

SEC Number: CS200613870

File Number: \_\_\_\_\_

**AREIT, INC.**

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(Company's Full Name)

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

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(Company Address)

(632) 7908-3804

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(Telephone Number)

**September 30, 2020**

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(Quarter Ending)

**SEC Form 17-Q Quarterly Report**

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(Form Type)

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(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 **September 30, 2020**
2. Commission Identification Number **CS200613870**
3. BIR Tax Identification No. **006-346-689-000**
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 September 30, 2020**

<u>Title of each class</u>	<u>Number of shares issued and outstanding</u>
<b>Common shares</b>	<b>1,025,656,435</b>

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 []

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## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

#### AREIT, INC.

(Formerly One Dela Rosa Property Development, Inc.)

#### STATEMENTS OF FINANCIAL POSITION

	September 30, 2020 Unaudited	December 31, 2019 Audited
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 4)	P32,060,629	P122,180,606
Receivables (Note 5)	3,685,048,270	1,994,499,843
Other current assets (Note 6)	572,578,581	157,602,667
<b>Total Current Assets</b>	<b>4,289,687,480</b>	<b>2,274,283,116</b>
<b>Noncurrent Assets</b>		
Noncurrent portion of receivables (Note 5)	2,439,374,090	2,556,978,813
Investment properties	7,513,979,227	6,192,374,393
Right-of-use asset	836,871,499	–
Property and equipment	14,063	20,089
Other noncurrent assets (Note 6)	736,025,850	968,057,313
<b>Total Noncurrent Assets</b>	<b>11,526,264,729</b>	<b>9,717,430,608</b>
	<b>P15,815,952,209</b>	<b>P11,991,713,724</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts and other payables (Note 7)	P1,811,036,568	P274,477,842
Current portion of deposits and other liabilities (Note 9)	113,709,434	166,793,502
Income tax payable	54,444,350	71,241,649
Current portion of lease liability	31,257,975	–
Construction bonds (Note 8)	–	11,105,498
<b>Total Current Liabilities</b>	<b>2,010,448,327</b>	<b>523,618,491</b>
<b>Noncurrent Liabilities</b>		
Deposits and other liabilities - net of current portion (Note 9)	642,098,502	600,134,138
Lease liability - net of current portion	859,152,371	–
Deferred tax liabilities - net	–	67,232,321
<b>Total Noncurrent Liabilities</b>	<b>1,501,250,873</b>	<b>667,366,459</b>
<b>Total Liabilities</b>	<b>3,511,699,200</b>	<b>1,190,984,950</b>
<b>Equity (Note 10)</b>		
Paid-up capital	10,929,864,050	10,451,224,050
Additional paid-in capital	785,811,403	–
Treasury shares	(673,299,700)	(673,299,700)
Retained earnings	1,261,877,256	1,022,804,424
<b>Total Equity</b>	<b>12,304,253,009</b>	<b>10,800,728,774</b>
	<b>P15,815,952,209</b>	<b>P11,991,713,724</b>

**AREIT, INC.****(Formerly One Dela Rosa Property Development, Inc.)****INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

	<b>2020 Unaudited</b>		<b>2019 Audited</b>	
	<b>July 1 to September 30</b>	<b>January 1 to September 30</b>	<b>July 1 to September 30</b>	<b>January 1 to September 30</b>
<b>REVENUE</b>				
Rental income	371,166,012	₱1,077,368,391	328,513,054	₱984,826,652
Dues	57,010,801	183,163,772	50,421,696	155,081,048
Interest income from finance lease receivables	37,909,559	112,904,558	20,645,019	20,645,019
	<b>466,086,372</b>	<b>1,373,436,721</b>	<b>399,579,769</b>	<b>1,160,552,719</b>
<b>COSTS AND EXPENSES</b>				
Direct operating expenses	146,368,092	399,018,930	110,137,257	329,125,823
General and administrative expenses	12,715	8,344,164	11,193,276	13,542,693
	<b>146,380,807</b>	<b>407,363,094</b>	<b>121,330,533</b>	<b>342,668,516</b>
<b>OTHER INCOME (CHARGES) - Net</b>				
Gain under finance lease	-	-	397,139,330	397,139,330
Interest income	28,409,534	67,083,449	15,221,829	43,750,830
Interest expense	(23,761,815)	(46,888,845)	(1,470,954)	(8,509,956)
Other income	(35,517,318)	(35,502,809)	9,086	137,109
	<b>(30,869,599)</b>	<b>(15,308,205)</b>	<b>410,899,291</b>	<b>432,517,313</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>288,835,966</b>	<b>950,765,422</b>	<b>689,148,527</b>	<b>1,250,401,516</b>
<b>PROVISION FOR INCOME TAX</b>	<b>(15,525,804)</b>	<b>106,555,294</b>	<b>129,509,796</b>	<b>235,004,414</b>
<b>NET INCOME</b>	<b>304,361,770</b>	<b>844,210,128</b>	<b>559,638,731</b>	<b>1,015,397,102</b>
<b>OTHER COMPREHENSIVE INCOME</b>		-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱304,361,770</b>	<b>₱844,210,128</b>	<b>₱559,638,731</b>	<b>₱1,015,397,102</b>
<b>Basic/Diluted Earnings Per Share</b>	<b>₱0.30</b>	<b>₱0.82</b>	<b>₱0.57</b>	<b>₱1.04</b>

**AREIT, INC.**  
**(Formerly One Dela Rosa Property Development, Inc.)**

**INTERIM STATEMENTS OF CHANGES IN EQUITY**

	<b>Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
<b>PAID-UP CAPITAL (Note 10)</b>		
<b>Common Shares - P10 par value in 2020 and 2019</b>		
Balance at beginning and end of period	<b>P10,451,224,050</b>	P10,451,224,050
Issuance of new shares	<b>478,640,000</b>	-
Balance at the end of period	<b>10,929,864,050</b>	10,451,224,050
<b>PAID-IN CAPITAL</b>		
Common Shares	<b>785,811,403</b>	-
<b>TREASURY SHARES</b>		
Balance at beginning and end of period	<b>(673,299,700)</b>	(673,299,700)
<b>RETAINED EARNINGS (Note 10)</b>		
Balance at beginning of period	<b>1,022,804,424</b>	722,691,606
Cash dividends	<b>(605,137,296)</b>	(961,297,668)
Net income/Total comprehensive income	<b>844,210,128</b>	1,015,397,102
Balance at end of period	<b>1,261,877,256</b>	776,791,040
	<b>P12,304,253,009</b>	P10,554,715,390

**AREIT, INC.**  
**(Formerly One Dela Rosa Property Development, Inc.)**

**INTERIM STATEMENTS OF CASH FLOWS**

	<b>Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱950,765,422</b>	₱1,250,401,516
Adjustments for:		
Depreciation	<b>159,185,041</b>	142,591,518
Interest expense	<b>46,888,845</b>	8,509,956
Interest income from finance lease receivables	<b>(112,904,558)</b>	(397,139,330)
Interest income	<b>(67,083,449)</b>	(64,395,849)
Operating income before working capital changes	<b>976,851,301</b>	939,967,811
Changes in operating assets and liabilities:		
Decrease (Increase) in:		
Receivables	<b>84,660,855</b>	(226,686,967)
Other assets	<b>(43,744,451)</b>	(36,081,185)
Increase (decrease) in:		
Accounts and other payables	<b>237,358,726</b>	(78,912,965)
Deposits and other liabilities	<b>(20,748,212)</b>	25,323,785
Construction bonds	<b>(11,105,498)</b>	6,570,863
Cash generated from (used in) operations	<b>1,223,272,721</b>	630,181,342
Interest received	<b>67,083,449</b>	43,750,830
Income tax paid	<b>(190,584,916)</b>	(140,051,028)
Net cash flows provided by (used in) operating activities	<b>1,099,771,254</b>	533,881,144
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in due from related parties (Note 11)	<b>(1,544,700,000)</b>	369,000,000
Payments for additions to investment properties	<b>(304,505,338)</b>	(17,343,299)
Net cash flows provided by (used in) investing activities	<b>(1,849,205,338)</b>	351,656,701
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	<b>(605,137,296)</b>	(837,467,540)
Net proceeds from issuance of shares	<b>1,264,451,403</b>	-
Net cash flows provided by (used in) financing activities	<b>659,314,107</b>	(837,467,540)
<b>NET INCREASE IN CASH</b>	<b>(90,119,977)</b>	48,070,305
<b>CASH AT BEGINNING OF PERIOD</b>	<b>122,180,606</b>	26,129,103
<b>CASH AT END OF PERIOD (Note 4)</b>	<b>₱32,060,629</b>	₱74,199,408

**AREIT, INC.**  
**(Formerly One Dela Rosa Property Development, Inc.)**

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**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 with a corporate life of 50 years. 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.

The Company is publicly-listed company, 45.04%-owned by Ayala Land Inc. (ALI), 9.39%-owned by AyalaLand Offices, Inc. (ALOI), a wholly owned subsidiary of ALI and the rest by the public. ALI's parent is Ayala Corporation (AC). AC is 47.33%-owned by Mermac, Inc. and the rest by the public. Both 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 operational and administrative functions of the Company are handled by AREIT Fund Managers, Inc. and AREIT Property Managers, Inc.

On April 12, 2019, the SEC approved the change in the Company's name from One Dela Rosa Property Development, Inc. to AyalaLand REIT, Inc. Subsequently, on June 28, 2019, the SEC further approved the change in the Company's name from AyalaLand REIT, Inc. to AREIT, Inc.

**2. Basis of Financial Statement Preparation**

The accompanying unaudited financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited financial statements do not include all of the information and disclosures required in the December 31, 2019 annual audited financial statements.

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

The unaudited financial statements are presented in Philippine peso (Php), the Company's functional currency. All amounts are rounded to the nearest peso unit unless otherwise indicated.



On October 22, 2020, the Audit Committee approved and authorized the release of the accompanying unaudited financial statements of AREIT, Inc.

### 3. Summary of Significant Accounting Policies

#### Basis of Preparation

The interim financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (₱), which is also the Company's functional currency. All amounts are rounded to the nearest peso unit unless otherwise indicated.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2020. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 16, *Covid-19-related Rent Concessions*

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the Covid-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of Covid-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the Covid-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The amendments had no impact on the interim financial statements of the Company.

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim financial statements of the Company, but may impact future periods should the Company enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash

flows of the hedged item or the hedging instrument. These amendments had no significant impact on the interim financial statements of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the content of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim financial statements of, nor is there expected to be any future impact to the Company.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the International Accounting Standards Board in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the interim financial statements of the Company.

#### Standards and Interpretations Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company’s interim financial statements.

#### *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*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors’ interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4,

*Insurance Contracts.* This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

During its March 2020 Board Meeting, the International Accounting Standards Board (IASB) completed its planned re-deliberations on the Exposure Draft Amendments to PFRS 17, Insurance Contracts. The IASB agreed to defer the effective date of PFRS 17 to annual reporting periods beginning January 1, 2023.

#### 4. Cash

This account consists of:

	<b>September 30, 2020</b>	December 31, 2019
Cash on hand	<b>P22,500</b>	P22,500
Cash in banks	<b>32,038,129</b>	122,158,106
	<b>P32,060,629</b>	P122,180,606

Cash in banks earn interest at the respective bank deposit rates which ranges from 0.35% to 0.45% in 2020 and 2019. Interest income earned from cash in banks amounted to P0.26 million and P0.31 million in 2020 and 2019, respectively.

#### 5. Receivables

This account consists of:

	<b>September 30, 2020</b>	December 31, 2019
Due from related parties	<b>P3,404,269,545</b>	P1,803,889,622
Finance lease receivable	<b>2,245,327,496</b>	2,267,931,937
Trade receivables		
Accrued rent	<b>400,151,269</b>	369,059,057
Billed	<b>89,162,158</b>	117,888,650
Other receivables	<b>435,651</b>	374,307
	<b>6,139,346,119</b>	4,559,143,573
Less allowance for credit losses	<b>14,923,759</b>	7,664,917
	<b>6,124,422,360</b>	4,551,478,656
Less noncurrent portion	<b>2,439,374,090</b>	2,556,978,813
	<b>P3,685,048,270</b>	P1,994,499,843

Accrued rent pertains to receivables resulting from the straight-line method of recognizing rental income.

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

As of September 30, 2020, the (unaudited) aging of analysis of past due but not impaired trade receivables presented per class, follows:

	Neither Past Due nor Impaired	Past Due but not impaired					Total	Individually Impaired	Total
		<30 days	30-60 days	61-90 days	91-120 days	>120 days			
Due from related parties	₱3,402,387,182	₱53,087	₱65,074	₱63,259	₱245,650	₱1,455,293	₱1,882,363	₱-	₱3,404,269,545
Finance lease receivable	2,245,327,496	-	-	-	-	-	-	-	2,245,327,496
Trade receivables									
Accrued rent	400,151,269	-	-	-	-	-	-	-	400,151,269
Billed	18,054,693	10,869,773	1,836,108	4,123,333	5,992,160	33,362,332	56,183,706	14,923,759	89,162,158
Others	40,000	395,651	-	-	-	-	395,651	-	435,651
<b>Total</b>	<b>₱6,025,304,640</b>	<b>₱24,870,511</b>	<b>₱29,005,182</b>	<b>₱4,186,592</b>	<b>₱6,237,810</b>	<b>₱34,817,625</b>	<b>₱99,117,720</b>	<b>₱14,923,759</b>	<b>₱6,139,346,119</b>

#### Noncurrent portion of receivables

This account consists of:

	<b>September 30, 2020</b>	December 31, 2019
Finance lease receivable	<b>₱2,095,939,824</b>	₱2,215,249,105
Trade receivables	<b>343,434,265</b>	341,729,708
	<b>₱2,439,374,089</b>	₱2,556,978,813

The movements in allowance for credit losses follows:

	<b>September 30, 2020</b>	December 31, 2019
Balance at beginning of year	<b>₱7,664,917</b>	₱7,664,917
Additions	<b>7,258,842</b>	-
Balance at end of year	<b>₱14,923,759</b>	₱7,664,917

## 6. Other Assets

#### Other Current Assets

This account consists of:

	<b>September 30, 2020</b>	December 31, 2019
Input VAT	<b>₱438,676,338</b>	₱91,577,595
Prepaid expenses	<b>49,498,661</b>	-
Creditable withholding taxes	<b>84,403,582</b>	66,025,072
	<b>₱572,578,581</b>	₱157,602,667

Input VAT is applied against output VAT within 12 months. This includes input VAT claimed for refund amounting to ₱6.39 million which is awaiting approval from the BIR.

Prepaid taxes pertain to payment of real property taxes which is amortized over a year.

Creditable withholding taxes represent the amount withheld from the Company. These are recognized upon collection of the related lease receivable and are utilized as tax credits against income tax due.

#### Other Noncurrent Assets

This account consists of:

	<b>September 30, 2020</b>	December 31, 2019
Deferred input VAT	<b>₱637,269,545</b>	₱622,744,439
Input VAT	<b>98,756,305</b>	345,312,874
	<b>₱736,025,850</b>	₱968,057,313

Deferred input VAT pertains to input tax on the Company's purchases of capital goods exceeding ₱1.00 million per transaction which is available for offset against the Company's future output VAT.

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

## 7. Accounts and Other Payables

This account consists of:

	<b>September 30, 2020</b>	December 31, 2019
Due to related parties (Note 11)	<b>₱1,687,451,472</b>	₱179,751,118
Accrued expenses		
Rent	-	3,298,736
Repairs and maintenance	-	6,079,597
Light and water	-	12,144,253
Others	<b>19,168,353</b>	29,429,565
Taxes payable	<b>44,292,491</b>	13,233,473
Accounts payable	<b>59,339,052</b>	29,755,900
Retention payable	<b>785,200</b>	785,200
	<b>₱1,811,036,568</b>	₱274,477,842

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

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

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.

Retention payable pertains to the portion of contractor's progress billings withheld by the Company which will be 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.

## 8. 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 full completion of the construction, renovation or improvements and inspection by the Company.

The carrying value of the Company's construction bonds amounted to Nil and ₱11.11 million as of September 30, 2020 and December 31, 2019, respectively.

## 9. Deposits and Other Liabilities

This account consists of:

	<b>September 30, 2020</b>	December 31, 2019
Advance rentals	<b>₱345,571,289</b>	₱386,014,343
Security deposits	<b>348,864,690</b>	314,447,416
Deferred credits	<b>61,371,957</b>	66,465,881
	<b>755,807,936</b>	766,927,640
Less current portion	<b>113,709,434</b>	166,793,502
	<b>₱642,098,502</b>	₱600,134,138

The current portion of these accounts follows:

	<b>September 30, 2020</b>	December 31, 2019
Security deposits	<b>₱82,758,766</b>	₱84,729,181
Advance rentals	<b>30,874,857</b>	81,793,332
Deferred credits	<b>75,811</b>	270,989
	<b>₱113,709,434</b>	₱166,793,502

*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 the 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.

## 10. Equity

Capital stock

The details of the Company's capital stock as of September 30, 2020 and December 31, 2019 follow:

	<b>September 30, 2020</b>	December 31, 2019
Authorized	<b>1,174,000,000</b>	1,174,000,000
Par value per share	<b>₱10.00</b>	₱10.00
Issued and outstanding shares		
Balance at the beginning of year	<b>977,792,435</b>	977,792,435
Issuance of new shares	<b>47,864,000</b>	-
Balance at the end of period	<b>1,025,656,435</b>	977,792,435

Additional Paid- in Capital (APIC)

On August 13, 2020, the Company completed its Initial Public Offering (IPO). The Company shares was sold at offer price of ₱27.00 per share.

From the issuance of new shares, the Company recognized APIC of ₱785.81 million, net of cost related to issuance of new shares.

Declaration and Payment of Cash Dividends

On August 17, 2020, the Board of Directors during its meeting approved the declaration of cash dividends for the first and second quarter of 2020, of ₱0.28 and ₱0.31 per outstanding common share, respectively, to stockholders on record date as of September 2, 2020. The cash dividend was paid on September 15, 2020 to stockholders.

## Distributable Income

The computation of the distributable income of the Company as of September 30, 2020 is shown below.

	<b>September 30, 2020</b>
Net income	844,210,128
Distribution adjustments	(3,293,073)
<b>DISTRIBUTABLE INCOME</b>	<b><u>₱840,917,055</u></b>

Distribution adjustments pertains to the recognized deferred tax asset that reduced the amount of income tax expense and increased the net income during the year.

## 11. Related Party Transactions

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

### Terms and Conditions of Transactions with Related Parties

The Company, in its regular conduct of business, 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. There have been no guarantees provided or received for any related party receivables or payables. The following tables provide the total balances and amount of transactions that have been entered into with related parties for the relevant financial year:

Category	Outstanding Balance	September 30, 2020	
		Terms	Conditions
Finance lease receivable			
Makati North Hotel Ventures, Inc.	₱2,245,327,496	Noninterest-bearing; Payable quarterly	Unsecured; No impairment
Due from related parties			
Parent Company			
Ayala Land, Inc.	481,356,063	Interest-bearing and noninterest-bearing; Due and demandable	Unsecured; No impairment
Affiliates*			
Central Block Developers, Inc.	603,785,656	Interest-bearing; On demand	Unsecured; No impairment
Bay City Commercial Ventures Corp	467,161,497	Interest-bearing; On demand	Unsecured; No impairment
Cebu Holdings, Inc.	389,032,288	Interest-bearing; On demand	Unsecured; No impairment
Arvo Commercial Corporation	204,235,413	Interest-bearing; On demand	Unsecured; No impairment
Airswift Transport, Inc.	194,437,919	Interest-bearing; On demand	Unsecured; No impairment
Accendo Commercial Corp	180,368,125	Interest-bearing; On demand	Unsecured; No impairment
Crans Montana Property Holdings Corp.	116,599,843	Interest-bearing; On demand	Unsecured; No impairment
Ten Knots Philippines, Inc.	113,771,870	Interest-bearing; On demand	Unsecured; No impairment
Arca South Commercial Ventures Corp.	111,066,773	Interest-bearing; On demand	Unsecured; No impairment
Capitol Central Commercial Ventures Corp.	88,090,254	Interest-bearing; On demand	Unsecured; No impairment
ALI Makati Hotel Property, Inc.	77,056,470	Interest-bearing; On demand	Unsecured; No impairment
Soltea Commercial Corp.	59,820,133	Interest-bearing; On demand	Unsecured; No impairment
Ayalaland Logistics Holdings Corp.	55,233,576	Interest-bearing; On demand	Unsecured; No impairment
Laguna Technopark Inc.	51,233,572	Interest-bearing;	Unsecured;



ALI Triangle Hotel Ventures, Inc.	42,495,349	On demand Interest-bearing; On demand	No impairment Unsecured; No impairment
Cagayan De Oro Gateway Corporation	26,270,109	Interest-bearing; On demand	Unsecured; No impairment
Sunnyfield E-Office Corp.	25,790,384	Interest-bearing; On demand	Unsecured; No impairment
Cavite Commercial Towncenter Inc.	25,414,590	Interest-bearing; On demand	Unsecured; No impairment
HLC Development Corporation	24,232,309	Interest-bearing; On demand	Unsecured; No impairment
Leisure and Allied Industries Phils. Inc.	20,056,701	Interest-bearing; On demand	Unsecured; No impairment
Bank of the Philippine Islands	16,955,076	Noninterest-bearing; On demand	Unsecured; No impairment
First Gateway Real Estate Corp.	8,432,222	Noninterest-bearing; On demand	Unsecured; No impairment
Sicogon Town Hotel, Inc.	8,036,639	Noninterest-bearing; On demand	Unsecured; No impairment
Circuit Makati Hotel Ventures, Inc.	4,319,693	Noninterest-bearing; On demand	Unsecured; No impairment
Nuevocentro, Inc.	2,320,611	Noninterest-bearing; On demand	Unsecured; No impairment
Amaia Land Corp.	2,030,502	Interest-bearing; On demand	Unsecured; No impairment
Others**	4,665,908	Interest and Noninterest- bearing;	Unsecured;
	<b>₱3,404,269,545</b>		

\*Entities under common control, \*\*Entities with outstanding balances below ₱2.00 million

September 30, 2020				
Category	Outstanding Balance	Terms	Conditions	
<b>Due to related parties</b>				
Parent Company				
Ayala Land Inc.		Noninterest-bearing, due and demandable	Unsecured	
	<b>₱321,234,485</b>			
Affiliates*				
ALO Prime Realty Corporation	1,299,200,000	Noninterest-bearing; On demand	Unsecured	
HLC Development Corporation	29,013,970	Noninterest-bearing; On demand	Unsecured	
AREIT Fund Manager, Inc.	12,247,148	Noninterest-bearing; On demand	Unsecured	
AREIT Property Managers, Inc.	9,137,963	Noninterest-bearing; On demand	Unsecured	
Ayala Property Management, Corp.	4,951,843	Noninterest-bearing; On demand	Unsecured	
Direct Power Services, Inc.	2,878,857	Noninterest-bearing; On demand	Unsecured	
AyalaLand Offices, Inc.	4,231,710	Noninterest-bearing; On demand	Unsecured	
Makati Development Corp.	2,019,459	Noninterest-bearing; On demand	Unsecured	
Others**	2,536,037	Noninterest-bearing; On demand	Unsecured	
	<b>₱1,687,451,472</b>			

\*Entities under common control, \*\*Entities below ₱2.00 million

December 31, 2019				
Category	Outstanding Balance	Terms	Conditions	
<b>Finance lease receivable</b>				
Makati North Hotel Ventures, Inc.	₱2,267,931,937	Noninterest-bearing; Payable quarterly	Unsecured; No impairment	
<b>Due from related parties</b>				
Parent Company				
Ayala Land, Inc.	514,752,540	Interest-bearing and noninterest-bearing; Due and demandable	Unsecured; No impairment	
Affiliates*				
Bay City Commercial Ventures Corp.	386,891,522	Interest-bearing; On demand	Unsecured; No impairment	
Amaia Land Corp.	170,643,021	Interest-bearing; On demand	Unsecured; No impairment	
HLC Development Corporation	119,644,900	Interest-bearing; On demand	Unsecured; No impairment	
Central Block Developers, Inc.	115,609,899	Interest-bearing; On demand	Unsecured; No impairment	
Cavite Commercial Towncenter Inc.	100,217,708	Interest-bearing; On demand	Unsecured; No impairment	

Arvo Commercial Corporation	80,539,895	Interest-bearing; On demand	Unsecured; No impairment
Crans Montana Property Holdings Corporation	48,594,653	Interest-bearing; On demand	Unsecured; No impairment
Cebu Holdings, Inc.	42,018,238	Interest-bearing; On demand	Unsecured; No impairment
ALI Triangle Hotel Ventures, Inc.	41,189,478	Interest-bearing; On demand	Unsecured; No impairment
Bank of the Philippine Islands	38,190,369	Noninterest-bearing; On demand	Unsecured; No impairment
Soltea Commercial Corp.	37,788,693	Interest-bearing; On demand	Unsecured; No impairment
Capitol Central Commercial Ventures Corp.	31,340,560	Interest-bearing; On demand	Unsecured; No impairment
Sunnyfield E-Office Corp.	25,371,674	Interest-bearing; On demand	Unsecured; No impairment
Westview Commercial Ventures Corp.	21,722,132	Interest-bearing; On demand	Unsecured; No impairment
Airswift Transport, Inc.	13,582,349	Interest-bearing; On demand	Unsecured; No impairment
First Gateway Real Estate Corp.	7,491,933	Noninterest-bearing; On demand	Unsecured; No impairment
Ayalaland Logistics Holdings Corp	5,688,274	Interest-bearing; On demand	Unsecured; No impairment
Others**	2,611,784	Interest-bearing and noninterest-bearing; On demand	Unsecured; No impairment
	<b>2,611,784</b>		
	<b>P1,803,889,622</b>		

\*Entities under common control, \*\*Entities below P2.00 million

December 31, 2019			
Category	Outstanding Balance	Terms	Conditions
Due to related parties			
Parent Company			
Ayala Land Inc.	P153,545,941	Noninterest-bearing, due and demandable	Unsecured
Affiliates*			
Direct Power Services, Inc.	10,334,751	Noninterest-bearing; On demand	Unsecured
HLC Development Corporation	5,648,541	Noninterest-bearing; On demand	Unsecured
Ayala Property Management, Corp.	4,218,940	Noninterest-bearing; On demand	Unsecured
AyalaLand Offices, Inc.	2,922,779	Noninterest-bearing; On demand	Unsecured
Makati Development Corp.	2,019,459	Noninterest-bearing; On demand	Unsecured
Others**	1,060,707	Noninterest-bearing; On demand	Unsecured
	<b>1,060,707</b>		
	<b>P179,751,118</b>		

## 12. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash, receivables, accounts and other payables and security deposits which arise directly from the conduct of its operations. The main risks arising from the use of financial instruments are liquidity risk and credit risk.

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.

ALI's finance and treasury functions operate as a centralized service for managing financial risks and

activities as well as providing optimum investment yield and cost-efficient funding for the Company.

#### Liquidity risk

The Company actively manages its liquidity position so as to ensure that all operating, investing and financing needs are met. The Company's policy is to maintain a level of cash deemed sufficient 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 in a timely manner and at reasonable cost.

#### Credit risk

Credit risk is the risk that a counterparty will 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. To manage credit risks, the Company maintains defined credit policies and monitors on a continuous basis its exposure to credit risks.

Credit risk arising from rental income from leased properties is primarily managed through a tenant selection process. In accordance with 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 default by the tenants. For existing tenants, the Company 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 financial capacity. Except for the trade receivables and finance lease receivable, the maximum exposure to credit risk of all financial assets is equal to their carrying amounts.

#### Fair Value Information

Except for the Company's security deposits, 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.

	September 30, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
Security deposits	<b>P348,864,690</b>	<b>P359,463,425</b>	P314,447,416	P335,432,923

### **13. Fair Value Hierarchy**

As of September 30, 2020, and December 31, 2019, the Company has no financial instrument measured at fair value. As of September 30, 2020, and December 31, 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

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

### **14. Notes to Interim Statements of Cash Flow**

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

#### Operating

- Receivable from ALI amounting to ₱75.09 million pertains to security deposits, advance rentals, and fixed charges collected from MECC tenants.
- Interest income from finance lease receivables amounting to ₱112.90 million for nine months ended September 30, 2020. On June 2020, the Company received ₱145.01 million from MNHVI, for the rental payments, a movement in “Receivables” account that is presented under operating activities.
- Movement in Accounts and other payables of ₱1,299.20 million pertains to the outstanding payable to ALO Prime Realty Corp. (APRC) as of September 30 2020 related to acquisition of Teleperformance Cebu.
- Interest expense arising from accretion of security deposit amounting to ₱9.63 million and 8.51 million for nine months ended September 30, 2020 and 2019.

#### Investing

- Movement in intercompany loans presented under investing activities amounting to ₱1,544.70 million and ₱369.00 million for the nine months ended September 30, 2020 and 2019 respectively, is a movement in “Receivables” account that is presented under operating activities.
- Recognition of right-of-use asset and lease liability amounting to ₱853.15 million each.

### 15. 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 three-building lease operation is its only income-generating activity, and such is the measure used by the Chief Operating Decision Maker in allocating resources.

### 16. Events After Financial Reporting Date

On October 22, 2020, The Board of Directors of AREIT, Inc., at its regular board meeting approved the following items:

- The acquisition of The 30th from its Sponsor, Ayala Land Inc. for a purchase price of P5.1 billion, vat-inclusive, as endorsed by the Related Party Transactions Review Committee.
- The raising of up to P6.4 billion, with a tenor of up to 10 years, through the issuance of retail bonds and/or corporate notes for listing on the PDEX, and/or bilateral term loans, and/or preferred shares for the purpose of financing asset acquisitions.
- The establishment of short-term credit facilities with banks amounting to P12.0 billion.

Likewise, the Board of Directors ratified and approved following amendments, as endorsed by the Corporate Governance and Nomination Committee:

- Article VI of the Articles of Incorporation and Section 2 of Article III of the By-Laws to increase the number of directors from seven (7) to eight (8); and
- Various sections of the By-Laws to align with the Revised Corporation Code and with recognized good corporate governance practices, and to digitalize certain governance processes.

The above amendments to the charters will be presented to the Company’s stockholders at their annual meeting in 2021 for their approval.

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

### **Review of 9M 2020 operations vs 9M 2019**

AREIT, Inc. (AREIT or "the Company") net income after tax decreased by 17% from ₱1,015.40 million in 2019 to ₱844.21 million in 2020. The decrease was primarily driven by the one-time gain from finance lease recognized in 2019 amounting to ₱397.14 million.

#### **Revenues**

Total revenues increased by 18% to ₱1,373.44 million. This was mainly driven by higher rental income and net dues.

*Rental Income* increased by 9% from ₱984.83 million in 2019 to ₱1,077.37 million in 2020. The increase was primarily attributable to the addition of McKinley Exchange in the Company's property portfolio in February 2020 and an increase in occupancy at Ayala North Exchange.

*Dues* increased by 18% from ₱155.08 million in 2019 to ₱183.16 million in 2020. The increase was due to lower utilities consumption and lower manpower deployment during quarantine period.

*Interest income from finance lease receivables* increased significantly from ₱20.65 million in 2019 to ₱112.90 million in 2020. This is in connection with the long-term lease of Makati North Hotel Ventures, Inc. with the Company, which commenced in September 2020.

#### **Cost and Expenses**

*Direct operating expenses* increased by 21% from ₱329.13 million in 2019 to ₱399.02 million in 2020. The increase was primarily attributable to an increase in taxes and licenses of ₱27.10 million, an increase in management fee of ₱20.02 million, an increase in depreciation of ₱16.62 million and an increase in land lease of ₱12.00 million. These increases were related to the operations of McKinley Exchange and increased in occupancy rate of Ayala North Exchange.

*General and administrative expenses* decreased by 38%, mainly due to lower professional fees.

#### **Other Income (charges)**

*Interest Income* increased by 53% from ₱43.75 million in 2019 to ₱67.08 million in 2020. The increase was primarily attributable to the increase in interest income from intercompany loans from ₱43.48 million in 2019 to ₱63.22 million in 2020.

*Interest expense* significantly increased by 451% from ₱8.51 million in 2019 to ₱46.89 million in 2020. The increase was primarily attributable to the recognition of interest expense on lease liabilities amounting to ₱37.26 million in 2020.

#### **Provision for Income Tax**

*Provision for income tax* decreased by 55% from ₱235.00 million in 2019 to ₱106.56 million in 2020. This decrease was mainly due to derecognition of deferred taxes.

#### **Capital Expenditure**

AREIT acquired Teleperformance Cebu on September 15, 2020 for a total amount of ₱1,450.00 million.

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

**Balance Sheet items- September 2020 versus December 2019**

**Cash** lower by 74% primarily due to cash outflow from investing activities (intercompany loans and additional investment properties).

**Receivables** increased by 85% mainly due to additional intercompany loans and higher trade receivables due to billing of 4Q charges.

**Other current assets** increased by 263% due to higher input VAT, creditable withholding taxes and prepaid expenses

**Investment properties** up by 21% due to the acquisition of Teleperformance Cebu building.

**Other noncurrent assets** lower by 24% due to reclassification of input VAT to current.

**Accounts and other payables** increased by 560% due to timing of final payment to ALO Prime Realty Corporation for the acquisition of Teleperformance Cebu.

**Current portion of deposits and other liabilities** lower by 32% due to application of advance rent to tenant's current charges.

**Construction bonds** Nil in 2020 due to refund to tenants.

**Noncurrent liabilities** increased by 125% due to PFRS 16 recognition of lease liability

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**Financial Condition**

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

	<b>September 30, 2020</b>
	<b>Unaudited</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash (Note 4)	<b>₱32,060,629</b>
Receivables (Note 5)	<b>3,685,048,270</b>
Other current assets (Note 6)	<b>572,578,581</b>
<b>Total Current Assets</b>	<b>4,289,687,480</b>
<b>Noncurrent Assets</b>	
Noncurrent portion of receivables (Note 5)	<b>2,439,374,090</b>
Investment properties	<b>7,513,979,227</b>
Right-of-use asset	<b>836,871,499</b>
Property and equipment	<b>14,063</b>
Other noncurrent assets (Note 6)	<b>736,025,850</b>
<b>Total Noncurrent Assets</b>	<b>11,526,264,729</b>
	<b>₱15,815,952,209</b>

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**LIABILITIES AND EQUITY****Current Liabilities**

Accounts and other payables (Note 7)	<b>₱1,811,036,568</b>
Current portion of deposits and other liabilities (Note 9)	<b>113,709,434</b>
Income tax payable	<b>54,444,350</b>
Current portion of lease liability	<b>31,257,975</b>
Construction bonds (Note 8)	<b>—</b>
<b>Total Current Liabilities</b>	<b>2,010,448,327</b>

**Noncurrent Liabilities**

Deposits and other liabilities - net of current portion (Note 9)	<b>642,098,502</b>
Lease liability - net of current portion	<b>859,152,371</b>
Deferred tax liabilities - net	<b>—</b>
<b>Total Noncurrent Liabilities</b>	<b>1,501,250,873</b>
<b>Total Liabilities</b>	<b>3,511,699,200</b>

**Equity (Note 10)**

Paid-up capital	<b>10,929,864,050</b>
Additional paid-in capital	<b>785,811,403</b>
Treasury shares	<b>(673,299,700)</b>
Retained earnings	<b>1,261,877,256</b>
<b>Total Equity</b>	<b>12,304,253,009</b>
	<b>₱15,815,952,209</b>

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## PART II- OTHER INFORMATION

### Item 3. Developments as of September 30, 2020

- |  |  |                           |
|--|--|---------------------------|
| <b>A. New project or investments in another line of business or corporation</b>  | None   |                           |
| <b>B. Composition of Board of Directors (as of Sept 30, 2020)</b>  | Jose Emmanuel H. Jalandoni   | Chairman                  |
|  | Carol T. Mills   | President & CEO           |
|  | Augusto D. Bengzon   | Treasurer                 |
|  | Bernard Vincent O. Dy  | Non-Executive Director    |
|  | Omar T. Cruz   | Lead Independent Director |
|  | Enrico S. Cruz   | Independent Director      |
|  | Simeon S. Cua  | Independent Director      |
| <b>C. Performance of the corporation or result/progress of operations</b>  | Please see unaudited financial statements and management's discussion on results of operations.  |                           |
| <b>D. Declaration of dividends</b>   | ₱0.28 and ₱0.31 per outstanding common share for a total of ₱0.59 cash dividend per outstanding common share<br>Declaration date: August 17,2020<br>Record date: September 2, 2020<br>Payment date: September 15, 2020 |                           |
| <b>E. Contracts of merger, consolidation or joint venture; contract of management, licensing, marketing, distributorship, technical assistance or similar agreements</b> | None   |                           |
| <b>F. Offering of rights, granting of Stock Options and corresponding plans therefore</b>  | None   |                           |
| <b>G. Acquisition of additional mining claims or other capital assets or patents, formula, real estate</b>   | None   |                           |
| <b>H. Other information, material events or happenings that may have affected or may affect market price of security</b>   | None   |                           |
| <b>I. Transferring of assets, except in normal course of business</b>  | None   |                           |



#### Item 4. Other Notes to 9M 2020 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 21: 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** On August 13, 2020, the Company completed its initial public offering of up to 456,883,000 common shares, consisting of 47,864,000 common shares issued on a primary basis, and 409,019,000 existing common shares offered by the Sponsor, Ayala Land, Inc, pursuant to a secondary offer, with an over-allotment option of up to 45,688,700 shares, at a price of ₱27.00 per share.
- On October 22, 2020, The Board of Directors of AREIT, Inc., at its regular board meeting approved the raising of up to P6.4 billion, with a tenor of up to 10 years, through the issuance of retail bonds and/or corporate notes for listing on the PDEX, and/or bilateral term loans, and/or preferred shares for the purpose of financing asset acquisitions and the establishment of short-term credit facilities with banks amounting to P12.0 billion.
- M. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period** On October 22, 2020, The Board of Directors of AREIT, Inc., at its regular board meeting approved the acquisition of The 30<sup>th</sup> from its Sponsor, Ayala Land Inc. for a purchase price of P5.1 billion, vat-inclusive, as endorsed by the Related Party Transactions Review Committee.
- 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** On July 10, 2020, the Securities and Exchange Commission (SEC) issued its pre-effective approval of AREIT Inc.’s (AREIT) registration for a Real Estate Investment Trust (REIT) Initial Public Offering (IPO) with an offer of up to P15 billion. The base offer is up to 456,883,000 common shares at an offer price of up to P30.05 per share, with a stabilization option of up to 45,688,700 common shares (collectively, the “Offer

Shares”). In total, this represents up to 49% of AREIT’s capital stock.

On July 15, 2020, the Philippine Stock Exchange (PSE) approved AREIT, Inc.’s P15-billion initial public offering, enabling the company to issue and list common shares through a REIT Initial Public Offering (“IPO”) of up to P15 billion, following the recent pre-effective approval issued by the Securities and Exchange Commission (“SEC”) on 10 July 2020.

On July 22, 2020, AREIT Inc. (“AREIT”) set the final offer price for its initial public offering. The Php12,335,841,000 billion IPO launched the first real estate investment trust (REIT) company in the country following the issuance of the REIT Act in 2009. AREIT intends to use the net proceeds from the primary offer to fund the intended acquisition of Teleperformance Cebu from ALO Prime Realty Corporation, a wholly-owned subsidiary of AREIT’s sponsor, Ayala Land Inc. (“ALI”), or an alternative property from ALI, or any of its subsidiaries or affiliates, that financially and strategically meets or exceeds Teleperformance Cebu and AREIT’s financial and strategic investment criteria.

The net proceeds from the secondary offer shall be reinvested by ALI, as sponsor to AREIT, in real estate projects located in the Philippines within a period of one (1) year from receipt thereof, consistent with applicable rules and regulations.

On August 3, 2020, AREIT, Inc. (“AREIT”), the first Philippine REIT, officially completed the offer period for its initial public offering of up to 456,883,000 common shares (the “Firm Offer”), consisting of 47,864,000 common shares to be issued by AREIT on a primary basis, and 409,019,000 existing common shares offered by the Sponsor, Ayala Land, Inc (“ALI”), pursuant to a secondary offer, with an over-allotment option of up to 45,688,700 shares, at a price of PhP 27.00 per share.

Of the Firm Offer, 319,818,100 shares (or approximately 70%) were offered to qualified institutional buyers (“QIBs”) (i) based in the Philippines, and (ii) located outside the United States in accordance with Regulation S. Meanwhile, 137,064,900 shares (or approximately 30% of the Offer) were offered to all REIT-eligible trading participants (“TPs”) of the PSE and to local small investors (“LSIs”). The total offer made available to TPs and LSIs were 91,376,600 and 45,688,300 shares, or approximately 20% and 10% of the Firm Offer, respectively.

On August 13, 2020, AREIT was listed on the Philippines Stock Exchange.

On September 16, 2020, AREIT, the Company signed a Deed of Sale with ALO Prime Realty Corp., a wholly-owned subsidiary of Ayala Land, Inc., to acquire Teleperformance Cebu at a purchase price of P1,464.51 million, of which P1,160 million remained payable as of September 30, 2020. The Company funded the acquisition using proceeds from the sale of primary shares.

- |   |   |
|---|---|
| <b>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</b>       | None  |
| <b>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</b> | None  |
| <b>S. Material commitments for capital expenditures, general purpose and expected sources of funds</b>  | On September 16, 2020, AREIT, the Company signed a Deed of Sale with ALO Prime Realty Corp., a wholly-owned subsidiary of Ayala Land, Inc., to acquire Teleperformance Cebu at a purchase price of P1,464.51 million, of which P1,160 million remained payable as of September 30, 2020. The Company funded the acquisition using proceeds from the sale of primary shares. |
| <b>T. Known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/ income from continuing operations</b>   | AREIT's performance will be dependent on the state of the Philippine Office Sector.   |
| <b>U. Significant elements of income or loss that did not arise from continuing operations</b>  | None  |
| <b>V. Causes for any material change/s from period to period, in one, or more line items of the financial statements</b>  | Please see Notes to Financial Statements (Item 2: Management's Discussion on Results of Operations and Analysis).   |
| <b>W. Seasonal aspects that had material effect on the financial condition or results of operations</b>   | None  |
| <b>X. Disclosures not made under SEC Form 17-C</b>  | None.   |

## Item 5. Performance Indicators

The table below shows AREIT's performance indicators:

	End-September 2020	End-December 2019
Current ratio <sup>1</sup>	2.13:1	4.34:1
Debt-to-equity ratio <sup>2</sup>	—	—
Net debt-to-equity ratio <sup>3</sup>	—	—
Profitability Ratios:		
Return on assets <sup>4</sup>	7%	8%
Return on equity <sup>5</sup>	10%	10%
Asset to Equity ratio <sup>6</sup>	1.29:1	1.11:1

Notes:

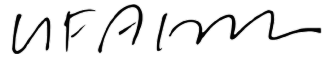
- (1) Current ratio is derived by dividing current assets by current liabilities at the end of a given period. Current ratio measures our ability to pay short-term obligations.
- (2) Debt to equity ratio is derived by dividing our total loans and borrowings by total equity. Debt to equity ratio measures the degree of our financial leverage.
- (3) 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) Asset to equity ratio is derived by dividing total assets by shareholders' equity. Asset to equity ratio measures our financial leverage and long-term solvency.

**SIGNATURE**

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

Issuer: **AREIT, INC.**

By:



**ELAINE MARIE F. ALZONA**

Chief Finance Officer and Chief Compliance Officer

Date: October 30, 2020