

SEC Number: CS200613870
File Number: _____

AREIT, INC.

(Company's Full Name)

28F, Tower One, Ayala Triangle
Ayala Avenue, Makati City 1226

(Company Address)

(632) 7908-3804

(Telephone Number)

June 30, 2023

(Quarter Ending)

SEC Form 17-Q Quarterly Report

(Form Type)

-

(Amendments)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE
SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **June 30, 2023**
2. Commission Identification Number **CS200613870**
3. BIR Tax Identification No. **006-346-689-00000**
4. Exact name of issuer as specified in its charter: **AREIT, INC.**
5. Province, Country, or other jurisdiction of incorporation or organization:
Makati City, Philippines
6. Industry Classification Code: _____ (SEC Use Only)
7. Address of issuer's principal office and postal code:
28F, Tower One, Ayala Triangle, Ayala Avenue, Makati City 1226
8. Issuer's telephone number, including area code: **(632) 7908-3804**
9. Former name, former address, former fiscal year: **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

As of June 30, 2023

<u>Title of each class</u>	<u>Number of shares issued and outstanding</u>
Common shares	1,761,047,193

11. Are any or all of the securities listed on a Stock Exchange?

Yes No

Stock Exchange: **Philippine Stock Exchange**

Securities listed: **Common shares**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):

Yes No

(b) has been subject to such filing requirements for the past 90 days:

Yes No

TABLE OF CONTENTS

	<u>Page No.</u>
PART I - FINANCIAL STATEMENTS	
Item 1. Financial Statements	
• Unaudited Statements of Financial Position as of June 30, 2023, and December 31, 2022	4
• Unaudited Statements of Comprehensive Income for the Six Months ended June 30, 2023, and 2022	5
• Unaudited Statements of Changes in Equity for the Six Months ended June 30, 2023, and 2022	6
• Unaudited Statements of Cash Flows for the Six Months ended June 30, 2023, and 2022	7
• Notes to Interim Financial Statements	8
Item 2. Management's Discussion and Analysis of the Financial Condition and Results of Operations	21
PART II - OTHER INFORMATION	
Item 3. Developments as of June 30, 2023	25
Item 4. Other Notes to 1H 2023 Operations and Financials	26
Item 5. Performance Indicators	29
Signature	30

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

AREIT, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30, 2023 Unaudited	December 31, 2022 Audited
ASSETS		
Current Assets		
Cash (Note 4)	P208,437,274	P62,753,382
Short-term investments (Note 5)	300,000,000	
Receivables (Note6)	2,402,291,579	1,919,183,751
Other current assets (Note7)	363,733,150	155,825,886
Total Current Assets	3,274,462,003	2,137,763,019
Noncurrent Assets		
Noncurrent portion of receivables (Note 6)	3,039,520,394	2,986,455,069
Investment properties (Note 8)	60,899,622,232	60,871,459,005
Property and equipment	829,327	598,631
Other noncurrent assets (Note7)	1,617,665,798	1,689,713,043
Total Noncurrent Assets	65,557,637,751	65,548,225,748
	P68,832,099,754	P67,685,988,767
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Note 9)	P1,706,460,507	P1,065,080,572
Short-term debt (Note 10)	300,000,000	300,000,000
Current portion of long-term debt	2,989,411,965	2,977,693,930
Current portion of deposits, other liabilities (Note 12)	571,698,351	527,675,373
Current portion of lease liability	49,664,352	50,290,868
Construction bonds (Note 11)	102,013,921	98,584,276
Total Current Liabilities	5,719,249,096	5,019,325,019
Noncurrent Liabilities		
Deposits, other liabilities, net of current portion (Note 12)	1,661,688,989	1,457,484,429
Lease liability- net of current portion	1,171,798,118	1,136,289,490
Total Noncurrent Liabilities	2,833,487,107	2,593,773,919
Total Liabilities	8,552,736,203	7,613,098,938
Equity (Note 13)		
Paid-up capital	18,283,771,630	18,283,771,630
Treasury shares	(673,299,700)	(673,299,700)
Additional paid-in capital	20,021,645,532	20,021,645,532
Retained earnings	22,647,246,089	22,440,772,367
Total Equity	60,279,363,551	60,072,889,829
	P68,832,099,754	P67,685,988,767

AREIT, INC.**INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

	2023 Unaudited		2022 Unaudited	
	April 1 to June 30	January 1 to June 30	April 1 to June 30	January 1 to June 30
REVENUE				
Rental income	₱1,140,343,916	₱2,276,482,920	₱868,676,479	₱1,742,638,094
Dues- net	298,487,451	583,849,405	255,750,729	511,494,200
Interest income from finance lease receivables	55,197,692	109,788,815	55,428,181	110,247,262
	1,494,029,059	2,970,121,140	1,179,855,389	2,364,379,556
NET FAIR VALUE CHANGE IN INVESTMENT PROPERTIES	(1,586,910)	(2,993,360)	2,660,580	16,535,999
COSTS AND EXPENSES				
Direct operating expenses	420,758,007	838,017,854	301,647,594	626,697,910
General and administrative expenses	19,146,057	35,666,393	21,691,563	38,285,876
	439,904,064	873,684,247	323,339,157	664,983,786
OTHER INCOME (CHARGES) - Net				
Interest income	30,351,469	50,584,874	7,161,432	12,652,282
Interest expense and other charges	(55,057,649)	(105,603,671)	(52,331,045)	(106,751,028)
Other income	-	-	1,203,344	3,651,456
	(24,706,180)	(55,018,797)	(43,966,269)	(90,447,290)
INCOME BEFORE INCOME TAX	1,027,831,905	2,038,424,736	815,210,543	1,625,484,479
PROVISION FOR INCOME TAX	202,413	461,935	20,391	33,782
NET INCOME	1,027,629,492	2,037,962,801	815,190,152	1,625,450,697
OTHER COMPREHENSIVE INCOME	-	-	-	-
TOTAL COMPREHENSIVE INCOME	₱1,027,629,492	₱2,037,962,801	₱815,190,152	₱1,625,450,697
Basic/Diluted Earnings Per Share	₱0.58	₱1.16	₱0.54	₱1.08

AREIT, INC.**INTERIM STATEMENTS OF CHANGES IN EQUITY**

	June 30, 2023	June 30, 2022
	Unaudited	Unaudited
PAID-UP CAPITAL		
Common Shares - P10 par value		
Balance at beginning and end of period	P18,283,771,630	P15,762,407,800
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning and end of period	20,021,645,532	11,333,074,693
TREASURY SHARES		
Balance at beginning and end of period	(673,299,700)	(673,299,700)
RETAINED EARNINGS		
Balance at beginning of year	22,440,772,367	22,465,407,195
Total comprehensive income/Net income	2,037,962,802	1,625,450,697
Cash dividends	(1,831,489,080)	(1,433,465,270)
Balance at end of period	22,647,246,089	22,657,392,622
	P60,279,363,551	P49,079,575,415

AREIT, INC.**INTERIM STATEMENTS OF CASH FLOWS**

	2023 Unaudited January 1 to June 30	2022 Unaudited January 1 to June 30
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱2,038,424,736	₱1,625,484,478
Adjustments for:		
Net fair value change in investment properties	2,993,360	(16,535,999)
Depreciation and amortization	77,055	38,863
Interest expense	88,379,109	106,751,028
Interest income from finance lease receivables	(109,788,815)	(110,247,262)
Interest income	(50,584,874)	(12,652,282)
Operating income before working capital changes	1,969,500,571	1,592,838,826
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(112,527,336)	170,348,081
Other assets	(124,141,984)	(256,189,471)
Increase (decrease) in:		
Accounts and other payables	641,379,935	367,041,463
Deposits and other liabilities	248,227,538	(31,656,033)
Construction bonds	3,429,645	5,970,885
Cash generated from (used in) operations	2,625,868,369	1,848,353,751
Interest received	50,584,874	122,899,544
Interest paid	(46,947,128)	(52,435,308)
Income tax paid	(461,936)	(33,783)
Net cash flows provided by (used in) operating activities	2,629,044,179	1,918,784,204
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in due from related parties	(613,857,000)	(181,500,000)
Payments for additions to investment properties	(31,464,336)	(35,997,712)
Net cash flows provided by (used in) investing activities	(645,321,336)	(217,497,712)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of dividends	(1,831,489,081)	(1,433,465,270)
Availment (repayment) of loans	–	(300,000,000)
Payments of principal portion of lease liability	(6,549,870)	–
Net cash flows provided by (used) financing activities	(1,838,038,951)	(1,733,465,270)
NET INCREASE (DECREASE) IN CASH	145,683,892	(32,178,778)
CASH AT BEGINNING OF PERIOD	62,753,382	92,010,744
CASH AT END OF PERIOD	₱208,437,274	₱59,831,966

AREIT, INC.

NOTES TO INTERIM FINANCIAL STATEMENTS

1. Corporate Information

AREIT, Inc. (formerly, One Dela Rosa Property Development, Inc.) (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 4, 2006. On September 26, 2018, the Company amended its Articles of Incorporation to engage in the business of a real estate investment trust (REIT), as provided under Republic Act No. 9856 (the Real Estate Investment Trust Act of 2009), and its implementing rules and regulations (the REIT Act). The Company was organized primarily to engage in the business, which includes the following: (1) to own, invest in, purchase, acquire, hold, possess, lease, construct, develop, alter, improve, operate, manage, administer, sell, assign, convey, encumber, in whole or in part, or otherwise deal in and dispose of, income-generating real estate, whether freehold or leasehold, within or outside the Philippines with or to such persons and entities and under such terms and conditions as may be permitted by law; (2) to invest in, purchase, acquire own, hold, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real estate and managed funds; (3) to receive, collect and dispose of the rent, interest, dividends, and income rising from its property and investments; and (4) to exercise, carry on or undertake such other powers, acts, activities, and transactions as may be deemed necessary, convenient or incidental to or implied from the purposes herein mentioned. On April 12, 2019, the Company changed its name to AyalaLand REIT, Inc. and amended its name to AREIT, Inc. on June 28, 2019.

As of December 31, 2022, the Company is publicly listed, 54.88%-owned by Ayala Land Inc. (ALI), 5.47%-owned by AyalaLand Offices, Inc. (ALOI), 2.13%-owned by Westview Commercial Ventures Corp. (WCVC), a wholly-owned subsidiary of ALI, 3.53%-owned by Glensworth Development, Inc. (GDI), a wholly owned subsidiary of ALOI, and the rest by the public. ALI's parent is Ayala Corporation (AC). AC is 47.91%-owned by Mermac, Inc., and the rest by the public. ALI and AC are publicly listed companies domiciled and incorporated in the Philippines.

The Company's registered office address and principal place of business is 28th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

The Company's common stock was listed on The Philippine Stock Exchange on August 13, 2020, as a Real Estate Investment Trust (REIT) entity.

As a REIT entity, the Company is entitled to the following: (a) not subject to 2% minimum corporate income tax (MCIT), (b) exemption from value-added tax (VAT) and documentary stamp tax (DST) on the transfer of property in exchange of its shares, (c) deductibility of dividend distribution from its taxable income, and (d) fifty percent (50%) of the standard DST rate on the transfer of real property into the Company, including the sale or transfer of any security interest thereto, provided they have complied with the requirements under Republic Act (RA) No. 9856 and Implementing Rules and Regulations (IRR) of RA No. 9856.

ALI handles the operational and administrative functions of the Company before its listing. Beginning August 13, 2020, AREIT Fund Managers, Inc. and AREIT Property Managers, Inc. handle the company's fund manager and property management functions.

2. Basis of Financial Statement Preparation

The Company's financial statements have been prepared on a historical cost basis, except for investment properties which are measured at fair value and presented in Philippine Peso (P=), which is also the Company's functional currency. All amounts are rounded to the nearest peso unit unless otherwise indicated.

The accompanying unaudited interim financial statements have been prepared under the going concern assumption. The Company believes that its businesses will remain relevant despite the challenges posed by the COVID-19 pandemic.

Statement of Compliance

The Company's financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

On July 31, 2023, the Audit Committee approved and authorized the release of the accompanying unaudited interim financial statements of AREIT, Inc.

3. Summary of Significant Accounting Policies

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for adopting new standards effective in 2022. The Company has not early adopted any standard, interpretation, or amendment that has been issued but is not yet effective.

Adopting these new standards did not impact the company's financial statements unless otherwise indicated.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with reference to the Conceptual Framework for Financial Reporting, issued in March 2018, without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, Business Combinations, to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities, and Contingent Assets* or Philippine-IFRIC 21, *Levies* if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit entities from deducting the cost of an item of property, plant, and equipment or any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items and the costs of producing those items in profit or loss.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach." The costs that relate directly to a contract to provide goods or services include incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

- *Annual Improvements to PFRSs 2018-2020 Cycle*
 - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements based on the parent's date of transition to PFRS if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment applies to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 percent' test for derecognition of financial liabilities*

The amendment clarifies the fees an entity includes when assessing whether the terms of a new or modified financial liability substantially differ from those of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

Standards and Interpretations Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will significantly impact its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Noncurrent*
- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

4. Cash

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Cash on hand	₱192,500	₱72,500
Cash in banks	208,244,774	62,680,882
	₱208,437,274	₱62,753,382

Cash in banks earns interest from the respective bank deposit rates.

5. Short-term Investments

Short-term investments consist of money market placements made for varying periods and earn interest at the respective short-term investment rates. The annual interest rate of the short-term investments is 3.25%.

6. Receivables

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Finance lease receivable	P3,261,895,239	P3,221,146,005
Due from related parties	1,694,490,304	1,095,318,852
Trade receivables – billed	552,058,897	647,588,205
Other receivables	1,278,993	1,990,659
	5,509,723,433	4,966,043,721
Less allowance for credit losses	67,911,460	60,404,901
	5,441,811,973	4,905,638,820
Less noncurrent portion of finance lease receivable	3,039,520,394	2,986,455,069
	P2,402,291,579	P1,919,183,751

Other receivables pertain to noninterest-bearing advances to contractors, which are subject to liquidation upon completion.

Billed receivables arise mainly from tenants for rentals of office and retail spaces and recovery charges for common areas and utilities. These are noninterest-bearing and are generally collectible on a 30-day term.

As of June 30, 2023, the aging analysis of the Company's receivables presented per class is as follows:

	Neither Past Due nor Impaired	Past due but not impaired				Impaired	Total
		<30 days	31-60 days	61-90 days	>90 Days		
Finance lease receivable	P3,261,895,239	P-	P-	P-	P-	P-	P3,261,895,239
Due from related parties	1,474,557,000	56,853,174	52,629,786	44,781,484	65,668,860	-	1,694,490,304
Trade receivables – billed	77,871,219	332,578,891	329,590	59,788,620	13,579,118	67,911,460	552,058,897
Total	P4,814,323,458	P389,432,065	P52,959,376	P104,570,104	P79,247,978	P67,911,460	P5,508,444,440

The movements in allowance for credit losses are as follows:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of year	P60,404,901	P37,456,046
Additions	7,506,559	22,948,855
Balance at end of year	P67,911,460	P60,404,901

7. Other Assets

Other Current Assets

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Input VAT	₱159,458,839	₱141,061,071
Prepaid expenses	189,509,497	-
Recoverable deposits	14,764,815	14,764,815
	₱363,733,151	₱155,825,886

Input VAT is applied against output VAT within 12 months. It includes input VAT claimed for a refund of ₱6.39 million, awaiting approval from the BIR.

Prepaid expenses pertain to payments of business and real property taxes, which are amortized over a year.

Recoverable deposits pertain to various utility deposits.

Other Noncurrent Assets

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Input VAT	₱1,040,328,599	₱1,044,601,418
Deferred input VAT	453,105,485	548,188,358
Creditable withholding taxes	212,392,616	168,644,360
Advances to contractors	3,924,098	278,907
	1,709,750,798	1,761,713,043
Less allowance for possible losses	92,085,000	72,000,000
	₱1,617,665,798	₱1,689,713,043

Deferred input VAT pertains to input tax on the Company's purchases of capital goods exceeding ₱1.0 million per transaction. It is available for offset against the Company's future output VAT.

The remaining balance of input VAT and deferred input VAT is recoverable in future periods.

Creditable withholding taxes represent the amount withheld by the Company. These are recognized upon collection of the related lease receivable and utilized as tax credits against income tax due. The Company recognized allowance for probable loss on CWT amounting to ₱20.09 million in 2023 and ₱19.50 million in 2022.

Advances to contractors are recouped upon every progress billing payment, depending on the percentage of accomplishment or delivery.

8. Investment Properties

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Beginning of the period	₱60,871,459,005	₱50,081,060,761
Acquisitions and Improvements	31,156,586	11,334,580,967
Gain (loss) on fair value adjustment	(2,993,360)	(544,182,723)
End of the period	₱60,899,622,231	₱60,871,459,005

On December 29, 2022, SEC approved the property-for-share-swap via tax-free exchange transaction of the Company. These were acquired from ALI and involved six commercial properties, namely:

- eBloc 1- A twelve (12)-level, Philippine Economic Zone Authority ("PEZA")-accredited office development located in Cebu IT Park with a gross leasable area of 20,841.90 square meters (sq.m).
- eBloc 2- A seventeen (17)-level, PEZA-accredited office development located in Cebu IT Park with a gross leasable area of 27,727.33 sq.m.
- eBloc 3- A twelve (12)-level, PEZA-accredited office development located in Cebu IT Park with a gross leasable area of 15,233.00 sq.m.
- eBloc 4- A twelve (12)-level, PEZA-accredited office development located in Cebu IT Park with a gross leasable area of 16,166.63 sq.m.
- ACC Tower- A twenty (20)-level, PEZA-accredited office development located in Ayala Center Cebu, Cebu Business Park, with a gross leasable area of 27,517.00 sq.m.
- Tech Tower- A twelve (12)-level, PEZA-accredited office development located along Sumilon corner Camiguin Roads, Cebu City, with a gross leasable area of 16,812.74 sq.m.

As of December 31, 2022, the investment properties are composed of thirteen (13) stand-alone buildings, three (3) mixed-used properties, nine (9) condominium office units, and four (4) land parcels. The stand-alone buildings are Solaris One and McKinley Exchange, located in Makati City, Teleperformance Cebu, eBloc Towers 1-4, which are located at Cebu I.T. Park, Cebu City, ACC Tower, located in Ayala Center Cebu, Cebu Business Park, Tech Tower located along Sumilon corner Camiguin Roads and Cebu Evotech One and Two with two (2) office buildings situated in Laguna, Bacolod Capitol Corporate Center, and Ayala Northpoint Technohub in Bacolod City. The mixed-use properties are Ayala North Exchange, The 30th Commercial Development, and Vertis North Commercial Development. Ayala North Exchange is located along Ayala Avenue, Makati, composed of two office towers, a retail podium, and serviced apartments; The 30th Commercial Development features a 19-story office building complemented by a four-story retail podium; while Vertis North Commercial Development is a mixed-use development composed of three (3) office towers and a retail podium located in Quezon City. The condominium office units are BPI-Philam Life Makati, consisting of three (3) condominium office units located at the intersection of Ayala Avenue and Gil Puyat Avenue, and BPI-Philam Life Alabang, composed of six (6) condominium office units located at Madrigal Business Park, Alabang, Muntinlupa City. The four land parcels in Laguna Technopark are being leased to IMI.

The Company presents its investment properties at fair value, and changes on such are recognized in profit or loss. The fair value of the investment properties was determined by management and an independent and professionally qualified appraiser as of December 31, 2022.

The fair value of the Company's investment properties was determined using the Income Approach, a method in which the appraiser derives an indication of value for income-producing property by converting anticipated future benefits into current property value. The fair value is sensitive to the unobservable inputs of the lease income growth rate and discount rate. Significant increases (decreases) in the discount rate would result in a significantly lower (higher) fair value measurement, while a change in the assumption used for the lease income growth rate is accompanied by a directionally similar change in the Company's fair value of investment properties.

9. Accounts and Other Payables

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Due to related parties	₱1,079,379,087	₱756,623,441
Accounts payable	405,864,534	89,098,143
Accrued expenses		
Light and water	43,522,316	41,848,381
Rent	25,954,459	24,956,211
Repairs and maintenance	14,601,829	14,040,220
Others	44,651,387	43,658,602
Taxes payable	89,865,155	90,768,937
Retention payable	2,114,323	3,188,012
Interest payable	507,417	898,625
	₱1,706,460,507	₱1,065,080,572

Accounts payable arises from regular transactions with suppliers and service providers. These are noninterest-bearing and are normally settled on 15- to 60-day terms.

Accrued expenses include accruals for professional fees, postal and communication, supplies, transportation, travel, security, insurance, and representation. These accruals are noninterest-bearing.

Taxes payable consist of amounts payable to the taxing authority on expanded withholding taxes.

Retention payable pertains to the portion of the contractor's progress billings withheld by the Company released after the satisfactory completion of the contractor's work. The retention payable serves as a security from the contractor should there be defects in the project. These are noninterest-bearing and are normally settled upon completion of the relevant contract.

10. Short-term Debt and Long-term Debt

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Short-term loan	₱300,000,000	₱300,000,000
Bonds due on 2023	3,000,000,000	3,000,000,000
	3,300,000,000	3,300,000,000
Less unamortized transaction cost	10,588,035	22,306,070
	3,289,411,965	3,277,693,930
Less current portion	3,289,411,965	3,277,693,930
	₱-	₱-

In 2023 and 2022, the Company availed short-term loans payable with different local banks amounting to ₱300.00 million, respectively, which pertains to unsecured and interest-bearing 30-day loans with interest rates of 6.25% and 5.5%, respectively.

Philippine Peso 2-year bonds due 2023

On December 28, 2021, the Company issued ₱3.0 billion fixed bonds due 2023 at a rate equivalent to 3.0445% p.a. The Bonds represent the first tranche of debt securities issued under the Company's ₱15.0 billion Debt Securities Program registered with the SEC and the first REIT in the Philippines to

list a bond issued to public investors. The Bonds have been rated PRS Aaa by PhilRatings, indicating the obligor's capacity to meet its financial commitment to the obligation is extremely strong.

The loan agreements contain the following restrictions: material changes in the nature of business; maintenance of aggregate leverage limit; payment of dividends and additional loans maturing beyond a year which will result in non-compliance of the required aggregate leverage limit; merger or consolidation where the Company is not the surviving corporation; guarantees or advances; encumbrance for borrowed money; and sale of substantially all assets. These restrictions and requirements were complied with by the Company as of June 30, 2023, and December 31, 2022.

11. Construction Bonds

Construction bonds represent cash bonds to be used as a guarantee against damages to properties resulting from the construction, renovation, or improvements being undertaken therein by the lessee. The bond will be refunded after fully completing the construction, renovation, or improvements and inspection by the Company.

The carrying value of the Company's construction bonds amounted to P102.01 million and P98.58 million as of June 30, 2023, and December 31, 2022, respectively.

12. Deposits and Other Liabilities

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Security deposits	P1,133,937,035	P1,044,320,392
Advance rentals	1,054,272,938	882,850,489
Deferred credits	45,177,367	57,988,921
	2,233,387,340	1,985,159,802
Less current portion	571,698,351	527,675,373
	P1,661,688,989	P1,457,484,429

The current portion of these accounts follows:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Security deposits	P297,361,944	P273,861,011
Advance rentals	262,825,857	235,450,965
Deferred credits	11,510,550	18,363,397
	P571,698,351	P527,675,373

Advance rentals

Advance rentals from lessees represent cash received in advance representing three (3) months' rent which will be applied to the last three (3) months' rentals on the related lease contracts.

Security deposits

Security deposits represent deposits from lessees to secure faithful compliance by lessees of their obligation under the lease contract. These are equivalent to three (3) months' rent and will be refunded to the lessee at the end of the lease term.

13. Equity

Capital stock

The details of the Company's capital stock as of June 30, 2023, and December 31, 2022, follow:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Authorized	2,950,000,000	2,950,000,000
Par value per share	₱10.00	₱10.00
Issued and outstanding shares	1,761,047,193	1,761,047,193

The changes in the number of shares are as follows:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Authorized number of shares		
Balance at the beginning of year at ₱10 par value	2,950,000,000	2,950,000,000
Increase in authorized capital stock at ₱10 par value	-	-
Balance at end of year	2,950,000,000	2,950,000,000
Issued shares		
Balance at beginning of year	1,828,377,163	1,576,240,780
Issuance of new shares	-	252,136,383
Balance at end of year	1,828,377,163	1,828,377,163
Treasury shares		
Balance at beginning and end of year	(67,329,970)	(67,329,970)
Outstanding	1,761,047,193	1,761,047,193

On March 10, 2022, and April 21, 2022, the Company's BOD and its stockholders approved the issuance of 252,136,383 primary common shares of stock of the Company to ALI at an issue price of ₱44.65 per share in exchange for the identified properties. On December 29, 2022, the SEC approved the property-for-share swap transaction.

Additional Paid-in Capital (APIC)

In 2022, the Company recorded APIC amounting to ₱8,688.57 million, net of transaction costs. The Company incurred transaction costs incidental to the property-for-share swap transaction that is directly attributable to the issuance of new shares amounting to ₱47.95 million in 2022.

Retained Earnings

On February 24, 2022, the Company's BOD approved the declaration of cash dividends for the fourth quarter of 2021, amounting to ₱0.47 per outstanding common share to stockholders on record as of March 11, 2022, amounting to ₱709.19 million. The cash dividend was paid on March 25, 2022, to stockholders.

On May 19, 2022, the Company's BOD approved the declaration of cash dividends for the first quarter of 2022, amounting to ₱0.48 per outstanding common share to stockholders on record as of June 02, 2022, amounting to ₱724.28 million. The cash dividend was paid on June 17, 2022, to stockholders.

On August 12, 2022, the Company's BOD approved the declaration of cash dividends for the second quarter of 2022, amounting to ₱0.49 per outstanding common share to stockholders on record as of August 26, 2022, amounting to ₱739.37 million. The cash dividend was paid on September 09, 2022, to stockholders.

On October 11, 2022, the Company's BOD approved the declaration of cash dividends for the third quarter of 2022, amounting to ₱0.49 per outstanding common share to stockholders on record as of

October 25, 2022, amounting to ₱739.37 million. The cash dividend was paid on November 10, 2022, to stockholders.

On February 24, 2023, the Company's BOD approved the declaration of cash dividends for the fourth quarter of 2022, amounting to ₱0.52 per outstanding common share to stockholders on record as of March 10, 2023, amounting to ₱915.74 million. The cash dividend was paid on March 24, 2023, to stockholders.

On May 17, 2023, the Company's BOD approved the declaration of cash dividends for the first quarter of 2023, amounting to ₱0.52 per outstanding common share to stockholders on record as of May 31, 2023, amounting to ₱915.74 million. The cash dividend was paid on June 16, 2023, to stockholders.

Distributable Income

The computation of the distributable income of the Company as of June 30, 2023, is shown below:

	June 30, 2023 (Unaudited)
Net income	₱2,037,962,802
Unrealized gains:	
Unrealized (gain)/loss on fair value change in investment properties	2,993,360
Distributable Income	₱2,040,956,162

Capital Management

The primary objectives of the Company's capital management policies are to afford the financial flexibility to support its business initiatives while providing a sufficient cushion to absorb cyclical industry risks and to maximize stakeholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Company considers its total equity as capital.

The Company's sources of capital as of June 30, 2023, and December 31, 2022, follow:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Paid-up capital	₱ 18,283,771,630	₱18,283,771,630
Additional paid- in capital	20,021,645,532	20,021,645,532
Treasury shares	(673,299,700)	(673,299,700)
Retained earnings	22,647,246,089	22,440,772,367
	₱60,279,363,551	₱60,072,889,829

14. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control or common significant influence, including affiliates.

Terms and Conditions of Transactions with Related Parties

In its regular business conduct, the Company has entered into transactions with related parties consisting of advances and development, management, marketing and leasing, and administrative service agreements. These are based on terms agreed by the parties.

Outstanding balances at yearend are unsecured, noninterest-bearing, and settlement occurs in cash unless otherwise indicated. No guarantees have been provided or received for any related party receivables or payables.

The following tables provide the value and outstanding balances of transactions that have been entered into with related parties for the relevant financial year:

Related Party Category	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Due from related parties		
Parent Company		
Ayala Land, Inc.	₱49,702,283	₱122,963,190
Affiliates*	4,874,322,419	4,193,157,381
Other related parties		
Integrated Microelectronics Inc	27,293,762	-
Bank of the Philippine Islands	3,052,605	-
BPI/MS Insurance Corporation	1,289,333	-
Globe Telecom, Inc.	725,141	344,286
	32,360,841	344,286
	₱4,956,385,543	₱4,316,464,857

*Entities under common control

Related Party Category	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Due to related parties		
Parent Company		
Ayala Land, Inc.	₱284,312,623	₱160,872,483
Affiliates*	786,956,801	583,358,992
Other related parties		
Manila Water Company Inc	3,548,695	8,498,380
Manila Water Philippine Ventures, Inc.	4,383,515	3,729,107
Globe Telecom, Inc.	123,786	110,082
Innove Communications	43,567	44,297
Bank of the Philippine Islands	10,100	10,100
	8,109,663	12,391,966
	₱1,079,379,087	₱756,623,441

*Entities under common control

15. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash, receivables, accounts and other payables and security deposits arising directly from its operations. The main risks arising from using financial instruments are liquidity and credit risks.

The Company reviews policies for managing each of these risks. The Company monitors market price risk from all financial instruments and regularly reports financial management activities and the results of these activities to the BOD.

Exposure to credit, interest rate, and liquidity risks arise in the normal course of the Company's business activities. The main objectives of the Company's financial risk management follow:

- 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.

Before the Company's listing, ALI's financing and treasury function operated as a centralized service for managing financial risks and activities and providing optimum investment yield and cost-efficient funding for the Company. Effective August 13, 2020, AREIT Fund Manager's, Inc. handles fund manager functions of the Company.

Credit risk

Credit risk arises when a counterparty does not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company's credit risks are primarily attributable to cash, receivables, and other financial assets. The Company maintains defined credit policies to manage credit risks and continuously monitors its exposure to credit risks.

Credit risk arising from rental income from leased properties is primarily managed through a tenant selection process. Following the provisions of the lease contracts, the lessees are required to deposit with the Company security deposits and advance rentals which helps reduce the Company's credit risk exposure in case of defaults by the tenants. For existing tenants, the Company has put in place a monitoring and follow-up system. Receivables are aged and analyzed continuously to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of financial capacity. Except for the trade receivables, all financial assets' maximum exposure to credit risk is equal to their carrying amounts.

Liquidity risk

The Company actively manages its liquidity position to meet all operating, investing, and financing needs. The Company's policy is to maintain a sufficient cash level to fund its monthly cash requirements, at least for the next two months. Capital expenditures are funded through long-term debt while working capital requirements are sufficiently funded through cash collections and capital infusion by stockholders.

Through scenario analysis and contingency planning, the Company also assesses its ability to withstand both temporary and longer-term disruptions relative to its capacity to finance its activities and commitments on time and at a reasonable cost. It ensures the availability of ample unused credit facilities as backup liquidity.

The Company's cash is maintained at a level that will enable it to fund its operations and have additional funds as a buffer for any opportunities or emergencies that may arise. To manage the Company's liquidity, credit line facilities with designated local banks, as approved by the Board of Directors, were obtained. The Company's available credit line with various local banks as of June 30, 2023, is ₱20.00 billion. The Company may also refinance its short-term and long-term loans and manage payment terms for its payables.

16. Fair Value Hierarchy

Fair Value Information

Except for the Company's security deposits and long-term debt, which are disclosed below, the carrying values of the other financial instruments of the Company approximate their fair values due to the short-term nature of the transactions.

	June 30, 2023 (Unaudited)		December 31, 2022 (Audited)	
	Carrying value	Fair value	Carrying value	Fair value
Security deposits	₱1,133,937,035	₱1,133,937,035	1,044,320,392	958,142,795

As of June 30, 2023, and December 31, 2022, the Company has no financial instrument measured at fair value. In 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The fair value of the Company's security deposits is categorized under Level 3 in the fair value hierarchy.

17. Notes to Interim Statements of Cash Flow

The Company's noncash operating and investing activities are as follows:

Operating

- Interest income from finance lease amounting to ₱109.79 million and ₱110.25 million for six months ended June 30, 2023, and 2022.

Investing

- Addition in investment properties amounting to ₱11,257.89 million related to the property-for-share swap agreement in 2022.

18. Segment Reporting

The Company has determined that it is currently operating as one operating segment. Based on management's assessment, no part or component of the business of the Company meets the qualifications of an operating segment as defined by PFRS 8, *Operating Segments*.

The Company's four parcels of land, nine condominium office units, and thirteen-building lease operations are its only income-generating activity, and such is the measure the management uses in allocating resources.

19. Seasonality of Operations

There were no operations subject to seasonality or cyclicity except for the Company's retail operations. The Company generates a relatively stable stream of revenues throughout the year, with higher sales experiences from shopping centers in the fourth quarter of every year due to holiday spending. This information is provided to better understand the results; however, management has concluded that this is not 'highly seasonal' under PAS 34.

20. Events After Financial Reporting Date

None

Item 2. Management's Discussion and Analysis on the Results of Operation and Financial Condition

Review of 1H 2023 operations vs 1H 2022

The Company's net income before the net fair value change in investment properties increased by 27% from ₱1,608.95 million in 2022 and ₱2,041.42 million in 2023. The increase was mainly due to income from stable operations and the contribution of additional properties acquired in the fourth quarter of 2022 and rental escalations. The Company's net income after tax increased by 25% from ₱1,625.45 million in 2022 to ₱2,037.96 million in 2023.

Revenues

Total revenues increased by 26% from ₱2,364.38 million in 2022 to ₱2,970.12 million in 2023. This growth was mainly driven by higher rental income and dues.

Rental Income increased by 31% from ₱1,742.64 million in 2022 to ₱2,276.48 million in 2023. The increase was primarily attributable to the addition of the Cebu properties, namely, Ebloc Towers 1 to 4, ACC Tower, and Tech Tower, in October 2022.

Dues increased by 14% from ₱511.49 million in 2022 to ₱583.85 million in 2023. The increase was attributable to the operations of new assets acquired in October 2022.

Interest income from finance leases amounted to ₱110.25 million in 2022 and ₱109.79 million in 2023, attributable to the long-term lease of Makati North Hotel Ventures, Inc. with the Company, which commenced in September 2019 and long-term leases of North Eastern Commercial Corp with the Company, for The30th Mall which begun on January 1, 2021, and October 1, 2021, for Vertis Mall.

Net Fair Value Change in Investment Property

In 2023, the Company recognized a reduction in fair value in investment properties of (₱2.99 million) and an increase of ₱16.54 million in 2022.

Cost and Expenses

Direct operating expenses increased by 34% from ₱626.70 million in 2022 to ₱838.02 million in 2023. The increase was primarily due to higher building utilization and expenses from the operations of additional properties acquired in October 2022.

General and administrative expenses decreased by 7% from ₱38.28 million to ₱35.67 million, mainly due to lower taxes related to loans.

Other Income (charges)

Interest Income increased by 300% from ₱12.65 million in 2022 to ₱50.58 million in 2023. The increase was mainly due to the increase in interest income from intercompany loans from ₱12.48 million in 2022 to ₱48.28 million in 2023.

Interest expense decreased by 24% from ₱106.75 million in 2022 to ₱89.62 million in 2023. The decrease was due to a decrease in interest expense on short-term debt.

Other charges amounted to ₱15.99 million in 2023, which pertains mainly to amortization of bond issue cost.

Other income amounted to ₱3.65 million in 2022, which pertains to income earned from interest and penalties arising from late payments.

Provision for Income Tax

Income tax provision increased from ₱33,782 in 2022 to ₱461,935 million in 2023 due to the final tax on interest income from banks.

Capital Expenditure

The Company has no material commitments for capital expenditures.

Causes for any material changes (+/- 5% or more) in the financial statements

Balance Sheet items- June 30, 2023, versus December 31, 2022

Cash increased by 232%, primarily due to cash flows used in investing activities to pay dividends.

Short-term investments consist of money market placements.

Receivables current portion increased by 25%, primarily due to the contribution of new properties acquired in October 2022.

Other current assets increased by 133%, mainly due to higher prepaid expenses on payments of business and real property taxes, which are being amortized for the year.

Property and equipment increased by 39%, mainly due to additional office equipment, furniture, and fixtures.

Accounts and other payables increased by 60%, in line with the increase in operations due to additional properties.

The current portion of deposits and other liabilities increased by 8% due to higher advance rental collection.

Construction bonds increased by 3% due to refunds to tenants for bonds collected to be used as a guarantee against damages to properties resulting from construction, renovation, or improvements.

The lease liability current portion increased by 16% due to lease liability for the period and timing of the lease payment. The rent is payable at a fixed monthly rate, subject to an annual escalation rate.

Financial Condition

The Company's balance sheet remains healthy to support the financial and operational requirements during this period.

As of June 30, 2023, total current assets, including cash, current portion of receivable, input VAT, prepaid expenses, and recoverable deposits, stood at ₱3,274.46 million, resulting in a current ratio of 0.57:1.

As of June 30, 2023, total debt registered at P3.29 billion, translating to a debt-to-equity ratio of 0.05:1 and a net debt-to-equity ratio of 0.05:1.

Return on equity is at 7% as of June 30, 2023.

Key Financial Ratios	2023	2022
Current Ratio ⁽¹⁾	0.57	0.43
Debt to Equity ⁽²⁾	0.05	0.05
Profitability Ratios		
Return on Asset ⁽³⁾	6%	5%
Return on Equity ⁽⁴⁾	7%	5%
Asset to Equity Ratio ⁽⁵⁾	1.14	1.13

⁽¹⁾ Current assets/current liabilities

⁽²⁾ Total debt/Average Stockholder's equity

⁽³⁾ Total Net Income/Total Average Assets

⁽⁴⁾ Total Net Income/Average Stockholder's equity

⁽⁵⁾ Total asset/Total Stockholder's equity

- The Company's fixed-rate bond will expire on December 28, 2023. We plan to refinance through either another bond offering from its shelf registration or the availment of a bank loan.
- There is no material commitment for capital expenditures other than those performed in the ordinary course of trade or business.
- No known trend, event, or uncertainty has had or is reasonably expected to materially impact the net sales, revenues, or income from continuing operations.
- There is no significant element of income arising from continuing operations.
- There have not been any seasonal aspects that had a material effect on the financial condition or results of the Company's operations.
- No known events and uncertainties will trigger direct or contingent financial obligation material to the Company, including any default or acceleration of an obligation.
- There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

Property Performance as of June 30, 2023

Property	Location	Valuation Date	Valuation cost² (in Pesos, millions)	Total gross leasable area (GLA) (in sq.m)	Occupied GLA (in sq.m)	Occupancy rate	Remaining Land lease term	Rental Income (in Pesos, millions)	Gross Revenues (in Pesos, millions)
Solaris	Makati	Dec 2022	7,328	46,768	45,740	98%	26	285	362
Ayala North Exchange ¹	Makati	Dec 2022	11,428	95,407	92,741	97%	35	385	462
MECC	Makati	Dec 2022	1,965	10,688	10,593	99%	32	64	79
TP Cebu	Cebu	Dec 2022	2,008	18,093	18,093	100%	28	83	105
The 30th ¹	Pasig	Dec 2022	5,206	74,704	70,034	94%	33	203	262
Laguna Technopark Land	Laguna	Sept 2022	1,126	98,179	98,179	100%	n/a	41	41
Vertis ¹	Quezon City	Dec 2022	17,249	164,628	164,628	100%	35	604	749
BPI- Philam Makati	Makati	Dec 2022	125	1,072	-	0%	n/a	-	(0)
BPI- Philam Alabang	Muntinlupa	Dec 2022	70	551	551	100%	n/a	3	4
Bacolod Capitol	Negros Occidental	Dec 2022	802	11,313	11,313	100%	39	34	44
Ayala Northpoint	Negros Occidental	Dec 2022	227	4,654	4,654	100%	35	13	16
Evotech	Laguna	Dec 2022	2,790	23,727	23,727	100%	35	93	151
eBloc Towers 1 to 4	Cebu	Dec 2022	8,365	79,640	78,894	99%	35	319	432
ACC Tower	Cebu	Dec 2022	1,913	27,458	26,089	95%	35	105	103
Tech Tower	Cebu	Dec 2022	1,207	16,273	12,850	79%	35	46	51

⁽¹⁾ Does not include a portion of ANE Seda, The 30th Mall, and Vertis Mall which are accounted for under the finance lease

⁽²⁾ Valuation based on the latest appraisal reports using the Income approach except for Laguna Technopark land which was based on Market approach

PART II- OTHER INFORMATION

Item 3. Developments as of June 30, 2023

- | | | |
|--|---|---------------------------|
| A. New project or investments in another line of business or corporation | None | |
| B. Composition of Board of Directors (as of April 26, 2023) | Anna Ma. Margarita B. Dy | Chairman |
| | Carol T. Mills | President & CEO |
| | Bernard Vincent O. Dy | Non-Executive Director |
| | Augusto D. Bengzon | Non-Executive Director |
| | Mariana Zobel de Ayala | Non-Executive Director |
| | Omar T. Cruz | Lead Independent Director |
| | Enrico S. Cruz | Independent Director |
| | Sherisa P. Nuesa | Independent Director |
| C. Performance of the corporation or result/progress of operations | Please see the unaudited financial statements and management's discussion on the results of operations. | |
| D. Declaration of dividends | <p>₱0.52 cash dividend per outstanding common share
 Declaration date: February 24, 2023
 Record date: March 10, 2023
 Payment date: March 24, 2023</p> <p>₱0.52 cash dividend per outstanding common share
 Declaration date: May 17, 2023
 Record date: May 31, 2023
 Payment date: June 16, 2023</p> | |
| E. Contracts of merger, consolidation, or joint venture; contract of management, licensing, marketing, distributorship, technical assistance, or similar agreements | None | |
| F. Offering of rights, granting of Stock Options, and corresponding plans, therefore | None | |
| G. Acquisition of additional mining claims or other capital assets or patents, formula, real estate | None | |
| H. Other information, material events, or happenings that may have affected or may affect the market price of the security | None | |

- I. Transferring of assets, except in the normal course of business None

Item 4. Other Notes to 1H 2023 Operations and Financials

- J. Nature and amount of items affecting assets, liabilities, equity, or net income that are unusual because of their nature, size, or incidents Please see Item 2: Management's Discussion on Results of Operations and Analysis.
- K. Nature and amount of changes in estimates of amounts reported in prior periods and their material effect in the current period Please see page 26: Causes for any material changes (+/- 5% or more) in the financial statements
- L. New financing through loans / Issuances, repurchases, and repayments of debt and equity securities None
- M. Material events subsequent to the end of the interim period that has not been reflected in the financial statements for the interim period
- N. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations None
- O. Changes in contingent liabilities or contingent assets since the last annual balance sheet date None
- P. Other material events or transactions during the interim period
April 26, 2023, | AREIT, Inc. (AREIT), the first Real Estate Investment Trust (REIT) in the Philippines, secured the approval of its stockholders on a property-for-share swap with its sponsor, Ayala Land, Inc. (ALI) during its Annual Stockholders' Meeting involving flagship offices and malls with an aggregate value of P22,479,697,060 for 607,559,380 AREIT primary common shares, as validated by a third-party fairness opinion.

June 2, 2023, | AREIT, Inc. (AREIT) executed the Deed of Exchange with Ayala Land, Inc. (ALI), Ayalaland Malls, Inc. (ALMI), and Northbeacon Commercial Corporation (NBCC) on the property-for-share swap involving the issuance of an aggregate of 607,559,380 primary common shares of AREIT (Shares) to ALI, ALMI, and NBCC, at an issue price of Php37.00 per share, a 3% premium over the thirty (30)-day

volume weighted average price ("30-day VWAP") or the Market Price of Php35.83, in exchange for flagship offices and malls with a total value of Php22,479,697,060.00.

Accordingly, ALI, ALMI, and NBCC will transfer, cede, and assign the properties to AREIT, while the latter grants the corresponding shares to the parties upon the SEC's approval of the property-for-swap. The Shares will come from the increase in AREIT's authorized capital stock, which will amount to Php40.5B.

Likewise, AREIT submitted to the SEC today its application for the increase in its authorized capital stock, request for confirmation of exemption from registration of securities, and the confirmation of valuation of the involved properties, under Section 10.1.5 of the Implementing Rules and Regulations of the Securities Regulation Code. Once approved, the parties shall apply for the Certificate Authorizing Registration with the Bureau of Internal Revenue and the listing of the additional shares with the Philippine Stock Exchange within the first quarter of 2024.

- | | |
|---|---|
| Q. Existence of material contingencies during the interim period; events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation | None |
| R. Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period | None |
| S. Material commitments for capital expenditures, general-purpose and expected sources of funds | None |
| T. Known trends, events, or uncertainties that have had or that are reasonably expected to have an impact on sales/revenues/ income from continuing operations | AREIT's performance will depend on the state of the Philippine Office Sector. |
| U. Significant elements of income or loss that did not arise from continuing operations | None |

- | | |
|--|---|
| V. Causes for any material change/s from period to period, in one, or more line items of the financial statements | Please see Notes to Financial Statements (Item 2: Management's Discussion on Results of Operations and Analysis). |
| W. Seasonal aspects that had a material effect on the financial condition or results of operations | None |
| X. Disclosures not made under SEC Form 17-C | None. |

Item 5. Performance Indicators

The table below shows AREIT's performance indicators:

	End-June 2023 (Unaudited)	End-December 2022 (Audited)
Current ratio ¹	0.57:1	0.43:1
Debt-to-equity ratio ²	0.05:1	0.05:1
Net debt-to-equity ratio ³	0.05:1	0.05:1
Profitability Ratios:		
Return on Assets ⁴	6%	5%
Return on Equity ⁵	7%	5%
Asset to Equity Ratio ⁶	1.14:1	1.13:1

Notes:

- (1) *The current ratio is derived by dividing current assets by current liabilities at the end of a given period. The current ratio measures our ability to pay short-term obligations.*
- (2) *The debt-to-equity ratio is derived by dividing our total loans and borrowings by total equity. The debt-to-equity ratio measures the degree of our financial leverage.*
- (3) *The net debt to equity ratio is derived by dividing our total loans and borrowings less cash by total equity.*
- (4) *Return on assets is derived by annualized net income by total assets*
- (5) *Return on equity is derived by dividing annualized net income by average shareholders' equity. Return on equity measures how profitable we are at generating profit from each unit of shareholder equity.*
- (6) *The asset-to-equity ratio is derived by dividing total assets by shareholders' equity. The asset-to-equity ratio measures our financial leverage and long-term solvency.*

SIGNATURE

Pursuant to the Securities Regulation Code requirements, the Issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: **AREIT, INC.**

By:



MA. TERESA R. FAMY
Treasurer and Chief Finance Officer

Date: August 14, 2023

July 13, 2023

THE PHILIPPINE STOCK EXCHANGE

Philippine Stock Exchange Plaza
6th Floor, PSE Tower
Bonifacio Global City, Taguig

Attention: Alexandra D. Tom Wong
Officer-in-Charge, Disclosure Department

Subject: 2023 Second Quarter Progress Report on the Disbursement of Proceeds from the Sale of
205 million AREIT Shares

Dear Ms. Tom Wong,

We are pleased to submit our Progress Report on the Application of Proceeds for the Second Quarter of 2023, duly certified by our external auditors, in compliance with the disclosure requirements of the Philippine Stock Exchange.

On April 3, 2023, Ayala Land, Inc. ("ALI") received net proceeds from the sale of 205 million AREIT Shares amounting to Six Billion Five Hundred Thirty-Six Million One Hundred Sixty-Seven Thousand Pesos (Php6,536,167,000).

As of June 30, 2023, ALI already disbursed total net proceeds amounting to Two Billion Seventy-Nine Million Six Hundred Ten Thousand Four Hundred Eighty Pesos (Php2,079,610,480) in accordance with its Reinvestment plan.

The details of the disbursement are as follows:

Net Proceeds from sale of 205 million AREIT Shares as of April 3, 2023	Php6,536,167,000
Less: Disbursements from April 3 to June 30, 2023 (Annex A)	<u>2,079,610,480</u>
Balance of Proceeds from sale of AREIT Shares as of June 30, 2023	<u>4,456,556,520</u>

Thank you.

Very truly yours,



Augusto D. Bengzon
Ayala Land, Inc.
Treasurer and Chief Finance Officer



Ma. Teresa R. Famy
AREIT, Inc.
Chief Finance and Compliance Officer


SUBSCRIBED AND SWORN to before me this JUL 13 2023 at Makati City, affiants exhibiting to me their identification documents as follows:

Name	Competent Evidence of Identity	Date and Place Issued
AYALA LAND, INC. <i>Represented by:</i> Augusto D. Bengzon	TIN: 000-153-790-000 Passport No. P4323352B	 08 Jan 2020/ DFA NCR East
AREIT, Inc. <i>Represented by:</i> Ma. Teresa R. Famy	TIN: 006-346-689-000 Driver's License No. D06-97-186463	 Expiration Date 05 Dec 2023

Doc No. 237 ;
Page No. 49 ;
Book No. XVI ;
Series of 2023 ;

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




MA. FLORENCE THERESE D.G. MARTIREZ-CRUZ
Notary Public - Makati City
Appl. No. M-258 until December 31, 2023
Roll of Attorneys No. 60896
IBP No. 297593 - 02/03/2023 - Makati City
PTR No. MKT9569474 - 01/09/2023 - Makati City
MCLE Compliance No. VII -0018684 - 01/25/2022
28th Floor, Tower One and Exchange Plaza, Ayala Triangle,
Ayala Avenue, Makati City, Philippines

ANNEX A- Disbursements from April 3 to June 30, 2023

Project Name	Disbursing Entity	Amount (in PHP)
Metro Manila Property	ALI Eton Property Development Corporation (a 50:50 JV Between ALI and EPPI)	820,000,000
Gardencourt Residences	Ayala Land, Inc.	298,235,766
Arbor Lanes	Ayala Land, Inc.	134,967,060
Andacillo	Ayala Land, Inc.	66,584,730
One Vertis Plaza	Ayala Land, Inc.	332,145,298
Orean Place T1	Ayala Land, Inc.	177,595,948
Tryne Enterprise Plaza	Ayala Land, Inc.	145,629,309
Park Cascades	Ayala Land, Inc.	104,452,369
TOTAL		2,079,610,480



Agreed-Upon Procedures Report

To the Management of
Ayala Land, Inc.
31st Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting Ayala Land, Inc. (the "Company") in connection with the Company's compliance with the Philippine Stock Exchange, Inc.'s (PSE) requirement to submit an external auditor's certification on the information being presented by the Company on the Quarterly Progress Report for the period from April 3 to June 30, 2023 relating to the use of proceeds received by the Company from the block sale of its shares in AREIT, Inc. ("AREIT") on April 3, 2023 and may not be suitable for another purpose.

Responsibilities of the Engaging Party

The management of the Company has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement. The Company is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with Philippine Standard on Related Services (PSRS) 4400 (Revised), Agreed-Upon Procedures Engagements. An agreed-upon procedures engagement involves us performing the procedures that have been agreed with the Company, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the ethical requirements in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics). We also complied with the independence requirements in accordance with Part 4A of the IESBA Code.

Isla Lipana & Co., 29th Floor, AIA Tower (formerly Philamlife Tower), 8767 Paseo de Roxas,
1226 Makati City, Philippines
T: +63 (2) 8845 2728, F: +63 (2) 8845 2806, www.pwc.com/ph



Our firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements

Procedures and Findings

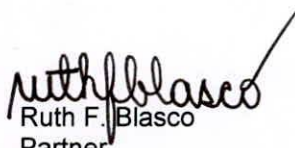
We have performed the procedures described below, which were agreed upon with the Company in the letter of engagement dated July 10, 2023, on the use of proceeds received by the Company from the block sale of its shares in AREIT:

Procedures	Findings
Obtained the Quarterly Progress Report on use of proceeds from the block sale of AREIT Shares (the "schedule") for the period from April 3 to June 30, 2023 and performed the following:	
a. Checked the mathematical accuracy of the schedule.	No exceptions were noted.
b. Checked whether there were additions and disbursements in the schedule and compared with the schedule of application of proceeds.	No exceptions were noted.
c. On a sample basis, traced additions and disbursements listed in the schedule for the period from April 3 to June 30, 2023 to the supporting documents such as progress billings, statement of account, invoices and official receipts, as applicable, and agreed the amount to the schedule.	No exceptions were noted. We present in Appendix A the schedule for the period from April 3 to June 30, 2023 based on the information we obtained from the Company.
d. On a sample basis, inquired into and identified the nature of additions and disbursements. Checked if the disbursements were classified consistently according to its nature based on the schedule of planned use of proceeds from the block sale of AREIT shares.	No exceptions were noted. We have noted that the Sponsor Reinvestment Plan dated April 3, 2023 included the proceeds from the block sale of AREIT amounting to P6,536,167,000. Out of the total proceeds, P2,079,610,480 has been disbursed for the period from April 3 to June 30, 2023 based on the information we obtained from the Company as presented in Appendix A.



Restriction on Distribution and Use

Our report is solely for the purpose set forth in the first paragraph of this report and is not to be used for any other purpose or to be distributed to any other parties.


Ruth F. Blasco

Partner

CPA Cert No. 112595

P.T.R. No. 0018519, issued on January 9, 2023, Makati City

SEC A.N. (individual) as general auditors 112595-SEC, Category A; valid to audit 2020 to 2024
financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024
financial statements

TIN 235-725-236

BIR A.N. 08-000745-133-2023, issued on May 9, 2023; effective until May 8, 2026

BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
July 13, 2023



Appendix A

Summary of Quarterly Progress Report for the period from April 3 to June 30, 2023


Distributing Entity	Project Name	Amount (in Php)
ALI Eton Property Development Corporation Ayala Land, Inc.	Metro Manila Property	820,000,000
	Gardencourt Residences	298,235,766
	Arbor Lanes	134,967,060
	Andacillo	66,584,730
	One Vertis Plaza	332,145,298
	Orean Place T1	177,595,948
	Tryne Enterprise Plaza	145,629,309
	Park Cascades	104,452,369
Total		2,079,610,480

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY)S.S.

ACKNOWLEDGEMENT

JUL 13 2023 SUBSCRIBED AND SWORN to before me, a Notary Public, for and in behalf of the City of Makati this ___ day of July 2023, by RUTH F. BLASCO who presented to me her CPA License ID No. 112595 issued by the Professional Regulation Commission in the City of Manila and valid until October 8, 2023, that she is the same person who personally signed before me the foregoing document and acknowledged that she executed the same.

Doc. No. 508 ;
Page No. 103 ;
Book No. 10 ;
Series of 2023.


ATTY. JERICO D. VALENCIA
Appointment No. M-105
Notary Public for Makati City
Valid until 31 December 2023
29th Floor AIA Tower (formerly Philamlife Tower)
8767 Paseo de Roxas, Makati City 1226
Roll No. 69819
PTR No. 9574294; 1/12/2023; Makati City
IBP Lifetime No. 016813; 7/25/2017; Bataan