REFINE TASTE

a future for all

EMPERADOR INC.

2020 ANNUAL REPORT

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ABOUT THE COVER

Refine Taste represents the life that Emperador envisions as its products are enjoyed globally through celebrations. Fresh and modern, young and alive, classic and iconic — a dynamic array of colors that bring together communities, keeping us stronger together. In the tumultuous year that was 2020, we found resilience within as we transformed tribulations into opportunities.

Looking forward, we see a promising horizon filled with growth and expansion. A future for all that we can create together and we are happy to share this toast to success with you!

Financial Highlights

P52.8 BILLION REVENUE

+2.5% REVENUE GROWTH

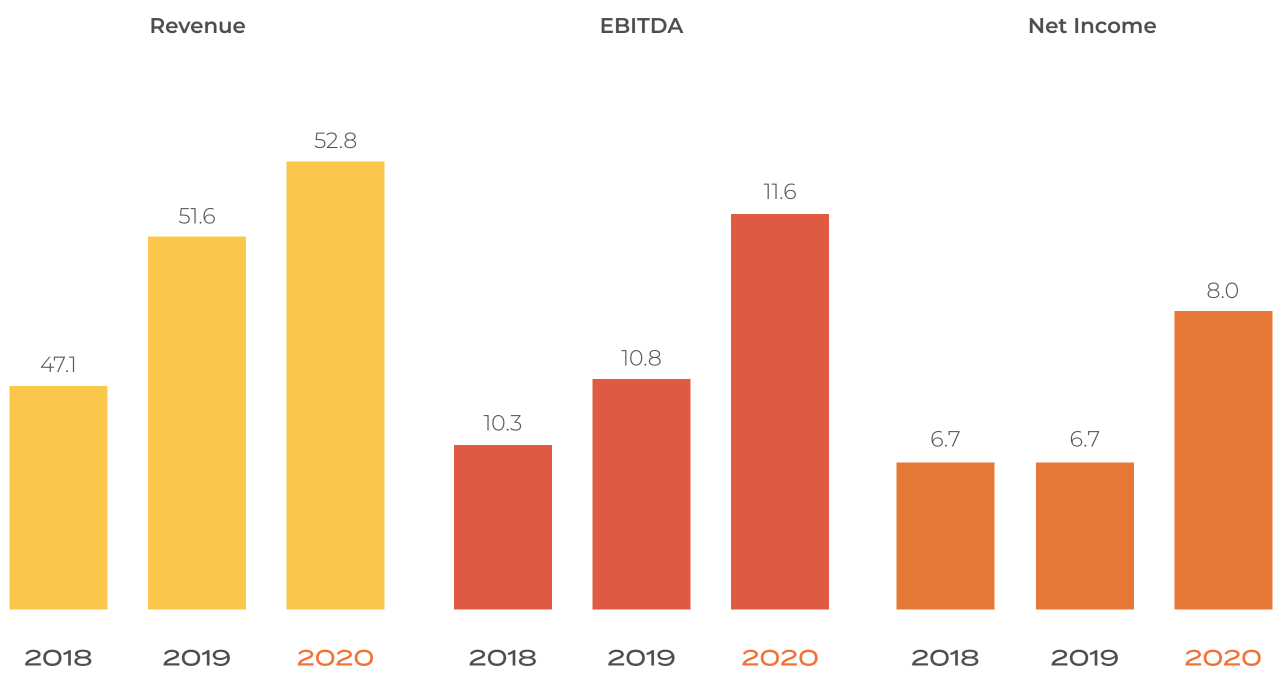
P8.0 BILLION NET INCOME

70% BRANDY 30% WHISKY REVENUE BREAKDOWN

+18% NET INCOME GROWTH

Revenue | 2% increase from PHP51.6 billion in 2019 to PHP52.8 billion in 2020
EBITDA | 4% increase from PHP11.1 billion (21.5%) in 2019 to PHP11.6 billion (22.0%) in 2020
Gross Profit | -5% decrease from PHP16.9 billion (33.7%) in 2019 to PHP16.0 billion (31.1%) in 2020
Net Income | 18% increase from PHP6.7 billion (13.0%) in 2019 to PHP8.0 billion (15.1%) in 2020

3-YEAR TREND



All items are in billion pesos. Net Income is attributable to parent only.

Chairman's Message

Indeed, Emperador has been resilient, bouncing back from every challenge thrown its way in an otherwise difficult year.

– ANDREW TAN

Dear stakeholders,

2020 was a very challenging year. The global pandemic has caused massive disruption in our lives, business, and the economy. From the very beginning, we were clear on our corporate and social responsibilities. We have to do our part to keep people safe and keep the business resilient.

As part of the community, we were among the first to take an active role in responding to protect the people. Your company donated one million liters of disinfectant alcohol, donated personal protective equipment (PPEs) to the front liners, and supported feeding programs, among other activities, as part of a group-wide response led by our parent company Alliance Global Group, Inc. (AGI).

The past year required tremendous efforts and sacrifices from everyone in the Emperador organization across the world. We were able to fulfill our social obligations and, at the same time, successfully navigate the business through the challenges. Indeed, Emperador has been resilient, bouncing back from every challenge thrown its way in an otherwise difficult year.

The company has responded well to the crisis. Thanks to our global presence in 100 countries, the company is in a unique position to overcome the tribulations of 2020. The company achieved an all-time high net profit performance of PHP8 billion, an 18% increase year-on-year from both the whisky and brandy segments, with revenues posting a 2% growth amid the challenges, which translates to PHP52.8 billion.

We attribute this performance to the strength and success of our Emperador brands, with Scotch whisky powerhouse Whyte and Mackay experiencing robust growth across its malt and blended products. In 2020, three of our single malt whiskies joined the list of Top 25 Global Single Malt brands. Our whisky brands are growing in Europe, the United Kingdom, United States, Canada, and Asia.

Fundador brandy continues to enjoy success in their key markets, adapting to the consumption trends of 2020. Fundador continues to build a stronger brand presence in the Asian, North American, Latin American, and Spanish markets.

In the Philippines, our local brands, led by Emperador brandy, demonstrates the strength of its brand loyalty and tenacity, finishing the year with stunning results despite the challenges brought upon by the liquor tax hike, lockdowns and travel restrictions, closing of commercial establishments, and liquor bans in many parts of the Philippines.

Indeed, 2020 was an extraordinary year. I would like to express my deepest gratitude to our stakeholders, employees, and partners for their continued trust and support. At Emperador, we have done our duty and thrived amid the uncertainty and rapidly shifting landscape of 2020. With will and imagination, we have accomplished much. The company has emerged stronger and better.

A whole new world awaits on the horizon. We will strive to keep the momentum of growth forging forward. Our focus will be on global expansion. The future will be brighter than today.

DR. ANDREW L. TAN
Chairman

About Emperador

Emperador, Inc. (EMP), is a publicly listed company at the Philippine Stock Exchange with a market value of PHP163 billion as end of 2020. It is owned by Alliance Global Group, Inc. (AGI), an international conglomerate operating in property development, liquor, gaming, and fast food industries. EMP operates an integrated business of manufacturing, bottling, and distributing distilled spirits and other beverages. For over 40 years, EMP has successfully built its identity in the alcoholic beverages business with steady growth, production of high-quality liquor, and a strong diverse portfolio.

Emperador has established its identity in the Philippine alcoholic beverages business as producer of high-quality liquor and innovative products through Emperador Distillers, Inc. (EDI), the Philippines' largest liquor company and the world's largest brandy producer. This is supported by main and annex facilities in Laguna, two bottling and distilling plants in Batangas, and a glass manufacturing company also in Laguna.

Emperador fortified this strong presence by ensuring offshore acquisitions. It was able to establish a solid foundation in Europe through its Scotland-based whisky powerhouse, Whyte and Mackay (WMG), along with the iconic brandy-maker, Bodegas Fundador in Spain.

Whyte and Mackay is headquartered in Glasgow and has significant malt and grain production capability from its four malt distilleries and one large grain distillery. It also has a leased bottling facility with a capacity of 6.5 million cases per annum. Whyte and Mackay is considered the fifth largest maker of Scotch whisky in the world and owns some of the most iconic Scotch brands in the industry.

Bodegas Fundador is the oldest brandy and sherry company in Spain. Bodegas Fundador started with wine cellars that produced sherry wine for both the Spanish and English Royalties. Taking age-old traditions to contemporary markets worldwide, Bodegas Fundador through its vineyards and cellars in Jerez, Spain and its distillery in Tomelloso, Spain, produce around 2 million nine-liter cases yearly for different markets around the world. Bodegas Fundador has been nominated in 2020 for the best brandy producing winery in the world by the International Wine and Spirit Competition (IWSC).

The acquisition of Casa Pedro Domecq in Mexico further boosts the Emperador portfolio, as it dominates the brandy market in Latin America. Distribution expansions in North America, Russia, Asia Pacific, and China have been instrumental in the continuous growth of Emperador as an international business.

As a market leader, Emperador holds some of the world's most renowned brands in the whisky and brandy business, along with its own brands of gin, wine, and rum. All of which play an important role in the celebrations and milestones of its consumers throughout the world.

MISSION, VISION, VALUES

Mission

To provide fantastic, superb, and iconic drinks to consumers from all walks of life all over the globe

Vision

To bring world-class products to the Philippines and Emperador products to the rest of the world

Values

To strive to uphold the Filipino values of loyalty, integrity, hard work, excellence, and passion

Market Presence

With its continuous expansion that spans operations in 4 countries, namely the Philippines, the UK/Scotland, Spain, and Mexico, as well as vast distribution that covers 6 continents and 100 countries, Emperador successfully accelerates on becoming one of the world's biggest companies, dominating the global whisky and brandy industry.

In the Philippines, Emperador Distillers, Inc. (EDI) has an extensive distribution network, locally and internationally. Its distribution network in the country is operated through sales offices and distribution outlets. These include off-premise retailers, wholesalers, supermarkets, hypermarkets, traders, grocery outlets, convenience stores, and neighborhood-owned sari-sari stores.

Taking on the international market, EDI has established a distribution footprint in more than 61 countries, with its flagship product Emperador brandy taking the lead, currently available in the rest of Asia, Europe, and North America.

For its Scotland-based counterpart, Whyte and Mackay Group (WMG) performed strongly despite the various challenges imposed by the COVID-19 pandemic. The business continues to grow internationally, although a number of markets were hampered by the effective closure of the on-premise and specialist retail channels, it enjoyed exceptional growth in the United Kingdom (UK) driven by off-premise and e-commerce channels.

Internationally, Asia remained a strong driver of growth supported by great results across Europe and North America while the Global Travel Retail channel was materially impacted as world-wide travel restrictions were imposed. The international business accounts for over 70% of WMG branded revenues. More than 40% of brand revenues come from the UK and other European countries and around 28% from Asia Pacific, and Africa, with the balance coming from Travel Retail, Middle East and Americas.

Investing across the business for future growth, WMG has over 15 Dalmore retail stores in the Philippines, along with The Keeper's Den and The Dalmore Cigar Lounge, an invite-only lounge for VVIPs.

Bodegas Fundador also continues to expand its foothold around the world, as it works together with distributors in key markets such as Italy and Canada. Bodegas Fundador partnered with Casa Pedro Domecq in Mexico, resulting in the successful launch of Terry White Brandy. Bodegas Fundador operates as a global brandy and sherry company, with more than 80% of the revenues coming from Spain, the Philippines and Mexico, and the rest coming from other European, American and African markets. The global brandy and wine business is further fortified by the Domecq trademarks that fall under Spain and Mexico and have commercial reach to the USA and South America, particularly Brazil and Colombia.

As an industry leader in the brandy business, Bodegas Fundador expanded its market in Asia through the EDI distribution network, while WMG took over the Fundador distribution in the United Kingdom and Canada. At present, Bodegas Fundador brands enjoy a strong global footprint, with a presence in Columbia, Ecuador, Latvia, Gabon, Macau, and Taiwan, as well as distribution in North America, Latin America, and China. In the Philippines, the first Fundador Café opened in 2018, offering hot and cold beverages infused with signature Fundador products, along with sweets featuring Harvey Bristol Cream sherry wines.

2020 Emperador Brandy and Whisky Awards

Emperador's brandy and whisky products continue to garner recognition as some of the world's finest wines and spirits, a testament to the world-class quality Emperador has maintained through the years. Emperador products bested over 1,000 premium brands from nearly 70 countries in The International Spirits Challenge (ISC) and more than 90 countries in the International Wine & Spirit Competition (IWSC). It is a feat not easily achieved by many, which redounds to Emperador's resilience and commitment to excellence, demonstrating its role as an emerging leader in the global brandy and whisky business.

Brandy Category

2020 San Francisco World Spirits Competition

- Fundador Supremo Aged 12 Years in Pedro Ximenez Sherry Casks - Gold
- Fundador Supremo Aged 15 Years in Amontillado Sherry Casks - Double Gold
- Fundador Supremo Aged 18 Years in Oloroso Sherry Casks - Double Gold
- Fundador Triple Madera - Silver

2020 The International Wine & Spirit Competition Ltd

- Fundador Supremo Aged In 15 YO Amontillado Sherry Casks - Gold
- Fundador Supremo Aged In 12 YO PX Sherry Casks - Silver
- Fundador Triple Madera - Silver
- Fundador Supremo Aged In 18 YO Oloroso Sherry Casks - Silver
- Harveys Pedro Ximénez V.O.R.S. - Silver
- Harveys Very Old Palo Cortado Blend Medium V.O.R.S. - Silver
- Harveys Signature 12 Year Old Cream - Bronze
- Harveys Very Old Oloroso Blend Medium V.O.R.S. - Bronze
- Harveys Very Old Amontillado V.O.R.S. - Bronze
- Bodegas Fundador - World´s Best Brandy Producer of the Year - 3rd time nominee, 2019 winner

2020 International Wine Challenge Competition

- Harveys Very Old Amontillado V.O.R.S. - Best Amontillado in the World, Gold

Whisky Category

The Dalmore
2020 International Spirits Challenge 2020 Awards

- The Dalmore 35 Year Old - Double Gold - Supreme Champion
- The Dalmore 40 Year Old - Double Gold
- The Dalmore Vintage Quartet - Double Gold
- The Dalmore 25 Year Old - Gold
- The Dalmore Cigar Malt - Gold
- The Dalmore KAIII - Gold
- The Dalmore Portwood Reserve - Gold
- The Dalmore Quintessence - Gold
- The Dalmore 45 Year Old - Gold
- The Dalmore Vintage Trio - Gold
- The Dalmore Vintage Quintet - Gold

International Wine and Spirits Competition 2020

- The Dalmore 12 Year Old - Silver 91
- The Dalmore 15 Year Old – Silver 91
- The Dalmore 18 Year Old – Silver 91

Fettercairn
2020 International Spirits Challenge 2020 Awards

- Fettercairn 46 Year Old ('20 Release) - Double Gold
- Fettercairn 16 Year Old ('20 Release) - Gold
- Fettercairn 28 Year Old ('18 Release) - Gold
- Fettercairn 40 Year Old ('18 Release) - Gold
- Fettercairn Small Batch - Gold

International Wine and Spirits Competition 2020

- Fettercairn 16 Year Old ('20 Release) – Silver 91
- Fettercairn 22 Year Old – Silver 94
- Fettercairn 23 Year Old – Silver 94
- Fettercairn 28 Year Old ('18 Release) - Silver 92

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Jura
World Whiskies Awards 2020

- Jura 21 Year Old: Tide (Domestic) - Gold 21 Years & Over
- Jura 21 Year Old: Time (GTR) - Category Winner 21 Years & Over

International Spirits Challenge 2020

- Jura Vintage 1993 - Double Gold
- Jura Red Wine Cask Finish - Gold
- Jura French Oak - Gold
- Jura J12 - Gold
- Jura Seven Wood - Gold
- Jura 18 Year Old - Gold
- Jura The Paps 19 Year Old - Gold
- Jura 21 Year Old: Tide (Domestic) - Gold
- Jura 21 Year Old: Time (GTR) - Gold
- Jura Vintage 1988 (2019 Bottling) - Gold
- Jura VRV 1975 - Gold
- Jura 212 - Gold

International Wine and Spirits Competition 2020

- Jura Red Wine Cask Finish – Bronze 89
- Jura French Oak – Silver 91
- Jura 12 Year Old Sherry Cask (Asia Exclusive) – Silver 93
- Jura Seven Wood - Silver 91
- Jura 18 Year Old – Silver 92
- Jura The Paps 19 Year Old – Silver 91
- Jura 21 Year Old: Tide (Domestic) – Silver 92

Tamnavulin
2020 International Spirits Challenge 2020 Awards

- Tamnavulin Vintage 1970 - Double Gold
- Tamnavulin Double Cask - Gold
- Tamnavulin Sherry Cask Edition - Gold
- Tamnavulin Tempranillo Cask Edition - Gold
- Tamnavulin French Cabernet Sauvignon - Gold
- Tamnavulin Spanish Grenache - Gold
- Tamnavulin Vintage 1979 – Gold
- Tamnavulin Vintage 1973 - Gold
- Tamnavulin Vintage 2000 - Gold

International Wine and Spirits Competition 2020

- Tamnavulin Vintage 1973 - Gold Outstanding 98
- Tamnavulin Double Cask – Silver 91
- Tamnavulin Sherry Cask Edition – Silver 91
- Tamnavulin Tempranillo Cask Edition – Silver 91
- Tamnavulin French Cabernet Sauvignon – Silver 91
- Tamnavulin Spanish Grenache – Bronze 89
- Tamnavulin Vintage 1970 – Silver 93
- Tamnavulin Vintage 1979 – Silver 93

Performance Highlights

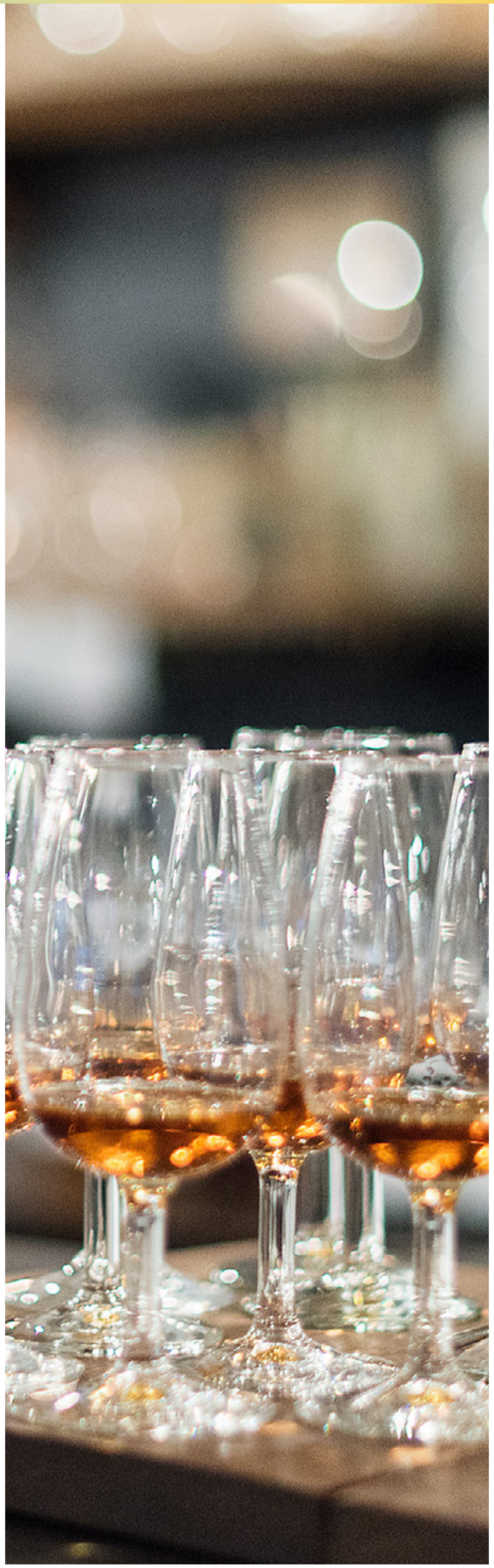
2020 brought challenges to some and opportunities to others. For Emperador, the global business is in high spirits with its better-than-expected performance, particularly in the international market. As it adapted to new consumption trends, Emperador delivered 18% earnings growth to a record PHP8 billion, giving the company one of its best years, amidst the lockdowns, quarantines, liquor bans, closure of on-trade sales channels and restricted travel retail as well as a big liquor tax hike.

The total revenues for 2020 amounted to PHP52.8 billion, with a 2% increase from the previous year of PHP51.6 billion, wherein 70% is generated by the brandy business and 30% by the whisky business.

Emperador's brandy segment realized a 20% increase in net profit, at PHP5.7 billion from PHP4.8 billion in 2019, with revenues amounting to PHP36.9 billion. Much like the other businesses, Emperador was affected by the two-month hard lockdown in the Philippines from mid-March up to mid-May, where production and distribution of alcoholic beverages were completely suspended in compliance with government directives. The liquor ban was implemented in most localities throughout the country. However, despite these, Emperador brandy garnered a leading 37% share of the market volume, as one of the top three local manufacturers in the Philippines.

In Spain, Bodegas Fundador was able to continue its regular production and distribution in Jerez. While on-trade was affected, the off-trade and e-commerce channels remained strong, along with the resilience of sales on the international market. As the borders opened in June, sales picked up in Europe, Asia, and America. In the US and Canadian markets, Fundador Light and Fundador Double Light were launched. In Spain, Terry Centenario remained the fastest growing brandy and market leader cornering about one-fourth of the market, while Tres Cepas expanded its market share in Guinea and Cameroon.

For the Scotch Whisky segment, 2020 saw a total of PHP16 billion in revenues, reporting a 14% year-on-year surge. The net profit increased at the same 14% pace year-on-year generating PHP2.3 billion. In the UK market, the whisky segment of the business accelerated through strong off-trade and e-commerce sales. For March to July,



on-trade was effectively shut, with the closure of most premises. In November of 2020, the restrictions were reimposed on certain areas. Despite these, the Scotch Whisky brands of Emperador delivered an impressive performance.

In the single malt category, Jura and Tamnavulin captured the first and fifth positions as the fastest growing malt brands in the UK, respectively. For the blended whisky category, Whyte and Mackay was recognized as the fastest-growing brand, resulting in double-digit growth in the UK market. The sherry wine Harveys saw a similar increase in sales.

As the restrictions eased up and the international market reopened, there was a surge of exports to Asia for Dalmore and Fettercairn, from the second quarter that continued strong through the rest of the year. In North America, accelerated growth for Dalmore, Jura, and Tamnavulin was observed, while Europe demonstrated a growing market for Dalmore, Tamnavulin, and Fettercairn.

Global Travel Retail was the most challenged channel from the past year, as the airports remained closed and travel was restricted. The tight control on strategic marketing and other operating expenses, normally associated with on-trade and Travel Retail, boosted the segment's earnings.

Moreover, in 2020, Emperador Inc. joined the main benchmark index of the Philippine stock market - the Philippine Stock Exchange Index (PSEi) as one of its 30 members, as well as the Industrial Index composed of 23 members.

A Future for All: Sustainability at Emperador

Sipag, Tiyaga, at Responsibilidad

Business growth and economic development are not just reliant on generated revenue. Emperador acknowledges the critical role that the environment plays in supporting the economy and society. Driven by its three-fold corporate philosophy of *Sipag, Tiyaga, at Responsibilidad* (Diligence, Forbearance, and Responsibility), Emperador envisions a future of active environmental stewardship, a thriving society, and robust economic growth.

Emperador takes an active role and accountability in ensuring resource utilization and restoration. It integrates into all its operations the best practices embodied in the Emperador Sustainability Statement.

It reads:

Our purpose is to participate and enrich the celebration of life's special occasions while we make viable efforts at contributing to the protection of the environment, deepening of social interactions, and betterment of prudence in government.

Environment

We believe that the road to true success entails a responsibility to the preservation and sustainability of our surroundings. Our business makes us inherently cognizant of our responsibility to minimize and reduce carbon footprint, use water efficiently, recycle materials, and improve waste management.

As a business utilizing raw ingredients sourcing directly from the environment, Emperador must safeguard the quality of its surrounding landscapes. From its vineyards to distilleries, in bottling plants and packaging, integral in its operations are sustainable extraction methods, initiatives to explore alternative and more environmentally-sound processes, and rehabilitation efforts.

Social

We bring people and communities together while fostering responsible consumption and enjoyment of our products. We deeply value the contribution of our consumers, employees, partners, and stakeholders, imbibe the value of TRUE SUCCESS driven by determination, perseverance, and a positive outlook in life.

As Emperador products highlight the celebrations of life's milestones, it continues to serve a bigger and wider range of customers. From those that have been enjoying its whisky and brandy for decades to the young generation of drinkers, Emperador creates an inclusive community of warmth and joyous festivities, beyond the confines of geography. To honor this success, it is fundamental for Emperador to be an active presence contributing to the good of all and to serve the communities it operates in.

Economic

We envision our success as a company to be contributory to national and global economic growth while espousing the true spirit of prudence and transparency in dealing with our stakeholders.

As a global leader, Emperador is instrumental in bringing forth pride and innovations to the Philippine beverage industry, as well as the world. Its success is a demonstration of Filipino talent, ingenuity, and commitment to excellence. As Emperador continues to expand, its contributions go beyond sharing the rich experience of its brandy and whisky. The success of Emperador as a business puts it as one of the steadfast pillars of Philippine economic growth, accelerating toward its national development goals. This promise is equally enjoyed in the countries and communities of the rest of the Emperador subsidiaries.

Our Contributions to Sustainable Development

Emperador operates in cooperation with the rest of the local and international community, in ensuring a future for all through the United Nations Sustainable Development Goals (UN SGDs). With facilities in four countries and distribution in six continents, it is fundamental for Emperador to be cognizant of its impact on the environment and the society at large.

In 2020, initiatives on environmental stewardship for sustainable economic growth are focused primarily in upgrading and greening its business operations with investments in renewable energy through a photovoltaic solar plant, bio-based fuel, conversion to electric vehicles, as well as explorations on hydrogen-powered energy. Audits and studies to identify energy consumption trends within the facilities are in place as well, along with engaging a third-party specialist for carbon footprint mapping.

In its entirety, Emperador and all its subsidiaries are working together toward reducing its carbon footprint, improving waste reduction and management programs, and utilizing water resources efficiently. True to the promise of the UN SDGs of leaving no one behind, Emperador plays its part in contributing to the shared goal of a sustainable world — for the present and future generations.

SDG | Our Contributions

Bodegas Fundador **(BF)** | Whyte and Mackay **(WMG)** | Emperador Distillers, Inc. **(EDI)**

Energy Conservation Programs

SDG 7: Clean and Affordable Energy

Target 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix.

Initiatives:

BF: Examine installation of a photovoltaic solar plant in the bottling center to reduce the use of energy related greenhouse emissions.

SDG 12: Responsible Consumption and Protection

Target 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse.

Initiatives:

- EDI: Energy efficiency and optimization of equipment and machinery by utilization of variable speed drives
- EDI: Conversion of lighting system to LED lighting
- WMG: Move to renewable energy
- WMG: First year of zero heavy fuel oil consumption
- WMG: Electric cars added to car option list and first charging posts installed
- EDI: Utilization of naturally-created biogas from bio-methanation process
- EDI: Utilization of sugarcane bagasse as coal substitute

Water Conservation Programs

SDG 14: Life Below Water

Target 14.2: By 2030, substantially manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans.

Initiatives:

- WMG: Rebuilt Dalmore weir fish ladder to protect Atlantic salmon
- WMG: Focus on discharges
- EDI: Recycling of rejected production water for comfort rooms
- EDI: Utilization of rejected water from the reverse osmosis

SDG 6: Clean Water and Sanitation

Target 6.3: By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, having the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally

Initiatives:

- EDI: Utilization of steam condensate from distillation re-boiler as feed water
- EDI: Utilization of spent lees from distillation as process water in fermentation

Solid Waste and Hazardous Waste Management

SDG 12: Responsible Consumption and Production

Target 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse.

Initiatives:

- WMG: Packaging and reduction recyclability
- EDI: Solid waste and hazardous waste management programs
- EDI: Recycling and reuse of production waste
- EDI: Use of secondhand bottles for production

Construction of New Facilities

SDG 12: Responsible Consumption and Production

Target 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse.

Initiatives:

- EDI: Construction of new cullet washing facility

SDG 6: Clean Water and Sanitation

Target 6.3: By 2030, improve water quality by reducing pollution, eliminating, dumping, and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.

Initiatives:

EDI: Construction of wastewater plant

Community and Employee Engagement

SDG 3: Good Health and Well-Being

Target 3.8: Achieve universal health coverage, including financial risk protection, access to quality essential health-care services, and access to safe, effective, quality and affordable essential medicines and vaccines for all.

Initiatives:

- WMG: Whyte and Mackay Cares programme was established for employees to raise funds for mental health charities in communities across the globe where WMG employees work and live
- WMG: Produced 3.8 million liters of ethanol for hand sanitizer equivalent to 18 million 250ml bottles
- EDI: Mental Health Awareness learning session to employees
- EDI: Donated alcohols and Personal Protective Equipment (PPEs) to the frontliners of Manila Doctors Hospital

AGIlity Amidst the Pandemic:

Emperador COVID-19 Response Report

A public health emergency that turned out to be a global health crisis, the year 2020 will forever be shadowed by the infamous Coronavirus Disease (COVID-19). It was a year of extraordinary challenges, changing life as the world knows it. From the nationwide lockdowns and closing of schools, offices, and commercial establishments to travel restrictions, no one was spared from the pandemic. Individuals, organizations, and businesses all have to adapt to the new reality of these rapidly changing times in a period of uncertainty.

As a timely and immediate response, **Alliance Global Group, Inc. (AGI)**, the parent company of Emperador, launched the **Five-Point Recovery Strategy**. This directive was aimed to help in the recovery of business and mitigate the impacts of the pandemic. It is also in this strategy that Emperador anchored its COVID-19 response, cascaded throughout its subsidiaries as well as its communities.

To ensure **Sustainability and Well-Being**, a work-from-home policy for most of the employees was implemented across the Emperador family. The majority of the business operated on a digital setting, with virtual meetings and online campaigns taking place. Learning sessions on mental health awareness and stress management were also made available for the employees. For those required to be present in the facilities, health and safety protocols were strictly implemented, transportation was provided, as well as continuous health and hygiene supplies including vitamins, face masks, face shields, alcohols, sanitizers, and personal protective equipment (PPEs).

Emperador and its subsidiaries have also been actively producing alcohol to augment the pressing demand in its communities. Whyte and Mackay Group (WMG) in Scotland produced 3.8 million liters of ethanol for hand sanitizers, equivalent to 18 million 250ml bottles. In the Philippines, Emperador Distillers, Inc. (EDI), donated one million liters of disinfectant alcohol worth around PHP250 million to the various local government units and frontline workers including medical personnel, military, policemen, and other community marshalls. Personal Protective Equipments were donated as well to the medical workers in a hospital in Metro Manila. In Spain, Bodegas Fundador received the Global Safe Site Certification, a recognition issued by Bureau Veritas, as a testament to the suitability of the preventive measures that the company has implemented against COVID-19.

For **Earnings Diversity**, Emperador continues to gain momentum in the international market through its successful expansion into new countries and territories. The continuous diversification of its product mix and various market approaches add to the flexibility of revenue sources. In the UK, the introduction of Tamnavulin as an affordable premium whisky significantly contributed to the WMG growth, while in Spain, a campaign was launched to introduce Terry Centenario as the perfect drink to blend with coffee for exciting new recipes, putting the brand in the consumer's mind. In the Philippines, with the total liquor ban implemented in the first three months of the lockdown, EDI launched non-alcoholic beverages to adapt to the situation. Despite the liquor ban and the lockdown, EDI being a traditional off-premise brand, performed exceedingly well, even surpassing its reported revenue from the previous year.

With the lockdowns implemented globally, Emperador brands adapted through **Digitalization**. For continuous relevance and to sustain engagement with its customers, a series of virtual events, online wine tasting, and masterclasses were held throughout the Emperador family.

Financial Flexibility in a time of a global crisis is crucial and Emperador has taken initiatives to manage the concerns of its stakeholders through continuous communication and maintaining adequate profits and returns, ensuring steady cash flow.

With the instability of these unprecedented times, **Adaptability** has never been more relevant. Emperador addressed these with re-calibrations on business operations, as well as making strategic cuts on other aspects of the business such as advertising and recruitment.

REFINE TASTE

Social Responsibility in Times of Crisis

As we contribute to the efforts in battling the spread of the pandemic, within our own organization, Emperador and its subsidiaries also rolled out policies, regulations, and programs for the safety and well-being of our stakeholders. Focus of these initiatives include balancing the demands of the business operations and meeting the needs of our customers. At the same time, also ensuring a safe workplace environment for our on-site employees and the necessary support for the teams working remotely.

In UK/Scotland, WMG utilized government support schemes to aid in employee retention, along with its own initiatives for its employees, covering both those who were able to work remotely and those who needed to be physically in the workplace. Employees working from home were provided with flexible working arrangements to enable childcare responsibilities. Additional computers, laptops, and other IT equipment were acquired as well to fully equip the staff working from home.

In its facilities, production was temporarily stopped to introduce COVID-safe necessities including perspex screens, additional lockers, markers for social distancing, and enlarged smoking areas. Health and safety protocols such as staggered stops/starts, one-way systems, COVID wardens monitoring adherence to protocols, visual reminders of protocols, additional cleaning, and new work practices were set in place. To add, the WMG management has been actively liaising and engaging with Trade Union (TU) representatives.

The W&M Well Being Agenda was launched as well to ensure employees have access to a library of resources and support available to them and their families.

In Spain, Bodegas Fundador developed a mobile application facilitating effective communication within its employees. Internal communications were enhanced with virtual town hall meetings, regular release of internal newsletters, and the Fundador News Magazine. The Management Crisis Committee was actively involved as well in the creation of guidelines and policies.

In its facilities, COVID-19 safety protocols included delayed entrance and exit times, reinforced cleaning and disinfection, supplies of masks and other essentials, limited capacity in offices, social distancing, expansion of common areas, enhanced ventilation, and use of High-Efficiency Particulate Air (HEPA) filters in the facility.

In the Philippines, work from home schemes and flexible work arrangements were introduced, along with community groups on messaging platforms to effectively disseminate news within the EDI network. Supplies of vitamins, masks, face shields, hand soaps, hand sanitizers, disinfectants, alcohol, and PPEs were provided as well.

To add, EDI partnered with local government units and Red Cross in providing fast and efficient assistance to its employees. There were also partnerships with health maintenance organizations (HMO) to provide employees with easy access to telehealth services, where they can consult doctors online for health-related issues. To foster socialization despite working from home, there were virtual engagement activities like movie time for the employees. The digitalization of certain business processes was implemented also, including online HR forms and online recruitment. Employees were provided with free testing for COVID-19 as well.

In the facilities, safety and health protocols were observed in all premises, along with routine cleaning and disinfection of the workplace. Incoming contractors and truckers were coordinated to avoid close contact. These initiatives were implemented together with the standard guidelines provided by the local and national government and the COVID-19 Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF).

WHYTE AND MACKAY GROUP LIMITED

Whyte & Mackay

Massive International Footprint and Exciting New Opportunities

WMG continued to grow Internationally with successful expansion on key markets such as the United States (US), Sweden, Spain, Indo-China, United Kingdom (UK), Russia, and Greater China gave WMG a wider and stronger foothold in the international Scotch whisky market. It enjoyed exceptional growth in the UK driven by Off-premise and E-commerce channels although a number of markets were hampered by the effective closure of the on-premise and specialist retail channels.

Asia remained a strong driver of growth supported by great results across Europe and North America whilst the Global Travel Retail channel was materially impacted as world-wide travel restrictions were imposed.

The WMG portfolio features an excellent range of single malt whiskies, including the luxury brand The Dalmore as well as premium single malt brands Jura and Fettercairn, and the game-changing Tamnavulin Speyside single malt. For its blended whisky, the WMG roster includes Whyte and Mackay (W&M) Blended Scotch, Claymore, John Barr Blended, and Shackleton.

What's even more exciting is that the single malt brands have gained a strong international foothold, with The Dalmore, Jura, and Tamnavulin being part of the top 25 biggest single malt brands in the world.

The Dalmore, the single malt that hails from the Scottish Highlands has consistently been the major growth driver across the international market. The auction of The Dalmore 62-Year-Old at Sotheby's for a record-breaking value at GBP532,400 or around USD735,947 was a particular highlight; accentuating the high regard in which this luxury brand is held by single malt connoisseurs. The Dalmore also worked exclusively with Harrods of London and auctioned an exclusive 60 year old rare release for the 180th Anniversary of its distillery which reached 1.8 million of Harrods high net worth individuals (HNWI) customers worldwide.

Despite on-premise closures, The Dalmore managed to strengthen its position in luxury hubs such as London's Mayfair, in globally renowned accounts such as The Ritz-Carlton, The Connaught, and Claridge's. The Dalmore also won the Gold award at the 2020 Pentawards, in recognition of its product design excellence.

Overseas, The Dalmore displayed outstanding performance, with a value growth at 62% in the US. In Canada, the luxury brand increased its value by 36% in 2020,making The Dalmore the number one fastest growing single malt by value in North America.

Meanwhile, premium single malt Jura secures the first spot as the number one selling malt by volume and the second top-selling malt brand by value, in the UK. Across Europe, Jura 10-Year-Old is experiencing similar levels of success being the fastest growing single malt in The Netherlands and the second fastest-growing single malt in Sweden. In Russia, sales grew by almost 293% driven by strong distribution gains.

In the USA, the world's biggest single malt market, Jura was the fastest growing single malt by volume with sales up 77%, while in Canada, Jura 12 Year Old became one of the countries top selling 12 year olds, with a growth of 40% in 2020 in the Liquor Control Board of Ontario (LCBO), the country's largest retailer. The limited releases of Jura have been successful as well, along with the Jura 12 Year Old Sherry Cask exclusively released in Taiwan, performing strongly.

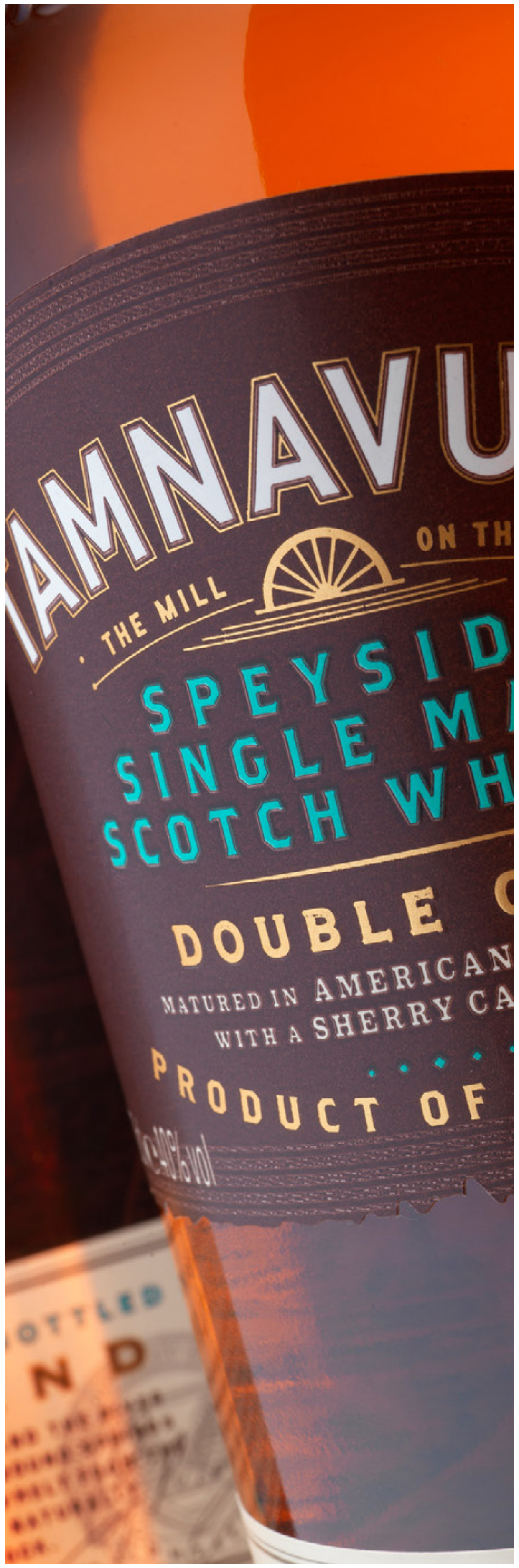
Tamnavulin, continued its impressive growth story and is now a Top 5 malt brand in volume and Top 6 by value in the UK.

In Germany, Tamnavulin was the fastest growing single malt brand in 2020, currently listed in 2,300 stores; while in Sweden, the brand built on its fantastic start, now enjoying the top spot as the most popular single malt in the country, just two years since its launch. Also, in its second year, Tamnavulin in Russia went from strength to strength with 10,400 distribution points throughout the country and a total sales of 7,700 cases for 2020.

Fettercairn won multiple Gold Medals at Industry awards throughout 2020, fuelling even greater interest in this boutique single malt from the "Garden of Scotland." The iconic Fettercairn 16 Year Old was relaunched in May 2019 with new packaging and sold out almost immediately, It was then successfully followed by the release of the Fettercairn 22 Year Old in July 2020. Currently, Fettercairn is building a full age portfolio of super premium whisky.

Within the blended category, John Barr Blended enjoyed an exceptional year in the US market, while the W&M Blend was named as the fastest growing blended whisky brand in the UK market in 2019 and 2020; a major factor in the return to growth of the UK blended whisky category. To add, Shackleton, a blended malt whisky brand, joined the top 15 brands in UK retail in 2020, with a growth of 52% and current brand value at over GBP2.5 million.

As a driving force in whisky and strong growth in international markets and with strong blended whisky brands under its belt, WMG has successfully navigated the challenges of 2020. On the road forward, WMG continues its trajectory of growth and momentum, successfully expanding throughout Europe and across North and South America, Africa, Asia, and Oceania.



Tamnavulin

Tamnavulin is an exquisite whisky crafted to encapsulate the unique Speyside spirit, distinguished by its rich, smooth, and mellow properties. To achieve this foundation, the spirit undergoes a double distillation process in a copper pot, giving the spirit a fruity, floral, and light touch. Adding layers of complexity and balance to this premium whisky, it is transferred for initial maturation in American white oak casks previously housing bourbons then to casks that housed a variety of luxury wines from Oloroso sherry to Spanish red for final maturation.

In 2019, a bit over three years since its launch, Tamnavulin successfully entered the top 25 malt brands globally, joining the other WMG brands The Dalmore and Jura. In the same year, it ranked 7th in the best brands of malt whisky in the UK, with a 36% y-o-y growth. Tamnavulin has also shown very dynamic growth versus category, from 2018 to 2019, with a 91.8% brand growth faster than malt category growth of 7.6%.

As a testament to its exquisite quality, Tamnavulin received various awards in 2020, including the Double Gold Medal for its Vintage 1970 from the International Spirits Challenge (ISC), as well as eight other gold medals for the rest of its varieties. From the International Wine and Spirit Competition (IWSC), the Tamnavulin Vintage 1973 received the Gold Outstanding medal, along with seven other awards for the rest of the Tamnavulin varieties.

Tamnavulin Double Cask (Hero Expression)

Matured in American oak barrels for a sweet, mellow taste with a rich, smooth Sherry cask finish.

Color: Amber, gold.
Nose: Rich, warm aromas of apples, toffee, and honey with sweet marzipan, subtle hints of tangy marmalade notes.
Palate: Fresh, mellow notes of pear, creamy peaches, roasted pineapple, and a hint of Demerara sugar.
Finish: Rich, smooth, and refreshing - the signature Speyside malt.

Tamnavulin Sherry Cask Edition

Matured in American oak barrels and enhanced by finesse in three different Sherry casks.

Color: Amber, gold.
Nose: Baked tarte tatin and vanilla pod, nuances of banana, caramelized orange, and fresh ginger.
Palate: Warm and inviting, glazed nectarines and frangipane, toffee pudding, Demerara sugar, and Seville oranges.
Finish: Complex and rich, fruit cake, and overripe apricots.

Tamnavulin Tempranillo Cask Edition (Travel Retail)

Matured in American oak barrels and finessed by Tempranillo red wine casks to complement the Tamnavulin flavor.

Color: Amber gold with touches of crimson.
Nose: aromatic, fruity notes of red berries, blackcurrants, fruit cake, hints of vanilla pod, and caramelized tangerines.
Palate: warm, sweet flavors of fig and maple syrup, toffee apple with notes of peaches, decadent chocolate ganache, and a touch of coffee.
Finish: rich, smooth, aromatic, an elegant Speyside malt.

The Tamnavulin treasured creations showcased in its Vintages Collection a set of rare and aged whiskies as rich as the histories of their eponymous years. The Vintages Collection is released exclusively in Taiwan and includes the Tamnavulin Vintage 2000, Tamnavulin Vintage 1979, Tamnavulin Vintage 1973, and the Tamnavulin Vintage 1970. These feature several distinct bottles that vary in tasting notes and finishes, but all still adhering to the world-class flavor, great design, packaging, and color, at an accessible price point that Tamnavulin is known for.

SUSTAINABILITY STORY

Sustainability and Green Energy

Scotland is home to some of the most unique landscapes in the world and it is here that the Whyte and Mackay Group Limited (WMG) has its heart of operations, including its five distilleries. With an outstanding natural beauty and untainted geography, WMG enjoys immediate access to unique raw ingredients right from the source, including fast-flowing pure water.

It is in the appreciation of these natural resources that WMG intends to further integrate sustainable practices in its business core. Currently in the works is "The Greenprint", a document setting out areas of focus for environmental impact including water extraction, carbon footprint, packaging, waste reduction, and overall enhanced efficiency. The Greenprint document is set to be completed in 2021 and will drive the integration of environmental practices in the overall operations of WMG for the future, with specific milestones set for 2025, 2030, 2040, and so on. This strategy will also contribute to action on thirteen of the seventeen UN Sustainable Development Goals.

Green Energy

Along with this, WMG has taken great strides in ensuring the entire business is moving towards a more sustainable operation with a focus on green and renewable energy. The WMG facility is currently running on 97% green electricity for the UK sites, using electricity produced from biomass, hydro and wind. Electric cars have been added to car option lists and installation of the first charging post was completed at Jura with rollout across the UK sites in 2021 and the WMG fleet progressively switching to electric vehicles.

2020 is also the first year of WMG with no heavy fuel oil used at our distilleries. WMG has a long term place to decarbonize using a balanced approach; progressing from high to low or carbon neutral fuels. Implementation of green local electric supply to the Invergordon site is in development and WMG has partnered with North of Scotland Hydrogen Consortium for a long-term project focused on opportunities for green hydrogen-based energy.

Carbon Footprint

For its initiative to reduce Packaging Footprint, WMG engaged specialist provider Ricardo to review 274 stock-keeping units (SKUs) for recyclability and recycled content. Results indicate that out of the 1,742 components reviewed, 87% are recyclable. WMG continues to explore opportunities for alternatives on the target list of non-recyclable components and remove non-recyclable plastics in its operations.

In addition, WMG works together with Ricardo to map the overall Carbon Footprint of the business and acquire a full picture of the main business elements to address, with distillation being a priority.

Water Stewardship

Water stewardship is also an environmental aspect that is important to WMG, as a business that is primarily involved in the manufacturing of liquids and spirits. In 2020, WMG has set its focus on discharges and the protection of watercourses. The commitment of WMG is reflected in the ratings provided by the Environmental Protection Agency with eight of its 10 licenses scoring excellent and the rest as good. Furthermore, WMG rebuilt the Dalmore weir fish ladder to enable the Atlantic Salmon to safely journey further north and to protect the watercourse.

Local Communities

The communities where WMG operates is part of its environment as well. WMG has taken an active role in helping improve the local communities through opportunities to generate income and enhance their ways of livelihood. Trials to locally source wheat from 60 farmers have started, putting in GBP2.7 million into the local economy. WMG has also started supplying over 25,000 tonnes of wet grains animal feed to local dairy herds.

To raise funds for mental health charities in regional areas across the world where WMG employees work and live, the Whyte and Mackay Cares Employee Forum was established. To date, the forum has raised and distributed GBP150,000 to its beneficiaries, acquiring excellent employee engagement and local community recognition.

WMG successfully fostered positive relationships within the communities and local charities as well and will continue with these valued partnerships moving forward.

Employees

Internally, WMG upholds the welfare of its employees through the integral principles of inclusivity, equality, well-being, and fairness. As part of its social initiatives, WMG signed with and supported the Scotch Whiskey Association Diversity and Inclusion Charter to encourage equal opportunities within the industry. Working together with its employees, WMG revised and re-launched the company values for clear articulation of what is expected of all stakeholders in terms of behavior, promoting a positive cultural environment where everyone feels welcomed and valued.

To add to this, the W&M Well Being Agenda ensured that employees have access to a library of resources and support available to them and their families, significantly during these extraordinary times. This includes e-learning modules regarding mental health and stress management. WMG also provided its employees with immediate access to mental health, financial, and bereavement counseling. Open communication among employees and their managers is encouraged, with the managers equipped and confident to provide support and assistance.

Bodegas Fundador

Bringing Quality Brandy to the World

In 2016, Grupo Emperador Spain S.A. made a monumental decision to acquire Bodegas Fundador, which made it the world's largest brandy company with 1,500 hectares of vineyard land and one million square meters of cellar and bottling facilities. In 2019, Bodegas Fundador won the acclaimed title of Fortified Wine Producer of the Year at the International Wine and Spirits Competition (IWSC). Bodegas Fundador was also the winner of the same award in 2015 and 2017.

Its iconic product, Fundador brandy is currently sold in 21 key markets worldwide, namely the United States, Canada, Mexico, Bermudas, Uruguay, Paraguay, Brazil, Spain, UK, Italy, Latvia, Germany, United Arab Emirates (UAE), China, Guam, Hong Kong, Philippines, Macao, and Taiwan.

In 2020, Bodegas Fundador reported 24.8% growth for Terry Centenario supported by sales from key consumer markets in Spain. The iconic brandy is named the market leader and best performing brandy in volume and value. With its bespoke quality, the Bodegas Fundador brands continue to dominate the brandy market with a 40% market share and a demand to increase production at around 50% to meet the demands of the consumers at home.

Overseas, it displayed an impressive performance in the recent launch of Fundador brandy in the UK market, which resulted in brilliant success with a triple-digit growth of 376% in comparison with the previous year. Fundador also reported for 2020 a double-digit increase in sales at 24% in the US Market and 44% in Mexico as it continued to perform positively in all channels.

Successful penetration in the Latin American market was noted as well, with Terry Centenario and Fundador's increase in brand distribution and awareness, receiving 31% growth in net sales compared to the previous year.

New releases were part of the Bodegas Fundador expansion, with the Fundador Light being rolled out in Alberta Canada, that resulted in a triple increase in sales, while in the US market, the new Fundador Double Light was recently introduced. This global expansion is expected to allow more brandy lovers to taste and experience this age-old Spanish tradition on the next big occasion.

Terry Centenario, another premium brandy under Bodegas Fundador, was the market leader and best-performing brandy in volume and value in Spain, growing from 22.7% in 2019 to 24.8% in 2020. It was also the best performing brand on the e-commerce site Amazon, with consistent growth that resulted in a 91% increase in sales.

In Mexico, Terry Centenario is marketed as an imported brandy and has been performing positively in modern channels, with a 60% growth compared to the previous year.

Bodegas Fundador or House of Fundador is situated in a sherry triangle in Spain, surrounded by the neighboring districts of Jerez de la Frontera, El Puerto de Santa Maria, and Sanlucar de Barrameda. What was once a Spanish brand with a Philippine-centric market has scaled up to now distribute across the globe. Bodegas Fundador has captivated the global brandy market reinforced by the distribution to North American, Latin America, and China. Meanwhile, this expansion aims to reach Africa as well, a traditionally strong brandy market.

In 2017, Grupo Emperador Spain acquired Casa Pedro Domecq, building on its strong list of assets and business expansion. For the Mexican brandy portfolio under Casa Pedro Domecq, its brands continue to display robust growth locally and internationally. In 2020, it reported a 15% increase in net sales and 11% in volume, making it a leader in the Brandy Category in the South American brandy market. Its flagship brand El Presidente reported 2020 as its top-performing year of all time, while Azteca de Oro launched a new strategy to further engage customers and was awarded one of the top 10 brands with most interactions in the Alcoholic Beverages category in 2020.

Further south, Brandy Domecq strongly dominated the brandy market in Colombia with a 91% market share and continuously strengthening its presence in other Latin American markets such as Peru and Brazil.

In the US market, Casa Pedro Domecq brands enjoyed success as well, with El Presidente reporting an 8% increase in sales with rapid growth in the states of Arizona, New Mexico, and Oklahoma. For Don Pedro brandy, double-digit growth was observed in the states of Nevada, New Jersey, and Illinois.

For sherry wine, Harvey's maintains its position as the best-selling sherry worldwide, continuously adding into its collection new products to adapt to the rapidly changing market demands, while also maintaining the timeless premium quality of its iconic lines. In 2020, the International Wine Challenge Competition (IWC) awarded Harveys Very Old Amontillado V.O.R.S. sherry as the Best Amontillado in the World.

Despite the difficulties caused by the pandemic, the brandy and sherry brands continued in maintaining their sales, taking the lead in certain key markets, and adapting well to the new consumption trends. These changes include most of the drinkers enjoying the spirits at home instead of socializing in commercial spaces. This introduced an opportunity for growth for the brandy and sherry categories, as Bodegas Fundador aligned with these new trends. As the consumers' consumption habits shift during and post-pandemic, Bodegas Fundador transforms along with the times.

With the outstanding performance of its brands throughout continents, the robust portfolio of Bodegas Fundador continues to gain momentum, further increasing its market share and becoming one of the leaders in the global brandy market.

Product Highlight

Fundador Supremo

A brandy with three expressions and thousands of nuances, Fundador Supremo is the new range of premium brandy that is the result of centuries of distilling knowledge and the selection of the best Sherry casks. It is crafted with a harmonious and persistent flavor, in the oldest winery in Jerez, aged in unique Sherry Casks.

Fundador Brandy came about in 1874 when Pedro Domecq experimented with aging quality holandas (highest quality wine spirit) using the traditional system of criadera and solera. This involves stacking barrels on top of each other to form a pyramid, with the youngest wines stored on top in the "nurseries" or *criadera* and the oldest brandy at the bottom, on the ground or *solera*.

This intricate process is the first step in aging the brandy, resulting in a premium blended mix of all the brandies. For its second aging, the brandy is stored in sherry-soaked American oak barrels that have previously housed luxury blends, giving the liquid both a distinct flavor and an unforgettable scent. For the final aging, unique Sherry casks are used, before transferring the exquisite brandy to handcrafted bottles.

Fundador Supremo is a Solera Gran Reserva, the result of centuries of knowledge distilling brandy in the oldest winery in Jerez, is the ultra premium brandy for those who bring the best heritage of our past into the present.

A flagship product, Fundador Supremo has a strength of 40% Alcohol by Volume (ABV), and is one of the most loved brandy in the world, and is celebrated for its warm and round notes of dried fruit and roasted nuts. The Ultra-Premium Fundador Supremo Sherry Cask Collection comprises three variations of Fundador Solera Gran Reserva brandy which are 12, 15, and 18 Years Old. Outstanding medal, along with seven other awards for the rest of the Tamnavulin varieties.

REFINE TASTE

Fundador Supremo 18

This Solera Gran Reserva has been aged in sherry casks that have housed 18-year-old Oloroso Sherry, which gives this brandy the category of Ultra Premium.

Color: Intense amber with golden trims, luminous and bright.
Bouquet: Warm, round, with notes of nuts and toasted nuances; complex and structured.
Taste: Soft, powerful, with notes of vanilla, nuts, and dried fruits. Harmonious, vinous, and rounded, with very complex nuances. Elegant and persistent finish.
Perfect Serve: On the rocks, in an old-fashioned glass.
Pairing: Nuts, desserts with chocolates, pastries, and spicy foods.

Fundador Supremo 15

Aged in oak casks previously bottled with 15 years old Amontillado.

Color: Golden amber, very bright and luminous.
Bouquet: Aromas of shelled nuts, almond, and hazelnut. Intense with a tempered strength reminiscent of the elegance of the old Amontillados.
Taste: Warm, full, very balanced, and smoothly dry. Hints of dried fruit. Pleasing persistent finish, recalling toasted nuts.
Perfect Serve: On the rocks, in an old-fashioned glass.
Pairing: Nuts, desserts with chocolates, pastries, and spicy foods.

Fundador Supremo 12

Aged in oak casks previously bottled with 12 years old Pedro Ximénez.

Color: Amber topaz with gold trim, bright and very luminous.
Bouquet: Complex, spicy, with notes of dried fruits, vanilla, honey, and toffee candy.
Taste: Soft and velvety, warm and round, with notes of dark chocolate. Long finish, persistent, and with deep shades of wood.
Perfect Serve: On the rocks, in an old-fashioned glass.
Pairing: Nuts, desserts with chocolates, pastries, and spicy foods.

SUSTAINABILITY STORY

Environmental Stewardship and Social Responsibility

For a premium quality brandy that is best in the world, it goes back to the source - the grapes and the vineyard. The world-class vineyards of Bodegas Fundador stand as an iconic part of the Spanish brandy culture and heritage, welcoming notable guests from all over the world for almost two centuries. Thousands of tourists and wine enthusiasts flock to the Visitor's Center of the vineyards every year for a glimpse of where the world's best brands of brandy are concocted.

Throughout Spain, Bodegas Fundador owns around 300 hectares of vineyards in the most relevant and important district in Jerez. Its facilities include 18th and 19th century cellars, 265 hectares of vineyards in the Jerez Superior area, gardens and patios, and a bottling center with a high productivity line.

The Bodega and its group of buildings are also located here. The center has two main entrances, on the southside is Puerta de Rota, named after one of the gates of the Arab wall that surrounded the city during the Middle Ages. The historical walls of this section are well-preserved to this day. The Puerta de Rota entrance also has a beautiful garden dating back to 1823 with almost 100 different species of plants and trees, both native and foreign.

For the north facade of the Bodega, one will find Calle Ildefonso which is the heart of the medieval Jerez. From the entrance door to the winery, guests will find some of the most representative monuments of Jerez including the Cathedral, the convent of the Holy Spirit, the Church of San Mateo, and the Baroque tower of the Church of San Miguel.

The architecture of Bodegas Fundador is a perfect integration of urban design principles to the iconic landscape of the 18th century Jerez. It is a perfect example of "bodega architecture" wherein the importance and value of the wine industry in the culture is exemplified in the grandiose buildings and its impressive facilities.

The Bodega "El Molino" is the oldest in Jerez, founded in 1730. It houses true relics and jewels of oenology with important histories dating back to one hundred years. A signed memento from King Alfonso XIII is also housed here - the first ever Fundador butt, the standard-sized cask used for maturing sherry.

Bodegas Fundador also owns a facility of Tomelloso for the production of spirits, distillates, and rectified concentrated must, a non-caramelized syrup from grapes, for the production of brandy and sherry, with 17 distillation pots.

Energy Consumption

With these facilities, it is imperative for Bodegas Fundador to set out initiatives toward clean energy and the reduction of energy consumption and emissions. As initial steps, an energy savings study was conducted along with an energy audit for the bottling and distillery plants. The energy savings study examined the installation of a photovoltaic solar plant for self-consumption and to reduce the use of fossil fields and decrease greenhouse gas emissions in its facilities.

To add, the energy audit aims to provide a reliable understanding of the energy utilization of the company and the costs associated with it. With this, Bodegas Fundador will be able to identify and define the factors that affect these activities and develop alternatives that facilitate improved energy consumption opportunities.

In Mexico, the Pedro Domecq facility successfully continued its utilization of solar panels, generating 53.4 kilowatt-hours (kWh) of energy used by the winery. The photovoltaic park is expected to decrease the carbon emission of the plant down to 63 tonnes.

Water Conservation

Furthermore, Bodegas Fundador has successfully integrated into its operations initiatives for water conservation. This includes the controlled deficit irrigation for water management in its vineyards and the anaerobic treatment of wastewater for biogas to run its boilers in Spain, which efficiently reduced the plant's annual energy consumption to 40%.

For the facility in Mexico, the rainwater recovery system is an efficient tool to reduce water consumption. During the harvest season, water consumption is reduced to 19% and for the rest of the year, at 38%. The sprinkler spray for hydration of the barrels aging the brandy has been very effective as well in decreasing the monthly consumption of water down to 45%.

Social Responsibility

As Bodegas Fundador ensures the sustainability of the resources it consumes, being an active contributor in the society and community that it is a part of is important as well. As a testament to its dedication to social responsibility, Bodegas Fundador acquired its certification for the IQNet SR10 Social Responsibility Management System.

This certification is focused on the best practices and recommendations at the international level in matters of social responsibility covering significant topics such as human rights, labor practices, the environment, fair operating practices, consumer issues, and community involvement and development. Related sub-topics in these subjects are employees, community, society, health and safety, ecosystems and biodiversity, pollution and climate change, respect for animal life, promotion of local development, and investment in the community and society.

Also integral to the IQNet SR10 is the ISO 26000: Social Responsibility Guidance, the global standard for businesses to operate in a socially responsible manner, concerning the society and the environment as a critical success factor.

Employees

Along with the community at large, Bodegas Fundador looks after its employees as well. To facilitate enhanced collaboration and improved commitment among its employees, Bodegas Fundador implemented a revamped Internal Communications Plan. The plan covers the launch of Fundador News, a company magazine; an internal newsletter; and an app for employees to enhance information dissemination and for constant communication with employees and their respective departments.

Emperador Distillers

Expanding Markets and Diverse Portfolio

A proudly Filipino company, Emperador Distillers, Inc. (EDI), continues to make strides as the Philippines' largest liquor company and the world's largest brandy producer. The business, which boasts an impressive product portfolio of both international and local products, has cemented its place as a top global competitor, led by its flagship brand, blended and bottled in the Philippines — the Emperador brandy.

To date, Emperador brandy is the top-selling brandy in the Philippines and is currently distributed across Asia including China, Russia, Europe, North America, and Africa. Given the "growing appetite" for brandy in the region, EDI will begin exporting Emperador Brandy to Mexico and Latin American countries in 2021, adding to the international portfolio that includes North America, Europe, Russia, and countries across Asia.

This expansion on the Latin American market provides Emperador brandy with a wider consumer market with a combined population of around 600 million. With the current strong foothold of Casa Pedro Domecq in Mexico and across the region, the company is optimistic that Emperador brandy will be able to successfully penetrate the market. Despite lockdown and liquor bans in the past year, EDI has quickly pivoted and remained resilient throughout the pandemic. Local operations have found stability and have adapted to the current environment, attributing this balance to the performance of existing products and the roll-out of new, exciting ones on the pipeline.
EDI has also been expanding its portfolio with diverse products to cater to the changing demands of the market and the new generation of drinkers. Its recent addition to its roster of products includes Emperador Double Light, The BaR Fruity Mix, and So Nice ultra-light alcohol.

Since its launch, the Emperador Double Light demonstrated remarkable market reception and upward trend, continuing with its growth despite the challenges of 2020 and effectively gained and reflected market shares for its parent company. In terms of distribution, there was evident growth across the regions of Luzon especially in supermarkets and tertiary accounts, indicating a strong-mass and wide market following.

Product Highlight

Emperador Double Light

With its light and smooth body that tastes like toffee caramel, an easy finish, and a lingering aroma of grapes, the Emperador Double Light is designed for the new generation of drinkers. Launched in 2019, it uses the same formula as the world's number one best-selling brandy, Emperador Light. Formulated even lighter, the Emperador Double Light is the ideal drink for those who live active and healthier lifestyles, living up to its name with an alcohol content of 23.5% ABV. It is also one of the lowest-calorie spirits available in the market. Since its launch, it's shown impeccable upward growth and market shares, significantly across Luzon and in vital channels such as supermarkets.

Emperador Double Light was designed to cater to those who like to drink occasionally and it can be enjoyed on the rocks. It advocates both mindful drinking, as well as responsible drinking. Despite having lower alcohol content, the product is positioned for social enjoyment, rather than to boost intake. Recent reception has shown that drinkers of Double Light are drawn to its imported appeal, and the 'chill' experience one has when nursing a glass.

They also appreciate the after-effect of this brandy, which does not cause next morning hangover when consumed within moderation.

To encourage its drinkers to stay at home, Emperador Double Light has launched an online campaign called *#SaBahayMunaTayo* (Stay at Home For Now), marking the importance of social isolation during the pandemic.

Created from the same DNA of the world's number one selling brandy, Emperador Light, aged in Sherry casks, for a very smooth yet fully flavored brandy experience.

Color: Golden amber.
Nose: Caramel vanilla.
Taste: Rich, smooth and suave, fruity hints.
Perfect Serve: Straight or on the rocks, in an old-fashioned glass.

The BaR Gin and The BaR Fruity Mix

The BaR Gin is a locally made liquor targeted to young drinkers. This star EDI product brings back its iconic taste of island botanicals imported from Spain with new variants to attract the next generation. The citrusy and aromatic gin is a favorite among the market, enjoyed as a mixer or on its own.

Leading in the gin industry, The BaR Pink Gin with 27.5% ABV is an experience with its refreshing berry flavor and its eye-catching pink color. The perfect blend of juniper berries, strawberry, and raspberry, The BaR Pink Gin is the first of its kind in the Philippines. There is also The BaR Lime Gin with 27.5% ABV, a unique spirit with its green color, featuring the right blend of sweetness and distinct zestiness of lime, with subtle notes of mint.

The BaR Premium Dry Gin at 30% ABV, is a classic blend made with botanicals.

To add, The BaR has also launched a fruit forward, ultra-light alcohol called Fruity Mix, which comes in two flavors and is ideal for young and light drinkers. The BaR Fruity Mix Green Grape is an ultra-light alcohol that features a sweetness from grapes, while The BaR Fruity Mix Pink Grapefruit, features zesty flavors from grapefruit.

SUSTAINABILITY STORY

Renewable Energy and Water Conservation

Emperador Distillers, Inc. (EDI) in the Philippines manages different aspects of the business including two distillery plants located in Balayan and Nasugbu, Batangas, leased and operated by its subsidiary Progreen Agricorp, Inc. (Progreen); the main facility located in Santa Rosa, Laguna; an annex facility in Biñan, Laguna; and the Anglo Watsons Glass, Inc. (AWGI), in Canlubang, Laguna, currently supplies the bottle requirements of EDI with a capacity of 200 metric tonnes per day.

Also part of EDI, Boozylife Inc., (Boozy), is a local e-commerce company engaged in the on-demand delivery of alcoholic and nonalcoholic beverages servicing Metro Manila. It is also the partner distributor of Ernest & Julio Gallo wines in the Philippines, along with Pik-Nik, the shoestring-shaped potato snacks.

With a wide range of businesses, it is important for EDI to ensure best practices in its operations and to be mindful of its environmental impact and carbon footprint.

To address this, EDI has taken several initiatives for alternative energy sources, water stewardship, waste reduction and management, and air emission reduction. Social empowerment and employee welfare are significant to the EDI operations as well, with EDI putting the well-being of its people and communities at the forefront.

Energy Initiatives

For its energy initiatives, Progreen has been successfully utilizing naturally created biogas from the biomethanation process, to supply electricity to the plant. Optimizing the biogas usage allowed the facility to decrease fossil fuel reliance by 13,860 metric tonnes. The technology to use sugarcane bagasse as a substitute for coal has also reduced the plant's fossil dependency by 37,800 metric tonnes in a span of 180 days. Sugarcane bagasse is the processed waste from sugarcane mills, repurposed as an alternative and renewable energy source.

Energy efficiency and optimization were prioritized in the Biñan Plant, with machine and equipment utilization observed at variable speed drives, this resulted in a 19% decrease in power consumption in 2020. The plant switched to the more economically LED lighting system as well, with 70% of the plant converted to date.

At the AWGI facility, an idle land was converted into an 8,170-square-meter on-site warehouse. This allowed AWGI to cut costs related to external warehouses, trucking, and rental, effectively reducing carbon footprint as well.

For its online liquor delivery service, Boozy invested in a rider application software for its manpower, to enhance the efficiency and reduce the overall footprint of its deliveries.

Constant awareness training and reminders on the importance of energy reduction and best practices are seen in all EDI facilities as well. Further initiatives include regular communications to the staff via email and posting of reminders on strategic places.

Water Conservation

Moreover, with water as its prime ingredient, ensuring water conservation is fundamental to EDI's sustainability initiatives. Part of this is Progreen's utilization of rejected water from reverse osmosis. Zero to 10% freshwater was displaced by reverse osmosis reject water in washing fermentation vessels, recycling this water enabled the facility to conserve 364,320 cubic meters of water.

Steam condensate from the distillation reboiler is utilized as boiler feed water as well. This allows continuous recovery of steam condensate to reduce water usage by at least 20%, saving 200,000 cubic meters. The spent lees, which is the bottom water that is left after fermentation, are recycled for efficiency. Usually considered wastewater, Progreen makes the most of the spent lees by using it as a replacement for the 10% process water required in fermentation, yielding 11,418 cubic meters of water saved during the distillation process.

At the Santa Rosa Plant, regular water management training was conducted among its staff along with enhanced awareness on water conservation through communication channels such as email and posters. For the Binan Plant, a total of 385 cubic meters of rejected production water was recycled for comfort room use. The wastewater treatment facility is regularly monitored and maintained as well, passing all the regulatory standards for wastewater for 2020.

At AWGI, a new wastewater plant was constructed that enabled the facility to recycle 5,680 cubic meters of water annually. A new cullet washing facility was established as well, increasing the use of recycled glass cullet in production. This resulted in a reduction in fuel consumption and landfill waste.

For 2020, the AWGI plant also reported zero effluent, in compliance with the requirements of the Laguna Lake Development Authority (LLDA) and the DENR. Assessment of the two government agencies provided the AWGI plant with a "Zero Discharge Permit." This means that no production wastewater was discharged to the sewerage system, only domestic wastewater. For compliance, the processed water from production was recirculated while water from cullet washing went to the wastewater treatment facility for recycling.

Air Emission Programs

Along with the efforts for water conservation, EDI enforces air emission programs. The Santa Rosa plant manages its air emissions through proper maintenance of the generator set unit and monthly maintenance of fire pumps. Ambient air monitoring, regular random inspections of emission per truckers, and annual stack emission are done to test for hazardous materials and avoid air pollution. For its staff, email blasts on air pollution prevention are sent on a regular basis. Similar efforts are implemented for the rest of the EDI facilities.

Waste Management

Covering all EDI upstream and downstream activities, the company also ensures proper waste management and disposal. In the Biñan plant, recycling and reuse of operational waste are implemented. A total of 815, 418 cases of secondhand bottles were used for production. This effort resulted in a significant decrease of residual waste to landfills from 3% in 2019 to 0.8% in 2020.

For the Santa Rosa plant, initiatives include usage of secondhand bottles, repair of wooden pallets, proper waste segregation, canteen waste taken out by the concessionaire out of the plant, and the implementation of audit, regulatory permits, management evaluation system for scrap buyers.

The plant's solid waste and hazardous waste management program involves several policies including regular physical inspections of the chemical storage area, regular review of containment measures and availability of spillage kits, regularly monitoring and review of the Material Safety Data Sheet (MSDS). Regular inventory per chemicals, proper handling and labeling of chemicals and hazardous waste, periodic hauling of accumulated waste, and alignment with Globally Harmonized System (GHS) labeling were also enforced.

In addition to the usage of secondhand bottles by the plants, Boozy used recyclable materials, including reusable eco-bags, and reduced single-use plastic usage in the packaging of its deliveries.

Local Communities

The efforts of EDI to ensure proper sustainable business operations is not just limited to the environment. It recognizes the importance of its people and the communities it serves as well. As part of its social empowerment initiative, ProGreen has been working with local farmers and sugarcane planters as buyers of their products.

Pik-Nik, together with Barefoot Wines, has been actively supporting displaced jeepney drivers, as well as repatriated with overseas Filipino workers (OFWs), with its Pallet Reimagined Program. Used pallets are recycled and transformed into home products including wood planters, cabinets, shelves, pet beds, side tables, and multi-purpose racks to name a few. Pallet Reimagined was part of a donation campaign as well to raise funds for the victims of Typhoon Rolly (International name: Goni) in the Bicol Region. The said typhoon was the strongest recorded worldwide for 2020 and severely affected several families in the Philippines and other countries.

Early in 2020, the Taal Volcano eruption severely damaged certain areas in the Philippines. In response to this, EDI employees conducted a silent auction to raise funds for other employees affected by the calamity. A total of 450 bags of relief goods were distributed to three barangays in the Batangas town of Talisay, one of the localities severely affected by the eruption.

EDI also sponsored three mobile kitchens as part of the Armed Forces of the Philippines (AFP) feeding program initiative. The AFP mobile kitchen provided 9,000 hot meals for the residents of Pasig City and some areas in Quezon City.

Employees

Internally, EDI recognizes its employees as one of its stakeholders and puts their well-being, health, and safety a priority as well. The threat of the COVID-19 pandemic has been addressed with the implementation of all necessary workplace safety and health programs aligned with the existing minimum public health standards and guidelines issued by Philippine Regulatory Agencies.

To manage the challenges of 2020, the advocacy for physical and mental resilience is observed as well. The EDI Human Resource (HR) Department ran a Mental Health Awareness learning session to help employees manage stress and cope with the challenges of these unprecedented times, along with regular encouragement for employees to keep active and remain healthy.

In 2020, the Santa Rosa plant ensured the practice of standard Occupation Health and Safety (OHS) policies. These include Segregation of Flow and Road Safety, Fire and Smoke Management, Lock Out Tag Out and Electrical Management, Working at Heights and Fall Management, Chemical Safety Management, and Mechanical Safety Management.

Throughout the other Philippine subsidiaries, similar OHS policies are implemented, as necessary, and within applicability.

Environmental, Social, and Governance Performance

As part of its responsibility of being a conscious business entity operating locally and globally, Emperador assessed its overall processes to identify and address its environmental, social, and governance impacts. The scope of this report includes its owned buildings and operations in the Philippines, the UK/Scotland, Spain, and Mexico. This data aims to communicate Emperador's commitment to sustainable development and demonstrate its key achievements, practices, and management approaches for its stakeholders.

Environmental Performance

Greenhouse Gas Emissions and Energy

With facilities globally, it is imperative for Emperador to be mindful of how its operations are impacting the environment, especially air emissions from its operations. Energy consumption is another critical aspect, with non-renewable sources of electricity rapidly depleting at alarming rates. To address this, Emperador has taken initiatives in measuring and minimizing its Greenhouse Gas (GHG) emissions and grid-based electricity usage.

The overall GHG emissions of Emperador for 2020 is 146,928 tCO2e. These emissions can be broken down into Direct Impact (Scope 1) that includes stationary and mobile emissions, Location-Based Indirect Impact (Scope 2) focused on electricity, and Travel-Based Indirect Impact (Scope 3).

	Absolute Emissions, FY2020	Absolute Emissions, FY2019
Scope 1	110,605	72,837
Scope 2 (Location-based)	35,003	30,410
Scope-3 (Business Travel)	1,320	1,506
Total Emissions	**146,928**	**104,753**

Direct Impact constitutes organizational operations; emissions from propane, natural gas, and diesel; consumption for boilers; gas turbine; diesel generators; own transportation; and refrigeration processes.

Indirect Impact on the other hand includes consumption of purchased energy from grid sources. To reduce its usage of non-renewable energy, Emperador invested in biomass as an alternative energy source for its distilleries globally - five in Scotland, two in Spain, and two in the Philippines. In 2020, these efforts were expanded, with the Philippine operation using anaerobic digester technology and biofuel for its processes.

For its other indirect impacts related to organizational operations, Emperador's indirect scope 3 emission for FY2020 was estimated for category 5, waste generated in operations and category 6, business travel.

In comparison with the previous year, Emperador's stationary emissions increased by 48% due to the increased usage of fuel oil, biogas, and natural gas. The mobile emissions increased by 159% due to the significant increase in consumption of diesel. For the Scope 2 emissions, the electricity consumption increased by 15%, while the Scope 3 emissions under waste generated in operations increased by 110%, in contrast with business travel emissions that were significantly reduced by 65%. Overall, the total emissions generated by Emperador grew by 40% in FY2020 as compared with FY2019.

Water Use

In line with its business, ensuring water quality and the condition of the surrounding water resources are top priorities for Emperador. The absolute water use of Emperador in 2020 4,849,803 cubic meters (m3), with 767,694 m3 from supplied water from utilities and 4,082,109 m3 directly abstracted. A total of 279,026.5 m3 or 5.8% or total water was reused as well for different operational purposes.

Water use	Total Volume (m^3), FY2020	Total Volume (m^3), FY2019
Supplied Water	767,694	671,809
Water Abstracted	4,082,109	4,800,497.1
Total Water Reused	279,026.5	61,539.5
Total Water	**4,849,803**	**5,472,306.1**

Breakdown and y-o-y comparison of water-use

For FY2020, the use of supplied water increased by 14% while the water abstracted reduced by 15%. There was also an increase of 353% for the total water reused at plants, compared with the data from FY2019. Overall, there was a total decrease of 11% in the total water used at the various plants of Emperador.

Waste Generation

Responsible business operations include integrating into its processes renewable resources and recyclable materials in order to effectively decrease waste generation. As much as this is unavoidable, proper waste management is an integral part of business as well. In FY2020, Emperador generated non-hazardous waste amounting to 22,561.74 tonnes, with 85% of waste recycled and the remaining 15% sent to landfill. The major types of waste generated include glass, paper, sludge and residual waste. The total hazardous waste generated in FY2020 was 259.93 tonnes with 97% of the waste sent for disposal and 3% of the waste recycled or sold for reuse.

Waste Type	Tonnes of waste, FY 2020	Tonnes of waste, FY 2019
Landfilled/Disposed	3,569.58	3,500.09
Recycled	19,252.09	19,087.85
Total Waste	**22,821.68**	**22,587.94**

Breakdown and y-o-y comparison of waste

For FY2020, there was an increase of 2% landfilled waste and an increase of 1% on recycled waste. Overall, the total waste landfilled or recycled only increased by 1% as compared to FY2019.

REFINE TASTE

Environmental Standards

Emperador operates its various businesses with adherence to environmental standards recognized globally, as well as local policies and regulations designed to safeguard the environment. In Spain, the business holds a certification for ISO 14004:2016 Environmental Management Systems, in particular for its production, blending, and bottling operations. Facilities and operations in Scotland, Mexico, and the Philippines remain in compliance as well with applicable environmental legislation and regulations.

Contamination Risk Management

Emperador enforces a strict contamination risk management policy to reduce negative impacts and help in preserving the environment. In the Philippines, Emperador Distillers, Inc. (EDI), ensures contamination risk management by implementing its Environment Management Program and Waste Reduction Program. Through these programs, Emperador mitigates the risk of contamination, safeguarding public health and the environment.

The Environment Management Program at EDI sets guidelines for:

- Management of hazardous wastes, non-hazardous solid wastes and air emissions
- Energy and water conservation efforts

The Waste Management Program at EDI sets guidelines for:

- Waste classification into hazardous and non-hazardous
- Monitoring, handling, storage, treatment and disposal of hazardous wastes
- Preventing any risk to public health and environment in waste management

These policies are rooted in the guidelines prescribed by the following legislation and ordinances in the Philippines:

- The Republic Act (RA) 9003, otherwise known as the Ecological Solid Waste Management Act of 2000
- Republic Act No. 6969, also known as An Act to Control Toxic Substances and Hazardous and Nuclear Wastes
- Republic Act No. 8749, or the Philippine Clean Air Act of 1999
- Republic Act No. 9275, or the Philippine Clean Water Act of 2004
- Department of Environment and Natural Resources (DENR) Administrative Order No. 2013-22 on the Revised Procedures and Standards for Management of Hazardous Wastes (Revised DAO No. 2004-36)

Social Performance

Workforce Diversity

Gender representation and workforce diversity are important issues nowadays. Emperador ensures an inclusive workforce through equal opportunities and empowerment among its employees. Overall, the company has 3,499 employees with approximately 77% male and 23% female representation.

Workforce by Gender	Executive	Non-Executive
Male	189	2,490
Female	109	711

While there were 298 employees working at executive level, a total of 3,179 employees were reported to be working at non- executive level at various Emperador units.

Workplace Safety

In implementing sound business practices, there is a strong focus on workplace safety in the Emperador operations, covering both its permanent and seasonal employees. In light of the pandemic, these health and safety protocols were further intensified. On the forefront is the Safety Team, with the Safety Officer organizing training and seminars to improve employee awareness on occupational health and safety policies. The Safety Team implemented guidelines from the IATF to minimize the risk of exposure to the COVID-19 virus through social distancing, enforced wearing of face masks and face shields, distributing health and safety supplies such as alcohols, sanitizers, and vitamins. Personal Protective Equipment (PPEs) were provided as well for all employees.

In FY2020, the company had no incidents involving deaths or diseases. Emperador Inc. reported total recordable incident rate (TRIR) and near miss frequency rate (NMFR) for its permanent employees as well as its seasonal employees. Below is a detailed breakdown of TRIR and NMFR.

	Permanent Employees	Seasonal Employees
Total recordable incident rate (TRIR)	0.28	0.15
Near miss frequency rate (NMFR)	0.25	0.29

Employee Training and Development

Emperador recognizes the need to empower employees with training and development opportunities to help them further enhance their skills and knowledge, in turn contributing more value to the company. Initiatives on career development also help boost employee morale and camaraderie, making them valuable assets to the company. In FY2020, Emperador allocated a budget of PHP13,619,013 for training. Additional efforts include bi-annual performance reviews, promotions, and merit enhancements. Monetary and non-monetary benefits both government-mandated and voluntary are provided for the employees as well.

	FY2020	FY2019
Number of hours of training completed per employee	188	449
Total expenditure on employee training programs	PHP13,619,013	PHP22,616,242

Labor Practice

Emperador adheres to ethical labor practices and discloses its performance on voluntary turnover rates, involuntary turnover rates, and percentages of employees getting minimum wage across its various units. During the reporting period, no monetary losses as a result of legal actions against employee discrimination or violation of labor laws was reported.

Voluntary Turnover Rate (%)	Involuntary Turnover Rate (%)	Percentage of Employees Earning Minimum Wage (%)
4	2	4.65

Responsible Labelling

Operating in the business of alcoholic beverages, responsible labeling to ensure the consumption of goods as intended and in legal age is imperative for Emperador. In its marketing and advertising efforts, targeting the customer segment above the legal drinking age is strictly observed as well. In addition, Emperador, to promote responsible drinking effort, launched a lower alcohol variant to encourage mixing. To further raise awareness, Emperador collaborated with Federación Española del Vino (FEV), the Spanish Wine Federation, and Federación Española de Bebidas Espirituosas (FEBE), the Spanish Federation of Alcoholic Beverages.

Policies and Procedures	
Percentage of total advertising impressions made on individuals or above the legal drinking age	100%
Number of incidents of non-compliance with industry or regulatory labelling and/or marketing codes	None
Total amount of monetary losses as a result of legal proceedings associated with marketing and/or labeling practices	None

Customer Management

One of the main stakeholders of Emperador is its customers and with this, customer grievances and complaints are managed with utmost importance. Concerns from customers are handled by the Commercial Services Team and the Quality Assurance Department, ensuring that customer issues are dealt with and resolved in a timely manner. The Commercial Services team maintains two records of customer complaints:

- Complaints about the quality, legality, and food safety of the produce (liquid and packaging)
- Complaints about dispatch and cargo

To provide space for customers, there are also periodic Customer Satisfaction Surveys, with an emphasis on the critical areas of service, quality, and food safety.

Emperador also has a Customer Satisfaction Policy in place that outlines procedures and actions in relation to customer management, including data collection. This policy references the following standards:

- ISO 9001: 2015 Quality Management System Standard
- FSSC 22000 Food Safety Systems Certification
- British Retail Consortium Standard (BRC) and International Food Standard (IFS)

Governance Performance

Data Privacy and Security

Emperador collects and stores client and customer data for legitimate business purposes in accordance with its privacy policy, in line with applicable data privacy rules and regulations. It also stores secondary data of all of its subsidiaries as part of its disaster recovery policy. Data confidentiality and security are given prime importance as well, with protections in place to prevent cyber-attacks and data breaches.

For FY2020, Emperador processed and stored over 17,568 individual customer data; 3,492 supplier data; 1,428 employee data; and 33 stockholder data. Out of the 33 certified stockholders, 27 are held by individuals which income the 7 nominal shares of the Directors. During the reporting period, no requests for data were made by regulatory authorities in the past year.

Customer Privacy	
Number of substantiated complaints on customer privacy	0
Number of complaints addressed	0
Data Breaches	
Number of data security breaches in financial year	0

Electronic Waste

Storage media and electronic devices such as computers, disk servers, and mobile phones are disposed of at their end of life through secure appropriate methods that include degaussers, erasers, and physical destruction. Electronic waste that is not processed on-site are sold to third-party vendors for destruction or recycling, with the exception of storage devices which are formatted, with data destroyed before disposal.

Stakeholder Management

Along with its customers, Emperador considers its suppliers and communities as part of its stakeholders. Emperador has a supplier code of conduct and suppliers are required to have relevant permits to work with the company. Customer concerns are handled by the Credit and Collections department as well as the Customer Relations Department.

Business Ethics

Following the Emperador Code of Conduct, the company enforces the highest standards of business ethics in all its transactions. Receiving gifts from third-party entities and engaging in activities that are in conflict with responsibilities are not allowed in the employees.

Reporting unethical or questionable business practices within the company is valued as well, with the whistleblower and/or anonymous policies in place. Employees are encouraged to speak out in confidence without the risk of reprisal.

Risk management is regularly reviewed as well to ensure compliance with policies and regulations from government agencies. For external parties such as constructions that are contracted to suppliers, the company conducts diligent vetting on compliance to environmental licenses.

Policies and Procedures	
Total amount of monetary losses as a result of legal proceedings associated with money laundering	None
Anti-money laundering policy in place?	Yes - the policy is in accordance with RA 1960 Anti-Money Laundering Act - implementing rules and regulations.
Anti-corruption policy in place?	A group-level policy is currently being drafted but offshore subsidiaries have their policies in place. The Philippine unit operates in compliance with the Anti-Graft and Corrupt Practices Act.
Grievance mechanisms for whistle-blowers in place?	For each subsidiary or affiliate, reports of wrongdoing may be made directly to the Chairman or the President for proper disposition to ensure confidentiality of information and protection of the identity of the whistle-blower.
Policy or standard practices to identify risk of contamination, and the containment or remediation strategies deployed?	Yes - Emperador has a quality control manual and sanitation policy for this purpose.
Ethical procurement policy in place?	Yes - Emperador has a Purchase and Provisioning procedure that takes into consideration food safety and food security in procurement practice.

Grupo Emperador Spain, S.A.U. and consolidated companies engaged an external firm in July 2020 to help them implement the necessary compliance procedures. Based on the recommendations received from the firm, several policies and systems have since been put in place while many are underway. Given below are the details of policies and procedures that has been implemented so far:

1. Criminal Compliance Policy: This serves as the reference framework for the implementation of a crime prevention system, with well-defined commitments, principles and objectives. The purpose of this policy is to provide an overview of the crime prevention model, training and sensitizing all professionals, managers and attorneys-in-fact about the criminal risks to which their actions are exposed.

2. Code of Ethics: The purpose this Code is to define the general principles and basic rules of corporate governance and conduct that govern the activities of the Spanish companies within Grupo Emperador, applicable both to the relationship with its employees and to the relationship of the employees among them in the development of their professional activities.
3. Whistleblowing Channel: The purpose of this channel is to guarantee confidentiality and facilitate unhindered inquiries or communications of non-compliance from the staff members. Communications addressed to the Compliance Channel may be sent by filling in an electronic form that will shortly be made available in the section called "Ethical Channel" enabled within the website https://www.grupoemperadorspain.com

Further actions undertaken:
1. Crime Prevention and Control Body: The Crime Prevention Model has been entrusted to a body within the legal person with autonomous powers of initiative and control, composed of both internal Grupo Emperador personnel or internal staff combined with external experts on the matter.
2. Financial Resources Management Model: In order to have adequate financial resources, a financial resources management model has been set-up to prevent the commission of the crimes that must be prevented.
3. Training: In order to ensure that all managers and employees are familiar with the Group's Polices, Procedures and Controls, and that these are correctly applied, there have taken place five formations to all the employees of the Spanish companies within Grupo Emperador.
4. Disciplinary System: This has been set-up to enable sanctions for infringements of the procedures and internal rules implemented by the Group for the prevention and detection of crimes.

Leadership in Uncertain Times

The Company remains focused on ensuring the adoption of systems and practices of good corporate governance in enhancing value for its shareholders. In compliance with the initiative of the Securities and Exchange Commission under Memorandum Circular No. 2, Series of 2002, a Manual of Corporate Governance was approved by the Board of Directors in February 2012.

The Audit Committee is composed of three members, at least one of whom must be an independent director, and is tasked to oversee and review financial and accounting matters.

The Nomination Committee is composed of three members, at least one of whom must be an independent director, and is responsible for the selection and evaluation of qualifications of directors and officers.

The Compensation and Remuneration Committee is composed of three members, at least one of whom must be an independent director, and determines an appropriate remuneration system for directors and officers.

The Risk Management Committee is composed of three members, at least one of whom must be an independent director, and oversees the management of the Company's risk policy and activities. management and submission of certifications on the Company's compliance with the provisions of the Manual. Furthermore, to ensure adherence to the adopted leading practices on good corporate governance, the Company has designated a Compliance Officer reporting directly to the Chairman of the Board.

The Company's By-laws require it to have two independent directors in its Board of Directors while the Manual requires that there must be at least one independent director voting in the Audit Committee, Nomination Committee, and Compensation and Remuneration Committee. To date, the Company has elected two independent directors, Miguel B. Varela and Alejo L. Villanueva, Jr.

To measure the level of compliance with its Manual of Corporate Governance, the Company has established an evaluation system consisting of a self-rating assessment and performance system by management and submission of certifications on the Company's compliance with the provisions of the Manual. Furthermore, to ensure adherence to the adopted leading practices on good corporate governance, the Company has designated a Compliance Officer reporting directly to the Chairman of the Board.

There are no material deviations to date from the Corporation's Manual of Corporate Governance. The Board has no immediate plans to adopt new policies for corporate governance.

Enterprise Risk Management

1) Risk Management System

A.) Overall risk management philosophy of the company;

The Company's risk management focuses on safeguarding shareholder value to manage unpredictability of risks and minimize potential adverse impact on its operating performance and financial condition.

B.) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

The Company's Board of Directors is directly responsible for risk management and the Management carries our risk management policies approved by the Board. After the Management identifies, evaluates reports and monitors significant risks, and submits appropriate recommendations, the Board approves formal policies for overall risk management, as well as written policies covering specific areas, such as foreign exchange risks, credit risk, and liquidity risk.

C.) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

The Risk Committee annually reviews the Company's approaches to risk management and recommends to the Board the changes or improvements to key elements of its processes and procedures. After submission of the Committee's recommendation, the Board then reviews the risk management system.

2.) Risk Policy

A. Company

Risk Exposure	Risk Management Policy	Objective
1. Financial risks	The Company policy is to ensure that the scheduled principal and interest payments are well within its ability to generate cash from its business operations. It is likewise committed to maintain adequate capital at all times to meet shareholders' expectations, withstand adverse business conditions and take advantage of business opportunities.	The Company's objective is to protect investment in the event there would be significant fluctuations in the exchange rate. On the other hands, the Company's objectives to manage its liquidity are: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; and c) to be able to access funding when needed at the least possible cost. The long term strategy is to sustain a healthy debt-to-equity ratio.
2. Operational risks	It is the policy of the Company to be prepared for any event which triggers a material business impact or modifies the existing risk profile.	The Company's objective is to protect investment in the event there would be significant events that would result in material impact to the Company's operations.

B. Group

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
1. Hazards and natural or other catastrophes	Have an emergency response plan/ action	Allow the different business segments to continue operations even during natural disaster or calamity
2. Regulatory developments	Review of new laws and regulations	Ensure the different business segments are compliant with all laws and regulations
3. Money laundering and cheating at gaming areas	Constant security check and monitoring, check and balance system	Minimize situations when these activities can happen
4. Supply of raw materials and packaging materials	Maintain diverse group of suppliers, get at least 3 quotations from suppliers	Prevent overdependence on a single supplier, ensure the best price possible
5. Consumer taste, trends and preferences	Market study and analysis	Be aware of trends and preferences to develop new products or adapt existing strategy
6. Competition	Market study and analysis; Maintain a diversified earnings base; Constant product innovation.	Be aware of trends and preferences to develop new products or adapt existing strategy; Revenue and property diversification
7. Philippine economic / political conditions	Review of business / political situation	Ensure the different business segments can immediately adapt to changes in economic/ political conditions and can devise strategies to meet these changes

Risk to Minority Shareholders

The majority shareholder's voting power in the Company may affect the ability of minority shareholders to influence and determine corporate strategy.

3. Control System Set

A. Company

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
1. Financial risks	It monitors potential sources of risk through monitoring of investments and assets, and projected cash flows from operations. The Company also maintains a financial strategy that the scheduled principal and interest payments are well within the Company's ability to generate cash from its business operations.	The Company regularly monitors financial trends. The Company regularly keeps track of its capital position and assesses business conditions to ensure early detection and determination of risks, and its consequent adverse impact. It adopts measures, as may be deemed necessary and appropriate, to mitigate risks.
2. Operational risks	Review of new laws and regulations	Any operational risks monitored are brought to the attention of the Risk Committee and addressed therein, together with inputs from corporate officers. The findings and recommendations are then brought to the Board for approval. There has been no significant operational risk determined by the Company in its operations in the past year.
3. Philippine economic / political conditions	Review of business / political situation	Ensure the Company can immediately adapt to changes in economic / political conditions and can devise strategies to meet these changes
4. Liquidity	Minimize exposure to financial markets	Actively secure short-to medium-term cash flow

B. Group

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
1. Hazards and natural or other catastrophes	Have an emergency response plan/ action	Allow the different business segments to continue operations even during natural disaster or calamity
2. Regulatory developments	Review of new laws and regulations	Ensure the different business segments are compliant with all laws and regulations
3. Money laundering and cheating at gaming areas	Constant security check and monitoring, check and balance system	Minimize situations when these activities can happen
4. Supply of raw materials and packaging materials	Maintain diverse group of suppliers, get at least 3 quotations from suppliers	Prevent overdependence on a single supplier, ensure the best price possible
5. Consumer taste, trends and preferences	Market study and analysis	Be aware of trends and preferences to develop new products or adapt existing strategy
6. Competition	Market study and analysis; Maintain a diversified earnings base; Constant product innovation.	Be aware of trends and preferences to develop new products or adapt existing strategy; Revenue and property diversification
7. Philippine economic / political conditions	Review of business / political situation	Ensure the different business segments can immediately adapt to changes in economic/ political conditions and can devise strategies to meet these changes

C. Committee

Committee/Unit	Control Mechanism	Details of its Functions
Board Audit Committee	Provides oversight over the Company's and its subsidiaries, affiliates and business segments risk management process, financial reporting process and internal audit.	Provides oversight over the Company's and its subsidiaries, affiliates and business segments risk management process, financial reporting process and internal audit.

Board of Directors

Board of Directors

Andrew L. Tan

Chairman of the Board

Mr. Tan was first elected as Director and Chairman of the Board on August 28, 2013. He is also the Chairman of Emperador Distillers, Inc. since its incorporation in 2003. He pioneered the live-work-play-learn model in real estate development through the Megaworld Corporation's integrated township communities, fueling the growth of the business process outsourcing ("BPO") industry, food and beverage, and quick service restaurants industries. Mr. Tan is concurrently the Chairman of the Board and President of MegaworldLand,Inc., Megaworld Globus Asia, Inc., Megaworld Newport Property Holdings, Inc., Mactan Oceanview Properties and Holdings, Inc., Richmonde Hotel Group International Limited, The Bar Beverage, Inc. and Yorkshire Holdings, Inc.

He is also the Chairman of Alliance Global Group Cayman Islands, Inc.; Alliance Global Brands, Inc.; Suntrust Properties, Inc.; Adams Properties, Inc.; Consolidated Distillers of the Far East, Inc.; and Townsquare Development, Inc. He is the Chairman and Treasurer of The Andresons Group, Inc. and sits in the boards of Infracorp Development, Inc., Eastwood Cyber One Corporation, Megaworld Cayman Islands, Inc., Forbes Town Properties & Holdings, Inc., Gilmore Property Marketing Associates, Inc., Megaworld Central Properties, Inc., and Raffles & Company, Inc. He is also the Vice- Chairman and Treasurer of Golden Arches Development Corporation and Golden Arches Realty Corporation and a Director and Treasurer of Andresons Global, Inc. Mr. Tan graduated Magna Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration.

Winston S. Co

Director, President and CEO

Mr. Co was first elected as Director and President on 28 August 2013. He is also a Director and President of Emperador Distillers, Inc. since 2003. His field of expertise is in finance and marketing of consumer products. He is concurrently Chairman and President of New Town Land Partners, Inc.; Chairman of Anglo Watsons Glass, Inc.; a Director of Alliance Global Brands, Inc., Forbes Town Properties & Holdings, Inc., McKester Pik-Nik International Limited, Raffles & Company, Incorporated, and The Bar Beverage, Inc.; and Senior Vice President of The Andresons Group, Inc.

Mr. Co is a Magna Cum Laude graduate of Jose Rizal College with a Bachelor of Science in Commerce.

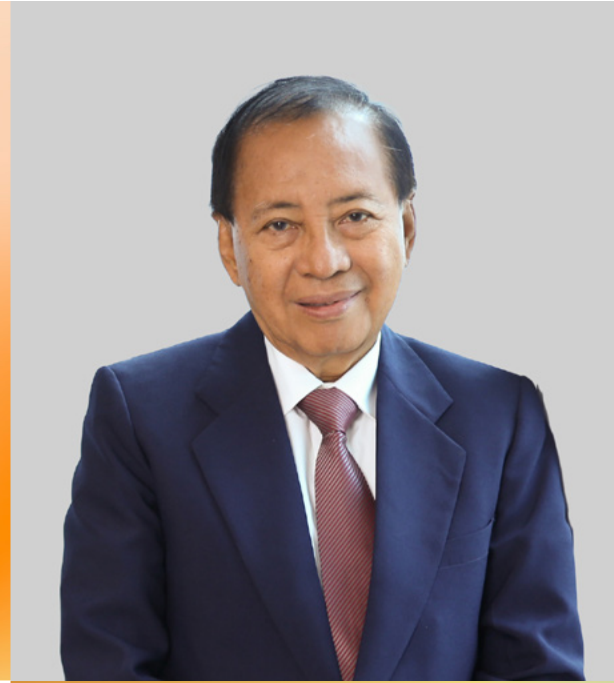
Katherine L. Tan

Director and Treasurer

Ms. Tan was first elected as Director and Treasurer on 28 August 2013. She is a Director and Treasurer of Emperador Distillers, Inc. since 2003, and of Alliance Global Brands, Inc.; Yorkshire Holdings, Inc.; and New Town Land Partners, Inc. She is concurrently Chairman and President of Andresons Global, Inc. and Choice Gourmet Banquet, Inc.; Director and President of The Andresons Group, Inc., Consolidated Distillers of the Far East, Inc.; and Raffles & Company, Inc.; and Director and Corporate Secretary of The Bar Beverage, Inc.

Ms. Tan graduated from St. Scholastica's College with a degree in Nutrition.

REFINE TASTE



Kendrick Andrew L. Tan

Director

Mr. Tan was first elected as Director on 28 August 2013. He has served as Corporate Secretary and Executive Director of Emperador Distillers, Inc. since 2007. He is also the Head of Research & Development of EmpHe is concurrently Director of Anglo Watsons Glass, Inc.; Consolidated Distillers of the Far East, Inc.; Emperador Brandy, Inc.; The Bar Beverage, Inc.; The Andresons Group, Inc.; and Yorkshire Holdings, Inc. The Andresons Group, Inc., and Yorkshire Holdings, Inc. Mr. Tan graduated from Southern New Hampshire University with a degree in Bachelor of Science in Accountancy.

Kevin Andrew L. Tan

Director

Mr. Tan, was elected as Director on 04 October 2017. Mr. Tan has over 11 years of experience in retail leasing, marketing and operations. He is currently the Senior Vice President and Chief Strategy Officer of Megaworld Corporation where he is in charge of developing corporate strategies, expansion and new opportunities, as well as investor and stakeholder relations. He was formerly head of the Commercial Division of Megaworld Corporation, which markets and operates the Megaworld Lifestyle Malls, including Eastwood Mall and The Clubhouse at Corinthian Hills in Quezon City, Venice Piazza at McKinley Hill, Burgos Circle at ForbestownCenter, and Uptown Mall, all in Fort Bonifacio, Newport Mall at Resorts World Manila in Pasay City, and Lucky Chinatown Mall in Binondo, Manila.

He is the Chairman of Infracorp Development, Inc. and Director of Emperador Distillers, Inc.; Alliance Global Brands, Inc.; Anglo Watsons Glass, Inc.; Yorkshire Holdings, Inc.; The Bar Beverage, Inc.; Emperador Brandy, Inc.; The Town Land Partners, Inc.; and Consolidated Distillers of the Far East, Inc. He holds a degree in Business Administration Major in Management from the University of Asia and the Pacific.

Alejo L. Villanueva, Jr.

Independent Director

Mr. Villanueva was first elected as Independent Director on 28 August 2013. He is also an Independent Director of Alliance Global Group, Inc., Empire East Land Holdings, Inc. and Suntrust Home Developers, Inc. Mr. Villanueva is a Director of First Capital Condominium Corporation, a non-stock non-profit corporation. He is also the Chairman of Ruru Courier Systems, Inc. and Vice Chairman of Public Relations Counselors Foundations of the Philippines, Inc. He is a professional consultant with more than 30 years experience in the fields of training and development, public relations, community relations, institutional communication, and policy advocacy.

Mr. Villanueva obtained his bachelor's degree in Philosophy from San Beda College, summa cum laude. He has a master's degree in Philosophy from the University of Hawaii under an East-West Center Fellowship. He also took up special studies in the Humanities at Harvard University. He studied Organizational Behavior at INSEAD in Fontainebleau, France. He taught at the Ateneo Graduate School of Business, the UST Graduate School, and the Asian Institute of Journalism.

Enrique M. Soriano III

Independent Director

Mr. Soriano was first elected as Independent Director of the Company on May 16, 2016. He is also the Executive Director of the Wong & Bernstein Strategic Advisory Group and a member of the Philippine Marketing Association. He is the Chief Advocacy Officer of Asia America Policy Institute and Consultant of International Finance Corporation/World Bank Group.

He is a Family Business Coach, Book Author, Professor of Global Marketing, Program Director for Real Estate and former Chairman of the Marketing Cluster of the Ateneo Graduate School of Business. He is also the Past President of Association of Marketing Educators. He holds a B.A. in History from the University of the Philippines, an MBA from De La Salle University, and Doctorate Units at the UP National College of Public Administration and pursued Executive Education at the National University of Singapore Business School.

Financial Statements

EMPERADOR INC.

7F 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez Jr. Avenue, Bagumbayan 1110, Quezon City, Philippines Tel: 8709-2038 to 41 Fax: 8709-1966

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of ***Emperador Inc. and Subsidiaries*** (the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, have audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audits.

ANDREW L. TAN
Chairman of the Board

WINSTON S. CO
President/ Chief Executive Officer

DINA D.R. INTING
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this APR 2 1 2021, affiants exhibiting to me their Passport/ SSS No., as follows:

Names	PassportNo./ SSS No./ DL No	Date	Place of Issue
Andrew L. Tan	P9281984A	Oct 24, 2018 to Oct 23,2028	Manila
Winston S. Co	P1651547A	Jan. 17, 2017 to 2022	Manila
Dina D.R. Inting	SSS 03-5204775-3		

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Page No. 82
Book No. XIV
2021

MA. ESMERALDA R. CUNANAN
Notary Public
Until December 31, 2021
Appt. No. M-27 (2020-2021) Attorney's Roll No. 34562
MCLE Compliance No. V1-0008196/4-23-2013
PTR No. 8533031/1-4-2021/Makati City
IBP Lifetime Member Roll No. 05413
Ground Level, Dela Rosa Carpark I
Dela Rosa St. Legaspi Village
Makati City

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

Report of Independent Auditors

The Board of Directors and Stockholders
Emperador Inc. and Subsidiaries
(A Subsidiary of Alliance Global Group, Inc.)
7th Floor, 1880 Eastwood Avenue
Eastwood City CyberPark
188 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City

Opinion

We have audited the consolidated financial statements of Emperador Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(a) Impairment Assessment of Goodwill and Trademarks with Indefinite Useful Lives

Description of the Matter

Under Philippine Accounting Standard 36, *Impairment of Assets,* the Group is required to annually test the carrying amounts of its goodwill and trademarks with indefinite useful lives for impairment. As of December 31, 2020, goodwill amounted to P9.0 billion, while the trademarks with indefinite useful lives amounted to P19.4 billion. We considered the impairment of these assets as a key audit matter because the amounts of goodwill and trademarks are material to the consolidated financial statements. In addition, management's impairment assessment process involved significant judgement and high estimation uncertainty based on the assumptions used. The significant assumptions include the determination of the discount rate, growth rate and cash flow projections used in determining the value-in-use of the trademarks and the cash-generating units over which the goodwill was allocated. The assumptions used by management are generally affected by expected future market and economic conditions.

The Group's policy on impairment assessment of goodwill and trademarks with indefinite useful lives is more fully described in Note 2 to the consolidated financial statements; the estimation uncertainty on impairment of non-financial assets, including trademarks and goodwill with indefinite useful lives, is presented in Note 3 to the consolidated financial statements; while their corresponding carrying amounts are presented in Note 10 to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the goodwill and trademarks with indefinite useful lives included, among others, the following:

- Evaluated the appropriateness and reasonableness of methodology and assumptions used in determining the value-in-use of cash-generating units attributable to the trademarks and goodwill, which include the discount rate, growth rate and the cash flow projections, by comparing them to external and historical data, with assistance from our Firm's valuation specialists;
- Tested the calculation of valuation model for mathematical accuracy and validated the appropriateness and reliability of inputs and amounts used; and,
- Performed independent sensitivity analysis of the projections and discount rate using the valuation model used to determine whether a reasonably possible change in assumptions could cause the carrying amount of cash generating units to exceed the recoverable amount.

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(b) Revenue Recognition

Description of the Matter

Revenue is one of the key performance measures used to assess business performance. There is a risk that the amount of revenues presented in the consolidated financial statements is higher than what was actually earned by the Group. Revenue from sales in 2020 amounted to P51.4 billion and represented 97% of the Group's total revenues during the same year. Revenue from sales is recognized when control over the goods has been transferred at a point in time to the customer, i.e., generally when the customer has acknowledged receipt of the goods.

In our view, revenue recognition is significant to our audit because the amount is material to the consolidated financial statements. It also involves voluminous transactions at any given period of time, requires proper observation of cut-off procedures and testing of validity of transactions, and directly impacts the Group's profitability.

The Group's disclosures about its revenues and related receivables, and revenue recognition policies are included in Notes 2, 6 and 18.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others, the following:

- Tested the design and operating effectiveness of the Group's processes and controls over revenue recognition, approval and documentation, including the implemented information technology general and application controls over automated systems that record the revenue transaction;
- Evaluated the appropriateness of the Group's revenue recognition policy in accordance with the requirements of PFRS 15, *Revenue from Contracts with Customers*;
- Tested, on a sample basis, sales invoices, delivery receipts and cash receipts of sales transactions throughout the current reporting period to determine whether sale of goods is valid and existing;
- Confirmed trade receivables using positive confirmation, on a sample basis, and performed alternative procedures for non-responding customers, such as, examination of evidence of subsequent collections, or corresponding sales invoices and proof of deliveries;
- Tested sales invoices and delivery receipts immediately prior and subsequent to the current period to determine whether the related sales transactions are recognized in the proper reporting period; and,
- Performed substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of sales per product/brand and location, and sales mix composition based on our expectations and following up variances from our expectations; and, verified that the underlying data used in the analyses are valid.

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(c) Existence and Valuation of Inventories

Description of the Matter

Inventories as of December 31, 2020 amounts to P31.0 billion, which represent 25% of the Group's total assets as of that date. The valuation of inventories is at the lower of cost or net realizable value (NRV). The Group's core business is subject to changes in market factors that directly affect the demand for alcoholic beverages such as purchasing power of consumers, degree of competition, and other market-related factors. Future realization of inventories is affected by price changes and the costs necessary to complete and make a sale. Due to the significance of the volume of transactions and the balance of the carrying amount of inventories, and the high level of judgment in estimating its NRV, we considered the existence and valuation of inventories as significant to our audit.

The Group's disclosures on accounting policy, estimation uncertainty on determination of NRV of inventories, and Inventories account are presented in Notes 2, 3, and 8, respectively, to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the existence and valuation of inventories included, among others, the following:

On existence of inventories:

- Observed physical inventory count procedures, obtained relevant cut-off information and copy of count control documents, and verified inventory movements during the intervening periods between the actual count date and reporting date to further test the quantities of inventory items as of the end of the reporting date; and,
- Performed substantive analytical review procedures over inventory-related ratios such as, but not limited to, inventory turnover and current period's components of inventories; and, verified that the underlying data used in the analyses are valid.

On valuation of inventories:

- Tested the design and operating effectiveness of processes and controls over inventory costing, reconciliation, data entry and review, including the implemented information technology general and application controls over automated systems that record the inventory transaction;
- Evaluated the appropriateness of the method used by management for inventory costing and valuation of the lower of cost or NRV and assessed the consistency of their application from period to period;
- Performed, on a sample basis, a price test of inventory items by examining supporting documents such as, but not limited to, purchase contracts and invoices, and relevant importation documents;
- Performed detailed analysis of the Group's standard costing of inventories through analytical review procedures of actual costs during the current period against the budgeted standard, and tested significant actual costs, on a sample basis, by agreeing with contracts and invoices; and,
- Evaluated the appropriateness and sufficiency of the amount of allowance for inventory write-down by testing the key assumptions used on the expected realization of inventories.

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(d) Consolidation Process

Description of the Matter

The Group's consolidated financial statements comprise the financial statements of Emperador Inc. and its subsidiaries, as discussed in Note 1 to the consolidated financial statements, after the elimination of material intercompany transactions. The Group's consolidation process is significant to the audit because of its complexity. It also involves translation of foreign currency denominated financial statements of certain subsidiaries into the Group's functional and presentation currency, and identifying and eliminating several intercompany transactions and balances, to properly reflect the consolidated financial position of the Group and its consolidated financial performance and consolidated cash flows in accordance with PFRS.

The Group's policies on the basis of consolidation and translation of foreign currency denominated financial statements of foreign subsidiaries are more fully described in Note 2 to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement arising from the consolidation process included, among others, the following:

- Obtained an understanding of the Group structure and its consolidation policy and process, including restructuring done during the year and the procedures for identifying intercompany transactions and reconciling intercompany balances;
- Tested the mathematical accuracy of the consolidation done by management and verifying financial information used in the consolidation based on the audited financial statements of the components of the Group and evaluating the consistency of the accounting policies applied by the entities within the Group;
- Tested the accuracy and appropriateness of intercompany elimination entries, the translation of the financial statements of foreign subsidiaries of the Group, and other significant consolidation adjustments;
- Performed analytical procedures at the consolidated level; and,
- Evaluated the sufficiency and adequacy of disclosures in the Group's consolidated financial statements in accordance with PFRS.

(e) Conduct of Remote Audit

Description of the Matter

As disclosed in Note 1 of the consolidated financial statements, the Group, particularly those entities operating in the Philippines, Spain and United Kingdom where the Group has significant operations, has been significantly exposed to the risks brought about by a novel strain of coronavirus (COVID-19). This COVID-19 has rapidly spread worldwide which causes governments across the world to implement community quarantine and social distancing measures and restrictions. This prompted management and the audit team to have most of the audit conducted remotely.

The change in working conditions is relevant and significant to our audit since it creates an increased risk of misstatement due to less in-person access to the Group's management and personnel, and lack of access to certain physical records and original documents. Given the changes in how the audit was performed, the audit requires exercising enhanced professional skepticism.

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How the Matter was Addressed in the Audit

Our audit procedures to address the risk of performing a significant portion of the audit remotely included the following:

- Considered the nature of the engagement and the engagement team's knowledge of the entity and its environment when determining whether it is possible to perform a significant portion, if not all, of the engagement remotely;
- Intensified the application of PSA requirements, especially in respect of providing proper supervision and review;
- Obtained information through electronic means, which included performing inventory count observation through video conference call, sending and receiving of confirmation electronically, obtaining calculations in electronic form to check the mathematical accuracy, scanning of hard-copy items for review and using real-time inspection technology such as video and screen-sharing;
- Determined the reliability of audit evidence provided electronically using enhanced professional skepticism and techniques designed to reinforce the skills of assistants in evaluating audit evidence obtained electronically;
- Performed inquiries through video conference call in order to more effectively assess the facial expressions and body language of people being interviewed as well as to make the interaction more effective;
- Reviewed workpapers of component auditors remotely through share screening and constant and regular communication to clarify certain matters;
- Examined critical hard copy documents (e.g., contracts, billing invoices, purchase invoices and official receipts) physically in response to the risk in revenues, receivables, inventories and costs, which are considered to be significant; and,
- Adhered to and applied strictly the Firm's reinforced and enhanced quality control process.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- 8 -

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Mr. Romualdo V. Murcia III.

PUNONGBAYAN & ARAULLO

By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 8533234, January 4, 2021, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-4 (until Sept. 4, 2022)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-22-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 15, 2021

Certified Public Accountants
Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

EMPERADOR INC. AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	P 7,561,169,140	P 7,740,605,65
Trade and other receivables - net	6	22,013,800,294	23,720,325,33
Financial assets at fair value through profit or loss	7	52,551,232	-
Inventories - net	8	30,959,999,370	30,509,303,27
Prepayments and other current assets	11.1	1,373,977,625	1,874,557,68
Total Current Assets		61,961,497,661	63,844,791,95
NON-CURRENT ASSETS			
Property, plant and equipment - net	9	26,435,845,480	28,986,637,26
Intangible assets - net	10	28,365,766,133	28,895,152,62
Investment in a joint venture	12	3,293,862,431	3,023,567,74
Retirement benefit asset - net	21	-	219,527,69
Deferred tax assets - net	22	144,894,759	61,341,89
Other non-current assets - net	11.2	1,288,545,176	1,016,320,03
Total Non-current Assets		59,528,913,979	62,202,547,25
NON-CURRENT ASSETS HELD FOR SALE	13	961,740,595	-
TOTAL ASSETS		P 122,452,152,235	P 126,047,339,20
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	14	P 5,288,395,845	P 6,641,109,37
Trade and other payables	16	15,256,516,254	17,012,924,21
Equity-linked debt securities	15	3,443,750,000	1,836,250,00
Lease liabilities	9.3	173,763,731	304,882,10
Financial liabilities at fair value through profit or loss	7	-	9,105,95
Dividends payable	24.3	-	779,231,31
Income tax payable		1,645,950,536	1,861,560,07
Total Current Liabilities		25,808,376,366	28,445,063,04
NON-CURRENT LIABILITIES			
Interest-bearing loans	14	25,091,948,760	25,298,729,20
Equity-linked debt securities	15	-	3,443,750,00
Lease liabilities	9.3	1,289,130,534	1,717,050,01
Provisions	17	222,999,552	164,914,20
Retirement benefit obligation - net	21	359,528,946	-
Deferred tax liabilities - net	22	2,315,851,761	2,261,075,22
Total Non-current Liabilities		29,279,459,553	32,885,518,64
Total Liabilities		55,087,835,919	61,330,581,68
EQUITY	24		
Equity attributable to owners of the parent company		66,585,804,689	63,817,525,55
Non-controlling interest		778,511,627	899,231,97
Total Equity		67,364,316,316	64,716,757,52
TOTAL LIABILITIES AND EQUITY		P 122,452,152,235	P 126,047,339,20

See Notes to Consolidated Financial Statements.

EMPERADOR INC. AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(Amounts in Philippine Pesos)

.	Notes	2020	2019	2018
REVENUES AND OTHER INCOME	18	P 52,834,305,306	P 51,565,480,173	P 47,050,421,022
COSTS AND EXPENSES				
Costs of goods sold	19	35,398,674,605	33,334,124,597	30,305,123,521
Selling and distribution expenses	20	5,263,040,976	6,021,050,010	5,567,696,147
General and administrative expenses	6, 20	2,108,245,409	2,924,385,791	1,909,932,481
Interest expense	9.5, 14, 21	548,979,806	781,494,014	818,886,057
Other charges	9.1	79,638,897	24,455,158	12,418,407
		43,398,579,693	43,085,509,570	38,614,056,613
PROFIT BEFORE TAX		9,435,725,613	8,479,970,603	8,436,364,409
TAX EXPENSE	22	1,399,085,656	1,647,434,352	1,607,414,678
NET PROFIT		8,036,639,957	6,832,536,251	6,828,949,731
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will be reclassified subsequently to profit or loss				
Translation gain (loss)		(2,541,071,944)	(1,251,530,761)	220,002,448
Items that will not be reclassified subsequently to profit or loss				
Net actuarial gain (loss) on retirement benefit plan	21	(799,604,759)	176,881,507	(189,210,076)
Tax income (expense) on remeasurement of retirement benefit plan	22	(51,531,692)	(87,253,112)	32,275,467
		(851,136,451)	89,628,395	(156,934,609)
		(3,392,208,395)	(1,161,902,366)	63,067,839
TOTAL COMPREHENSIVE INCOME		P 4,644,431,562	P 5,670,633,885	P 6,892,017,570
Net profit attributable to:				
Owners of the parent company		P 7,967,261,504	P 6,725,536,563	P 6,658,236,381
Non-controlling interest		69,378,453	106,999,688	170,713,350
		P 8,036,639,957	P 6,832,536,251	P 6,828,949,731
Total comprehensive income (loss) attributable to:				
Owners of the parent company		P 4,755,451,905	P 5,664,076,401	P 6,652,883,065
Non-controlling interest		(111,020,343)	6,557,484	239,134,505
		P 4,644,431,562	P 5,670,633,885	P 6,892,017,570
Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company - Basic and Diluted	25	P 0.50	P 0.42	P 0.41

See Notes to Consolidated Financial Statements.

EMPERADOR INC. AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(Amounts in Philippine Pesos)

	Attributable to Owners of the Parent Company													
									Retained Earnings					
	Capital Stock (see Note 24.1)	Additional Paid-in Capital (see Note 24.1)	Treasury Shares (see Note 24.2)	Conversion Options Outstanding (see Notes 3 and 15)	Share Options Outstanding (see Note 24.4)	Accumulated Translation Adjustments (see Note 2)	Revaluation Reserves (see Note 2)	Other Reserves (see Note 2)	Appropriated (see Note 24.5)	Unappropriated (see Note 24.5)	Total	Total	Non-controlling Interest (see Note 24.6)	Total Equity
Balance at January 1, 2020	P 16,242,391,176	P 23,058,724,847	(P 3,487,839,412)	P 136,151,386	P 111,883,425	(P 3,707,343,087)	(P 73,475,415)	P 120,364,326	P 800,000,000	P 30,616,668,304	P 31,416,668,304	P 63,817,525,550	P 899,231,970	P 64,716,757,520
Issuances during the year	-	47,652,985	1,836,250,000	(47,652,985)	26,958,168	-	-	-	-	-	-	1,863,208,168	-	1,863,208,168
Movements during the year	-	-	-	-	-	-	-	(5,369,530)	-	-	-	(5,369,530)	(9,700,000)	(15,069,530)
Acquisition of treasury shares during the year	-	-	(2,093,994,770)	-	-	-	-	-	-	-	-	(2,093,994,770)	-	(2,093,994,770)
Total comprehensive income for the year	-	-	-	-	-	(2,360,673,148)	(851,136,451)	-	-	7,967,261,504	7,967,261,504	4,755,451,905	(111,020,343)	4,644,431,562
Cash dividends declared during the year	-	-	-	-	-	-	-	-	-	(1,751,016,634)	(1,751,016,634)	(1,751,016,634)	-	(1,751,016,634)
Balance at December 31, 2020	P 16,242,391,176	P 23,106,377,832	(P 3,745,584,182)	P 88,498,401	P 138,841,593	(P 6,068,016,235)	(P 924,611,866)	P 114,994,796	P 800,000,000	P 36,832,913,174	P 37,632,913,174	P 66,585,804,689	P 778,511,627	P 67,364,316,316
Balance at January 1, 2019														
As previously reported	P 16,242,391,176	P 23,058,724,847	(P 1,849,768,100)	P 136,151,386	P 84,925,255	(P 2,556,254,530)	(P 163,103,810)	P 15,792,199	P 600,000,000	P 24,902,413,431	P 25,502,413,431	P 60,471,271,854	P 892,674,486	P 61,363,946,340
Effect of adoption of PFRS 16	-	-	-	-	-	-	-	-	-	(23,323,421)	(23,323,421)	(23,323,421)	-	(23,323,421)
As restated	16,242,391,176	23,058,724,847	(1,849,768,100)	136,151,386	84,925,255	(2,556,254,530)	(163,103,810)	15,792,199	600,000,000	24,879,090,010	25,479,090,010	60,447,948,433	892,674,486	61,340,622,919
Issuances during the year	-	-	-	-	26,958,170	-	-	-	-	-	-	26,958,170	-	26,958,170
Movements during the year	-	-	-	-	-	-	-	104,572,127	-	-	-	104,572,127	-	104,572,127
Acquisition of treasury shares during the year	-	-	(1,638,071,312)	-	-	-	-	-	-	-	-	(1,638,071,312)	-	(1,638,071,312)
Total comprehensive income for the year	-	-	-	-	-	(1,151,088,557)	89,628,395	-	-	6,725,536,563	6,725,536,563	5,664,076,401	6,557,484	5,670,633,885
Appropriation during the year	-	-	-	-	-	-	-	-	200,000,000	(200,000,000)	-	-	-	-
Cash dividends declared during the year	-	-	-	-	-	-	-	-	-	(787,958,269)	(787,958,269)	(787,958,269)	-	(787,958,269)
Balance at December 31, 2019	P 16,242,391,176	P 23,058,724,847	(P 3,487,839,412)	P 136,151,386	P 111,883,425	(P 3,707,343,087)	(P 73,475,415)	P 120,364,326	P 800,000,000	P 30,616,668,304	P 31,416,668,304	P 63,817,525,550	P 899,231,970	P 64,716,757,520
Balance at January 1, 2018	P 16,242,391,176	P 23,058,724,847	(P 321,134,930)	P 136,151,386	P 57,967,086	(P 2,707,835,823)	(P 6,169,201)	P 9,689,175	P 600,000,000	P 20,649,112,979	P 21,249,112,979	P 57,718,896,695	P 634,656,950	P 58,353,553,645
Issuances during the year	-	-	-	-	26,958,169	-	-	-	-	(5,739,354)	(5,739,354)	21,218,815	-	21,218,815
Movements during the year	-	-	-	-	-	-	-	6,103,024	-	-	-	6,103,024	-	6,103,024
Acquisition of treasury shares during the year	-	-	(1,528,633,170)	-	-	-	-	-	-	-	-	(1,528,633,170)	-	(1,528,633,170)
Total comprehensive income for the year	-	-	-	-	-	151,581,293	(156,934,609)	-	-	6,658,236,381	6,658,236,381	6,652,883,065	239,134,505	6,892,017,570
Redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	(2,875,000)	(2,875,000)
Addition from acquired subsidiary	-	-	-	-	-	-	-	-	-	(148,405)	(148,405)	(148,405)	21,758,031	21,609,626
Cash dividends declared during the year	-	-	-	-	-	-	-	-	-	(2,399,048,170)	(2,399,048,170)	(2,399,048,170)	-	(2,399,048,170)
Balance at December 31, 2018	P 16,242,391,176	P 23,058,724,847	(P 1,849,768,100)	P 136,151,386	P 84,925,255	(P 2,556,254,530)	(P 163,103,810)	P 15,792,199	P 600,000,000	P 24,902,413,431	P 25,502,413,431	P 60,471,271,854	P 892,674,486	P 61,363,946,340

See Notes to Consolidated Financial Statements.

REFINE TASTE

EMPERADOR INC. AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 9,435,725,613	P 8,479,970,603	P 8,436,364,409
Adjustments for:				
Depreciation and amortization	9, 19, 20	1,565,710,426	1,544,043,919	1,074,666,926
Interest expense	9, 14, 15, 21	548,979,806	781,494,014	818,886,057
Share in net profit of a joint venture	12	(185,108,059)	(239,168,070)	(198,909,795)
Interest income	5, 7, 18	(183,009,956)	(345,272,714)	(265,325,794)
Impairment losses on trade and other receivables	6	109,087,408	12,453,267	22,029,978
Provisions	17	56,331,220	-	92,789,663
Share option benefits expense	24	26,958,168	26,958,169	26,958,169
Amortization of trademarks	10	1,615,391	1,615,391	2,240,391
Loss (gain) on sale of property, plant and equipment	9	(139,000)	5,832,899	(6,744,917)
Impairment losses on trademarks	10	-	272,402,000	-
Operating profit before working capital changes		11,376,151,017	10,540,329,478	10,002,955,087
Decrease (increase) in trade and other receivables		1,066,338,675	(4,675,574,907)	(3,965,141,560)
Decrease (increase) in financial instruments at fair value through profit or loss		(86,578,013)	1,174,321,007	(1,149,002,162)
Increase in inventories		(1,257,083,638)	(1,420,924,928)	(2,972,564,866)
Decrease (increase) in prepayments and other current assets		656,312,114	(642,474,819)	(498,868,636)
Increase in retirement benefit asset		-	(219,527,693)	-
Decrease (increase) in other non-current assets		(301,999,867)	55,606,199	(245,888,588)
Increase (decrease) in trade and other payables		(2,069,683,156)	3,939,851,258	1,120,104,316
Increase (decrease) in retirement benefit obligation		(241,119,114)	51,454,223	(204,585,861)
Cash generated from operations		9,142,338,018	8,803,059,818	2,087,007,730
Cash paid for income taxes		(1,590,213,311)	(650,265,112)	(551,522,212)
Net Cash From Operating Activities		7,552,124,707	8,152,794,706	1,535,485,518
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property, plant and equipment	9	(1,013,759,803)	(2,867,267,563)	(2,243,302,273)
Proceeds from sale of property, plant and equipment	9	107,483,016	356,289,983	64,018,578
Interest received	5, 7	173,304,315	243,885,422	227,053,290
Dividends received from a joint venture	12	-	282,499,965	93,314,288
Net Cash Used in Investing Activities		(732,972,472)	(1,984,592,193)	(1,858,916,117)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of interest-bearing loans	14	(2,741,784,226)	(3,226,111,642)	(2,358,677,825)
Dividends paid	24	(2,530,247,949)	-	(2,399,048,170)
Acquisition of treasury shares	24	(2,093,994,770)	(1,638,071,312)	(1,528,633,170)
Proceeds from interest-bearing loans	14	1,182,290,245	1,151,150,000	3,451,057,163
Interest paid	31	(597,970,866)	(705,636,523)	(772,576,355)
Repayments of lease liabilities	9	(216,881,185)	(237,157,272)	-
Redemption of preferred shares	24	-	-	(2,875,000)
Net Cash Used in Financing Activities		(6,998,588,751)	(4,655,826,749)	(3,610,753,357)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(179,436,516)	1,512,375,764	(3,934,183,956)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		7,740,605,656	6,228,229,892	10,162,413,848
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 7,561,169,140	P 7,740,605,656	P 6,228,229,892

Supplemental information on non-cash investing and financing activities is fully disclosed in Note 31 to the consolidated financial statements.

See Notes to Consolidated Financial Statements.

EMPERADOR INC. AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020, 2019 AND 2018
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Emperador Inc. ("EMP" or "the Parent Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission ("SEC") on November 26, 2001. It presently operates as a holding company of a global conglomerate in the distilled spirits and other alcoholic beverages business.

EMP is a subsidiary of Alliance Global Group, Inc. ("AGI" or "the Ultimate Parent Company"), a publicly-listed domestic holding company with diversified investments in real estate development, food and beverage, quick-service restaurants, and tourism-entertainment and gaming businesses.

The registered principal office of EMP is located at 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City, where the registered office of AGI is also presently located.

The common shares of EMP and AGI were first listed for trading in the Philippine Stock Exchange (PSE) on December 19, 2011 and April 19, 1999, respectively.

1.1 Subsidiaries

EMP holds beneficial equity ownership in entities operating in an integrated business of manufacturing, bottling and distributing distilled spirits and other alcoholic beverages from the Philippines and Europe (collectively referred to herein as "the Group"), as follows:

Names of Subsidiaries	Explanatory Notes	Percentage of Effective Ownership 2020	2019
EDI and subsidiaries (EDI Group)			
Emperador Distillers, Inc. ("EDI")	(a)	**100%**	100%
Anglo Watsons Glass, Inc. ("AWGI")	(b)	**100%**	100%
Alcazar De Bana Holdings Company, Inc. ("Alcazar De Bana")	(c)	**100%**	100%
Progreen Agricorp Inc. ("Progreen")	(c)	**100%**	100%
South Point Science Park Inc. ("SSPI")	(c)	**100%**	100%
The Bar Beverage, Inc.		**100%**	100%
Tradewind Estates, Inc. ("TEI")	(d)	**100%**	100%
Boozylife Inc. ("Boozylife")	(d)	**62%**	51%
Cocos Vodka Distillers Philippines, Inc.		**100%**	100%
Zabana Rum Company, Inc.		**100%**	100%

Names of Subsidiaries	Explanatory Notes	Percentage of Effective Ownership 2020	2019
EIL and offshore subsidiaries and joint venture:			
Emperador International Ltd. ("EIL")	(e)	**100%**	100%
Emperador Holdings (GB) Limited ("EGB")	(f)	**100%**	100%
Emperador UK Limited ("EUK")	(f)	**100%**	100%
Whyte and Mackay Group Limited ("WMG")	(g), 10	**100%**	100%
Whyte and Mackay Global Limited ("WMGL")	(g), (h)	**100%**	100%
Whyte and Mackay Limited ("WML")	(i)	**100%**	100%
Whyte and Mackay Warehousing Limited ("WMWL")	(j)	**100%**	100%
Emperador Asia Pte. Ltd. ("EA")	(k)	**100%**	100%
Grupo Emperador Spain, S.A. ("GES")	(l), 10	**100%**	100%
Bodega San Bruno, S.L. ("BSB")	(m)	**100%**	100%
Bodegas Fundador, S.L.U. ("BFS")	(l), (n), (o)	**100%**	100%
Grupo Emperador Gestion S.L. ("GEG")	(m)	**100%**	100%
Complejo Bodeguero San Patricio SLU ("CBSP")	(n), (r), (o), 10	**-**	100%
Stillman Spirits, S.L. ("Stillman")	(s)	**100%**	10%
Domecq Bodega Las Copas, S.L. ("DBLC")	(p), 10	**50%**	50%
Bodegas Las Copas, S.L. ("BLC")	(q)	**50%**	50%
Emperador Europe Sarl ("EES")	(t)	**100%**	100%

Explanatory notes:

(a) EDI and its subsidiaries are engaged in businesses related to the main business of EDI in the Philippines. EDI became a wholly owned subsidiary on August 28, 2013 when EMP acquired it from AGI as a condition to AGI's subscription to EMP shares (see Note 24.1). EDI was incorporated in the Philippines on June 6, 2003 to primarily engage in the manufacturing and trading of brandy, wine or other similar alcoholic beverage products. EDI's brands include Emperador brandy, The BaR flavored alcoholic beverage, Andy Player whisky, Smirnoff Mule (under license), Andy Player whisky and Raffa sparkling white wine. EDI also imports and sells the products of EIL's offshore subsidiaries.

EDI's registered office, which is also its principal place of business, is located at 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City, where its subsidiaries, except Boozylife and Alcazar De Bana and subsidiaries, also have their registered offices and principal places of business.

(b) AWGI is a domestic corporation presently engaged in flint glass container manufacturing and primarily supplies EDI's bottle requirements.

(c) Alcazar De Bana is a domestic holding entity and presently holds 100% ownership interest in Progreen, a domestic corporation engaged in the business of alcohol and alcohol-related products, who in turn holds 100% ownership interest in SSPI, a domestic corporation engaged in management and maintenance of office, commercial, industrial and institutional developments in a certain science park.

Alcazar De Bana's registered office and principal place of business is located at 26th Floor, Alliance Global Tower 4, 36th Street cor. 11th Avenue Uptown Bonifacio, Taguig City.

(d) TEI is a domestic corporation presently engaged in leasing its land and manufacturing complex in Sta. Rosa, Laguna. In 2018, TEI acquired 51% ownership in Boozylife for a total consideration of P45.0 million. The acquired identifiable net assets are not material to the Group's consolidated financial statements. In January 2020, TEI increased its ownership to 62% [see Notes 3.1(c) and 24.6].

(e) EIL is a foreign entity incorporated in the British Virgin Islands. EIL is presently the parent company of the Group's offshore subsidiaries. EIL is effectively a wholly owned subsidiary of EMP through EMP's 84% direct ownership and EDI's 16% direct ownership.

EIL's registered office is at the offices of Portcullis TrustNet (BVI) Limited, which is currently located at Portcullis Trust Net Chambers, 4th Floor Skelton Building, 3076 Drake's Highway, Road Town, Tortola, British Virgin Islands.

(f) EGB is a foreign entity incorporated in the UK to operate as an investment holding entity. It is the ultimate UK parent undertaking and controlling entity. It holds 100% ownership interest over EUK which in turn holds 100% ownership interest over WMG [see Note 1.1(g)].

In 2019, EGB changed its registered office from 20-22 Bedford Road, London, United Kingdom to Suite 1, 3rd Floor, 11-12 St. James Square, London SW1Y 4LB.

(g) WMG is a foreign entity incorporated in the UK on August 7, 2001 and presently operating as an investment holding entity. WMG and its subsidiaries (collectively referred to as "WMG Group") are all engaged in businesses related to the main business of production, marketing and distribution of Scotch whisky, vodka, liqueurs and other alcoholic drinks. On September 5, 2019, the Group's Board of Directors ("BOD") approved WMG's restructuring by transferring its 100% direct ownership in WML and WMWL to its newly-incorporated wholly owned subsidiary, WMGL, through share exchange agreement [(see Note 1.1(h)]. The Group accounted for this business combination under common control using pooling-of-interests method [see Note 2.13(b)]. As a result of the restructuring, WMGL now holds 100% ownership in WML and WMWL while WMG holds 100% ownership in WMGL. EUK acquired WMG from United Spirits (Great Britain) Limited on a deal signed on May 9, 2014 and closed on October 31, 2014 for a total cash consideration of P30.3 billion.

WMG Group's registered office is located at St. Vincent Plaza, 319 St. Vincent Street, Glasgow, Scotland.

(h) WMGL is a foreign holding company established in 2018 in the UK to effect WMG Group's restructuring in 2019 [see Note 1.1(g)].

(i) WML is a foreign entity incorporated in the UK to carry out the production, marketing and distribution of Scotch whisky, vodka, liqueurs and other alcoholic drinks. WML holds 100% ownership interest in 41 dormant companies, all incorporated in the UK, and one active company, Whyte and Mackay Americas LLC, which handles the distribution of Whyte and Mackay brands within the United States of America.

(j) WMWL is a foreign entity incorporated in the UK to carry out warehousing for WML and third party customers.

(k) EA is a foreign entity incorporated in Singapore on July 10, 2013 as a limited private company with principal activity as a wholesaler of liquor, food and beverages, and tobacco. It holds 100% ownership interest in GES [see Note 1.1(l)].

EA's registered office is located at 1 Scotts Road, 19-06 Shaw Centre, Singapore.

(l) GES is a foreign entity incorporated on September 28, 2011 as a small limited liability company and subsequently changed to a large liability company on February 5, 2014. GES carries out activities related to the production of wines, fortified wines, brandies, and all types of alcoholic drinks, as well as the purchase, ownership and operations of any type of land, particularly, vineyards.

On November 27, 2015, GES reached a definitive agreement with Beam Suntory Spain, S.L. to purchase its Spanish brandy and sherry business (the Fundador Business Unit) in Jerez de la Frontera (Jerez), the brandy capital of Spain. GES assigned its rights and obligations under the agreement to its direct wholly owned subsidiary, BFS, on January 28, 2016. The purchase was subsequently completed on February 29, 2016 for a total cash consideration of P14.7 billion (see Note 10).

GES's registered office, which is also its principal place of business, is located at Torre Espacio – Paseo de la Castellana n° 259 D Planta 28, Madrid, Spain. GES currently holds direct interests in BSB, BFS, GEG, DBLC, Stillman, and BLC which were established in Spain with activities similar or related to its main business.

(m) Subsidiaries with registered office and principal place of business located at Torre Espacio – Paseo de la Castellana n° 259 D Planta 28, Madrid, Spain.

(n) Subsidiaries with registered office located at Torre Espacio – Paseo de la Castellana n° 259 D Planta 28, Madrid, Spain and principal place of business located in Jerez de la Frontera, Cadiz, Spain.

(o) BFS has a wholly owned subsidiary, Destilados de la Mancha S.L. On January 1, 2020, CBSP, existing subsidiary of GES, was merged with BFS through merger by absorption wherein the latter is the absorbent or surviving entity [see Note 1.1(r)]. The Group accounted for this business combination under common control using pooling-of-interests method [see Note 2.13(b)].

(p) DBLC is a foreign entity incorporated in Spain in later part of 2017 to operate as an investment holding entity with registered office located at Manuel Calle Maria González 12, Jerez de la Frontera, Cadiz, Spain. It presently holds 100% ownership interest in Mexican entities namely: Pedro Domecq S.A. de C.V. ("Pedro Domecq") and Domecq Distribucion De Bebidas S.A. de C.V., with registered office at Calle Presa Pabellón, 38, Mexico DF.

The acquisition of Domecq brand portfolio and its related assets in Mexico ("Domecq Acquisition") was signed by Pernod Ricard with BLC on December 1, 2016 and completed on March 30, 2017 by BLC and its two incorporated Mexican subsidiaries. The acquisition is treated as an asset acquisition [see Notes 2.13(c), 3.1(e) and 24.6]. Pedro Domecq and Bodega Domecq S.A. de C.V. ("Bodega Domecq") are foreign entities created by BLC on March 15, 2017 in relation to the Domecq Acquisition. These entities, together with Domecq Distribucion De Bebidas S.A. de C.V., existing subsidiary of BLC, were subsequently transferred to DBLC effectively on September 1, 2017 through spin-off acquisition.

On June 30, 2019, Bodega Domecq was merged by absorption with Pedro Domecq wherein the latter is the absorbent or surviving entity. The Group accounted for this business combination under common control using pooling-of-interests method [see Note 2.13(b)].

(q) Jointly controlled entity with registered office located at Torre Espacio – Paseo de la Castellana nº 259 D Planta 28, Madrid, Spain and principal place of business located in Jerez de la Frontera, Cadiz, Spain (see Note 12). BLC presently holds 100% ownership interests in Alcoholera dela Mancha Vinícola, S.L. and Vinedos del Rio Tajo S.L., which are both established in Spain with activities similar and related to the main businesses of GES and BLC.

(r) CBSP acquired from the previous owners (collectively referred to as "Grupo Garvey") certain tangible assets in Spain, including trademarks of well-known brands ("Garvey Acquisition") on January 19, 2017. The Garvey Acquisition is treated as an asset acquisition [see Notes 2.13(c) and 3.1(e)]. In 2020, CBSP was merged with BFS [see Note 1.1(o)].

(s) Stillman is a newly incorporated foreign entity established in Spain on March 20, 2019. Stillman is responsible for carrying the business of GES in the UK, following UK's exit from the European Union.

(t) EES is a foreign entity incorporated in Luxembourg as a private limited liability company, primarily to operate as an investment holding entity.

EES' registered office is located at L-1449 Luxembourg, 18, Rue de l'Eau.

1.2 Impact of COVID-19 Pandemic on Group's Business

The Group and other businesses in the world have been significantly exposed to the challenges brought about by the COVID-19 pandemic. Initially concentrated in China in December 2019, the outbreak became a Public Health Emergency of International Concern in January 2020 and declared as a pandemic by the World Health Organization ("WHO") on March 11, 2020. The pandemic which put the Philippines in a state of calamity is still sweeping globally as of date of this report and has been confirmed in almost every country and territory around the world, including the Philippines, United Kingdom and Spain where the Group has significant operations. Immediately, governments across the world have implemented safety protocols, stay-at-home orders and varying stages and degrees of lockdowns (called community quarantines in the Philippines) in order to control the movement of and close interaction among people and to protect their borders/localities.

The Group has conducted business operations in accordance with the government directives and safety protocols amidst the localized lockdown measures which include non-essential business suspension, limited public transportation (most airports still closed) and public gathering restrictions. The Group implemented work-from-home and rotation shifts based on nature of work. Physical distancing is strictly observed and laid out in the premises as well as the no-contact-greeting and no-visitors-allowed policies put in place. Those who report for work are provided with transport service and health and safety guards (face masks and face shields, alcohol/sanitizers, vitamin C and personal protective equipment). Most of business activities are conducted on digital platforms, including meetings, marketing campaigns and online selling.

Management believes the Group has adapted to the changes brought about by the pandemic as it ended the year with P8.0 billion net profit and P52.8 revenues, up 18% and 2% from a year ago, with higher return on assets of 7% and current ratio of 2.4x. It projects that the Group would continue to report positive results of operations and would remain liquid to meet current obligations as they fall due. It has not determined a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

1.3 Approval of the Consolidated Financial Statements

The consolidated financial statements of EMP and its subsidiaries as of and for the year ended December 31, 2020 (including the comparative consolidated financial statements as of December 31, 2019 and for the years ended December 31, 2019 and 2018) were authorized for issue by the Parent Company's BOD on April 15, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Consolidated Financial Statements

(a) *Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards ("PFRS"). PFRS are adopted by the Financial Reporting Standards Council ("FRSC") from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard ("PAS") 1, *Presentation of Financial Statements*. The Group presents all items of income, expenses and other comprehensive income or loss in a single consolidated statement of comprehensive income.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to such third consolidated statement of financial position are not required to be disclosed. The Group presented only one comparative period as none of these situations are applicable.

(c) *Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using the Parent Company's functional currency (see Note 2.17). Functional currency is the currency of the primary economic environment in which the Parent Company operates.

2.2 Adoption of New and Amended Standards

(a) *Effective in 2020 that are Relevant to the Group*

The Group adopted for the first time the following revisions to conceptual framework and amendments to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2020:

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 3 (Amendments)	:	Business Combinations – Definition of a Business
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform

Discussed below and in the succeeding page are the relevant information about these pronouncements.

(i) *Revised Conceptual Framework for Financial Reporting.* The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. The application of the revised conceptual framework had no impact on the Group's consolidated financial statements.

(ii) PAS 1 (Amendments), *Presentation of Financial Statements*, and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*. The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency. The application of these amendments had no impact on the Group's consolidated financial statements.

(iii) PFRS 3 (Amendments), *Business Combinations – Definition of a Business*. The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. Also, the amendments will likely result in more acquisitions being accounted for as asset acquisitions. The application of these amendments had no impact on the Group's consolidated financial statements.

(iv) PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 9 (Amendments), *Financial Instruments – Interest Rate Benchmark Reform*. The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The application of these amendments had no impact on the Group's consolidated financial statements.

(b) *Effective Subsequent to 2020 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2020, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, these are not expected to have significant impact on the Group's consolidated financial statements:

(i) PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions* (effective from June 30, 2020). The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

(ii) PFRS 3 (Amendments), *Business Combination – Reference to the Conceptual Framework* (effective from January 1, 2022). The amendments update an outdated reference to the Conceptual Framework in PFRS 3 without significantly changing the requirements in the standard.

(iii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment 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 cost of producing those items, in profit or loss.

(iv) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(v) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Group:

a. PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*. The improvements clarify the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

b. Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The improvement merely removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives.

(vi) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

(vii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3 between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

2.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of EMP, and its subsidiaries as enumerated in Note 1.1, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses, dividends and unrealized profits and losses from intercompany transactions that are recognized in assets are eliminated in full on consolidation. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as that of the Parent Company, using consistent accounting principles. Financial statements of a certain entity in the Group that are prepared as of a date different from that of the date of these consolidated financial statements were adjusted to recognize the effects of significant transactions or events that occur between that date of their reporting period and the date of these consolidated financial statements. Adjustments are also made to bring into line any dissimilar accounting policies that may exist.

The Group accounts for its investments in subsidiaries, investment in a joint venture, and transactions with non-controlling interest ("NCI") as follows:

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and (iii) it has the ability to affect those returns through its power over the entity. The acquisition method is applied to account for acquired business subsidiaries [see Notes 2.13(a) and 3.1(e)]. Subsidiaries are consolidated from the date the Parent Company obtains control.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

(b) Investment in a Joint Venture

A jointly controlled entity is a corporation, partnership, or other entity in which two or more venturers have an interest, under a contractual arrangement that establishes joint control over the entity. Each venturer usually contributes cash or other resources to the jointly controlled entity. Those contributions are included in the accounting records of the venturer and recognized in the venturer's financial statements as an investment in the jointly controlled entity.

Investment in a joint venture is initially recognized at cost and subsequently accounted for using the equity method (see Note 12).

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Acquired investment in the jointly controlled entity is subject to the purchase method. The purchase method involves the recognition of the jointly controlled entity's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the venturer's share of the identifiable net assets of the joint venture at the date of acquisition. Any goodwill or fair value adjustment attributable to the venturer's share in the joint venture is included in the amount recognized as investment in a joint venture.

All subsequent changes to the ownership interest in the equity of the joint venture are recognized in the venturer's carrying amount of the investments. Changes resulting from the profit or loss generated by the joint venture are credited or charged against Equity share in net income of joint venture, which is presented as part of Revenues and Other Income or Costs and Expenses section (under Other Charges account) in the consolidated statement of comprehensive income.

Impairment loss is provided when there is objective evidence that the investment in a joint venture will not be recovered (see Note 2.18).

Changes resulting from other comprehensive income of the jointly controlled entity or items recognized directly in the jointly controlled entity's equity are recognized in other comprehensive income or equity of the venturer, as applicable. However, when the venturer's share of losses in a joint venture equals or exceeds its interest in the associate, including any other unsecured receivables, the venturer does not recognize further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the venturer resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the jointly controlled entity are accounted for as a reduction of the carrying value of the investment.

(c) *Transactions with Non-controlling Interest*

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in consolidated profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

The Parent Company holds interests in various subsidiaries and in a joint venture as presented in Notes 1 and 12, respectively.

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2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's strategic executive committee, its chief operating decision-maker. The strategic executive committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's product lines, which represent the main products provided by the Group. Each of these operating segments is managed separately as each of these product lines requires different processes and other resources as well as marketing approaches. All intersegment transfers are carried out at arm's length prices.

The measurement policies the Group use for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its consolidated financial statements.

There have been no changes from prior period in the measurement methods used to determine reported segment profit or loss.

2.5 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Group commits to purchase or sell the asset).

Interest income is calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate is applied to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired where the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis.

For financial assets that were credit-impaired on initial recognition (purchased or originated), interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

Dividend income is recognized when the Group's right to receive dividends is established, it is probable that economic benefits associated with the dividends will flow to the Group, and the amount of dividend can be measured reliably.

Interest and dividend earned on these investments are presented as Other income in the Revenues and Other Income section in the consolidated statement of comprehensive income.

(a) Classification and Measurement of Financial Assets

The classification and measurement of financial assets is driven by the Group's business model for managing the financial assets ("business model test") and the contractual cash flow characteristics of the financial assets ("cash flow characteristics test") to achieve a particular business objective. The business model is determined at a higher level of aggregation (portfolio or group of financial assets managed together) and not on an instrument-by-instrument approach to classification (i.e., not based on intention for each or specific characteristic of individual instrument) in order to achieve the stated objective and, specifically, realize the cash flows.

Financial assets, other than those designated and effective as hedging instruments, are initially measured at fair value and then subsequently measured either at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"), depending on the classification determined at initial recognition. The initial measurement includes transaction costs, except for those at FVTPL in which the related transaction costs are recognized in profit or loss.

(i) Financial Assets at Amortized Cost

Financial assets are classified at amortized cost if both of the following conditions are met:

- Business model test: the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- Cash flow characteristics test: the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Except for trade and other receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, *Revenue from Contracts with Customers*, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss ("ECL").

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents (see Note 5), Trade and Other Receivables [except Advances to suppliers (see Note 2.7) and Advances to officers and employees] (see Note 6), and Property mortgage receivable and Refundable security deposits [presented as part of Other Non-current Assets (see Note 11.2)].

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Financial assets at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

(ii) Financial Assets at Fair Value

Financial assets are classified at fair value through other comprehensive income ("FVOCI") if both of the following conditions are met:

- Business model test: asset is held within the Group's business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset ("hold to collect and sell"); and,

- Cash flow characteristics test: SPPI on the principal amount outstanding.

Financial assets are classified under fair value through profit or loss ("FVTPL") if they do not meet the conditions for measurement at amortized cost or FVOCI; instead, these are held within a business model whose objective is to realize changes in fair values through the sale of the assets. These include financial assets that are held for trading, which are acquired for the purpose of selling or repurchasing in the near term; designated upon initial recognition as FVTPL; or mandatorily required to be measured at fair value. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

The Group occasionally uses derivative financial instruments, such as foreign exchange forward contracts, to manage its risks associated with fluctuations in foreign currency. Derivative assets and derivative liabilities arise from foreign exchange margins trading spot and forward contracts entered into by the Group. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative [see Note 2.11(a)]. The term of these forward contracts is usually one month to one year.

The Group's derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to consolidated profit or loss for the period.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Changes in fair value, including foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and reported as part of Revaluation Reserves account in Equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves is transferred to profit or loss.

Financial assets at FVTPL are measured at fair value with fair value gains or losses recognized as part of Other income in the Revenues and Other Income section or Other Charges in Costs and Expenses section in the consolidated profit of loss. The fair values of these financial assets are determined by reference to active market transactions or by the use of a valuation technique where no active market exists.

(b) Impairment of Financial Assets

At the end of each reporting period, the Group assesses impairment using ECL model on a forward-looking basis associated with its financial assets carried at amortized cost. The carrying amount of the financial asset at amortized cost would be reduced either directly or through the use of an allowance account. Recognition of credit losses is no longer dependent on the identification of a credit loss event. Instead, a broader range of information is considered in assessing credit risk and measuring ECL, including past events, current conditions, and reasonable and supportable forecasts that affect collectibility of the future cash flows of the financial assets. The Group considers all reasonable and supportable information that is available without undue cost or effort, as well as observable market information about the credit risk of the particular financial instrument or similar financial instruments.

Since the Group's financial assets measured at amortized cost have no significant financing component, the Group applies the simplified approach in measuring ECL, which uses a lifetime ECL allowance for all trade receivables using provision matrix approach and loss rates approach, as the case may be. The lifetime ECL is estimated based on the expected cash shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. To calculate the ECL, the Group uses its historical experience, external indicators and forward-looking information. The Group also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due [see Notes 3.2(b) and 27.2].

For the other financial assets measured at amortized cost, the Group applies the low credit risk simplification and measures the ECL on the financial assets based on the credit losses expected to result from default events that are possible within the next 12 months, unless there has been a significant increase in credit risk since origination, in that case, the loss allowance will be based on lifetime ECL.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. The key elements used in the calculation of ECL are as follows:

- *Probability of Default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.

- *Loss Given Default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral or effect of any credit enhancement.

- *Exposure at Default* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation which pertains to its amortized cost.

(c) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(d) Reclassification of Financial Assets

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. A change in the objective of the Group's business model will take effect only at the beginning of the next reporting period following the change in the business model.

- From amortized cost to FVTPL: Fair value is measured at reclassification date, with the difference between the amortized cost and fair value recognized as gain or loss in profit or loss.

- From amortized cost to FVOCI: Fair value is measured at reclassification date, with the difference between the amortized cost and the fair value recognized as gain or loss in other comprehensive income ("OCI"). The effective interest rate and the measurement of ECL remain the same.

- From FVTPL to amortized cost: Fair value at the reclassification date becomes its new gross carrying amount. The effective interest rate is determined on the basis of the fair value at reclassification date, which is now treated as the date of initial recognition.

- From FVTPL to FVOCI: The financial asset continues to be measured at fair value.

- From FVOCI to amortized cost: Fair value at the reclassification date becomes its new gross carrying amount. The cumulative gain or loss previously recognized in OCI is removed from equity and adjusted against the fair value of the financial asset at reclassification date. As a result, the measurement at reclassification date is as if the financial asset had always been measured at amortized cost. This adjustment affects OCI but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of ECL remain the same.

- From FVOCI to FVTPL: The financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in OCI is reclassified to profit or loss as a reclassification adjustment at reclassification date.

There were no reclassification of financial assets in 2020 and 2019.

2.6 Inventories

Inventories (see Note 8) are valued at the lower of cost and net realizable value ("NRV"). Cost is determined using the first-in, first-out method. Finished goods and work-in-process include the cost of raw materials, direct labor and a proportion of manufacturing overhead (including an element of depreciation), based on normal operating capacity. The cost of raw materials includes all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

NRV of finished goods is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. NRV of raw materials is the current replacement cost [see Note 3.2(c)].

2.7 Other Assets

Other assets (see Note 11) pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), these assets are classified as non-current assets.

Advances to suppliers that will be applied as payment for purchase of inventories or services to be rendered in the future are classified and presented under the Trade and Other Receivables account. On the other hand, advances to suppliers that will be applied as payment for purchase of items under property and equipment are classified and presented under the Other Non-current Assets account. These classification and presentation are based on the eventual realization of the asset to which it was advanced for.

2.8 Property, Plant and Equipment

Property, plant and equipment (see Note 9) are carried at acquisition cost and, except for land, less accumulated depreciation, amortization and any impairment losses (see Note 2.18). As no definite useful life for land can be determined, the related carrying amount (which is cost less any impairment losses) is not depreciated.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use, including borrowing costs (see Note 2.21). Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows [see Note 3.2(d)]:

Buildings and improvements	25 to 50 years
Land improvements	10 years
Machinery and equipment (including tools and other equipment)	2 to 20 years
Transportation equipment	3 to 10 years
Office furniture and fixtures	3 to 10 years

Moulds and dies are depreciated using their expected usage for the period. The total usage during the period multiplied by rate results to depreciation expense for the period. The rate is computed by dividing cost by estimated cases to be produced.

Right-of-use assets are depreciated over the term of the lease ranging from two to seven years.

Leasehold improvements are amortized over the estimated useful life of the improvements of 5 to 10 years or the lease term, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes costs of construction, applicable borrowing costs (see Note 2.21) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

The residual values, estimated useful lives and methods of depreciation and amortization of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment, including the related accumulated depreciation, amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the consolidated statement of comprehensive income in the year the item is derecognized.

2.9 Intangible Assets

Intangible assets include trademarks and goodwill, which are accounted for under the cost model (see Note 10). The cost of the trademarks is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs for trademarks with definite lives are amortized on a straight-line basis over their estimated useful lives of ten years. Capitalized costs for trademarks with indefinite useful lives are not amortized. The useful lives are reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment. Changes in the useful life assessment from indefinite to definite, if any, are accounted for as change in accounting estimate. In addition, trademarks and goodwill are subject to impairment testing as described in Note 2.18.

When an intangible asset, such as trademarks, is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in consolidated profit or loss.

2.10 Non-current Assets Held for Sale

Non-current assets held for sale pertain to land and building previously classified as property, plant and equipment that the Group intends to sell within one year, except when delay is caused by events or circumstances beyond the Group's control, from the date of reclassification as held for sale.

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset.

Non-current assets held for sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. The Group shall recognize an impairment loss for any initial or subsequent write-down of the asset at fair value less cost to sell. Gain from any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation.

If the Group has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the Group shall cease to classify the asset as held for sale.

The gain or loss arising from the sale or re-measurement of held for sale assets is recognized in profit or loss in the consolidated statement of comprehensive income.

2.11 Financial Liabilities

The categories of financial liabilities relevant to the Group are more fully described as follows:

(a) *Financial Liabilities at FVTPL*

Financial liabilities are classified in this category if they are held for trading or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category (see Note 7).

The Group's financial liabilities at FVTPL pertain to derivative financial instruments which are carried as liabilities when the fair value is negative and are presented as Financial Liabilities at Fair Value Through Profit or Loss account in the consolidated statement of financial position [see Note 2.5(a)(ii)].

(b) *Financial Liabilities at Amortized Cost*

This category pertains to financial liabilities that are not held for trading or not designated as financial liabilities at FVTPL upon inception of the liability. This includes interest-bearing loans (see Note 14), trade and other payables [except output value-added tax ("VAT") and other tax-related payables] (see Note 16), lease liabilities (see Note 9.3), dividends payable (see Note 24.3) and the financial liability component of equity-linked securities ("ELS") instrument (see Note 15), and is recognized when the Group becomes a party to the contractual agreements of the instrument.

Financial liabilities are initially recognized at their fair values and subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments.

The financial liability component of the ELS is recognized initially as the present value of the contractual stream of future cash flows, less any directly attributable transaction costs, and is subsequently measured at amortized cost using the effective interest method.

All interest-related charges, if any, are recognized as an expense under the Interest Expense in the consolidated statement of comprehensive income.

Dividend distributions to stockholders are recognized as financial liabilities on the record date set upon declaration by the Group.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in consolidated profit or loss.

2.12 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments. The Group does not have offsetting arrangements and had not offset any financial asset and financial liability in the periods reported.

2.13 Business Combination and Asset Acquisition

Business acquisitions are accounted for using the acquisition or pooling-of-interest method of accounting. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members and participants.

(a) *Accounting for Business Combination using the Acquisition Method*

The acquisition method requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any NCI in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in consolidated profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any NCI in the acquiree, either at fair value or at the NCI's proportionate share of the recognized amounts of acquiree's identifiable net assets [see Note 2.3(c)].

Goodwill is recognized if the consideration transferred, the amount of any NCI in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree are in excess of the acquisition-date fair value of identifiable net assets acquired. Negative goodwill, as in the case of a bargain purchase, is recognized if the consideration transferred is less than the fair value of the net assets of the subsidiary acquired; such difference is recognized directly as gain in consolidated profit or loss.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the consolidated profit or loss or consolidated other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in consolidated profit or loss or as a change to consolidated other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

(b) *Accounting for Business Combination using the Pooling-of-interest Method*

Business combinations arising from transfers of interests in entities that are under the common control of the principal stockholder are accounted for under the pooling-of-interest method. Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting; hence, the assets and liabilities are reflected in the consolidated financial statements at carrying values and no adjustments are made to reflect fair values or recognized any new assets or liabilities, at the date of the combination that otherwise would have been done under the acquisition method.

No restatements are made to the financial information in the consolidated financial statements for periods prior to the business combination as allowed under Philippine Interpretations Committee (PIC) Question & Answer (Q&A) No. 2012-01, PFRS 3.2 – *Application of Pooling of Interest Method for Business Combination of Entities under Common Control in Consolidated Financial Statements* (as amended by PIC Q&A No. 2015-01, *Conforming Changes to PIC Q&As – Cycle 2015*, and PIC Q&A No. 2018-13, *Conforming Changes to PIC Q&As – Cycle 2018)*; hence, the profit and loss of the acquiree is included in the consolidated financial statements for the full year, irrespective of when the combination took place. Also, no goodwill is recognized as a result of the business combination and any excess between the net assets of the acquiree and the consideration paid is accounted for as "equity reserves". Also, any pre-acquisition income and expenses of a subsidiary are no longer included in the consolidated financial statements. The Group used this method in accounting for the merger between BFS and CBSP in 2020, the merger between Pedro Domecq and Bodega Domecq in 2019 and the restructuring of WMG in 2019 [see Note 1.1(g), (o) and (p)].

(c) *Accounting for Asset Acquisition*

Acquisition of assets in an entity which does not constitute a business is accounted for as an asset acquisition. Under the asset purchase accounting, the purchase costs are allocated to identifiable assets and liabilities based on relative fair values of individual items; any goodwill or gain on bargain purchase is not recognized; and transaction costs are capitalized.

2.14 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.15 Revenue and Expense Recognition

Revenue arises mainly from the sales of goods and services, rental income, interest income, dividend income and trading gains.

Revenue is recognized in a manner that depicts the pattern of goods and services to customers at an amount to which the Group expects to be entitled in exchange for those goods and services. The focus of revenue recognition is on the transfer of control of goods or services, which could be at a point in time or over time, following this five-step process:

(1) identify the contract with a customer;
(2) identify the performance obligation (distinct goods or services promised) in the contract;
(3) determine the transaction price (including fixed amounts or variable amounts, or both, financing components, non-cash consideration, consideration payable to customer, if any);
(4) allocate the transaction price to the performance obligations; and,
(5) recognize revenue when (or as) performance obligations are satisfied (at a point in time or over time).

In identifying whether a contract with a customer exists, the following five gating criteria must be present:

(i) the parties to the contract have approved the contract and committed to perform their respective obligations;
(ii) each party's rights in relation to the goods or services to be transferred or performed can be identified;
(iii) the payment terms can be identified;
(iv) the contract has commercial substance (i.e., the Group expects the risk, timing or amount of the future cash flows to change as a result of the contract); and,
(v) collection of the consideration in exchange of the goods and services is probable (i.e., more likely than not to occur).

A contract, for purposes of revenue recognition, does not exist if each party has a unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
(ii) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(iii) the Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

Revenue from sale of goods are recognized at a point in time, when the customer has acknowledged the receipt of the goods, while services are recognized over time based on the measure of progress of services rendered to the customer. Payment terms for sale of goods on credit vary as to number of days after receipt by the customer.

As applicable, when the Group is required to refund the related purchase price for returned goods, it recognizes a refund liability for the expected refunds by adjusting the amount of revenues recognized during the period. Also, if applicable, the Group recognizes a right of refund asset on goods to be recovered from customers with a corresponding adjustment to Costs of Goods Sold account. However, there were no contracts that contain significant right of return arrangements that remain outstanding as of the end of the reporting periods.

Costs and expenses (see Notes 19 and 20) are recognized in consolidated profit or loss upon utilization of goods or rendering of services or at the date these are incurred. All finance costs are reported in consolidated profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.21).

In obtaining customer contracts, the Group incurs incremental costs. When the expected amortization period of these costs if capitalized would be less than one year, the Group uses the practical expediency by recognizing such costs as incurred. The Group also incurs costs in fulfilling contract with customers (i.e., freight and handling), which are accounted for in accordance with accounting policies related to those assets (see Notes 2.6, 2.8 and 2.9).

2.16 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

(i) Accounting for Leases in Accordance with PFRS 16 (2020 and 2019)

For any new contracts entered into on or after January 1, 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

To apply such definition, the Group assesses whether the contract meets the following three key evaluations:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- there is a right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering the rights within the defined scope of the contract; and,
- there is a right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At commencement date of the lease, a right-of-use asset and a lease liability are recognized in the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

Subsequently, the right-of-use asset is depreciated on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.18).

On the other hand, the lease liability is measured at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease, if that rate is readily available, or the Group's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the consolidated statement of financial position, Right-of-use assets are presented as part of Property, Plant and Equipment while Lease Liabilities are presented as separate line item under the Current and Non-current Liabilities sections.

(ii) Accounting for Leases in Accordance with PAS 17 (2018)

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in consolidated profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

(b) Group as Lessor

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific or identified asset or assets and the arrangement conveys a right to use the asset for a period of time in exchange for consideration.

2.17 Foreign Currency Transactions and Translation

(a) Transactions and Balances

Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income as part of profit or loss.

(b) Translation of Financial Statements of Foreign Subsidiaries

The consolidated operating results and financial position of offshore subsidiaries (see Note 1.1), which are measured using the United States ("U.S.") dollar, British pound sterling ("GBP") and European Union euro ("EUR"), their functional currencies, are translated to Philippine pesos, the Parent Company's functional currency, as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses for each profit or loss account are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting translation adjustments are recognized in other comprehensive income and in a separate component of equity under the Accumulated Translation Adjustments account.

When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the consolidated statement of comprehensive income as part of the gain or loss on sale.

The translation of the financial statements into Philippine peso should not be construed as a representation that the foreign currency amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.18 Impairment of Non-financial Assets

Property, plant and equipment (see Note 9.1), right-of-use assets (see Note 9.2), intangible assets (see Note 10), investment in a joint venture (see Note 12), and other non-financial assets (see Note 11) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable, except for goodwill and intangible assets with indefinite useful lives, which are required to be tested for impairment annually.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts, which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows.

The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

Except for goodwill and intangible assets with indefinite useful lives, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.19 Employment Benefits

The Group's post-employment benefits to its employees are as follows:

(a) *Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's retirement cost accrual covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the consolidated statement of financial position for defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated regularly by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds, using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation ("BVAL"), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions) and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in consolidated other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions to the plan or benefit payments. Net interest is reported as part of Interest Expense account in the consolidated statement of comprehensive income. Past service costs are recognized immediately in the consolidated statement of comprehensive income in the period of a plan amendment or curtailment.

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) *Short-term Employee Benefits*

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before 12 months after the end of the annual reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Accrued expenses under the Trade and Other Payables account in the consolidated statement of financial position.

(d) *Bonus Plans*

The Group recognizes a liability and an expense for bonuses based on a formula that takes into consideration the Group's profits after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.20 Share-based Employee Remuneration

The Parent Company grants share options to qualified employees of the Group eligible under a share option plan. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (e.g., profitability and sales growth targets and performance conditions), if any. The share-based remuneration is recognized as an expense in the consolidated profit or loss with a corresponding credit to Share Options Outstanding account under the Equity section of the consolidated statement of financial position.

The share-based remuneration expense is recognized during the vesting period based on the best available estimate of the number of share options expected to vest. The estimate is subsequently revised, if necessary, such that it equals the number of share options that ultimately vests on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options expire or are ultimately not exercised.

Upon exercise of share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as additional paid-in capital.

Upon expiration of the unexercised share option, the value assigned to the stock option is transferred to additional paid-in capital.

2.21 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset (see Notes 9 and 13). The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.22 Income Taxes

Tax expense comprises the sum of current tax and deferred tax recognized in the consolidated profit or loss (see Note 22).

Current tax assets or current tax liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or current tax liabilities are recognized as a component of tax expense in the consolidated statement of comprehensive income.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets, whether recognized or unrecognized, are reassessed at the end of each reporting period and are recognized or reduced, as the case may be, to the extent that it has become probable that future taxable profit will be available to allow all or part of such deferred tax assets to be utilized [see Note 3.2(f)].

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, provided such tax rates have been enacted or substantially enacted at the end of the reporting period.

Most changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.23 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged (see Note 23).

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, (d) close members of the family of any such individual; and, (e) the Group's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Transactions, individually or in aggregate, amounting to 10% or more of the total assets based on the latest audited consolidated financial statements that were entered into with related parties are considered material.

All individual material related party transactions shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a one year period that breaches the 10% materiality threshold, the same board approval would be required for the transaction(s) that meets and exceeds the materiality threshold covering the same related party.

Directors with personal interest in the transaction should abstain from participating in discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

2.24 Equity

Capital stock represents the nominal value of shares that have been issued (see Note 24.1).

Additional paid-in capital ("APIC") includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits. Excess of proceeds from sale of treasury shares over acquisition cost of such treasury shares is also added to APIC (see Note 24.1).

Treasury shares are EMP shares reacquired by the Group but not cancelled. These are carried at cost of reacquiring such shares and are deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled, reissued or disposed of (see Note 24.2).

Conversion options outstanding represent the equity component of ELS. This will eventually be closed to APIC upon settlement or conversion of the ELS [see Note 3.2(h)].

Share options outstanding represent the accumulated total of employee share options' amortizations over the vesting period as share-based employee remuneration are recognized and reported in the consolidated statement of comprehensive income. This will eventually be closed to APIC upon exercise or expiration.

Accumulated translation adjustments represent the translation adjustments resulting from the translation of foreign currency-denominated financial statements of foreign subsidiaries into the Group's functional and presentation currency [see Note 2.17(b)(iii)].

Revaluation reserves comprise gains and losses due to remeasurements of post-employment defined benefit plan.

Other reserves include legal reserves that represent the statutory requirements in Luxembourg, which comprise of net wealth tax reserve and capital reserve. Certain statutory requirements based on Spanish legislation were also included as part of this account.

Retained earnings, the appropriated portion of which is not available for dividend declaration (see Note 24.5), represent the current and all prior period results of operations as reported in the consolidated profit or loss section of the consolidated statement of comprehensive income, reduced by the amounts of dividends declared.

Non-controlling interests ("NCI") represent the portion of the net assets and profit or loss not attributable to the Parent Company's stockholders which are presented separately in the Group's consolidated statement of comprehensive income and within the equity in the Group's consolidated statement of financial position and consolidated statement of changes in equity (see Note 24.6).

2.25 Earnings Per Share

Basic earnings per share ("EPS") is determined by dividing the net profit attributable to equity holders of the Parent Company by the weighted average number of common shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared and shares reacquired during the current year (see Note 25).

Diluted EPS is computed by adjusting the weighted average number of shares outstanding to assume conversion of dilutive potential shares. The Group has dilutive potential shares outstanding related to its employee share options and convertible ELS, which are deemed to have been converted to common shares at the date of issuance of the options.

2.26 Events After the End of the Reporting Period

Any post year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Evaluation of Business Model and Cash Flow Characteristics of Financial Instruments

The Group applies the business model test and cash flow characteristics test at a portfolio of financial assets (i.e., group of financial instruments that are managed together to achieve a particular objective) and not on an instrument-by-instrument approach (i.e., not based on intention for each or specific characteristic of individual instrument) as these relate to the Group's investment and trading strategies. The business model assessment is performed on the basis of reasonably expected scenarios (and not on reasonably expected not to occur, such as the so-called 'worst case' or 'stress case' scenarios). A business model for managing financial assets is typically observable through the activities that the Group undertakes to achieve the objective of the business model.

The Group uses judgment when it assesses its business model for managing financial assets and that assessment is not determined by a single factor or activity. Instead, the Group considers all relevant evidence that is available at the date of assessment which includes, but not limited to:

- how the performance of the business model and the financial assets held within the business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and,

- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

(b) *Determination of ECL on Financial Assets at Amortized Cost*

The Group applies the ECL methodology which requires certain judgments in selecting the appropriate method in determining the amount of ECL. In measuring ECL, the Group considers a broader range of information which include past events, current conditions, and reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets. The Group uses loss rates and provision matrix to calculate ECL.

The provision matrix and loss rates are based on the Group's historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Group's trade and other receivables are disclosed in Notes 2.5(b) and 27.2(b).

(c) *Distinction Between Operating and Finance Leases for Contracts where the Group is the Lessor*

The Group has entered into various lease agreements as a lessor. Critical judgment was exercised by management to distinguish the lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the property covered by the agreement. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's judgement, such leases were determined to be operating leases.

(d) *Determination of Lease Term of Contracts with Renewal and Termination Options (2020 and 2019)*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option.

Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of bottling plant, warehouses, office spaces, commercial buildings, vehicles, fitting and equipment, the factors that are normally the most relevant are (a) if there are significant penalties should the Group pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Group is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased assets.

The lease term is reassessed if an option is actually exercised or not exercised or the Group becomes obliged to exercise or not exercise it. In assessing the enforceability of the option, an entity should consider whether the lessor can refuse to agree to a request from the lessee to extend the lease. Accordingly, if the lessee has the right to extend or terminate the lease, there are enforceable rights and obligations beyond the initial non-cancellable period and thus, the parties to the lease would be required to consider those optional periods in their assessment of the lease term.

(e) *Distinction Between Business Combination and Asset Acquisition*

The Group determines whether an acquisition of an entity constitute a business combination or an asset acquisition. The accounting treatment for the acquisition is determined by assessing whether the transaction involved a purchase of a "business" taking into consideration the substance of the transaction. Failure to make the right judgment will result in misstatement of assets and other accounts that could have been affected by the transactions (see Note 2.13)

The groups of assets acquired in the Domecq Acquisition and Garvey Acquisition do not include an integrated set of activities that are capable of being managed. In addition, the group of assets acquired under the Garvey Acquisition was previously under receivership from various third parties. Accordingly, management has assessed that the Domecq Acquisition and Garvey Acquisition, as disclosed in Note 1.1(p) and (r), are to be accounted for as asset acquisition since these do not constitute a purchase of business; hence, no goodwill or gain on acquisition was recognized.

Conversely, EUK's purchases of ownership in WMG, EDI's acquisition of full equity ownership in TEI, TEI's acquisition of 51% ownership in Boozylife, and BFS's purchases of Fundador Business Unit as disclosed in Notes 1.1(d), (g), (l) and 10, are accounted for as business combinations using the acquisition method. On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in consolidated profit or loss in the subsequent period.

Moreover, the transfers of ownership interest over WML and WMWL from WMG to WMGL, the merger between CBSP and BFS and the merger between Pedro Domecq and Bodega Domecq are accounted for as business combinations using pooling-of-interest method as these are transfers of interests in entities that are under the common control and there is no change of control before and after the restructuring or mergers [see Note 1.1(g), (o) and (p)].

(f) *Determination of Control or Joint Control*

Judgment is exercised in determining whether the Group has control or joint control over an entity. In assessing each interest over an entity, the Group considers voting rights, representation on the BOD or equivalent governing body of the investee, participation in policy-making process and all other facts and circumstances, including terms of any contractual agreement.

Management considers that the Group has control over DBLC because it holds 50% of the common shares. The Parent Company, through its wholly owned subsidiary, GES, exercises control over the entity because GES has the ability to direct the relevant activities of DBLC through appointment of key management personnel (see Note 1.1).

Management considers that the Group has joint control over BLC because the agreement involves contractually agreed sharing of control and that decisions about relevant activities require the unanimous consent of the parties sharing control.

(g) Classification of Non-current Assets as Held for Sale

The Group classifies an asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal group) and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except when delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset (or disposal group). The actions required to complete the plan should also indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Based on management's assessment, the letter of intent which provides the Group's commitment to sell certain land and buildings to a related party in 2020 is the main consideration for classifying these assets as non-current assets held for sale (see Note 13).

(h) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.14 and disclosures on relevant provisions and contingencies are presented in Notes 17 and 26.

3.2 Key Sources of Estimation Uncertainty

Presented in the succeeding pages are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

(a) Impairment of Financial Assets at Amortized Cost

In measuring ECL, the Group added significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of counterparties defaulting and the resulting losses), as further detailed in Note 27.2. The Group evaluated impairment based on available facts and circumstances affecting collectability of accounts, including but not limited to, the length of the Group's relationship with the counterparties, counterparties' credit status, age of accounts and collection and historical loss experience. Based on the management's review, appropriate allowance for ECL has been recognized on the Group's financial assets in 2020, 2019 and 2018 (see Notes 2.5 and 6).

(b) Fair Value Measurement of Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values and amounts of fair value changes recognized during the years presented on the Group's financial instruments at FVTPL [see Notes 2.5(a)(ii) and 2.11(a)] are disclosed in Note 7.

(c) Determination of Net Realizable Values of Inventories

In determining the net realizable values of inventories (see Note 2.6), management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is subject to changes in market factors that directly affect the demand for alcoholic beverages such as purchasing power of consumers, degree of competition, and other market-related factors. Future realization of inventories is affected by price changes in the costs incurred necessary to produce the inventories and make a sale. These aspects are considered as key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next reporting period. A reconciliation of the allowance for inventory write-down is presented in Note 8.

(d) Estimation of Useful Lives of Property, Plant and Equipment, Right-of-Use Assets and Trademarks

The Group estimates the useful lives of property, plant and equipment, right-of-use assets and trademarks based on the period over which the assets are expected to be available for use. Certain trademarks were determined to have indefinite useful lives because these brands have been in existence for more than 100 years.

The estimated useful lives of property, plant and equipment, right-of-use assets and trademarks are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets [see Notes 2.8, 2.9 and 2.16(a)(i)]. The carrying amounts of property, plant and equipment, right-of-use assets and trademarks are presented in Notes 9.1, 9.2 and 10, respectively.

(e) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2020 and 2019)*

The Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Group's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(f) *Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2020 and 2019 will be fully utilized in the subsequent reporting periods. The carrying value of deferred tax assets as of those dates is disclosed in Note 22.

(g) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses were recognized on non-financial assets in 2020, 2019 and 2018, except for impairment of certain intangible assets in 2019 as shown in Note 10, based on management's assessment.

(h) *Recognition of Financial Liability and Equity Components of Compound Financial Instruments*

The ELS [see Notes 2.11(b) and 15] contains both a financial liability, which is the Group's contractual obligation to pay cash, and an equity component, which is the holder's option to convert it into the Parent Company's common shares. The value of the financial liability component is determined separately, which is deducted from the fair value of the compound instrument as a whole, and the residual amount is assigned as the value of the equity component.

Valuation techniques are used to determine the fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as own credit risk, volatilities and correlations require management to make estimates. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the date of the issuance of the ELS.

Initially, the Group determined the carrying amount of the financial liability component by measuring the present value of the contractual stream of future cash flows, using the interest rate of similar liabilities that do not have an associated equity component. When the fair value of the financial liability is compared with the fair value of the compound financial instrument as a whole, which is equivalent to the issue price, there was no residual amount such that no value was assigned to the equity component; hence, no equity component was recognized in the consolidated financial statements at that time. Subsequently, the financial liability was measured at amortized cost. The total carrying amount of the ELS was presented as Equity-linked Debt Securities account under the Current and Non-current Liabilities section of the consolidated statements of financial position (see Note 15).

In 2017, as a result of the amendment of the ELS, management reassessed the compound financial instrument and recomputed the fair values of the components at the time of amendment, which resulted in a revalued financial liability component [see Note 2.11(b)] and an equity component with value (see Note 2.24). Accordingly, the Group presented the components separately as Equity-linked Debt Securities (see Note 15) and Conversion Options Outstanding accounts under the Non-current Liabilities and Equity sections, respectively, of the consolidated statements of financial position.

On December 4, 2019, the Group exercised the option to extend the redemption date of ELS until December 4, 2021 which did not result to substantial modification of terms.

(i) *Valuation of Post-employment Defined Benefit*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by management and actuaries in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase, and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment defined benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 21.3.

(j) *Fair Value Measurement of Share Options*

The Group estimates the fair value of the share option by applying an option valuation model, taking into account the terms and conditions on which the share option was granted. The estimates and assumptions used are presented in Note 24.4 which include, among others, the option's time of expiration, applicable risk-free interest rate, expected dividend yield, volatility of the Parent Company's share price. Changes in these factors can affect the fair value of share options at grant date.

Details of employee share option plan and the amount of fair value recognized is presented in Note 24.4.

(k) *Determination of Provision for Onerous Lease*

The Group determines the provision for leasehold properties which are no longer used in the business for which the recoverable amount of the interest in the property is expected to be insufficient to cover future obligations relating to the lease using discounted cash flows and assumptions relating to future sublease income expectations. A significant change in the credit-adjusted risk-free rate used in discounting the estimated cost and sublease assumptions would result in a significant change in the amount of provision recognized with a corresponding effect in consolidated profit or loss.

In 2019, these provisions were directly adjusted against the beginning balance of the Group's right-of-use assets in accordance with PFRS 16. In 2020, additional provision was recognized due to changes in assumptions arising from the impact of COVID-19. An analysis of the Group's provision for onerous lease is presented in Note 17.1.

(l) *Determination of Provision for Restoration of Leased Property*

Determining provision for leased property restoration requires estimation of the cost of dismantling and restoring the leased properties to their original condition. The estimated cost was initially determined based on a recent cost to restore the facilities and is being adjusted to consider the estimated incremental annual costs up to the end of the lease term. A significant change in the credit-adjusted risk-free rate used in discounting the estimated cost would result in a significant change in the amount of provision recognized with a corresponding effect in profit or loss.

An analysis of the Group's provisions for leased property restoration cost is presented in Note 17.2.

4. SEGMENT INFORMATION

4.1 *Business Segments*

The Group is organized into two business segments, the Brandy and Scotch Whisky, which represent the two major distilled spirits categories where the Group operates. Scotch Whisky pertains to the UK operations and the rest fall under Brandy. This is also the basis of the Group's executive committee for its strategic decision-making activities, including the financial performance evaluation of the operating segments or resource allocation decisions.

The Group disaggregates revenues recognized from contracts with customers into these two segments that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The same disaggregation is used in earnings releases, annual reports and investor presentations.

4.2 *Segment Assets and Liabilities*

Segment assets and liabilities represent the assets and liabilities reported in the consolidated statements of financial position of the companies included in each segment.

4.3 *Intersegment Transactions*

Intersegment transactions, such as intercompany sales and purchases, and receivables and payables, are eliminated in consolidation.

4.4 *Analysis of Segment Information*

Segment information for the years ended December 31, 2020, 2019 and 2018 (in millions) are presented below.

	BRANDY			SCOTCH WHISKY			SEGMENT TOTALS		
	2020	2019	2018	**2020**	2019	2018	**2020**	2019	2018
REVENUES									
External customers	**P36,891**	P 37,627	P 33,681	**15,943**	13,938	13,369	**P 52,834**	P 51,565	P47,050
Intersegment sales*	**714**	786	766	**70**	241	158	**784**	1,027	924
	37,605	38,413	34,447	**16,013**	14,179	13,527	**53,618**	52,592	47,974
COSTS AND EXPENSES									
Costs of goods sold	**25,913**	25,662	23,013	**9,486**	7,672	7,292	**35,399**	33,334	30,305
Intersegment cost of goods sold*	**70**	241	158	**714**	786	766	**784**	1,027	924
Selling and distribution expenses	**3,321**	3,649	3,278	**1,942**	2,372	2,290	**5,263**	6,021	5,568
General and administrative expenses	**1,111**	1,986	975	**997**	938	935	**2,108**	2,924	1,910
Interest expense and other charges	**413**	633	680	**215**	173	151	**628**	806	831
	30,828	32,171	28,104	**13,354**	11,941	11,434	**44,182**	44,112	39,538
SEGMENT PROFIT BEFORE TAX	**6,777**	6,242	6,343	**2,659**	2,238	2,093	**9,436**	8,480	8,436
TAX EXPENSE	**992**	1,377	1,326	**407**	271	281	**1,399**	1,648	1,607
SEGMENT NET PROFIT	**P 5,785**	P 4,865	P 5,017	**P 2,252**	P 1,967	P 1,812	**P 8,037**	P 6,832	P 6,829
TOTAL ASSETS*	**P134,298**	P133,045	P127,953	**P50,500**	P 49,469	P 44,440	**P184,798**	P182,514	P172,393
TOTAL LIABILITIES*	**27,080**	55,292	45,549	**41,148**	13,846	16,548	**68,228**	69,138	62,097
Depreciation and amortization	**1,254**	1,241	859	**313**	305	218	**1,567**	1,546	1,077
Interest expense*	**441**	659	668	**108**	122	151	**549**	781	819
Equity share in net income of joint venture	**185**	239	199	**-**	-	-	**185**	239	199

**Intersegment accounts are eliminated in consolidation. Numbers may not add up due to rounding. See Reconciliation in Note 4.5 below.*

Sales to any of the Group's major customers did not exceed 10% of the Group's revenues in all of the years presented.

4.5 *Reconciliations*

The reconciliation of total segment balances presented for the Group's operating segments to the Group's consolidated balances as presented in the consolidated financial statements are as follows (in millions):

	Segment Totals	Intercompany Accounts	Consolidated Balances
2020			
Revenues and other income	P 53,618	(P 784)	P 52,834
Costs and expenses	44,182	(784)	43,398
Total assets	184,798	(62,346)	122,452
Total liabilities	68,228	(13,140)	55,088
Other segment information:			
Depreciation and amortization	1,567	-	1,567
Interest expense	549	-	549
Share in net profit of joint venture	185	-	185

	Segment Totals	Intercompany Accounts	Consolidated Balances
2019			
Revenues and other income	P 52,592	(P 1,027)	P 51,565
Costs and expenses	44,112	(1,027)	43,085
Total assets	182,514	(56,467)	126,047
Total liabilities	69,138	(7,807)	61,331
Other segment information:			
Depreciation and amortization	1,546	-	1,546
Interest expense	781	-	781
Share in net profit of joint venture	239	-	239
2018			
Revenues and other income	47,974	(924)	47,050
Costs and expenses	39,538	(924)	38,614
Total assets	172,393	(54,549)	117,844
Total liabilities	62,097	(5,617)	56,480
Other segment information:			
Depreciation and amortization	1,077	-	1,077
Interest expense	819	-	819
Share in net profit of joint venture	199	-	199

5. CASH AND CASH EQUIVALENTS

This account includes the following components:

	2020	2019
Cash on hand and in banks	P 4,319,014,811	P 3,739,621,605
Short-term placements	3,242,154,329	4,000,984,051
	P 7,561,169,140	P 7,740,605,656

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have an average maturity of 30 to 45 days and earn effective annual interest rates ranging from 0.5% to 3.8% in 2020, from 3.1% to 6.6% in 2019, and from 2.9% to 6.6% in 2018. Interest earned amounted to P183.0 million, P315.8 million and P218.6 million in 2020, 2019 and 2018, respectively, and is presented as part of Interest income under the Revenues and Other Income section of the consolidated statements of comprehensive income (see Note 18).

6. TRADE AND OTHER RECEIVABLES

Details of this account are as follows [see Note 2.5(a)(i)]:

	Notes	2020	2019
Trade receivables	23.3	P 14,890,213,702	P 15,612,615,832
Advances to suppliers	2.7	5,036,539,368	6,005,315,403
Advances to ultimate parent company	23.6	2,178,819,411	2,095,371,956
Advances to officers and employees	23.4	44,299,252	33,518,316
Accrued interest receivable		587,867	513,731
Other receivables		52,781,978	61,676,921
		22,203,241,578	23,809,012,159
Allowance for impairment	3.2(a)	(189,441,284)	(88,686,826)
		P 22,013,800,294	P 23,720,325,333

Advances to suppliers pertain to downpayments made primarily for the purchase of goods from suppliers.

All of the Group's trade and other receivables have been assessed for impairment using the ECL model adopted by the Group [see Notes 2.5(b), 3.1(b) and 3.2(a)]. Certain trade and other receivables were found to be impaired using the ECL methodology as determined by the management; hence, adequate amounts of allowance for impairment have been recognized (see Note 27.2).

A reconciliation of the allowance for impairment at the beginning and end of 2020 and 2019 is shown below.

	2020	2019
Balance at beginning of year	P 88,686,826	P 133,008,227
Impairment losses	109,087,408	12,453,267
Recoveries	(8,332,950)	(56,774,668)
Balance at end of year	P 189,441,284	P 88,686,826

Recoveries pertain to collection of certain receivables previously provided with allowance. There were no write-offs of receivables in 2020 and 2019.

Impairment losses on trade and other receivables are presented as Impairment losses on financial assets under the General and Administrative Expenses account in the consolidated statements of comprehensive income (see Note 20).

The carrying amounts of these financial assets are a reasonable approximation of their fair values due to their short-term duration.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's financial assets at FVTPL as of December 31, 2020 and financial liabilities at FVTPL as of December 31, 2019 pertain to derivative instruments amounting to P52.6 million and P9.1 million, respectively [see Note 2.5(a)(ii)].

The net changes in fair values and interest income earned on these financial instruments are presented in the consolidated statements of comprehensive income as part of Other income and Interest income, respectively, in the Revenues and Other Income section (see Notes 18 and 23.11). The Group recognized fair value gains amounting to P61.7 million in 2020 and P34.4 million in 2019 and fair value loss amounting to amounting to P62.5 million in 2018. The Group also recognized interest income from these financial instruments amounting to P29.4 million and P46.7 million in 2019 and 2018 (nil in 2020), respectively.

The fair value of the derivative financial instruments at FVTPL are measured through valuation techniques using the net present value computation [see Notes 3.2(b) and 29.2].

8. INVENTORIES

The details of inventories which are valued at lower of cost and net realizable value, are shown below [see Notes 2.6 and 3.2(c)].

	Notes	2020	2019
At cost:			
Finished goods	19, 23.1	P 4,351,980,903	P 5,019,752,617
Work-in-process	9.1, 19 21.1	21,071,773,814	20,746,632,386
Raw materials	19, 23.1	3,953,242,460	3,220,265,567
Packaging materials	19	333,083,936	411,473,445
Machinery spare parts, consumables and factory supplies		287,281,059	266,885,473
		29,997,362,172	29,665,009,488
At net realizable value:			
Finished goods			
Cost	19, 23.1	807,474,886	780,490,322
Allowance for impairment		(155,596,608)	(121,465,806)
Packaging materials			
Cost	19	413,938,824	277,804,904
Allowance for impairment		(103,179,904)	(92,535,630)
		962,637,198	844,293,790
		P 30,959,999,370	P 30,509,303,278

WML has a substantial inventory of aged stocks which mature over periods of up to 60 years. The maturing whisky stock inventory amounting to P17.0 billion and P16.7 billion as of December 31, 2020 and 2019, respectively, is presented as part of work-in-process inventories and is stored in various locations across Scotland.

An analysis of the cost of inventories included in costs of goods sold for 2020, 2019 and 2018 is presented in Note 19.

A reconciliation of the allowance for inventory write-down is shown below.

	Note	2020	2019
Balance at beginning of year		P 214,001,436	P 205,679,749
Impairment losses	19	44,775,076	8,321,687
Balance at end of year		P 258,776,512	P 214,001,436

The Group recognized losses on inventory write-down amounting to P44.8 million, P8.3 million and P54.7 million in 2020, 2019 and 2018, respectively, which are presented as Impairment losses under the Costs of Goods Sold account in the consolidated statements of comprehensive income (see Note 19). There were no reversals of impairment losses in 2020, 2019 and 2018.

9. PROPERTY, PLANT AND EQUIPMENT

The carrying amount of this account is composed of the following:

	Notes	2020	2019
Property, plant and equipment	9.1	P 25,465,059,928	P 27,383,160,263
Right-of-use assets	9.2	970,785,552	1,603,476,999
		P 26,435,845,480	P 28,986,637,262

No impairment losses were recognized in 2020, 2019 and 2018 for the Group's property, plant and equipment. As of December 31, 2020 and 2019, certain right-of-use assets which are considered as onerous lease were fully impaired through direct offset of portion of provision for onerous lease (see Notes 9.2 and 17.1)

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›erty, Plant and Equipment

ł accumulated depreciation and amortization of property, plant and equipment at the be
low.

Land	Land Improvements	Buildings and Improvements	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	
P 6,073,906,086	P 29,078,186	P11,210,680,623	P 211,699,399	P18,139,646,211	P 653,059,659	P 680,608,649	P
-	(22,928,155)	(3,060,454,886)	(89,798,677)	(8,778,306,134)	(426,207,293)	(366,515,973)	(
P 6,073,906,086	**P 6,150,031**	**P 8,150,225,737**	**P 121,900,722**	**P 9,361,340,077**	**P 226,852,366**	**P 314,092,676**	**P**
P 6,862,403,632	P 29,078,186	P10,933,307,413	P 185,659,001	P17,981,196,764	P 659,562,281	P 663,089,701	
-	(20,020,336)	(2,479,834,634)	(69,449,304)	(7,969,341,890)	(353,414,603)	(298,587,290)	(
P 6,862,403,632	P 9,057,850	P 8,453,472,779	P 116,209,697	P10,011,854,874	P 306,147,678	P 364,502,411	P
P 7,032,607,877	P 29,078,186	P10,449,350,781	P 160,159,383	P16,944,662,428	P 630,896,655	P 514,717,079	P
-	(17,112,517)	(2,210,387,546)	(56,213,626)	(7,149,071,973)	(299,472,526)	(239,949,715)	(
P 7,032,607,877	P 11,965,669	P 8,238,963,235	P 103,945,757	P 9,795,590,455	P 331,424,129	P 274,767,364	P

amounts of property, plant and equipment at the beginning and end of the reporting pe

Land	Land Improvements	Buildings and Improvements	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	
P6,862,403,632	P 9,057,850	P 8,453,472,779	P 116,209,697	P10,011,854,874	P 306,147,678	P 364,502,411	P
607,842,161	-	90,677,358	26,040,398	161,187,897	5,284,091	30,886,010	
(547,451,697)	-	231,638,061	-	130,570,839	-	(11,823,154)	
-	-	-	-	(67,470,929)	(8,438,142)	(553,379)	
-	-	67,910,376	-	27,883,243	-	-	
(848,888,010)	-	(112,852,585)	-	-	-	-	
-	(2,907,819)	(580,620,252)	(20,349,373)	(902,685,847)	(76,141,261)	(68,919,212)	(
P6,073,906,086	**P 6,150,031**	**P8,150,225,737**	**P 121,900,722**	**P9,361,340,077**	**P 226,852,366**	**P 314,092,676**	**P**

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Land	Land Improvements	Buildings and Improvements	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	
P 7,032,607,877	P 11,965,669	P 8,238,963,235	P 103,945,757	P9,795,590,455	P 331,424,129	P 274,767,364	P
-	-	(46,776,972)	-	-	-	-	
7,032,607,877	11,965,669	8,192,186,263	103,945,757	9,795,590,455	331,424,129	274,767,364	
147,285,611	-	471,429,945	24,543,078	1,588,314,583	42,505,874	168,500,509	
(99,206,065)	-	(246,761,611)	-	(339,440,696)	(4,103,543)	(17,308,376)	
(218,832,143)	-	(696,102)	-	(64,085,994)	(4,478,507)	(323,187)	
548,352	-	341,714,363	956,540	186,155,063	-	591,600	
-	(2,907,819)	(304,400,079)	(13,235,678)	(1,154,678,537)	(59,200,275)	(61,725,499)	(
P6,862,403,632	P 9,057,850	P8,453,472,779	P 116,209,697	P10,011,854,874	P 306,147,678	P 364,502,411	P
P7,010,911,648	P 14,873,487	P6,456,284,635	P 52,475,660	P7,268,570,381	P 232,752,445	P 250,605,215	P
4,414,987	-	339,027,976	60,165,415	1,254,104,641	132,687,473	63,423,181	
37,277,495	-	32,636,754	-	26,498,722	290,099	1,578,493	
-	-	(215,618)	-	(54,450,996)	(2,565,295)	(41,751)	
(19,996,253)	-	1,669,794,550	41,340	2,282,570,844	18,829,860	10,662,267	
-	(2,907,818)	(258,565,062)	(8,736,658)	(981,703,137)	(50,570,453)	(51,460,041)	(
P7,032,607,877	P 11,965,669	P8,238,963,235	P 103,945,757	P9,795,590,455	P 331,424,129	P 274,767,364	P

With the adoption of PFRS 16 in 2019, the Group reclassified its capitalized dilapidations with carrying amount of P46.8 million, presented as part of Buildings and improvements as of January 1, 2019, to Right-of-use assets (see Note 9.2).

The construction of another distillery plant in Balayan, Batangas, which started in 2013, was completed in 2018 and reclassified to their specific property, plant and equipment accounts. The Group obtained a term loan from a local commercial bank to finance the construction of the said distillery plant, including purchase of related equipment. In 2018, borrowing costs from the loan were capitalized and presented as part of additions to Construction in progress (see Notes 2.21 and 14).

In 2020 and 2019, the Group wrote-off certain fully-depreciated moulds and dies with original cost amounting to P12.4 million and P5.0 million, respectively.

The amount of depreciation and amortization is allocated as follows:

	Notes	2020	2019	2018
Costs of goods sold	19	**P 1,045,975,108**	P 802,312,571	P 915,274,249
Selling and distribution expenses	20	**81,683,576**	61,946,694	51,711,352
General and administrative expenses	20	**210,617,039**	429,791,618	107,681,325
		1,338,275,723	1,294,050,883	1,074,666,926
Capitalized as part of work-in-process inventories	8	**329,289,749**	320,448,234	303,786,022
		P 1,667,565,472	P 1,614,499,117	P 1,378,452,948

The amount capitalized to work-in-process inventory represents depreciation expense on barrels and warehouse buildings wherein the maturing bulk stocks of whisky are held, which can reach periods of up to 60 years.

In 2020, 2019 and 2018, certain property, plant and equipment with carrying amounts of P107.3 million, P362.1 million and P57.3 million, respectively, were sold for P107.5 million, P356.3 million, and P64.0 million, respectively. The resulting gains on disposals for 2020 and 2018 amounting to P0.1 million and P6.7 million, respectively, were recognized as part of Other income under the Revenues and Other Income section in the 2020 and 2018 consolidated statements of comprehensive income (see Note 18); while the resulting loss on disposals amounting to P5.8 million in 2019 was recognized as part of Other Charges account under the Costs and Expenses section in the 2019 consolidated statement of comprehensive income.

9.2 Right-of-use Assets

The Group has leases for certain manufacturing plant, warehouses, building space, commercial building, and vehicles, fittings and equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the consolidated statements of financial position as Right-of-use assets under the Property, Plant and Equipment account and Lease Liabilities account.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For certain leases, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognized in the consolidated statements of financial position.

	Number of right-of-use assets leased	Range of remaining term	Average remaining lease term	Number of leases with extension options	Number of leases with termination options
December 31, 2020					
Plant	1	6 years	7 years	1	-
Warehouses	27	1 to 5 years	2 years and 10 months	3	4
Building space	9	2 to 4 years and 5 months	2 to 5 years and 5 months	1	-
Buildings	4	1 year to 16 years and 9 months	1 year to 17 years and 9 months	-	1
Vehicles, fittings and equipment	72	1 to 4 years	1 to 4 years	-	-
December 31, 2019					
Plant	1	7 years	7 years	1	-
Warehouses	23	1 to 5 years	2 years and 10 months	3	4
Building space	9	2 to 5 years and 5 months	2 to 5 years and 5 months	1	-
Buildings	4	1 year to 17 years and 9 months	1 year to 17 years and 9 months	-	1
Vehicles, fittings and equipment	72	1 to 5 years	1 to 5 years	-	-

The carrying amounts of the Group's right-of-use assets as at December 31, 2020 and 2019 and the movements during the period are shown below and in the succeeding page.

	Plant	Warehouses	Building Space	Buildings	Vehicles, Fittings and Equipment	Total
December 31, 2020						
Cost						
Balance at beginning of year	P 52,577,374	P 658,079,824	P 199,052,259	P 914,528,719	P 71,235,714	P 1,895,473,890
Additions	-	20,853,719	-	20,708,561	-	41,562,280
Translation adjustment	-	-	-	7,060,487	-	7,060,487
Lease modification	10,198,541	(393,846,522)	-	-	-	(383,647,981)
Balance at end of year	62,775,915	285,087,021	199,052,259	942,297,767	71,235,714	1,560,448,676
Accumulated amortization						
Balance at beginning of year	6,572,172	122,125,987	29,430,591	126,950,587	6,917,554	291,996,891
Depreciation for the year	8,029,106	100,655,887	35,003,930	77,799,385	5,946,395	227,434,703
Translation adjustment	-	-	-	70,231,530	-	70,231,530
Balance at end of year	14,601,278	222,781,874	64,434,521	274,981,502	12,863,949	589,663,124
Carrying amount at December 31, 2020	P 48,174,637	P 62,305,147	P 134,617,738	P 667,316,265	P 58,371,765	P 970,785,552

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	Plant	Warehouses	Building Space	Buildings	Vehicles, Fittings and Equipment	Total
December 31, 2019						
Cost						
Balance at beginning of year						
As previously reported	P -	P -	P -	P -	P -	P -
Effect of PFRS 16 adoption	52,577,374	115,129,560	27,992,658	796,331,578	71,235,714	1,063,266,884
As restated	52,577,374	115,129,560	27,992,658	796,331,578	71,235,714	1,063,266,884
Additions	-	542,950,264	171,059,601	111,420,169	-	825,430,034
Translation adjustment	-	-	-	6,776,972	-	6,776,972
Balance at end of year	52,577,374	658,079,824	199,052,259	914,528,719	71,235,714	1,895,473,890
Accumulated amortization						
Balance at beginning of year	-	-	-	-	-	-
Depreciation for the year	6,572,172	122,125,987	29,430,591	84,946,732	6,917,554	249,993,036
Translation adjustment	-	-	-	42,003,855	-	42,003,855
Balance at end of year	6,572,172	122,125,987	29,430,591	126,950,587	6,917,554	291,996,891
Carrying amount at December 31, 2019	P 46,005,202	P 535,953,837	P 169,621,668	P 787,578,132	P 64,318,160	P 1,603,476,999

Upon adoption of PFRS 16, the Group has relied on its historical assessments as to whether leases were onerous immediately before the date of initial application as alternative to performing an impairment review on right-of-use assets, and accordingly reclassified portion of its provision for onerous lease amounting to P355.6 million against the January 1, 2019 balance of right-of-use assets causing these assets to be fully impaired. In 2020, additional onerous lease provisions are recognized and is presented as part of Provisions under General and Administrative Expenses account in the 2020 consolidated statement of comprehensive income (see Note 17.1)

Also, a portion of the Group's buildings and improvements, which was related to the capitalized dilapidation costs, amounting to P46.8 million was reclassified to right-of-use assets as at January 1, 2019. In addition, provision for dilapidation amounting to P11.6 million and P6.6 million was capitalized as part of right-of-use assets in 2020 and 2019, respectively (see Note 17.2).

The Group also reclassified certain prepaid rent amounting to P6.3 million to right-of-use assets as adoption of PFRS 16 in 2019 (see Note 11.1).

In 2020, the Group and its lessors have agreed for certain lease modifications pertaining to leased plant and warehouses, which were not accounted for as a separate lease since the modification only involved specific adjustments on the amount of consideration of the leases. Accordingly, the modification resulted in the remeasurement of both lease liabilities and right-of-use assets amounting to P383.6 million.

The amount of amortization is allocated as follows:

	Notes	2020	2019
Costs of goods sold	19, 23.2	P 168,702,433	P 139,148,721
Selling and distribution expenses	20, 23.2	51,121,698	40,363,406
General and administrative expenses	20	7,610,572	70,480,909
		P 227,434,703	P 249,993,036

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9.3 Lease Liabilities

Lease liabilities are presented in the consolidated statements of financial position as at December 31, 2020 and 2019 as follows:

	2020	2019
Current	P 173,763,731	P 304,882,103
Non-current	1,289,130,534	1,717,050,012
	P 1,462,894,265	P 2,021,932,115

The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Group's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.

The lease liabilities are secured by the related underlying assets and by a property mortgage (see Note 11.2). The undiscounted maturity analysis of lease liabilities at December 31 is as follows:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More Than 5 years	Total
December 31, 2020							
Lease liabilities	P 251,041,010	P 236,072,333	P 212,171,261	P 254,018,628	P 139,325,933	P 864,841,167	P 1,957,470,332
Finance charges	(77,277,279)	(66,451,417)	(55,824,650)	(47,248,448)	(41,198,768)	(206,575,505)	(494,576,067)
Net present values	**P 173,763,731**	**P 169,620,916**	**P 156,346,611**	**P 206,770,180**	**P 98,127,165**	**P 658,265,662**	**P 1,462,894,265**
December 31, 2019							
Lease liabilities	P 422,978,548	P 367,901,125	P 350,249,522	P 268,841,960	P 235,557,176	P 1,033,147,478	P 2,678,675,809
Finance charges	(118,096,445)	(97,261,649)	(77,549,509)	(58,826,220)	(48,819,581)	(256,190,290)	(656,743,694)
Net present values	P 304,882,103	P 270,639,476	P 272,700,013	P 210,015,740	P 186,737,595	P 776,957,188	P 2,021,932,115

9.4 Lease Payments Not Recognized as Liabilities

The Group has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expenses relating to short-term leases and low-value assets in 2020 and 2019 is allocated as follows:

	Notes	2020	2019
Costs of goods sold	19	P 104,148,917	P 84,348,779
Selling and distribution expenses	20	42,682,558	38,181,303
General and administrative expenses	20	6,554,670	17,040,467
		P 153,386,145	P 139,570,549

The future minimum rentals payable of the Group arising from short-term leases amounted to P101.43 million and P138.7 million as of December 31, 2020 and 2019, respectively.

9.5 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of lease liabilities amounted to P216.9 million in 2020 and P237.2 million in 2019. Interest expense in relation to lease liabilities amounted to P95.5 million and P120.0 million, respectively and is presented as part of Interest Expense account under the Costs and Expenses section of the 2020 and 2019 consolidated statements of comprehensive income.

10. INTANGIBLE ASSETS

This account is composed of the following:

	Note	2020	2019
Indefinite useful lives	2.9		
Trademarks – net		P 19,372,584,563	P 19,653,436,800
Goodwill		8,989,412,323	9,236,331,189
		28,361,996,886	28,889,767,989
Definite useful lives			
Trademarks – net	2.9	3,769,247	5,384,638
		P 28,365,766,133	P 28,895,152,627

The Group's trademarks include those that were acquired by EDI from Consolidated Distillers of the Far East, Inc. ("Condis"), a related party owned by certain stockholders of AGI, to manufacture and sell distilled spirits, particularly brandy, under the brand names "Emperador Brandy" and "Generoso Brandy". The Group also has another trademark for its flavored alcoholic beverage under the brand name "The BaR". In 2013, the Group registered another trademark under the brand name "Emperador Deluxe", which was introduced during the same year.

EUK's purchase of WMG Group in 2014 [see Note 1.1(g),(i),(j)] included the acquisition of trademarks amounting to P4.5 billion and P5.5 billion for "Jura" and "The Dalmore" (collectively, "WMG brands"), respectively, and the recognition of goodwill amounting to P7.7 billion in the consolidated financial statements.

BFS's purchase of the Fundador Business Unit in 2016 [see Note 1.1(l)] in Jerez included the acquisition of four trademarks amounting to P6.7 billion, namely "Fundador Brandy", "Terry Centenario Brandy", "Tres Cepas Brandy", and "Harveys" sherry wine (collectively, "Fundador brands") and tangible assets (mostly inventories and property, plant and equipment) amounting to P6.6 million; and the recognition of goodwill amounting to P1.5 billion in the consolidated financial statements.

The goodwill recognized from the foregoing acquisitions reflects the opportunity to strengthen the Group's position in the global drinks market, the synergies and economies of scale expected from combining the operations of the Group, WMG and Fundador Business Unit, and the value attributable to their respective workforce. The trademarks acquired have indefinite useful lives; hence, no amortization was recognized for these brands for the periods presented. The goodwill recognized is not deductible for income tax purposes.

For purposes of determining the goodwill [see Note 2.13(a)], the Group determined the fair value of the identified net assets as of October 31, 2014 and February 29, 2016 for WMG and Fundador Business Unit, respectively, as presented below.

	WMG	Fundador Business Unit
Cash consideration	P 30,272,934,983	P 14,718,366,134
Identifiable assets:		
Tangible assets	21,723,648,592	6,592,734,082
Intangible assets	9,972,144,142	6,662,974,698
Liabilities	(9,095,752,005)	-
Total identifiable assets	22,600,040,729	13,255,708,780
Goodwill at transaction date	P 7,672,894,254	P 1,462,657,354

The asset acquisitions from the Domecq and Garvey Acquisitions in 2017 by DBLC and CBSP, respectively [see Note 1.1(p) and (r)], included various trademarks with indefinite useful lives amounting to P3.5 billion. The trademarks acquired by DBLC include certain brands of Mexican brandies: "Presidente", "Azteca de Oro", "Don Pedro" and two Spanish brandies (collectively, "Domecq brands") while trademarks acquired by CBSP include "Garvey Brandy" and well-known sherries including "Fino San Patricio" and two liquors (collectively, "Grupo Garvey brands"). The consideration paid and the purchase price allocated to identifiable assets based on their individual relative fair values, as translated at exchange rate at transaction dates, are presented below.

	Domecq Acquisition	Garvey Acquisition
Tangible assets	P 1,702,112,882	P 1,554,825,243
Intangible assets	3,123,564,000	332,598,228
	4,825,676,882	1,887,423,471
Liabilities	-	(34,361,071)
	P 4,825,676,882	P 1,853,062,400

The composition of the intangible assets with indefinite useful lives as of December 31 is as follows:

	2020	2019
Goodwill breakdown:		
WMG	P 7,358,080,900	P 7,647,189,600
GES	1,631,331,423	1,589,141,589
	8,989,412,323	9,236,331,189
Trademarks with indefinite useful lives:		
WMG brands	9,195,392,128	9,482,748,132
Fundador and other brands	7,431,155,169	7,238,968,943
Domecq brands	2,656,006,088	2,844,016,926
Grupo Garvey brands - net	90,031,178	87,702,799
	19,372,584,563	19,653,436,800
	P 28,361,996,886	P 28,889,767,989

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The trademarks under Grupo Garvey brands were impaired by P272.4 million in 2019 (nil in 2020). The impairment was charged to General and administrative expenses under Costs and Expenses account of the 2019 consolidated statement of comprehensive income (see Note 20).

A reconciliation of the carrying amounts of intangible assets with indefinite useful lives at the beginning and end of 2020 and 2019 is shown below.

	Goodwill	Trademarks	Total
Balance at January 1, 2020	P 9,236,331,189	P 19,653,436,800	P 28,889,767,989
Translation adjustments	(246,918,866)	(280,852,237)	(527,771,103)
Balance at December 31, 2020	**P 8,989,412,323**	**P19,372,584,563**	**P 28,361,996,886**
Balance at January 1, 2019	P 9,488,786,678	P 20,734,188,972	P 30,222,975,650
Translation adjustments	(252,455,489)	(808,350,172)	(1,060,805,661)
Impairment losses during the year [see Note 3.2(g)]	-	(272,402,000)	(272,402,000)
Balance at December 31, 2019	P9,236,331,189	P19,653,436,800	P28,889,767,989

The net carrying amount of trademarks with definite useful lives is as follows:

	Note	2020	2019
Balance at beginning of year		**P 5,384,638**	P 7,000,029
Amortization during the year	20	**(1,615,391)**	(1,615,391)
Balance at end of year		**P 3,769,247**	P 5,384,638

As of December 31, 2020 and 2019, the remaining useful life of the Group's "Emperador Deluxe" trademark with definite life 2.5 years and 3.5 years, respectively.

The "The BaR", and "Emperador Brandy" and "Generoso Brandy" trademarks were fully amortized since 2018 and 2017, respectively. Consequently, the Group renewed the trademark application of "Emperador Brandy" with the Intellectual Property Office of the Philippines in 2017.

The Group monitors goodwill and trademarks with indefinite useful lives on the cash generating units to which these assets were allocated. An analysis of how the value-in-use of each of the cash generating units to which these assets were allocated is presented in the succeeding page (amounts in billions of pesos).

	2020				2019			
	Allocated Intangible Assets*	**Value in Use**	**Terminal Growth Rate**	**Discount Rate**	Allocated Intangible Assets*	Value in Use	Terminal Growth Rate	Discount Rate
Goodwill:								
WMG	**P 7.36**	**P 12.28**	**2.00%**	**9.75%**	P 7.65	P 12.17	2.00%	9.75%
GES	**1.63**	**5.81**	**1.60%**	**7.51%**	1.59	10.23	1.60%	7.51%
Trademarks with indefinite lives:								
WMG brands	**9.20**	**40.34**	**2.00%**	**9.75%**	9.48	41.83	2.00%	9.75%
Fundador brands	**7.43**	**22.83**	**1.60%**	**7.51%**	7.24	10.57	1.60%	8.06%
Domecq brands**	**2.66**	**3.92**	**1.50%**	**4.50%**	2.84			
Grupo Garvey brands**	**0.09**	**0.10**	**0.50%**	**7.65%**	0.09			

* *Amounts are translated at closing rates as of the end of the reporting periods in accordance with PAS 21, The Effects of Changes in Foreign Exchange Rates.*

** *As of December 31, 2020 and 2019, management believes that Domecq brands are not impaired as DBLC's operations, which carry the Domecq brands, have reported revenues of P2.4 billion in 2020 and P3.0 billion in 2019 (see Note 24.6). Moreover, management believes that after the impairment provided for Grupo Garvey brands in 2019, the value-in-use as of December 31, 2020 and 2019 approximates its carrying value. As of December 31, 2019, management believes that the carrying values of Domecq and Grupo Garvey brands approximate their value-in-use as of those dates since these were only acquired in 2017.*

The value-in-use of each group of cash generating unit was determined using cash flow projections for five years, taking into consideration the impact of COVID-19, and extrapolating cash flows beyond the projection period using a perpetual terminal growth rate. The discount rates and growth rates are the key assumptions used by management in determining the value-in-use of the cash generating units. In 2019, due to the continuous decline of the Group's revenue from the products under Grupo Garvey brands, the management assessed that portion of these trademarks are impaired. Accordingly, the Group recognized an impairment loss amounting to P272.4 million and is presented as part of General and Administrative Expenses account in the 2019 consolidated statement of comprehensive income (see Note 20).

Management believes that both the goodwill and trademarks, except for certain trademarks identified above, are not impaired as of December 31, 2020 and 2019 as the Group's products that carry such brands and trademarks are performing very well in the market; hence, no impairment is necessary to be recognized in the periods presented.

No trademarks have been pledged as security for liabilities.

11. OTHER ASSETS

11.1 Prepayments and Other Current Assets

This account is composed of the following (see Note 2.7):

	2020	2019
Prepaid taxes	**P 720,789,800**	P 822,448,287
Prepaid expenses	**503,052,548**	877,379,918
Deferred input VAT	**41,339,798**	54,202,344
Refundable security deposits	**22,854,313**	19,941,320
Others	**85,941,166**	100,585,819
	P 1,373,977,625	P 1,874,557,688

Prepaid expenses include prepayments of rentals, insurance and general prepayments. Upon adoption of PFRS 16 in 2019, the Group reclassified certain prepaid rent amounting to P6.3 million to right-of-use assets (see Note 9.2).

Prepaid taxes pertain to payments made by the Group for the withholding taxes and other government-related obligations. It also includes purchase of labels and advance payment of excise tax for both the local production and importation of alcoholic beverage products.

11.2 Other Non-current Assets

This account is composed of the following:

	Notes	2020	2019
Advances to suppliers	23.10	P 625,294,487	P 324,286,315
Property mortgage receivable	9.3	613,935,936	636,946,200
Deferred input VAT		24,697,117	26,996,323
Refundable security deposits	23.2	11,026,843	17,791,961
Others		13,590,793	10,299,234
		P 1,288,545,176	P 1,016,320,033

In 2016, the Group purchased from one of its property lessors an outstanding mortgage debt on one of the Group's leased properties. The purchased mortgage asset entitles the Group to full security over the leased property and to monthly interest payments from the property lessor. However, the Group remains as lessee over the property; hence, it is still required to make monthly lease payments to the property lessor until 2036. Following the adoption of PFRS 16 in 2019, the Group recognized right-of-use assets and lease liabilities from this leased property (see Notes 9.2 and 9.3).

Refundable security deposits were paid by the Group to various lessors for lease agreements covering certain office spaces, manufacturing facilities and storage tanks for raw materials.

12. INVESTMENT IN A JOINT VENTURE

On February 2, 2014, GES entered into an agreement with Gonzales Byass, S.A. ("Gonzalez"), for the joint control of BLC for 50% equity interest for each venturer. The 50% participation cost of P3.7 billion is based on the fair valuation of the assets. BLC was incorporated on March 19, 2013. Its primary business consists of the planting and growing of wine grapes and the exploitation of vineyards, the production, ageing and preparation of wines and vinegars; the production of alcohol; the production, preparation and ageing of brandy, aguardientes, compounds, liquors and in general, all kinds of spirits.

An amount withdrawn from this investment of P858.4 million was used by the Group as part of the 50% capitalization of DBLC in 2017 [see Note 1.1(p)].

As of December 31, 2020 and 2019, the carrying amount of the investment in a joint venture, which is accounted for under the equity method [see Note 2.3(b)] in these consolidated financial statements, are as follows:

	2020	2019
Acquisition costs	P 2,845,367,065	P 2,845,367,065
Accumulated share in net profit:		
Balance at beginning of year	178,200,678	432,240,327
Share in net profit for the year	185,108,059	239,168,070
Reductions	-	(282,499,965)
Balance at end of year	363,308,737	388,908,432
Translation gain (loss)	85,186,629	(210,707,754)
	P 3,293,862,431	P 3,023,567,743

The share in net profit is recorded as Equity in net profit of joint venture in the Revenues and Other Income section of the consolidated statements of comprehensive income (see Note 18). Reductions pertain to dividend income received in 2019 from the joint venture.

The summarized financial information of the joint venture as of December 31, 2020 and 2019 and for the years then ended are as follows (in thousands):

	2020	2019
Cash and cash equivalents	P 46,095	P 175,176
Trade and other receivables	985,946	1,967,037
Financial assets	P 1,032,041	P 2,142,213
Current assets	P 1,674,212	P 2,421,905
Non-current assets	2,364,174	1,653,886
Total assets	P 4,038,386	P 4,075,791
Current financial liabilities (excluding trade and other payables and provisions)	P 195,399	P 327,529
Non-current financial liabilities	2,345	2,398
Financial liabilities	P 197,744	P 329,927
Current liabilities	P 430,529	P 1,050,467
Non-current liabilities	2,345	2,398
Total liabilities	P 432,874	P 1,052,865
Revenues	P 5,798,133	P 5,641,501
Depreciation and amortization	P 78,671	P 75,037
Net profit for the year	P 370,216	P 478,336

A reconciliation of the above summarized financial information to the carrying amount of the investment in BLC is shown below (in thousands):

	2020	2019
Net assets of BLC	P 3,605,512	P 3,022,926
Proportion of ownership interest by the Group	50.0%	50.0%
Ownership share of the Group in net assets of BLC	1,802,756	1,511,463
Fair value and translation adjustments	1,491,106	1,512,105
Carrying amount of investment	P 3,293,862	P 3,023,568

The Group has no commitments or other contingent liabilities with regard to this joint venture or has assessed that the probability of loss that may arise from contingent liabilities is remote.

13. NON-CURRENT ASSETS HELD FOR SALE

Assets held for sale consist of land and buildings called as "Complejo Bellavista" and "Cerro Viejo Vineyards" previously occupied by a business unit and classified under property, plant and equipment (see Note 9.1) that the Group has discontinued its use and, on December 27, 2020, management approved their sale through the signed letter of intent with Global One Real Estate Spain, SAU ("Global One"), a related party under common ownership. The letter of intent stated that the Group will sell and Global One will purchase the assets at a purchase price of €16.6 million (equivalent to P961.7 million), which is equivalent to the net book value of the property, at any time within the period from December 27, 2020 until three years after the COVID-19 pandemic has ended.

The breakdown of these assets as of December 31, 2020 is as follows:

Land	P 848,888,010
Buildings	112,852,585
	P 961,740,595

The carrying value of these assets immediately prior to their classification as held for sale is lower than their fair value less cost to sell. Accordingly, the Group did not recognize any loss in connection with the reclassification of the assets. There were also no revenues recognized during the year that were associated with the assets. Depreciation expense amounting to €1.0 million (approximately P58.5 million) was incurred prior to reclassification of the assets on December 27, 2020.

The Group believes that the sale of these assets is highly probable (see Note 23.12).

14. INTEREST-BEARING LOANS

The composition of the Group's outstanding bank loans is shown below [see Note 2.11(b)].

	2020	2019
Current:		
Foreign	P 4,466,729,178	P 5,634,442,713
Local	821,666,667	1,006,666,666
	5,288,395,845	6,641,109,379
Non-current:		
Foreign	25,091,948,760	24,877,062,540
Local	-	421,666,667
	25,091,948,760	25,298,729,207
	P 30,380,344,605	P 31,939,838,586

The summarized terms and conditions of each availed loan as at December 31, 2020 and 2019 are as follows:

Outstanding Balance 2020	Outstanding Balance 2019	Explanatory Notes	Interest Rate	Security	Maturity date
P 23,490,000,729	P 22,882,500,021	(a)	Margin of 1.05% plus EURIBOR	Unsecured	2024
3,917,012,288	5,047,206,120	(b)	0.50% over LIBOR	Secured	2021
2,151,664,921	2,581,799,112	(d)	Fixed at 1.6%	Unsecured	2022
400,000,000	-	(f)	Fixed at 5%	Unsecured	2021
150,000,000	350,000,000	(e)	Fixed at 5.9641%	Unsecured	2021
105,000,000	245,000,000	(e)	Fixed at 6.1277%	Unsecured	2021
62,500,000	312,500,000	(c)	Fixed at 5.245%	Unsecured	2021
62,500,000	312,500,000	(c)	Fixed at 5.113%	Unsecured	2021
41,666,667	208,333,333	(c)	Fixed at 5%	Unsecured	2021
P 30,380,344,605	P 31,939,838,586				

(a) In 2019, EIL obtained an unsecured five-year bank loan from a syndicate of foreign financial institutions at a lower margin, to prepay existing loans. The loan is presented under the Non-current Liabilities section of the consolidated statements of financial position in the respective period.

(b) WMG has an existing asset-based- lending facility with a foreign bank, where it had drawn down P0.7 billion, P1.1 billion and P2.1 billion in 2020, 2019 and 2018, respectively. The loan is secured by way of floating charge against WMG's inventories. The interest and the principal can be paid anytime up to, or balloon payment at the end of, three years. Since this is a revolver, the drawn amount plus the accrued interest thereon is presented under the Current Liabilities section of the consolidated statements of financial position.

(c) In 2016, EDI obtained an unsecured five-year peso-denominated loan at a total amount of P2.0 billion from a local commercial bank, specifically to finance the construction of a distillery plant and the purchase of related equipment (see Note 9.1). The loan was released in three tranches from January to October 2016 with principal repayment of 12 equal quarterly amortizations starting on the ninth quarter after the initial drawdown. In 2020 and 2019, total payments on the loan amounted to P666.7 million in each year.

These loans are presented under the Current Liabilities and Non-current Liabilities sections of the consolidated statements of financial position.

(d) In 2017, DBLC assumed from BLC unsecured, interest-bearing and foreign-currency-denominated loans totalling P3.0 billion from certain financial institutions relating to Domecq Acquisition (see Note 10). In 2018, DBLC acquired an additional loan amounting to P0.1 million. In 2020 and 2019, DBLC paid portion of the loans amounting to P430.1 million and P388.5 million, respectively.

(e) In 2018, EDI obtained additional unsecured, interest-bearing loans at a total amount of P850.0 million from same local commercial bank for working capital purposes. The loans shall be payable in 12 equal quarterly amortizations commencing on the beginning of the ninth quarter from the initial drawdown or starting on April 10, 2019. In 2020 and 2019, total payments on the loan amounted to P340.0 million and P255.0 million, respectively. These loans are presented under the Current Liabilities and Non-current Liabilities sections of the consolidated statements of financial position.

(f) In 2020, PAI obtained short-term unsecured, interest-bearing loans at a total amount of P400.0 million from a local commercial bank for working capital purposes. The loan shall be payable on January 6, 2021 and is presented under the Current Liabilities section of the 2020 consolidated statement of financial position.

Interest expense on the above loans for 2020, 2019 and 2018 amounted to P380.3 million, P589.2 million and P668.9 million, respectively, and is presented as part of Interest Expense account under the Costs and Expenses section of the consolidated statements of comprehensive income.

Accrued interest payable as of December 31, 2020 and 2019 amounted to P66.5 million and P135.1 million, respectively, and presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

The Group complied with the financial and non-financial covenants on these loans and borrowings as of December 31, 2020 and 2019.

15. EQUITY-LINKED DEBT SECURITIES

The breakdown of this account follows:

	2020	2019
Current	**P 3,443,750,000**	P 1,836,250,000
Non-current	-	3,443,750,000
	P 3,443,750,000	P 5,280,000,000

On November 7, 2014, EMP, as the Issuer, entered into a subscription agreement with Arran Investment Private Limited ("Arran" or "the Holder") for the issuance of 1.1 billion common shares at a total subscription price of P12.3 billion (see Note 24.1) and an ELS amounting to P5.3 billion ("Issue Price") [see Note 2.11(b)]. The shares and the ELS were issued on December 4, 2014 ("Issue Date"). The ELS may be converted into a fixed number of common shares ("Conversion Shares").

Arran had the Holder Conversion Right for the conversion of the ELS into all of Conversion Shares at any time during the period beginning on the Issue Date until December 5, 2019 ("Redemption Date"). The Group had the Issuer Conversion Right ("ICR") for the conversion of the ELS into all of the Conversion Shares at any time during the period beginning on the date that is two (2) years after the Issue Date until Redemption Date, provided, that the share market price must be greater than the stipulated price ("Share Market Price") on the date the ICR is exercised. If Arran and EMP failed to exercise their conversion rights within the said periods and the ELS was not converted into shares, EMP had the option to extend the Redemption Date for the ELS until December 4, 2021 ("Extended Redemption Date"), upon notice to Holder at least thirty (30) days prior to the Redemption Date. The ELS would be mandatorily converted into the Conversion Shares at any time during the period beginning on Redemption Date until Extended Redemption Date when Share Market Price was reached.

The ELS bore a fixed interest rate compounded annually ("Fixed Interest"), payable either in cash or in new shares ("Interest Shares") on the conversion date, Redemption Date, or Extended Redemption Date, as applicable (see First Amendment below). The ELS also bears a variable interest in an amount equal to the dividends that would be payable on the Conversion Shares if they are issued prior to the date that any dividend is declared by EMP ("Variable Interest"), payable in cash on the date that EMP pays dividends to its stockholders.

On June 15, 2017, the parties formally agreed to amend the ELS (the "First Amendment"), which amendments included the following:

(a) Fixed Interest was amended to 0%, instead of 5%;
(b) The Accrued Interest Payable amounting to P832.3 million was applied as consideration for 122,391,176 common shares ("Accrued Interest Shares") (see Note 24.1);
(c) Conversion Shares became 728,275,862 new and fully paid-up shares, instead of 480.0 million;
(d) ICR ended on June 15, 2017; and,
(e) Share Market Price for the mandatory conversion at any time during the period beginning on Redemption Date and ending on the Extended Redemption Date was amended to 'greater than P7.25 per share', instead of 'greater than P11.0 per share' ("Share Market Price").

Consequent to the amendments in certain terms of the ELS in 2017 as mentioned in the preceding paragraph, the financial liability component was revalued at P5.1 billion and the equity component was valued at P136.2 million, which represented the residual amount after deducting the financial liability component from the Issue Price. The carrying amounts of the components are presented separately in the consolidated statements of financial position [see Notes 2.24 and 3.2(h)], while the amortization of the revalued financial liability component is presented as part of Interest Expense account under the Costs and Expenses section of the consolidated statements of comprehensive income.

On December 4, 2019, EMP exercised the option to extend the Redemption Date to Extended Redemption Date. This did not result to substantial modification of terms.

On December 23, 2019, the parties entered into an amendment (the "Second Amendment") which included the following:

(a) The Holder is given the right to request conversion of:

(i) P1,836,250,000 into 253,275,862 shares, which shall come from the Parent Company's treasury shares ("Tranche 1 Conversion Shares") ("Tranche 1 Conversion"); and,

(ii) P3,443,750,000 into 475,000,000 shares ("Tranche 2 Shares") ("Tranche 2 Conversion").

(b) The Holder is allowed to transfer the ELS to an affiliate of EMP.

On January 31, 2020, the parties entered into an amendment (the "Third Amendment"), which removed the mandatory conversion of the ELS when the Share Market Price of greater than P7.25 per share is reached at any time during the period under Extended Redemption Date.

On February 5, 2020, the Holder exercised its right to Tranche 1 Conversion (see Note 24.2). Pursuant to this conversion, the Group also reclassified a portion of the Conversion Options amounting to P47.7 million to APIC in 2020 (see Note 2.24).

Variable Interest of P52.3 million, P36.4 million and P108.4 million were respectively incurred in 2020, 2019 and 2018 and are presented as part of Interest Expense account under the Costs and Expenses section of the consolidated statements of comprehensive income. The accrued interest payable, which represents variable interest payable in January 2020, amounting to P36.4 million is presented as part of Accrued expenses under the Trade and Other Payables account in the 2019 consolidated statement of financial position (see Note 16). This was paid in full in 2020.

There were no related collaterals on the ELS.

16. TRADE AND OTHER PAYABLES

The breakdown of this account is as follows [see Note 2.11(b)]:

	Notes	2020	2019
Trade payables	23.1, 23.2, 23.7	P 8,440,837,078	P 11,762,232,956
Accrued expenses	14, 15 23.2(b)	6,076,818,039	4,582,707,784
Output VAT payable		485,066,543	397,978,309
Advances from related parties	23.5	3,070,715	3,070,715
Others	24.3	250,723,879	266,934,453
		P 15,256,516,254	P 17,012,924,217

Trade payables arise mostly from purchases of raw materials such as alcohol, molasses, flavorings and other supplies.

Accrued expenses significantly include various accruals relating to interest on interest-bearing loans, marketing, operations, and other activities. The accrued interest is expected to be paid subsequently on the scheduled interest payment date (see Note 14).

17. PROVISIONS

The breakdown of this account as of December 31, 2020 and 2019 is as follows:

	Onerous Lease (see Note 17.1)	Dilapidations (see Note 17.2)	Total
Balance at January 1, 2020	P 14,223,198	P 150,691,002	P 164,914,200
Additional provisions	56,331,220	11,603,520	67,934,740
Utilized amounts	(4,906,290)	(4,943,098)	(9,849,388)
Balance at December 31, 2020	P 65,648,128	P 157,351,424	P 222,999,552
Balance at January 1, 2019			
As previously reported	P 375,407,231	P 149,567,316	P 524,974,547
Adoption of PFRS 16 (see Note 9.2)	(339,006,888)	-	(339,006,888)
As restated	36,400,343	149,567,316	185,967,659
Utilized amounts	(22,177,145)	(5,496,675)	(27,673,820)
Additional provisions	-	6,620,361	6,620,361
Balance at December 31, 2019	P 14,223,198	P 150,691,002	P 164,914,200

17.1 Provision for Onerous Lease

WML has existing non-cancellable lease agreements on leasehold properties located in Glasgow and Edinburgh, Scotland, covering manufacturing plant facilities, buildings and parking spaces, which are vacant or subleased at a discount. The provisions take account of current market conditions, expected future vacant periods, expected future sublet benefits and are calculated by discounting expected net cash outflows on a pre-tax basis over the remaining period of the lease, which as of December 31, 2020 and 2019, is between one to 10 years and one to 11 years, respectively.

In line with the adoption of PFRS 16 in 2019, the Group adjusted certain provision amounting to P399.0 million against the beginning balance of right-of-use assets (see Note 9.2). In 2020, the Group recognized additional provision amounting to P56.3 million because of certain changes in assumptions arising from the impact of COVID-19 [see Note 3.2(k)]. The additional provision is presented as Provisions under General and Administrative Expenses account in the 2020 consolidated statement of comprehensive income since the related right-of-use assets were fully impaired as of December 31, 2019 (see Note 20).

In 2018, additional provisions are presented as part of Provisions under the General and Administrative Expenses account in the 2018 consolidated statement of comprehensive income (see Note 20). The provision will be reduced at each payment date.

17.2 Provision for Dilapidations

WML is a party to lease agreements for properties located in Glasgow and Edinburgh, Scotland, which provide for tenant repairing clauses. The lease agreements require the Group to restore the leased properties to a specified condition at the end of the lease term in 2029. A provision was recognized for the present value of the costs to be incurred for the restoration of the leased properties. Additional provisions are capitalized as part of Right-of-use assets in 2020 and 2019 (see Note 9.2).

18. REVENUES AND OTHER INCOME

The details of revenues and other income are shown below.

	Notes	2020	2019	2018
Sales	2.15	**P 51,395,295,032**	P 50,259,676,633	P 46,345,675,149
Others:				
Unrealized foreign currency gains – net		**657,958,309**	451,032,820	12,772,629
Equity in net profit of joint venture	12	**185,108,059**	239,168,070	198,909,795
Interest income	5, 7	**183,009,956**	345,272,714	265,325,794
Other income – net	7, 9.1, 23.11	**412,933,950**	270,329,936	227,737,655
		1,439,010,274	1,305,803,540	704,745,873
		P 52,834,305,306	P 51,565,480,173	P 47,050,421,022

19. COSTS OF GOODS SOLD

The details of costs of goods sold for the years ended December 31, 2020, 2019 and 2018 are shown below.

	Notes	2020	2019	2018
Finished goods at beginning of year	8	**P 5,800,242,939**	P 4,928,444,192	P 3,537,513,191
Finished goods purchased	23.1	**10,731,882,891**	4,994,755,739	4,010,450,050
Costs of goods manufactured				
Raw and packaging materials at beginning of year	8	**3,909,543,916**	3,932,351,991	3,782,075,935
Net raw material purchases during the year	23.1	**20,543,108,027**	26,133,746,725	24,911,936,335
Raw and packaging materials at end of year	8	**(4,700,265,220)**	(3,909,543,916)	(3,932,351,991)
Raw materials used during the year		**19,752,386,723**	26,156,554,800	24,761,660,279
Work-in-process at beginning of year	8	**20,746,632,386**	19,310,965,391	17,786,098,444
Direct labor	21.1	**1,290,856,425**	1,376,658,047	1,222,300,646
Manufacturing overhead:				
Depreciation and amortization	9.1, 9.2	**1,214,677,541**	941,461,292	915,274,249
Fuel and lubricants		**270,206,749**	318,963,537	311,854,703
Communication, light and water		**269,051,436**	240,089,684	347,138,447
Repairs and maintenance		**255,517,659**	285,073,846	284,322,167
Outside services	23.7	**240,130,937**	234,555,623	253,244,690
Commission		**210,989,168**	172,482,671	155,064,098
Taxes and licenses		**191,699,994**	169,354,177	153,311,403
Labor	21.1	**113,430,652**	118,360,434	102,205,493
Rentals	9.4, 23.2	**104,148,917**	84,348,779	247,847,598
Consumables and supplies		**73,696,771**	243,509,236	124,640,547
Waste disposal		**57,400,331**	55,411,172	83,932,612
Balance carried forward		**P 44,790,825,689**	P 49,707,788,689	P 46,748,895,376

	Note	2020	2019	2018
Balance brought forward		**P 44,790,825,689**	P 49,707,788,689	P 46,748,895,376
Insurance		**55,580,524**	48,183,322	47,864,412
Impairment losses	8	**44,775,076**	8,321,687	54,710,425
Meals		**37,993,721**	18,467,771	13,624,721
Transportation		**27,834,394**	25,402,013	24,935,673
Gasoline and oil		**9,725,787**	14,859,781	9,174,401
Miscellaneous		**131,043,187**	134,776,728	97,364,855
Work-in-process at end of year	8	**(21,071,773,814)**	(20,746,632,386)	(19,310,965,391)
		24,026,004,564	29,211,167,605	27,685,604,472
Finished goods at end of year	8	**(5,159,455,789)**	(5,800,242,939)	(4,928,444,192)
		P 35,398,674,605	P 33,334,124,597	P 30,305,123,521

20. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

	Notes	2020	2019	2018
Advertising and promotions		**P 2,750,503,269**	P 3,116,353,049	P 2,956,377,492
Salaries and employee benefits	21.1	**1,748,997,077**	1,995,174,906	1,911,558,185
Freight and handling		**559,511,059**	470,860,051	470,887,193
Professional fees and outside services		**417,905,195**	652,796,060	355,187,389
Representation		**363,394,050**	396,390,974	250,480,210
Depreciation and amortization	9.1, 9.2	**351,032,885**	602,582,627	159,392,677
Travel and transportation		**271,544,984**	455,779,892	383,930,269
Other services		**132,354,654**	208,277,021	239,238,327
Impairment losses on financial assets	6	**109,087,408**	12,453,267	22,029,978
Taxes and licenses		**92,030,624**	76,639,949	51,497,606
Fuel and oil		**66,262,436**	98,819,432	98,130,764
Provisions	17	**56,331,220**	-	92,789,663
Rentals	9.4, 23.2	**49,237,228**	55,221,770	127,927,747
Supplies		**42,199,885**	55,536,966	55,133,191
Repairs and maintenance		**37,913,105**	121,494,548	112,841,819
Communication, light and water		**37,231,823**	50,413,716	39,466,669
Insurance		**36,524,969**	28,726,202	30,573,844
Meals		**31,717,898**	61,837,742	56,950,925
Amortization of trademarks	10	**1,615,391**	1,615,391	2,240,391
Impairment loss on trademarks	10	**-**	272,402,000	-
Others		**215,891,225**	212,060,238	60,994,289
		P 7,371,286,385	P 8,945,435,801	P 7,477,628,628

Others include royalty fees, subscription and association dues, postal services and other incidental expenses under the ordinary course of business.

These expenses are classified in profit or loss in the consolidated statements of comprehensive income as follows:

	2020	2019	2018
Selling and distribution expenses	**P 5,263,040,976**	P 6,021,050,010	P 5,567,696,147
General and administrative expenses	**2,108,245,409**	2,924,385,791	1,909,932,481
	P 7,371,286,385	P 8,945,435,801	P 7,477,628,628

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

The expenses recognized for salaries and employee benefits are summarized below.

	Notes	2020	2019	2018
Salaries and wages		**P 2,503,275,259**	P 2,752,672,662	P 2,506,057,467
Post-employment defined contribution		**205,493,775**	180,607,937	180,607,937
Social security costs		**175,446,538**	175,819,949	170,973,022
Post-employment defined benefit	21.3	**37,194,025**	21,236,656	20,584,922
Share options	21.2, 24.4	**26,958,170**	26,958,169	26,958,169
Other short-term benefits		**204,916,387**	332,898,014	330,882,807
	19, 20	**P 3,153,284,154**	P 3,490,193,387	P 3,236,064,324

Other short-term benefits represent other employee benefits that were incurred during the reporting periods in which the employees render the related service.

The amount of salaries and employee benefits expense is allocated as follows:

	Notes	2020	2019	2018
Costs of goods sold (inventoriable costs)	19	**P 1,404,287,077**	P 1,495,018,481	P 1,324,506,139
General and administrative expenses	20	**812,719,240**	1,004,037,452	989,483,632
Selling and distribution expenses	20	**936,277,837**	991,137,454	922,074,553
		P 3,153,284,154	P 3,490,193,387	P 3,236,064,324

In 2020, 2019 and 2018, salaries and wages, post-employment benefits and other short-term benefits totaling P329.5 million, P432.5 million and P505.7 million, respectively, were capitalized to form part of the work-in-process inventory (see Note 8). Such capitalized amount represents salaries and employee benefits of personnel directly involved in the production of whisky.

21.2 Employee Share Option

Employee share option expense, included as part of Salaries and employee benefits expense under the General and Administrative Expenses account in the consolidated statements of comprehensive income, amounted to P27.0 million each in 2020, 2019 and 2018, while the corresponding cumulative credit to Share Options Outstanding account is presented under the Equity section of the consolidated statements of financial position (see Note 24.4).

21.3 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

Except for GES, which provides employee benefits through a defined contribution plan, the Group maintains a funded, tax-qualified, noncontributory retirement benefit plan which is being administered by a trustee bank that is legally separated from the Group.

The post-employment plan covers all regular full-time employees of EDI, AWGI, TEI, PAI and certain employees of WMG, and provides a retirement benefit ranging from 85% to 150% of plan salary for every year of credited service.

The normal retirement age is 60 with a minimum of five years of credited service. The plan provides for an early retirement at the age of 50 with a minimum of ten years of credited service and likewise a late retirement age that is not beyond 65, with a minimum of five years of credited service both subject to the approval of the Parent Company's BOD.

(b) Explanation of Amounts Presented in the Consolidated Financial Statements

Actuarial valuations are made regularly to update the post-employment benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation reports obtained from independent actuaries.

The amounts of retirement benefit asset (obligation) recognized in the consolidated statements of financial position are determined as follows:

	2020	2019
Fair value of plan assets	**P 14,795,901,448**	P 14,035,171,864
Present value of the obligation	**(15,155,430,394)**	(13,815,644,171)
	(P 359,528,946)	P 219,527,693

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	2020	2019
Balance at beginning of year	P 13,815,644,171	P 12,405,949,410
Benefits paid	(635,198,709)	(676,943,710)
Foreign exchange adjustment	(410,525,122)	(182,097,017)
Interest expense	294,782,248	364,718,983
Current service costs	37,194,025	21,236,656
Past service costs	16,000,000	-
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	1,863,005,059	1,438,052,849
Changes in demographic assumptions	159,808,000	509,916,000
Experience adjustments	14,720,722	(65,189,000)
Balance at end of year	P 15,155,430,394	P 13,815,644,171

The movements in the fair value of plan assets are presented below.

	2020	2019
Balance at beginning of year	P 14,035,171,864	P 12,295,257,177
Return on plan assets (excluding amounts included in net interest)	1,250,889,021	2,059,661,356
Benefits paid	(635,198,709)	(676,943,710)
Foreign exchange adjustment	(424,986,000)	(268,780,601)
Interest income	295,786,038	356,319,932
Contributions to the plan	274,239,234	269,657,710
Balance at end of year	P 14,795,901,448	P 14,035,171,864

The net effect of the foreign exchange adjustment in the present value of the retirement obligation and the fair value of plan assets amounted to P1.5 million in 2020 and P86.7 million in 2019.

The composition and the fair value of plan assets as at December 31, 2020 and 2019 by category and risk characteristics are shown below.

	2020	2019
Cash and cash equivalents	P 133,060,608	P 126,220,842
Quoted equity securities	6,368,729,608	6,041,185,204
Diversified growth fund	946,208,768	897,570,432
	7,314,938,376	6,938,755,636
Debt securities:		
Corporate bonds	2,882,979,840	2,734,784,910
Liability driven instrument	2,661,212,160	2,524,416,840
Index-linked gilts	1,094,053,888	1,037,815,812
	6,638,245,888	6,297,017,562
Property	709,656,576	673,177,824
	P 14,795,901,448	P 14,035,171,864

Aside from the property investment, which is classified as Level 3 in the fair value hierarchy, the fair values of the above quoted securities and instruments are determined based on quoted market prices in active markets; hence, classified as Level 1 of the fair value hierarchy.

Plan assets do not comprise any of the financial instruments of the Group or its related parties, or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and other comprehensive income or loss in respect of the retirement benefit asset (obligation) are as follows:

	2020	2019	2018
Reported in profit or loss:			
Current service costs	P 37,194,025	P 21,236,656	P 20,584,922
Interest expense (income)	(1,003,790)	8,399,051	4,326,687
	P 36,190,235	P 29,635,707	P 24,911,609
Reported in other comprehensive income or loss:			
Return on plan assets (excluding amount included in net interest)	P 1,237,929,022	P 2,059,661,356	(P 782,859,975)
Actuarial gains (losses) arising from:			
Changes in financial assumptions	(1,863,005,059)	(1,438,052,849)	637,720,318
Changes in demographic assumptions	(159,808,000)	(509,916,000)	(9,426,900)
Experience adjustments	(14,720,722)	65,189,000	(34,643,519)
	(P 799,604,759)	P 176,881,507	(P 189,210,076)

REFINE TASTE

The amounts of post-employment benefits expense recognized in profit or loss are presented as part of General and Administrative Expenses for current service costs and as part of Interest Expense for net interest expense (income) accounts under the Costs and Expenses section in the consolidated statements of comprehensive income.

Amounts recognized in other comprehensive income or loss were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the retirement benefit obligation, the following actuarial assumptions were used:

	2020	2019	2018
Discount rate	**3.95%-3.96%**	5.21%-5.35%	2.58%-7.52%
Expected rate of salary increase	**5.00%-7.00%**	5.10%-7.00%	5.00%-7.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of an individual retiring at the age of 60 is 23 years for both males and females. These assumptions were developed by management with the assistance of independent actuaries. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the retirement benefit obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Benefit Obligation*

The Group is exposed to actuarial risks such as interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Rate Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the retirement benefit obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing debt and equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the participants during their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the participants will result in an increase in the retirement benefit obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of the end of the reporting periods:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2020			
Discount rate	**+0.25%/-0.25%**	**(P 721,144,223)**	**P 775,297,017**
Salary growth rate	**+1.00%/-1.00%**	**224,609,816**	**(207,938,896)**
December 31, 2019			
Discount rate	+0.25%/-0.25%	(P 644,628,235)	P 691,198,728
Salary growth rate	+1.00%/-1.00%	189,208,298	(182,897,448)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the retirement benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the retirement benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Group through its Management Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., quoted equity securities and corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of the plan assets as at December 31, 2020 and 2019 consists of quoted equity securities, corporate bonds and other instruments, although the Group also invests in funds.

The expected maturity of undiscounted expected benefits payments within 10 years is as follows:

	2020	2019
Within one year	**P 320,594,583**	P 275,400,578
More than one but less than five years	**1,328,151,573**	1,212,132,535
More than five years but less than 10 years	**88,046,296**	674,720,665
	P 1,736,792,452	P 2,162,253,778

The weighted average duration of the retirement benefit obligation at the end of the reporting period is 14.13 years.

22. CURRENT AND DEFERRED TAXES

The components of tax expense (income) as reported in the consolidated statements of comprehensive income are as follows:

	2020	2019	2018
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%, 25%, 20%, 19% and 17%	**P 1,469,668,087**	P 1,335,421,308	P 1,349,706,463
Final tax on interest income at 20%, 15%	**9,725,587**	118,539,408	26,263,447
Minimum corporate income tax (MCIT) at 2%	**-**	4,464,793	886,622
	1,479,393,674	1,458,425,509	1,376,856,532
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(80,308,018)**	189,008,843	230,558,146
	P 1,399,085,656	P 1,647,434,352	P 1,607,414,678
Reported in other comprehensive income or loss			
Deferred tax expense (income) relating to remeasurements of retirement benefit obligation	**P 51,531,692**	P 87,253,112	(P 32,275,467)

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense is as follows:

	2020	2019	2018
Tax on pretax profit at 30%	**P 2,830,717,684**	P 2,543,991,181	P 2,530,909,323
Adjustment for income subjected to different tax rates	**(129,169,052)**	(47,844,059)	(16,137,960)
Adjustments in claiming optional standard deduction (OSD)	**(216,046,654)**	284,614,862	(10,889,592)
Tax effects of:			
Non-taxable income	**(1,110,417,251)**	(1,348,401,507)	(1,267,763,322)
Non-deductible expenses	**102,542,213**	336,337,394	389,577,809
Equity in net income of joint venture	**(55,324,418)**	(71,750,421)	(59,672,939)
Accelerated capital allowances and other short-term temporary differences	**(21,692,992)**	(21,504,817)	(26,436,827)
Adjustments to current tax for prior years due to change in tax rate	**(17,399,043)**	(36,330,480)	-
Unrecognized deferred tax tax asset on:			
Net operating loss carry-over (NOLCO)	**15,875,169**	3,857,406	66,941,564
MCIT	**-**	4,464,793	886,622
Tax expense	**P 1,399,085,656**	P 1,647,434,352	P 1,607,414,678

EMP and its Philippine subsidiaries are subject to the higher of RCIT at 30% of net taxable income or MCIT at 2% of gross income, as defined under the Philippine tax regulations. They paid RCIT in 2020, 2019 and 2018 as RCIT was higher in those years, except for EMP and TEI in 2019 and 2018 in which MCIT was higher than RCIT. (See Note 32.2)

EMP's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries and/or jurisdictions where they operate.

The deferred tax assets and liabilities as of December 31 relate to the following:

	2020	2019
Brand valuation	**(P 1,807,354,161)**	(P 1,612,067,160)
Lease liabilities	**514,178,329**	850,964,738
Right-of-use assets	**(442,772,890)**	(870,050,632)
Fair value adjustment	**(280,319,890)**	(250,030,968)
Short-term temporary differences	**(228,519,008)**	(280,151,919)
Retirement benefit obligation (asset)	**102,807,770**	(4,102,444)
Capitalized borrowing costs	**(51,585,429)**	(53,828,274)
Allowance for impairment	**22,287,708**	19,105,907
Unamortized past service costs	**320,569**	427,424
Net deferred tax liabilities	**(P 2,170,957,002)**	(P 2,199,733,328)

These are presented in the consolidated statements of financial position as follows:

	2020	2019
Deferred tax liabilities - net	(P 2,315,851,761)	(P 2,261,075,224)
Deferred tax assets - net	144,894,759	61,341,896
	(P 2,170,957,002)	(P 2,199,733,328)

Movements in net deferred tax liabilities for the years ended December 31 are as follows.

	Consolidated Profit or Loss			Consolidated Other Comprehensive Income or Loss		
	2020	2019	2018	2020	2019	2018
Right-of-use assets	(P 427,277,742)	P 3,321,262	P -	P -	P -	P -
Lease liabilities	336,786,409	120,136,046	-	-	-	-
Brand valuation	195,287,001	(220,901,496)	193,562,656	-	-	-
Retirement benefit obligation (asset)	(158,441,906)	(48,878,040)	5,977,097	51,531,692	87,253,112	(32,275,467)
Short-term temporary differences	(51,632,911)	162,692,611	35,920,858	-	-	-
Fair value adjustment	30,288,922	171,234,563	(42,086,715)	-	-	-
Allowance for impairment	(3,181,801)	(2,519,438)	(3,166,261)	-	-	-
Capitalized borrowing costs	(2,242,845)	3,816,480	9,704,056	-	-	-
Unamortized past service costs	106,855	106,855	106,855	-	-	-
Contingent liability	-	-	30,539,600	-	-	-
Deferred tax expense (income)	(P 80,308,018)	P 189,008,843	P 230,558,146	P 51,531,692	P 87,253,112	(P 32,275,467)

In 2020, 2019 and 2018, the Group opted to claim itemized deductions in computing its income tax due, except for EDI, PAI and AWGI which both opted to claim OSD during the same taxable years.

23. RELATED PARTY TRANSACTIONS

The Group's related parties include the ultimate parent company, stockholders, officers and employees, and other related parties under common ownership as described below.

The summary of the Group's transactions with its related parties in 2020, 2019 and 2018 and the related outstanding balances as of December 31, 2020 and 2019 are presented below and in the succeeding page.

Related Party Category	Notes	Amount of Transaction 2020	2019	2018	Outstanding Balance Receivable (Payable) 2020	2019
Ultimate Parent Company:						
Advances granted	23.6	P -	P -	P 1,142,912,243	P 2,178,819,411	P 2,095,371,956
Dividends	24.3	1,403,196,355	596,182,620	1,964,126,804	-	(596,182,620)
Lease of properties:	23.2(a)					
Rentals paid		10,406,000	9,680,000	8,800,000	-	-
Right-of-use assets		8,029,106	6,572,172	-	48,174,637	46,005,202
Lease liabilities		2,509,133	4,313,895	-	(54,303,136)	(52,001,463)
Advances paid	23.5	-	-	(250,000,000)	-	-
Related Parties Under Common Ownership:						
Purchase of raw materials	23.1	2,775,139,348	3,709,697,815	3,348,852,355	(811,977,473)	(1,019,713,848)
Advances for land purchase	23.10	271,246,367	83,350,000	46,350,000	622,049,938	310,328,571
Sale of goods	23.3	87,891,147	228,827,930	153,702,077	273,229,290	251,683,560
Lease of properties:	23.2(b)					
Rentals paid		73,391,077	79,327,870	34,695,202	(10,429)	-
Right-of-use assets		53,281,092	48,774,598	-	251,748,629	305,029,721
Lease liabilities		18,898,425	14,382,373	-	(226,954,257)	(256,884,206)
Refundable security deposits		3,696,842	(3,592,411)	1,865,613	7,604,533	3,907,691
Management services	23.7	60,000,000	60,000,000	60,000,000	(110,000,000)	(77,000,000)
Purchase of finished goods	23.1	14,824,943	28,098,331	23,643,366	(983,717)	(1,710,514)
Perpetual notes	23.12	-	1,254,552,250	14,242,630	-	-
Advances paid	23.5	-	-	(75,000,000)	-	-

Related Party Category	Notes	Amount of Transaction 2020	2019	2018	Outstanding Balance Receivable (Payable) 2020	2019
Stockholder –						
Advances obtained (paid)	23.5	P -	P -	P -	(P 3,070,715)	(P 3,070,715)
Officers and Employees:						
Employee share option	24.4	26,958,169	26,958,169	26,958,169	-	-
Advances granted (collected)	23.4	10,780,936	(7,244,067)	3,125,784	44,299,252	33,518,316
Key Management Personnel –						
Compensation	23.8	222,429,521	236,404,840	249,290,202	-	-

The outstanding balances from the above transactions with related parties are unsecured, noninterest-bearing and payable or collectible on demand, unless otherwise stated. No impairment loss was recognized, and none is deemed necessary, in 2020, 2019 and 2018 for the related party receivables.

23.1 Purchase of Goods

The Group imports raw materials such as alcohol, flavorings and other items, and finished goods through Andresons Global, Inc. ("AGL"), a related party under common ownership. These transactions are normally being paid within 30 days. The Group also imports raw materials from Alcoholera dela Mancha Vinicola, S.L., a wholly owned subsidiary of BLC, which is considered a related party under joint control (see Note 8).

The related unpaid purchases as of December 31, 2020 and 2019 are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

23.2 Lease of Properties

(a) AGI

AWGI leases the glass manufacturing plant located in Laguna from AGI. The amount of rental is mutually agreed upon by the parties at the start of each year, as provided in their lease contract.

In 2019, AWGI recognized right-of-use assets and lease liabilities from this lease agreement in accordance with PFRS 16, which will be amortized and paid, respectively, over the lease term in lieu of the annual rent expense. However, in 2020, AWGI and AGI agreed to amend the terms in the lease agreement by changing the increase in minimum annual rent from 10% to 7.5% effective January 2020. This is accounted for as a lease modification, which resulted in the remeasurement of right-of-use assets and lease liabilities during the same year amounting to P10.2 million. Amortization of right-of-use assets amounted to P8.0 million in 2020 and P6.6 million in 2019, and are presented as part of Depreciation and amortization under Costs of Goods Sold account in the 2020 and 2019 consolidated statements of comprehensive income. Interest expense recognized from the lease liabilities amounted to P2.5 million in 2020 and P4.3 million in 2019, and are presented as part of Interest Expense account in the 2020 and 2019 consolidated statements of comprehensive income.

AWGI paid P10.4 million in 2020, P9.7 million in 2019, and P8.8 million in 2018 and there were no outstanding balances arising from this lease agreement with AGI as of December 31, 2020 and 2019.

Rentals in 2018 were charged to operations as part of Rentals under the Costs of Goods Sold account in the 2018 consolidated statement of comprehensive income (see Note 19).

(b) Megaworld

The Group also entered into lease contracts with Megaworld, a related party under common ownership, for the head office space of the Group.

In 2019, EDI, PAI and AWGI recognized right-of-use assets and lease liabilities from lease agreements with Megaworld in accordance with PFRS 16. In 2020, PAI leased an office space with Megaworld, in which a right-of use asset and lease liability were also recognized. Amortization of right-of-use assets amounting to P29.2 million and P19.9 million are presented as part of Depreciation and amortization under the Costs of Goods Sold account in the 2020 and 2019 consolidated statements of comprehensive income, respectively, while amortization of right-of-use assets amounting to P11.8 million and P9.5 million are presented under the General and Administrative Expenses account in the 2020 and 2019 consolidated statements of comprehensive income, respectively (see Notes 19 and 20).

Interest expense from the lease liabilities amounting to P12.2 million and P10.0 million are presented as part of Interest Expense account in the 2020 and 2019 consolidated statements of comprehensive income, respectively.

The Group paid P44.1 million in 2020, P40.2 million in 2019 and P34.7 million in 2018 and there were no outstanding balances arising from these lease agreements as of December 31, 2020 and 2019.

Rentals in 2018 from these contracts are presented as part of Rentals under the Costs of Goods Sold account, Selling and Distribution Expenses, and General and Administrative Expenses in the 2018 consolidated statement of comprehensive income (see Notes 19 and 20).

The refundable security deposits paid to the lessors are shown as part of Other Non-current Assets account in the consolidated statements of financial position (see Note 11.2).

AWGI also leases from Megaworld a parking space, which is considered as low value asset upon adoption of PFRS 16 in 2019. The related rent expense amounting to P0.1 million in 2020, 2019 and 2018 is presented as part of Rentals under the General and Administrative Expenses account in the consolidated statements of comprehensive income. The outstanding liability arising from this transaction as of December 31, 2020 (nil as of December 31, 2019) is presented as part of Accrued expenses under the Trade and Other Payables account in the 2020 consolidated statement of financial position (see Note 16).

(c) Empire East Land Holdings, Inc.

EDI entered into a lease contract with Empire East Land Holdings, Inc., a related party under common ownership, for the Company's office and warehouse.

In 2019, EDI recognized right-of-use assets and lease liabilities from this lease agreement in accordance with PFRS 16. Amortization of right-of-use assets amounting to P38.7 million and P19.3 million are presented as part of Depreciation and amortization under the Costs of Goods Sold account in the 2020 and 2019 consolidated statements of comprehensive income, respectively (see Note 19). Interest expense from the lease liability amounting to P6.7 million and P4.4 million are presented are presented as part of Interest Expense account in the 2020 and 2019 consolidated statements of comprehensive income, respectively.

EDI paid P29.2 million in 2020 and P45.9 million in 2019 and there are no unpaid rentals relating to this lease agreement as of December 31, 2020 and 2019.

The outstanding right-of-use assets and lease liabilities from these lease agreements with related parties as of December 31, 2020 and 2019 are presented as part of Property, Plant, and Equipment – net account and Lease Liabilities account in the 2020 and 2019 consolidated statements of financial position (see Note 9).

23.3 Sale of Goods

The Group sold finished goods to related parties. Goods are sold on the basis of the price lists in force and terms that would be available to non-related parties. The outstanding receivables from sale of goods are generally noninterest-bearing, unsecured and settled through cash within three to six months. These receivables are presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

23.4 Advances to Officers and Employees

In the normal course of business, the Group grants noninterest-bearing, unsecured, and payable on demand cash advances to certain officers and employees. The outstanding balance arising from these transactions is presented as Advances to officers and employees under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The movements in the balance of Advances to Officers and Employees account are as follows:

	2020	2019
Balance at beginning of year	P 33,518,316	P 40,762,383
Additions	14,864,206	41,045,994
Repayments	(4,083,270)	(48,290,061)
Balance at end of year	P 44,299,252	P 33,518,316

23.5 Advances from Related Parties

AGI and other entities within the AGI Group, and other related parties grant cash advances to the Group for its working capital, investment and inventory purchases requirements. These advances are unsecured, noninterest-bearing and repayable in cash upon demand. These are presented as Advances from related parties under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

23.6 Advances to Ultimate Parent Company

The Group made unsecured cash advances to AGI for its investment activities, which were payable in cash upon demand. There were no additional cash advances and collections in 2020 and 2019 and the movements relate only to translation adjustments. The outstanding balance as of December 31, 2020 and 2019 was presented as Advances to ultimate parent company under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

23.7 Management Services

EDI had a management agreement with Condis for consultancy and advisory services in relation to the operation, management, development and maintenance of its distillery plant, which was transferred to Progreen when the distillery plant was leased to Progreen starting 2017.

Total management fees incurred are presented as part of Outside services under the Costs of Goods Sold account in the consolidated statements of comprehensive income (see Note 19). The outstanding liability as of December 31, 2020 and 2019 is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16). The related liabilities are unsecured, noninterest-bearing and payable upon demand.

23.8 Key Management Personnel Compensation

The compensation of key management personnel for employee services is shown below.

	2020	2019	2018
Short-term benefits	**P 203,237,736**	P 213,788,841	P 234,113,062
Post-employment defined benefits	**14,979,300**	18,403,514	10,964,655
Share options	**4,212,485**	4,212,485	4,212,485
	P 222,429,521	P 236,404,840	P 249,290,202

23.9 Retirement Plan

The Group's retirement funds for its post-employment defined benefit plan is administered and managed by a trustee bank. The fair value and the composition of the plan assets as of December 31, 2020 and 2019 are presented in Note 21.3. These plan assets do not include EMP Group's own financial instruments. The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments covered by any restrictions or liens.

23.10 Purchase of Land

In 2016, the Group entered into a contract to purchase certain parcels of land located in Iloilo and Cebu from Megaworld for a total consideration of P206.0 million. Of the total consideration, the Group already made cash payments of P27.0 million in 2020 and P46.0 million in each year 2019 and 2018. However, the legal title and the risks and rewards of ownership over the parcels of land have not yet been transferred to the Group as of December 31, 2020; hence, the land was not yet recorded as an asset by the Group. The total cash payments made by the Group are presented as part of Advances to suppliers under the Other Non-current Assets account in the consolidated statements of financial position (see Note 11.2).

In 2014, the Group made cash payments to certain related party under common ownership for the acquisition of certain parcels of land. However, the planned acquisition was temporarily suspended by both parties. The outstanding balance amounting to P144.8 million and P131.4 million as of December 31, 2020 and 2019, respectively, is presented as part of Advances to suppliers under the Other Non-current Assets account in the consolidated statements of financial position (see Note 11.2).

In 2019, the Group also purchased a parcel of land located in Legazpi City from a certain related party amounting to P37.0 million. The acquired land was paid in full in 2019 and capitalized as part of Land under the Property, Plant, and Equipment – net account of the 2019 consolidated statement of financial position (see Note 9.1). The portion of the payment amounting to P13.4 million was offset from the Advances to suppliers, which was presented under the Other Non-current Assets account in the 2019 consolidated statement of financial position (see Note 11.2).

In 2020, the Group purchased a parcel of land located in Tanza, Cavite from a related party. Of the total consideration, the Group already made cash payment of P271.2 million in 2020 which is presented as part of Advances to suppliers under Other Non-current Assets account in the 2020 consolidated statement of financial position (see Note 11.2).

23.11 Perpetual Notes

In 2018, the Group acquired Megaworld Perpetual Notes amounting to P1.2 billion (see Note 7). The investment was sold in 2019 and the Group recognized a gain on disposal amounting to P16.4 million, which is presented as part of Other income in the Revenues and Other Income section of the 2019 consolidated statement of comprehensive income (see Note 18). The Group also recognized interest income from these financial instruments amounting to P29.4 million and P14.2 million in 2019 and 2018, respectively.

23.12 Purchase and Sale Commitment

On December 27, 2020, the Group signed a letter of intent with Global One, a related party under common ownership, for the sale of its land and building for a total purchase price of €16.6 million (see Note 13).

24. EQUITY

24.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2020	2019	2018	**2020**	2019	2018
Common shares – P1 par value						
Authorized – 20.0 billion shares						
Issued and outstanding:						
Balance at beginning of year	**15,759,165,376**	15,985,015,876	16,197,219,676	**P 12,754,551,764**	P 14,392,623,076	P 15,921,256,246
Treasury shares – at cost (Notes 2.24 and 24.2)	**13,544,762**	(225,850,500)	(212,203,800)	**(257,744,770)**	(1,638,071,312)	(1,528,633,170)
Balance at end of year	**15,772,710,138**	15,759,165,376	15,985,015,876	**P 12,496,806,994**	P 12,754,551,764	P 14,392,623,076

The BOD of the PSE approved the listing of the common shares of the Parent Company on October 16, 2011.

On December 19, 2011, the Parent Company issued through initial public offering ("IPO") an additional 22.0 million shares with an offer price of P4.50 per share. The Parent Company incurred P10.9 million IPO-related costs, P4.2 million of which was charged against APIC and the balance of P6.7 million was recognized as part of other operating expenses. Net proceeds from the IPO amounted to P90.8 million.

On December 27, 2012, the Parent Company issued additional 6.0 million shares with an offer price of P5.50 per share through a private placement.

On June 19, August 27 and September 5, 2013, the Parent Company's BOD, stockholders, and SEC, respectively, approved the increase in authorized capital stock of EMP from P100.0 million divided into 100.0 million shares to P20.0 billion divided into 20.0 billion shares both with par value of P1.00 per share. On July 4, 2013, the Parent Company's BOD approved the issuance of 6.5 million shares at par value to two foreign investors. On August 28, 2013, AGI and other investors subscribed to an aggregate of 14.9 billion shares. Under the terms of AGI's subscription, the Parent Company acquired all of EDI shares held by AGI.

On September 17, 2013, AGI launched an offering of 1.8 billion EMP shares, which is approximately 12.0% of the total issued shares. The said offering was priced at P8.98 per share. On September 25, 2013, the settlement date, the amount of P11.2 billion out of the net proceeds was directly remitted to EMP as an additional subscription price from AGI under the terms of the amended agreement with AGI; such amount is recorded as APIC in EMP's books. Costs related to the issuances amounting to P176.3 million were deducted from APIC.

On September 25, 2013, AGI beneficially acquired two of EMP's minority corporate stockholders which held a combined 9.55% of the total issued shares. Thus, AGI beneficially owns 87.55% of EMP as of December 31, 2013.

On December 4, 2014, the Parent Company issued additional 1.1 billion common shares with an offer price of P11.0 per share through private placement (see Note 15). This resulted to a decrease in AGI's ownership from 87.55% to 81.46% as of December 31, 2014. The excess of the subscription price over the par value amounting to P11.2 billion was recorded as APIC.

On November 28, 2017, the Parent Company issued 122.4 million common shares at P6.80 per share in consideration of the accrued interest on ELS amounting to P832.3 million (see Note 15). The excess of accrued interest over the par value amounting to P709.9 million was recorded as part of APIC (see Note 2.24).

On February 5, 2020, the Parent Company issued 253.3 million shares to Arran for the Tranche 1 Conversion of the ELS (see Notes 15 and 24.2). Consequently, Conversion Options amounting to P47.7 million was transferred to APIC.

As of December 31, 2020 and 2019, the quoted closing price per share is P10.10 and P7.21, respectively, and there are 152 and 158 holders in 2020 and 2019, respectively, which include nominee accounts, of the Parent Company's total issued and outstanding shares. The percentage shares of stock owned by the public are 15.73% and 12.94% as of December 31, 2020 and 2019, respectively.

24.2 Treasury Shares

On May 12, 2017, the Parent Company's BOD authorized the buy-back of EMP's common shares of up to P5.0 billion for a term of 2 years commencing on May 16, 2017 and ending on May 16, 2019. On May 7, 2019, the buy-back program of the Parent Company's common shares of up to P3.0 billion was extended for 12 months ending May 16, 2020. On May 16, 2020, the BOD approved another 12-month extension ending on May 16, 2021 under the same terms and conditions.

Subsequently on April 12, 2021, the BOD authorized a buy-back program of EMP's common shares of up to P1.0 billion ending on December 31, 2021 under the same terms and conditions as the previous ones (see Note 32.3).

As of December 31, 2020 and 2019, the Parent Company has spent P5.11 billion, including trading charges, to purchase a total of 657.48 million shares and P3.49 billion to purchase 483.23 million shares, respectively, under the buy-back program. In 2020, 2019 and 2018, the Parent Company has repurchased 174.2 million, 225.9 million and 212.2 million shares for P1.63 billion, P1.64 billion and P1.53 million, respectively. Out of these, a total of 253.3 million shares had been issued to Arran for the Tranche 1 Conversion pursuant to the exercise of its right to convert under Second Amendment of the ELS (see Note 15).

Under the Revised Corporation Code of the Philippines, a stock corporation can purchase or acquire its own shares provided that it has unrestricted retained earnings to cover the shares to be purchased or acquired (see Note 24.5).

24.3 Declaration of Dividends

The details of the Parent Company's cash dividend declarations in 2020, 2019 and 2018 are as follows:

Date of Declaration	Date of Stockholders' Record	Payable Date	Dividend per Share	Total
August 5, 2020	August 18, 2020	September 3, 2020	P 0.1100	P1,751,016,634
December 17, 2019	January 7, 2020	January 20, 2020	0.0500	787,958,269
April 11, 2018	May 2, 2018	May 22, 2018	0.14883413	2,399,048,170

Subsequently on January 4 and March 8, 2021, the BOD declared cash dividends of P0.12 and P0.09 per share, respectively, to all stockholders of record as of January 15 and March 19, 2021, respectively. (See Note 32.1)

The Parent Company's ongoing buy-back program restricts its retained earnings for distribution as dividends (see Note 24.2).

The outstanding dividends payable as of December 31, 2019 amounting to P779.2 million, net of final withholding taxes ("FWT") of P8.7 million, had been fully paid on January 20, 2020. The FWT is presented as part of Others under the Trade and Other Payables account in the 2019 consolidated statement of financial position (see Note 16). There were no unpaid dividends as of December 31, 2020 and 2018.

24.4 Employee Share Option

On November 7, 2014, the Group's BOD approved an employee share option plan ("ESOP") for qualified employees of the Group.

The options shall generally vest on the 60th birthday of the option holder and may be exercised until the date of his/her retirement from the Group provided that the employee has continuously served for 11 years of service after the option offer date. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Parent Company's shares for nine months immediately preceding the date of grant.

Pursuant to this ESOP, on November 6, 2015, the Group granted share options to certain key executives of EDI to subscribe to 118.0 million common shares of the Parent Company, at an exercise price of P7.00 per share.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

Average option life	20.23 years
Average share price at grant date	P8.90
Average exercise price at grant date	P7.00
Average fair value at grant date	P4.09
Average standard deviation of share price returns	10.24%
Average dividend yield	1.08%
Average risk-free investment rate	4.89%

The underlying expected volatility was determined by reference to historical prices of the Parent Company's shares over a period of one year.

Share option benefits expense, which is included as part of Salaries and employee benefits under the General and Administrative Expenses account, amounting to P27.0 million was recognized in 2020, 2019 and 2018 (see Note 21.2), while the corresponding credit to Share Options Outstanding account is presented as part of Equity Attributable to Owners of the Parent Company under the Equity section of the consolidated statements of financial position.

24.5 Appropriation of Retained Earnings

In 2017, the P550.0 million appropriation in prior year was reversed with the completion of its intended purpose.

In 2017, the Group appropriated a portion of its retained earnings amounting to P600.0 million for capital expenditures at the glass manufacturing plant. On January 22, 2019, the Group appropriated additional P200.0 million to the said appropriation. The project is expected to be completed in 2022.

The Parent Company's ongoing share buy-back program restricts its retained earnings for distribution as dividends (see Note 24.2).

24.6 Subsidiaries with Non-controlling Interest

The composition of NCI account is as follows (see Note 2.24):

	Notes	Percentage of Ownership of NCI	2020	2019
DBLC	1.1(p)	50%	P 798,380,685	P 907,699,530
Boozylife	1.1(d)	38% in 2020, 49% in 2019	(19,869,058)	(8,467,560)
			P 778,511,627	P 899,231,970

The summarized information of DBLC, which is considered as material non-controlling interest, before intragroup eliminations, is shown below and in the succeeding page.

	2020	2019
Current assets	P 3,392,063,886	P 4,221,684,256
Non-current assets	3,334,287,840	3,619,076,730
Total assets	P 6,726,351,726	P 7,840,760,986
Financial Assets	P 2,316,937,895	P 2,851,444,737
Current liabilities	P 2,003,207,190	P 3,365,331,968
Non-current liabilities	2,772,822,810	2,452,010,909
Total liabilities	P 4,776,030,000	P 5,817,342,877
Financial liabilities	P 3,573,156,429	P 4,318,588,261
Revenues	P 2,429,544,171	P 2,959,388,405
Profit for the period attributable to:		
Owners of Parent Company	P 71,079,935	P 122,999,575
NCI	71,079,934	122,999,575
Profit for the year	142,158,869	245,999,150
Other comprehensive loss attributable to:		
Owners of Parent Company	(180,398,796)	(100,442,204)
NCI	(180,398,796)	(100,442,204)
Other comprehensive loss for the year	(360,797,592)	(200,884,408)
Total comprehensive income (loss) for the year	(P 218,638,723)	P 45,114,742

REFINE TASTE

	2020	2019
Net cash from (used in):		
Operating activities	P 207,193,843	P 293,761,019
Investing activities	305,191,138	(211,359,893)
Financing activities	(147,546,261)	(51,727,230)
Net cash inflow	P 364,838,720	P 30,673,896

No dividends were paid to the NCI in 2020 and 2019.

25. EARNINGS PER SHARE

Earnings per share were computed as follows (see Note 2.24):

	2020	2019	2018
Consolidated net profit attributable to owners of the parent company	P 7,967,261,504	P 6,725,536,563	P 6,658,236,381
Divided by the weighted average number of outstanding common shares	15,845,014,032	15,919,123,588	16,102,482,130
Basic and diluted earnings per share	P 0.50	P 0.42	P 0.41

On November 6, 2015, the Parent Company's BOD granted share options to certain key executives of EDI to subscribe to 118.0 million common shares of EMP, at an exercise price of P7.00 per share (see Note 24.4).

On June 15, 2017, the number of Conversion Shares under the amended ELS instrument was fixed from 480.0 million to 728.3 million (see Note 14). As of December 31, 2020, there are 475.0 million shares that have not yet been converted or redeemed.

The basic and diluted earnings per share are the same because the dilutive effects of potential common shares from the employee share options and convertible ELS are negligible for the periods presented. Thus, the weighted average number of issued and outstanding common shares presented above does not include the effect of the potential common shares from the employee share options and convertible ELS.

26. COMMITMENTS AND CONTINGENCIES

The Group has entered a purchase and sale commitment with a related party, in the amount of €16.6 million, for the sale of its land and building (see Notes 13 and 23). In addition, the Group has made advances for purchases of land with total contract price of P304.9 million for future construction of warehouses (see Note 23.10).

Except for those provisions recognized (see Note 17) and commitments disclosed in the preceding page in the consolidated financial statements, there are other commitments and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. Management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Group's consolidated financial statements.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to certain financial risks which result from its operating activities. The main types of risks are market risk, credit risk, liquidity risk and price risk. There have been no significant changes in the Group's financial risk management objectives and policies during the period.

The Group's risk management is coordinated with AGI, in close cooperation with the BOD appointed by AGI, and focuses on actively securing the Group's short-to-medium term cash flows by minimizing the exposure to financial markets.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

27.1 Market Risk

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, Euros, U.K. pounds, and U.S. dollars, which are the entities' functional currencies. Exposures to currency exchange rates arise from the Group's foreign currency-denominated transactions at each entity level. The Group has no significant exposure to other foreign currency exchange rates at each entity level, except for U.S. dollars of EDI and foreign subsidiaries, since these other foreign currencies are not significant to the Group's consolidated financial statements. EDI has cash and cash equivalents in U.S. dollars as of December 31, 2020 and 2019 while the foreign subsidiaries have cash and cash equivalents, receivables and payables in U.S. dollars. To mitigate the Group's exposure to foreign currency risk, non-functional currency cash flows are monitored.

Foreign currency-denominated financial assets and financial liabilities with exposure to foreign currency risk, translated into Philippine pesos at the closing rate, are as follows:

	2020	2019
Financial assets	P 400,870,827	P 419,366,573
Financial liabilities	(3,296,647,884)	(2,523,016,704)
	(P 2,895,777,057)	(P 2,103,650,131)

The table below illustrates the sensitivity of the Group's consolidated profit before tax with respect to changes in Philippine pesos against U.S. dollar exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 68% confidence level.

	Reasonably possible change in rate	Effect in consolidated profit before tax	Effect in consolidated equity
2020	**9.50%**	**(P 275,098,820)**	**(P 192,569,174)**
2019	5.97%	(P 125,587,913)	(P 87,911,539)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

(b) Interest Rate Risk

As at December 31, 2020 and 2019, the Group is exposed to changes in market rates through its cash in banks and short-term placements which are generally subject to 30-day repricing intervals (see Note 5). Due to the short duration of short-term placements, management believes that interest rate sensitivity and its effect on the net results and equity are not significant. The Group's interest-bearing loans are subject to fixed interest rates and are therefore not subject to interest rate risk, except for certain loans that are based on Euro Interbank Offered Rate ("EURIBOR") and London Inter-bank Offered Rate ("LIBOR") (see Note 14). However, the EURIBOR is currently at a negative rate or a zero rate, and the Group does not see a material interest rate risk in the short-term.

The sensitivity of the Group's profit before tax on its loans arising from LIBOR is analyzed based on a reasonably possible change in interest rates of +/-2.55% in 2020 and +/-2.13% in 2019. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if LIBOR increased by 2.55% and 2.13% in 2020 and 2019, profit before tax would have decreased by P63.4 million and P64.1 million, respectively. Conversely, if the interest rates decreased by the same percentages, profit before tax in 2020 and 2019 would have been higher by the same amounts.

(c) Other Price Risk

The Group was exposed to other price risk in respect of its financial instruments at FVTPL, which pertain to derivative assets and liabilities arising from foreign exchange margins trading spot and forward contracts. These financial instruments will continue to be measured at fair value based on the index reference provided by certain foreign financial institution and through reference to quoted bid prices, respectively.

The Group believes that the change in foreign exchange rate related to foreign exchange margins trading spot rate and forward contracts will not materially affect the consolidated financial statements. The Group has recognized fair value gains in 2020 and 2019, and fair value losses in 2018 (see Note 7).

27.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting advances and selling goods to customers including related parties and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

In general, the Group's financial assets are not covered with any collateral or credit enhancement. Accordingly, the Group manages credit risk by setting limits on the amount of risk in relation to a particular customer including requiring payment of any outstanding receivable before a new credit is extended. Such risk is monitored on a regular basis and subject to an annual or more frequent review. Approval for credit limits are secured from the credit manager.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown in the consolidated statements of financial position or in the detailed analysis provided in the notes to the consolidated financial statements, as follows:

	Notes	2020	2019
Cash and cash equivalents	5	**P 7,561,169,140**	P 7,740,605,656
Trade and other receivables – net	6	**16,932,961,674**	17,681,491,614
Property mortgage receivable	11.2	**613,935,936**	636,946,200
Refundable security deposits	11.1, 11.2	**33,881,156**	37,733,281
		P 25,141,947,906	P 26,096,776,751

The Group's management considers that all the above financial assets that are not impaired as at the end of reporting period under review are of good credit quality.

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Cash and cash equivalents include cash in banks and short-term placements in the Philippines which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) Trade and Other Receivables, Property Mortgage Receivable, and Refundable Security Deposits

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade receivables and other receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets).

The expected loss rates for trade receivables are based on the payment profiles of sales over a period of 36 months before December 31, 2020 and 2019, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Product and inflation rates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at December 31 was determined based on months past due, as follows for trade receivables:

	1-30 Days	31-90 Days	Over 90 Days	Total
December 31, 2020				
Expected loss rate	0%	0%	100%	
Gross carrying amount	P 9,548,359,708	P 5,152,412,710	P 189,441,284	P14,890,213,702
Loss allowance	-	-	189,441,284	189,441,284
December 31, 2019				
Expected loss rate	0%	0%	100%	
Gross carrying amount	P 9,835,947,974	P 5,687,981,032	P 88,686,826	P15,612,615,832
Loss allowance	-	-	88,686,826	88,686,826
December 31, 2018				
Expected loss rate	0%	0%	100%	
Gross carrying amount	P 9,150,607,209	P 5,241,157,911	P 133,008,227	P14,524,773,347
Loss allowance	-	-	133,008,227	133,008,227

In general, the Group's financial assets are not covered with any collateral or credit enhancement. Accordingly, the Group manages credit risk by setting limits on the amount of risk in relation to a particular customer including requiring payment of any outstanding receivable before a new credit is extended. Such risk is monitored on a regular basis and subject to an annual or more frequent review. Approval for credit limits are secured from the credit manager.

For the advances to the ultimate parent company and refundable security deposits, the lifetime ECL rate is assessed at 0%, as there were no historical credit loss experience from the counterparties. The counterparties have low credit risk and strong financial position and sufficient liquidity to settle its obligations to the Group once they become due. With respect to property mortgage receivable, management assessed that these financial assets have low probability of default since the Parent Company is also a lessee over the same property and can apply such receivable against future lease payments.

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include the cessation of enforcement activity and where the value of any assets that the Group may get from the customers is less than the outstanding contractual amounts of the financial assets to be written-off. There are no write-offs made in 2020 and 2019.

27.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 60-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The contractual maturities of Trade and Other Payables (except for output VAT payable, and withholding tax payables and advances from suppliers under Others) and Interest-bearing Loans reflect the gross cash flows, which approximate the carrying values of the liabilities at the end of each reporting period.

The maturity profile of the Group's financial liabilities as at December 31, 2020 based on contractual undiscounted payments is as follows:

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	More Than 5 Years
Interest-bearing loans and borrowings	P 923,011,978	P 4,767,025,450	P 26,402,067,304	P -
Trade and other payables	14,712,234,860	-	-	-
Equity-linked debt securities	99,750,000	3,443,750,000	-	-
Lease liabilities	130,649,237	120,391,773	841,588,155	864,841,167
	P15,865,646,075	P 8,331,167,223	P27,243,655,459	P 864,841,167

This compares to the maturity profile of the Group's financial liabilities as of December 31, 2019 as follows:

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	More Than 5 Years
Interest-bearing loans and borrowings	P 1,501,718,673	P 5,628,076,178	P26,606,131,225	P -
Trade and other payables	16,468,100,821	-	-	-
Equity-linked debt securities	1,836,250,000	66,892,742	3,510,642,742	-
Lease liabilities	209,937,077	213,041,471	1,222,549,783	1,033,147,478
Dividends payable	779,231,315	-	-	-
	P 20,795,237,886	P 5,908,010,391	P31,339,323,750	P 1,033,147,478

The Group maintains cash to meet its liquidity requirements for up to seven-day periods. Excess cash funds are invested in short-term placements.

28. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

28.1 Carrying Values and Fair Values of Financial Assets and Financial Liabilities

The carrying values and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown in the succeeding page.

	Notes	2020 Carrying Values	2020 Fair Values	2019 Carrying Values	2019 Fair Values
Financial Assets:					
Financial assets at amortized cost:					
Cash and cash equivalents	5	P 7,561,169,140	P 7,561,169,140	P 7,740,605,656	P 7,740,605,656
Trade and other receivables - net	6	16,932,961,674	16,932,961,674	17,681,491,614	17,681,491,614
Property mortgage receivable	11.2	613,935,936	613,935,936	636,946,200	636,946,200
Refundable security deposits	11.1, 11.2	33,881,156	33,881,156	37,733,281	37,733,281
		P 25,141,947,906	P 25,141,947,906	P 26,096,776,751	P 26,096,776,751
Financial assets at FVTPL	7	P 52,551,232	P 52,551,232	P -	P -
Financial Liabilities:					
Financial liabilities at amortized cost:					
Interest-bearing loans	14	P 30,380,344,605	P 30,380,344,605	P 31,939,838,586	P 31,939,838,586
Trade and other payables	11	14,712,234,860	14,712,234,860	16,468,100,821	16,468,100,821
Equity-linked debt securities	15	3,443,750,000	3,443,750,000	5,280,000,000	5,280,000,000
Lease liabilities	9.3	1,462,894,265	1,462,894,265	2,021,932,115	2,021,932,115
Dividends payable	24.3	-	-	779,231,315	779,231,315
		P49,999,223,730	P 49,999,223,730	P 56,489,102,837	P 56,489,102,837
Financial liabilities at FVTPL	7	P -	P -	P 9,105,954	P 9,105,954

See Notes 2.5 and 2.11 for a description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 27.

28.2 Offsetting of Financial Assets and Financial Liabilities

Currently, the Group's financial assets and financial liabilities are settled on a gross basis because there is no relevant offsetting arrangement on them as of December 31, 2020 and 2019 (see Note 2.12). In subsequent reporting periods, each party to the financial instruments (particularly those involving related parties) may decide to enter into an offsetting arrangement in the event of default of the other party.

29. FAIR VALUE MEASUREMENT AND DISCLOSURES

29.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.
The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

29.2 Financial Instruments Measured at Fair Value

The Group's financial instruments measured at fair value pertain to the Group's derivative instruments (see Note 7). These were presented as financial assets at FVTPL amounting to P52.6 million as of December 31, 2020, and financial liabilities at FVTPL amounting to P9.1 million as of December 31, 2019.

The derivative instruments, which comprise of foreign exchange spots and forward contracts, are included in Level 2. The fair values of derivative financial instruments that are not quoted in an active market are determined through valuation techniques using the net present value computation

29.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below and in the succeeding page summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

2020	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 7,561,169,140	P -	P -	P 7,561,169,140
Trade and other receivables	-	-	16,932,961,674	16,932,961,674
Property mortgage receivable	-	-	613,935,936	613,935,936
Refundable security deposits	-	-	33,881,156	33,881,156
	P 7,561,169,140	P -	P 17,580,778,766	P 25,141,947,906
Financial liabilities:				
Interest-bearing loans	P -	P -	P 30,380,344,605	P 30,380,344,605
Trade and other payables	-	-	14,712,234,860	14,712,234,860
Equity-linked debt securities	-	-	3,443,750,000	3,443,750,000
Lease liabilities	-	-	1,462,894,265	1,462,894,265
	P -	P -	P49,999,223,730	P 49,999,223,730

2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 7,740,605,656	P -	P -	P 7,740,605,656
Trade and other receivables	-	-	17,681,491,614	17,681,491,614
Property mortgage receivable	-	-	636,946,200	636,946,200
Refundable security deposits	-	-	37,733,281	37,733,281
	P 7,740,605,656	P -	P 18,356,171,095	P 26,096,776,751

	2019			
	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Interest-bearing loans	P -	P -	P 31,939,838,586	P 31,939,838,586
Trade and other payables	-	-	16,468,100,821	16,468,100,821
Equity-linked debt securities	-	-	5,280,000,000	5,280,000,000
Lease liabilities	-	-	2,021,932,115	2,021,932,115
Dividends payable	-	-	779,231,315	779,231,315
	P -	P -	P 56,489,102,837	P 56,489,102,837

For financial assets with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

30. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to stockholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented in the face of the consolidated statements of financial position. Capital at the end of each reporting period is summarized as follows:

	2020	2019
Total liabilities	**P 55,087,835,919**	P 61,330,581,689
Total equity	**67,364,316,316**	64,716,757,520
Liabilities-to-equity ratio	**0.82 : 1.00**	0.95 : 1.00

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to stockholders, issue new shares or sell assets to reduce debt.

31. SUPPLEMENTAL INFORMATION ON CASH FLOWS

31.1 Reconciliation of Liabilities from Financing Activities

The Group presents in the succeeding page the reconciliation of the Group's liabilities arising from financing activities, which includes both cash and non-cash changes.

	Equity-linked Debt Securities (see Note 15)	**Accrued Interest Payable** (see Notes 14, 15 and 16)	**Interest-bearing Loans** (see Note 14)	**Lease Liabilities** (see Note 9.2)	**Total**
Balance as of January 1, 2020	P 5,280,000,000	P 141,479,085	P 31,939,838,586	P 2,021,932,115	P 39,383,249,786
Cash flows from financing activities:					
Repayment of loans	-	-	(2,741,784,226)	-	(2,741,784,226)
Proceeds from additional loans obtained	-	-	1,182,290,245	-	1,182,290,245
Repayment of lease liabilities	-	-	-	(216,881,185)	(216,881,185)
Payment of interest expense	-	(502,451,033)	-	(95,519,833)	(597,970,866)
Non-cash financing activities:					
Conversion of ELS	(1,836,250,000)	-	-	-	(1,836,250,000)
Additions to lease liabilities in exchange for increased right-of-use assets	-	-	-	41,491,316	41,491,316
Lease modification	-	-	-	(383,647,981)	(383,647,981)
Interest amortization on lease liabilities	-	-	-	95,519,833	95,519,833
Accrual of interest	-	433,827,441	-	-	433,827,441
Balance as of December 31, 2020	**P 3,443,750,000**	**P 72,855,493**	**P 30,380,344,605**	**P 1,462,894,265**	**P 35,359,844,363**
Balance as of January 1, 2019	P 5,258,801,592	P 72,730,168	P 34,014,800,228	P -	P 39,346,331,988
Effect of adoption of PFRS 16	-	-	-	1,476,157,235	1,476,157,235
Cash flows from financing activities:					
Repayment of loans	-	-	(3,226,111,642)	-	(3,226,111,642)
Proceeds from additional loans obtained	-	-	1,151,150,000	-	1,151,150,000
Repayment of lease liabilities	-	-	-	(237,157,272)	(237,157,272)
Payment of interest expense	-	(585,733,890)	-	(119,902,633)	(705,636,523)
Non-cash financing activities:					
Additions to lease liabilities in exchange for increased right-of-use assets	-	-	-	782,932,152	782,932,152
Interest amortization on lease liabilities	-	-	-	119,902,633	119,902,633
Accrual of interest	21,198,408	654,482,807	-	-	675,681,215
Balance as of December 31, 2019	P 5,280,000,000	P 141,479,085	P 31,939,838,586	P 2,021,932,115	P 39,383,249,786

31.2 Supplemental Information on Non-cash Activities

The following discusses the supplemental information on non-cash investing and financing activities as presented in the consolidated statements of cash flows for the years ended December 31, 2020, 2019 and 2018:

- Share option benefits expense amounting to P27.0 million was recognized in each of the years 2020, 2019 and 2018, with corresponding credits to Share Options account (see Notes 21.2 and 24.4).

- In 2020, Tranche 1 of the ELS amounting to P1,836.3 million was converted into capital stock taken from the treasury shares. Correspondingly, conversion options amounting to P47.7 million was reclassified to APIC (see Notes 15 and 24).

- On January 1, 2019, the Group recognized right-of-use assets and lease liabilities amounting to P1,016.5 million and P1,476.2 million, respectively, upon initial adoption of PFRS 16 (see Note 9). In 2020, the Group recognized additional right-of-use assets and lease liabilities amounting to P41.6 million. In addition, the Group and its lessors have agreed for certain lease modifications pertaining to leased plant and warehouses, which were not accounted for as a separate lease in 2020. Accordingly, the modification resulted in the remeasurement of both lease liabilities and right of-use assets amounting to P383.6 million (see Note 9.2).

32. EVENTS OCCURING AFTER THE END OF REPORTING PERIOD

32.1 Dividend Declarations

On January 4, 2021, the Group's BOD declared cash dividends of P0.12 per share, payable on February 3, 2021 to all stockholders of record as of January 15, 2021. On March 8, 2021, the Group's BOD declared cash dividends of P0.09 per share, payable on April 15, 2021 to all stockholders of record as of March 8, 2021 (see Note 24.3).

32.2 CREATE Act

On March 26, 2021, Republic Act (R.A.) No. 11534, *Corporate Recovery and Tax Incentives for Enterprises ("CREATE") Act*, amending certain provisions of the National Internal Revenue Code of 1997, as amended, was signed into law with veto on certain provisions, effective 15 days after its publication. The CREATE Act has several provisions that are effective retroactive July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to the Group:

a. RCIT rate is decreased from 30% to 25% starting July 1, 2020;
b. MCIT rate is decreased from 2% to 1% starting July 1, 2020 until June 30, 2023;
c. the imposition of 10% tax on improperly accumulated retained earnings is repealed; and,
d. the allowable deduction for interest expense is reduced to 20% (from 33%) of the interest income subjected to final tax.

Given that the CREATE Act was signed after the end of the current reporting period, the Group determined that this event is a non-adjusting subsequent event. Accordingly, its impact was not reflected in the Group's consolidated financial statements as of and for the year ended December 31, 2020, and instead, will be taken up prospectively in the next applicable reporting period. The Group used the prevailing tax rates as of December 31, 2020 in determining its current and deferred taxes in its 2020 consolidated financial statements (see Note 22).

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return of the Group's Philippine entities, would be lower by P95.0 million than the amount presented in the 2020 consolidated financial statements. In addition, the recognized net deferred tax liabilities as of December 31, 2020 would be remeasured to 25% in the 2021 consolidated financial statements. This will result in a decline in the recognized deferred tax liabilities in 2020 by P23.9 million and will be charged to 2021 profit or loss, unless it can be recognized in other comprehensive income as provided in the applicable financial reporting standard.

Yet, the Philippine companies paid their annual taxes for the year 2020 in accordance with the provisions of the new law.

The Group has determined that these events are non-adjusting subsequent events. Accordingly, their impact was not reflected in the Group's consolidated financial statements as of and for the year ended December 31, 2020.

32.3 Buy-back Program

On April 12, 2021, the BOD authorized a new buy-back program of EMP's common shares of up to P1.0 billion ending on December 31, 2021 under the same terms and conditions as the previous ones (see Note 24.2).

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