El Nido Resorts chain.

To sustain our expansion in the long run, we have likewise continued to acquire several parcels of land within key urban and provincial areas nationwide like Manila, Bicutan, NUVALI, Bataan, Pampanga, Cebu, and Bacolod, which will serve as platforms for our growing portfolio of master-planned, mixed-use, and sustainable developments.

Alongside all these initiatives, we realize the need to further sharpen our execution and enhance our operational efficiencies, to generate the desired margin improvements across our growing portfolio. In our construction business, we formed MDC BuildPlus, a wholly-owned subsidiary of Makati Development Corp. (MDC), which will focus on the roll-out of our economic and socialized housing products. Under MDC BuildPlus, we believe that the application of new building technologies more suited to these kinds of developments will enable us to deliver on our committed volumes without sacrificing time, cost, and quality.

We also kicked off the official operations of Philippine Integrated Energy Solutions, Inc. (PhilEnergy) with the construction and operation of district cooling systems in our Ayala Center and Alabang Town Center redevelopment projects. Once completed, we expect to generate significant operational cost savings for the different investment properties located within our mixed-use developments.

Across the bigger organization, we continued to expand the use of shared-service schemes to further enhance operational efficiencies and maximize synergies within the Group, as we completed the full roll-out of Aprisa Business Process Solutions, Inc. to handle all the transactional accounting processes across the Group.

On top of the initiatives that we started two years ago, these measures are expected to generate further savings and contribute to the overall objective of improving margins. The other initiatives and their corresponding results will be discussed at length in the CFO and Compliance Officer's Report following this section.

Commitment to Sustainability

Even as we implement new technologies and pursue all these operational enhancements, we remain cognizant of our sustainability goals. Last year, we continued to progress on our sustainability initiatives, which is compliant with application level A under the internationally recognized Global Reporting Initiative (GRI) guidelines. We are now reporting on all 79 GRI indicators, which is 39% higher than end-2010. In addition, many of our property management practices under Ayala Property Management Corp. have consistently been recognized under the Don Emilio Abello Awards for energy efficiency given out by the Department of Energy. These and the list of other sustainability-related awards we received last year will be found on page 73 in the Sustainability Report.

> **MOVING FORWARD, WE WILL CONTINUE TO LEVERAGE ON OUR UNIQUE ADVANTAGES OF LOCATION, BRAND EQUITY, SUSTAINABILITY, AND DIFFERENTIATION IN EACH OF OUR PRODUCTS.**

Meanwhile, the full report on our sustainability initiatives and performance will be found in the second half of this report under the section entitled Sustaining Sustainability, which begins on page 50.

Moving beyond 2011

Admittedly, the global economic outlook remains very challenging but we remain optimistic with the sound fundamentals and resilience of the Philippine economy anchored on:

- Strong remittance flows from across the globe
- Highly favored BPO industry
- Growing tourism sector.

In addition, we believe that your company will significantly benefit from several PPP infrastructure projects being pushed by the government in key areas around the country, where we either have ongoing operations or an existing landbank.

Against this backdrop, we plan to sustain our high activity level as we believe that we are pursuing a sound growth strategy anchored on geographic diversity, product variety, and a conscious effort to move down the base of the economic pyramid. We plan to launch more than 24,000 residential units in new and existing growth centers nationwide across our five brands. We also have in the pipeline some 365,000 square meters of commercial leasing GLA – for both office and shopping centers – and two more Kukun Hotels, which are expected to break ground in 2012.

As we expand aggressively and accelerate the use of our landbank, we are cognizant of the need to acquire fresh parcels to unlock new areas for growth. To this end, we will pursue, whenever possible, asset-light methods of acquiring land along growth corridors across the country – including areas within Metro Manila and its suburbs.

We believe that real estate is key to economic growth. Moving forward, we will continue to build more homes and provide excellent venues for work and leisure. We will continue to leverage on our unique advantages of location, brand equity, sustainability, and differentiation in each of our products – ensuring the highest level of quality, service, and satisfaction among our customers.

In closing, let me thank our Board of Directors for their continued trust and confidence, our management team and employees for their dedication and hard work, and our shareholders and business partners for their unwavering support and loyalty – year in and year out.

We will continue to count on you, as we push forward on this journey in 2012 and the years to come.

ANTONINO T. AQUINO
President and Chief Executive Officer

FINANCIAL HIGHLIGHTS

(All amounts expressed in thousand pesos, except as indicated)

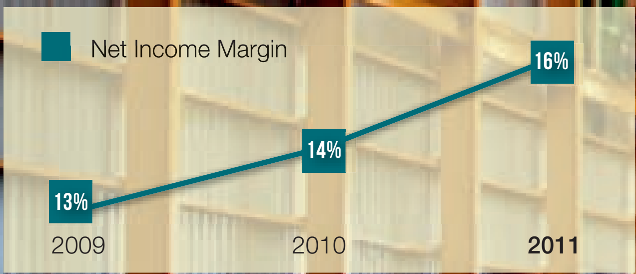
	2011	2010	2009
Statement of Income			
Revenues	**44,205,533**	37,813,499	30,455,244
EBITDA[1]	**15,088,503**	11,485,308	10,433,506
Net Income (attributable to equity holders of ALI)	**7,140,308**	5,458,134	4,039,256
Statement of Financial Position			
Cash and Cash Equivalents[2]	**24,795,200**	19,857,152	15,523,523
Total Assets	**154,619,179**	121,675,262	107,741,848
Total Borrowings	**34,530,771**	20,970,933	18,812,165
Stockholders' Equity	**62,356,966**	56,857,152	52,392,361
Statement of Cash Flows			
Net Cash Provided by Operating Activities	**8,403,278**	11,167,134	4,409,849
Net Cash Provided by (Used in) Investing Activities	**(13,950,323)**	(3,395,479)	(9,406,398)
Net Cash Provided by (Used in) Financing Activities	**12,131,451**	(281,574)	2,869,873
Financial Ratios			
Capital Expenditure (in billion pesos)	**29.9**	20.1	16.2
Current Ratio	**1.65:1**	1.67:1	1.95:1
Debt-to-Equity Ratio	**0.55:1**	0.37:1	0.36:1
Net Debt-to-Equity Ratio	**0.16:1**	0.02:1	0.06:1
Return on Assets[3]	**5.2%**	4.8%	3.9%
Net Income Margin	**16%**	14%	13%
Return on Equity[3]	**12%**	10%	8%
Stock Information			
Market Capitalization (in billion pesos, as of end-December)	**197.4**	214.4	146.5
Stock Price (pesos per share, as of end-December)	**15.16**	16.46	11.25
Earnings per Share (pesos per share)	**0.55**	0.41	0.31

[1] Earnings before interest, taxes, depreciation and amortization

[2] Includes short-term investments and financial assets at fair value through profit or loss

[3] Return on average equity and average assets

MARGIN IMPROVEMENT



16%

Net Income Margin

As we implement the Company's aggressive growth plans, we are equally committed to increasing profitability. To ensure that our topline growth translates to a better bottomline, the Company has rolled out several initiatives aimed at steadily improving product margins. Such initiatives include active spend management programs, improved procurement processes and sourcing platforms, and the implementation of shared-service schemes whenever possible. Altogether, these initiatives have helped generate a substantial amount of savings since 2009 and contributed significantly to the 2%-point improvement in Ayala Land's net income margin last year.

In the years ahead, the Company expects to benefit from other measures it has recently implemented to further improve operational efficiencies. One such program is the transformation of Makati Development Corporation (MDC) into a full-service engineering, procurement, and construction management (EPC/CM) company, to minimize third-party engagements. Furthermore, MDC's establishment of its own concrete fabrication plant will not only provide a controlled source of pre-cast materials, but also result in lower construction cost for the Company's various developments.

"We have likewise continued to deliver on our commitments to support the Company's objectives and ensure that we constantly create value for our shareholders."

CFO AND COMPLIANCE OFFICER'S REPORT

Our Company continued to make significant headway in our "5-10-15" Plan in the second year of this five-year program. On the Finance front, we have likewise continued to deliver on our commitments to support the Company's objectives and ensure that we constantly create value for our shareholders.

Our net income amounted to P7.1 billion last year, on the back of P44.2 billion in revenues. These record results were 31% and 17% higher from 2010 levels, respectively. Our capital expenditure likewise reached an all time high at P29.9 billion – 49% more than the P20.1 billion we spent in 2010. At this level of activity, it is worthwhile to note that we were able to maintain our strong and liquid financial position with a net debt-to-equity ratio of 0.16:1, a current ratio of 1.65:1 and a cash balance of P24.8 billion as of end-2011.

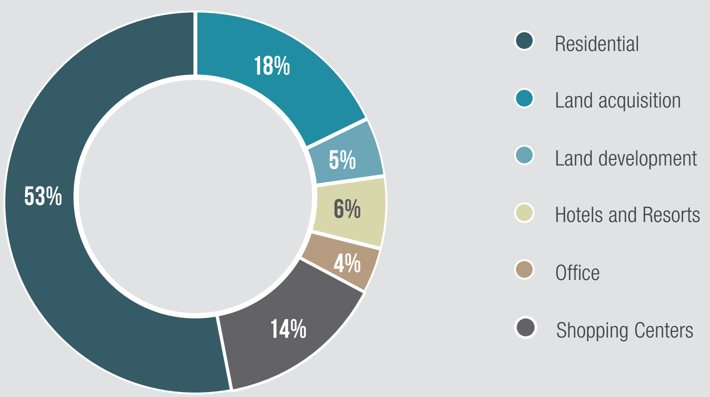
On top of all these, we likewise continued to build on our accomplishments with respect to our Five-Pillar Strategy of Growth, Margin Improvement, Capital Efficiency, Organizational Development, and Brand Building.

Growth

As we pursued unprecedented levels of growth, it was critical for us to make available the resources to fund the Company's aggressive targets. To this end, we have raised an additional P10 billion worth of debt last year through the issuance of 5, 10, and 15-year Fixed-Rate Corporate Notes, which also earned the distinction of being the longest tenor ever issued by a corporate in the country to date. It is worthwhile to note that this issuance was at credit spreads significantly lower than that of our peer companies.

The proceeds from this capital-raising exercise allowed us to pre-fund the bulk of our record capital expenditure last year, enabling your Company to launch 67 projects worth P70 billion across all our business lines.

2011 CAPITAL EXPENDITURE BREAKDOWN

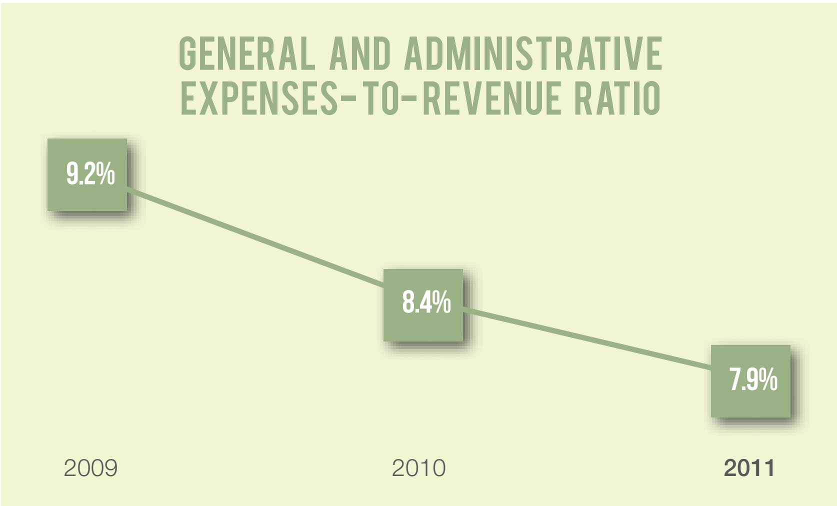


To help move this fresh inventory, we continued to roll-out innovative home buyer financing schemes, particularly through the Homestarter Bond (HSB) Quad – the fourth tranche of the very successful HSB series – which was launched last year with an issue size of P2 billion. Together with the three previous HSB issues, we were able to generate P559 million worth of conversions into home purchases as of last year, with majority coming from the targeted brands Alveo and Avida, and helped our residential business realize P52 billion in sales take-up.

In collaboration with our partner banks, we continued to develop innovative home financing programs, primarily through the Homestarter Finance and "5-95" schemes, with the twin goals of making home ownership more affordable to many and accelerating bank takeout to effectively shorten our cash cycle. These efforts resulted in the approval of almost 600 mortgage applications by our partner banks under these two programs.

Margin Improvement

As we continue to help the business expand and increase sales, we likewise remain committed to keep our costs in check to ensure that savings translate into better profitability and improved returns.



Our spend management programs – geared towards reducing project cost and direct operating, general and administrative expenses (GAE) – as well as our initiatives to strengthen project controls continued to gain ground.

Standardization and aggregation of material requirements of the group allowed us to forge strategic partnerships and long-term supply agreements with several vendors, which enabled us to realize savings from purchases of major items like cement, steel, elevators, and sanitary wares at prices lower than the prevailing market rates.

As of the end of last year, a total of 130 vendor partnership agreements were already in place across the group, covering more than half of the total spend categories in our database. Together with our efforts to pursue international sourcing from established suppliers overseas to lower costs and take advantage of the latest technology, we expect to unlock new sources of savings and potential areas for process improvements moving forward.

Continued cost controls, process improvements and outsourcing also enabled us to slow down the growth of overhead relative to revenues, thereby resulting in a lower GAE-to-Revenue ratio of 7.9% from 8.4% in 2010.

Overall, these initiatives enabled us to achieve a 16% net income margin, an improvement of 2%-points over the previous year. The details of each business unit's performance will be discussed at length in the Management's Discussion and Analysis portion starting on page 80.

Capital Efficiency

With our aggressive launch plan, we intensified land utilization, leading to an improvement in asset turnover. To replenish our landbank and position in new growth centers, we continued to acquire land via asset-light modes, with 47% of acquisitions in 2011 done through joint development agreements and long-term leases.

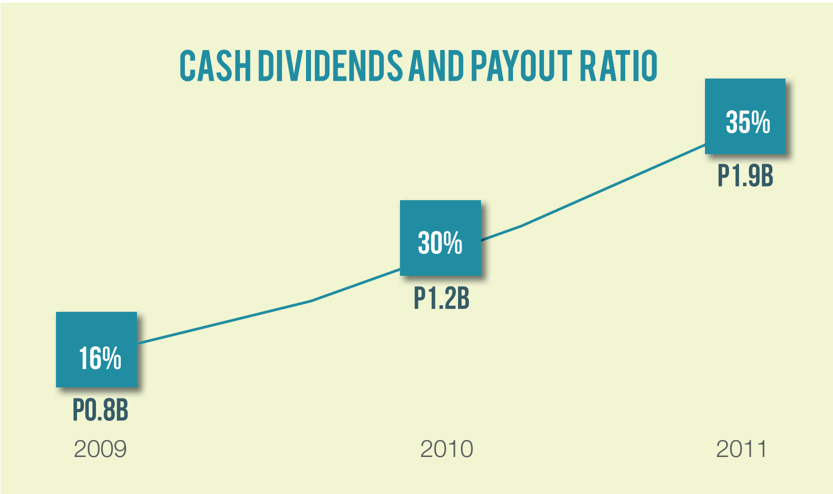
Likewise, we took advantage of our track record, solid financial standing and the favorable interest rate environment by aggressively refinancing our loan portfolio to reduce interest expense and stretch maturities. As a result, our blended borrowing rate across the Group was 120 basis points lower than the 2010 level and at a significant discount to peers, with average maturities extended by almost a year.

We paid out a total of P1.9 billion in cash dividends last year, representing a dividend payout ratio of 35% of our net income in 2010 – 5%-points higher than the 30% payout of the previous year. Together with net income growth resulting from margin improvement and higher asset turnover as well as increased leverage, our return on equity (ROE) increased to 12% in 2011, 2%-points higher than the 10% ROE recorded in 2010.

Organizational Development

We are cognizant of the fact that our intense level of activities will expose us to a greater amount of risk. To mitigate this, we have further strengthened our risk management processes in our residential business, where the bulk of our revenues comes from. We rolled

"WE BELIEVE THAT GOOD CORPORATE GOVERNANCE IS ESSENTIAL TO THE SUSTAINABILITY OF THE ENTERPRISE AND LONG-TERM VALUE CREATION... TO ENSURE THAT THE INTERESTS OF OUR VARIOUS STAKEHOLDERS ARE PROTECTED AND ENHANCED."



out risk exposure metrics for each of our residential brands to ensure that we properly manage our development risk on high-rise condominiums and keep within our contingent liability limits.

We also continued to expand the use of shared-service platforms across the organization with the full roll-out of the services of Aprisa Business Process Solutions, Inc. to handle transactional accounting processes across the group. Our payroll services have also been outsourced to another service provider. These initiatives are expected to increase process efficiency and generate substantial savings.
Our decision support systems continue to be enhanced through the roll-out of IT-enabled management dashboards – covering critical operating metrics, market statistics, financial information and specific project details – to improve monitoring and enhance corporate decision-making.

Report on Compliance Activities

We believe that good corporate governance is essential to the sustainability of the enterprise and long-term value creation. As such, we consistently adhere to the highest standards of integrity, disclosure, transparency and accountability to ensure that the interests of our various stakeholders are protected and enhanced.

As Compliance Officer and Chief Information Officer of the Company, I am pleased to report that we have 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.

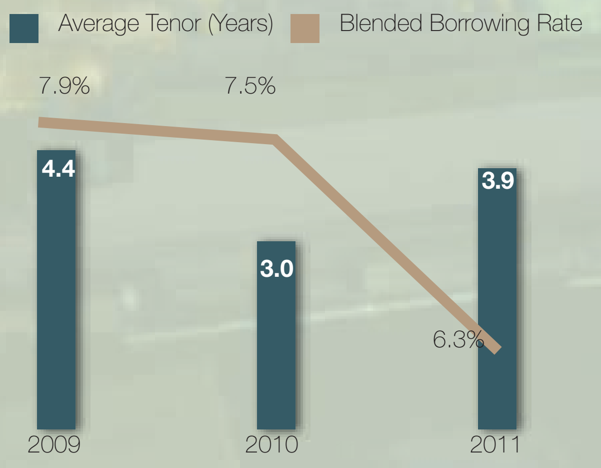
As a result of years of consistently improving the standards of corporate governance and investor communications, we have earned several awards in these areas from local and international award-giving bodies. For the third straight year, your Company has been given the Platinum Award for All-Around Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility, Environmental Responsibility and Investor Relations by The Asset Magazine. We have also garnered for the third straight year the Gold Award on corporate governance given by the Institute of Corporate Directors, which has elevated us to Platinum status for scoring the highest in their corporate governance scorecard.

The details of our compliance activities as well as the list of our corporate awards will be found under the Corporate Governance Report section which begins on page 42.

JAIME E. YSMAEL
Chief Finance Officer and Compliance Officer

CAPITAL EFFICIENCY

BORROWING COST AND TENOR



120 BASIS POINTS REDUCTION IN AVERAGE BORROWING RATE

489 HECTARES OF LAND ACQUIRED VIA ASSET-LIGHT MODES

One of the major thrusts under our capital efficiency program is to increase the intensity of land use. For instance, in our ongoing Ayala Center redevelopment, we are increasing the density of the area to provide platforms for our other businesses. Once completed, the new Ayala Center will give rise to two additional BPO buildings with a total GLA of 40,000 sqm, a 347-room Holiday Inn & Suites and 34,000 sqm of retail space between Glorietta 1 and 2. We continued to pursue asset-light modes of acquisition and last year, 47% of the total land area we acquired was either in the form of joint-development agreements or long-term leases. We have also been taking advantage of the favorable interest rate environment, leveraging on our credit-worthy financial standing, to lower the cost of borrowing. We have successfully reduced our consolidated borrowing cost which, as of end-2011, settled at around 120 basis points lower than that of the previous year.

PROPERTY DEVELOPMENT

RESIDENTIAL

94%
AVERAGE ACCEPTANCE RATE

High End

Ayala Land Premier (ALP) maintained its leadership in the high-end residential market and fortified its position with the successful launches of 10 new projects last year, equivalent to a total of 1,267 new units.

ALP remains to be the market leader in its class, as reflected in the strong take-up of its new product offerings, enabling it to post a 17% growth in total sales to P19.4 billion. Within a month from their respective launches, the Garden Bridge at One Serendra in Bonifacio Global City (BGC) and Elaro in NUVALI reported sales take-up rates of 80% and 88%, respectively. Similarly successful projects launched in 2011 included the third and last tower of Park Terraces in Ayala Center and Santierra in NUVALI. Both Park Terraces and Santierra were left with only a few units in inventory by year-end, enabling ALP to grab additional market share.

Across all of its projects, ALP continued to showcase the highest levels of quality and execution it is known for. The average acceptance rate at first inspection for almost 1,000 units delivered last year remained high at 94%.

Rendering of Park Terraces Twin Tower, Makati City

Rendering of Kasa Luntian, Tagaytay City

Upscale Segment

Alveo Land Corp. (Alveo) boldly stepped up its operations in 2011 to launch 13 new projects and phases – almost three times the number of projects brought to the market in 2010 – delivering a 109% increase in value of new inventory at P22 billion.

Alveo maintained its leadership foothold in existing markets, expanded its geographic footprint, and enhanced its product portfolio with new living concepts, which included the highly successful launch of a mixed-use lifestyle district in BGC called High Street South with The Maridien as its first residential tower, a resort living condominium complex in the heart of Cebu Business Park called Solinea, mid-rise condominiums called MarQuee Residences in Angeles, Pampanga, and duplex and triplex townhouses at Ferndale Villas in Quezon City.

Alveo also introduced pioneering concepts such as the leisure community Kasa Luntian in Tagaytay – the first Ayala Land brand to enter the Tagaytay leisure market, and Abreeza Residences – the first premium high-rise residential building offering in Davao within the prime Abreeza district. The success of these new products drove the 92% increase in sales take-up amounting to P14.7 billion, enabling Alveo to gain an additional 7% share of the upscale market and clearly establishing itself as a major player in the segment.

92% INCREASE IN SALES TAKE UP

Rendering of Avida Towers Centera, Mandaluyong City

4%-POINTS GAIN IN MARKET SHARE

Middle Class

With a buoyant real estate market, Avida Land Corp. (Avida) posted a 92% growth in sales take-up worth P15.5 billion, on the back of an 87% increase over the number of launches last year, reaching a record 7,338 units. This came from the nine new projects and nine new phases unveiled across various geographies in the country, as the brand expanded its coverage of the Philippine archipelago.

On top of this, Avida also introduced new concepts designed to address the evolving needs of households belonging to the middle-income segment of society. These included the first-of-its-kind small-office, home-office (SOHO) concept through its Avida CityFlex Towers BGC development and the Avida Shophouse Technopark project, which integrate both business and residential components literally under one roof.

Furthermore, Avida unveiled its first integrated retail-residential community in the Edsa-Mandaluyong corridor through Avida Towers Centera in Mandaluyong City. This developmenmt is a testament to the strong market preference for the Avida brand within its class as it continued to post brisk sales—paving the way for the launch of the three towers within a 12-month period—amidst the presence of highly aggressive competition in the area.

2 NEW PRODUCT LINES INTRODUCED INTO THE MARKET

Rendering of Amaia Steps garden, Novaliches, Quezon City

Economic and Socialized Housing

Amaia Land Corp. (Amaia) stepped up its aggressive expansion program last year geared towards becoming a major player in the economic housing segment. The 7,276 units launched in 2011 across six strategic growth centers located in Metro Manila (Novaliches and Cubao), Negros Occidental, Cavite, Cabanatuan, and Batangas represented a 300% increase from 2010 levels.

Only on its second year of operations, Amaia has already established its market presence across a wide geography and as a fully diversified housing developer. The success of Amaia's maiden horizontal project, AmaiaScapes Laguna, paved the way for the launch of Amaia Steps (walk-up condominiums) and Amaia Skies (high-rise developments) one year ahead of the targeted launch schedule. These three product lines provide Amaia a strong and unique competitive advantage of being the only player in its segment with a complete range of horizontal and vertical offerings, programmed for a nationwide rollout starting 2012.

Meanwhile, Bella Vita Land Corp. was incorporated last year to serve as the vehicle for Ayala Land's entry into the socialized housing segment. Launched under the same brand name BellaVita, the first project was unveiled in Cavite in December 2011, with almost half of the units taken up within two months.

7,276
UNITS LAUNCHED

The Ayala Triangle Gardens, Makati City

Bonifacio High Street Central, Bonifacio Global City

STRATEGIC LANDBANK

Makati

Despite the emergence of new business districts around the metropolis, Makati preserved its stature as the country's premier Central Business District (CBD). Over the past two years, Makati successfully opened new districts – Makati North and South – to unlock new growth areas and sustain value appreciation within the 49-hectare landbank.

1.4%-POINTS
INCREASE IN OFFICE OCCUPANCY RATES

While there is a perceived flight of office locators to other business districts, Makati CBD office occupancy rates across all grades in fact showed a 1.4%-point improvement to 95.9% from 94.5%, as Makati continues to be the preferred address of BPO offices and corporate headquarters. In addition, figures from an independent report also show that prime land values in Makati command a 50% premium over comparable commercial spaces in the country's second largest CBD. To further improve infrastructure and links within the CBD, the Makati Commercial Estate Association (MACEA) completed the sidewalk improvements along Ayala Avenue last year and approved a P1-billion, 5-year capital expenditure program focusing on pedestrianization to ease mobility and facilitate movement amid the ever-increasing foot traffic.

Bonifacio Global City

Bonifacio Global City (BGC) lived up to its reputation as the fastest growing CBD in the country. In 2011, BGC added 1,748 residential units in several locations around the district, from the ALP, Alveo and Avida brands, which was 12% higher than the residential units launched the previous year. In addition, total retail space grew by 44% last year with the soft opening of Bonifacio High Street (BHS) Central together with Crossroads, W building and Active Fun Center.

The Mind Museum, Football Turf and two landscaped parks were launched last December to strengthen BGC's image as the home of passionate minds—elements that further transformed BGC into the ideal community to live, work and play in. All together, these formed part of the 3.4 million square meters of gross floor area (GFA) of ongoing and completed projects within the district as of end-2011.

Last year, the city registered a 21% increase in average daily bus ridership, with the Boni Transport Bus Fleet already growing to 29 to serve the 30,000 daily riders around the city – a testament to the continued success of Ayala Land's priming activities across its strategic land areas.

NUVALI

NUVALI – the country's first eco-city development – continued with its build up following the new launches of residential products and leisure developments last year. The successful launches of Ayala Land Premier's Elaro and the second phase of Santierra, Alveo's Venare Phase 2, Avida Parkway Settings and another Avida Village in NUVALI reflect the continued interest in the area, translating to a 28% rise in residential land values since the first communities were launched in 2008.

New commercial leasing spaces also came on stream last year, like the Two Evotech Building – the sequel to the LEED Silver Certified One Evotech Building – and Solenad 2 to complement existing developments within the centerpiece Evoliving Center. These, together with the ongoing construction of a water sports complex, a state-of-the-art events place and the groundbreaking for a Kukun Hotel, enabled commercial land values to appreciate by 57% since the first commercial lot was sold three years ago.

To complete the elements of a fully-functional and integrated community, Xavier School is scheduled to open this year while Miriam College has acquired a property for the site of its second campus in NUVALI.

VISMIN

220% GROWTH IN RESIDENTIAL UNIT LAUNCHES

The Visayas-Mindanao (Vismin) Group continued to support Ayala Land's expansion in the south and ensure its continued growth over the long-term. Last year, the Vismin Group facilitated the launch of eight residential projects across four brands, in addition to the groundbreaking of two retail projects and one Kukun Hotel.

The residential unit launches represent a 220% increase from Vismin's 2010 accomplishment. This included the highly successful offering of Abreeza Residences by Alveo in Davao, which was 80% sold on launch weekend. Likewise, Centrio Tower in Cagayan de Oro, and AmaiaScapes Northpoint in Negros Occidental were warmly received by the market.

The commercial projects launched in 2011 were the second phase of the Ayala Center Cebu expansion and the retail portion of the Ayala Northpoint TechnoHub in Negros Occidental. To sustain and further strengthen Ayala Land's presence in this emerging growth corridor, the Group also secured parcels of land within the growth centers of Davao, Cebu and Bacolod.

NUVALI Evoliving Center

COMMERCIAL LEASING

Shopping Centers

The Ayala Malls Group benefitted from a buoyant retail business environment last year, supported by robust OF remittances and sustained employment in the BPO industry. To take advantage of the bright prospects in the sector, the Group continued to build its portfolio as it opened and broke ground on new projects across different geographies. In May 2011, the Group opened its first mall in Davao, the 50,000-sqm GLA Abreeza, bringing to Mindanao a good mix of local and international retailers. Other successful openings include the BHS Central which practically extends the original stretch of the BHS retail strip by a kilometer, Solenad 2 at Nuvali and the new wing at the Alabang Town Center. Launches for the year included the Fairview Terraces in Quezon City and the redevelopment of San Antonio Plaza Arcade in Makati. The Phase 2B rehabilitation of Ayala Center Cebu and the construction of our retail project in the Ayala Northpoint TechnoHub in the southern Philippines have likewise commenced. The District in Cavite, our first mall for the broader market, also broke ground last year.

Along with this aggressive expansion, the Group sustained its world-class stature as it garnered a total of 23 awards and citations from various award-giving bodies in 2011. The Greenbelt Mall received the Hall of Fame for its Mall of the Year award from the Philippine Retailers Association while MarQuee Mall in Pampanga made it to the finals of the International Council of Shopping Centers (ICSC) - Asia Pacific Awards for Innovative Design category. The complete list of our awards is found on page 73 under the Sustainability section of this report. The Group also launched several marketing campaigns that helped strengthen Ayala Malls' brand proposition of innovation and rewarding experiences.

141k sqm NEW GLA LAUNCHED

96% OCCUPANCY RATE

Ayala Center Cebu

Rendering of the Baguio-AyalaLand TechnoHub, Baguio City

52k sqm NEW BPO OFFICE GLA

Office

The continued growth in the BPO sector provided the impetus for the office leasing business to continue to build additional GLA for BPO office buildings.

Last year, the AyalaLand Businesscapes Group (ABG) broke ground on six new projects spanning different locations across key cities nationwide. New BPO buildings began construction at Camp John Hay in Baguio City and Abreeza in Davao City. Within Metro Manila, BPO office buildings in mixed-use developments were launched, such as the facilities in Fairview Terraces, Bonifacio Global City, and U.P.-AyalaLand TechnoHub in Quezon City.

On top of this expansion, 52,000 square meters of new BPO office space GLA were commissioned last year with the opening of Two Evotech in NUVALI, E-Bloc 2 in Cebu City, Iloilo-AyalaLand TechnoHub in Iloilo City, and Ayala Northpoint TechnoHub in Negros Occidental.

In 2011, One Evotech Building in NUVALI was granted LEED Silver Certification by the US Green Building Council (USGBC). True to its commitment to sustainable business practices, the Group continued to leverage on its clear program for energy savings and continued to earn the esteem of various award-giving bodies. Last year, U.P.-AyalaLand TechnoHub was recognized as a Special Submission at the ASEAN Energy Management Awards, and was presented with the Apolinario Mabini Award for Disabled-Friendly Developments – two among the long list of citations that ABG received for its unique value proposition.

Rendering of Holiday Inn and Suites, Makati City

HOTELS AND RESORTS

AyalaLand Hotels and Resorts Corp. (AHRC) sustained the aggressive build-up started two years ago towards positioning Ayala Land as a dominant player in the country's tourism and hospitality industry. In achieving this vision, the company is capitalizing on the government's intensified tourism campaign and roll-out of infrastructure projects across the archipelago.

Expansion continued to be brisk in the hotels segment as AHRC broke ground on two additional sites in Cagayan de Oro and NUVALI for its first owner-operated urban lifestyle hotel line called Kukun. This brought to four the number of Kukun Hotels under construction, with its flagship offering opening this year in Bonifacio Global City (BGC) to serve the strong influx of business travelers and tourists into the country's business, shopping and entertainment hubs. A new branded hotel, Holiday Inn and Suites Makati at the Ayala Center, is likewise on track to begin operations next year to strengthen AHRC's hotel portfolio in the Makati CBD area.

Rendering of Kukun Hotel interiors, Bonifacio Global City

Pangulasian canopy villa veranda, El Nido, Palawan

Meanwhile, Lagen, Miniloc and Apulit Island Resorts in El Nido, Palawan continue to delight thousands of guests annually. In fact, the celebrated El Nido chain of resorts in Palawan was chosen as one of the select spots around the world in the New York Times' Best Selling Travel Book, "1,000 Places to See Before You Die" 2011 Edition. This is on top of the various awards the resorts chain has received over the years for its distinct ecological features and environmentally-friendly practices. The opening of Pangulasian Island Resort this year is expected to further enhance El Nido's value proposition, allowing more local and foreign tourists to discover the resort's unique experience.

With all these developments, AHRC's room portfolio will double in the next two years, ready to serve the growing number of guests across key destinations around the country.

SERVICES

Construction

Makati Development Corporation (MDC) ended 2011 with a very healthy portfolio of projects, securing P40 billion worth of new contracts during the course of the year. This was a significant 186% increase over the P14 billion contracted in 2010, bringing the gross value of its order book to P53 billion as of end-2011.

MDC also completed its integration with Ayala Land's Construction Management Division to become a complete engineering, procurement, construction and construction management (EPC/CM) company. Key organizational changes included the establishment of the Geographic Operation Centers and the creation of the Construction Operations Support Group (COSG) to improve responsiveness to customers and partners, as well as to lead the way in the use of new construction technologies and building systems and to ensure safety and quality. These initiatives further strengthened its position as the leading construction company in the country today.

MDC invested around P800 million to enable it to setup its mechanized pre-cast plant, acquire new sets of formworks, add 71 state-of-the-art equipment, and establish the largest Building Information Modeling (BIM) unit in the local construction industry. These facilitated the company's expansion into 21 key locations all over the country and helped secure all of Ayala Land's projects in the second half of last year. This brought the total number of projects under construction to 80, compared with 39 as of end-2010.

P53B
ORDER BOOK

Property Management

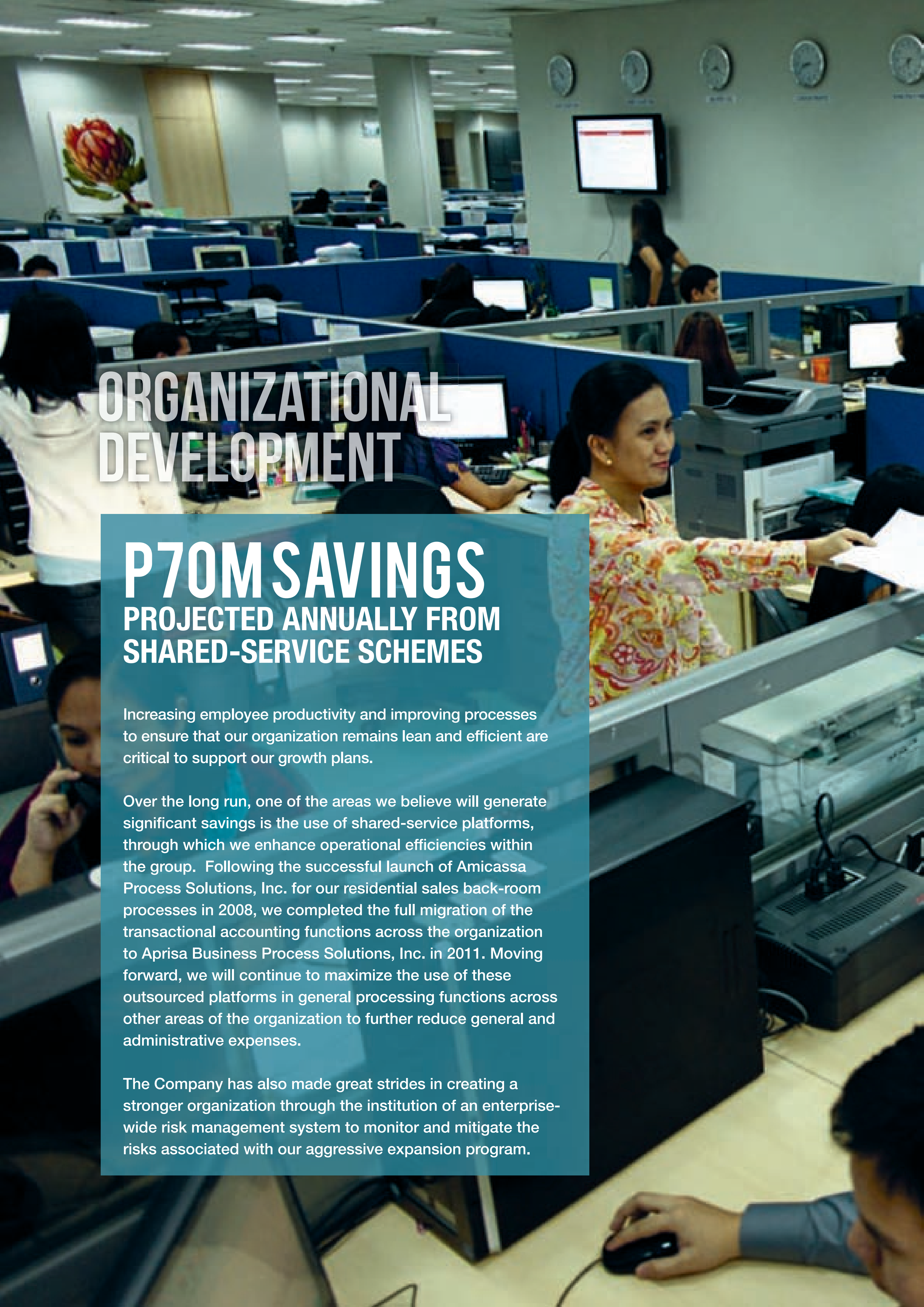
Ayala Property Management Corp. (APMC) continues to enhance Ayala Land's competitive advantage by providing world-class facilities management services to our residential and leasing clientele. APMC's spend management program yielded a 186% increase in savings in the area of direct operating expenses and procurement over the prior year. The 22% drop in electricity consumption (measured in terms of average kilowatt hour per square meter per year) and the 29% reduction in water usage (average cubic meter per square meter per year) across all its managed facilities contributed significantly to this end goal.

Throughout last year, APMC reported no major incident requiring the activation of the Crisis Management Team across all its managed properties – a testament to the unit's excellent service and highest level of safety and quality standards.

On top of all these, APMC improved its processes on customer service, emergency preparedness and quality standards as it supported Ayala Land's aggressive expansion, enabling it to maintain its standing as the country's leading property manager with three international certifications – ISO 9001:2008; ISO 14001:2004; and OHSAS 18001:2007.

186% INCREASE IN SAVINGS

Equipment room at Tower One & Exchange Plaza, Makati City



ORGANIZATIONAL DEVELOPMENT

P70M SAVINGS

PROJECTED ANNUALLY FROM SHARED-SERVICE SCHEMES

Increasing employee productivity and improving processes to ensure that our organization remains lean and efficient are critical to support our growth plans.

Over the long run, one of the areas we believe will generate significant savings is the use of shared-service platforms, through which we enhance operational efficiencies within the group. Following the successful launch of Amicassa Process Solutions, Inc. for our residential sales back-room processes in 2008, we completed the full migration of the transactional accounting functions across the organization to Aprisa Business Process Solutions, Inc. in 2011. Moving forward, we will continue to maximize the use of these outsourced platforms in general processing functions across other areas of the organization to further reduce general and administrative expenses.

The Company has also made great strides in creating a stronger organization through the institution of an enterprise-wide risk management system to monitor and mitigate the risks associated with our aggressive expansion program.

"THE BOARD ESTABLISHES THE VISION, STRATEGIC OBJECTIVES, KEY POLICIES AND PROCEDURES FOR THE MANAGEMENT OF THE COMPANY."

1 Fernando Zobel de Ayala
2 Jaime Augusto Zobel de Ayala
3 Antonino T. Aquino
4 Francis G. Estrada
5 Jaime C. Laya
6 Delfin L. Lazaro
7 Aurelio R. Montinola III
8 Mercedita S. Nolledo
9 Oscar S. Reyes

BOARD OF DIRECTORS

Fernando Zobel de Ayala

Chairman of ALI since 1999. President and COO of Ayala Corporation; Chairman of Manila Water Company, Inc., Alabang Commercial Corporation, Ayala DBS Holdings, Inc., AC International Finance Limited and Ayala International Pte, Ltd.; Co-Vice Chairman of Ayala Foundation, Inc. and Mermac, Inc.; Director of Bank of the Philippine Islands, Globe Telecom, Inc., Integrated Micro-Electronics, Inc., Asiacom Philippines, Inc.; Member of The Asia Society, World Economic Forum, INSEAD East Asia Council and World Presidents' Organization; Vice Chairman of Habitat for Humanity International and Chairman of the Steering Committee of Habitat for Humanity's Asia Pacific Capital Campaign; and Member of the Board of Directors of Caritas Manila, *Kapit Bisig para sa Ilog Pasig* Advisory Board, Pilipinas Shell Corporation and Pilipinas Shell Foundation.

Antonino T. Aquino

Director and President of ALI since April 2009. Chairman of Alveo Land Corp., Avida Land Corp., Amaia Land Corp., Bella Vita Land Corp., Cagayan De Oro Gateway Corp., Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., Ayala Hotels, Inc., Makati Development Corp., Ayala Property Management Corp., North Triangle Depot Commercial Corp. and Station Square East Commercial Corp.; President and Director 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.; President of Hero Foundation and Bonifacio Arts Foundation, Inc.; and Trustee of Ayala Foundation, Inc., Makati Commercial Estate Association, Inc. and Makati Environment Foundation. He was named "Co-Management Man of the Year 2009" by the Management Association of the Philippines.

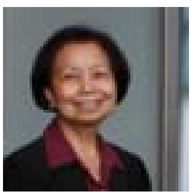
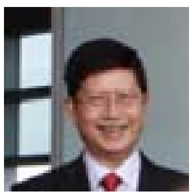
Jaime Augusto Zobel de Ayala

Vice Chairman of ALI since 1988. Chairman and CEO of Ayala Corporation; Chairman of Bank of the Philippine Islands, Globe Telecom, Inc. and Integrated Micro-Electronics, Inc.; Co-Vice Chairman of Mermac, Inc. and Ayala Foundation, Inc.; Director of Manila Water Company, Inc., Alabang Commercial Corporation and Ayala International Pte Ltd.; Chairman of Harvard Business School Asia-Pacific Advisory Board, World Wildlife Fund Philippine Advisory Council and Children's Hour Philippines, Inc.; Vice Chairman of the Asia Business Council; Co-Vice Chairman of the Makati Business Club; Member of Harvard University Asia Center Advisory Committee; Member of the Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, The Asia Society, International Business Council of the World Economic Forum, Pacific Basin Economic Council, Philippine Economic Society and Toshiba International Advisory Group; and Member of the Board of Trustees of the Eisenhower Fellowships and Singapore Management University.

Francis G. Estrada

Independent Director of ALI since April 2008. Vice-Chairman and Fellow of the Institute of Corporate Directors; Independent Director of Philamlife and General Insurance Co. (Chairman of the Risk Management Committee and Member of the Investment and Audit Committees); Member of the Board of Advisers of Rizal Commercial Banking Corporation; Chairman of the Board of Visitors of Philippine Military Academy; Member of the National Mission Council (Chairman of the Investment Committee) of De La Salle Philippines; Director of De La Salle Canlubang, Clean Air Initiative – Asia and Maximo T. Kalaw Foundation; Member of the Management Association of the Philippines and American Chamber of Commerce; and Trustee of the Sociedad Espanola de Beneficiencia. He was named "Most Outstanding Alumnus" of the Asian Institute of Management in 1989.



Jaime C. Laya

Independent Director of ALI since April 2010. Chairman of the Board of Directors of Philippine Trust Company (Philtrust Bank); Independent Director of GMA Network, Inc. and Philippine AXA Life Insurance Co., Inc.; Director of Philippine Ratings Services Corporation; and Trustee of De la Salle University-Taft, St. Paul's University - Quezon City, Cultural Center of the Philippines, Fundacion Santiago and Manila Polo Club. He has served as Minister of the Budget, Minister of Education, Culture and Sports, 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.

Delfin L. Lazaro

Director of ALI since 1996. Chairman of Philwater Holdings Co., Inc., Atlas Fertilizer & Chemicals, Inc. and AYC Holdings, Ltd.; Chairman and President of Purefoods International, Ltd. and A.C.S. T. Business Holdings, Inc.; and Director of Ayala Corporation, Globe Telecom, Inc., Integrated Micro-Electronics, Inc., Manila Water Company, Inc., AI North America, Inc., Ayala DBS Holdings, Inc., Probe Productions, Inc. and Empire Insurance Company. He was named "Management Man of the Year 1999" by the Management Association of the Philippines for his contribution to the conceptualization and implementation of the Philippine Energy Development Plan and to the passage of the law creating the Department of Energy.

Aurelio R. Montinola III

Director of ALI since February 2005. President and CEO of Bank of the Philippine Islands; Chairman of BPI Direct Savings Bank, Inc., BPI Computer Systems, Inc., BPI/MS Insurance Corp., BPI-Philam Life Assurance Corp., BPI Europe Plc. and Amon Trading Corporation; Vice Chairman and President of BPI Foundation, Inc.; Vice Chairman of the Asia/Pacific Regional Advisory Board of Mastercard Incorporated, Republic Cement Corp., LGU Guarantee Corp., Far Eastern University and Philippine Business for Education, Inc.; Director of BPI Capital Corporation and BPI Family Savings Bank, Inc.; Member of the Management Association of the Philippines; and Trustee of the Makati Business Club and Ayala Foundation, Inc.

Mercedita S. Nolledo

Director of ALI since 1994. Senior Counsel of the Ayala Group of Companies; Chairman of BPI Investment Management, Inc. and FEB Management, Inc.; Director of Anvaya Cove Beach and Nature Club, Inc., AG Counselors Corporation, 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.

Oscar S. Reyes

Independent Director of ALI since April 2009. Chairman of MRL Gold Philippines, Inc. and Link Edge Inc.; Member of the Board of Bank of the Philippine Islands, Philippine Long Distance Telephone Company (Advisory Board), SMART Communications, Inc., Pepsi Cola Products Philippines, Inc., Sun Life Financial Plans Inc., Basic Energy Corporation, Alcorn Gold Resources Corporation and Manila Electric Company where he also serves as Chief Operating Officer; and Member of the Board of Trustees of Pilipinas Shell Foundation Inc., SGV Foundation, El Nido Foundation and One Meralco Foundation.





MANAGEMENT COMMITTEE

1 ANTONINO T. AQUINO
President and CEO

2 BERNARD VINCENT O. DY
Group Head, Residential Business and Commercial Business Groups
Group Head, Corporate Marketing and Sales

3 VINCENT Y. TAN
Group Head, Planning

4 ARTURO G. CORPUZ
Head, Urban/Regional Planning and Land Acquisition

5 RAUL M. IRLANDA
Group Head, Property Management

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

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

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

9 DANTE M. ABANDO
Group Head, Construction

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

11 JOSELITO N. LUNA
Group Head, Innovation and Design

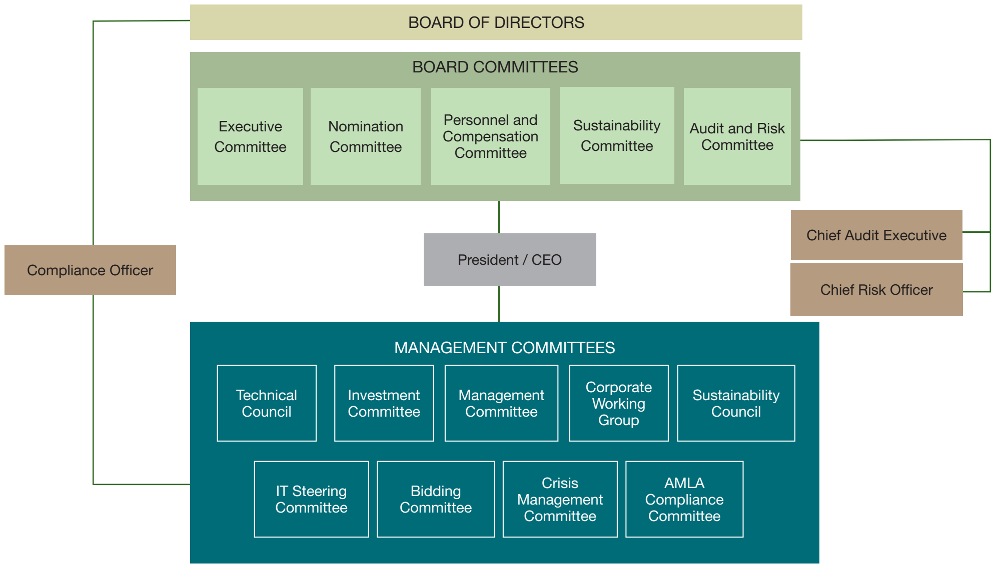
12 MA. TERESA T. RUIZ
Group Head, Human Resources and Public Affairs

CORPORATE GOVERNANCE

We believe that adherence to the highest standards of corporate governance is integral to our creation of shareholder value over the long-term. We remain firmly committed to good and transparent governance, while considering and balancing the interests of all our other stakeholders.

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 following report describes our corporate governance framework and discusses initiatives taken by the Company in 2011 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. Our corporate governance program is implemented through the structure shown below:

OUR GOVERNANCE STRUCTURE



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 Board members have undergone training in corporate governance and have 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 Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (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. This organization 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 at least three consecutive years. The average score of the 214 companies in the 2010 survey was 77%. Survey results for 2011 have not yet been released 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.

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.

Board Performance

Regular meetings of the full Board are held at least once every quarter. In 2011, the Board had six regular meetings. The average attendance rate of members of the Board was 94%, with each member individually complying with the SEC's minimum attendance requirement of 50%.

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. 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.

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 and Independent
Jaime C. Laya	Director	Non-executive and 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 and Independent

SUMMARY OF DIRECTORS' ATTENDANCE: 2011

DIRECTOR	NO. OF MEETINGS ATTENDED/HELD	% PRESENT
Fernando Zobel de Ayala	6/6	100%
Jaime Augusto Zobel de Ayala	6/6	100%
Antonino T. Aquino	6/6	100%
Francis G. Estrada	6/6	100%
Jaime C. Laya	6/6	100%
Delfin L. Lazaro	5/6	83%
Aurelio R. Montinola III	4/6	67%
Mercedita S. Nolledo	6/6	100%
Oscar S. Reyes	6/6	100%

Board Committees

Five committees support the Board in the performance of specific governance functions. These committees – including their members, specific responsibilities and 2011 accomplishments – are discussed below.

COMMITTEES / MEMBERS	RESPONSIBILITIES / ACCOMPLISHMENTS IN 2011
EXECUTIVE COMMITTEE Fernando Zobel de Ayala (Chairman) Jaime Augusto Zobel de Ayala Antonino T. Aquino Delfin L. Lazaro Oscar S. Reyes*	• 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 in detail strategic plans and directions. • Held two meetings and deliberated on, among others, various projects and business proposals.
NOMINATION COMMITTEE Oscar S. Reyes (Chairman)* Fernando Zobel de Ayala Antonino T. Aquino	• 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 executives prior to movement, promotion, or hiring • Held a single meeting. Reviewed the profiles of the nominees for directors for the year 2011-2012, approved the final list of nominees, and approved the appointments and promotions of key officers.
PERSONNEL AND COMPENSATION COMMITTEE Francis G. Estrada (Chairman)* Fernando Zobel de Ayala Jaime Augusto Zobel de Ayala Mercedita S. Nolledo	• Establishes a formal and transparent process for developing and reviewing policies related to the executive remuneration of corporate directors, officers and other key personnel. • Held a single meeting. Approved the grant of the 2011 Executive Stock Ownership Plan (ESOWN) to qualified officers of the Company.
AUDIT AND RISK COMMITTEE Oscar S. Reyes (Chairman)* Mercedita S. Nolledo Jaime Laya*	• Assists the Board of Directors in the fulfillment 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 matters. • Held four meetings. The Committee reviewed and approved the 2011 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 2012 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 83.
SUSTAINABILITY COMMITTEE Antonino T. Aquino (Chairman) Jaime C. Laya* Oscar S. Reyes*	• 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.

** Independent*

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 six regular Board meetings in 2011. 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 2011 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 Executive Stock Ownership Plan (ESOWN), if any.

MANAGEMENT

In addition to the various Board-level committees, the Company has also put in place various management committees to guide critical decision-making and key governance processes required at the management level in overseeing individual business units, projects and support functions, as illustrated 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 2011, 11 of the 12 members of the Management Committee and an additional nine key officers, including the

Treasurer, the Head of Corporate Strategy and the Deputy Compliance Officer were certified for having attended accredited corporate governance training programs. We also rolled out in 2010 an internal training module 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 improvement 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.

ACCOUNTABILITY AND AUDIT

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

Internal Audit

The Internal Audit Division (IAD),headed by a 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.

The IAD executed its audit activities for 2011 in accordance with the risk-based and process-focused audit approach. This approach is in accordance with the standards set by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

An external assessment opinion by Manabat, Sanagustin & 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 activities, as well as the processes by which they are applied, comply with the equirements of the Standards and Code of Ethics in all material respects. Internal Auditing Standard 1312 requires that external assessments be conducted by a qualified independent reviewer or review team from outside the Company at least once every five years.

Independent Public Accountants

The principal accountant and external auditor of the Company is the accounting firm of SyCip, Gorres, Velayo & Co. (SGV), with Ms. Jessie D. Cabaluna as the Partner-in-Charge for the 2011 audit year. The Company and its various subsidiaries and affiliates paid SGV a total of P11.9 million and P10.3 million (inclusive of VAT) for audit and audit-related fees in 2011 and 2010, respectively. No other fees have been paid for assurance and other related services for the past two years. Meanwhile, tax consultancy services are secured from entities other than the appointed external auditor.

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 2011 are discussed in the Risk Management Report on page 48.

COMPANY AWARDS

- Best Real Estate Developer in the Philippines – Euromoney 2011 Real Estate Poll
- Best Property Manager in the Philippines – Euromoney 2011 Real Estate Poll
- Platinum Award for All-Around Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility, Environmental Responsibility and Investor Relations – The Asset Corporate Governance Awards
- Platinum Award for Corporate Governance – Institute of Corporate Directors' Scorecard Survey
- CFO of the Year (Jaime E. Ysmael) - ING-FINEX
- Teleperformance Finance Team of the Year - Asia CEO Awards
- HGC Excellence Award in Housing Finance - Home Guaranty Corporation
- Mall of the Year: Greenbelt 5 - Philippine Retailers Association
- Award of Excellence in Communication Management for the Annual Merchant Rewards and Ayala Malls Foreign Concerts and Events - 10th Philippine Quill Awards
- Merit Award in the Emerging Markets Portfolio Performance Reporting category – Asia Pacific Real Estate Association
- Gawad Sinop Recognition of Supply Management Best Practice of Total Value of Ownership - Philippine Institute of Supply Management
- Award of Excellence in Purchasing (Saturnino M. Simeon) - Philippine Institute of Supply Management

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 impacted by our developments, the government, non-government organizations (NGOs) and the media.

SHAREHOLDERS	CUSTOMERS	BUSINESS PARTNERS	EMPLOYEES
We are committed to providing our shareholders and the broad investment community with timely, accurate and materially relevant information about the Company, its governance and management structures, its financial and operating results, and its future business prospects. We place a high importance to the Annual Stockholders' Meeting (ASM) and its voting procedures to safeguard 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 public on a daily basis.	Our customers play an integral part in the success of our Company. Over many years, we have endeavoured to build the trust and confidence of our customers by consistently ensuring on-time delivery of best-in-class products and services. Over the past few years, we have continually sharpened customer focus and accountability and have significantly improved our service level across all our customer-facing business units through dedicated customer service and relationship management teams.	We endeavor to build long-term and mutually-beneficial relationships with our business partners through fair dealings and adherence to the highest level of moral and ethical conduct. We recognize the rights of creditors as stakeholders and are committed to honoring our contracted financial obligations and any financial covenants these may contain. We provide creditors with ready access to information needed to assess the Company's credit quality. We also believe in providing 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.	We strive to provide a suitable environment for continuous learning and development for our people. We provide optimal training opportunities and customfit programs under the Individual Development Plan (IDP) process that enable our employees to strive for excellence and perform at their best. These training programs cover business and technical knowledge, skill-building, values, ethics and corporate governance. We have also implemented a "Professionals-in-Development" (PID) program through which new recruits are brought into the organization and trained in a systematic and practical approach.
COMMUNITIES	**GOVERNMENT**	**NGOS**	**MEDIA**
As a leading and responsible land and community developer, we recognize that our projects have a significant impact on the areas in which we operate. We are committed to improving 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 63.	The Company is committed to its role in economic development and nationbuilding. We regularly engage the government, both at the national and local levels, to find business solutions to environmental and social issues. We constantly seek to partner with the public sector in developing business models, platforms and infrastructure solutions that may serve as catalysts for social development and contribute to raising the standard of living of people in the communities we serve.	We partner with reputable NGOs and corporate foundations for their expertise in providing meaningful and effective engagement with the communities we serve. We also provide additional resources to enhance their capabilities and increase their impact to society. We have continuing partnerships with tenured NGOs who assist us in addressing some of the needs of the communities surrounding our developments through livelihood programs and employment opportunities. We also work with Ayala Foundation for the provision of educational opportunities to qualified students in public schools around the country.	We work closely with the media to provide 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 various channels such as media conferences and briefings, news releases and 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 advocacies and initiatives.

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, Philippine Dealing and Exchange Corporation (PDEx), and Bangko Sentral ng Pilipinas (BSP). 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, written communication and conference calls. Analysts who are unable to attend our quarterly briefings in person are 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 a limited period after each briefing.

Throughout the year, our CEO, CFO, Head of Investor Communications and Compliance, and other members of the Management Committee 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 2011, senior management met with institutional investors and fund managers in 12 conferences and corporate day events held in Manila, Singapore, Hong Kong, New York, Boston, San Francisco, London and Edinburgh.

Ownership Structure

We disclose quarterly and annually 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 relayed quarterly 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.

Financial Reporting

Our financial statements comply with Philippine Financial Reporting Standards (PFRS), which are in general compliance with International Accounting Standards (IAS). The accounting policies adopted in 2011 are consistent with those of the previous financial year, except for the implementation of new and amended PFRS and Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2011. These changes in Accounting Policies are fully explained in the Notes to the Audited Consolidated Financial Statements, beginning on page 93.

DEALINGS IN SECURITIES

We continue to implement policies governing securities transactions that comply with existing government regulations against insider trading. There has not been any case of insider trading involving company directors or management in the past five years.

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 implementedby the Company are reported to the SEC, PSE and PDEx within specified deadlines. The Company strictly enforces, and monitors compliance with, a policy on insider trading which prohibits the buying or selling of Company shares 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 families 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 other 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.

ANTI-MONEY LAUNDERING

As a covered institution, the Company complies with all the rules, regulations and directives issued by the BSP 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 at least quarterly to review and discuss specific transactions (if any), possible changes in the regulatory environment, enhancements to the documentation and front-liner procedures, 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 best practices in corporate goverenance 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.

RISK MANAGEMENT

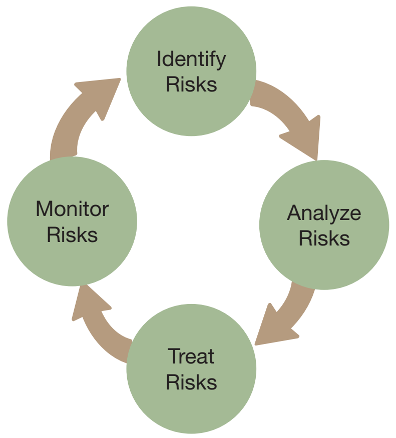
An effective Enterprise-wide Risk Management (EWRM) program continues to be in place for the Company, firmly embedded into its corporate planning process, strategy formulation, and in the day-to-day operations of the different strategic business units (SBUs).

In 2011, consistent with its Five – Pillar strategy for Growth, Margin Improvement, Capital Efficiency, Organizational Development, and Brand Building, the Company focused on further enhancing its risk management program by expanding the program's coverage to include additional lines of business, embedding risk management into the Company's operations, and integrating EWRM with Business Continuity Planning and disaster management.

The EWRM Program Coverage

Through the SBU risk management champions and the Office of the Chief Risk Officer (CRO), continuous review, update and close monitoring of previously identified key risks and controls were done to further enhance the Company's existing control environment.

EWRM Process in 2011



"Top-down driven; Bottom-focused" approach

In 2011, the EWRM program was expanded to include the Visayas-Mindanao business, the ALI Capital and Hotels Group and four major support units namely: Information Technology (IT), Legal, Human Resources, and External Affairs.

This is in line with the Company's expansion in the Visayas and Mindanao area and entry into the hotels and resorts businesses. A more holistic, cross-functional review of risks for the support units was also conducted. Individual risk profiles for each of the operating and support units were established through the following process:

- Identification of the key risks and risk drivers;
- Identification of the current risk mitigation strategies, and where appropriate, action plans to improve the current risk mitigation strategies.
- Establishment of key indicators and metrics for each of the identified risks to measure the effectiveness of the mitigation strategies, key indicators and metrics
- Continuous monitoring of existing, as well as of new and emerging, risks through the SBU risk management champions and the office of the CRO.

Embedding Risk Management into Operations

By embedding the risk management process into the day-to-day line of operations, the Company fosters a culture of risk management and enables sound decision-making at every level of the organization.

Risk Management in Project Development (PD)

To establish risk discipline early into the PD process and to mitigate the risks associated with project execution and delivery, all four stages of project development – land acquisition, design, construction, and operation – have also been equipped with controls and mitigation strategies. Major activities include:

- Land Acquisition: Extensive legal and technical due diligence
- Design: Geotechnical studies and structural testing for buildings, structural peer reviews by accredited structural engineers, ground and motion structural analysis by risk engineering firms
- Construction: Corporate and project site-specific safety program implementation, third-party certification (DOLE-BWC accredited agencies) of critical lifting equipment, implementation of Emergency and Disaster Response Plans, connection to the Asian Tsunami Networks, regular advisories, training of personnel and actual drills.
- Operation: Establishment of geographic Sub-Crisis Management Teams, establishment of Occupational Safety and Health Committee and development of plans to respond to potential project emergencies.

Contingent Liability Management

In 2011, a more robust contingent liability tracking system for the high-rise residential business was developed and implemented.

- The current project receivables and contingent liability monitoring process was tightened to reflect a risk-adjusted method of valuing the Company's available liquidity at each stage of project disbursement and collection.
- To guide the Investment Committee in the project approval process, a stoplight-type system was developed and rolled out to the different residential brands. The system utilized the operating statistics from each of the projects to come up with acceptable thresholds and limits on which subsequent project launches are to be based.

This color-coded contingent liability system has likewise been linked with the Company's available funds and prospective debt level vis-à-vis a pre-determined debt cap, to ensure that all project launches across all brands are always within sustainable limits.

Financial Risk Management

To centrally manage financial risks, the Treasury Division has established a three-layered approach to liquidity through prudent management of sufficient cash, money market placements and high-quality and marketable securities, a continuous program for the sale of receivables, and the maintenance of ample short-term revolving facilities from both local and foreign banks. The Company employs scenario analysis and contingency planning to proactively manage its liquidity position.

Accordingly, the Company has set counterparty bank limits for its investable funds to ensure that its funds are invested only with counterparties with high credit standing. Each counterparty's credit worthiness is determined through the Company's internal rating system covering the areas of liquidity, capital adequacy and financial stability, as well as available international credit ratings. The Company also closely monitors developments relating to counterparty banks. Based on these, exposures are adjusted accordingly to adhere to the pre-approved limits that are tracked on a daily basis.

In addition to the maintenance of ample short-term revolving facilities, the Company obtains on a timely basis and at appropriate terms and conditions, long-term debt funding. To mitigate exposure to interest rate, refinancing and concentration risks, the Company actively monitors and manages within pre-determined limits prescribed by Management the mix of fixed and floating-rate borrowings, its debt maturity profile, as well as the amount of debt the Company has or can prospectively have outstanding with any one of its relationship banks.

The Treasury Division also actively monitors the Company's Contingent Liability status with the objective of ensuring that funds are readily available to meet any potential shortfall between sources and uses of funds for the completion of projects that are under construction. Regular monitoring of this metric aims to mitigate project completion risk.

Procurement Risk Management

Supporting the Company's thrust towards margin improvement, the Supply Chain Management Division (SCMD) has put in place transformational processes and strategies in the way the Company procures:

- Commodity risk hedging –The Company continues to execute forward buys for major commodity requirements to ensure adequate supply and to mitigate the risk of price increases for approved and launched projects.
- Contract management - The Company's agreements with existing suppliers were designed with "right to match clauses", to allow existing suppliers to match credible new offers, ensuring that the Company gets the best price for its major purchases.
- Partnership agreements with manufacturers of major equipment and construction materials were entered into with qualified vendors to assure supply, and guarantee the quality and after sales support of the products. The standardization of product specifications for the Company's various developments was a key success factor in forging these agreements.

INTEGRATION WITH BUSINESS CONTINUITY AND DISASTER MANAGEMENT

In recognition of the changingenvironment, existing plans were updated and tested to ensure protection of resources critical to achieving both short-term and long-term objectives of the Company.

Crisis Management Improvements

The existing Crisis Management Plans (CMP) and Disaster Preparedness Programs were reviewed, tested, and further enhanced to effectively mitigate the impact of disasters such as natural perils and man-made events, to allow early operational recovery and continuity. Post-implementation reviews were religiously conducted to identify areas for improvement based on actual learnings and challenges (i.e. typhoon, flash floods, demonstrations, bomb threats).

A review of the Company's Business Continuity Management (BCM) program was also conducted to introduce best practices to further enhance the company's overall business continuity program in view of recent organizational changes and business expansion.

IT Risk Management

To ensure that critical IT systems can survive or be immediately recovered in any disaster scenario, the Business Information Systems and Process Division (BISPD) implemented various initiatives to ensure business continuity from an IT perspective.

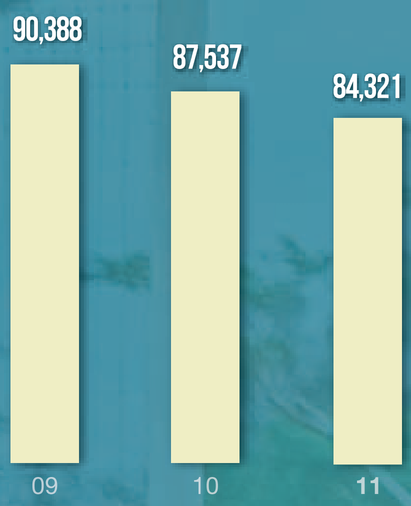
- Implementation of a "Disk Library" to augment the current tape back-up which allows for a faster and more reliable means to back-up and restore files
- The Company also started to move towards virtualization of its servers. Virtualization is a simplified way of maintaining and safeguarding data and resources against disaster consequences such as logical outages (software bug, virus and data corruption) and hardware outages.
- To test vulnerability of systems from both internal and external threats, third-party consulting services were contracted to conduct penetration testing and recommend improvements in the system.

SUSTAINING SUSTAINABILITY

A-LEVEL GRI REPORT

12,800 TREES PLANTED

TOTAL CARBON EMISSIONS PER YEAR (TONS CO_2)



Over the past five years of our sustainability journey, we have been managing the impact of our operations on the environment and society. In 2010, we made deliberate efforts to reduce the Company's carbon footprint by measuring and offsetting emissions. Widespread tree-planting efforts led by Ayala Property Management Corporation, NUVALI, Alveo, the Commercial Business Group, and the Human Resources Group accounted for a substantial increase in the number of trees planted in 2011. We will continue to harness our experience in fuel efficiency and energy conservation throughout our properties and broaden our scope towards more measurable and effective carbon offsetting activities in the years to come.

LETTER FROM THE SUSTAINABILITY COMMITTEE

Dear Stakeholders,

Welcome to Ayala Land's 2011 Sustainability Report. This marks the fifth year since we as a Company redefined our commitment to sustainable development and began reporting on our triple bottom-line performance. Proudly, we have graduated to application level A, reporting on all 79 indicators under the internationally recognized Global Reporting Initiative guidelines.

We have had some very notable milestones since we started our journey in 2007. Early on, we established our framework and put in place an organization to drive sustainability in everything we do, led by this Committee at the Board level. More and more, we have embedded sustainability principles and targets into our operations and have steadily decreased our consumption of energy and water as well as the amount of solid waste we generate. We are now performing at par with, and in some cases better than, benchmark targets along these aspects. Our CO_2 emissions have steadily decreased over the years through deliberate efforts to reduce the use of fuel and electricity in our operations.

We stayed true to our commitment to nation building. We broadened the scope of our products and the markets we serve to help address the country's housing backlog in the economic and socialized housing segments. Our new lines Amaia and Bellavita provide more Filipinos with opportunities for eco-friendly living in healthy and safe environments. Harnessing our expertise in sustainable land use planning and design, we opened up new growth centers in provincial areas such as Laguna, Pampanga, Baguio, Bacolod, Iloilo, Cagayan de Oro, and Davao, even as we continue to build up our townships in Bonifacio Global City and NUVALI and keep our flagship developments in Makati, Alabang, and Cebu dynamic and fresh through redevelopment. The continued adoption of green building designs has garnered for us a LEED-Silver certification from the U.S. Green Building Council for our One Evotech building in NUVALI, the first office building in the country to be LEED-certified.

The communities surrounding our various developments continue to benefit from our stewardship and social development activities. We see to it that much of the manpower required for our various projects around the country are sourced locally in those areas. We continue to provide livelihood opportunities and training to members of neighboring communities. Through various contributions and donations over the past five years, we have distributed more than 300 million pesos to the different communities, charities and organizations that we support.

Moving forward, and as we continue to pursue our growth strategy at an aggressive scale and pace, the importance of reinforcing a culture of sustainability across the Company grows as well. We commit to further raising our level of accountability towards achieving more meaningful impact and results across the sustainability principles that we track and measure. Sustainability is a key competitive advantage and a differentiating factor of our developments. It will remain our continuing commitment embedded in our mission of "enhancing land and enriching lives for more people."

This report outlines our accomplishments in 2011. This and our previous reports can be found at our websites, www.ayalaland.com.ph and ir.ayalaland.com.ph. We invite you to read the succeeding pages and help us improve the way we do things and how we report them by sending feedback to integratedreport@ayalaland.com.ph.

ANTONINO T. AQUINO
Chairman
Board Sustainability Committee

MANAGEMENT APPROACH

Economic sufficiency. Ecological functionality. Social cohesion.

Through these triple bottom-line objectives, Ayala Land creates communities and designs developments that deliver excellent value, enhance and protect the environment, and promote inclusive, equitable social growth. Every year, the challenge lies in embedding sustainability principles deeper throughout the Company's value chain.

We adhere to the Ayala Land Sustainability Framework, guided by the Ayala Group Sustainable Development Policy, to meet our economic, social and environmental objectives. We regularly review strategies, methodologies, and metrics at the sustainability management committee and technical working group levels. We strive to intensify stakeholder interest and involvement through training and monitoring across our strategic business units (SBU).

Accountability is strengthened by adherence to the highest standards in all aspects of our operations and compliance with all laws, including but not limited to environmental, safety, and health regulations. We also commit to report on our annual progress against these metrics.

Policies, Framework, and Organization

The Ayala Group Sustainable Development Policy, the overall policy signed and committed to by the chief executives of the Ayala group of companies, identifies six sustainability priority areas that form the basis for each company to identify sustainability initiatives that can be integrated into its strategies, products, and processes.

The Ayala Land Sustainability Framework articulates these priorities in terms of responsible development, resource management, and impact mitigation. It is built on the five principles of Environmental Stewardship and Impact Reduction; Community Stewardship and Social Development; Personnel Development, Health, and Safety; Market Shaping; and Accountability.

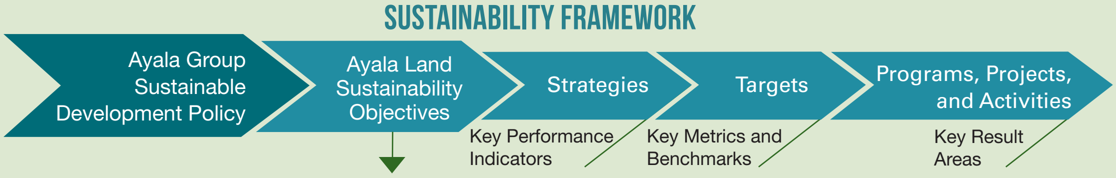
Guided by the Five Principles, we set strategies, performance indicators, and targets. Identified SBUs and corporate support groups lead the implementation of programs, projects, and activities for the year, which form part of their key result areas and are included as basis of their performance reviews at the end of each year.

A Board-Level Committee on Sustainability, comprised of our CEO as Chairman and two directors, guides the policy governing our sustainability programs, provides oversight of our sustainability management, and ensures our alignment with the Ayala Group

AYALA GROUP SUSTAINABLE DEVELOPMENT POLICY OBJECTIVES

- Operations - reduce energy, water and solid waste footprints
- Products and services - design for lower environmental impact and for greater access by more customers, especially the disadvantaged
- Supply chain - include environmental parameters in supplier accreditation
- Human resources - ensure employees work in the safest and healthiest environment possible and encourage them to adopt green business practices in the workplace
- Community involvement - help promote economic advancement and nation building (e.g. through quality education, vibrant micro-enterprises, and a healthy environment)
- Management approach - strive for material impact and measurable results on sustainability while improving operating efficiencies and satisfying shareholder requirements

SUSTAINABILITY FRAMEWORK



1. Environmental Stewardship and Impact Reduction	Sustainable Land Use Planning & Green Product Design, Energy Efficiency, Water Stewardship, Air Quality Management, Solid Waste Management, Green Procurement, Sustainable Construction, Biodiversity Conservation
2. Community Stewardship and Social Development	Local Employment & Livelihood, Community Health & Safety, Education, Arts & Culture
3. Personnel Development, Health, and Safety	Green Training for Employees, Employee Wellness, Occupational Health & Safety, Employee Volunteerism
4. Market Shaping	Green Marketing Campaigns; Green Training for Sales Force; Green Networking with Industry, Government, Academe, NGO, and Media; Green Market Surveys
5. Accountability	Sustainability Governance & Risk Management, Sustainability Reporting

Sustainable Development Policy.
Our Management Committee, comprised of heads of different SBUs and support groups, serves as our Sustainability Council. Sustainability Champions in support groups and SBUs spearhead and implement initiatives.
Our new Sustainability Manager came onboard in May last year to shepherd sustainability efforts. The Five Principles were further refined and pushed forward. Two Green Training programs were implemented for our employees, and workshops for the Procurement Groups and the Innovation and Design Group were conducted to strengthen sustainability commitments.

Managing the Risks of Climate Change

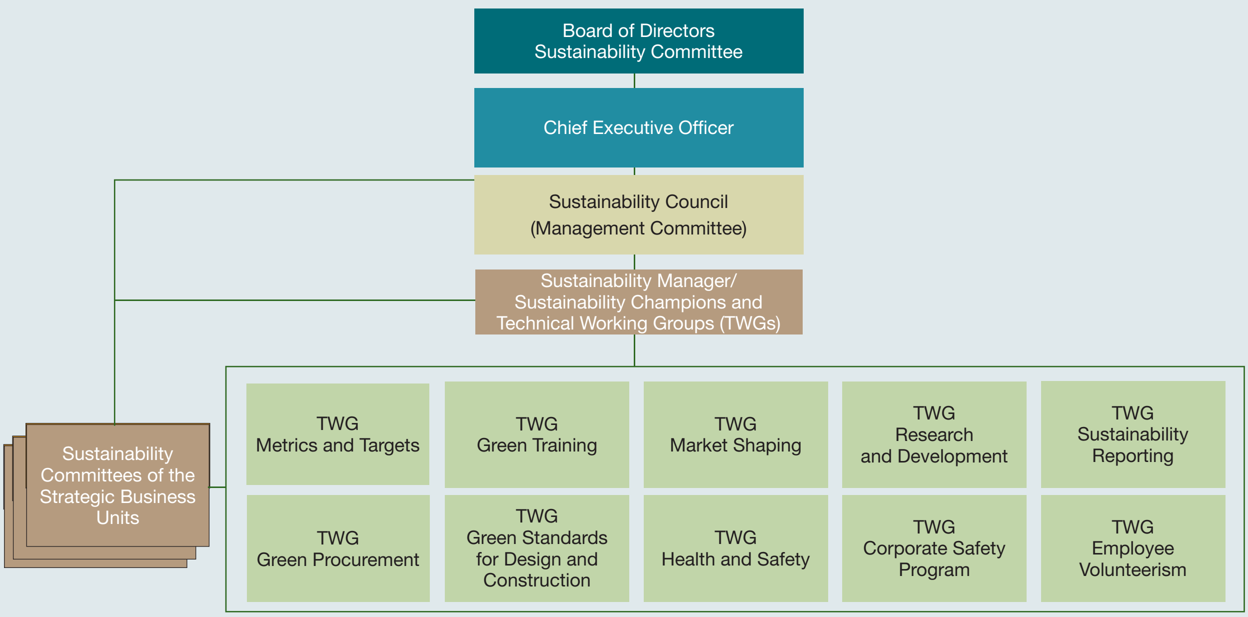
Our Company acknowledges the risks posed by climate change on our business. Environmental Stewardship and Impact Reduction is a major principle of our Company's Sustainability Framework, consisting of measures for the mitigation of these risks. We monitor our performance in the following areas: Sustainable Land Use Planning, Green Product Design, Energy Efficiency, Water Stewardship, Solid Waste Management, Air Quality Management, Green Procurement, Sustainable Construction, and Biodiversity Conservation.

Our Investment Committee studies and evaluates all projects not only for financial viability and returns, but also for risks related to a drastically changing environment. This process forms part of our enterprise-wide risk management process and our technical due diligence. We continuously seek ways to improve our understanding of and our responses to these risks.

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

	2011	2010	2009
GENERATED			
Revenues	**44,205**	37,814	30,455
Net Income	**7,140**	5,458	4,039
DISTRIBUTED			
Stockholders (dividends)	**1,972**	1,271	840
Employees (salaries and benefits)	**3,485**	3,252	2,537
Suppliers/contractors	**31,421**	27,053	22,101
Community investment (charitable contributions and donations)	**15**	219	29
Government (taxes)	**5,118**	4,048	3,744
Total Value Distributed	**42,011**	35,843	29,251
Investment/CAPEX	**29,914**	20,055	16,236

ORGANIZATIONAL CHART FOR SUSTAINABILITY



SUSTAINABILITY FRAMEWORK

Our Sustainability Framework is our Company's formal approach to developing land and designing communities with greater responsibility to our varied stakeholders.

Emanating from the Ayala Group's vision of nation building, our Framework's Five Principles– Environmental Stewardship and Impact Reduction; Community Stewardship and Social Development; Personnel Development, Health, and Safety; Market Shaping; and Accoutability– provide the direction and objectives for products, processes, programs, and projects. The framework aligns all sustainability initiatives across the different strategic business units and support groups across our organization.

SCORECARD

SUSTAINABILITY PRINCIPLE	2011 KEY RESULT AREA	PROGRESS UPDATE
Environmental Stewardship and Impact Reduction Enhance natural landscape processes and biodiversity to create value and increase climate change resilience in ALI projects	Review and revise current metrics and benchmarks to increase consumption efficiency targets in energy, water, and solid waste	• We have reviewed the measurement methodologies and adjusted energy and water metrics. Solid waste metrics have been kept as is. We continue to implement energy and water saving projects in all business units. • New technologies and processes that increase environmental resilience such as the use of native plants and trees for landscaping continue to be explored.
Community Stewardship and Social Development Collaborate with local stakeholders to establish social cohesion and community ownership of triple bottom line principles	Review strategies for linking communities with the local economies	• Business units, through EXAD, provided partner communities with resources and linkages for livelihood training and business opportunities related to ALI core businesses.
Personnel Development, Health and Safety Enhance personal and professional productivity and innovation for experiencing, learning, initiating, and maintaining sustainable and healthy practices.	Review and implement green training program to increase employee coverage (from current 40%)	• Green Training has been updated to include more practical learning methods and administered to the Finance Group, a mix of participants, mostly new hires. • Sustainability stock-taking workshops have been conducted with Innovation and Design Group (IDG), Supply Chain and Management Division (SCMD) and a joint team of Makati Development Corporation (MDC), IDG, SCMD and Urban Regional Planning Division (URPD). • Effective mechanisms for learning, initiating, implementing, and harmonizing sustainability practices across units have been identified. These will be codified in the next year.
Market Shaping Build and capture demand for healthy and sustainable living	Define and initiate corporate market shaping action plan and align SBU-level plans	• Corporate market shaping action plan has been defined, planned, programmed, and scheduled for execution in Q1 2012 by Corporate Marketing and Sales Group (CMSG) and URPD. • All business units reviewed their sustainability products and processes and actively contributed to the content of the market shaping campaign. • Customer satisfaction surveys addressed how customer knowledge can be used to shape the market
Accountability Regularly review and communicate policies, practice, and targets to employees and publics to ensure a culture of continuous improvement and innovation in sustainability	Progress annual sustainability report to level A with increased number of indicators from 57 to 79	• Sustainability reporting methods that drive business processes continue to be explored and identified. • Progressed to A-level report with 79 indicators tracked.

ENVIRONMENTAL STEWARDSHIP AND IMPACT REDUCTION

Our key sustainability principle of Environmental Stewardship and Impact Reduction is built on the tenet of protecting and enhancing the ecological and infrastructure systems that enable the communities we create to thrive for generations.

We plan communities with due consideration to environmental and geological conditions and the surrounding habitat from the onset, a process that is part of our enterprise-wide risk management system. Our climate-responsive planning and design allow for the easy adoption of environment-friendly lifestyles, especially on such aspects as energy efficiency, water stewardship, solid waste management, and air quality management.

Our construction arm, Makati Development Corporation (MDC), observes sustainable construction practices and innovates on construction methods to reduce our Company's carbon footprint. Safety and the environment are at the core of our project execution process given the potential impact of large-scale construction to the surroundings. Thus, we mandate three major prerequisites at the construction sites: erosion and sedimentation control, construction waste management, and indoor-air quality. We observe all relevant labor and environmental codes and standards concerning safety and compliance to protect our workers, developments, and stakeholders.

Award-winning Energy Efficiency

Energy efficiency is a major aspect of our Company's environmental sustainability. Our subsidiary, Ayala Property Management Corporation (APMC), continued to invest in improved efficiency by innovating on existing practices and technologies.

In 2011, we installed and tested various green technologies in APMC-managed properties for improved energy savings compared to conventional systems. These included the use of solar-powered lamp posts in Trinoma and the solar home system in NUVALI, which achieved 100% savings per unit; and various LED lighting formats, which generated savings of 45% to 92%. APMC again received various citations from the Department of Energy's Don Emilio Abello Energy Efficiency Awards. Total direct energy (diesel) consumption increased from 2.02 million liters to 3.23 million liters as MDC trebled the number of projects over

The courtyard at the Ayala Triangle Gardens in Makati City

Master-Planning Must-Haves

- **Minimum land disturbance**
- **Least cut and fill**
- **Respect for open spaces and ecosystem functions**
- **Pedestrian orientation and links to public transport as appropriate**

AYALA LAND'S ENVIRONMENTAL FOOTPRINT

	2011		2010		2009
DIRECT ENERGY CONSUMPTION (Diesel Usage, Scope 1, in million liters)					
APMC -Managed, Company Controlled Properties	0.26		0.30		0.04
Non-APMC-Managed, Company Controlled Properties	0.20		0.60		0.60
MDC Operations	3.23		1.12		3.90
TOTAL:	3.69		2.02		4.54
INDIRECT ENERGY CONSUMPTION (Purchased Electricity, Scope 2, in million kiloWatt hours)	COMMON AREAS	ALL AREAS	COMMON AREAS	ALL AREAS	
APMC -Managed, Company Controlled Properties	108.8	360.8	72.80	281.90	74.20
Non-APMC-Managed, Company Controlled Properties	33.18	77.01	62.60	73.10	58.50
MDC Operations	7.76		14.22		9.50
TOTAL:	149.74		149.62		142.20
CARBON DIOXIDE EMISSIONS [1] (Scope 1 and Scope 2, in tons CO_2)	GROSS	W/ CARBON OFFSETTING			
APMC -Managed, Company Controlled Properties	52,968	(46,166.02)	40,718		40,772
Non-APMC-Managed, Company Controlled Properties	18,234		35,952		33,705
MDC Operations	13,119		10,867		15,911
TOTAL:	84,321		87,537		90,388
WATER CONSUMPTION (Purchased Water, in million cubic meters)	COMMON AREAS	ALL AREAS	COMMON AREAS	ALL AREAS	
APMC -Managed, Company Controlled Properties	9.1	10.4	2.20	3.90	1.90
Non-APMC-Managed, Company Controlled Properties	0.47	0.79	0.86	0.96	1.00
MDC Operations	0.49		1.09		0.40
TOTAL:	10.06		4.15		3.30
GREY WATER CONSUMPTION: U.P.-AyalaLand TechnoHub (in cubic meters)	216,000		211,572		96,000
GREY WATER CONSUMPTION AS PERCENTAGE OF TOTAL CONSUMPTION	2%		5%		3%
WATER DISCHARGE (in million cubic meters)					
Total Volume from APMC Sewage Treatment Plants	2.90		2.30		2.70
Effluent Quality in Compliance with DENR Water Quality Standards	Yes		Yes		Yes
SOLID WASTE COLLECTED IN COMPANY-CONTROLLED PROPERTIES (in tons)					
Recyclable Waste (traded with recyclers)	3,870		3,635		3,063
Food Waste (sold to pig farms)	5,369		5,530		4,929
Compostable Waste (green waste for composting)	5,221		3,556		4,798
Residual Waste (hauled to sanitary landfills)	10,157		9,714		10,459
TOTAL:	24,617		22,435		23,249
SIZE OF LAND IN OR ADJACENT TO HIGH BIODIVERSITY VALUE (in hectares)					
Anvaya Cove (Morong, Bataan)	320		320		320
NUVALI (Sta. Rosa and Calamba, Laguna)	1,750		1,750		1,750
U.P.-AyalaLand TechnoHub (adjacent to U.P. Arboretum)	20		20		20
El Nido Resorts (Palawan)	25		25		
TOTAL:	2,115		2,115		2,090

[1] 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 (based on the CDM Construction for the electricity grids in the Philippines by the Manila Observatory). These are aligned with our previous reports.

the same period, from P14 billion to P40 billion worth of new contracts.

Philippine Integrated Energy Solutions, Inc. (PhilEnergy), a subsidiary established in 2010, continued to make its mark as one of the Company's champions for sustainability. Its objective is to provide a competitive advantage to the Company's leasing properties by reducing the energy consumption of various facilities.

In 2011, it focused on the construction of District Cooling Systems (DCS) for the Ayala Center redevelopment in Makati and Alabang Town Center in Muntinlupa, which are set to be operational in 2012. It also laid initial plans for the development of DCS projects for Centrio in Cagayan de Oro, Abreeza in Davao, and Ayala Center Cebu. The DCS projects, which are to be constructed for large, mixed-use developments, target up to 20% savings on the combined capital expenditure of the Company's business units and another 20% savings on consumption of water and electricity. Last year, PhilEnergy also signed a joint venture agreement with Mitsubishi Corporation, which now owns a 40% stake in PhilEnergy with an investment of P137 million. Mitsubishi will provide technical support to PhilEnergy through its extensive network of energy solutions affiliates in the Asian region.

Aside from implementing its various DCS projects, PhilEnergy will begin to offer and implement its energy savings services in 2012. It plans to conduct energy audits on existing projects and propose energy efficient solutions and investments that will reduce consumption significantly over an operating life cycle.

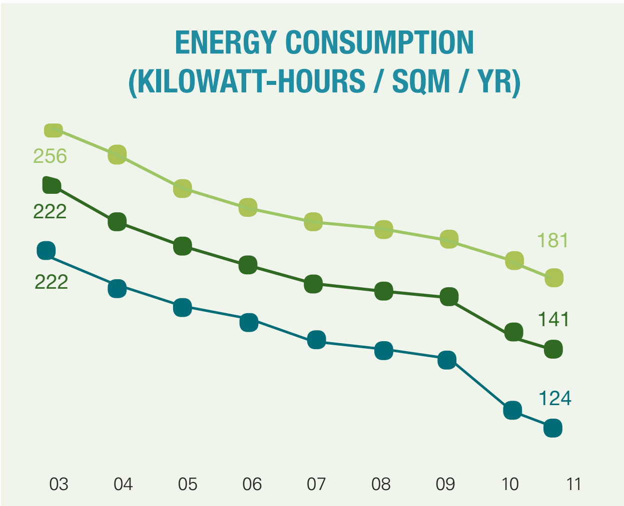
With Ayala Land's investment in the DCS at the U.P. AyalaLand TechnoHub amounting to P400 million, and PhilEnergy's investments in the Ayala Center DCS of P655 million and Alabang Town Center of P303 million, the system represents one of the Company's largest investments in energy efficient technologies at about P1.4 billion.

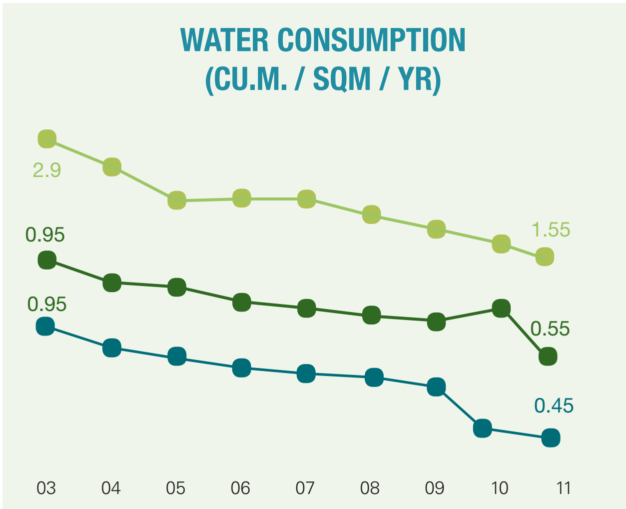
Water Stewardship

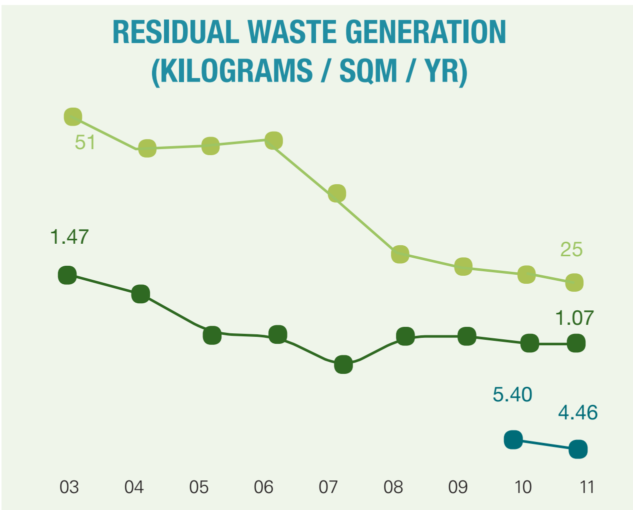
Water reuse and recycling are significant aspects of our water stewardship efforts. With the growth of the Company, water consumption increased in 2011, thus we continue to invest in technologies and features that ensure water conservation in our developments. These include storm water management, recycling of treated effluent for non-potable uses, multi-purpose lagoons and lakes that serve as water reservoirs and storm-water detention basins, and use of waterless urinals in our malls. Grey water reuse increased by 3% from last year's figure, however it decreased vis-a-vis total water consumption. We are performing better than the Australian water efficiency benchmark of 2 cu.m./sq.m./year for

HISTORICAL PERFORMANCE

Malls Office BPO







The Green Home at Treveia NUVALI

malls and at par with the 0.5 cu.m./sq.m./year benchmark for offices, and we make sure the quality of our effluents into either Manila Bay or Laguna de Bay is compliant with the Department of Environment and Natural Resources' (DENR) water quality standards.

Less solid waste

While there was a 10% increase in the total weight of solid waste collected from ALI-controlled properties, to 24,617 tons in 2011 from 22,435 tons in 2010, 80% of this increase was from recyclable, compostable, and food wastes that were traded with recyclers, sold to pig farms, and used for composting. The increase in residuals that were brought to government-accredited sanitary landfills was due to the increase in the managed properties and occupancy of existing properties. Although there was an increase in absolute values, there was a 17% decrease in waste generation on a per square meter basis. 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. In 2011, Anvaya put up its own composting area and solid waste center, along with such efforts as using post-consumer materials, reusable crates and less paper. APMC continues to replicate solid waste management initiatives in its managed properties.

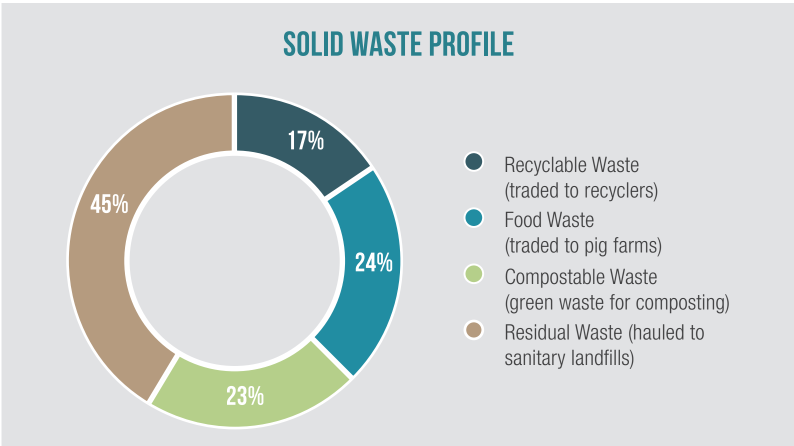
Greening our supply chain

Our Green Procurement (GP) Initiative reinforces our practice of sustainability through engagement with our suppliers and contractors, to foster the wider adoption of the sustainability imperative in their processes. We prioritize materials, products, and services from environmentally responsible suppliers, who are encouraged to align with our Vendors' Code of Ethics. Under the GP initiative, the total amount spent on green products in 2011 reached more than P3.8 billion. Total spend for recyclable tissue paper manufactured from recycled used or waste office paper as a basic raw material for production was P6.34 million. Because of our efforts, we were again recognized by the Philippine Institute of Supply Management with the Green Procurement Practices Award in 2011.

About 4% of the total production cost of steel sourced last year went to renewable sources while 6% of the production cost for cement went to alternative fuel sources. Our Supply Chain Management Division purchased 82,237 metric tons of steel and over 255,000 metric tons of cement in 2011. Effective strategies in forward buying of both materials brought down costs by about 5% for steel and 4% for cement on the average. Our supplier partnerships delivered savings of about P178 million last year.

Zero Spills

In 2011, there were no incidents of significant spills of chemicals, oil, and fuel that affected the environment in all areas of operations and their adjacent communities and surroundings. Neither did we collect,



transport, import, export, and treat any hazardous wastes.

Biodiversity and Habitat Protection

The Philippines has tremendously high levels of species diversity and endemism. As a top biodiversity hotspot, it is also plagued with threats from growing population density and unsustainable practices. Given our Company's experience in sustainable land use and resource management, we see our investment in the El Nido resorts group as an opportunity to work with government to spur economic development in geographically isolated areas through eco-tourism, while protecting the assets that enable growth.

2,115 HECTARES OF LAND MONITORED FOR BIODIVERSITY

Located at the northwestern tip of mainland Palawan, El Nido is one of the eight priority areas of the National Integrated Protected Areas Programme and it is on the Tentative List of the UNESCO World Heritage Sites. Our resorts are found within 90,000 hectares of the Managed Resource Protected Area, which consists of marine and terrestrial ecosystems. The resorts, covering two percent of the area, are in small islands, with fragile forest-over-limestone ecosystems. Since these are protected areas, it is mandated that sustainable management of the environment must result in direct positive impact on the local communities.

Successful conservation action rests on proper information. Numerous monitoring and management systems that integrate biodiversity considerations are in place, including wildlife monitoring. This is conducted with the University of the Philippines' Marine Science Institute, considered a center of excellence by the Commission on Higher Education. We consider our online database of El Nido's flora and fauna, which includes species profiles, photos, and sighting reports, an important tool for a broader-based environmental stewardship, and continuously update it. In 2011, two well-known Filipino biologists—field botanist Ulysses Ferreras and herpetologist Arvin C. Diesmos—conducted a two-month survey of Palawan's resources and habitat assessments, including our island resorts of Lagen and Miniloc. This recent study identified plants endemic to Palawan such as Palawan mangkono (Xanthostemon Speciosus), Palawan santan (Ixora Palawanensis), and pitcher plant (Nepenthes Philippinensis).

Due to the sensitivity of our habitat, we submit to periodic reviews by the Department of National Resources and Development. (DNRE), including quarterly self-monitoring reports on water quality, generator emissions, and waste management. We have invested in scale-appropriate technologies that mitigate the impact of our recreational and operational resort activities. These include sewage treatment plants, desalination plants, a materials recovery facility, rainwater catchment system, reed beds, fuel-efficient generators and boat engines, energy-efficient lighting, and solar panels. To prevent instances

El Nido Resorts, Palawan

Underwater vistas at El Nido Resorts, Palawan

of potential accidental pest introduction, we continuously improve our waste management by securing our garbage disposal sites. Macaque-human interaction was minimized through visitor management and proper information about feeding and minimal contact. We continue to study effective means to manage wildlife in a resort setting to ensure that both humans and wildlife are not at risk.

We also consider training a key success factor in sustainable resort management and in meeting environmental compliance standards. Our Environment Department's Be GREEN (Guard, Respect, Educate El Nido) program is a staff-education initiative that covers biodiversity conservation, environmental legislation, solid waste management, water conservation, and energy conservation. An eco-challenge promotes innovations in products and practices around the resort. We provide training in the identification of El Nido's flora and fauna, and existing bird and fish guides aid our staff in nature interpretation trails. We are in the process of developing a new fish guide given that 60 percent of the protected area is a marine reserve. These efforts lead to a better appreciation of El Nido and engagement of guests in the biodiversity conservation activities, as well as improved visitor management and customer satisfaction.

Throughout the year, we also worked with our external stakeholders by supporting their own conservation efforts. We continued inspection of the artificial reef modules in Tres Marias, a former dive site devastated by illegal fishing, coral bleaching, and typhoons. The resorts group together with Asian Conservation Foundation also installed and continued maintenance of mooring buoys in 21 sites around Bacuit Bay last year, especially in high-traffic areas such as the Small Lagoon and South Miniloc. Fishermen and dive operators work with us to prevent the overuse of the reefs, and at present there is a no-take policy governing the area.

In order to help boost the economic well being of the El Nido local community, we implement a policy of buying locally. However, due to a lack of fish farms, this has resulted in harvesting seafood from the wild and the conversion of some forestland to grow vegetables. While it is our goal to provide gainful employment to the locals whether through direct hiring or patronage of their products and services, we seek to

14.3-HECTARE WILDLIFE AND BIRD SANCTUARY
(MINIMUM OR NO DEVELOPMENT ZONE)

87%
SUCCESS RATE
OF ANVAYA'S OLIVE RIDLEY TURTLE EGGS LAID TO LIVE HATCHLINGS

100,000
ADDITIONAL NATIVE AND ENDEMIC TREES TO BE PLANTED
AS PART OF CONTINUING ENHANCEMENTS IN NUVALI

do so while working with the community to protect the same resources. Unofficial reports from the biodiversity database show relatively stable populations of key species occurring in the areas of resort operations. We are actively involved in monitoring the grouper and lobster population, which recently declined. Fish-feeding, although controlled and now confined to natural foods, continues to be studied in terms of its impact on the feeding behavior of fish around the house reefs. We commit to report on this aspect in the years to come.

No-development Zone

Part of our Company's long-term investment in NUVALI is the policy of minimum or no-development of a 14.3-hectare wildlife and bird sanctuary and a 30-kilometer buffer zone along a river/stream system and the wetlands. Where we developed land, we ensured minimum disturbance where it was practicable or engineered the area to approximate natural conditions. We followed natural land contours to protect the waterways in this area from obstruction. Part of our continuing enhancement is the planting of additional 100,000 native and endemic trees using saplings and wildlings acclimatized and appropriate to the ecosystem.

3 IUCN Red List species

We have three species classified as "vulnerable" by the International Union for Conservation of Nature Red List in our developments: the Olive-Ridley turtle in Anvaya, whose nesting sites we have protected; Palawan Peacock Pheasant in the islands of El Nido; and the Palawan Hornbill, seen specifically at the Lagen Island Resort. Together with the Protected Area Office, we also invested in the conservation of endangered sea turtles through tag-and-release programs, and hatchling releases from nests that are safeguarded by resort staff. We are proud to report that the success rate of Olive Ridley turtles' live hatchlings increased from 81% to 87% during two hatch dates late last year, and we continue to monitor the pawikan nest in 2012. The presence of these Red List species and the sensitivity of the area point to the need for continuous species monitoring that our Company has embraced and committed to.

Rocky river trail at NUVALI's 30-km Green Buffer Zone

NUVALI partner communities participate in an Earth Day activity

COMMUNITY STEWARDSHIP AND SOCIAL DEVELOPMENT

Our key principle of Community Stewardship and Social Development is built on inclusivity—society must serve the needs and contribute to the well being of its people no matter their status. Our Company's foothold in the high-end segment of the market is well established. As a leader in the development of sustainable communities and townships, we contribute to the acceptability of sustainable, compact living among urbanites, and look forward to lowering the footprints of our developments in general.

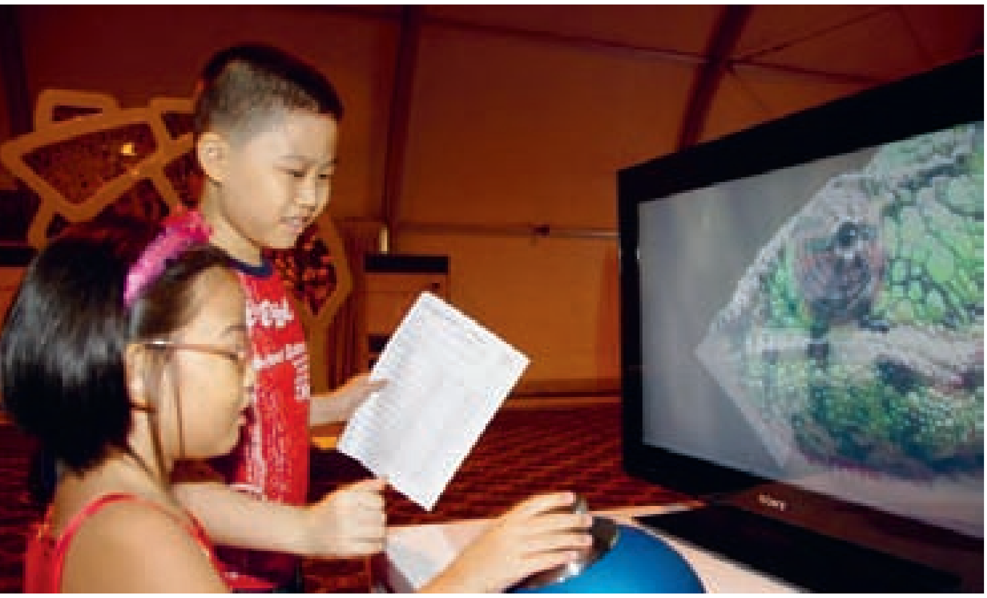
13 AREAS WITH BASIC MEDICAL AND DENTAL SERVICES

As we become more deliberate in achieving environmental and social sustainability, we recognize the power and the potential of our direct and indirect economic impact on communities adjacent to our developments. We work with the stakeholders from these communities, conduct impact assessment based on existing laws, and have set up multi-sectoral monitoring teams in coordination with the Department of Environment and Natural Resources for environmentally critical areas of operation. In 2011, we launched an Environmental Compliance Certificate tracker in 28 of our projects. We were not charged any significant fines nor given any non-monetary sanctions for instances of non-compliance with laws and regulations. Our entire business has also been analyzed for corruption-related risks and no incidents of corruption were reported in 2011. We remain an apolitical and non-partisan organization, however, we monitor legislation that can have significant impact on our business. Our Company did not at any time make any contribution to political parties, politicians, and related institutions. We did not face any legal actions for anti-competitive behavior, anti-trust, and monopoly practices, nor did we receive any financial assistance from the government.

Creating Jobs

We have a deliberate local (barangay-level) hiring policy for our construction projects, providing much needed local employment in areas adjacent to our operations. Over the years, local hiring figures have improved in all sites of operation. In 2011, 75% or 250 employees of El Nido

An ALI employee volunteering for DepEd's Brigada Eskwela program



The Mind Museum at Bonifacio Global City

and 94% or 253 employees of Anvaya were local hires. Apart from local hiring, our Supply Chain Management Division also continued to work with suppliers and contractors in promoting corporate social responsibility (CSR) and community stewardship by procuring materials from community livelihood programs.

We assisted in enhancing employment and livelihood opportunities surrounding our developments. In 2011, we conducted a job fair in Sta. Rosa, Laguna, where we tapped more than 25 partner companies with manpower requirements that focus on construction, manufacturing, maintenance, landscaping, cashiers, baggers, and other skilled labor requirements. Forty unemployed residents of BGC's home barangay Fort Bonifacio became certified skilled workers after receiving carpentry and masonry training based on the Technical Education and Skills Development Authority's national certificate courses. We have existing partnerships with our contractors for the hiring of our program beneficiaries. Other livelihood training programs focused on the operation of a materials recovery facility and junkshop, food sanitation, basket weaving, and beauty and wellness services in various locations.

Enabling Access

In 2011, we worked closely with local stakeholders and invested in social infrastructure that would contribute to the economic growth of our communities. Our projects enabled access to learning, livelihood, and values formation; provided opportunities for mobility and productivity; and promoted health, well being, and safety.

Close to a hundred employee volunteers participated in the Department of Education's Brigada Eskwela, and were deployed to five elementary schools near our projects in NUVALI, Anvaya, and Ayala Greenfield to do minor cleaning, painting, and repair works before the start of the school year. Thirty-two barangays received Alay sa Kabataan School Kits, which consisted of school bags, basic

Bike path by the lagoon at NUVALI

school supplies, and school shoes, in an effort to curb dropout rates due to a lack of supplies.

We also provided basic medical and dental services to 13 areas near our development sites under our Alay Kalusugan program, which included free tooth extraction, medical consultations, and medicines. To help boost economic activity in our large NUVALI community in Sta. Rosa, Laguna we constructed a transport terminal in 2011, which now conveniently connects the community to other town centers and regional hubs.

Opening Spaces for Growth

We make it a point to revitalize locations through public, socially facilitative infrastructure such as public parks, community centers, and recreation and employment hubs. Ayala Triangle Gardens, which has a total area of two hectares at the heart of the business district, continued to be dedicated to green open spaces for the public's enjoyment. Our Company also supported the activities of Ayala Museum, Filipinas Heritage Library, and the Mind Museum so that subsidized educational tours can be offered to public school students, and we contributed to the building of the newly-opened Mind Museum in Bonifacio Global City through direct funding and services.

Previously underproductive locations have also been revitalized with the development of economic and employment opportunities. The U.P.-AyalaLand TechnoHub provided a much-needed economic boost to the University of the Philippines area by creating spaces not only for business process outsourcing offices but also for local entrepreneurs. NUVALI, a prime example of total and careful planning for what was once agricultural land declining in productivity, provided new economic opportunities for both local government units and communities in the area. Our new developments in Subic, Angeles, Baguio, Bacolod, Iloilo, Davao, Cagayan de Oro and continuing investments in Cebu are all designed to ensure the sustainability of local economies.

Helping to Address the Housing Shortage

Backed by our commitment towards nation building, we broadened our product offerings and brought the quality of life enabled by an Ayala Land development to a largely underserved Filipino market. Our portfolio expansion into the economic housing segment also helps address the country's housing backlog, which stands at about 3.7 million houses, according to the latest statistics of the Housing and Land Use Regulatory Board.

Much like our high-end developments, our Company's economic housing property lines Amaia and BellaVita promote sustainability principles of eco-friendly living and long-term quality and safety, the right to a peaceful and secure neighborhood at the proper density, and convenience and improved efficiency by being located in high-transit areas. Supporting the inclusivity thrust is the affordability of the properties, which takes into consideration the financial capability of this market segment.

BellaVita is the country's first social enterprise community development. In tandem with the socialized housing aspect is the livelihood component. The MallEngke concept in BellaVita, a commercial development that promotes entrepreneurship and encourages formal retail activities, supports our Company's thrust to make both direct and indirect contributions to the economic development of our communities. Apart from small-scale enterprises and local job creation, BellaVita will serve as our community partner in our CSR program Bahay Saya, Buhay Sagana.

Rendering of a BellaVita home

Senior leaders of the Company at a workshop

PERSONNEL DEVELOPMENT, HEALTH, AND SAFETY

The key principle of Personnel Development, Health, and Safety is the foundation of our success. With pressure to meet the numbers in a highly competitive industry while measuring our performance against environmental and social standards, the Company seeks to foster a workplace culture that enables high productivity and promotes ethical practice and professionalism for all 1,298 employees. Entry-level wage is at least 20% above the minimum wage requirement. Our Company has a defined benefit retirement plan that covers 1.5 month's worth of salary for every year of service.

53 CERTIFIED BERDE Professionals

25HRS TRAINING PER EMPLOYEE

Promoting sustainability as a holistic approach to achieve excellent triple bottom-line results was at the core of our training programs in 2011. Internal and external training across all subsidiaries covered professional development and technical skills improvement courses, sustainability aspects of occupational health and safety, human rights, stakeholder management, crisis and disaster response, and compliance and regulation, among others. The variety of courses is in keeping with our goal to create a workforce that is equipped with skills that allow them to respond to the dynamic demands of the Philippine property sector.

Fast-tracking Professional Growth

We continued our Professionals in Development (PID) program to provide rigorous training to university recruits and match them to specific manpower requirements of our Company. Consisting of five weeks of combined classroom and field training, PID fast-tracks personnel development in support of the company's goal of building an organization that can deliver our bold growth targets. The PID process continues even after five weeks and into deployment, where seasoned team members provide the trainees with tangibles that test and put into practice the theories they have learned. To date, there have been five PID runs and 68 PID graduates.

Management and leadership skills of our senior executives are sharpened through the Ayala LEAP (Leadership Excellence Acceleration Program), a formal leadership development

Construction experts from Makati Development Corporation

97%
OF SECURITY PERSONNEL TRAINED ON HUMAN RIGHTS

program created in partnership with Harvard Business School. A total of 33 ALI senior executives went through the prestigious program in 2011. We promoted 21 new managers last year, who then underwent a New Managers Development program.

Our Company provides year-round training to make sure that we have a pipeline of world-class employees equipped and ready to tackle our triple bottom-line objectives. Each employee received an average of 25.17 hours of training. We monitored each employee's career advancement in light of the professional development opportunities in the Company, and all employees received their evaluation last year. Our personnel policies ensure equal opportunities for advancement are given regardless of age or gender, and are based on merit. There were no instances of discrimination filed against our Company last year.

Greening our Talent Pipeline

In light of the risks from climate change and given our thrust to develop sustainable structures, we sent our people to train in the BERDE metric for sustainable design and construction. Our Innovation and Design Group spearheaded the certification of 53 ALI personnel as BERDE Professionals in May 2011 to reinforce the understanding and adoption of sustainable building principles and practices among employees. Our 53 Certified BERDE Professionals, among the first in the country, make up 25% of all BERDE professionals and give our Company and our projects a competitive edge. There were two Green Training Programs that were implemented in 2011.

Promoting Occupational Health and Safety

Our employees, contractors, and suppliers have the right to work in safe environments. We provided all permanent employees annual physical exams, health and life insurance, disability/invalidity coverage, and group hospitalization benefits available to all, with provisions for retirees. We also have a Health and Safety Committee, who represent 75 percent of our total workforce in 2011, which ensures against accidents and serious diseases through programs that include fire and earthquake drills and various seminars.

We conducted education and counseling on first aid and the prevention of such serious diseases as hepatitis, dengue, and cervical cancer. We also conducted the Ayala Security Force (ASF) Medical First-Responder Training, a 60-hour program that teaches members of the ASF such skills as basic disaster life support, mass casualty incident management, and tactical response on hostile environment, among others. This training is in addition to the operations control center that we have set up to monitor our areas of operation, which turns into a command center in the event of a crisis, to coordinate disaster recovery and business continuity.

Our property management and construction arms were again awarded the international health and safety standard OHSAS 18001. Both MDC and APMC monitor their safe man hours at all operating facilities and construction sites. APMC's certifications, in particular—ISO 9001:2008, ISO 14001:2004, and OHSAS 18001:2011—made it the only property management company in the Philippines to be granted the three certifications. Because of our strict adherence to safety protocols, including mandatory safety gear, MDC and our subcontractors logged 40.9 million safe man hours and zero lost-time incidents in 2011.

Protecting Human Rights

Maintaining an organization that protects the dignity of our employees and the people we come into contact with daily is a top sustainability priority because it promotes high morale among our people. In 2011, none of our operations or the areas where we operate was at risk for instances of child labor, compulsory labor, discrimination, or possible violations of the rights of indigenous peoples. Ninety-seven percent of our security personnel were trained in human rights, a 16% increase from 2010. Our employees were also trained in anti-corruption policies and procedures and human rights, and underwent 41 hours of training on our Company's policies and procedures. In 2011, only 1% of our employees received training on human rights and anti-corruption policies.

We protect freedom of association at the workplace and no aspect of our operations prohibits our employees from exercising this freedom and the right to collective bargaining. In 2011, 28% of our employees were covered by collective bargaining agreements, from 24% in 2010. A minimum of 30 days is given as notice regarding significant operational changes as stipulated in the collective bargaining agreement.

Ayala Property Management Corporation's property managers and building administrators engage in regular Building Emergency and Evacuation Plan (BEEP) Drills to ensure preparedness during emergency situations.

EMPLOYEE TURNOVER

		Gender Distribution		Age Distribution		
		% Male	% Female	% Under 30	% 30 to 50	% Over 50
Ayala Land	491	4%	3%	3%	3%	0%
Alveo Land	86	5%	7%	7%	5%	0%
Avida Land	184	21%	20%	17%	23%	1%
Amaia Land	76	13%	9%	12%	11%	0%
MDC	195	1%	2%	1%	1%	2%
APMC	266	11%	6%	8%	8%	1%
TOTAL	**1298**	**8%**	**6%**	**7%**	**7%**	**0%**

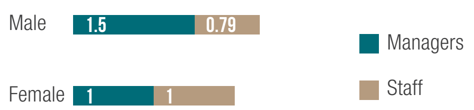
100%

Employees receiving regular performance and career development reviews

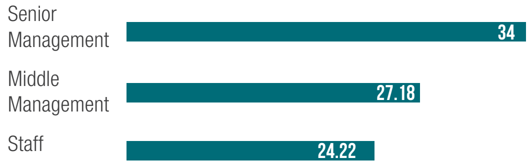
COMPOSITION OF GOVERNANCE BODIES

	TOTAL	Gender Distribution		Age Distribution		
		Male	Female	Under 30	30 to 50	Over 50
Board of Directors	9	89%	11%	0%	0%	100%
Management Committee	12	83%	17%	0%	42%	58%
TOTAL	**21**	**86%**	**14%**	**0%**	**24%**	**76%**

RATIO OF BASIC SALARY OF MEN TO WOMEN



OVERALL AVERAGE TRAINING HOURS PER EMPLOYEE CATEGORY



TOTAL WORKFORCE

	Employment Contract		
	Permanent	Probationary	Total Headcount
Ayala Land	482	9	491
Alveo Land	77	9	86
Avida Land	154	30	184
Amaia Land	58	18	76
MDC	192	3	195
APMC	246	20	266
TOTAL	**1209**	**89**	**1298**

28%

Employees covered by the Collective Bargaining Agreements, increase from 24% in the previous year

EMPLOYEE DISTRIBUTION

		Gender Distribution		Age Distribution			Distribution by Position		
		% Male	% Female	% Under 30	% 30 to 50	% Over 50	% Senior Management	% Middle Management	% Staff
Ayala Land	495	48%	52%	24%	66%	10%	4%	37%	59%
Alveo Land	85	48%	52%	50%	50%	0%	2%	24%	74%
Avida Land	183	44%	56%	47%	51%	2%	2%	18%	80%
Amaia Land	75	46%	54%	54%	46%	0%	2%	12%	86%
MDC	194	73%	27%	11%	68%	21%	1%	22%	77%
APMC	266	67%	33%	49%	45%	6%	3%	10%	87%
TOTAL	**1298**	**55%**	**45%**	**34%**	**58%**	**8%**	**3%**	**24%**	**73%**

* Figures adjusted to account for senior management seconded to subsidiaries.

A child participates in an art contest at the Ayala Triangle Gardens

MARKET SHAPING

At Ayala Land, product responsibility means enabling more Filipinos to lead safe, healthy, and environmentally responsible lives in communities that promote wellbeing. Through Market Shaping, we shift people's attitudes and lifestyles towards a more sensible adoption of sustainable practices, and we create awareness for products that capture their growing demand for a more responsible way of life. Communicating with our customers and monitoring their experience are crucial pratices that contribute to our Company's market shaping principle. Our properties posted consistently high scores among different stakeholder groups at various touch points in our 2011 Satisfaction Studies and this will help guide our future sustainability initiatives.

88%
SATISFACTION
FROM RESIDENTS AND RESIDENTIAL BUYERS

Satisfaction Surveys

Our residents and buyers have a high recommendation rating to family and friends. Residents feel an "overall sense of happiness and pride of ownership in an Ayala development" and believe that they "made the right choice for their families." The studies show that the professionalism and service-oriented performance of our employees are effective satisfaction drivers for both residents and buyers.

Shoppers and store managers show clear affinity to our malls. Shoppers will recommend them to friends and relatives, while store managers will recommend them to non-competing retailers because of their accessibility and ambience, the hassle-free shopping experience, mall security, and consistency in implementing mall policies, among others.

Employees of our locators are very happy about working in our buildings, and facilities managers will recommend the building to other companies looking for space. Our strengths include reliable security and safety programs, especially our emergency-response capacity. The performance and attitude of our property managers and building staff are again clear drivers of customer satisfaction.

Areas for improvement across the residential, commercial, and office developments also surfaced in the Satisfaction Studies and are being addressed to further increase our satisfaction ratings. Satisfaction Studies will continue to be conducted on an annual basis, with interim studies between the annual reads to check on progress with our stakeholders.

Protecting Customer Welfare.

We seek to ensure the health and safety of our customers as they live, work, and play in our communities. While we do not control all activities that take place in our residential and commercial developments, nor are we liable for the results of these activities, our entire design, planning, and construction process, as well as our resource stewardship efforts, all take into account the need to minimize health and safety risks to the customers. We use technical briefings, drills, communication tools such as signages, and information drives to keep users of our developments informed on how to proactively protect their health and safety. Our research and development considers the risks that might arise from any innovation and we address them in the planning and design stage. There were no reported incidents of non-compliance with voluntary codes concerning the health and safety impact of our products during their life cycles, nor with laws and regulations concerning their use. We also did not receive customer complaints regarding privacy issues and loss of customer data in 2011.

10,800
VOLUNTEERS
INSPIRED

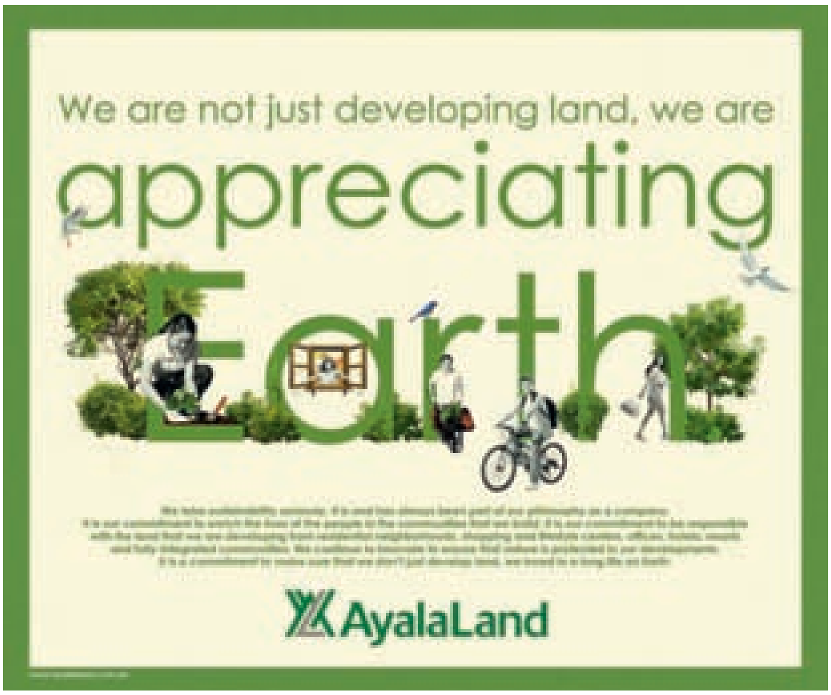
Promoting Sustainable Products and Lifestyles

Throughout 2011, we created opportunities for the public to understand and experience sustainability through various marketing and communication campaigns using various media and activities. Our malls demonstrate to shoppers and merchants alike the importance of sustainable practices through monthly Recyclables Fairs and annual Green Merchant Awards. Appreciation for arts and culture, as well as the promotion of social responsibility, continue to be part of the malls' market shaping efforts. In December 2011, Ayala Malls' "Inspire" campaign invited shoppers to sign up to assist various partner non-profit organizations such as Ayala Foundation, Children's Hour, Habitat for Humanity, HERO Foundation, Ninoy and Cory Aquino Foundation, and the World Wildlife Fund. Over 10,800 volunteers signed up to build homes, tutor kids, plant trees, accompany children to the Mind Museum, and donate cash for scholarships and environmental causes.

NUVALI itself has become a destination for LGUs, schools, and the general public who wish to learn about sustainability and environment-friendly living. We are now well known in the industry for our proactive efforts in sustainability education.

Communicating effectively with our buyers and the public about sustainability practices is important to us. Our operations manual outlines our standards and voluntary codes. Prior to their release to the public, information found in these marketing materials must be checked and vouched for by the marketing heads and relevant resource persons in the company. We ensure that information about the environment and sustainable practices are based on science and that we help increase public knowledge of Philippine biodiversity. El Nido Resorts maintains websites that popularize knowledge on the biodiversity in and around the island resorts.

We make sure all our claims are substantiated by hard, verifiable data. Apart from this internal verification system, we adhere to the codes and standards set by the Advertising Board of the Philippines. As such, our Company did not receive any sanctions concerning our advertising and promotional practices in 2011.



The Appreciating Earth campaign launched in January of 2012

AWARDS AND RECOGNITION

AWARD RECEIVED	AWARD GIVING BODY
Outstanding Award for 5% improvement in Specific Energy Consumption (SEC) • HSBC Building, Glorietta 5 Citation Award for 3-5% improvement in SEC • Uni RE Building, 6811 Building, Hotel InterContinental Manila Special Award for 1-3% improvement in SEC • Greenbelt 4, Citi Tower. Citi Center, Citibank Phils.	Don Emilio Abello Energy Efficiency Awards
Winner, Special submission category • U.P.-AyalaLand Technohub	ASEAN Energy Management Award Competition
Best Corporate Social Responsibility Best Environmental Responsibility	1st Asian Excellence Recognition Award 2011
Special Award under CBD category • For the Christmas lights and sound show at the Ayala Triangle Gardens which ran from November 17-December 30, 2010.	Meralco's annual *Maliwanag ang Pasko* lighting and décor contest
Philippine Quill Award of Excellence - Communication Management • The 13th Annual Merchant Rewards Night (Internal Communication) • Re-defining Mall Entertainment (Marketing Management)	International Association of Buisness Communicators
Anvil Award of Merit - PR Program • The 13th Annual Merchant Rewards Night, Re-defining Mall Entertainment, Market!Market! Vegetable Roof Garden, XIN NIAN: Cebu Chinese New Year Festival - Building Tourism Bridges through Cultures and Heritage Anvil Award of Excellence - PR Tool • IMAGINE, Christmas Campaign	Public Relations Society of the Philippines
Design: Innovative Design and New Development of a New Retail Project (Finalist) • MarQuee Mall Marketing: Business to business (Finalist) • The 13th Annual Merchant Rewards Night	International Council of Shopping Centers, Asia Pacific (ICSC) Awards
Disabled-Friendly Establishment Award • MarQuee Mall; The Link; Ayala Center Cebu; Serendra Retail; U.P.-AyalaLand TechnoHub	Apolinario Mabini Awards
• 5 Star: Ayala Tower One and Exchange Plaza; People Support Center; 6750; Convergys 1; Solaris 1; Hotel InterContinental Manila • 3 Star: Greenbelt 5; Glorietta 3, 4 & 5; The Link; Makati Stock Exchange • 1 Star: Greenbelt 1, 3 & 4	Makati Fire Safety Foundation Inc. (MAFSAFI)
• Responsible Business Award: Hotel InterContinental Manila	InterContinental Hotels Group
• Best City Hotel: Hotel InterContinental Manila	TTG* Travel Award
• Best Restaurant: Hotel InterContinental Manila	Asia Tatler Dining Award
• Gold Award: El Nido Resorts	Pacific Asia Travel Association
• Certificate of Excellence: Miniloc Island Resort • Ranked # 1 among Palawan hotels: Apulit Island Resort	TripAdvisor

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STAKEHOLDERS' COMMENTARIES

We are pleased to note that the sustainability thrust of Ayala Land, Inc. has been gathering momentum with exceptional pace and breadth, clearly driven by a genuine desire to maintain equilibrium between its corporate growth and its contributions to humanity.

Ayala Land has been a strong and reliable partner of the City of Makati for the past many years. Fortunately for us, it has always readily extended its generous support to our development initiatives and advocacies. In terms of priorities, we are apparently on the same page. We are glad that we share a sincere desire to lessen the adverse impact of progress on the environment, which is evident in the parallel initiatives and collaborative projects we have pursued with considerable success.

Being a proponent of the Philippine Green Building Rating System, Ayala Land is sure to lend its expert assistance to the city government in crafting a Green Building Code that will require and incentivize the use of green technology in existing and new buildings in the city. Once implemented, the new ordinance will give added impetus to our collective goal of achieving a "disaster-resilient Makati."

Congratulations to Ayala Land, Makati's partner and ally, for another remarkable year!

JEJOMAR ERWIN S. BINAY, JR.
Mayor, Makati City

Having worked with a community in Luisiana, Laguna back in college, it was a reminiscent experience for me to be immersed in community work in NUVALI with our partner communities. In NUVALI, sustainability is the philosophy that we continue to commit to as manifested in every project that we implement, from master-planning, estate management, marketing and even in our community programs.

Ayala Land ensures that our developments will create a positive impact on the lives of the families who belong to our partner communities. We employ a holistic approach that will address their basic concerns.

Acceptance to our programs was not instant but our persistence and serious commitment to improve people's lives paid off as we gained the trust of the community members. It has been five years of working and living with them and we observed a significant improvement in terms of mindset and behavior. They have started to take charge of their livelihood and well-being. They are now making their own communities sustainable.

EDGAR B. DULDULAO
Project Development Officer
Operations, NUVALI

The Primer Group of Companies is one with Ayala Land in championing the urgency to introduce global sustainability practices in the core of their business development. We regard Ayala Land's Environmental Stewardship program as a passionate move to pioneer and pursue development, conservation, and rehabilitation of massive commercial land spaces both for the long-term benefit of the society and more importantly the surrounding eco-system that enrich and enliven a sustainable community.

We, at the Primer Group of Companies also act as purveyors and advocates for sustainable change. Partnering with Ayala Land, allowed us to carry out and reflect our eco-tourism advocacies. We promote conservation through our products; our very own advocacy arm, C.O.R.E, has partnered many times with WWF to release merchandise that promote environmental conservation that are then sold at R.O.X. shops across the country. That, along with other pursuits, such as R.O.X.'s Travel & Tours, epitomizes eco-tourism in the country and won't be successful without venues that mirror our advocacy.

With Ayala Land, we are assured that our commitment to boost sustainability and conservation in our very own businesses will be met and supported.

JIMMY THAI
President, Primer Group of Companies

One of the core values of Chevron is the safety of its people and the environment in which it operates. Operational excellence is deeply embedded in the way we deal with our employees, customers, and business partners. A primary consideration along this line is the ability to run our business safely and reliably – very important factors that are solidly plumbed at the 6750 Building and robustly reinforced by its personnel, facilities, and quality service. Having 6750 Building as home to three of the four Chevron operating companies in the Philippines says a lot about how Chevron trusts Ayala Land Inc. – truly a testament to the capability of ALI to provide a safe and dependable office facility where Chevron can conduct its business reliably.

RAISSA R. BAUTISTA
Manager – Policy, Government, & Public Affairs
Chevron Philippines Inc.

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EN13 Habitats protected or restored. (A)	57, 60-62
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EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations. (A)	62
EN16 Total direct and indirect GHG emissions by weight. (C)	57
EN17 Other relevant indirect GHG emissions by weight. (C)	N.A.
EN18 Initiatives to reduce GHG emissions and reductions achieved. (A)	50
EN19 Emissions of ozone-depleting substances by weight. (C)	57
EN20 NOx, SOx, and other significant air emissions by type and weight. (C)	N.A.
EN21 Total water discharge by quality and destination. (C)	57-58
EN22 Total weight of waste by type and disposal method. (C)	57, 59
EN23 Total number and volume of significant spills. (C)	59
EN24 Weight of transported, imported, exported, or treated waste deemed hazardous, and percentage of transported waste shipped internationally. (A)	59
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)	60
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. (C)	52-53, 55-62, 68
EN27 Percentage of products sold and their packaging materials that are reclaimed by category. (C)	N.A.
EN28 Significant fines and non-monetary sanctions for non-compliance with environmental laws and regulations. (C)	63
EN29 Significant environmental impacts of transporting products, goods, materials, and employees. (A)	57
EN30 Total environmental protection expenditures and investments by type. (A)	57-58

GRI INDICATOR AND DESCRIPTION	REFERENCE/ PAGE NUMBER
LABOR PRACTICES (14)	
LA1 Total workforce by employment type and contract. (C)	70
LA2 Employee turnover by age group, gender, and region. (C)	70
LA3 Benefits provided to full-time employees only. (A)	67
LA4 Percentage of employees covered by CBAs. (C)	70
LA5 Minimum notice period(s) regarding significant operational changes. (C)	69
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees. (A)	68
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region. (C)	68-69
LA8 Education, training, counseling, prevention, and risk-control programs to assist workforce members, their families, or community members regarding serious diseases. (C)	68-69
LA9 Health and safety topics covered in formal agreements with trade unions. (A)	68
LA10 Average hours of training per year per employee by employee category. (C)	70
LA11 Programs for skills management and lifelong learning of employees. (A)	67
LA12 Percentage of employees receiving regular performance and reviews. (A)	70
LA13 Composition of governance bodies and breakdown of employees according to indicators of diversity. (C)	70
LA14 Ratio of basic salary of men to women by employee category. (C)	70
HUMAN RIGHTS (9)	
HR1 Percentage and number of significant investment agreements with human rights clauses or screened for human rights. (C)	59
HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (C)	59
HR3 Percentage of employees and training hours on policies and procedures concerning human rights. (A)	69
HR4 Total number of incidents of discrimination and actions taken. (C)	69
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)	69
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)	69
HR7 Operations prone to significant risk for incidents of forced or compulsory labor, and measures to contribute to its elimination. (C)	69
HR8 Percentage of security personnel trained in aspects of human rights. (A)	68-69
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken. (A)	69
SOCIETY (8)	
SO1 Programs and practices that assess and manage the impacts of operations on communities. (C)	63-66
SO2 Percentage and total number of business units analyzed for risks related to corruption. (C)	63
SO3 Percentage of employees trained in anti-corruption policies and procedures. (C)	69
SO4 Actions taken in response to incidents of corruption. (C)	63
SO5 Public policy positions and participation in public policy development and lobbying. (C)	46, 63
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (A)	63
SO7 Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. (A)	63
SO8 Significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. (C)	63
PRODUCT RESPONSIBILITY (9)	
PR1 Life cycle stages in which health and safety impacts of products and services are assessed. (C)	72
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)	72
PR3 Type of product and service information required by procedures. (C)	N.A.
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling. (A)	N.A.
PR5 Practices related to customer satisfaction. (A)	71
PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications. (C)	72
PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications. (A)	72
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (A)	71
PR9 Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (C)	56-63

*A complete description of each indicator is found in the GRI website.

FINANCIAL REPORTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

Results of Operations

Ayala Land, Inc. ("ALI" or "the Company") posted a record P7.14 billion in net income for the year 2011, 31% higher than the P5.46 billion generated the previous year. Consolidated revenues reached P44.21 billion, 17% higher year-on-year. Revenues from Real Estate and Hotels, which comprised bulk of consolidated revenues, increased by 16% to P41.23 billion with growth largely driven by the strong performance of the Property Development business.

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

Business Segments

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

Property Development
Property Development, which includes the sale of residential units, as well as the sale of commercial and industrial lots, posted revenues of P25.26 billion in 2011, 27% higher than the P19.85 billion reported in 2010.

Residential
Revenues from the residential segment reached P23.99 billion in 2011, 29% higher than the P18.60 billion reported the previous year, driven by the higher bookings and steady progress on construction across all residential brands. Ayala Land Premier (ALP) generated P9.51 billion in revenues or an improvement of 36% year-on-year on the back of a 35% growth in bookings and the construction progress in projects such as Park Terraces 1 and 2 in Makati City, and Santierra and Elaro in NUVALI. Alveo and Avida also posted year-on-year revenue growth of 15% and 44% to P5.83 and P6.06 billion, respectively, following the strong sales of newly-launched projects such as Sedona Parc (Cebu) and Venare (NUVALI) for Alveo, and Avida Towers Centera 1 and 2 (Mandaluyong City) and the second tower of Avida Towers Cebu. New residential brand Amaia further contributed to residential revenues in 2011 as it generated P841 million largely from the full year impact of its maiden project AmaiaScapes Laguna.

Sales take-up value in 2011 reached P51.72 billion, equivalent to an average monthly sales take-up of P4.31 billion and 56% higher than the P2.76 billion average monthly sales take-up achieved the previous year. Residential gross profit (GP) margins of vertical projects improved to 33% from 31% with the impact of various measures designed to lower project construction costs, while GP margins of horizontal developments declined slightly to 46% from 47% due to a shift in mix towards more house and lot packages rather than the sale of lots. The Company's four residential brands, together with fifth brand BellaVita that caters to the socialized housing segment, launched a total of 20,613 units in 2011. For 2012, the Company is anticipating continued demand for residential products and will be launching around 24,800 units across all residential brands.

Commercial and Industrial Lots
Revenues from the sale of commercial and industrial lots grew by 2% in 2011 to P1.27 billion, largely due to the

REVENUE BREAKDOWN (IN MILLION PESOS)

	2011	2010	Change %
Property Development	**25,260**	**19,849**	**27%**
Residential	23,986	18,601	29%
Commercial and Industrial Lots	1,274	1,248	2%
Commercial Leasing	**7,464**	**6,452**	**16%**
Shopping Center	4,965	4,347	14%
Office	2,499	2,105	19%
Hotels and Resorts	**2,244**	**1,895**	**18%**
Services	**14,883**	**10,726**	**39%**
Gross Construction	13,771	9,691	42%
Property Management	1,112	1,035	7%
Intercompany Eliminations	**(8,620)**	**(3,514)**	**-145%**
Real Estate & Hotels	**41,231**	**35,408**	**16%**
Others	**2,975**	**2,405**	**24%**
Total	**44,206**	**37,813**	**17%**

sale of 14 commercial lots in NUVALI. GP margins improved to 54% from 45% as the NUVALI commercial lots carried higher margins compared to the industrial lots in Laguna Technopark that were sold in 2010.

Commercial Leasing

Commercial Leasing includes the Company's Shopping Center and Office Leasing operations. Total revenues for Commercial Leasing amounted to P7.46 billion in 2011, 16% higher than the P6.45 billion recorded the previous year.

Shopping Centers

Revenues from Shopping Centers increased by 14% to P4.96 billion in 2011, driven by higher average occupancy and lease rates. Average occupancy rate across all malls reached 96% compared with 94% in 2010. The opening of Abreeza Mall in Davao City and Solenad 2 in NUVALI, coupled with the continued improvements in the occupancy of Market! Market! and MarQuee Mall, resulted in a 9% expansion in occupied gross leasable area (GLA). This more than offset the additional closures in Glorietta effected in early 2011 due to the Ayala Center redevelopment. Average lease rates also rose in 2011 by 7% brought about by negotiated and programmed rental escalations. The retail environment remained buoyant as same-store sales for all building and land leases increased by 5% and 3%, respectively. The EBITDA margin of Shopping Centers improved to 60% from 59% the previous year with the higher occupancy and lease rates across all malls and effective management of direct operating expenses.

Office

Revenues from Office leasing operations rose by 19% to P2.50 billion in 2011 from P2.11 billion the previous year. The revenue growth was generated by the significant increase in occupied GLA of business process outsourcing (BPO) office spaces, which increased by 22% year-on-year (equivalent to 41,220 square meters). Total available BPO GLA reached 315,736 square meters as of year-end, while average BPO lease rates remained steady at P580 per square meter. This was achieved despite a change in the portfolio mix as most of the increase in occupied GLA occurred in provincial (and therefore lower rent) locations. The improvement in occupied BPO occupied space accounted for the one percentage-point improvement in the EBITDA margin of the total office portfolio, which reached 80% in 2011.

Hotels and Resorts

Revenues of the Company's Hotels and Resorts business improved by 18% to P2.24 billion in 2011. This was largely due to the impact of the consolidation of the El Nido Resorts operations in Palawan, through the acquisition of a 60% stake in the Ten Knots Group in April 2010. A total of 150 island resort rooms in Lagen, Miniloc and Apulit Island (formerly Club Noah) were added to the Hotels and Resorts portfolio that operates 634 hotel rooms between Hotel InterContinental Manila and Cebu City Marriott. EBITDA margins for Hotels and Resorts however declined to 29% from 33% with the start-up costs of Apulit Island resort and the pre-operating expenses of the upcoming Kukun hotels. The Company is currently constructing its first four owner-operated businessman's hotels under its own brand Kukun in Bonifacio Global City, Cagayan de Oro, Davao and NUVALI. The first two hotels are expected to begin operations this year.

Services

Services, comprised of the Company's wholly-owned Construction and Property Management businesses, generated combined revenues (net of inter-company eliminations) of P6.26 billion in 2011. This was 13% lower than the P7.21 billion posted in 2010 following the Company's deliberate move to focus on internal projects in its construction operations. Only revenues from third-party contracts, or the revenue share of third-party minority interests in internal projects,

MARGIN PERFORMANCE OF BUSINESS UNITS

	2011	2010
Property Development (Gross profit)		
Residential		
Horizontal	**46%**	47%
Vertical	**33%**	31%
Commercial and Industrial Lots	**54%**	45%
Commercial Leasing (EBITDA)		
Shopping Centers	**60%**	59%
Office	**80%**	79%
Hotels and Resorts (EBITDA)	**29%**	33%
Services (EBITDA)	**8%**	7%

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are reflected as construction revenues in consolidated Company accounts. The decline in Construction revenues more than offset the 7% growth in Property Management revenues, which reached P1.11 billion in 2011 with the addition of new carpark management contracts, compared with P1.03 billion the previous year. Before inter-company eliminations, however, Construction revenues grew by 42% to P13.77 billion. The blended EBITDA margin for Services improved by one percentage-point to 8%.

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

Equity in Net Earnings from Investees declined by 1% to P899 million in 2011 from P906 million the previous year, as a result of lower contribution from Fort Bonifacio Development Corporation with the deliberate slowdown in commercial lot sales at Bonifacio Global City. This was countered by the stronger performance of TriNoma, which is accounted for under the equity method, and the mark-to-market gains on the investment holdings of First Longfield Investments Limited (investment vehicle for ARCH Capital Partners L.P.). Interest, Investment and Other Income meanwhile increased by 38% to P2.08 billion in 2011 compared with the P1.50 billion the previous year. The increase was accounted for mostly by the higher interest income earned from higher average cash balances for the period and gains from the Company's divestment of its ownership stake in ARCH Capital Management Co., Ltd. in March 2011.

Expenses

Total expenses amounted to P33.50 billion in 2011, 12% more than the P29.95 billion incurred in the 2010. Cost of Sales from Real Estate and Hotels, which accounted for the bulk of expenses, rose 12% year-on-year amounting to P27.94 billion. General and administrative expenses (GAE) meanwhile grew by 9% to P3.48 billion, largely because of payroll-related expenses, but significantly slower than overall revenue growth thus allowing the GAE-to-revenue ratio to decline to 7.9% from 8.4% in 2010. Interest Expense, Financing and Other Charges increased by 14% year-on year to P2.08 billion, mostly due to higher interest charges with the additional P10.0 billion in fixed-rate corporate notes issued by the Company in January 2011. While total financing charges increased, the average cost of the Company's consolidated debt decreased to 6.3%, from 7.5% in 2010.

Project and Capital Expenditure

The Company spent a record high of P29.91 billion for project and capital expenditures in 2011, 49% more than the P20.06 billion spent the previous year. Residential development accounted for 53% of the total, while 18% was spent for land acquisition. Shopping centers, hotels and resorts, other land development activities and BPO offices accounted for the balance of 14%, 6%, 5% and 4%, respectively. For 2012, the Company has earmarked another P37.0 billion for capital expenditures largely for the completion of ongoing developments, the launch of new residential and leasing projects, and the acquisition of new landbank which will help sustain the Company's growth trajectory over the coming years.

Financial Condition

The Company's balance sheet remained strong with sufficient capacity to carry out its aggressive growth plans in the following years. Strong cash inflows from the successful pre-sales of various residential launches as well as proceeds from the P10.0 billion notes issued at the start of 2011 brought Cash and Cash Equivalents to P24.8 billion, with a corresponding Current Ratio of 1.65: 1. Total Borrowings stood at P34.53 billion as of December 2011 from P20.97 billion the previous year, translating to a Debt-to-Equity Ratio of 0.55: 1 and a Net Debt-to-Equity Ratio of 0.16: 1.

CONSOLIDATED LANDHOLDINGS (IN HECTARES)

Location	End-2011	End-2010
Makati	70	49
Bonifacio Global City	23	31
NUVALI	1,382	1,314
Cebu	125	155
Other Metro Manila *(ex Makati and BGC)*	273	246
Other Luzon, Visayas and Mindanao	2,630	2,234
For development	**4,503**	**4,029**
Non-strategic, for disposal	382	382
Total	**4,885**	**4,411**

REPORT OF THE AUDIT AND 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 four meetings during the year with all the members present except on August 8, 2011 when one of the members was unable to join;
- We recommended to the Board of Directors the re-appointment of SGV & Co. as independent external auditor for 2012, 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, 2011, 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 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, 2011 in the Company's Annual Report to the Stockholders and for filing with the Securities and Exchange Commission.

February 15, 2012

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Ayala Land, Inc. and its subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. 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 of the Company reviews and approves the consolidated financial statements and submits the same to the stockholders of the Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and in its report to the stockholders of the Company, 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 and Chief Executive Officer

JAIME E. YSMAEL
Chief Finance Officer

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

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

BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

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, 2011 and 2010, 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, 2011, 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, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 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-2 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174583, January 2, 2012, Makati City

February 20, 2012

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(AMOUNTS IN THOUSANDS)

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 30)	**₱24,603,213**	₱18,018,807
Short-term investments (Notes 5 and 30)	**191,987**	1,434,337
Financial assets at fair value through profit or loss (Notes 6 and 30)	**–**	404,008
Accounts and notes receivable (Notes 7 and 30)	**21,578,363**	16,426,367
Inventories (Note 8)	**21,908,571**	14,368,671
Other current assets (Note 9)	**7,034,508**	4,718,709
Total Current Assets	**75,316,642**	55,370,899
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 7 and 30)	**7,293,682**	4,859,833
Available-for-sale financial assets (Notes 10 and 30)	**710,442**	691,664
Land and improvements (Note 11)	**18,736,580**	16,051,777
Investments in associates and jointly controlled entities (Note 12)	**12,626,231**	10,846,046
Investment properties (Note 13)	**30,490,311**	25,744,826
Property and equipment (Note 14)	**5,395,471**	4,167,989
Deferred tax assets - net (Note 24)	**1,948,633**	2,073,410
Other noncurrent assets (Note 15)	**2,101,187**	1,868,818
Total Noncurrent Assets	**79,302,537**	66,304,363
	₱154,619,179	₱121,675,262

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 16 and 30)	**₱38,129,385**	₱25,891,915
Short-term debt (Notes 17 and 30)	**4,638,844**	2,890,042
Income tax payable	**179,712**	72,298
Current portion of long-term debt (Notes 17 and 30)	**1,556,761**	2,328,160
Other current liabilities (Note 18)	**1,124,576**	2,032,133
Total Current Liabilities	**45,629,278**	33,214,548
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 17 and 30)	**28,335,166**	15,752,731
Pension liabilities (Note 27)	**72,204**	86,363
Deferred tax liabilities - net (Note 24)	**744,234**	597,668
Deposits and other noncurrent liabilities (Notes 19 and 30)	**7,795,785**	6,553,824
Total Noncurrent Liabilities	**36,947,389**	22,990,586
Total Liabilities	**82,576,667**	56,205,134
Equity (Note 20)		
Equity attributable to equity holders of Ayala Land, Inc.		
Paid-up capital	**18,960,206**	18,681,148
Retained earnings	**43,925,560**	38,756,821
Stock options outstanding (Note 29)	**232,298**	202,500
Unrealized gain on available-for-sale financial assets (Note 10)	**53,909**	40,650
Other reserves (Note 2)	**8,960**	–
Treasury stock	**(823,967)**	(823,967)
	62,356,966	56,857,152
Non-controlling interests	**9,685,546**	8,612,976
Total Equity	**72,042,512**	65,470,128
	₱154,619,179	₱121,675,262

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME
(AMOUNTS IN THOUSANDS, EXCEPT EARNINGS PER SHARE FIGURES)

	Years Ended December 31		
	2011	2010	2009
REVENUE			
Real estate (Notes 21 and 26)	**₱38,986,675**	₱33,513,523	₱26,505,560
Hotel and resort operations (Note 22)	**2,244,159**	1,894,917	1,232,443
Interest and investment income (Note 26)	**1,658,896**	1,065,205	1,116,827
Equity in net earnings of associates and jointly controlled entities (Note 12)	**898,550**	905,645	968,004
Other income (Notes 23 and 26)	**417,253**	434,209	632,410
	44,205,533	37,813,499	30,455,244
COSTS AND EXPENSES			
Real estate (Note 23)	**26,517,732**	23,707,381	18,149,304
General and administrative expenses (Notes 23, 27 and 29)	**3,479,612**	3,188,353	2,792,633
Interest expense and other financing charges (Note 23)	**1,879,770**	1,539,111	1,345,491
Hotel and resort operations (Note 23)	**1,423,399**	1,239,938	867,199
Other charges (Note 23)	**195,292**	278,512	1,454,679
	33,495,805	29,953,295	24,609,306
INCOME BEFORE INCOME TAX	**10,709,728**	7,860,204	5,845,938
PROVISION FOR INCOME TAX (Note 24)			
Current	**2,331,615**	2,120,535	1,460,090
Deferred	**287,530**	(548,385)	(295,181)
	2,619,145	1,572,150	1,164,909
NET INCOME	**₱8,090,583**	₱6,288,054	₱4,681,029
Net Income Attributable to:			
Equity holders of Ayala Land, Inc. (Note 28)	**₱7,140,308**	₱5,458,134	₱4,039,256
Non-controlling interests	**950,275**	829,920	641,773
	₱8,090,583	₱6,288,054	₱4,681,029
Earnings Per Share (Note 28)			
Basic/Diluted			
Net income attributable to equity holders of Ayala Land, Inc.	**₱0.55**	₱0.41	₱0.31

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(AMOUNTS IN THOUSANDS)

	Years Ended December 31		
	2011	2010	2009
Net income	**₱8,090,583**	₱6,288,054	₱4,681,029
Other comprehensive income:			
Net gain on available-for-sale financial assets (Note 10)	**15,764**	27,733	11,813
Total comprehensive income	**₱8,106,347**	₱6,315,787	₱4,692,842
Total comprehensive income attributable to:			
Equity holders of Ayala Land, Inc.	**₱7,153,567**	₱5,482,173	₱4,040,065
Non-controlling interests	**952,780**	833,614	652,777
	₱8,106,347	₱6,315,787	₱4,692,842

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		
	2011	2010	2009
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.			
Common Shares - ₱1.00 par value (Note 20)			
Issued			
Balance at beginning of year	**₱13,012,004**	₱13,005,338	₱13,003,443
Issuance of shares	**10,767**	6,666	1,895
Balance at end of year	**13,022,771**	13,012,004	13,005,338
Subscribed			
Balance at beginning of year	**96,468**	75,470	39,088
Additions	**14,216**	27,664	38,277
Issuance of shares	**(10,767)**	(6,666)	(1,895)
Balance at end of year	**99,917**	96,468	75,470
Preferred Shares - ₱0.10 par value (Note 20)			
Balance at beginning and end of year	**1,303,460**	1,303,460	1,303,460
Additional Paid-in Capital			
Balance at beginning of year	**4,614,184**	4,326,935	4,179,971
Additions	**273,114**	287,249	146,964
Balance at end of year	**4,887,298**	4,614,184	4,326,935
Subscriptions Receivable			
Balance at beginning of year	**(344,968)**	(262,770)	(168,057)
Additions	**(138,337)**	(159,282)	(111,309)
Collections	**130,065**	77,084	16,596
Balance at end of year	**(353,240)**	(344,968)	(262,770)
Total Paid-up Capital	**18,960,206**	18,681,148	18,448,433
Retained Earnings (Note 20)			
Appropriated for future expansion	**6,000,000**	6,000,000	6,000,000
Unappropriated:			
Balance at beginning of year	**32,756,821**	28,570,354	25,371,619
Cash dividends			
Common stock - ₱0.15 per share in 2011 and ₱0.09 per share in 2010 and ₱0.06 per share in 2009	**(1,911,088)**	(1,211,186)	(780,040)
Preferred stock - ₱0.005 or 4.64%	**(60,481)**	(60,481)	(60,481)
Net income	**7,140,308**	5,458,134	4,039,256
Balance at end of year	**37,925,560**	32,756,821	28,570,354
	43,925,560	38,756,821	34,570,354
Stock Options Outstanding (Note 29)			
Balance at beginning of year	**202,500**	180,930	106,281
Cost of stock options	**32,540**	34,923	79,977
Stock options exercised	**(2,742)**	(13,353)	(5,328)
Balance at end of year	**232,298**	202,500	180,930
Unrealized Gain on Available-for-sale inancial Assets (Note 10)			
Balance at beginning of year	**40,650**	16,611	15,802
Net changes during the year	**13,259**	24,039	809
Balance at end of year	**53,909**	40,650	16,611
Other Reserves (Note 2)	**8,960**	–	–
Treasury Stock (Note 20)			
Balance at beginning and end of year	**(823,967)**	(823,967)	(823,967)

(Forward)

	Years Ended December 31		
	2011	2010	2009
NON-CONTROLLING INTERESTS			
Balance at beginning of year	**₱8,612,976**	₱6,802,539	₱6,151,050
Net income	**950,275**	829,920	641,773
Net increase in non-controlling interests	**672,369**	1,392,471	492,155
Dividends paid to non-controlling interests	**(552,579)**	(415,648)	(493,443)
Net gain on available-for-sale financial assets	**2,505**	3,694	11,004
Balance at end of year	**9,685,546**	8,612,976	6,802,539
	₱72,042,512	₱65,470,128	₱59,194,900
Total Comprehensive Income			
Net income attributable to:			
Equity holders of Ayala Land, Inc.	**₱7,140,308**	₱5,458,134	₱4,039,256
Non-controlling interests	**950,275**	829,920	641,773
	8,090,583	6,288,054	4,681,029
Net gain on available-for-sale financial assets:			
Equity holders of Ayala Land, Inc. (Note 10)	**13,259**	24,039	809
Non-controlling interests	**2,505**	3,694	11,004
	15,764	27,733	11,813
	₱8,106,347	₱6,315,787	₱4,692,842

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS IN THOUSANDS)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱10,709,728**	₱7,860,204	₱5,845,938
Adjustments for:			
Depreciation and amortization (Notes 13, 14 and 23)	**2,303,713**	1,807,481	1,787,398
Interest expense (Note 23)	**1,838,897**	1,481,101	1,421,742
Dividends received from investees (Note 12)	**311,928**	273,223	218,619
Cost of share-based payments (Note 29)	**178,791**	177,201	148,582
Unrealized loss (gain) on financial assets at fair value through profit or loss (Note 23)	**–**	9,338	654
Realized loss (gain) on financial assets at fair value through profit or loss (Note 23)	**(4,423)**	466	(25,156)
Gain on sale of property and equipment	**(964)**	(129)	–
Equity in net earnings of associates and jointly controlled entities (Note 12)	**(898,550)**	(905,645)	(968,004)
Interest income	**(1,532,491)**	(1,065,205)	(1,116,827)
Gain on sale of investments (Note 23)	**(118,403)**	–	–
Provision for impairment losses on (Note 23):			
Receivables	**46,720**	–	–
Investment properties	**147,000**	–	–
Land and improvements	–	–	568,672
Operating income before changes in working capital	**12,981,946**	9,638,035	7,881,618
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts and notes receivable - trade	**(5,006,654)**	(115,451)	(1,873,837)
Real estate inventories	**(6,538,497)**	(718,304)	90,630
Other current assets (Note 9)	**(2,174,354)**	(587,491)	399,772
Increase (decrease) in:			
Accounts and other payables	**12,766,342**	6,015,408	(1,367,262)
Other current liabilities (Note 18)	**(907,557)**	(118,580)	1,136,725
Other deposit liabilities (Note 19)	**(310,662)**	(378,613)	(101,739)
Pension liabilities (Note 27)	**(14,159)**	34,282	(45,593)
Cash generated from operations	**10,796,405**	13,769,286	6,120,314
Interest received	**1,582,382**	1,150,195	999,236
Income tax paid	**(2,240,388)**	(2,290,409)	(1,325,632)
Interest paid	**(1,735,121)**	(1,461,938)	(1,384,069)
Net cash provided by operating activities	**8,403,278**	11,167,134	4,409,849
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/redemption of investments and financial assets at fair value through profit or loss	**1,974,203**	6,009,428	1,369,401
Sale of available-for-sale financial assets	**16,295**	–	74,458
Disposal of property and equipment	**65,792**	120,146	147,506
Additions to:			
Short-term investments and financial assets at fair value through profit or loss	**–**	(1,434,337)	(3,552,053)
Available-for-sale financial assets (Note 10)	**(16,509)**	–	(1,256,622)
Land and improvements	**(3,174,967)**	(1,800,331)	(3,193,794)

(Forward)

	Years Ended December 31		
	2011	2010	2009
Investments in associates and jointly controlled entities	**(₱1,389,622)**	(₱196,349)	(₱132,313)
Investment properties (Note 13)	**(5,519,903)**	(1,820,990)	(2,643,249)
Property and equipment (Note 14)	**(2,308,560)**	(1,146,018)	(1,353,667)
Acquisition of subsidiary, net of cash acquired (Note 25)	**–**	(1,663,848)	–
Decrease (increase) in accounts and notes receivable - nontrade	**(2,675,802)**	(586,343)	935,885
Decrease (increase) in other noncurrent assets	**(921,250)**	(876,837)	198,050
Net cash used in investing activities	**(13,950,323)**	(3,395,479)	(9,406,398)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short and long-term debt (Note 17)	**17,894,765**	7,915,294	3,584,276
Payments of short and long-term debt (Note 17)	**(4,334,927)**	(5,838,147)	(1,523,642)
Increase (decrease) in deposits and other noncurrent liabilities	**925,975**	(1,025,614)	1,638,594
Capital infusion by non-controlling interests in consolidated subsidiaries	**728,169**	144,057	623,828
Redemption of non-controlling interests in consolidated subsidiaries	**(55,800)**	(104,930)	(120,100)
Proceeds from capital stock subscriptions	**130,065**	77,084	16,596
Dividends paid to non-controlling interests	**(552,579)**	(415,648)	(493,443)
Dividends paid to equity holders of Ayala Land, Inc. (Note 20)	**(2,604,217)**	(1,033,670)	(856,236)
Net cash provided by (used in) financing activities	**12,131,451**	(281,574)	2,869,873
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,584,406**	7,490,081	(2,126,676)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**18,018,807**	10,528,726	12,655,402
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱24,603,213**	₱18,018,807	₱10,528,726

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Ayala Land, Inc. (the Company) was incorporated in the Republic of the Philippines. The Company's parent is Ayala Corporation (AC). AC is a publicly-listed company, 52.61%-owned by Mermac, Inc., 10.93%-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 hotel and resort operations.

The consolidated financial statements of Ayala Land, Inc. and Subsidiaries as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were endorsed for approval by the Audit Committee on February 15, 2012 and were approved and authorized for issue by the Board of Directors (BOD) on February 20, 2012.

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, 2011 and 2010 and for each of the three years in the period ended December 31 2011.

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 statements of income, consolidated statements of comprehensive income and consolidated statements 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	
	2011	2010
Real Estate:		
Alveo Land Corporation (Alveo)	**100%**	100%
Serendra, Inc.	**39**	39
Solinea, Inc. (formerly Bigfoot Palms, Inc.)	**65**	–
Serendra, Inc.	**28**	28
Amorsedia Development Corporation and Subsidiaries	**100**	100
OLC Development Corporation	**100**	100
Ayala Greenfield Development Corporation (AGDC)	**50**	50
Avida Land Corporation and Subsidiaries (Avida)	**100**	100
Amaia Land Corp. (Amaia) (formerly First Realty Communities, Inc.)	**100**	100
Ayala Land International Sales, Inc.	**100**	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 (CeOC)	**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	**100**	–
BellaVita Land Corporation	**100**	–
Nuevo Centro, Inc.	**100**	–
ALI Property Partners Holding Corp. (APPHC) (Note 25)	**–**	80
ALI Property Partners Corp. (APPCo) (Note 25)	**–**	60
APPCo (Note 25)	**68**	20
Laguna Technopark, 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
Cagayan de Oro Gateway Corp	**51**	–
Ceci Realty, Inc.	**60**	60
CMPI Holdings, Inc.	**60**	60
ALI-CII Development Corporation (ALI-CII)	**50**	50
Roxas Land Corporation (RLC)	**50**	50
Construction:		
Makati Development Corporation and Subsidiaries (MDC)	**100**	100
Hotels and Resorts:		
Ayala Hotels, Inc. (AHI)	**50**	50
AyalaLand Hotels and Resorts Corporation (AHRC) and Subsidiaries	**100**	100
Enjay Hotels, Inc.	**100**	100
Greenhaven Property Venture, Inc.	**100**	100
Cebu Insular Hotel Company, Inc.	**63**	63

(Forward)

	Percentages of Ownership	
	2011	2010
Ten Knots Phils, Inc. (TKPI) (Note 25)	**60%**	60%
Ten Knots Development, Corp. (TKDC) (Note 25)	**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. (LAI)	**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
Food Court Company, Inc.	**100**	100
Aprisa Business Process Solutions, Inc.	**100**	100
Studio Ventures, Inc.	**100**	100
Directpower Services, Inc. (Directpower)	**100**	–
Philippine Integrated Energy Solutions, Inc. (PhilEnergy)	**60**	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, AGDC, ALI-CII and LAI. Accordingly, the accounts of AHI, RLC, AGDC, ALI-CII and LAI are consolidated to the accounts of the Company.

The following entities were organized in 2011:

Directpower Services, Inc., (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 Commercial Corporation (ACC), a wholly owned subsidiary of the Company, was established on June 23, 2011 primarily to develop and operate shopping malls within the Company's identified growth areas across the country.

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

Nuevo Centro, Inc., 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 Land Corp. (formerly South Maya Ventures Corp.), 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.

Also, on March 5, 2011, the Group through Alveo acquired a landholding entity, by way of acquisition of shares of stock of Solinea, Inc. (formerly Bigfoot Palms, Inc.) 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, Inc. 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:

ALI established a wholly-owned subsidiary, AHRC, and infused cash in the latter to acquire Enjay Hotels, Inc., 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 ALI, 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.

Amaia, a subsidiary of Avida, is now a wholly owned subsidiary of the Company, established to pursue a planned expansion of residential development operations to cater to the country's economic housing segment. Additional capital infusion 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 the recently passed 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 operations 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 Business Solutions, Inc. is also a wholly-owned subsidiary of the Company that will initially 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 new and amended PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective January 1, 2011. Except as otherwise indicated, the adoption of the new and amended standards and interpretations did not have any significant impact on the Group's financial statements.

PAS 24 (Amended), *Related Party Disclosures*
The amendment clarified the definition of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*
The amendment altered the definition of a financial liability in order to classify rights issues and certain options or warrants as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
The interpretation clarified that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs 2010

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

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

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

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

- PAS 1, *Presentation of Financial Statements*
  This Amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the consolidated financial statements.

- PAS 27, *Consolidated and Separate Financial Statements*
  This Amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This Amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Future Changes in Accounting Policies
The Group will adopt the following 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.

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 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 Philippine Interpretation may significantly affect the determination of the 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.

Effective 2012
PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset.

PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

Effective 2013
PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, which 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.

PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*
The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance.

PAS 19, *Employee Benefits (Amendment)*
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 re-wording. The Group is currently assessing the impact of the amendment to PAS 19.

PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
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 (c) from the amounts in (d) above.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. This Standard eliminates proportionate consolidation of jointly controlled entities, instead, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under PFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses.

PFRS 12, *Disclosures of Interests with Other Entities*
This standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

PFRS 13, *Fair Value Measurement*
This standard 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 by PFRS. This standard was intended to reduce complexity, improve consistency in application when measuring fair value and enhance disclosures. PFRS 13 is effective for annual periods beginning on or after January 1, 2013 and should be applied prospectively.

Revised PAS 27, *Separate Financial Statements*
This standard has been revised as a result of issuance of PFRS 10, 11, and 12. The revised standard provides the accounting and disclosure requirements for investment in subsidiaries, joint ventures and associates when an entity prepares separate financial statements and requires an entity preparing separate financial statements to account for those investments at cost or in accordance with PFRS 9. This Standard is issued concurrently with PFRS 10 and together, the two PFRSs will supersede PAS 27 (as amended in 2008). Revised PAS 27 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that PFRS 10, 11, 12 and PAS 28 (as amended in 2011) are applied simultaneously and with additional disclosure of the fact.

Revised PAS 28, *Investment in Associates and Joint Ventures*
This standard has been revised as a result of issuance of PFRS 10, 11, and 12. The revised standard prescribes the accounting for investments in associates and joint ventures. Equity method is defined in the revised standard as a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes its share of the profit or loss of the investee and the other comprehensive income of the investor includes its share of other comprehensive income of the investee. The revised standard is to be applied by all entities that are investors with joint control of, or significant influence or owns 20% to 50% interest over, an investee. This standard supersedes PAS 28 (as revised in 2003). Revised PAS 27 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that PFRS 10, 11, 12 and PAS 28 (as amended in 2011) are applied simultaneously and with additional disclosure of the fact.

Effective 2014
PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*
These amendments to PAS 32 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. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements.

Effective 2015
PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting, impairment and derecognition of financial assets will be addressed with the completion of this project expected on the first half of 2012. 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 classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

The Group has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2011 annual financial reporting. The Group shall conduct in early 2012 another impact evaluation using outstanding balances of financial statements as of December 31, 2011. The Group's decision whether to early adopt either PFRS 9 (2009) of PFRS 9 (2010) for its 2012 financial reporting shall be disclosed in its interim financial statements as of March 31, 2012.

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 income" and "Interest expense 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' profit 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 at 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, 2010, the Group holds its "Treasury bonds and Treasury bills" for trading purposes and classifies them as financial assets at FVPL. The Group has not designated any financial asset as at FVPL. These financial assets already matured during 2011.

HTM investments
HTM investments are quoted nonderivative 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 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, 2011 and 2010, 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 income in the consolidated statement 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).

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 transferred control of the asset, the asset is 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. Loans, 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
- Amounts paid to contractors for construction
- Borrowing costs, 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 profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

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 profit or loss.

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. 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 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, 2011 and 2010, 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 either at fair value or at the proportionate share 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.

<u>Provisions</u>
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.

<u>Pension Cost</u>
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 29.

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 28).

Employee Share Purchase Plans
The Company has an employee share purchase plan (ESOWN) which allows the grantees to purchase the Company's shares at a discounted price. The Company recognizes the difference between the market price at the time of subscription and the subscription price as stock compensation expense over the holding period. Where the subscription receivable is collectible over more than one year, the subscription price is adjusted for the time value and treated as additional stock compensation expense. 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 subdivision land and condominium 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 "Real estate inventories", "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 and 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.

Comparative Information
PAS 1, *Presentation of Financial Statements*, requires an entity to present a statement of financial position as at the beginning of the earliest period when it reclassifies items in its financial statements. The Group identified certain trade receivables as noncurrent as of December 31, 2010 and corrected certain investment properties and liabilities to be presented as inventories and other noncurrent assets and land and improvements, respectively.

However, management believes that the presentation of a statement of financial position as at the beginning of the earliest period presented is no longer necessary since the amount of assets reclassified from current to noncurrent trade receivables and certain investment properties to be presented as real estate inventories and other noncurrent assets is not material to the financial statements as it comprise only -2.22%, -0.51%, -2.65%, and -1.10% of total current assets, total assets, total noncurrent liabilities, and total liabilities, respectively. The reclassification has no effect on profit or loss and equity since the transfers were between current and noncurrent assets.

As a result, the December 31, 2010 balances in the statement of financial position were restated to enhance inter-period comparability.

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 31 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 land 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 IAS 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 recognised.

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 35).

Management's Use of Estimates
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 Note 21 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 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 investments in associates and jointly controlled entities, investment properties, land and improvements, 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 24 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 29 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 27 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 27 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 30 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

	2011	2010
	(In Thousands)	
Cash on hand and in banks	**₱5,081,820**	₱3,667,807
Cash equivalents	**19,521,393**	14,351,000
	₱24,603,213	₱18,018,807

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:

	2011	2010
Philippine Peso	**1.3% to 4.9%**	1.0% to 4.5%
US Dollar	**0.3% to 2.0%**	0.3% to 2.1%

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:

	2011	2010
Philippine Peso	–	3.7% to 4.5%
US Dollar	**1.9% to 2.0%**	1.9% to 2.3%

6. **Financial Assets at FVPL**

These are held-for-trading treasury bonds and treasury bills which have yield to maturity of nil and 1.3% in 2011 and 2010, respectively. The Group's remaining Financial Assets at FVPL with an aggregate face value of ₱400.0 million matured in 2011.

As of December 31, 2011, 2010 and 2009, the unrealized loss of financial assets at FVPL amounted to nil, ₱9.3 million and ₱0.7 million, respectively. Net changes in fair value amounted to ₱4.9 million, ₱8.6 million and ₱0.7 million in 2011, 2010 and 2009, respectively.

7. **Accounts and Notes Receivable**

This account consists of:

	2011	2010
	(In Thousands)	
Trade:		
Residential development	**₱14,558,803**	₱10,621,686
Construction contracts	**1,877,480**	1,035,226
Shopping centers	**1,101,053**	1,022,431
Corporate business	**592,408**	558,019
Management fees	**50,482**	65,573
Others	**741,459**	595,936
Advances to contractors and suppliers	**3,767,890**	2,741,525
Advances to other companies	**2,507,834**	1,749,701
Receivable from related parties (Note 26)	**1,750,055**	1,451,449
Accrued receivable	**1,597,219**	1,037,983
Receivables from employees	**431,515**	464,104
Investment in bonds classified as loans and receivables	**200,000**	200,000
	29,176,198	21,543,633
Less allowance for impairment losses	**304,153**	257,433
	28,872,045	21,286,200
Less noncurrent portion	**7,293,682**	4,859,833
	₱21,578,363	₱16,426,367

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

- Residential development - pertains to receivables from the sale of high-end, upper middle-income, affordable residential lots and units, economic housing development, and leisure community developments
- Construction contracts - pertain to receivables from third party construction projects
- Shopping centers - pertain to lease receivables of retail space
- Corporate business - pertain to lease receivables of office and factory buildings and receivables from the sale of office buildings and industrial lots
- Management fees - pertain to fees receivable from facility management

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 20.0% 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 has various maturity dates.

Investment in bonds classified as loans and receivables pertain to the Company's investment in Land Bank of the Philippines (LBP) 7.25% unsecured subordinated notes due 2019, callable with step-up interest in 2014. Fitch Ratings assigned a National Long-term rating of AA (phl) to LBP.

Receivables amounting to ₱304.2 million and ₱257.4 million as of December 31, 2011 and 2010, respectively, were impaired and fully provided for. Movements in the allowance for impairment losses follow:

2011

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

2010

	Trade					Advances to	
	Shopping Centers	Residential Development	Construction Contracts	Management Fees	Others	Other Companies	Total
				(In Thousands)			
Balance at beginning of year	₱176,946	₱13,008	₱5,927	₱4,383	₱2,546	₱14,774	₱217,584
Provisions during the period (Note 23)	6,000	4,114	–	–	47,092	–	57,206
Acquisition through business combination (Note 25)	–	–	–	–	14,264	–	14,264
Reversal (Note 23)	(2,012)	–	–	–	–	–	(2,012)
Accounts written off	(27,209)	–	–	–	–	(2,400)	(29,609)
Balance at end of year	₱153,725	₱17,122	₱5,927	₱4,383	₱63,902	₱12,374	₱257,433
Individually impaired	₱142,511	₱9,555	₱5,927	₱4,383	₱59,339	₱1,054	₱222,769
Collectively impaired	11,214	7,567	–	–	4,563	11,320	34,664
Total	₱153,725	₱17,122	₱5,927	₱4,383	₱63,902	₱12,374	₱257,433
Gross amounts of receivables individually determined to be impaired	₱168,336	₱9,555	₱5,927	₱4,383	₱59,339	₱12,618	₱260,158

As of December 31, 2011 and 2010, Residential development, Advances to other companies and Receivables from employees with a nominal amount of ₱13,790.2 million and ₱12,758.4 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, 2011 and 2010 follow:

	2011	2010
	(In Millions)	
Balance at beginning of the year	**₱1,250**	₱668
Additions during the year	**2,380**	1,180
Accretion for the year	**(901)**	(598)
Balance at end of the year	**₱2,729**	₱1,250

In 2011, the Group sold real estate receivables on a without recourse basis to Bank of the Philippines Islands (BPI) amounting to ₱322.8 million at an average discount rate of 6.27% (see Note 26). The discount on these receivables amounting to ₱37.3 million has been included under “Other expenses” in the consolidated statements of income (see Note 23).

Also, the Company 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 a nil gain or loss (see Note 26).

8. Inventories

This account consists of:

	2011	2010
	(In Thousands)	
Real estate:		
Subdivision land for sale		
At cost	**₱9,273,300**	₱7,347,105
At NRV	**936,183**	936,183
Condominium, residential and commercial units for sale - at cost	**11,356,871**	5,731,054
Club shares - at cost	**342,217**	354,329
	₱21,908,571	₱14,368,671

Inventories recognized as cost of sales amounted to ₱14.6 billion and ₱12.1 billion in 2011 and 2010, respectively, and are included under “Real estate costs and expenses” in the consolidated statements of income. The Group recorded no provision for impairment in 2011 and 2010 while ₱78.1 million was provided in 2009 for the development cost of real estate inventories which may no longer be recovered (see Note 23).

9. Other Current Assets

This account consists of:

	2011	2010
	(In Thousands)	
Prepaid expenses	**₱2,349,799**	₱1,245,845
Creditable withholding tax	**2,448,600**	1,375,516
Value-added input tax - net	**1,675,970**	1,561,830
Deposits in escrow	**147,529**	317,597
Materials, parts and supplies - at cost	**95,471**	92,822
Advances to suppliers	**63,336**	13,141
Others	**253,803**	111,958
	₱7,034,508	₱4,718,709

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

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

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’s project. 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.

10. **Available-for-sale Financial Assets**

This account consists of investments in:

	2011	2010
	(In Thousands)	
Shares of stock:		
Unquoted	**₱253,800**	₱248,164
Quoted	**168,597**	168,612
Treasury bonds	**216,933**	219,540
	639,330	636,316
Net unrealized gain	**71,112**	55,348
	₱710,442	₱691,664

Investments in unquoted shares includes 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.

In 2008, the Company 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:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**₱55,348**	₱27,615
Fair value changes during the year	**15,764**	27,294
Fair value loss transferred to income	**–**	439
Balance at end of year	**₱71,112**	₱55,348

11. **Land and Improvements**

The rollforward analysis of this account follows:

	2011	2010
	(In Thousands)	
Cost		
Balance at beginning of year	**₱16,561,902**	₱18,066,397
Additions	**4,049,285**	2,282,734
Addition through business combination (Note 25)	**–**	1,361,645
Transfers*	**(1,364,482)**	(5,148,874)
Balance at end of year	**19,246,705**	16,561,902
Allowance for Impairment		
Balance at beginning of year	**510,125**	780,752
Additions (Note 23)	**–**	–
Transfers*	**–**	(270,627)
Balance at end of year	**510,125**	510,125
	₱18,736,580	₱16,051,777

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

In 2009, the Group recorded provision for impairment amounting to ₱568.7 million included under "Other charges" in the consolidated statement of income (see Note 23).

On August 27, 2009, the Company and the National Housing Authority (NHA) signed a Joint Venture Agreement to develop a 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 last 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 is expected to start in 2012.

12. Investments in Associates and Jointly Controlled Entities

This account consists of:

	2011	2010
	(In Thousands)	
Acquisition cost	**₱7,536,683**	₱6,343,120
Accumulated equity in net earnings:		
Balance at beginning of year	**4,502,926**	3,870,504
Equity in net earnings during the year	**898,550**	905,645
Dividends received during the year	**(311,928)**	(273,223)
Balance at end of year	**5,089,548**	4,502,926
	₱12,626,231	₱10,846,046

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	
	2011	2010	**2011**	2010
			(In Thousands)	
Jointly controlled entities:				
Emerging City Holdings, Inc. (ECHI)	**50%**	50%	**₱3,682,241**	₱3,491,810
Berkshires Holdings, Inc. (BHI)	**50**	50	**1,578,080**	1,496,466
Alabang Commercial Corporation (ACC)	**50**	50	**616,562**	616,809
BG West Properties, Inc. (BGW)	**50**	–	**247,201**	–
BG South Properties, Inc. (BGS)	**50**	–	**195,419**	–
BG North Properties, Inc. (BGN)	**50**	–	**2,537**	–
			6,322,040	5,605,085
Associates:				
Cebu Holdings, Inc. (CHI) and subsidiaries	**47**	47	**2,264,852**	2,105,149
North Triangle Depot Commercial Corporation (NTDCC)	**49**	49	**1,336,389**	1,435,913
Bonifacio Land Corp. (BLC)	**10**	10	**1,160,722**	1,133,133
ARCH Capital Asian Partners L.P.	**8**	8	**739,106**	485,620
Tianjin Eco-City Ayala Land Development Co., Ltd.	**40**	–	**729,374**	–
Lagoon Development Corporation (LDC)	**30**	30	**58,301**	65,964
KHI-ALI Manila, Inc. (KAMI)	**60**	60	**12,375**	11,144
KHI Manila Property, Inc.	**20**	20	**572**	1,803
ARCH Capital Management Co. Ltd. (ARCH Capital)	**–**	17	**–**	2,235
Others	–	–	**2,500**	–
			6,304,191	5,240,961
			₱12,626,231	₱10,846,046

As of December 31, 2011 and 2010, the Group had total commitments relating to the Group's interests in the joint ventures amounting to ₱826.7 million and ₱738.3 million, respectively (see Note 34).

The fair value of the investment in CHI amounted to ₱2,270.5 million and ₱2,268.4 million as of December 31, 2011 and 2010, respectively. CHI's subsidiary, 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	**2011**	2010
Current assets	**₱2,734,449**	₱2,832,414
Noncurrent assets	**2,546,734**	2,318,476
Total assets	**5,281,183**	5,150,890
Current liabilities	**466,259**	315,717
Noncurrent liabilities	**481,457**	496,362
Total liabilities	**947,716**	812,079
Net operating revenue	**701,559**	733,453
Costs and expenses	**528,770**	550,131
Net income	**172,789**	183,322

BHI and Subsidiaries	**2011**	2010
Current assets	**₱30,087**	₱110
Noncurrent assets	**1,878,180**	1,852,208
Total assets	**1,908,267**	1,852,318
Total liabilities	**3,283**	3,278
Net operating revenue	**57,203**	81,851
Costs and expenses	**28**	3,272
Net income	**57,175**	78,579

ACC	**2011**	2010
Current assets	**₱255,302**	₱344,420
Noncurrent assets	**669,909**	571,938
Total assets	**925,211**	916,358
Current liabilities	**275,897**	269,765
Noncurrent liabilities	**150,225**	141,152
Total liabilities	**426,122**	410,917
Net operating revenue	**356,606**	386,460
Costs and expenses	**214,690**	242,634
Net income	**141,916**	143,826

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

CHI and Subsidiaries	**2011**	2010
Total assets	**₱7,130,254**	₱5,991,591
Total liabilities	**2,101,863**	1,267,014
Net operating revenue	**1,348,890**	1,447,183
Costs and expenses	**883,876**	1,001,920
Net income	**465,014**	445,263
Earnings per share	**0.22**	0.21

NTDCC	**2011**	2010
Total assets	**₱7,242,779**	₱7,478,888
Total liabilities	**4,771,355**	4,905,532
Net operating revenue	**1,776,526**	1,687,628
Costs and expenses	**1,358,854**	1,471,712
Net income	**417,672**	215,916

BLC and Subsidiaries	**2011**	2010
Total assets	**₱42,852,341**	₱41,363,598
Total liabilities	**7,769,318**	5,905,759
Net operating revenue	**4,064,943**	5,730,715
Costs and expenses	**2,893,927**	4,262,233
Net income	**1,171,016**	1,468,482

ARCH Capital Asian Partners L.P.	**2011**	2010
Total assets	**₱17,984,045**	₱17,803,775
Total liabilities	**6,948,333**	7,700,584
Net operating revenue	**1,373,595**	2,028,740
Costs and expenses	**486,186**	902,227
Net income	**894,599**	1,282,802

Investment in ECHI and BHI
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 representing 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 as follows:

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. 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.

Investment 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. As of December 31, 2011 and 2010, the Company (through Green Horizon) and AC (through Fine State) owned a combined interest in ARCH Capital of nil and 50.0%, respectively.

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 amounts to $2.1 million, and $9.1 million and $2.2 million, respectively.

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

On March 7, 2011, the Company, AC and The Rohatyn Group 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 US$3.8 million and US$.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 will result 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% stake in the fund.

The Company and AC exercise significant influence over the Fund by virtue of their interest in the general partner and in ARCH Capital. Accordingly, the Company and AC account for their investments in the Fund using the equity method of accounting.

Investment in KAMI

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 KAMI in exchange for 37,250 common shares, 38,250 redeemable preferred shares A and 16,758 preferred shares.

The Company does not consolidate KAMI as it does not exercise control over it.

13. Investment Properties

The rollforward analysis of this account follows:

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	**(33,815)**	**2,776,157**	**(2,913,513)**	**(171,171)**
Write-off	**–**	**(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**

2010

	Land	Building	Construction in Progress	Total
		(In thousands)		
Cost				
Balance at beginning of year	₱1,919,425	₱26,734,284	₱2,178,395	₱30,832,104
Additions	365,768	209,742	2,334,007	2,909,517
Transfers	(391,367)	1,288,753	(1,288,753)	(391,367)
Retirement	–	(17,385)	–	(17,385)
Balance at end of year	1,893,826	28,215,394	3,223,649	33,332,869
Accumulated Depreciation				
Balance at beginning of year	–	6,508,094	–	6,508,094
Depreciation	–	1,091,558	–	1,091,558
Retirements	–	(11,609)	–	(11,609)
Balance at end of year	–	7,588,043	–	7,588,043
Net Book Value	₱1,893,826	₱20,627,351	₱3,223,649	₱25,744,826

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 acquired Solinea, Inc., 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 ₱182.4 billion and ₱167.7 billion as of December 31, 2011 and 2010, 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 condominium units were arrived using the Market Data Approach. In this approach, the value of the land and condominium units is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishing 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.

Consolidated rental income from investment properties amounted to ₱8,137.2 million, ₱7,211.5 million, and ₱7,224.0 million in 2011, 2010 and 2009, respectively (see Note 21). Consolidated direct operating expenses arising from the investment properties amounted to ₱2.3 billion in 2011 and ₱2.5 billion in 2010 and ₱3.1 billion in 2009, respectively (see Note 23).

Depreciation and amortization expense pertaining to investment properties amounted to ₱1,544.8 million, ₱1,091.6 million and ₱946.4 million in 2011, 2010 and 2009, respectively (see Note 23).

14. Property and Equipment

The rollforward analysis of this account follows:

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

2010

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Total
			(In thousands)			
Cost						
January 1	₱1,317,140	₱1,884,589	₱1,401,893	₱448,299	₱2,922,440	₱7,974,361
Additions	216,820	176,483	173,996	225,509	353,210	1,146,018
Disposals/Write-offs	(46,252)	(24,285)	(20,315)	(54,338)	(51,237)	(196,427)
Acquisition through business combination (Note 25)	–	–	–	–	870,197	870,197
December 31	1,487,708	2,036,787	1,555,574	619,470	4,094,610	9,794,149
Accumulated Depreciation and Amortization						
January 1	434,783	1,294,643	1,062,246	279,839	1,538,267	4,609,778
Depreciation and amortization	158,990	229,610	75,898	123,495	127,930	715,923
Acquisition through business combination (Note 25)	–	–	–	–	376,869	376,869
Disposals	(28,328)	(9,047)	(1,655)	(34,998)	(2,382)	(76,410)
December 31	565,445	1,515,206	1,136,489	368,336	2,040,684	5,626,160
Net Book Value	₱922,263	₱521,581	₱419,085	₱251,134	₱2,053,926	₱4,167,989

The consolidated depreciation and amortization of property and equipment (included under various consolidated statements of income accounts) amounted to ₱758.9 million, ₱715.9 million and ₱840.7 million in 2011, 2010 and 2009, respectively.

15. Other Noncurrent Assets

Other noncurrent assets consist of deferred charges, deposits, pension assets (see Note 27) and other assets.

As of December 31, 2011 and 2010, this account also includes leasehold right of a subsidiary amounting to ₱120.2 million and ₱126.8 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 expense for 2011 and 2010 amounted to ₱7.2 million and ₱0.5 million, respectively. Amortization expense amounted to ₱6.7 million and ₱0.5 million in 2011 and 2010, respectively.

16. Accounts and Other Payables

This account consists of:

	2011	2010
	(In Thousands)	
Accounts payable	**₱23,435,637**	₱14,367,569
Accrued project costs	**5,684,761**	2,808,045
Accrued expenses	**4,337,360**	4,044,152
Taxes payable	**2,461,943**	2,123,293
Payable to related parties (Note 26)	**1,049,592**	860,825
Interest payable	**478,852**	211,235
Accrued salaries and employee benefits	**291,992**	249,238
Retention payable	**218,979**	119,051
Accrued rentals	**163,156**	475,858
Dividends payable	**7,113**	632,649
	₱38,129,385	₱25,891,915

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 Debt**

The short-term debt of ₱4,638.8 million and ₱2,890.0 million in 2011 and 2010, respectively, represents 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 3.50% to 5.00% per annum (p.a.) in 2011 and 3.50% to 5.78% p.a. in 2010. Interest rates for dollar-denominated bank loans of the Company, which amounted to ₱1,509.8 million and ₱643.0 million in 2011 and 2010, respectively, ranged from 1.18% to 2.01% in 2011 and 1.45% to 2.30% in 2010.

Long-term debt consists of:

	2011	2010
	(In Thousands)	
Company:		
Bonds		
Due 2012	**₱325,390**	₱194,600
Due 2013	**4,417,900**	4,204,030
Due 2014	**173,715**	–
Floating rate corporate notes (FRCNs)	**1,000,000**	10,000
Fixed rate corporate notes (FXCNs)	**12,675,000**	5,380,000
	18,592,005	9,788,630
Subsidiaries:		
Bank loans - Philippine Peso	**10,963,669**	8,292,261
Bank loans - US Dollar	**336,253**	–
	11,299,922	8,292,261
	29,891,927	18,080,891
Less current portion	**1,556,761**	2,328,160
	₱28,335,166	₱15,752,731

<u>The Company</u>
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 2011 and 2010.

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% 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 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. As of December 31, 2011 and 2010, bonds issued amounted to ₱325.4 million and ₱194.6 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% 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 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, 2011 and 2010, bond issued amounted ₱417.9 million and ₱204.0 million, respectively.

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

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

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

Philippine Peso 7-year FRCN due 2016
In 2009, the Company executed a ₱1,000.0 million committed FRCN facility with the LBP, 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 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.

Transaction costs capitalized amounted to ₱88.2 million in 2011. Amortization amounting ₱10.9 million was expensed during the year.

Subsidiaries
The subsidiaries' loans will mature on various dates up to 2018 with floating interest rates at 50 bps to 200 bps spread over benchmark 91-day PDST-R1/R2 and fixed interest rates of 4.50% to 9.72% p.a. The term loan facility of a subsidiary is secured by a Mortgage Trust Indenture over land and building with a total carrying value of ₱1,041.3 million and ₱911.3 million as of December 31, 2011 and 2010, respectively.

The loan agreements contain some or all of the following restrictions: material changes in nature of business; maintenance of required debt-to-equity ratios; 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 of assets. These restrictions and requirements were complied with by the Group.

Interest capitalized amounted to ₱144.0 million and ₱31.7 million in 2011 and 2010, respectively. The average capitalization rates are 6.88% and 7.06% in 2011 and 2010, 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 ₱1,124.6 million and ₱2,032.1 million as of December 31, 2011 and 2010, respectively.

19. Deposits and Other Noncurrent Liabilities

Deposits and other noncurrent liabilities consist of:

	2011	2010
	(In Thousands)	
Deposits	**₱5,124,065**	₱4,168,487
Retentions payable	**2,338,399**	1,927,384
Other liabilities (Note 26)	**333,321**	457,953
	₱7,795,785	₱6,553,824

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:

	2011		2010		2009	
	Preferred	**Common**	Preferred	Common	Preferred	Common
			(In Thousands)			
Authorized	**15,000,000**	**20,000,000**	15,000,000	20,000,000	15,000,000	20,000,000
Issued	**13,034,604**	**13,022,771**	13,034,604	13,012,004	13,034,604	13,005,338
Subscribed	–	**99,917**	–	96,468	–	75,470
Treasury	–	**(79,528)**	–	(79,528)	–	(79,528)
Outstanding	**13,034,604**	**13,043,160**	13,034,604	13,028,944	13,034,604	13,001,280

Preferred Shares

The Company's preferred shares 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.

Common Shares

The rollforward analysis of the outstanding number of common shares in thousands follows:

	2011	2010	2009
		(In Thousands)	
At beginning of year	**13,028,944**	13,001,280	12,963,003
Additional subscriptions	**14,216**	27,664	38,277
At end of year	**13,043,160**	13,028,944	13,001,280

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 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 10,515 existing certified shareholders as of December 31, 2011.

Treasury Shares
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 ₱0.15, ₱0.09 and ₱0.06 per share in 2011, 2010 and 2009, respectively, to all issued and outstanding shares.

On October 3, 2011, August 26, 2010 and August 13, 2009, the BOD approved the declaration and payment from unappropriated retained earnings of cash dividends at the dividend rate of 4.64% per annum to all issued and outstanding preferred shares.

Retained earnings of ₱6.0 billion are appropriated for future expansion. Retained earnings also include undistributed net earnings amounting to ₱16,918.6 million, ₱13,173.5 million and ₱10,451.2 million as of December 31, 2011, 2010 and 2009, 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, 2011 and 2010 amounted to ₱19.2 billion and ₱17.7 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, 2011 and 2010, the Group had the following ratios:

	2011	2010
Debt to equity	**55.4%**	36.9%
Net debt to equity	**15.6%**	2.0%

Debt consists of short-term and long-term debt. 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, 2011 and 2010.

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 62:38 and 76:24 as of December 31, 2011 and 2010, respectively. As a result, the movement in the actual average interest (borrowing) rate of the Company has been minimal.

Exposure to foreign currency holdings is at $31.2 million and $45.2 million as of December 31, 2011 and 2010, respectively.

Liquidity risk is addressed with long term funding already locked in, while funds are placed on a short term placement.

21. Real Estate Revenue

This account consists of:

	2011	2010	2009
		(In Thousands)	
Real estate sales	**₱24,835,560**	₱19,427,182	₱16,149,196
Rental income (Note 13)	**8,137,247**	7,211,531	7,223,996
Construction contracts	**5,135,115**	6,177,446	2,713,941
Management and marketing fees	**878,753**	697,364	418,427
	₱38,986,675	₱33,513,523	₱26,505,560

22. Revenue from Hotel and Resort Operations

This account consists of:

	2011	2010	2009
		(In Thousands)	
Rooms	**₱1,003,024**	₱895,812	₱724,720
Rental	**621,055**	458,356	151,870
Food and beverage	**534,453**	502,648	333,787
Others	**85,627**	38,101	22,066
	₱2,244,159	₱1,894,917	₱1,232,443

23. Other Income and Costs and Expenses

Other income consists of:

	2011	2010	2009
		(In Thousands)	
Management fees and marketing fees	**₱360,371**	₱397,554	₱337,006
Gain (loss) on sale financial assets at FVPL (Note 6)	**(4,423)**	(466)	25,156
Unrealized loss on financial assets at FVPL (Note 6)	**–**	(9,338)	(654)
Others - net	**61,305**	46,459	270,902
	₱417,253	₱434,209	₱632,410

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.

In 2011 and 2010, the net foreign exchange amounted to ₱12.0 million loss and ₱30.8 million gain, respectively.

Real estate costs and expenses consist of:

	2011	2010	2009
		(In Thousands)	
Cost of real estate sales	**₱14,649,001**	₱12,136,886	₱8,889,118
Materials and overhead	**3,276,623**	4,338,807	2,415,222
Depreciation and amortization	**1,881,987**	1,470,474	1,484,796
Marketing and management fees	**1,226,449**	975,319	1,160,470
Manpower costs	**1,104,370**	1,191,111	827,112
Rental	**921,614**	998,654	656,034
Direct operating expenses:			
Taxes and licenses	**828,601**	738,152	716,769
Repairs and maintenance	**612,396**	342,163	516,781
Light and water	**445,166**	376,713	416,071
Professional fees	**387,041**	289,156	190,781
Insurance	**94,367**	110,943	120,629
Transportation and travel	**56,442**	24,698	46,140
Commission	**23,470**	32,018	13,704
Entertainment, amusement and recreation	**13,710**	10,804	13,294
Others	**996,495**	671,483	682,383
	₱26,517,732	₱23,707,381	₱18,149,304

Hotel and resort operations expenses consist of:

	2011	2010	2009
		(In Thousands)	
Property operations, maintenance and energy costs	**₱336,507**	₱204,736	₱136,946
Food and beverage	**279,076**	262,572	202,915
Depreciation and amortization	**191,424**	176,716	128,746
Administrative	**180,500**	176,367	130,156
Rooms	**148,131**	138,988	65,498
Marketing	**85,890**	81,905	58,797
Telephone and other department costs	**77,455**	67,361	24,683
Management fee	**57,726**	68,614	51,672
Land lease	**33,116**	43,155	54,102
Entertainment, amusement and recreation	**6,793**	6,752	3,024
Others	**26,781**	12,772	10,660
	₱1,423,399	₱1,239,938	₱867,199

General and administrative expenses consist of:

	2011	2010	2009
		(In Thousands)	
Manpower costs (Note 26)	**₱2,186,465**	₱1,894,708	₱1,573,867
Depreciation and amortization	**230,302**	160,291	173,856
Professional fees	**213,162**	181,314	238,694
Taxes and licenses	**140,844**	135,042	153,536
Utilities	**119,462**	113,439	111,210
Rent	**87,565**	60,216	67,339
Repairs and maintenance	**84,034**	73,118	80,516
Transportation and travel	**55,867**	69,972	70,560
Advertising	**49,360**	62,411	53,600
Security and janitorial	**47,101**	34,963	42,308
Supplies	**43,423**	33,166	37,723
Insurance	**29,692**	38,411	39,722
Dues and fees	**23,882**	18,071	28,846
Entertainment, amusement and recreation	**22,646**	59,884	73,073
Others	**145,807**	253,347	47,783
	₱3,479,612	₱3,188,353	₱2,792,633

Manpower costs included in the consolidated statements of income follow:

	2011	2010	2009
		(In Thousands)	
Included in:			
Cost of:			
Real estate	**₱1,104,370**	₱1,191,111	₱827,112
Hotel and resort operations	**194,458**	179,445	135,761
General and administrative expenses	**2,186,465**	1,894,708	1,573,867
	₱3,485,293	₱3,265,264	₱2,536,740

Depreciation and amortization expense included in the consolidated statements of income follow:

	2011	2010	2009
		(In Thousands)	
Included in:			
Cost of:			
Real estate	**₱1,881,987**	₱1,470,474	₱1,484,796
Hotel and resort operations	**191,424**	176,716	128,746
General and administrative expenses	**230,302**	160,291	173,856
	₱2,303,713	₱1,807,481	₱1,787,398

Interest expense and other financing charges consist of:

	2011	2010	2009
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱131,592**	₱51,656	₱137,428
Long-term debt	**1,707,305**	1,397,741	1,190,465
Other financing charges	**40,873**	89,714	17,598
	₱1,879,770	₱1,539,111	₱1,345,491

Other charges consist of:

	2011	2010	2009
		(In Thousands)	
Provision for impairment losses on:			
Receivables (Note 7)	**₱52,550**	₱57,206	₱86,892
Land and improvements (Note 11)	**–**	–	568,672
Real estate inventories (Note 8)	**–**	–	78,091
Write-offs and other charges	**142,742**	221,306	721,024
	₱195,292	₱278,512	₱1,454,679

In 2009, the Group recorded provision for impairment losses amounting to ₱78.1 million for the development cost of real estate inventories which may no longer be recovered (see Note 8).

In 2009, write-offs and other charges mainly include the write-down of inventory from purchase of steel bars which amounted to ₱350.3 million.

24. Income Tax

The components of deferred taxes are as follows:

Net deferred tax assets:

	2011	2010
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱1,071,486**	₱1,352,511
Allowance for probable losses	**877,258**	742,590

(Forward)

	2011	2010
	(In Thousands)	
Outstanding share-based payments	**₱90,057**	₱115,147
Unrealized foreign exchange losses	**13,154**	110,107
Retirement benefits	**252,574**	102,001
Advanced rental	**129,087**	51,546
Accrued expenses	**5,179**	1,390
Others	**1,204**	3,459
	2,439,999	2,478,751
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(477,015)**	(400,445)
Unrealized foreign exchange gain	**(748)**	–
Others	**(13,603)**	(4,896)
	(491,366)	(405,341)
	₱1,948,633	₱2,073,410

Net deferred tax liabilities:

	2011	2010
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱97,392**	₱170,507
Unrealized foreign exchange losses	**1,105**	2,083
Retirement benefits	**1,842**	1,351
Allowance for probable losses	**3,916**	1,994
NOLCO	**1,075**	–
Advanced rentals	**407**	–
	105,737	175,935
Deferred tax liabilities on:		
Fair value adjustment arising from business combination	**(399,140)**	(392,194)
Difference between tax and book basis of accounting for real estate transactions	**(325,558)**	(213,618)
Prepaid expenses	**(120,134)**	(163,740)
Unrealized foreign exchange gain	**(367)**	(372)
Capitalized interest and other expenses	**(3,586)**	(3,586)
Others	**(1,186)**	(93)
	(849,971)	(773,603)
	(₱744,234)	(₱597,668)

Certain subsidiaries of the Company have NOLCO amounting to ₱194.0 million and ₱189.8 million as of December 31, 2011 and 2010, respectively, and MCIT amounting to ₱6.6 million and ₱4.3 million as of December 31, 2011 and 2010, 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, 2011, 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)		
2008	₱3,547	₱3,547	₱–	2011
2009	96,573	1,983	94,590	2012
2010	95,790	1,965	93,825	2013
2011	5,582	–	5,582	
	₱201,492	₱7,495	₱193,997	

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
	₱6,580	₱–	₱6,580	

Reconciliation between the statutory and the effective income tax rates follows:

	2011	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effect of:			
Interest income and capital gains taxed at lower rates	**(0.09)**	(3.52)	(0.04)
Income subjected to lower income tax rates (Note 31)	**(1.14)**	(1.79)	(0.72)
Equity in net earnings of associates and jointly controlled entities	**(2.52)**	(3.46)	(4.97)
Effect of change in statutory income tax rate		–	–
Others - net	**(1.79)**	(1.23)	(4.34)
Effective income tax rate	**24.46%**	20.00%	19.93%

Board of Investments (BOI) Incentives

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.

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.

25. **Business Combinations**

TKPI and TKDC

The Company entered into an agreement with Asian Conservation Company and ACC Resorts, Inc. (the ACC Group) to create a new 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/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 will eventually result in the Company obtaining 60% interest in the new company and ACC Group acquiring 40%. The Company will infuse ₱2.0 billion cash to obtain the 60% stake.

The Company has 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 are consolidated on a line-by-line basis with that of the Group as of December 31, 2010.

The following are the fair values of the identifiable assets and liabilities assumed (in thousands):

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 (Note 11)	1,361,645
Deposit on land purchase	444,622
Property and equipment (Note 14)	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.

From the date of acquisition, TKDC and TKPI has contributed ₱260.0 million of revenue and ₱10.6 million to the net income of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been ₱37,984.0 million and the net income for the Group would have been ₱6,312.3 million.

Transaction costs of ₱1.02 million have been expensed and are included in administrative expenses.

In 2011, the shareholders of ECI, a subsidiary, approved the increase in its authorized capital stock and the subsequent issuance of these shares in exchange for the investment of ALI and ACC in TKDC and TKPI. The application for the increase in authorized capital stock has been filed with the SEC. As a result of this transaction, ALI and ACC will obtain 60% and 40% ownership interest in ECI, respectively. Also, TKDC and TKPI will become wholly owned subsidiaries of ECI.

During the year, 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
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.

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.

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 ALI, the merger did not affect its effective interest, still at 68% in the merged entity.

26. Related Party Transactions

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.

The following tables provide the total amount of transactions that have been entered into with related parties for the relevant financial year (in thousands):

2011

	Amounts owed by related parties			Amounts owed to related parties		
	Current	NonCurrent	Total	Current	NonCurrent	Total
Jointly controlled entities:						
ACC	**₱17,802**	**₱–**	**₱17,802**	**₱–**	**₱–**	**₱–**
Associates:						
CHI	**82,638**	**–**	**82,638**	**–**	**–**	**–**
BLC	**50,522**	**–**	**50,522**	**–**	**–**	**–**
NTDCC	**17,160**	**–**	**17,160**	**–**	**–**	**–**
	150,320	**–**	**150,320**	**–**	**–**	**–**
Other related parties:						
Columbus	**888,810**	**–**	**888,810**	**988,808**	**–**	**988,808**
FBDC	**271,096**	**–**	**271,096**	**–**	**–**	**–**
Ayala International North America	**196,825**	**–**	**196,825**	**–**	**–**	**–**
AC	**89,925**	**–**	**89,925**	**29,478**	**–**	**29,478**
Cebu Property Ventures Development Corp. (CPVDC)	**58,571**	**–**	**58,571**	**–**	**–**	**–**
Globe Telecom	**44,267**	**–**	**44,267**	**–**	**–**	**–**
Bank of the Philippine Islands	**12,292**	**–**	**12,292**	**31,176**	**9,233**	**40,409**
Bonifacio Hotel Ventures, Inc.	**4,067**	**–**	**4,067**	**–**	**–**	**–**
Ayala Life	**–**	**–**	**–**	**62**	**–**	**62**
Manila Water Company, Inc.	**–**	**–**	**–**	**–**	**32**	**32**
Others	**16,080**	**–**	**16,080**	**68**	**27**	**95**
	1,581,933	**–**	**1,581,933**	**1,049,592**	**9,292**	**1,058,884**
	₱1,750,055	**₱–**	**₱1,750,055**	**₱1,049,592**	**₱9,292**	**₱1,058,884**

2010

	Amounts owed by related parties			Amounts owed to related parties		
	Current	NonCurrent	Total	Current	NonCurrent	Total
Jointly controlled entities:						
ACC	₱743	₱–	₱743	₱–	₱–	₱–
Associates						
CHI	102,093	–	102,093	16,454	–	16,454
BLC	–	–	–	80,954	–	80,954
NTDCC	15,790	–	15,790	–	–	–
ARCH Capital	216	–	216	–	–	–
	118,099	–	118,099	97,408	–	97,408
Other related parties:						
Columbus	888,810	–	888,810	491,121	–	491,121
FBDC	109,279	–	109,279	–	–	–
Ayala International North America	217,787	–	217,787	–	–	–
AC	109,402	–	109,402	–	–	–
Cebu Property Ventures Development Corp. (CPVDC)	6,146	–	6,146	268,296	–	268,296
Globe Telecom	11	–	11	–	–	–
Bank of the Philippine Islands	67	–	67	–	–	–
Ayala International PTE. LTD.	19	–	19	–	–	–
Ayala Life	101	–	101	–	–	–
Sonoma Services	217	–	217	–	–	–
City Sport Club Cebu (CSCC)	715	–	715	4,000	–	4,000
Others	53	–	53	–	–	–
	1,332,607	–	1,332,607	763,417	–	763,417
	₱1,451,449	₱–	₱1,451,449	₱860,825	₱–	₱860,825

Revenue from related parties:

	2011	2010	2009
Jointly controlled entities:			
ACC	**₱–**	₱19,293	₱1,503
Associates:			
CHI	**16,548**	60,650	139,973
NTDCC	**7,675**	8,497	5,918
BLC	**–**	–	810,753
	24,223	69,147	956,644
Other related parties:			
Manila Water Company, Inc.	**1,851,582**	699,085	28,353
Globe Telecom, Inc.	**67,071**	7,813	37,542
AC	**35,489**	25,420	2,826
BPI	**15,168**	–	–
Northgate Hotel Ventures, Inc.	**9,424**	–	–
IMI	**7,632**	8,418	–
Southcrest Hotel Ventures, Inc.	**7,146**	–	–
Lamcor	**650**	–	–
Innove Communications, Inc.	**210**	1,732	3,317
MD Distripark	**132**	–	–
South Innovative Theater	**65**	130	–
CPVDC	**–**	9,759	–
Bank of the Philippine Islands	**–**	9,447	15,718
CIHCI	**–**	7,585	–
Cebu Leisure Company, Inc.	**–**	130	–
	1,994,569	769,519	87,756
	₱2,018,792	₱857,959	₱1,045,903

The revenue earned from associates pertains mostly to income from leasing and developmental 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, non-interest 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, 2011 and 2010:

Parent Company:

- The Company made interest-bearing advances in the amount of ₱217.8 million to Ayala International North America (AINA), an AC subsidiary, for AINA's project in Northern California in 2010 with outstanding balance of ₱196.9 million in 2011.

Affiliates:

- Amounts owed from CHI of ₱102,093
  ₱33,917 - 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.

  ₱68,176 - consists of advances and interest due from CHI's subsidiary to the Company's subsidiary (Ayala Hotels, Inc.)

- Amount owed to CHI of ₱16,454
  This comprises substantially the share of CHI's subsidiary, in the collections from joint development project with the Company's subsidiary (Asian I-Office Properties, Inc.).

- 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 future acquisition of shares in BLC. Columbus, on the other hand, advanced ₱988.8 million and ₱491.1 million in 2011 and 2010, respectively, to the Company for future stocks redemption of ECHI and BHI.

- Receivable from FBDC in 2011 and 2010 amounting to ₱109.3 million 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 Asian I-Office Properties, Inc.

- 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 ₱1,851.6 million and ₱699.1 million in 2011 and 2010, respectively, from the contract.

- Revenue from Globe amounting to ₱67.1 million pertains to development management fee which is included under "other income".

Compensation of key management personnel by benefit type follows:

	2011	2010	2009
		(In Thousands)	
Short-term employee benefits	**₱151,381**	₱157,934	₱128,932
Post-employment benefits (Note 27)	**3,183**	23,061	21,313
Share-based payments (Note 29)	**13,301**	20,850	13,719
	₱167,865	₱201,845	₱163,964

27. **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:

	2011	2010	2009
		(In Thousands)	
Current service cost	**₱293,419**	₱134,199	₱115,005
Interest cost on benefit obligation	**128,006**	120,538	135,482
Expected return on plan assets	**(206,309)**	(109,972)	(99,062)
Amortization of actuarial losses (gains)	**(23,671)**	36,186	44,330
Past service cost	**3,355**	2,777	2,777
Total pension expense	**₱194,800**	₱183,728	₱198,532
Actual return on plan assets	**₱153,487**	₱324,916	₱99,277

The funded status and amounts recognized in the consolidated statement of financial position for the pension plan as of December 31, 2011 and 2010 follow:

	2011	2010
		(In Thousands)
Benefit obligations	**₱1,987,763**	₱1,707,890
Plan assets	**(1,811,967)**	(1,615,477)
	175,796	92,413
Unrecognized net actuarial losses	**(157,865)**	(53,193)
Unrecognized past service cost	**(21,893)**	(24,670)
Liability (asset) recognized in the consolidated statement of financial position	**(₱3,962)**	₱14,550

As of December 31, 2011 and 2010, pension assets (included under other noncurrent assets) amounted to ₱76.2 million and ₱71.8 million, respectively, and pension liabilities amounted to ₱72.2 million and ₱86.4 million, respectively.

Changes in the present value of the defined benefit obligation follow:

	2011	2010	2009
		(In Thousands)	
Balance at January 1	**₱1,707,890**	₱1,384,799	₱1,277,155
Interest cost	**128,006**	120,538	135,482
Current service cost	**293,419**	134,199	115,005
Curtailments	**(7,209)**	–	–
Settlements	**(13,279)**	(2,118)	–
Transfer of employees	**158**	–	–
Benefits paid	**(189,818)**	(59,692)	(188,534)
Actuarial losses	**68,596**	130,164	45,691
Balance at December 31	**₱1,987,763**	₱1,707,890	₱1,384,799

Changes in the fair value of plan assets follow:

	2011	2010	2009
		(In Thousands)	
Balance at January 1	**₱1,615,477**	₱1,212,764	₱1,057,896
Expected return	**206,309**	109,972	99,062
Contributions	**173,900**	183,359	244,125
Settlements	**–**	(2,118)	–
Benefits paid	**(130,896)**	(59,692)	(188,534)
Actuarial gains (losses)	**(52,823)**	171,192	215
Balance at December 31	**₱1,811,967**	₱1,615,477	₱1,212,764

The Group expects to make contributions of ₱156.6 million to its retirement fund in 2011.

The allocations of the fair value of plan assets follow:

	2011	2010	2009
Investments in debt securities	**60.32%**	58.70%	67.48%
Investments in equity securities	**22.55%**	36.30%	27.38
Others	**17.13%**	5.00%	5.14

As of December 31, 2011 and 2010, the plan assets include shares of stock of the Company with fair value amounting to ₱12.4 million and ₱18.6 million, 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:

	2011	2010	2009
Discount rate	**5.8 to 8.0%**	8.0 to 10.0%	9.0 to 10.0%
Salary increase rate	**1.0 to 8.0%**	1.0 to 9.0%	7.0 to 10.0%
Expected rate of return on plan assets	**3.7 to 10.0%**	4.0 to 9.0%	8.0 to 10.0%

Amounts for the current and the previous periods follow:

	2011	2010	2009	2008	2007
			(In Thousands)		
Defined benefit obligation	**₱1,987,763**	₱1,707,890	₱1,384,799	₱1,277,155	₱1,574,083
Plan assets	**(1,811,967)**	(1,615,477)	(1,212,764)	(1,057,896)	(1,428,976)
Deficit	**₱175,796**	₱92,413	₱172,035	₱219,259	₱145,107

Amounts of experience adjustment losses (gains) for the current and the previous periods follow:

	2011	2010	2009	2008
		(In Thousands)		
Liabilities	**(₱31,779)**	(₱132,522)	(₱295,911)	₱408,988
Assets	**₱61,881**	₱220,012	₱14,255	₱316,733

28. 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:

	2011	2010	2009
		(In Thousands)	
Net income attributable to equity holders of the Company	**₱7,140,308**	₱5,458,134	₱4,039,256
Less dividends on preferred stock	**60,481**	60,481	60,481
Net income attributable to equity holders for basic and diluted earnings per share	**₱7,079,827**	₱5,397,653	₱3,978,775
Weighted average number of common shares for basic EPS	**12,938,672**	13,016,525	12,985,331
Dilutive shares arising from stock options	**14,650**	22,069	21,904
Adjusted weighted average number of common shares for diluted EPS	**12,953,322**	13,038,594	13,007,235
Basic EPS	**₱0.55**	₱0.41	₱0.31
Diluted EPS	**₱0.55**	₱0.41	₱0.31

In 2011, 2010 and 2009, the convertible preferred shares are ignored in the calculation of diluted EPS since these are antidilutive.

29. 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

	2011	**Weighted average exercise price**	2010	Weighted average exercise price
At January 1	**17,449,397**	**4.26**	22,271,511	4.16
Exercised	**(2,087,014)**	**3.80**	(4,822,114)	3.71
Cancelled	**(1,349,352)**		–	
At December 31	**14,013,031**	**4.15**	17,449,397	4.26

PFRS 2 Options

	2011	**Weighted average exercise price**	2010	Weighted average exercise price
At January 1	**14,025,648**	**4.26**	16,647,814	4.16
Exercised	**(1,139,489)**	**3.80**	(2,622,166)	3.71
At December 31	**12,886,159**	**4.26**	14,025,648	4.26

The options exercised had a weighted average exercise price of ₱3.80 per share or ₱12.3 million in 2011 and ₱3.71 per share or ₱27.6 million in 2010. The average fair market value of the shares at the exercise date was ₱15.52 per share or about ₱ 50.1 million in 2011 and ₱16.45 per share or about ₱122.5 million in 2010.

The fair value of stock options granted is 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 and granted to qualified officers 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.

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:

	2011	**WAEP**	2010	WAEP
At January 1	**27,412,217**	**8.67**	24,849,066	8.67
Granted	**4,852,343**	**13.63**	2,563,151	10.02
Cancelled	**(1,391,042)**		–	–
At December 31	**30,873,518**	**9.52**	27,412,217	8.67

The fair value of stock options granted is estimated on the date of grant using the 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 31, 2011	March 31, 2010	April 30, 2009	May 15, 2008	September 20, 2007	June 5, 2006	November 16, 2005
Number of unsubscribed shares	3,843,057	2,298,247	5,418,619	15,057,840	494,400	5,270,333	3,036,933
Fair value of each option	₱7.27	₱8.88	₱4.05	₱6.77	₱6.93	₱7.33	₱5.58
Weighted average share price	₱15.5	₱13.00	₱6.40	₱10.50	₱15.00	₱13.00	₱9.30
Exercise price	₱13.2	₱9.74	₱4.96	₱9.74	₱12.00	₱10.35	₱7.03
Expected volatility	36.25%	43.57%	37.45%	32.04%	34.67%	46.03%	46.32%
Dividend yield	1.01%	0.48%	0.85%	0.49%	0.41%	1.56%	0.77%
Interest rate	5.60%	5.95%	5.94%	8.53%	6.93%	10.55%	11.30%

Total expense recognized in 2011, 2010 and 2009 in the consolidated statements of income arising from share-based payments amounted to ₱178.8 million, ₱177.2 million and ₱148.6 million, respectively (see Note 23).

30. **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, 2011 and 2010:

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets at FVPL	**₱–**	**₱–**	₱404,008	₱404,008
Loans and Receivables				
Cash and cash equivalents	**24,603,213**	**24,603,213**	18,018,807	18,018,807
Short-term investments	**191,987**	**191,987**	1,434,337	1,434,337
Accounts and notes receivable				
Trade				
Residential development	**14,535,693**	**15,203,042**	10,604,564	9,380,665
Construction contracts	**1,871,553**	**1,871,553**	1,029,299	1,029,299
Shopping centers	**945,184**	**945,184**	868,706	868,706
Corporate business	**580,197**	**580,197**	541,209	541,209
Management fees	**47,267**	**47,267**	61,190	61,190
Others	**694,367**	**694,367**	548,844	548,844
Advances to other companies	**2,451,105**	**2,520,009**	1,737,327	1,720,847
Related parties	**1,750,055**	**1,750,055**	1,451,449	1,451,449
Accrued receivable	**1,597,219**	**1,597,219**	1,037,983	1,037,983
Receivable from employees	**431,515**	**432,308**	464,104	436,258
Investment in bonds classified as loans and receivables	**200,000**	**214,518**	200,000	218,990
Total loans and receivables	**49,899,355**	**50,650,919**	37,997,819	36,748,584
AFS financial assets				
Unquoted	**253,800**	**253,800**	248,164	248,164
Quoted	**456,642**	**456,642**	443,500	443,500
Total AFS financial assets	**710,442**	**710,442**	691,664	691,664
Total financial assets	**₱50,609,797**	**₱51,361,361**	₱39,093,491	₱37,844,256
Other Financial Liabilities				
Current				
Accounts payable	**₱21,674,756**	**₱21,674,756**	₱13,681,306	₱13,681,306
Accrued project costs	**5,684,761**	**5,684,761**	2,808,045	2,808,045
Accrued expenses	**4,337,360**	**4,337,360**	4,044,152	4,044,152
Payable to related parties	**1,049,592**	**1,049,592**	860,825	860,825
Interest payable	**478,852**	**478,852**	211,235	211,235
Accrued salaries and employee benefits	**291,992**	**291,992**	249,238	249,238
Retentions payable	**218,979**	**218,979**	119,051	119,051
Accrued rentals	**163,156**	**163,156**	475,858	475,858
Dividends payable	**7,113**	**7,113**	632,649	632,649
Short-term debt	**4,638,844**	**4,638,844**	2,890,042	2,890,042
Current portion of long-term debt	**1,556,761**	**1,556,761**	2,328,160	2,328,160
Noncurrent				
Long-term debt	**28,335,166**	**29,496,948**	15,752,731	16,934,931
Deposits and other noncurrent liabilities	**7,795,785**	**7,805,949**	6,553,824	6,509,648
Total other financial liabilities	**₱76,233,117**	**₱77,405,063**	₱50,607,116	₱51,745,140

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 government securities. Fair value is based on quoted prices 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% and 9.50% to 13.75% as of December 31, 2011 and 2010, respectively.

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 from 2.88% to 7.60% and 2.70% to 7.39% as of December 31, 2011 and 2010, 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, 2011, 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 nil and ₱404.0 million in 2011 and 2010, respectively and quoted AFS financial assets amounting to ₱456.6 million in 2011 and 2010 were classified under Level 1 in 2011 and 2010. 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 or 3 category.

Financial Risk Management and Objectives
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.

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, 2011 and 2010 based on contractual undiscounted payments:

2011

	< 1 year	>1 to < 5 years	> 5 years	Total
		(In Thousands)		
Accounts and other payables	**₱33,906,561**	**₱–**	**₱–**	**₱33,906,561**
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**
	₱40,102,166	**₱30,175,404**	**₱5,955,547**	**₱76,233,117**
Interest payable	**₱1,350,500**	**₱5,055,533**	**₱1,545,783**	**₱7,951,816**

2010

	< 1 year	>1 to < 5 years	> 5 years	Total
		(In Thousands)		
Accounts and other payables	₱23,082,359	₱–	₱–	₱23,082,359
Short-term debt	2,890,042	–	–	2,890,042
Long-term debt	2,328,160	13,385,081	2,367,650	18,080,891
Deposits and other noncurrent liabilities	–	6,482,690	71,134	6,553,824
	₱28,300,561	₱19,867,771	₱2,438,784	₱50,607,116
Interest payable	₱1,129,961	₱3,026,829	₱465,489	₱4,622,279

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 are shown on the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section. Treasury bonds with maturity of more than a year from December 31, 2011 are marketable securities and could be sold as and when needed, prior to its maturity in order to meet the Group's short-term liquidity needs.

Credit risk

The Group's credit risks are primarily attributable to installments receivable, rental receivables and other financial assets. To manage credit risks, the Group maintains defined credit policies and monitors its exposure to credit risks on a continuous basis.

In respect of installments receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. The Group's stringent customer requirements and policies in place contribute to lower customer default than its competitors. Customer payments are facilitated through various collection modes including the use of post dated checks and auto-debit arrangements. Exposure to bad debts is not significant as title to real estate properties are not transferred to the buyers until full payment has been made and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants. The fair value of security deposits and advance rentals for Shopping centers and Corporate business trade receivables amounted to ₱1,588.5 million and ₱698.3 million in 2011 and ₱1,461.2 million and ₱574.7 million in 2010, respectively. This resulted to a nil net exposure for 2011 and 2010. 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 table below shows the maximum exposure to credit risk.

	2011	2010
	(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**₱24,568,957**	₱18,005,371
Short-term investments	**191,987**	1,434,337
Financial assets at FVPL	**–**	404,008
Accounts and notes receivable		
Trade:		
Residential development	**14,535,693**	10,604,564
Construction contracts	**1,871,553**	1,029,299
Shopping centers	**945,184**	868,706
Corporate business	**580,197**	541,209
Management fees	**47,267**	61,190
Others	**694,367**	548,844
Advances to other companies	**2,451,105**	1,737,327
Related parties	**1,750,055**	1,451,449
Accrued receivable	**1,597,219**	1,037,983
Receivables from employees	**431,515**	464,104
Investment in bonds classified as loans and receivables	**200,000**	200,000
AFS financial assets	**710,442**	691,664
	₱50,575,541	₱39,080,055

Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

As of December 31, 2011 and 2010, the aging analysis of past due but not impaired trade receivables presented per class, follow:

2011

	Neither Past Due nor Impaired	Past Due but not Impaired <30 days	30-60 days	60-90 days	90-120 days	>120 days	Total	Impaired	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
Shopping centers	501,529	105,576	57,028	49,472	27,689	185,284	425,049	174,475	1,101,053
Corporate business	280,665	137,432	42,571	53,278	11,197	55,055	299,533	12,210	592,408
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
Related parties	1,678,753	301	112	72	2,359	68,458	71,302	–	1,750,055
Accrued receivable	1,564,789	–	–	–	–	32,430	32,430	–	1,597,219
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

2010

	Neither Past Due nor Impaired	Past Due but not Impaired <30 days	30-60 days	60-90 days	90-120 days	>120 days	Total	Impaired	Total
					(In Thousands)				
Trade:									
Residential development	₱9,587,103	₱482,614	₱141,617	₱83,867	₱88,673	₱228,257	₱1,025,028	₱9,555	₱10,621,686
Construction contracts	177,815	98,725	170,749	167,069	58,626	356,315	851,484	5,927	1,035,226
Shopping centers	472,717	70,211	55,930	43,766	53,052	158,419	381,378	168,336	1,022,431
Corporate business	394,408	11,251	54,019	42,502	30,536	13,056	151,364	12,247	558,019
Management fees	26,586	–	13,591	1,186	11,913	7,914	34,604	4,383	65,573
Others	464,254	70,522	6,150	1,853	319	5,746	84,590	47,092	595,936
Advances to other companies	1,637,300	38,088	2,897	5,035	21,877	31,886	99,783	12,618	1,749,701
Related parties	1,338,164	102,031	8,099	–	–	3,155	113,285	–	1,451,449
Accrued receivable	1,037,983	–	–	–	–	–	–	–	1,037,983
Receivables from employees	449,134	5,296	235	–	702	8,737	14,970	–	464,104
Investment in bonds classified as loans and receivables	200,000	–	–	–	–	–	–	–	200,000
	₱15,785,464	₱878,738	₱453,287	₱345,278	₱265,698	₱813,485	₱2,756,486	₱260,158	₱18,802,108

The table below shows the credit quality of the Company's financial assets as of December 31, 2011 and 2010:

2011

	Neither Past Due nor Impaired					Past Due but		
	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
Shopping centers	365,694	130,150	5,685	–	501,529	425,049	174,475	1,101,053
Corporate business	264,705	15,918	42	–	280,665	299,533	12,210	592,408
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
Related parties	1,159,769	–	518,984	–	1,678,753	71,302	–	1,750,055
Accrued receivable	1,564,546	–	243	–	1,564,789	32,430	–	1,597,219
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

2010

	Neither Past Due nor Impaired					Past Due but		
	High Grade	Medium Grade	Low Grade	Unrated	Total	not Impaired	Impaired	Total
					(In Thousands)			
Cash and cash equivalents	₱18,018,807	₱–	₱–	₱–	₱18,018,807	₱–	₱–	₱18,018,807
Short-term investments	1,434,337	–	–	–	1,434,337	–	–	1,434,337
Financial assets at FVPL	404,008	–	–	–	404,008	–	–	404,008
Accounts and notes receivables								
Trade:								
Residential development	6,768,122	1,428,390	1,390,591	–	9,587,103	1,025,028	9,555	10,621,686
Construction contracts	177,815	–		–	177,815	851,484	5,927	1,035,226
Shopping centers	326,020	144,833	1,864	–	472,717	381,378	168,336	1,022,431
Corporate business	390,377	3,880	151	–	394,408	151,364	12,247	558,019
Management fees	6,843	–	19,743	–	26,586	34,604	4,383	65,573
Others	464,254	–	–	–	464,254	84,590	47,092	595,936
Advances to other companies	1,614,777	2,666	19,857	–	1,637,300	99,783	12,618	1,749,701
Related parties	1,333,648	–	4,516	–	1,338,164	113,285	–	1,451,449
Accrued receivable	1,037,983	–	–	–	1,037,983	–	–	1,037,983
Receivable from employees	403,981	–	45,153	–	449,134	14,970	–	464,104
Investment in bonds classified as loans and receivables	200,000	–	–	–	200,000	–	–	200,000
AFS financial assets								
Unquoted	–	–	–	248,164	248,164	–	–	248,164
Quoted	443,500	–	–	–	443,500	–	–	443,500
	₱33,024,472	₱1,579,769	₱1,481,875	₱248,164	₱36,334,280	₱2,756,486	₱260,158	₱39,350,924

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 62:38 and 76:24 as of December 31, 2011 and 2010, 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, 2011 and 2010, 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):

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**

2010

	Effect on income before income tax Increase (decrease)	
Change in basis points	+ 100 basis points	- 100 basis points
	(In Thousands)	
Financial assets at FVPL	(₱576)	₱578
Floating rate borrowings	(55,868)	55,868
	(₱56,444)	₱56,446

	Effect on equity Increase (decrease)	
Change in basis points	+ 100 basis points	- 100 basis points
	(In Thousands)	
AFS financial assets	(₱3,105)	₱3,105

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):

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	13,790,171	4,978,814	5,930,444	151,585	11,060,843
			₱38,768,048	₱29,739,758	₱6,147,377	₱151,585	₱36,038,720
Company							
Short-term debt - US Dollar	Variable	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	–	5,786,000	4,214,000	10,000,000
Floating							
Peso	Variable	7 years	1,000,000	–	1,000,000	–	1,000,000
Subsidiaries							
Short-term debt							
Peso	Variable	Monthly, quarterly	3,129,000	3,129,000	–	–	3,129,000
US Dollar	Variable	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	₱22,406,001	₱5,929,165	₱34,530,771

2010

	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	₱18,005,371	₱18,005,371	₱–	₱–	₱18,005,371
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	1,434,337	1,434,337	–	–	1,434,337
Financial assets at FVPL	Fixed at the date of investment or revaluation cut-off	5 years	404,008	404,008	–	–	404,008
AFS financial assets	Fixed at the date of investment or revaluation cut-off	Various	219,540	–	219,540	–	219,540
Accounts and notes receivable	Fixed at the date of sale	Date of sale	9,369,504	6,077,743	1,567,152	474,348	8,119,243
			₱29,432,760	₱25,921,459	₱1,786,692	₱474,348	₱28,182,499
Company							
Short-term debt – US Dollar	Variable	Monthly	₱643,042	₱643,042	₱–	₱–	₱643,042
Long-term debt							
Fixed							
Peso	Fixed at 7.25% to 7.75%	5, 7 and 10 years	3,000,000	1,830,000	1,170,000	–	3,000,000
Peso	Fixed at 7.75% to 8.90%	5, 7 and 10 years	2,380,000	–	259,900	2,120,100	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	194,600	–	194,600	–	194,600
Peso	Fixed at 5%	3 years	204,030	–	204,030	–	204,030
Floating							
Peso	Variable at 0.96% over 91-day PDST-R1	Quarterly	10,000	–	10,000	–	10,000
Subsidiaries							
Short-term debt	Variable	Monthly, quarterly	2,247,000	2,247,000	–	–	2,247,000
Long-term debt							
Fixed							
Peso	Fixed at 5.5% to 9.72%	5 to 7 years	6,258,554	416,379	5,829,725	12,450	6,258,554
Floating							
Peso	Variable at 0.65% to 2.00% over 91-day PDST R1/R2	Quarterly	2,033,707	81,781	1,716,826	235,100	2,033,707
			₱20,970,933	₱5,218,202	₱13,385,081	₱2,367,650	₱20,970,933

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, 2011 and 2010:

	2011		2010	
	US Dollar	**Php Equivalent**	US Dollar	Php Equivalent
		(In Thousands)		
Financial Assets				
Cash and cash equivalents	**$24,511**	**₱1,074,565**	$35,316	₱1,549,499
Short-term investments	**2,199**	**96,415**	5,404	236,896
Accounts and notes receivable - net	**4,472**	**196,045**	4,472	196,045
Total	**$31,182**	**₱1,367,025**	$45,192	1,982,440
Financial Liabilities				
Accounts and other payables	**1,008**	**44,178**	1,008	44,178
Short-term debt	**34,440**	**1,509,844**	14,668	643,042
Long-term debt	**7,670**	**336,253**	–	–
Other noncurrent liabilities	**978**	**42,877**	2,518	110,397
Total	**44,096**	**1,933,152**	18,194	797,617
Net foreign currency denominated assets	**($12,914)**	**(₱566,127)**	$26,998	₱1,184,823

In translating the foreign currency-denominated monetary assets in peso amounts, the exchange rates used were ₱43.84 to US$1.00, ₱43.84 to US$1.00, and ₱46.20 to US$1.00, the Philippine Peso - US dollar exchange rates as of December 31, 2011, 2010 and 2009, 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	**2011**	2010
	(In Thousands)	
₱1.00	**(₱12,914)**	₱26,998
(₱1.00)	**12,914**	(26,998)

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	**2011**	2010
	(In Thousands)	
+5%	**₱622**	₱16
-5%	**(622)**	(16)

31. **Segment Information**

The industry segments where the Group and its associates and joint ventures operate follow:

Core business:

- 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
- 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
- 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

Support Businesses:

- Hotels and Resorts - development and management of hotels and resorts/serviced apartments and lease of land to hotel tenants
- 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).

2011

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management and Visayas-Mindanao	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱4,965	₱2,550	₱22,149	₱3,060	₱5,151	₱3,356	₱–	₱–	₱41,231
Intersegments sales	459	–	367	100	8,620	209	–	(9,755)	–
Equity in net earnings of associates and jointly controlled entities	291	–	(3)	580	–	–	30	–	898
Total revenue	5,715	2,550	22,513	3,740	13,771	3,565	30	(9,755)	42,129
Operating expenses	3,028	1,295	16,928	2,218	13,052	2,698	1,446	(9,244)	31,421
Operating profit	2,687	1,255	5,585	1,522	719	867	(1,416)	(511)	10,708
Interest income									1,532
Interest expense and other financing charges									(1,632)
Other income									544
Other charges									(443)
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

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management and Visayas-Mindanao	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Other Information									
Segment assets	₱28,184	₱22,475	₱89,602	₱11,920	₱15,795	₱7,456	₱14,251	₱ (49,637)	₱140,046
Investment in associates and jointly controlled entities	2,011	–	448	8,686	–	–	1,481	–	12,626
	30,195	22,475	90,050	20,606	15,795	7,456	15,732	(49,637)	152,672
Deferred tax assets	8	32	110	253	14	25	1,378	128	1,948
Total assets	30,203	22,507	90,160	20,859	15,809	7,481	17,110	(49,509)	154,620
Segment liabilities	12,020	7,777	31,002	3,517	13,623	2,457	21,938	(10,436)	81,898
Deferred tax liabilities	–	19	274	4	–	–	437	(55)	679
Total liabilities	₱12,020	₱7,796	₱31,276	₱3,521	₱13,623	₱2,457	₱22,375	₱(10,491)	₱82,577
Segment additions to:									
Property and equipment	₱104	₱95	₱80	₱5	₱404	₱1,437	₱54	₱–	₱2,179
Investment properties	2,498	1,611	210	–	–	–	–	–	4,319
Depreciation and amortization	₱939	₱534	₱152	₱60	₱106	₱213	₱269	₱–	₱2,273
Non-cash expenses other than depreciation and amortization	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Impairment losses	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–

2010

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management and Visayas-Mindanao	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱4,597	₱2,402	₱16,404	₱3,149	₱6,177	₱2,679	₱–	₱–	₱35,408
Intersegments sales	404	–	157	467	3,514	194	–	(4,736)	–
Equity in net earnings of associates and jointly controlled entities	250	–	–	620	–	–	36	–	906
Total revenue	5,251	2,402	16,561	4,236	9,691	2,873	36	(4,736)	36,314
Operating expenses	2,875	1,261	13,251	2,693	9,388	2,506	1,134	(4,972)	28,136
Operating profit	2,376	1,141	3,310	1,543	303	367	(1,098)	236	8,178
Interest income									1,065
Interest expense 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	₱22,785	₱24,119	₱75,887	₱10,378	₱8,546	₱6,329	₱40	(₱38,701)	₱109,383
Investment in associates and jointly controlled entities	2,119	501	–	8,226	–	–	–	–	10,846
	24,904	24,620	75,887	18,604	8,546	6,329	40	(38,701)	120,229
Deferred tax assets									2,073
Total assets									₱122,302
Segment liabilities	₱8,930	₱6,879	₱24,436	₱3,001	₱6,984	₱1,198	₱13,121	(₱8,315)	₱56,234
Deferred tax liabilities									598
Total liabilities									₱56,832
Segment additions to:									
Property and equipment	₱61	₱9	₱211	₱2	₱–	₱724	₱139	₱–	₱1,146
Investment properties	1,664	1,246	–	–	–	–	–	–	2,910
Depreciation and amortization	₱638	₱454	₱94	₱277	₱–	₱282	₱62	₱–	₱1,807
Non-cash expenses other than depreciation and amortization	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Impairment losses	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–

2009

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management and Visayas-Mindanao	Construction	Support Businesses	Corporate	Intersegment Adjustments	Consolidated
Revenue									
Sales to external customers	₱4,443	₱1,993	₱14,002	₱2,342	₱2,714	₱2,244	₱–	₱–	₱27,738
Intersegments sales	446	–	275	253	5,487	212	–	(6,673)	–
Equity in net earnings of associates and jointly controlled entities	176	–	–	788	–	–	4	–	968
Total revenue	5,065	1,993	14,277	3,383	8,201	2,456	4	(6,673)	28,706
Operating expenses	2,700	1,078	11,676	1,971	7,767	2,155	862	(6,400)	21,809
Operating profit	2,365	915	2,601	1,412	`434	301	(858)	(273)	6,897
Interest income									1,117
Interest expense and other financing charges									(1,345)
Other income									632
Other charges									(1,455)
Provision for income tax									(1,165)
Net income									₱4,681
Net income attributable to:									
Equity holders of Ayala Land, Inc.									₱4,039
Non-controlling interests									642
									₱4,681
Other Information									
Segment assets	₱18,410	₱18,832	₱59,806	₱10,595	₱6,466	₱2,760	₱9,938	(₱30,941)	₱95,866
Investment in associates and jointly controlled entities	2,093	–	–	8,253	–	–	452	–	10,798
	20,503	18,832	59,806	18,848	6,466	2,760	10,390	(30,941)	106,664
Deferred tax assets									1,078
Total assets									₱107,742
Segment liabilities	₱7,392	₱5,662	₱18,771	₱3,571	₱5,060	₱1,246	₱12,616	(₱5,922)	₱48,396
Deferred tax liabilities									151
Total liabilities									₱48,547
Segment additions to:									
Property and equipment and investment properties	₱1,131	₱431	₱154	₱458	₱–	₱151	₱3,218	(₱648)	₱4,895
Depreciation and amortization	₱967	₱361	₱76	₱11	₱108	₱147	₱117	₱–	₱1,787
Non-cash expenses other than depreciation and amortization	₱80	₱–	₱87	₱1,112	₱4	₱1	₱3	₱–	₱1,287
Impairment losses	₱80	₱–	₱29	₱617	₱4	₱1	₱3	₱–	₱734

32. **Registration with Philippine Economic Zone Authority (PEZA) / Board of Investments (BOI)**

LTI is 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 Realty, Inc. also became registered with PEZA in 2007 as the "developer/operator" of the Lakeside Ecozone.

Glensworth Development, Inc., a wholly owned subsidiary of APPCo, is registered with PEZA as an Economic Zone Information IT Facility Enterprise 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.

Hillsford Property Corp., 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 E-Office Corp., a wholly owned subsidiary of the Company, was registered with PEZA last December 17, 2010 as a Developer/Operator of Iloilo Technohub.

Crestview E-Office Corp., 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.

33. **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:

	2011	2010
	(In Thousands)	
Within one year	**₱2,210,918**	₱1,533,305
After one year but not more than five years	**5,560,887**	4,239,072
More than five years	**1,384,795**	1,820,845
	₱9,156,600	₱7,593,222

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:

	2011	2010
	(In Thousands)	
Within one year	**₱128,971**	₱128,179
After one year but not more than five years	**496,304**	505,599
More than five years	**1,256,247**	1,365,237
	₱1,881,522	₱1,999,015

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 a 58,000 square meters another 25 years by mutual agreement. 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.

34. 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 2010 to 2011 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, 2011 and 2010 which are included in the consolidated financial statements follow:

	2011	2010
	(In Thousands)	
Current assets		
Cash and cash equivalents	**₱24,622**	₱30,384
Receivables	**–**	130,928
Amounts due from customers for contract work	**10,582**	8,415
Other current assets	**54,809**	53,780
Property and equipment - net	**–**	1
Total assets	**₱90,013**	₱223,508
Total liabilities	**₱66,968**	₱109,349

The following is the share of the MDC on the net income of the Joint Venture:

	2011	2010
	(In Thousands)	
Revenue from construction contracts	**₱2,069**	₱20,841
Contract costs	**(9,687)**	(31,702)
Interest and other income	**2,490**	4,833
Loss before income tax	**(5,128)**	(6,028)
Provision for income tax	**(148)**	(115)
Net loss	**(₱5,276)**	(₱6,143)

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.

35. Long-term Commitments and Contingencies

Commitments

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 company has not been established as of December 31, 2011.

The Company has signed a 50-year lease agreement with the Subic Bay Metropolitan Authority (SBMA), 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 Golf and Sports Club, Inc's leisure and recreational facilities. The Company shall ensure the development and construction by second quarter 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.

36. **Note to Statements of Cash Flows**

The noncash activities of the Group pertains to transfers from land and improvements to inventories amounting to ₱1,364.5 million, ₱5,148.9 million and ₱805.0 million in 2011, 2010 and 2009 respectively; transfers from investment properties to inventories amounting to ₱171.2 million and ₱391.4 million in 2011 and 2010 respectively; transfers from property and equipment to inventories amounting to ₱257.3 million in 2011; transfers from property and equipment to investment properties amounting to ₱5,998.2 million in 2009.

37. **Events After Reporting Date**

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 through additional voting preferred shares and stock rights offer of 13.0 billion voting preferred share from the increase in the authorized capital stock.

Also, the BOD also approved the issuance of bonds in the amount of up to ₱15.0 billion which are to be registered with the SEC. The bonds will have tenors of seven and ten years. Net proceeds will be used to partially finance the Group's planned capital expenditure for 2012.

SUBSIDIARIES AND AFFILIATES

	OWNERSHIP (%) By ALI	By the Subsidiary / Associate
PROPERTY DEVELOPMENT		
Alveo Land Corporation	100.0	
Serendra, Inc.	28.1	38.9
Solinea, Inc. (formerly Bigfoot Palms, Inc.)		65.0
BG South Properties, Inc.		50.0
Amorsedia Development Corporation	100.0	
OLC Development Corporation		100.0
Ayala Greenfield Development Corp.		50.0
HLC Development Corporation		100.0
Allysonia International Ltd.		100.0
Avida Land Corporation	100.0	
Buklod Bahayan Realty and Development Corp.		100.0
Avida Sales Corp.		100.0
Avida Sales Corp., International		100.0
AyalaLand International Marketing Ltd.		100.0
Amicassa Process Solutions, Inc.		100.0
BG North Properties, Inc.		50.0
Amaia Land Corp. (formerly First Realty Communities, Inc.)	100.0	
Ayala Land International Sales, Inc.	100.0	
Ayala Land Sales, Inc.	100.0	
BellaVita Land Corporation	100.0	
BG West Properties, Inc.	50.0	
Roxas Land Corporation	50.0	
Buendia Landholdings, Inc.	100.0	
Crans Montana Holdings, Inc.	100.0	
Crimson Field Enterprises, Inc.	100.0	

	OWNERSHIP (%) By ALI	By the Subsidiary / Associate
Ecoholdings Company, Inc.	100.0	
Nuevo Centro, Inc.	100.0	
Red Creek Properties, Inc.	100.0	
Regent Time International, Limited	100.0	
Bonifacio Land Corporation [a]	5.3	4.8
Fort Bonifacio Development Corp. [b]		55.0
Aurora Properties, Incorporated	70.0	
Vesta Property Holdings, Inc.	70.0	
Ceci Realty, Inc.	60.0	
Emerging City Holdings, Inc.	50.0	
Columbus Holdings, Inc.		70.0
Bonifacio Land Corporation(a)	5.3	69.9
Fort Bonifacio Development Corp.[b]		55.0
Berkshires Holdings, Inc.	50.0	
Columbus Holdings, Inc.		30.0
Bonifacio Land Corporation[a]	5.3	69.9
Fort Bonifacio Development Corp.[b]		55.0
Cebu Holdings, Inc.	47.3	
Cebu Property Ventures Development Corp.	7.8	76.3
Asian I-Office Properties, Inc.		40.0
Cebu Leisure Company, Inc.		100.0
CBP Theatre Management Inc.		100.0
Cebu Insular Hotel Company, Inc.		37.1
Solinea, Inc. (formerly Bigfoot Palms, Inc.)		35.0

	OWNERSHIP (%) By ALI	OWNERSHIP (%) By the Subsidiary / Associate
COMMERCIAL LEASING		
Northbeacon Commercial Corporation	100.0	
Asterion Technopod, Inc.	100.0	
Crestview E-Office Corporation	100.0	
Gisborne Property Holdings, Inc.	100.0	
Hillsford Property Corporation	100.0	
Primavera Towncentre, Inc.	100.0	
Summerhill E-Office Corporation	100.0	
Sunnyfield E-Office Corporation	100.0	
Subic Bay Town Centre, Inc.	100.0	
AyalaLand Commercial REIT, Inc.	100.0	
Arvo Commercial Corporation	100.0	
ALI Property Partners Corp.	68.0	
One Dela Rosa Property Development, Inc.		100.0
First Gateway Real Estate Corp.		100.0
Glensworth Development, Inc.		100.0
UP North Property Holdings, Inc.		100.0
Laguna Technopark, Inc.	75.0	
Ecozone Power Management, Inc.		100.0
Station Square East Commercial Corporation	69.0	
Asian I-Office Properties, Inc.	60.0	
Accendo Commercial Corp.	67.0	
Cagayan de Oro Gateway Corp.	51.0	
Alabang Commercial Corporation	50.0	
South Innovative Theatre Management, Inc.		100.0
ALI-CII Development Corporation	50.0	
North Triangle Depot Commercial Corporation	49.3	
Lagoon Development Corporation	30.0	
Ayala Theatres Management, Inc.	100.0	
Five Star Cinema, Inc.	100.0	
Food Court Company, Inc.	100.0	
Leisure and Allied Industries Philippines, Inc.	50.0	

	OWNERSHIP (%) By ALI	OWNERSHIP (%) By the Subsidiary / Associate
HOTELS AND RESORTS		
Ayala Hotels, Inc.	50.0	
AyalaLand Hotels and Resorts Corporation	100.0	
Enjay Hotels, Inc.		100.0
Cebu Insular Hotel Company, Inc.		62.9
Greenhaven Property Venture, Inc.		100.0
Bonifacio Hotel Ventures, Inc.		100.0
Southcrest Hotel Ventures, Inc.		67.0
Northgate Hotel Ventures, Inc.		70.0
North Triangle Hotel Ventures, Inc.		100.0
Ecosouth Hotel Ventures, Inc.		100.0
Ten Knots Phils, Inc.	60.0	
Ten Knots Development, Corp.	60.0	
SERVICES		
Makati Development Corporation	100.0	
Makati Development Corp. – Subic		100.0
Ayala Property Management Corporation	100.0	
Directpower Services, Inc.	100.0	
Philippine Integrated Energy Solutions, Inc.	60.0	
OTHERS		
Aprisa Business Process Solutions, Inc.	100.0	
First Longfield Investments Limited	100.0	
Green Horizons Holdings Limited		100.0
ARCH Capital Asian Partners, L.P.		8.0
Regent Wise Investments Limited	100.0	
Tianjin Eco-City Ayala Land Development Co., Ltd.		40.0
MZM Holdings, Inc.	100.0	
Studio Ventures, Inc.	100.0	
ALInet.com, Inc.	100.0	
CMPI Holdings, Inc.	60.0	
CMPI Land, Inc.		60.0
KHI-ALI Manila, Inc.	60.0	
KHI Manila Property, Inc.	20.0	

(a) ALI's effective ownership in Bonifacio Land Corporation is 45.05%

(b) ALI's effective ownership in Fort Bonifacio Development Corporation is 24.78%

KEY OFFICERS AND 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
Vincent Y. Tan	Group Head, Planning

Senior Vice Presidents

Arturo G. Corpuz	Head, Urban/Regional Planning and 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 Group
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 Operations Group 1, 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. Head, Bonifacio Arts Foundation, Inc.
Ma. Corazon G. Dizon	Head, Business Development, 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.
Joselito N. Luna	Group Head, Innovation and Design
Francis O. Monera	President, Cebu Holdings, Inc.
Rosaleo M. Montenegro	President, Avida Land Corp. *
Rodelito J. Ocampo	Head, Construction Operations Group 2, Makati Development Corp.
Ma. Teresa T. Ruiz	Group Head, Human Resources and Public Affairs
Ma. Rowena Victoria M. Tomeldan	Head, Operations, Commercial Business Group

Consultants

David Y. San Pedro
Marcelo M. Casillan Jr.
Juanito P. Rosales

** Retired as of December 31, 2011*

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