



EMPERADOR INC.

2018 Annual Report

That's the Spirit

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Financial Highlights



REVENUES



GROSS PROFIT



EBITDA



NET PROFIT

**Attributable to parent*

Chairman's Message



All these achievements in brandy and whisky are guided by our unwavering commitment to provide fantastic, superb and iconic drinks to consumers from all walks of life all over the globe.

A handwritten signature in black ink, appearing to read 'Andrew L. Tan'.

ANDREW L. TAN
Chairman

The year 2018 wrote another great chapter in Emperador Inc.'s continuing story of global expansion and premiumization in the spirits industry. And it was a record-breaking year for our company, posting P47.1 billion in revenues,

other European, American, and African markets, our Bodegas Fundador is truly a global brandy company. Our global brandy business is further fortified by the Domecq trademarks in Spain, reaching as far as the

Retail channel in Europe and Asia has created a springboard for further catapulting Fundador to the super premium space. Late last year, we launched an aggressive marketing campaign in the Philippines for



a jump of 10.3% compared to that of the previous year at P42.7 billion. By ratio, whisky accounted for 28%, and brandy 72%. Net income reached P6.8 billion.

With more than 80% of revenues coming from Spain, United Kingdom, and the Philippines, and the balance from

USA and South America, particularly Brazil and Colombia.

Our Spanish brandies continue to be top selling brands in key countries of Latin and North America, and Fundador brandy is doing very well in the Philippines. The introduction of Fundador Supremo Brandy de Jerez via Travel

another premium Spanish brandy, Tres Cepas Light.

In 2018, Emperador Light celebrated its success with the *"Galing ng Pilipino"* thematic campaign that pays tribute to the enduring spirit of every Filipino, and the qualities that make the Filipino truly a cut above the rest:

Chairman's Message

Magaling. Ibang Klase ang Talino. May sipag na angat sa iba. The campaign is anchored on the original song titled "Ating Tagumpay," endorsed by one of the country's biggest celebrities, Coco Martin.

and around 23% from Asia and the Pacific, with the balance coming from the Middle East and the Americas as well as Travel Retail.

Asia was particularly strong in 2018 with revenues more than doubling as our brands

whiskies, Tamnavulin and Fettercairn, as well as blended malt whisky, Shackleton.

We now have a compelling malt whisky portfolio that we envision to serve as a long-term growth catalyst for Whyte and Mackay.



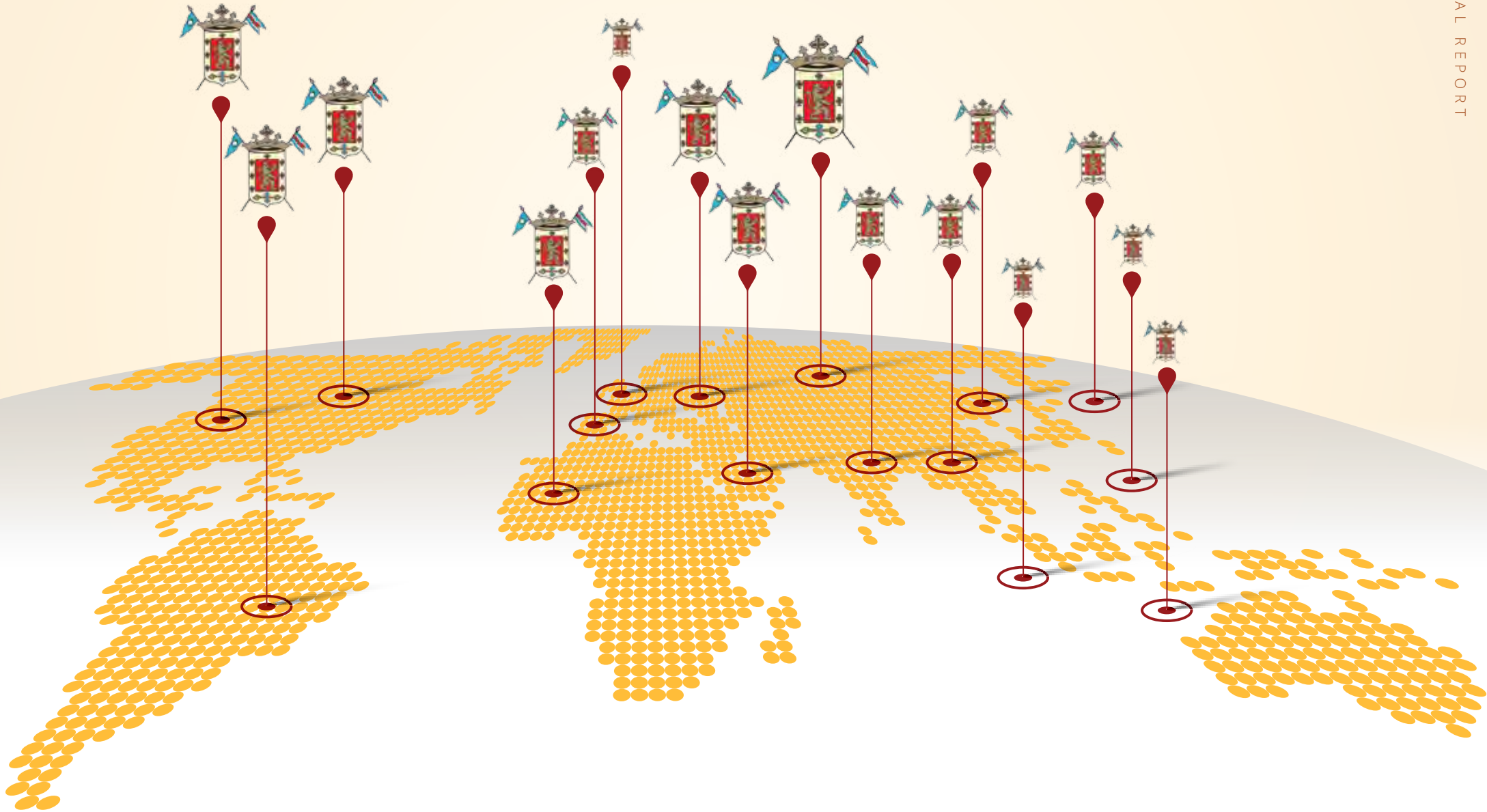
Going to our whisky business, 2018 was an exceptional year for Whyte and Mackay with the business growing in every region of the world. Mainly operating in the United Kingdom, it continues to expand its footprint in the international markets, including Travel Retail. More than 40% of brand revenues come from the UK and other European countries,

enjoyed fantastic success across a number of markets. Our flagship single malt whisky, The Dalmore, saw strong sales in Africa, Asia, Canada, France, Germany, Pacific, Travel Retail and UK. Jura also saw strong sales in Asia, France, Germany and Pacific.

Our continued focus on the malt whisky market is further complemented by single malt

All these achievements in brandy and whisky are guided by our unwavering commitment to provide fantastic, superb and iconic drinks to consumers from all walks of life all over the globe, and our vision of bringing world-class products to the Philippines and Emperador products to the rest of the world.

Worldwide Reach





W H I S K Y



Whyte and Mackay Group continues its impressive standing with the business growing in every region of the world. Asia was particularly strong with revenues more than doubling as whisky brands enjoyed fantastic success across a number of markets.

The Dalmore once again highlighted its position as a major growth driver for the year attracting new consumers through its Core and Range Expressions.



Jura, also a key profit contributor, made upgrades to its bottle and packaging prompting a relaunch of its re-designed range across the globe. This includes the launch of an exclusive Global Travel Retail range which has gained massive consumer appeal. Its Asian distributors met the changes with optimism as shipments to the continent were almost tripled. The brand's very essence is encapsulated in its banner, "A long way from ordinary," marking Jura's strong foothold for future growth.



The first-rate single malt whisky successfully added the new The Dalmore Port Wood Reserve to the Core Range and continued with further limited releases of 35-year old, 40-year old, 45-year old and Vintage Expressions.

In Asia, the brand experienced a first in its history where it had to go on allocation for its core range. By the end of the first quarter, net sales were up by 41% prompting the brand to abruptly reduce the Dalmore aged stocks maturing in 2018 for it to allocate to the global demand. This indicates that more and more people are reaching out to experience and enjoy the finer taste of whisky. Asia was the biggest market of rare and aged releases – the 25yo, 30yo, 35yo, 40yo, 45yo, and the 50yo. The region sold at least 50% of global allocation in 2017 to 2018.





Single malt brand Tamnavulin shows strength in performance as it enters new avenues to reach more markets. It launched the Vintages Collection rare range with expressions from years 2000, 1979, 1973 and 1970, with a new Tempranillo finish for its Global Travel Retail. Tamnavulin came as a surprise for the company this 2018 as the brand's biggest market, Taiwan, required shipments almost 10x its original budget.

The no-age-statement Speyside Tamnavulin is the perfect entry point to the world of single malt. This double cask whisky won the approval of the



Taiwanese malt drinkers because of its apple, pear, and honey taste profile. This brand is set to make waves in the near future.

2018 also saw the re-launch of Whyte and Mackay's fourth single malt brand into the portfolio - Fettercairn. Whyte and Mackay is optimistic on the long-term growth of the brand with its lead expression being the 12-year old. This exceptionally refined



whisky is also composed of expressions 28yo, 40yo and 50yo, all featuring the iconic unicorn symbol.

Since its much-celebrated introduction in 2017, blended malt Scotch whisky Shackleton is currently expanding its accessibility to more locations worldwide including Philippines and most of Asia. Its primary focus had been towards the UK, US and Travel Retail where Ernest Shackleton is mostly well-known. Asia had more shipments made in 2018 compared to 2017. In the Philippines, Shackleton





made its presence felt via media and trade launch in 2017. The brand also developed and initiated a digital media campaign that is expected to change the marketing approach of Shackleton in 2019.

Whyte and Mackay also unveiled a new contemporary blended Scotch proposition in the UK during the year, The Woodsman. The brand is designed for mixing and this creation adds to the established brands in the portfolio, Whyte and Mackay and John Barr. The consumer-driven brand Private Label also had an excellent year in terms of volume and sales performance.

Whyte and Mackay sets more capitalization on its expansive portfolio to ensure future growth. It reinvested in the assets of the business for better efficiency and manageability. Its continuous investment in barrels assures the spirit quality remains at the highest levels. Strong marketing campaign support across the brand spectrum is chief priority. The company also increased its commercial resources in key disciplines and geographies as part of its advancement.

Overall, Whyte and Mackay's performance for 2018 is most commendable and this puts confidence on the progress of its portfolio for the next years ahead.



BRANDY



The overall performance of Bodegas Fundador was likewise compelling in 2018. It ventured in emerging markets with new partners, taking a more optimistic outlook for the brandy and sherry categories.



Its Terry Centenario solera upheld its leadership in Spain with Fundador introducing two of its newest expressions, "Double Wood" and "Triple Wood." Its new distribution partnerships have clear designs on brand repositioning and aims to have better brand visibility among consumers and achieve category growth. Meantime, the Terry White brandy continues to break the status quo, crediting its popularity among the millennials to its marketing campaign.



Another blueprint on growth is laid out for its subsidiary Casa Pedro Domecq in Mexico confident with its new distributor in the USA. The latest consolidation remarks an unconditional support to the brandy business in both markets, intent on gaining new consumers, launching new brands and keep winning market shares in the Brandy business. The marketing move is also geared towards a positive campaign strategy for Harveys. The experience and expertise of the newfound partner, and its use of mixology and market research will help boost brand awareness and visibility in the United States.





The distiller of the world's finest spirits, Bodegas Fundador, created a premium brandy, the Fundador Double Light, that brings twice the pleasure to brandy enthusiasts from all over. As part of its national marketing campaign, Emperador Inc. launched the first Fundador Double Light television commercial last August 2018. It featured Janine Gutierrez, an actress and model, as its new endorser. The TVC simultaneously featured as well in social media, also showed a young and stylish gentleman enjoying life's luxuries and excitement but not twice as much like the twin kisses Janine planted on the model's cheeks.



In the UK, a new look and feel for Harveys is eyed as a long-term strategy to better enhance its UK market.

It takes on a new angle where the main challenges lie on the creation of a new set of consumers, new habits and drink strategy. The halo effect and resonance to other markets are valuable elements to help maintain its advantage in the UK, where Harveys has retained sherry wine leadership.

Fundador's introduction in the Asian Market is a challenge and opportunity, but the invasion of Fundador Supremo through Travel Retail is a clear strategy of visibility and brand repositioning worldwide.



The multi-media ad campaign #DoubleIsBetter envisioned and effected by BBDO Guerrero, garnered much attention from the viewers which translated to increased sales. The Philippines is slowly gaining ground as a haven of brandy-loving aficionados which is reflective of the upsurge on brandy consumption among the Filipino men.



Fundador Double Light is the drink that doubles the fun with double the smoothness guaranteeing double satisfaction. Because #DoubleIsBetter.

Indeed, 2018 has been a successful year for Emperador Inc.'s product portfolio, garnering a great collection of awards and brand recognitions in the best international competitions. A total of 10 gold medals for Fundador and Terry brandies, highlighting a Trophy for Fundador Supremo 18yo in Hong Kong W&S Competition 2018. Adding to this collection are 17 Gold Medals and 3 Trophies for Harveys Sherries.

Philippines, being the only country in Asia with deep Spanish heritage, continues to appreciate products from one of Europe's best brandy manufacturers. Spain's Tres Cepas Light came to

our shores with its amber-dark solera liquid of suave sherry taste and clean brandy character. In December 2018, Emperador Inc. launched an ad campaign of short videos depicting the comedic flair of the country's character actors as means to highlight the outstanding traits of Tres Cepas Light. The campaign series featured how Filipinos are innately lighthearted and appreciative of the better things.

The ad showed how the early cellar masters would grade the exquisiteness of a brandy – one stamp if good, two stamps if the taste and aroma is better and three stamps if the brandy quality wins the highest approval of the masters just like Tres Cepas Light.



EMPERADOR

ATING
TAGUMPAY



Emperador Brandy posted another company milestone this 2018 on its continuing success in the Philippines.

Its flagship brand and the country's best-selling brandy, Emperador Light, celebrates its success with the 'Galing ng Pilipino' marketing campaign which recognizes the persevering spirit of the Filipino and the qualities that make us a cut above the rest: "Magaling. Ibang Klase ang Talino. May sipag na

angat sa iba." The campaign is top billed by one of the country's biggest celebrity endorsers, Coco Martin who also sang the ad's theme song "Ating Tagumpay."

The campaign is hinged on the song encouraging Filipinos to celebrate daily milestones, big or small, and to carry on in doing great things. The song lyrics were even on billboards along EDSA during its launch. The ad campaign now runs on different



The company also created a lime drink cordial, Club Mix Lime that complements with Emperor Light Brandy perfectly. The lime concoction gives a balanced sweet and sour taste to Emperor Light,

making them a perfect mix of LIME + LIGHT. Generation Z, the millennials and the young-at-heart who enjoy giving their drinks a refreshing twist will surely enjoy the Club Mix Lime experience.

media platforms which include above-the-line and digital channels, with the song being made available also on Spotify.

Emperor Inc. President and CEO Winston S. Co shares, "For nearly a decade, Emperor has always upheld the success of the Filipino. This new campaign reflects the very essence of our brand and we are thrilled to celebrate this with the whole country."

Lime **Light**

Iba ang sarap

Drink Responsibly

Ready-To-Drink

Smirnoff Mule remains unbeaten at number one as the country's preferred drink in the Alcoholic Ready-To-Drink category for 2018.

And a big part of the drink's success in 2018 was courtesy of its annual event sensation, the Smirnoff Mule Festival. Close to a thousand partner outlets celebrated with the brand's promotions from September to October. During the two-month long celebration,



the sales of Smirnoff Mule of the partner outlets doubled, clearly showing a positive upshot on the excitement built by the Music Festival. Many of the partners even extended the Mule Festival promos to meet the increasing demands of their customers.

For 2019, the brand is resolved to stay ahead in the competition. It intends to widen its lead as the Philippines' number one ready-to-drink alcoholic beverage by reinforcing its marketing promotional activities. Smirnoff Mule highlights

its growing patronage through partner outlet-initiated experiential events, the 3rd run of the Smirnoff Mule Festival and the consistent deployment of Smirnoff Mule chillers nationwide.

Smirnoff Mule is highly enjoyed by the adventurous and fun-loving millennials making Mule as one of their go-to-drinks in the competitive ready-to-drink category. Smirnoff Mule is a refreshing unique mix of Smirnoff Vodka, ginger beer, and lime at 6% ABV.

FUNDADOR

2 0 1 8

INNOVATIONS



Emperador Inc. launched its newest series of gin products under the trademark of The BaR in October 2018. Its three variants provide exciting and refreshing flavors, namely Premium Dry, Lime and Pink Gin.

The novel concoctions are geared towards the hip and young social media enthusiasts, a big if not the biggest contingent among the young adult demography.



The BaR Premium Gin variants are all infused with botanical essences from Andalusia, Spain. The millennial favorites are best served with clear soda and lots of ice, but are also versatile mixers for new and classic cocktails.

The BaR Premium Gin variants are now available at leading supermarkets, groceries, convenience stores and neighborhood sari-sari stores nationwide.



Pink Gin is the recent craze in Europe, gaining rapid popularity among the Filipino market. The other two variants are also crowd favorites: the citrusy-lime flavored Green Gin and the refined Premium Dry Gin.





Emperador Inc. executive director Kendrick Tan said: “We want the millennials to appreciate the versatility of the Fundador brandies, and make the larger population realize that there are indeed new ways to enjoy the products of Fundador.”

The café also exclusively offers the best-selling sherry in the world, Harveys Bristol Cream, from the largest wineries in Jerez, Spain.



Bodegas Fundador has been bringing world-class brandies to the Philippines for more than a century. It has opened its first concept store, Fundador Café, through Emperador Inc. at the Venice Grand Canal Mall in McKinley Hill, Taguig City.

Fundador Café features 50 square meters of wooden finish and Spanish tiling, plus an original Fundador barrel from Jerez. Its menu offers an innovative selection of hot, cold or ice blended beverages, gelato and cupcakes, all concocted with liquor.



Board of Directors

Dr. Andrew L. Tan was first elected as Director and Chairman on August 28, 2013 and concurrently the Chairman of Emperador Distillers, Inc. He is also the Chairman of Alliance Global Group, Inc., the parent company of Emperador Inc. He is the Chairman and President of Megaworld Corporation and concurrently the Chairman of subsidiaries of Megaworld – Global-Estate Resorts, Inc. and Empire-East Land Holdings, Inc.

He pioneered the live-work-play-learn model in the 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. Dr. Tan is concurrently the Chairman of the Board and President of Megaworld Land, 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.

Dr. Tan graduated Magna Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration.

DR. ANDREW L. TAN

CHAIRMAN





Mr. Winston S. Co was first elected as Director and President of Emperor Inc. on 28 August 2013. He has been Director and President of Emperor Distillers, Inc. since 2003 and currently a Director of Alliance Global Group, Inc., the parent company of Emperor Inc.

Mr. Co's 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.

WINSTON S. CO

DIRECTOR & PRESIDENT

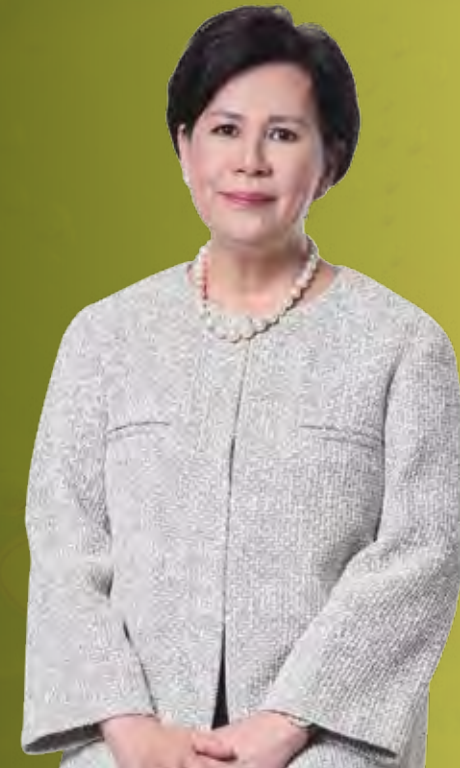
Ms. Katherine L. Tan was first elected as Director and Treasurer on 28 August 2013. She is the Director and Treasurer of Alliance Global Group, Inc., and Director of Megaworld Corporation.

She is a Director and Treasurer of Emperor 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.

KATHERINE L. TAN

DIRECTOR & TREASURER



Board of Directors

Mr. Kendrick Andrew L. Tan was first elected as Director of Emperador Inc. on 28 August 2013. He has served as Corporate Secretary and Executive Director of Emperador Distillers, Inc. since 2007. He heads the Research & Development Division of Emperador Distillers, Inc. He 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.

Mr. Tan graduated from Southern New Hampshire University with a degree in Bachelor of Science in Accountancy.

KENDRICK ANDREW L. TAN

DIRECTOR



Mr. Kevin Andrew L. Tan was first elected as Director on 04 October 2017. He was appointed as the Chief Executive Officer of Alliance Global Group, Inc. in September 2018. He is also a Director of Global-Estate Resorts, Inc. and Empire-East Land Holdings, Inc.

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 Forbestown Center, 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., New 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.

KEVIN ANDREW L. TAN

DIRECTOR



Mr. Alejo L. Villanueva, Jr. 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 20 years experience in the fields of training and development, public relations, community relations, institutional communication, and policy advocacy. He has done consulting work with the Office of the Vice President, the Office of the Senate President, the Commission on Appointments, the Securities and Exchange Commission, the Home Development Mutual Fund, the Home Insurance Guaranty Corporation, Department of Agriculture, Philippine National Railways, International Rice Research Institute, Rustan's Supermarkets, Louis Berger International, World Bank, Ernst & Young, Chemonics, Price Waterhouse, Andersen Consulting, Renardet S.A., Western Mining Corporation, Phelps Dodge Exploration, and Marubeni Corporation.

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.



ALEJO L. VILLANUEVA, JR.

INDEPENDENT DIRECTOR



Mr. Enrique M. Soriano III was first elected as Independent Director of the Company on 16 May 2016. He is also an Independent Director of Travellers International Hotel Group, Inc.

Mr. Soriano is 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.

Mr. Soriano 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. He also pursued Executive Education at the National University of Singapore Business School.

ENRIQUE M. SORIANO III

INDEPENDENT DIRECTOR

International Management

Javier Serrano
Chief Financial Officer
Grupo Emperador Spain SA

Rafael Rendon
General Manager
Bodegas Fundador

Angel Piña
Chief Commercial Officer
Grupo Emperador Spain SA

Michael Sloan
Chief Financial Officer
Whyte and Mackay Group

Nicholas Garland
Chief Commercial Officer
Whyte and Mackay Group



María Eugenia Herrera
Marketing Director
Bodegas Fundador

Joan Cortes
Chief Operating Officer
Grupo Emperador Spain SA

Bryan Donaghey
Chief Executive Officer
Whyte and Mackay Group

Steven Pearson
Marketing Director
Whyte and Mackay Group

Management's Discussion and Analysis

KEY PERFORMANCE INDICATORS

In Million Pesos				% Growth	
	2018	2017	2016	2018	2017
Revenues	P47,050	P42,656	P41,018	10.3	4.0
Net profit	P6,829	P6,332	P7,693	7.8	-17.7
Total assets	P117,818	P111,536	P94,302	5.6	18.3
Total current assets	P56,000	P51,017	P42,290	9.2	21.2
Total current liabilities	P20,217	P16,837	P11,913	20.1	41.3
Gross profit margin %	34.6	35.4	37.8		
Net profit rate %	14.5	14.8	18.8		
Return on assets %	5.8	5.7	8.2		
Current ratio	2.8x	3.0x	3.6x		
Quick ratio	1.3x	1.5x	1.8x		

- Revenue growth – measures the percentage change in revenues over a designated period of time
- Net profit growth – measures the percentage change in net profit over a designated period of time.
- Gross profit margin – computed as percentage of gross profit [which is sales less cost of sales] to sales – gives indication of pricing, cost structure and production efficiency.
- Net profit rate – computed as percentage of net profit to revenues – measures the operating efficiency and success of maintaining satisfactory control of costs

- Return on assets [or capital employed] – the ratio of net profit to total assets – measures the degree of efficiency in the use of resources to generate net income
- Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.

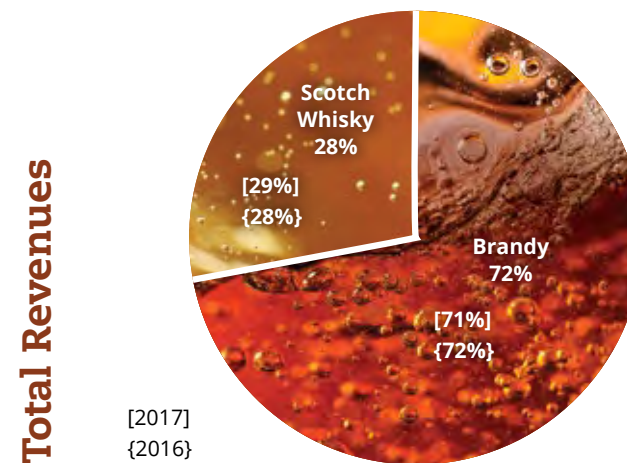
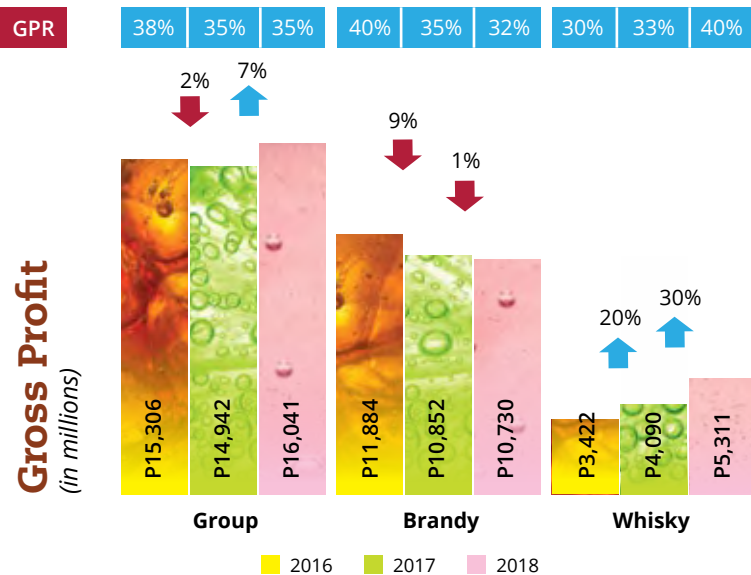
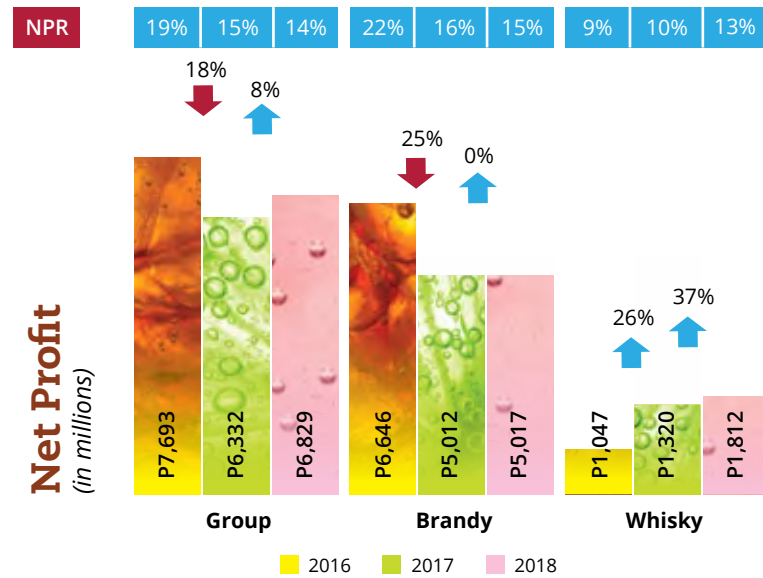
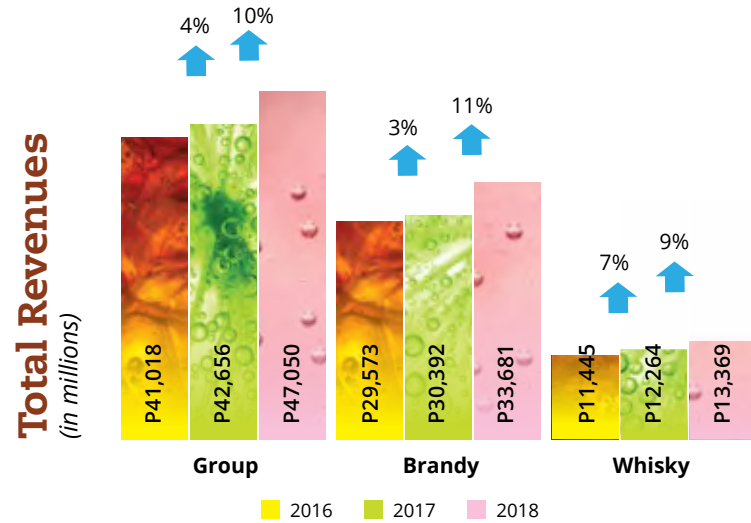
RESULTS OF OPERATIONS

The Group had expanded its geographic footprint both in the Philippines and across the globe. From the Philippines, it found ground in Spain in early 2013 and February 2014, with the acquisition of Bodega San Bruno and investment in Bodega Las Copas (“BLC”), respectively. From Spain, business opportunity knocked in UK and so the Group acquired Whyte and Mackay (“WMG”) in October 2014. The Group returned its sight in Spain with the acquisition of brandy and sherry business under Bodegas Fundador in March 2016 (a deal inked in November 2015) and the acquisition of Domecq brandy and wine brand portfolio and related assets in March 2017 (a deal inked in December 2016, and transferred/consolidated to the Group in September 2017). These provided platforms for international expansion and domestic premiumization for Emperador.

Having set the groundworks, Emperador moved on to brand investments geared towards premiumization.

The Group is presented into two segments: Scotch Whisky (representing the UK operations) and Brandy (representing the Philippine and Spanish operations, including the Fundador and Domecq operations starting March 2016 and September 2017, respectively). BLC is a joint venture which is accounted for under the equity method and reported under the Brandy Segment.

Management's Discussion and Analysis



Year Ended December 31, 2018 Compared With Year Ended December 31, 2017

Revenues

Total revenues climbed P47,050 million in 2018, up 10.3% from P42,656 million a year ago attributed to continuing sales growth from both the Brandy and Scotch Whisky segments.

The Scotch Whisky segment turned over revenues to external customers higher by 9.0% year-on-year. The business is growing not only in UK but also in other parts of the world, especially in Asia where revenues had more than doubled as brands enjoyed success across a number of markets. The Dalmore, the flagship malt whisky product, was again the major driver of growth for the year as it continued to attract new consumers at the apex of the single malt category through both the Core Range and the Rare Expressions. The new The Dalmore Port Wood Reserve was added to the Core Range with further limited releases of 35yo, 40yo, 45yo, and Vintage Expressions. Jura with its redesigned range and exclusive Global Travel Retail range continued to attract sales. The re-launch of Fettercairn in a new packaging, and the launch of Tamnavulin Vintage Collection in the single malt category in 2018 and the new contemporary blended malt brand Shackleton in 2017 further boost revenues during the year.

The Brandy segment on the other hand, reported revenues to external customers higher by 10.8% year-on-year. The Spanish business is growing in Spain, Philippines, UK and USA, which all together accounted for three-quarters of its revenues. The Spanish brands continued to collect awards and recognitions in international competitions this year – a total of ten gold medals for Fundador, and Terry brandies, highlighting a Trophy for Fundador Supremo 18yo as the Best Grape Brandy at the Hong Kong International Wine & Spirit Competition;

and seventeen gold medals and three trophies for Harveys Sherries. Fundador Supremo 18yo, a super-premium Brandy de Jerez, is available in Travel Retail across Europe and Asia, and in the Philippines. On the local front, Emperador Brandy remains the nationwide leader, particularly in key metro cities, amid fierce competition among local brands. Recognizing the preference of the young drinkers for variety and excitement, Emperador created a new offering for Emperador Light drinkers by pairing Emperador Light with Club Mix Lime Cordial, dubbed as 'LimeLight' and 'GreenLight'; and, in mid-September, 'the gin for the new generation' The BaR Premium Gin was launched, infused with flavors and botanicals from the gardens of Andalusia, Spain, in Pink, Lime and Premium Dry variants.

Other revenues and income went up 56.9% to P705 million from P449 million a year ago due to higher interest income and dividends, scrap sales and higher net results from BLC which resulted in higher share in net profit recorded for this year.

Costs and Expenses

Total costs and expenses amounted to P38,614 million this year from P34,820 million a year ago, up 10.9% year-on-year primarily from the Brandy business which, including intersegment purchases, increased 13.6% year-on-year while the Scotch Whisky business expanded 2.4%.

Cost of Goods Sold

Costs increased 11.2% primarily due to higher costs in the Brandy segment, which grew faster than sales, while Scotch Whisky segment's costs saved 4.3% from a year ago. Such increase in the Brandy Segment is attributed to high cost of wine, new bottles and packaging for the new and re/packaged products this year.

Management's Discussion and Analysis

Gross Profit

Gross profit margins (GPM) on consolidated level remained healthy at 35% in 2018 and 2017. The GPMs of the Brandy and Scotch Whisky segments were respectively posted at 32% and 40% in 2018 as compared to 35% and 33% in 2017.

Other operating expenses

Other operating expenses went up 22.0% to P7,478 million from P6,131 million, mainly due to advertising and promotions which include strategic marketing spends (new and repackaged products launched this year by both segments), salaries and employee benefits (due to more employees and new positions created) and travel and transportation (for international sales promotions).

Finance and Other charges

Finance and Other charges shrank 41.6% to P831 million from P1,425 million due to the fixed interest expense on ELS and foreign exchange losses recorded in previous year.

Profit before Tax

As a result of the foregoing, profit before tax climbed 7.7% to P8,436 million from P7,835 million in 2017.

Tax Expense

Tax expense increased 6.9% to P1,607 million from P1,503 million a year ago due to higher taxable income, especially in the Scotch Whisky segment.

Net Profit

As a result of the foregoing, net profit went up 7.8% to P6,829 million from P6,332 million a year ago.

Year Ended December 31, 2017 Compared With Year Ended December 31, 2016

Revenues

Total revenues reached P42,656 million in 2017 as compared to P41,018 million in 2016, a modest hike of 4.0% attributed to strong sales from offshore subsidiaries. Total sales of the Group improved 4.4% to P42,206 million from P40,447 million a year ago.

The Scotch Whisky segment turned over revenues to external customers higher by 7.2% year-on-year. Own Scotch whisky labels The Dalmore and Jura remained to be the growth drivers, with strong sales of Core Range and Rare Expressions (Dalmore 18, 25, King Alexander III and Vintage) in UK, Asia, USA, Greater Europe, Latin America and Travel Retail. More importantly, the biggest market in Asia is now the biggest Dalmore market in the world. Jura, with new bottle and packaging upgrade, has a significant launch of the re-designed range in the US.

The Brandy segment on the other hand, turned over revenues to external customers higher by 2.8% year-on-year. Spanish brandies Fundador, and Terry Centenario and Harveys Bristol Cream sherry enjoyed a good year, with sales growing in Spain, UK and the Philippines. It was a challenging year for Emperador Brandy.

Other revenues and income went down 21.3% to P449 million this year due to lower net results from BLC which resulted in lower share in net profit recorded for this year, and the foreign exchange gains reported in 2016.

Costs and Expenses

Total costs and expenses amounted to P34,820 million in 2017 from P31,582 million a year ago, up 10.2% year-on-year primarily from the Brandy business which, including intersegment purchases, increased 14.8% year-on-year.

Cost of Goods Sold

Costs increased 8.4% primarily due to higher costs in the Brandy segment, which grew faster than sales, while Scotch Whisky segment's costs inched 5.9% from a year ago. Such increase is attributed to high cost of wine, new bottles and packaging for the new and re/packaged products this year.

Gross Profit

Gross profit margins (GPM) on consolidated level remained healthy at 35% in 2017 and 38% in 2016. The GPMs of the Brandy and Scotch Whisky segments were respectively posted at 35% and 33% in 2017 and 40% and 30% in 2016.

Other operating expenses

Other operating expenses were up 8.6% to P6,131 million from P5,647 million, mainly due to advertising and promotions which include strategic marketing spends (new products launched this year Terry White in Spain, Shackleton in UK, Emperador Hotshot and RED in Philippines), salaries and employee benefits (due to more employees and new positions created) and supplies (UK is changing datalinks network to all locations, which would result in fall in telephone costs in the long run). Professional fees went down from Brandy business's professional fees paid in 2016.

Finance and Other charges

Finance and other charges swelled 79.4% to P1,425 million from P794 million due to unrealized foreign exchange loss and the interest expense on new loans reported by Spain.

Profit before Tax

As a result of the foregoing, profit before tax ebbed 17.0% to P7,835 million from P9,436 million in 2016.

Tax Expense

Tax expense was reduced by 13.7% to P1,503 million from P1,742 million a year ago due to lower taxable income.

Net Profit

As a result of the foregoing, net profit clipped by 17.7% to P6,332 million from P7,693 million a year ago.

FINANCIAL CONDITION

December 31, 2018 and 2017

Total assets amounted to P117,818 million as of December 31, 2018, a 5.6% increase from P111,536 million as of December 31, 2017. The Group is strongly liquid with current assets exceeding current liabilities 2.8 times by the end of the current year.

Management's Discussion and Analysis

Cash and cash equivalents were depleted 38.7% or P3,934 million mainly from the parent's dividend payment (P2,399 million) and purchase of treasury shares (P1,529 million) during the year.

Trade and other receivables went up 28.4% or P4,181 million, primarily due to higher sales in the lead up to Christmas holidays and advances to suppliers and related party.

Financial assets at fair value through profit or loss went up by P1,189 million from end-2017 due to the acquisition of financial instruments which are classified as such during the year.

Inventories expanded 12.7% or P3,209 million, primarily due to additional cased stocks from the new products and the fillings of Scotch whisky due to high product demand.

Prepayments and other current assets rose 35.4% or P338 million due to general prepayments and input vat. These are mostly due to timing of prepayments.

The current interest-bearing loans increased 37.0% or P1,539 million while non-current portion decreased 1.6% or P446 million, for P1,092 net increase, from new loans drawn locally (for inventory purchases) and in UK (for purchase of fillings of Scotch whisky), net of repayments made during the year.

Trade and other payables went up 9.6% or P1,159 million, mainly from trade payables representing obligations to various suppliers of raw materials such as alcohol, molasses, flavorings and other supplies and accruals incurred by the group.

Income tax payable escalated 106% or P639 million primarily from higher unpaid income taxes by the Group at current year-end which is further attributed to higher taxable profit.

Provisions refer to the amount provided by WMG for leased properties located in Scotland. Provisions went up by 18.4% or P82 million due additional provisions made during the year.

Deferred tax liabilities are attributed to the UK group. These are net of deferred tax assets of EDI and AWGI.

Accumulated translation adjustments refer to the difference resulting in the translation of the foreign subsidiaries' financial statements to Philippine pesos. Monetary assets and liabilities are translated at the closing rate and income and expenses at average exchange rates. The accumulated balance of the account is reflective of the depreciation in the value of Philippine peso and/or foreign currencies.

Treasury shares pertain to the acquisition cost of the shares that have been brought back from the market pursuant to the Company's ongoing buyback program.

Share options pertain to the options granted to qualified employees of the Group pursuant to an approved employee share option plan. The increment of 46.5% or P27 million was a result of recognition of additional share options for the year with a corresponding debit to Investments in EDI account.

Revaluation reserves shoot up by P157 million due to actuarial gain on retirement benefit obligations booked by WMG.

Legal reserves represents the statutory requirements in Luxembourg which comprise of net wealth tax reserve and capital reserve at year-end. In 2018, grant received by GES in Spain were added as part of this account.

Non-controlling interest pertains to the minority interest in DBLC, a newly-incorporated subsidiary consolidated by end-2017 and in Boozylife Inc., a 51% newly-acquired local company engaged in the trading of alcoholic and non-alcoholic beverages.

December 31, 2017 and 2016

Total assets amounted to P111,536 million as of December 31, 2017, a 18.3% increase from P94,302 million as of December 31, 2016. The Group was strongly liquid with current assets exceeding current liabilities 3.03 times by the end of 2017.

Trade and other receivables rose 36.3% or P3,915 million, primarily due to higher sales in the lead up to Christmas holidays and advances to suppliers for raw materials for the second distillery in Batangas (which started operations in 2018). There were also receivables from the newly-consolidated Mexican subsidiaries at year-end.

Financial assets at fair value through profit or loss at end-2017 represent gains on market valuation of financial instruments which were a reversal of loss valuation at end-2016 which, in turn, was shown under financial liabilities at fair value through profit or loss.

Inventories increased by 21.4% or P4,432 million, primarily due to inventories at Domecq and Bodegas Garvey and higher fillings of Scotch whisky. There were also new packaging materials purchased for aged Scotch whisky and for brandy products.

Prepayments and other current assets soared 63.8% or P371 million due to additions coming from Spain, particularly from the new subsidiaries DBLC and CBSP and from Fundador. These are mostly due to timing of prepayments.

Investment in a joint venture, which pertains to Investment in BLC, decreased by 19.1% or P765 million primarily from the reduction in capitalization at BLC which was transferred to DBLC.

Property, plant and equipment escalated by 25.7% or P5,392 million mainly due to acquired assets relating to Bodegas Garvey in Spain and Domecq in Mexico. Also, a second distillery is being constructed in Batangas (which started operations in 2018) and a glass furnace in Laguna had undergone rehabilitation (it started operations in second half of 2017).

Intangible assets rose 15.9% or P4,103 million from the trademarks which were part of the assets acquired relating to Bodegas Garvey in Spain and Domecq in Spain and Mexico. These trademarks included the Mexican brandies Don Pedro, Presidente and Azteca de Oro.

Other non-current assets shrank 17.5% or P223 million with the completion of purchases with deposits at last yearend.

The current interest-bearing loans rose 55.6% or P1,486 million due to additional drawdown from a revolving facility used for the purchase of stocks and capital expenditures in the Scotch Whisky segment and currently maturing portions of long-term bank loans. The non-current interest-bearing loans jumped 34.2% or P7,336 million from new loans incurred in Spain to finance the acquisitions of Bodegas Garvey and Domecq assets. The restructuring at BLC in transferring the Domecq assets included the related loans as well.

Trade and other payables went up 41.0% or P3,514 million, mainly from trade payables and accruals incurred by CBSP and DBLC which were new subsidiaries consolidated this year.

Income tax payable decreased 7.3% or P47 million primarily from lower unpaid taxes by the Group at current year-end.

Management's Discussion and Analysis

Accrued interest payable at end-2016 pertained to the fixed interest accrued on the equity-linked debt securities which was settled during the year after the parties agreed to apply the accruing interest as consideration for the holder's acquisition of EMP common shares in 2017. The fixed interest provision was amended to 0% in 2017.

Provisions refer to the amount provided by WMG for leased properties located in Scotland. Provisions went down by 7.8% or P37 million due to dilapidation payments for the head office which is now vacated.

Deferred tax liabilities are attributed to the UK group. These are net of deferred tax assets of EDI and AWGI.

Retirement benefit obligations decelerated 88.4% or P885 million, driven by the increase in the fair value of plan assets.

Accumulated translation adjustments refer to the difference resulting in the translation of the foreign subsidiaries' financial statements to Philippine pesos. Monetary assets and liabilities are translated at the closing rate and income and expenses at average exchange rates. The accumulated balance of the account is reflective of the depreciation in the value of Philippine peso and/or foreign currencies.

Treasury shares pertain to the acquisition cost of the shares that have been brought back from the market pursuant to the Company's ongoing buyback program.

Conversion options represent the equity component of the equity-linked securities.

Share options pertain to the options granted to qualified employees of the Group pursuant to an approved employee share option plan. The increment of

86.9% or P27 million was a result of recognition of additional share options for the year with a corresponding debit to Investments in EDI account.

Revaluation reserves jumped 99.0% or P624 million due to actuarial gain on retirement benefit obligations booked by WMG.

Non-controlling interest pertains to the minority interest in DBLC, a newly-incorporated subsidiary consolidated by end-2017. A small portion refers to the redeemable, non-reissuable, non-participating preferred shares of AWGI issued to Arran in 2015.

LIQUIDITY AND CAPITAL RESOURCES

The Group sourced funds from operations and loans and borrowings. The Company expects to meet its working capital requirements for the ensuing year primarily from available funds at year-end plus cash flows from operations. It may also from time to time seek other sources of funding, if necessary, which may include debt or equity financings, depending on its financing needs and market conditions.

PROSPECTS FOR THE FUTURE

The Group's renowned brandy and whisky products sold all over the world are the catalyst for continued growth and best position the Group, with its high-quality aged inventory, for premiumization and innovation opportunities.

OTHER MATTERS

Except for what have been noted:

There were no other known material events subsequent to the end of the year that would have a material impact in the current year.

There are no other known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way. The Group does not have nor anticipate having any cash flow or liquidity problems. The Group is not in default or breach of any note, lease or other indebtedness or financing arrangement requiring it to make payments.

There are no other known events that will trigger direct or contingent financial obligation that is currently considered material to the Group, including any default or acceleration of an obligation. There are no other material off-balance sheet transactions, arrangements, obligations, and other relationships with unconsolidated entities or other persons created during the reporting period.

There are no other known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. There are also no known events that will cause material change in the relationship between costs and revenues.

There are no other significant elements of income or loss that did not arise from continuing operations.

There were no other material issuances, repurchases or repayments of debt and equity securities.

The business has no seasonal aspects that had a material effect on the financial condition and results of operations of the Group.

Statement of Management's Responsibility for Consolidated Financial Statements

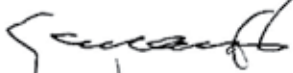
The management of *Emperador Inc.* (the Company) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, 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 financial statements, management is responsible for assessing Company'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 Company or to cease operations, or has no realistic alternative to do so.

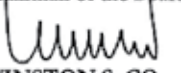
The Board of Directors is responsible for overseeing the Company's financial reporting process.

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

Punongbayan & Aranillo, the independent auditors appointed by the stockholders, have audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, have expressed its opinion on the fairness of presentation upon completion of such audit.



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 _____, affiants exhibiting to me their
Passport/ SSS No., as follows:

Names	PassportNo./ SSS No./ DL No	Date	Place of Issue
Andrew L. Tan	EC1087269	May 14, 2014 to 2019	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. 8
Book No. 7
Series of 2019



APR 13 2019



ATTY. RENATO R. BALISACAN, JR.
Notary Public for Makati City until December 31, 2019
Roll No. 86753. Commission No. M-107
19F, Tower 1, The Enterprise Center, Makati City
IBP No. 022396. 1/9/2018. Pasig City
MCLE Compliance No. V-0020820

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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 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 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, 2018, goodwill amounted to P9.5 billion, while the trademarks with indefinite useful lives amounted to P20.7 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 is highly judgmental, and is based on significant assumptions, specifically the determination of the discount 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:

- Evaluating 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;

Report of Independent Auditors

- Testing the calculation of valuation model for mathematical accuracy and validating the appropriateness and reliability of inputs and amounts used; and,
- Performing 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.

(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 2018 amounted to P46.3 billion and represented 99% 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, including the adoption of PFRS 15, *Revenue from Contracts with Customers*, are included in Notes 2 and 17.

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:

- Testing the design and operating effectiveness of the Group's processes and controls over revenue recognition, approval and documentation;
- Evaluating appropriateness of the Group's revenue recognition policy in accordance with the requirements of PFRS 15;

- Testing, on a sample basis, sales invoices, delivery receipts and cash receipts of sales transactions throughout the current period to determine whether sale of goods is valid and existing;
- Confirming trade receivables using positive confirmation, on a sample basis, and performing alternative procedures for non-responding customers, such as, examining evidence of subsequent collections, or corresponding sales invoices and proof of deliveries;
- Testing 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,
- Performing 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, verifying that the underlying data used in the analyses are valid.

(c) Existence and Valuation of Inventories

Description of the Matter

Inventories as of December 31, 2018 amounts to P28.4 billion, which represent 24% 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 significant volume and 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.

Report of Independent Auditors

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:

- Observing physical inventory count procedures, obtaining relevant cut-off information and copy of count control documents, and verifying 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,
- Performing substantive analytical review procedures over inventory-related ratios such as, but not limited to, inventory turnover and current period's components of inventories; and, verifying that the underlying data used in the analyses are valid.

On valuation of inventories:

- Testing the design and operating effectiveness of processes and controls over inventory costing, reconciliation, data entry and review;
- Evaluating the appropriateness of the method used by management for inventory costing and valuation of the lower of cost or NRV and assessing consistency of their application from period to period;
- Performing, 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;
- Performing 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 testing significant actual costs, on a sample basis, by agreeing with contracts and invoices; and,
- Evaluating 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.

(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:

- Obtaining an understanding of the Group structure and its consolidation policy and process, including the procedures for identifying intercompany transactions and reconciling intercompany balances;
- Testing 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;
- Testing 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;
- Performing analytical procedures at the consolidated level; and,
- Evaluating the sufficiency and adequacy of disclosures in the Group's consolidated financial statements in accordance with PFRS.

Report of Independent Auditors

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, 2018, 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, 2018 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.

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.

Report of Independent Auditors

- 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.
- 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.

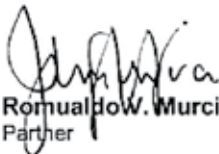
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 audits 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. 7333697, January 3, 2019, Makati City
 SEC Group A Accreditation
 Partner - No. 0628-AR-3 (until Nov. 29, 2019)
 Firm - No. 0002-FR-5 (until Mar. 26, 2021)
 BIR AN 08-002511-22-2016 (until Oct. 3, 2019)
 Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 5, 2019

Consolidated Statements of Financial Position

December 31, 2018 and 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017		Notes	2018	2017
<u>ASSETS</u>				<u>LIABILITIES AND EQUITY</u>			
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and cash equivalents	5	P 6,228,229,892	P 10,162,413,848	Interest-bearing loans	13	P 5,700,075,335	P 4,161,326,840
Trade and other receivables - net	6	18,875,783,362	14,694,733,441	Trade and other payables	15	13,235,235,723	12,076,373,731
Financial assets at fair value through profit or loss	7	1,208,707,500	19,572,259	Financial liabilities at fair value through profit or loss	7	43,492,447	-
Inventories - net	8	28,395,973,338	25,186,966,124	Income tax payable		1,238,585,785	599,675,788
Prepayments and other current assets	11.1	1,291,326,181	953,350,245				
				Total Current Liabilities		20,217,389,290	16,837,376,359
Total Current Assets		56,000,020,273	51,017,035,917				
NON-CURRENT ASSETS				NON-CURRENT LIABILITIES			
Investment in a joint venture	12	3,277,607,392	3,233,944,765	Interest-bearing loans	13	28,314,724,893	28,761,094,050
Property, plant and equipment - net	9	27,247,873,634	26,340,856,254	Equity-linked debt securities	14	5,258,801,592	5,227,114,518
Intangible assets - net	10	30,229,975,679	29,893,991,852	Provisions	16	524,974,547	443,245,445
Other non-current assets - net	11.2	1,062,894,704	1,049,953,201	Deferred tax liabilities - net	21	2,027,842,787	1,797,284,641
				Retirement benefit obligation	20	110,692,233	116,113,331
Total Non-current Assets		61,818,351,409	60,518,746,072	Total Non-current Liabilities		36,237,036,052	36,344,851,985
TOTAL ASSETS		P 117,818,371,682	P 111,535,781,989	Total Liabilities		56,454,425,342	53,182,228,344
				EQUITY			
				Equity attributable to owners of the parent company		60,471,271,854	57,718,896,695
				Non-controlling interest	23.6	892,674,486	634,656,950
				Total Equity		61,363,946,340	58,353,553,645
				TOTAL LIABILITIES AND EQUITY		P 117,818,371,682	P 111,535,781,989

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2018, 2017 and 2016
(Amounts in Philippine Pesos)

	Notes	2018	2017	2016		Notes	2018	2017	2016
REVENUES	17	<u>P 47,659,421,022</u>	<u>P 42,655,527,544</u>	<u>P 43,018,101,199</u>	Net profit attributable to:				
COSTS AND EXPENSES					Owners of the parent company	P 6,658,236,381	P 6,321,783,943	P 7,693,367,233	
Costs of goods sold	18	30,305,123,521	27,264,689,817	28,144,038,906	Non-controlling interest	<u>179,713,359</u>	<u>10,538,616</u>	<u>-</u>	
Selling and distribution expenses	19	5,567,696,147	4,611,827,335	4,982,481,208		<u>P 6,828,949,731</u>	<u>P 6,332,319,559</u>	<u>P 7,693,367,233</u>	
General and administrative expenses	19	1,909,932,481	1,519,281,194	1,564,843,400	Total comprehensive income (loss) attributable to:				
Finance and other charges	6,9				Owners of the parent company	P 6,652,883,065	P 7,832,304,353	P 4,835,639,472	
	13, 14, 20	<u>831,304,464</u>	<u>1,424,757,176</u>	<u>794,029,127</u>	Non-controlling interest	<u>239,134,505</u>	<u>(216,100,500)</u>	<u>-</u>	
		<u>38,614,056,613</u>	<u>34,820,158,522</u>	<u>33,882,902,641</u>		<u>P 6,892,017,570</u>	<u>P 7,616,203,853</u>	<u>P 4,835,639,472</u>	
PROFIT BEFORE TAX		<u>8,436,364,409</u>	<u>7,835,372,022</u>	<u>9,135,698,549</u>	Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company - Basic and Diluted	24	<u>P 0.41</u>	<u>P 0.39</u>	<u>P 0.48</u>
TAX EXPENSE	21	<u>1,607,414,678</u>	<u>1,503,052,451</u>	<u>1,742,331,316</u>					
NET PROFIT		<u>6,828,949,731</u>	<u>6,332,319,569</u>	<u>7,393,367,233</u>					
OTHER COMPREHENSIVE INCOME (LOSS)									
Items that will be reclassified subsequently to profit or loss									
Translation gain (loss)	2	<u>229,002,448</u>	<u>659,294,821</u>	<u>(2,189,511,224)</u>					
Items that will not be reclassified subsequently to profit or loss									
Net actuarial gain (loss) on retirement benefit obligation	20	<u>(189,210,076)</u>	<u>746,779,271</u>	<u>(805,125,882)</u>					
Tax income (expense) on remeasurement of retirement benefit obligation	21	<u>32,275,467</u>	<u>(122,180,800)</u>	<u>136,909,345</u>					
		<u>(156,934,609)</u>	<u>624,598,471</u>	<u>(668,216,537)</u>					
Other Comprehensive Income (Loss) - Net of Tax		<u>63,067,839</u>	<u>1,283,884,292</u>	<u>(2,857,727,761)</u>					
TOTAL COMPREHENSIVE INCOME		<u>P 6,892,017,570</u>	<u>P 7,616,203,853</u>	<u>P 4,835,639,472</u>					

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes In Equity

For the Years Ended December 31, 2018, 2017 and 2016
(Amounts in Philippine Pesos)

Notes	Attributable to Owners of the Parent Company														Non-controlling Interest	Total Equity
	Capital Stock	Additional Paid-in Capital	Treasury Shares	Conversion Options Outstanding	Share Options Outstanding	Accumulated Translation Adjustments	Evaluation Reserves	Legal Reserves	Appropriated	Retained Earnings Unappropriated	Total	Total				
Balance at January 1, 2018	P 14,743,093,174	P 73,896,779,847	(P 373,148,950)	P 346,510,586	P 57,345,286	(P 2,707,833,873)	(P 8,169,701)	P 9,689,175	P 600,000,000	P 30,449,312,779	P 25,749,312,778	P 57,198,625,557	P 43,616,876	P 58,135,502,433		
Adjustments during the year:																
Share options awarded for the year	30.2, 21.4	—	—	—	26,748,149	—	—	361,870	—	—	—	361,870	—	361,870		
Adjustment from acquired subsidiary	21.8	—	—	—	—	—	—	—	—	—	—	3,938,038	—	3,938,038		
Acquisition of treasury shares during the year	23.2	—	—	—	—	—	—	—	—	(348,405)	(348,405)	348,405	(21,758,254)	(21,409,849)		
Total comprehensive income for the year		—	—	—	—	—	—	—	—	8,658,546,480	8,658,546,480	8,658,546,480	590,334,305	9,248,892,785		
Appropriation during the year	21.5	—	—	—	—	(31,940,289)	—	(36,339,620)	—	—	—	—	—	(68,279,909)		
Redemption of purchased shares of a subsidiary	21.4	—	—	—	—	—	—	—	—	(3,139,274)	(3,139,274)	—	—	(6,278,548)		
Cash dividends declared during the year	23.1	—	—	—	—	—	—	—	—	(3,399,548,170)	(3,399,548,170)	(3,399,548,170)	—	(3,399,548,170)		
Balance at December 31, 2018	P 14,743,093,174	P 73,896,779,847	(P 373,148,950)	P 346,510,586	P 84,093,435	(P 2,739,774,163)	(P 8,206,071)	P 9,689,175	P 600,000,000	P 38,050,315,632	P 29,349,767,608	P 67,399,083,240	P 44,217,271,661	P 111,616,354,901		
Balance at January 1, 2017	P 14,530,000,000	P 72,348,846,074	P —	P —	P 31,208,917	(P 4,903,360,763)	(P 430,748,672)	P —	P 540,000,000	P 17,803,298,709	P 13,943,289,208	P 31,746,587,917	P 1,740,000	P 33,486,587,917		
Adjustments during the year:																
Share options awarded for the year	30.2, 21.4	1,071,093,174	139,868,074	—	346,510,586	—	—	—	—	—	—	—	—	1,517,471,834		
Adjustment from acquired subsidiary	21.8	—	—	—	—	—	—	—	—	—	—	3,938,038	—	3,938,038		
Acquisition of treasury shares during the year	23.2	—	—	—	—	—	—	—	—	—	—	—	—	—		
Total comprehensive income for the year		—	—	—	—	—	—	—	—	8,321,783,545	8,321,783,545	8,321,783,545	(254,390,909)	8,067,392,636		
Reversal of appropriations	21.5	—	—	—	—	—	—	—	—	(54,000,000)	(54,000,000)	—	—	(54,000,000)		
Appropriation during the year	21.5	—	—	—	—	—	—	—	—	—	—	—	—	—		
Redemption of purchased shares of a subsidiary	21.4	—	—	—	—	—	—	—	—	(609,589,175)	(609,589,175)	—	—	(1,219,178,350)		
Cash dividends declared during the year	23.1	—	—	—	—	—	—	—	—	(3,006,000,000)	(3,006,000,000)	(3,006,000,000)	—	(3,006,000,000)		
Balance at December 31, 2017	P 14,743,093,174	P 73,896,779,847	(P 373,148,950)	P 346,510,586	P 57,345,286	(P 2,707,833,873)	(P 8,169,701)	P 9,689,175	P 600,000,000	P 30,449,312,779	P 25,749,312,778	P 57,198,625,557	P 43,616,876	P 58,135,502,433		
Balance at January 1, 2016	P 14,530,000,000	P 72,348,846,074	P —	P —	P 4,932,748	(P 1,804,753,363)	(P 403,674,823)	P —	P 540,000,000	P 15,471,048,776	P 13,971,089,276	P 29,442,138,052	P 1,740,000	P 31,182,138,052		
Adjustments during the year:																
Share options awarded for the year	30.2, 21.4	—	—	—	—	26,748,149	—	—	—	—	—	—	—	26,748,149		
Total comprehensive income for the year		—	—	—	—	—	—	—	—	7,893,267,332	7,893,267,332	7,893,267,332	—	7,893,267,332		
Adjustment from acquired subsidiary	21.8	—	—	—	—	—	—	—	—	—	—	3,938,038	—	3,938,038		
Cash dividends declared during the year	23.1	—	—	—	—	—	—	—	—	(2,721,056,000)	(2,721,056,000)	(2,721,056,000)	—	(2,721,056,000)		
Balance at December 31, 2016	P 14,530,000,000	P 72,348,846,074	P —	P —	P 31,208,917	(P 4,903,360,763)	(P 430,748,672)	P —	P 540,000,000	P 17,803,298,709	P 13,943,289,208	P 31,746,587,917	P 1,740,000	P 33,486,587,917		

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2018, 2017 and 2016
(Amounts in Philippine Pesos)

	Notes	2018	2017	2016		Notes	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES					CASH FLOWS FROM FINANCING ACTIVITIES				
Profit before tax		P 8,436,364,409	P 7,835,372,022	P 9,435,698,549	Proceeds from interest-bearing loans	13, 31	3,451,057,163	9,487,962,789	24,099,767,650
Adjustments for:					Dividends paid	23.3	(2,399,048,179)	(3,006,380,000)	(2,721,056,000)
Depreciation and amortization	9, 18, 19	1,074,666,926	795,801,817	708,238,131	Repayments of interest-bearing loans	13, 31	(2,358,677,825)	(665,309,549)	(23,899,762,792)
Interest expense	13, 14	818,886,057	998,388,259	775,852,427	Acquisition of treasury shares	23.2	(1,528,633,179)	(321,134,930)	-
Interest income		(265,325,794)	(202,544,447)	(201,395,080)	Interest paid	31	(772,576,355)	(540,970,810)	(500,010,272)
Share in net profit of joint venture	12	(198,909,795)	(154,101,850)	(219,276,919)	Redemption of preferred shares	23.4	(2,875,000)	(2,875,000)	-
Provisions	16	92,789,663	77,921,880	62,928,000	Proceeds from issuance of shares of a subsidiary		-	847,882,450	-
Fair value losses (gains) on financial instruments					Net Cash From (Used In) Financing Activities		(3,610,753,357)	5,799,174,950	(3,021,061,414)
at fair value through profit or loss	7	62,529,801	(48,432,099)	31,534,740	NET DECREASE IN CASH AND				
Share option benefits expense	23	26,958,169	26,958,169	26,958,169	CASH EQUIVALENTS		(3,934,183,956)	(11,493,900)	(19,003,634,489)
Impairment losses	6	22,029,978	48,204,136	20,066,707	CASH AND CASH EQUIVALENTS				
Loss (gain) on sale of property, plant and equipment	9	(6,744,917)	(1,542,396)	2,002,676	AT BEGINNING OF YEAR		<u>10,162,413,848</u>	<u>10,173,907,748</u>	<u>29,177,542,237</u>
Amortization of trademarks	10	2,240,391	11,129,938	102,872,668	CASH AND CASH EQUIVALENTS				
Operating profit before working capital changes		<u>10,065,484,888</u>	<u>9,387,205,429</u>	<u>10,745,480,068</u>	AT END OF YEAR		<u>P 6,228,229,892</u>	<u>P 10,162,413,848</u>	<u>P 10,173,907,748</u>
Decrease (increase) in trade and other receivables		(3,942,624,042)	(4,338,410,076)	2,021,567,730	Supplemental Information on Non-cash Investing and Financing Activities:				
Increase in inventories		(2,928,769,669)	(4,058,334,497)	(1,989,360,555)	1) Share option benefits expense amounting to P27.0 million was recognized in 2018, 2017 and 2016, with corresponding credits to Share Options Outstanding account (see Notes 20.2 and 23.4).				
Increase in prepayments and other current assets		(497,507,892)	(500,467,380)	(345,075,130)	2) In 2017, EMP issued 122.4 million common shares in consideration of the accrued interest on the equity-linked securities (ELS) amounting to P832.3 million (see Note 14). Also in 2017, the ELS instrument was amended and the financial liability and equity components were reassessed at the date of amendment; accordingly, equity linked debt securities were revalued and conversion options were recognized at P5.1 billion and P136.2 million, respectively. Subsequently, the accretion of discount on equity-linked debt securities amounting to P31.7 million and P83.3 million for 2018 and the remainder of 2017, respectively, is presented as part of Finance and Other Charges account in the consolidated statements of comprehensive income (full in 2016) (see Note 14). The capitalized documentary stamp tax paid by EMP for the issuance of the ELS in 2014 were fully amortized in 2017 with amortizations amounting to P17.1 million in 2017 and P3.8 million in 2016, which were presented as part of Finance and Other Charges account in the consolidated statements of comprehensive income (see Note 14).				
Decrease (increase) in other non-current assets		(244,307,084)	4,691,091	(985,060,933)					
Increase (decrease) in trade and other payables		1,139,466,605	3,254,782,522	(8,276,834,432)					
Decrease in retirement benefit obligation		(204,585,861)	(16,961,383)	(289,688,589)					
Cash generated from operations		<u>3,395,156,945</u>	<u>3,732,505,756</u>	<u>881,028,139</u>					
Cash paid for income taxes		(531,522,212)	(1,328,291,861)	(1,573,163,840)					
Net Cash From (Used In) Operating Activities		<u>2,863,634,733</u>	<u>2,404,213,895</u>	<u>(792,135,681)</u>					
CASH FLOWS FROM INVESTING ACTIVITIES									
Acquisitions of property, plant and equipment	9	(2,542,743,988)	(6,544,564,864)	(2,040,360,370)					
Acquisition of financial assets at fair value through profit or loss	7	(1,208,707,500)	-	-					
Interest received		227,053,290	202,544,447	201,395,080					
Dividends received from a joint venture	12	93,314,288	60,552,241	93,391,294					
Proceeds from sale of property, plant and equipment	9	64,018,578	146,696,465	25,719,832					
Acquisitions of trademarks	10	-	(2,938,865,934)	-					
Proceeds from withdrawal of investment in a joint venture	12	-	858,354,900	-					
Acquisitions of subsidiaries and a business unit	10	-	-	(13,470,583,230)					
Net Cash Used in Investing Activities		(3,167,065,332)	(8,214,882,745)	(15,190,437,394)					

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

December 31, 2018, 2017 and 2016

(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Emperador Inc. (EMP or the Parent Company or the 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 ownership interests 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	
		2018	2017
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 Agriwrap 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)	51%	-
Cocos Vodka Distillers Philippines, Inc.		100%	100%
Zabana Rum Company, Inc.		100%	100%

Names of Subsidiaries	Explanatory Notes	Percentage of Effective Ownership	
		2018	2017
EIL and offshore subsidiaries			
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 (WMC)	(g), 10	100%	100%
Whyte and Mackay Limited (WML)	(h)	100%	100%
Whyte and Mackay Warehousing Limited (WMTL)	(i)	100%	100%
Emperador Asia Pte. Ltd. (EA)	(i)	100%	100%
Grupo Emperador Spain, S.A. (GES)	(k), 10	100%	100%
Bodega San Bruno, S.L. (BSB)	(l)	100%	100%
Bodega Fundador, S.L.U. (BFS)	(k), (m), (n)	100%	100%
Emperador Gestion S.L. (EG)	(l)	100%	100%
Complujo Bodeguero San Patricio SLU (CBSP)	(m), (q), 10	100%	100%
Domecq Bodega Las Cepas, S.L. (DBLC)	(o), 10	50%	50%
Bodega Las Cepas, S.L. (BLC)	(p)	50%	50%
Emperador Europe Sarl (EES)	(r)	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 23.1). 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 vodka (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 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.

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(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 identifiable net assets acquired are not material to the consolidated financial statements [see Notes 3.1(d) and 23.6].

(e) EIL is a foreign entity incorporated in the British Virgin Islands primarily to handle the international sales, marketing and merchandising of the Group's products. 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 EDP's 16% 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 holds 100% ownership interest over EUK which in turn holds 100% ownership interest over WMG [see (g)].

EGB's registered office is located at 20-22 Bedford Road, London, United Kingdom.

(g) WMG is a foreign entity incorporated in the UK on August 7, 2001 and presently operating as an investment in holding entity. It presently holds 100% ownership in WML and WMWL. 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. 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) 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's core brands include Whyte and Mackay, The Dalmore, Isle of Jura, Vladivar, Glayva, Claymore and John Barr. 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.

(i) WMWL is foreign entity incorporated in the UK to carry out warehousing and blending of bulk whisky for WML and third party customers.

(j) 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 (k)].

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

(k) 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, Bodegas Fundador, S.L.U (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. It currently holds direct interests in BSB, BFS, EG, CBSP, DBLC and BLC, which were established in Spain and Mexico with activities similar or related to its main business.

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

(m) 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.

(n) BFS has a wholly owned subsidiary, Destilados de la Mancha S.L.

(o) 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., Bodega Domecq S.A. de C.V. and Gonzalez Byass de Mexico S.A. de C.V., with registered office at Calle Presa Pabellón, 38, Mexico DF.

Pedro Domecq S.A. de C.V. and Bodega Domecq S.A. de C.V. are newly incorporated foreign entities created by BLC on March 15, 2017 in relation to the asset acquisitions from Pernod Ricard. These entities, together with Gonzales Byass de Mexico S.A. de C.V., existing subsidiary of BLC, were subsequently transferred to DBLC effectively on September 1, 2017 through spin-off acquisition.

The acquisition of its 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 newly-incorporated Mexican subsidiaries. Total acquisition is treated as an asset acquisition [see Notes 2.12(c), 3.1(d) and 23.6].

(p) Jointly controlled entity 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 (see Note 12). BLC presently holds 100% ownership interests in Alcoholicera dela Mancha Vinicola, 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.

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(q) 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 2.12(c) and 3.1(d)].

(r) 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 Approval of the Consolidated Financial Statements

The consolidated financial statements of EMP and its subsidiaries as of and for the year ended December 31, 2018 (including the comparative consolidated financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) were authorized for issue by the Company's Board of Directors on April 5, 2019.

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.

In 2018, the Group reclassified certain advances to suppliers in 2017 pertaining to purchase of land amounting to P231.1 million from current assets previously included under Trade and Other Receivables account to non-current assets under Other Non-current Assets account to conform with the current year presentation, which did not result in any material impact as it only affected the presentation (see Notes 6 and 11.2). The reclassification did not result in any adjustment to the Group's total assets presented in the consolidated statement of financial position as of December 31, 2017. It also did not result in any significant impact in the consolidated statement of cash flows for the year ended December 31, 2017.

The Group also reclassified certain expenses to Selling and Distribution Expenses from Cost of Goods Sold and General and Administrative Expenses in the 2017 and 2016 consolidated statements of comprehensive income, to conform to the current year presentation (see Notes 18 and 19).

The effect of the reclassification on the 2017 and 2016 consolidated statements of comprehensive income is as follows:

		2017		
		As Previously Reported	Reclassification	As Restated
Cost of goods sold	P	27,585,665,853	(P 320,976,036)	P 27,264,689,817
Selling and distribution expenses		3,793,601,789	817,825,546	4,611,427,335
General and administrative expenses		2,016,130,704	(496,849,510)	1,519,281,194

		2016		
		As Previously Reported	Reclassification	As Restated
Cost of goods sold	P	25,424,445,626	(P 283,406,720)	P 25,141,038,906
Selling and distribution expenses		3,510,668,920	571,812,288	4,082,481,208
General and administrative expenses		1,853,248,968	(288,405,568)	1,564,843,400

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The reclassification did not result in any adjustment to the Group's total comprehensive income and earnings per share presented in the 2017 and 2016 consolidated statements of comprehensive income. It also did not result in any significant impact on the Group's consolidated statements of financial position, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2017 and 2016.

In 2018, the Group also adopted PFRS 9, *Financial Instruments*, and PFRS 15, *Revenue from Contracts with Customers*, which were applied using the transitional relief and the full retrospective approach, respectively [see Note 2.2(a)(ii) and (iii)]. The application did not result in any adjustment to the Group's consolidated financial statements.

The reclassification discussed above and the adoption of the new standards had no material impact on the Group's consolidated financial statements; hence, the Group did not present a third consolidated statement of financial position.

(c) *Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Company'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 2.16). 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 2018 that are Relevant to the Group*

The Group adopted for the first time the following PFRS, amendments, interpretations and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle)	:	
PAS 28 (Amendments)	:	Investment in Associates and Joint Venture – Measuring an Associate and Joint Venture at Fair Value

Discussed below and in the succeeding pages are the relevant information about these standards, amendments, interpretations and annual improvements.

- (i) PFRS 2 (Amendments), *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*. The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The application of the amendments had no impact on the Group's consolidated financial statements.

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(ii) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e., financial assets at amortized cost, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI);
- an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The Group's new accounting policies relative to the adoption of PFRS 9 are fully disclosed in Notes 2.5 and 2.10.

The adoption of PFRS 9 had no significant impact on the measurement and carrying amounts of the Group's financial assets and financial liabilities. The Group's loans and receivables are being carried at amortized cost already; the derivative assets are still to be measured at FVTPL; and, the application of the ECL methodology to financial assets other than at FVTPL (mostly trade and other receivables) did not result in the recognition of additional allowance for credit losses.

In summary, the effect of the adoption of PFRS 9 is as follows:

Measurement Category	Notes	Classification before PFRS 9	Classification under PFRS 9	Carrying Value January 1, 2018	Carrying Value December 31, 2017
Financial assets at FVTPL	7	At FVTPL	At FVTPL	P 19,572,259	P 19,572,259
Financial assets at amortized cost:					
Cash and cash equivalents	5	Loans and receivables	At amortized cost	10,162,413,848	10,162,413,848
Trade and other receivables – net	6	Loans and receivables	At amortized cost	13,056,719,477	13,056,719,477
Property mortgage receivable	11	Loans and receivables	At amortized cost	654,595,116	654,595,116
Refundable security deposits	11	Loans and receivables	At amortized cost	46,467,016	46,467,016
Total				P 23,939,767,206	P 23,939,767,206

(iii) PFRS 15, *Revenue from Contract with Customers*, together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaces PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The focus of revenue recognition has changed from the transfer of risks and rewards of ownership to the transfer of control of goods and services, which could be at a point in time or over time. The standard presents a five-step process that must be followed which involves the separation of performance obligations in a customer contract and allocation of the transaction price to the separate performance obligations (see Note 2.14).

The Group's adoption of PFRS 15, which was applied retrospectively, has resulted in changes in its accounting policies (see Note 2.14) but did not result in adjustments to the amounts recognized in the Group's consolidated financial statements as the manner and timing of the recognition of revenues are the same upon adoption of PFRS 15.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this interpretation had no impact on the Group's consolidated financial statements.

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- (v) Among the Annual Improvements to PFRS (2014-2016 Cycle), only PAS 28 (Amendments), *Investment in Associates and Joint Venture – Measuring an Associate and Joint Venture at Fair Value*, is relevant to the Group but has no material impact on the Group's consolidated financial statements as this amendment merely clarifies existing requirements. The amendment clarifies that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

(b) *Effective in 2018 that are not Relevant to the Group*

The following amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's consolidated financial statements:

PAS 40 (Amendments)	:	Investment Property – Transfers of and from Investment Property
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4, <i>Insurance Contracts</i>
Annual Improvements to PFRS (2014-2016 Cycle)	:	
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, amendments, interpretations and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the relevant pronouncements discussed in the succeeding pages in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements.

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset). PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.
- (ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.
- (iii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The new standard allows the retrospective application or modified retrospective application, where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Retained Earnings account at the date of initial application. Management has initially assessed that this new standard has no material financial impact on the Group's consolidated financial statements.

- (iv) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.
- (v) 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, *Business Combinations*, 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.

- (vi) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
- PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

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 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.

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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 it has power over the entity, is exposed, or has rights to, variable returns from its involvement with the entity and 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 2.12(a) and 3.1(d)]. 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 recognised 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).

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 part of Revenues or Finance and Other Charges under Costs and Expenses section 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 2.17).

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 Interests*

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.

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

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.

(a) Classification and Measurement

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, FVOCI or 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.

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 SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Group's financial assets that are classified 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 6), and Property mortgage receivable and Refundable security deposits [presented as part of Other Non-current Assets (see Note 11.2)].

Cash and cash equivalents represent demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. These generally earn interest based on daily bank deposit rates.

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

- Business model test: the 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.

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Financial assets are classified under 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. 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 2.10(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.

The fair value gains or losses of financial assets at FVTPL are presented as part of Other income – net in the Revenues section in the consolidated statement of comprehensive income. 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.

Interest earned on these investments is included in interest income on these assets presented as Other income – net in the Revenues section in the consolidated statement of comprehensive income.

(b) Reclassification of Financial Assets

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

- 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 is no reclassification of financial assets in 2018, as discussed in Note 2.2(a)(ii).

In 2017, under the previous standard (PAS 39), financial assets are reclassified out of the FVTPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term or under rare circumstances. Financial assets that is reclassified out of the FVTPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

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(c) Impairment of Financial Assets

Beginning January 1, 2018, 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 Group's identification of a credit loss event. Instead, the Group considers a broader range of information 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(a) and 26.2]. For the other financial assets measured at amortized cost, the Company 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 default over a given time horizon.

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

In 2017, under the previous standard (PAS 39), an impairment loss on loans and receivables would only be recognized when there was objective evidence of impairment and the amount of the impairment loss was determined as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan had a variable interest rate.

(d) 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.

2.6 Inventories

Inventories (see Note 8) are valued at the lower of cost and net realizable value. 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.

Net realizable value 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. Net realizable value of raw materials is the current replacement cost [see Note 3.2(c)].

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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.

Other recognized assets of similar nature, 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), are classified as non-current assets.

2.8 Property, Plant and Equipment

Property, plant and equipment (see Note 9), except land, are carried at acquisition cost less accumulated depreciation, amortization and any impairment losses (see Note 2.17). 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. 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 building 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. 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.

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 2.20) 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 2.17).

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 2.17.

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.

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2.10 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)].

(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 13), trade and other payables [except output value-added tax (VAT) and other tax-related payables] (see Note 15) and the financial liability component of equity-linked securities (ELS) instrument (see Note 14), 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 Finance and Other Charges 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.

2.11 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.

2.12 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.

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(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-interests 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-interests 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 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*; 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 did not have any business combination accounted for using this method during the years presented.

(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.

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2.13 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.

2.14 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).

For Step 1 to be achieved, 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.

The Group's 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.

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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 Cost 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.

In addition, the following specific recognition criteria must be met before revenue is recognized:

- (a) *Rental income* – Income is recognized on a straight-line basis over the duration of the lease term. Rental income is not accounted for under PFRS 15 as it pertains to the revenue arising from lease contracts, which is within the scope of PAS 17 (see Note 2.15).
- (b) *Interest income* – This is recognized as the interest accrues taking into account the effective yield on the asset.
- (c) *Dividend income* – Revenue 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.
- (d) *Trading gain* – Trading gain is recognized when the ownership of the securities is transferred to the buyer, at an amount equal to the excess of the selling price over the carrying amount of securities.

Costs and expenses (see Notes 18 and 19) 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 2.20).

In obtaining customer contracts, the Company incurs incremental costs. When the expected amortization period of these costs if capitalized would be less than one year, the Company uses the practical expediency by recognizing such costs as incurred. The Company 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).

2.15 Leases

(a) Group as Lessee

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. Rental income from operating leases is recognized in consolidated profit or loss on a straight-line basis over the lease term (see Note 2.14).

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 asset or assets and the arrangement conveys a right to use the asset.

2.16 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 consolidated profit or loss.

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(b) Translation of Financial Statements of Foreign Subsidiaries

The consolidated operating results and financial position of offshore subsidiaries (see Note 1), which are measured using the United States (U.S.) dollar, British pound sterling, Singaporean dollar, Mexican peso and European Union euro, 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 consolidated statement of changes in equity under 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.

2.17 Impairment of Non-financial Assets

The Group's property, plant and equipment (see Note 9), 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 consolidated 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.

2.18 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.

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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) in 2018, and by Philippine Dealing & Exchange Corp. (PDEx) in 2017, 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 and PDEx provide 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, taking account of any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance and Other Charges 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) *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.

(d) *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.

2.19 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 that ultimately vests on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options 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.

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2.20 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.

2.21 Income Taxes

Tax expense recognized in consolidated profit or loss comprises the sum of current tax and deferred tax recognized in the consolidated profit or loss (see Note 21).

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 the 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(e)].

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.

2.22 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 22).

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 and close members of the family of any such individual; and, (d) 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.

2.23 Equity

Capital stock represents the nominal value of shares that have been issued (see Note 23.1).

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 23.1).

Treasury shares are EMP's shares reacquired 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 (see Note 23.2).

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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(g)].

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.

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 2.16(b)(iii)].

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

Legal reserves represent the statutory requirements in Luxembourg, which comprise of net wealth tax reserve and capital reserve. In 2018, certain statutory requirements based on Spanish legislation were included as part of this account.

Retained earnings, the appropriated portion of which is not available for dividend declaration (see Note 23.5), 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 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 23.6).

2.24 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 24).

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.

2.25 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. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements (see Note 30). There are no post-year-end events that occurred up to date of issuance of the financial statements that would require disclosure or adjustment.

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 Assets

Upon adoption of PFRS 9 beginning January 1, 2018, 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.

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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*

Upon adoption of PFRS 9 beginning January 1, 2018, the Group applies the ECL methodology which requires certain judgments in selecting the appropriate method of determination. 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 26.2(b) and 2.5(c).

(c) *Distinction Between Operating and Finance Leases*

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each 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 properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's judgment, such leases were determined to be operating leases.

(d) *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 2.12)

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 Notes 1.1(o) and (q), 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(g), (d), (k) and 10, are accounted for as business combinations. 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.

(e) *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).

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(f) 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 2.13 and disclosures on relevant provisions and contingencies are presented in Notes 16 and 25.

3.2 Key Sources of Estimation Uncertainty

Presented below and 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 26.2. In 2017, under the previous standard (PAS 39), 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 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) and 2.10(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 and Intangible Assets

The Group estimates the useful lives of property, plant and equipment 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 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 and 2.9). The carrying amounts of property, plant and equipment and trademarks are presented in Notes 9 and 10, respectively.

(e) 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, 2018 and 2017 will be fully utilized in the subsequent reporting periods. The carrying value of deferred tax assets as of those dates is disclosed in Note 21.

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(f) *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 2.17). 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 2018, 2017 and 2016, based on management's assessment.

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

The ELS [see Notes 2.10(b) and 14] 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 Group'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 Non-current Liabilities section of the 2016 consolidated statement of financial position (see Note 14).

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 2.10(b)] and an equity component with value (see Note 2.23). Accordingly, the Group presented the components separately as Equity-linked Debt Securities (see Note 14) and Conversion Options Outstanding accounts under the Non-current Liabilities and Equity sections, respectively, of the consolidated statements of financial position.

(h) *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 20.3.

(i) *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 23.4 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 see Note 23.4.

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(j) 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 on consolidated profit or loss.

An analysis of the Group's provisions for onerous lease is presented in Note 16.1.

(k) 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 on consolidated profit or loss.

An analysis of the Group's provisions for leased property restoration cost is presented in Note 16.2.

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. This 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, 2018, 2017 and 2016 (in millions) are as follows:

	BRANDY**			SCOTCH WHISKY***			Consolidated Total		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
REVENUES									
External customers	P 33,681	P 30,392	P 29,573	P 13,370	P 12,264	P 11,445	P 47,051	P 42,656	P 41,018
Intersegment sales*	766	782	452	158	307	24	-	-	-
	<u>34,447</u>	<u>31,174</u>	<u>30,025</u>	<u>13,528</u>	<u>12,571</u>	<u>11,469</u>	<u>47,051</u>	<u>42,656</u>	<u>41,018</u>
COSTS AND EXPENSES									
Costs of goods sold	23,013	19,631	17,641	7,292	7,634	7,500	30,305	27,265	25,141
Intersegment cost of goods sold*	158	307	24	766	782	452	-	-	-
Selling and distribution expenses	3,278	2,660	2,450	2,290	1,952	1,632	5,568	4,612	4,082
General and administrative expenses	975	721	751	935	798	814	1,910	1,519	1,565
Finance and other charges	680	1,422	685	152	3	109	832	1,425	794
	<u>28,104</u>	<u>24,741</u>	<u>21,552</u>	<u>11,435</u>	<u>11,170</u>	<u>10,507</u>	<u>38,615</u>	<u>34,820</u>	<u>31,582</u>
SEGMENT PROFIT BEFORE TAX	6,343	6,434	8,473	2,093	1,401	962	8,436	7,835	9,436
TAX EXPENSE (INCOME)	<u>1,326</u>	<u>1,422</u>	<u>1,827</u>	<u>281</u>	<u>81</u>	<u>(85)</u>	<u>1,607</u>	<u>1,503</u>	<u>1,742</u>
SEGMENT NET PROFIT	<u>P 5,017</u>	<u>P 5,012</u>	<u>P 6,646</u>	<u>P 1,812</u>	<u>P 1,320</u>	<u>P 1,047</u>	<u>P 6,829</u>	<u>P 6,332</u>	<u>P 7,693</u>
TOTAL ASSETS	P 71,090	P 54,017	P 51,965	P 46,403	P 57,519	P 42,337	P 117,818	P 111,536	P 94,302
TOTAL LIABILITIES	44,373	36,634	32,564	11,905	16,548	9,514	56,454	53,182	42,078
Depreciation and Amortization	857	610	547	218	185	161	1,075	796	708
Interest expense	660	932	667	151	31	109	811	963	776
Equity share in net income of joint venture	199	154	219	-	-	-	-	-	-

*Intersegment sales and cost of goods sold are eliminated in consolidation. Numbers may not add up due to rounding.

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

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5. CASH AND CASH EQUIVALENTS

This account includes the following components:

	<u>2018</u>	<u>2017</u>
Cash on hand and in banks	P 4,133,707,424	P 3,388,408,933
Short-term placements	<u>2,094,522,468</u>	<u>6,774,004,915</u>
	<u>P 6,228,229,892</u>	<u>P 10,162,413,848</u>

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 2.9% to 6.6% in 2018, from 1.8% to 2.8% in 2017 and from 1.8% to 2.0% in 2016. Interest earned amounted to P218.6 million, P202.5 million and P178.8 million in 2018, 2017 and 2016, respectively, and is presented as part of Other income – net under the Revenues account in the consolidated statements of comprehensive income (see Note 17).

6. TRADE AND OTHER RECEIVABLES

Details of this account are as follows [see Note 2.1(b) and 2.5(a)]:

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Trade receivables	22.4	P 14,524,773,347	P 13,019,338,813
Advances to suppliers		3,204,397,152	1,638,013,964
Advances to ultimate parent company	22.7	1,142,912,243	-
Advances to officers and employees	22.5	40,762,383	37,636,599
Accrued interest receivable		17,665,846	5,621,251
Other receivables		<u>78,280,618</u>	<u>111,660,091</u>
		19,008,791,589	14,812,270,718
Allowance for impairment	3.2(a)	<u>(133,008,227)</u>	<u>(117,537,277)</u>
		<u>P 18,875,783,362</u>	<u>P 14,694,733,441</u>

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 indications of impairment using the ECL model required under PFRS 9. 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 26.2).

A reconciliation of the allowance for impairment at the beginning and end of 2018 and 2017 is shown below.

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P 117,537,277	P 76,744,683
Impairment losses	22,029,978	48,204,136
Recoveries	<u>(6,559,028)</u>	<u>(7,411,542)</u>
Balance at end of year	<u>P 133,008,227</u>	<u>P 117,537,277</u>

Recoveries pertain to collection of certain receivables previously provided with allowance. There were no write-offs of receivables in 2018 and 2017.

Recoveries during the year are presented as part of Other income – net in the Revenues section of the consolidated statements of comprehensive income (see Note 17), while impairment losses on trade and other receivables are presented as part of Finance and Other Charges account in the consolidated statements of comprehensive income.

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 instruments at FVTPL as of December 31, 2018 and 2017 pertain to derivative liabilities amounting to P43.5 million and derivative assets amounting to P19.6 million, respectively [see Notes 2.5(a) and 2.10(a)]. It also includes investments in Megaworld Corporation's (Megaworld) US\$200.0 million Fixed-For-Life Senior Perpetual Notes (Perpetual Notes) in 2018 amounting to P1.2 billion.

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The net changes in fair values of these financial instruments are presented in the consolidated statements of comprehensive income as part of Other income – net in the Revenues section (see Note 17). The Group recognized fair value losses amounting to P67.7 million and P31.5 million in 2018 and 2016, respectively, and fair value gains amounting to P48.5 million in 2017. The Group also recognized interest income from these financial instruments amounting to P46.7 million in 2018 and is presented as part of Other income – net in the Revenues section in the 2018 consolidated statement of comprehensive income (see Note 17).

The fair value of the financial instruments at FVTPL are measured through valuation techniques using the net present value computation (for derivative financial instruments), or through reference to quoted bid prices in an active market (for the investment in Perpetual Notes) (see Note 28.2).

8. INVENTORIES

Details of inventories as of December 31, 2018 and 2017, which is valued at lower of cost and net realizable value, are shown below [see Notes 2.6 and 3.2(c)].

	Note	2018	2017
Work-in-process		P 19,310,965,391	P 17,786,098,444
Finished goods	22.1	4,928,444,192	3,537,513,191
Raw materials	22.1	3,260,045,413	3,245,184,408
Packaging materials		672,306,578	536,891,527
Machinery spare parts, consumables and factory supplies		<u>429,891,513</u>	<u>232,247,878</u>
		28,601,653,087	25,337,935,448
Allowance for inventory write-down		(<u>205,679,749</u>)	(<u>150,969,324</u>)
		<u>P 28,395,973,338</u>	<u>P 25,186,966,124</u>

WML has a substantial inventory of aged stocks which mature over periods of up to 60 years. The maturing whisky stock inventory amounting to P15.4 billion and P13.5 billion as of December 31, 2018 and 2017, 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 2018, 2017 and 2016 is presented in Note 18. A reconciliation of the allowance for inventory write-down is shown below.

	2018	2017
Balance at beginning of year	P 150,969,324	P 131,865,103
Impairment losses	<u>54,710,425</u>	<u>19,104,221</u>
Balance at end of year	<u>P 205,679,749</u>	<u>P 150,969,324</u>

Impairment losses on inventories are presented as part of Impairment losses under Cost of Goods Sold account in the consolidated statements of comprehensive income (see Note 18). There were no reversals of impairment losses in 2018 and 2017.

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9. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property, plant and equipment at the beginning and end of the reporting periods is shown below.

	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Leasehold Improvements</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Office Furniture and Fixtures</u>	<u>Moulds and Dies</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 2018										
Cost	P 6,253,586,921	P 29,078,186	P 11,228,371,737	P 160,159,383	P 16,944,662,428	P 630,896,655	P 514,717,079	P 62,308,101	P 1,431,738,532	P 37,255,519,022
Accumulated depreciation and amortization	-	(17,112,517)	(2,210,387,516)	(56,213,626)	(7,149,071,973)	(299,472,526)	(239,949,715)	(35,437,485)	-	(10,007,645,388)
Net carrying amount	<u>P 6,253,586,921</u>	<u>P 11,965,669</u>	<u>P 9,017,984,191</u>	<u>P 103,945,757</u>	<u>P 9,795,590,455</u>	<u>P 331,424,129</u>	<u>P 274,767,364</u>	<u>P 26,870,616</u>	<u>P 1,431,738,532</u>	<u>P 27,247,873,634</u>
December 31, 2017										
Cost	P 6,231,890,692	P 29,078,186	P 8,727,160,391	P 99,952,630	P 13,445,295,382	P 480,908,081	P 440,499,868	P 55,393,335	P 5,031,452,148	P 34,541,630,713
Accumulated depreciation and amortization	-	(14,204,692)	(1,491,854,800)	(47,476,970)	(6,176,725,001)	(248,155,636)	(189,894,653)	(32,462,700)	-	(8,200,774,459)
Net carrying amount	<u>P 6,231,890,692</u>	<u>P 14,873,487</u>	<u>P 7,235,305,591</u>	<u>P 52,475,660</u>	<u>P 7,268,570,381</u>	<u>P 232,752,445</u>	<u>P 250,605,215</u>	<u>P 22,930,635</u>	<u>P 5,031,452,148</u>	<u>P 26,340,856,254</u>
December 31, 2016										
Cost	P 5,246,813,812	P 29,078,186	P 6,999,854,811	P 76,815,536	P 10,463,148,147	P 374,306,323	P 345,388,536	P 105,199,526	P 4,247,914,675	P 27,888,519,552
Accumulated depreciation and amortization	-	(11,296,880)	(1,193,829,255)	(43,099,968)	(5,257,629,023)	(218,732,491)	(140,623,817)	(74,025,950)	-	(6,939,237,384)
Net carrying amount	<u>P 5,246,813,812</u>	<u>P 17,781,306</u>	<u>P 5,806,025,556</u>	<u>P 33,715,568</u>	<u>P 5,205,519,124</u>	<u>P 155,573,832</u>	<u>P 204,764,719</u>	<u>P 31,173,576</u>	<u>P 4,247,914,675</u>	<u>P 20,919,282,168</u>
January 1, 2016										
Cost	P 2,592,928,420	P 29,078,186	P 4,744,219,634	P 76,420,470	P 10,217,177,688	P 345,769,525	P 562,490,376	P 84,891,277	P 2,720,485,160	P 21,373,460,736
Accumulated depreciation and amortization	-	(8,389,062)	(1,144,835,024)	(39,189,353)	(5,200,569,446)	(194,933,164)	(455,602,374)	(62,867,952)	-	(7,106,386,375)
Net carrying amount	<u>P 2,592,928,420</u>	<u>P 20,689,124</u>	<u>P 3,599,384,610</u>	<u>P 37,231,117</u>	<u>P 5,016,608,242</u>	<u>P 150,836,361</u>	<u>P 106,888,002</u>	<u>P 22,023,325</u>	<u>P 2,720,485,160</u>	<u>P 14,267,074,361</u>

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A reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the reporting periods is shown below.

	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Leasehold Improvements</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Office Furniture and Fixtures</u>	<u>Moulds and Dies</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2018, net of accumulated depreciation and amortization	P6,231,890,692	P 14,873,487	P 7,235,305,591	P 52,475,660	P 7,268,570,381	P 232,752,445	P 250,605,215	P 22,930,635	P 5,031,452,148	P 26,340,856,254
Additions	41,692,482	-	371,664,730	60,165,415	1,280,603,363	132,977,572	65,001,674	28,449,760	362,188,992	2,342,743,988
Disposals	-	-	(215,618)	-	(54,450,996)	(2,565,295)	(41,751)	-	-	(57,273,660)
Reclassifications of construction in progress	(19,996,253)	-	1,669,794,550	41,340	2,282,570,844	18,829,860	10,662,267	-	(3,961,902,608)	-
Depreciation and amortization charges for the year	-	(2,907,818)	(258,565,062)	(8,736,658)	(981,703,137)	(50,570,453)	(51,460,041)	(24,509,779)	-	(1,378,452,948)
Balance at December 31, 2018, net of accumulated depreciation and amortization	<u>P6,253,586,921</u>	<u>P 11,965,669</u>	<u>P9,017,984,191</u>	<u>P 103,945,757</u>	<u>P9,795,590,455</u>	<u>P 331,424,129</u>	<u>P 274,767,364</u>	<u>P 26,870,616</u>	<u>P 1,431,738,532</u>	<u>P 27,247,873,634</u>
Balance at January 1, 2017, net of accumulated depreciation and amortization	P5,246,813,812	P 17,781,306	P 5,806,025,556	P 33,715,568	P 5,205,519,124	P 155,573,832	P 204,764,719	P 31,173,576	P 4,247,914,675	P 20,949,282,168
Additions through asset acquisitions (see Note 10)	324,644,906	-	811,086,259	-	599,340,461	-	-	-	-	1,735,071,626
Additions	660,431,974	-	783,828,031	14,507,861	2,105,867,791	120,247,059	85,334,560	15,969,251	1,084,147,869	4,870,334,396
Disposals	-	-	(5,621,650)	-	(841,708)	(7,172,456)	(15,555)	-	(131,502,700)	(145,154,069)
Reclassifications of construction in progress	-	-	62,052,133	8,629,233	98,426,330	-	-	-	(169,107,696)	-
Depreciation and amortization charges for the year	-	(2,907,819)	(222,064,738)	(4,377,002)	(739,741,617)	(35,895,990)	(39,478,509)	(24,212,192)	-	(1,068,677,867)
Balance at December 31, 2017, net of accumulated depreciation and amortization	<u>P6,231,890,692</u>	<u>P 14,873,487</u>	<u>P 7,235,305,591</u>	<u>P 52,475,660</u>	<u>P 7,268,570,381</u>	<u>P 232,752,445</u>	<u>P 250,605,215</u>	<u>P 22,930,635</u>	<u>P 5,031,452,148</u>	<u>P 26,340,856,254</u>
Balance at January 1, 2016, net of accumulated depreciation and amortization	P2,592,928,420	P 20,689,124	P 3,599,384,610	P 37,231,117	P 5,016,608,242	P 150,836,361	P 106,888,002	P 22,023,325	P 2,720,485,160	P 14,267,074,361
Additions through asset acquisitions (see Note 10)	2,640,115,274	-	2,406,277,187	-	525,133,832	463,738	10,056,278	-	14,424,834	5,596,471,143
Additions	13,770,118	-	-	395,066	338,669,962	35,297,008	118,915,286	20,308,249	1,513,004,681	2,040,360,370
Disposals	-	-	(19,909,970)	-	(3,721,122)	(1,787,873)	(2,303,543)	-	-	(27,722,508)
Depreciation and amortization charges for the year	-	(2,907,818)	(179,726,271)	(3,910,615)	(671,171,790)	(29,235,402)	(28,791,304)	(11,157,998)	-	(926,901,198)
Balance at December 31, 2016, net of accumulated depreciation and amortization	<u>P5,246,813,812</u>	<u>P 17,781,306</u>	<u>P 5,806,025,556</u>	<u>P 33,715,568</u>	<u>P 5,205,519,124</u>	<u>P 155,573,832</u>	<u>P 204,764,719</u>	<u>P 31,173,576</u>	<u>P 4,247,914,675</u>	<u>P 20,949,282,168</u>

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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. In 2016, 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. The borrowing costs from the loan were capitalized and presented as part of additions to Construction in progress (see Notes 13 and 2.20).

The amount of depreciation and amortization is allocated as follows:

	Notes	2018	2017	2016
Costs of goods sold	18	P 915,274,249	P 710,858,353	P 644,914,252
Selling and distribution expenses	19	51,711,352	39,745,417	34,086,143
General and administrative expenses	19	<u>107,681,325</u>	<u>45,198,047</u>	<u>29,237,736</u>
		1,074,666,926	795,801,817	708,238,131
Capitalized as part of work-in-process inventories		<u>303,786,022</u>	<u>272,876,050</u>	<u>218,663,067</u>
		P 1,378,452,948	P 1,068,677,867	P 926,901,198

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 2018, 2017 and 2016, certain property, plant and equipment with carrying amounts of P57.3 million, P145.2 million and P27.7 million, respectively, were sold for P64.0 million, P146.7 million, and P25.7 million, respectively. The resulting gains on disposals for both 2018 and 2017 amounting to P6.7 million and P1.5 million, respectively, were recognized as part of Other income – net account under the Revenues section in the 2018 and 2017 consolidated statements of comprehensive income (see Note 17); while the resulting loss of P2.0 million in 2016 was recognized as part of Finance and Other Charges account in the 2016 consolidated statement of comprehensive income.

10. INTANGIBLE ASSETS

This account is composed of the following:

	Notes	2018	2017
Indefinite useful lives	2.9		
Trademarks		P 20,734,188,972	P 20,507,380,260
Goodwill		<u>9,488,786,678</u>	<u>9,377,371,172</u>
		30,222,975,650	29,884,751,432
Definite useful lives			
Trademarks – net	2.9	<u>7,000,029</u>	<u>9,240,420</u>
		P 30,229,975,679	P 29,893,991,852

The Group's trademarks include those that were acquired by EDI from Condis 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),(h),(i)] 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(k)] in Jerez included the acquisition of four new 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 (see Notes 8 and 9); and the recognition of goodwill amounting to P1.5 billion in the consolidated financial statements.

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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 2.12(a)], the Parent Company 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 follows:

	Notes	WMG	Fundador Business Unit
Cash consideration		<u>P 30,272,934,983</u>	<u>P 14,718,366,134</u>
Identifiable assets:			
Tangible assets	8, 9	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		<u>22,600,040,729</u>	<u>13,255,708,780</u>
Goodwill at transaction date		<u>P 7,672,894,254</u>	<u>P 1,462,657,354</u>

The asset acquisitions from the Domecq and Garvey Acquisitions in 2017 by DBLC and CBSP, respectively [see Note 1.1(o) and (q)], 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 in the succeeding page.

	Notes	Domecq Acquisition	Garvey Acquisition
Tangible assets	8, 9	P 1,702,112,882	P 1,554,825,243
Intangible assets		<u>3,123,564,000</u>	<u>332,598,228</u>
		4,825,676,882	1,887,423,471
Liabilities	15	-	(34,361,071)
		<u>P 4,825,676,882</u>	<u>P 1,853,062,400</u>

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

	2018	2017
Goodwill breakdown:		
WMG	<u>P 7,792,765,200</u>	P 7,700,756,272
GES	<u>1,696,021,478</u>	<u>1,676,614,900</u>
	<u>9,488,786,678</u>	<u>9,377,371,172</u>
Trademarks with indefinite useful lives:		
WMG brands	9,626,426,135	9,643,667,360
Fundador and other brands	7,725,835,725	7,637,632,850
Domecq brands	3,002,659,087	2,851,351,100
Grupo Garvey brands	<u>379,268,025</u>	<u>374,728,950</u>
	<u>20,734,188,972</u>	<u>20,507,380,260</u>
	<u>P 30,222,975,650</u>	<u>P 29,884,751,432</u>

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

	Note	2018	2017
Balance at beginning of year		<u>P 9,240,420</u>	P 20,440,358
Amortization during the year	19	(<u>2,240,391</u>)	(<u>11,199,938</u>)
Balance at end of year		<u>P 7,000,029</u>	<u>P 9,240,420</u>

The remaining useful lives of the trademarks with definite lives are as follows:

	December 31, 2018	December 31, 2017
Emperador Deluxe	4.5 years	5.5 years
The BaR	-	6 months

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The “Emperador Brandy” and “Generoso Brandy” trademarks were fully amortized since 2017. Consequently, the Group renewed the trademark application of “Emperador Brandy” with the Intellectual Property Office of the Philippines in 2017. The related costs of renewal was directly charged to expense as part of Others under the Selling and Distribution Expenses account in the consolidated statements of comprehensive income as the cost of renewal is not significant to be capitalized (see Note 19).

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 as follows (amounts in billions of pesos):

	2018				2017			
	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 7.79	P 12.78	1.90%	9.75%	P 7.70	P 12.24	3.00%	12.30%
GES	1.70	10.95	1.60%	7.51%	1.68	4.46	1.60%	7.51%
Trademarks with indefinite lives:								
WMG brands	9.63	44.27	1.90%	9.75%	9.64	22.5	3.00%	12.30%
Fundador brands	7.73	17.97	1.60%	8.14%	7.64	17.76	1.60%	8.14%
Domecq brands*	3.00				2.85			
Grupo Garvey brands*	0.38				0.37			

* Management believes that the carrying values of Domecq and Grupo Garvey brands as of December 31, 2018 and 2017 approximate their value-in-use as of those dates since these were only acquired in 2017 and 2016, respectively.

** 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.

Management believes that both the goodwill and trademarks are not impaired as of December 31, 2018 and 2017 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):

	2018	2017
Prepaid expenses	P 617,570,089	P 129,055,834
Prepaid taxes	545,721,769	640,052,321
Deferred input VAT	54,884,518	137,179,968
Other current assets	<u>73,149,806</u>	<u>47,062,122</u>
	P 1,291,326,181	P 953,350,245

Prepaid expenses include prepayments of rentals, insurance and general prepayments.

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	2018	2017
Property mortgage receivable		P 650,178,519	P 654,595,116
Advances to suppliers	22.11	277,416,071	231,066,071
Deferred input VAT		54,352,935	104,516,552
Refundable security deposits	22.3	54,143,623	46,467,016
Others		<u>26,803,556</u>	<u>13,308,446</u>
		P 1,062,894,704	P 1,049,953,201

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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.

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. Management assessed that the impact of discounting the value of the refundable security deposits is not significant, hence, was no longer recognized in the Group's consolidated financial statements.

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.

As of December 31, 2018 and 2017, 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:

	<u>2018</u>	<u>2017</u>
Acquisition costs	<u>P 3,703,721,965</u>	<u>P 3,703,721,965</u>
Withdrawal	<u>(858,354,900)</u>	<u>(858,354,900)</u>
Accumulated share in net income:		
Balance at beginning of year	388,577,700	295,428,091
Share in net profit for the year	198,909,795	154,101,850
Reductions	<u>(155,247,168)</u>	<u>(60,952,241)</u>
Balance at end of year	<u>432,240,327</u>	<u>388,577,700</u>
	<u>P 3,277,607,392</u>	<u>P 3,233,944,765</u>

The share in net profit is recorded as Equity in net income of joint venture in the Revenues section of the consolidated statements of comprehensive income (see Note 17). Reductions pertain to dividend income received from the joint venture and the foreign currency translation adjustment on the investment.

The amount withdrawn from this investment was used by the Group as part of the 50% capitalization of DBLC in 2017 [see Note 1.1(o)].

The aggregated amounts of assets, liabilities, revenues and net income of the joint venture as of December 31, 2018 and 2017 and for the years then ended are as follows (in thousands):

	<u>Assets</u>		<u>Liabilities</u>		<u>Revenues</u>		<u>Net Income</u>	
2018	P	5,205,938	P	1,267,988	P	6,239,422	P	397,835
2017	P	4,460,318	P	1,253,479	P	2,686,510	P	308,204

13. INTEREST-BEARING LOANS

The composition of the Group's outstanding bank loans is shown below [see Note 2.10(b)].

	<u>2018</u>	<u>2017</u>
Current:		
Foreign	<u>P 4,778,408,668</u>	P 3,661,326,840
Local	<u>921,666,667</u>	<u>500,000,000</u>
	<u>5,700,075,335</u>	<u>4,161,326,840</u>
Non-current:		
Foreign	26,886,391,560	27,261,094,050
Local	<u>1,428,333,333</u>	<u>1,500,000,000</u>
	<u>28,314,724,893</u>	<u>28,761,094,050</u>
	<u>P 34,014,800,228</u>	<u>P 32,922,420,890</u>

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The summarized terms and conditions of each availed loan as at December 31, 2018 and 2017 are as follows:

Outstanding Balance		Explanatory Notes	Interest Rate	Security	Maturity date
2018	2017				
P 22,310,991,675	P 22,055,700,000	(a)	Margin of 1.55% plus EURIBOR	Unsecured	2021
4,051,446,785	3,580,796,290	(b)	0.50% over LIBOR	Secured	2019
2,970,252,180	2,980,500,000	(e)	Fixed at 1.6%	Unsecured	2022
2,332,109,588	2,305,424,600	(d)	Fixed at 1.55%	Unsecured	2027
562,500,000	750,000,000	(c)	Fixed at 5.245%	Unsecured	2021
562,500,000	750,000,000	(c)	Fixed at 5.113%	Unsecured	2021
375,000,000	500,000,000	(c)	Fixed at 5%	Unsecured	2021
500,000,000	-	(f)	Fixed at 5.9641%	Unsecured	2021
350,000,000	-	(f)	Fixed at 6.1277%	Unsecured	2021
P 34,014,800,228	P 32,922,420,890				

- (a) In 2016, EIL refinanced its maturing foreign currency-denominated bank loan, which it obtained in 2015, into an unsecured five-year foreign currency-denominated term loan from a syndicate of foreign financial institutions which is repayable in full at maturity. These loans are presented under the Non-current Liabilities section of the consolidated statements of financial position.
- (b) In 2016, WMG set up a three-year foreign currency-denominated revolving credit facility with a foreign bank, where it had drawn down P2.1 billion, P637.6 million and P2.7 billion in 2018, 2017 and 2016, 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). 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 2018, total payments on the loan amounted to P500.0 million. These loans are presented under the Current Liabilities and Non-current Liabilities sections of the consolidated statements of financial position.

- (d) In 2017, GES obtained an unsecured five-year foreign-currency-denominated loan amounting to P2.3 billion from certain financial institution for the purpose of refinancing Garvey Acquisition (see Note 10). This loan has two-year grace period with principal repayment starting on the 24th month after the date of the loan. This loan is presented under the Non-current Liabilities section of the consolidated statements of financial position.
- (e) In 2017, DBLC assumed from BLC 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.
- (f) 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. The principal repayments are expected to commence on April 10, 2019. These loans are presented under the Current Liabilities and Non-current Liabilities sections of the consolidated statements of financial position.

Interest expense on the above loans for 2018, 2017 and 2016 amounted to P668.9 million, P533.4 million and P301.0 million, respectively, and is presented as part of Finance and Other Charges account in the consolidated statements of comprehensive income. Capitalized interest expense from the peso-denominated loans, on the other hand, amounted to P52.4 million and P108.2 million in 2018 and 2017, respectively, and are presented as part of the additions to Construction in progress under Property, Plant and Equipment account in the consolidated statements of financial position (see Notes 2.20 and 9). Accrued interest payable as of December 31, 2018 and 2017 amounted to P72.7 million and P68.1 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 15).

The Group complied with the financial and non-financial covenants on these loans and borrowings as of December 31, 2018 and 2017.

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14. EQUITY-LINKED DEBT SECURITIES

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 23.1) and an ELS amounting to P5.3 billion (Issue Price) [see Note 2.10(b)]. The shares and the ELS were issued on December 4, 2014 (Issue Date).

Arran may exercise the Holder Conversion Right which calls 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 Company may exercise the Issuer Conversion Right (ICR) which calls 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 the Company fail to exercise their conversion rights within the said periods and the ELS is not converted into shares, the Company has 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 shall 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 is reached.

The ELS bear 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. 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 the Company (Variable Interest), payable in cash on the date that the Company pays dividends to its stockholders.

On June 15, 2017, the parties formally agreed to amend the ELS, which amendments include:

- Fixed Interest is amended to 0%, instead of 5%;
- The Accrued Interest Payable amounting to P832.3 million was applied as consideration for 122,391,176 common shares (Accrued Interest Shares) (see Note 23.1);
- Conversion Shares become 728,275,862 new and fully paid-up shares, instead of 480.0 million;
- ICR ended on June 15, 2017; and,
- Share Market Price for the mandatory conversion at any time during the period beginning on Redemption Date and ending on the Extended Redemption Date is amended to 'greater than P7.25 per share', instead of 'greater than P11.0 per share'.

Consequent to the amendments in certain terms of the ELS in 2017 as mentioned in the preceding paragraph, the financial liability component is revalued at P5.1 billion and the equity component is valued at P136.2 million, which represents 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 2.23 and 3.2(g)], while the accretion of discount on the revalued financial liability component is presented as part of Finance and Other Charges account in the 2018 and 2017 consolidated statements of comprehensive income.

Fixed Interest costs amounted to P269.5 million and P279.2 million in 2017 and 2016, respectively, and presented as part of Finance and Other Charges account in the 2017 and 2016 consolidated statements of comprehensive income.

Variable Interest of P108.4 million, P89.5 million and P81.0 million were respectively paid in 2018, 2017 and 2016 and presented as part of Finance and Other Charges account in the consolidated statements of comprehensive income.

Documentary stamps tax of P26.4 million for the issuance of the ELS, which was capitalized and initially charged to the outstanding liability, was fully amortized in 2017 with amortization amounting to P17.1 million in 2017 and P3.8 million in 2016, which were presented as part of Finance and Other Charges account in the 2017 and 2016 consolidated statements of comprehensive income.

There were no related collaterals on the ELS.

15. TRADE AND OTHER PAYABLES

The breakdown of this account is as follows [see Note 2.10(b)]:

	Notes	2018	2017
Trade payables	22.1, 22.3,		
	22.8	P 8,479,981,846	P 6,644,999,637
Accrued expenses	13	4,151,532,389	4,121,324,604
Output VAT payable		257,093,560	616,174,653
Advances from related parties	22.6	3,070,715	328,070,715
Others		343,557,213	365,804,122
		<u>P 13,235,235,723</u>	<u>P 12,076,373,731</u>

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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 13).

16. PROVISIONS

The breakdown of this account as of December 31, 2018 and 2017 is as follows:

	<u>Onerous Lease</u>	<u>Dilapidations</u>	<u>Total</u>
Balance at January 1, 2018	P 295,593,594	P 147,651,851	P 443,245,445
Additional provisions	89,035,919	3,753,744	92,789,663
Utilized amounts	(9,222,282)	(1,838,279)	(11,060,561)
Balance at December 31, 2018	<u>P 375,407,231</u>	<u>P 149,567,316</u>	<u>P 524,974,547</u>

	<u>Onerous Lease</u>	<u>Dilapidations</u>	<u>Total</u>
Balance at January 1, 2017	P 346,041,898	P 134,475,781	P 480,517,679
Additional provisions	57,941,090	19,980,790	77,921,880
Utilized amounts	(18,072,365)	(4,437,282)	(22,509,647)
Reversal of unutilized amounts	(90,317,029)	(2,367,438)	(92,684,467)
Balance at December 31, 2017	<u>P 295,593,594</u>	<u>P 147,651,851</u>	<u>P 443,245,445</u>

16.1 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, 2018 and 2017, is between one to 12 years and one to 13 years, respectively.

Reversal of unutilized amounts in 2017 are presented as part of Other income – net in the Revenues section of the 2017 consolidated statement of comprehensive income (see Note 17).

Additional provisions are presented as part of Provisions under the General and Administrative Expenses account in the consolidated statements of comprehensive income (see Note 19). The provision will be reduced at each payment date.

16.2 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 in 2018 and 2017 are presented as part of Provisions under the General and Administrative Expenses account in the consolidated statements of comprehensive income (see Note 19).

Reversal of unutilized amounts in 2017 are presented as part of Other income – net in the Revenues section of the 2017 consolidated statement of comprehensive income (see Note 17).

17. REVENUES

The details of revenues are shown below.

	<u>Notes</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Sales	2.14(a)	<u>P46,345,675,149</u>	<u>P42,206,283,523</u>	<u>P40,446,981,708</u>
Others:				
Equity in net profit of joint venture	12	198,909,795	154,101,850	219,276,919
Other income – net	5, 6, 7, 9, 16, 22.7	<u>505,836,078</u>	<u>295,142,171</u>	<u>351,842,563</u>
		<u>704,745,873</u>	<u>449,244,021</u>	<u>571,119,482</u>
		<u>P 47,050,421,022</u>	<u>P 42,655,527,544</u>	<u>P 41,018,101,190</u>

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18. COSTS OF GOODS SOLD

The details of costs of goods sold for the years ended December 31, 2018, 2017 and 2016 are shown below [see Note 2.1(b)].

	Notes	2018	2017	2016
Finished goods at beginning of year	8	<u>P 3,537,513,191</u>	<u>P 3,182,542,312</u>	<u>P 2,326,981,897</u>
Finished goods purchased	22.1	<u>4,010,450,050</u>	<u>2,708,008,237</u>	<u>2,451,992,364</u>
Finished goods from asset acquisition and acquired Business Unit	10	<u>-</u>	<u>72,967,150</u>	<u>72,932,543</u>
Costs of goods manufactured				
Raw and packaging materials at beginning of year	8	<u>3,782,075,935</u>	<u>3,654,636,927</u>	<u>2,257,901,494</u>
Net raw material purchases during the year	22.1	<u>24,911,936,335</u>	<u>24,130,040,271</u>	<u>21,584,886,833</u>
Raw materials from asset acquisition and acquired Business Unit	10	<u>-</u>	<u>71,725,250</u>	<u>55,490,633</u>
Raw and packaging materials at end of year	8	<u>(3,932,351,991)</u>	<u>(3,782,075,935)</u>	<u>(3,654,636,927)</u>
Raw materials used during the year		<u>24,761,660,279</u>	<u>24,074,326,513</u>	<u>20,243,642,033</u>
<i>Balance carried forward</i>		<u>P32,309,623,520</u>	<u>P 30,037,844,212</u>	<u>P 25,095,548,837</u>

	Notes	2018	2017	2016
<i>Balance brought forward</i>		<u>P32,309,623,520</u>	<u>P 30,037,844,212</u>	<u>P 25,095,548,837</u>
Work-in-process at beginning of year	8	<u>17,786,098,444</u>	<u>13,532,427,366</u>	<u>11,494,183,891</u>
Work-in-process from asset acquisition and acquired Business Unit	10	<u>-</u>	<u>1,136,866,550</u>	<u>2,326,850,106</u>
Direct labor	20.1	<u>1,222,300,646</u>	<u>942,212,981</u>	<u>662,022,433</u>
Manufacturing overhead:				
Depreciation and amortization	9	<u>915,274,249</u>	<u>710,858,353</u>	<u>644,914,252</u>
Communication, light and water		<u>347,138,447</u>	<u>260,877,214</u>	<u>199,365,749</u>
Fuel and lubricants		<u>311,854,703</u>	<u>184,804,543</u>	<u>258,845,115</u>
Repairs and maintenance		<u>284,322,167</u>	<u>227,177,596</u>	<u>199,587,113</u>
Outside services	22.8	<u>253,244,690</u>	<u>266,253,636</u>	<u>224,995,771</u>
Rentals	22.3	<u>247,847,598</u>	<u>233,844,489</u>	<u>278,912,707</u>
Commission		<u>155,064,098</u>	<u>115,079,828</u>	<u>44,453,312</u>
Taxes and licenses		<u>153,311,403</u>	<u>130,527,539</u>	<u>82,846,890</u>
Consumables and supplies		<u>124,640,547</u>	<u>103,698,826</u>	<u>80,688,274</u>
Labor	20.1	<u>102,205,493</u>	<u>408,757,107</u>	<u>136,988,608</u>
Waste disposal		<u>83,932,612</u>	<u>-</u>	<u>35,667,679</u>
Impairment losses	8	<u>54,710,425</u>	<u>19,104,221</u>	<u>-</u>
Insurance		<u>47,864,412</u>	<u>41,462,961</u>	<u>12,429,975</u>
Transportation		<u>24,935,673</u>	<u>19,642,815</u>	<u>21,887,826</u>
Meals		<u>13,624,721</u>	<u>11,832,479</u>	<u>12,997,373</u>
Gasoline and oil		<u>9,174,401</u>	<u>6,333,301</u>	<u>7,091,410</u>
Miscellaneous		<u>97,364,855</u>	<u>198,695,435</u>	<u>35,731,263</u>
Work-in process at end of year	8	<u>(19,310,965,391)</u>	<u>(17,786,098,444)</u>	<u>(13,532,427,366)</u>
		<u>2,923,944,193</u>	<u>764,358,796</u>	<u>3,228,032,381</u>
Finished goods at end of year	8	<u>(4,928,444,192)</u>	<u>(3,537,513,191)</u>	<u>(3,182,542,312)</u>
		<u>P 30,305,123,521</u>	<u>P 27,264,689,817</u>	<u>P 25,141,038,906</u>

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19. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below [see Note 2.1(b)].

	Notes	2018	2017	2016
Advertising and promotions		P 2,956,377,492	P 2,291,263,922	P 2,039,096,773
Salaries and employee benefits	20.1	1,911,558,185	1,545,815,892	1,217,231,348
Freight and handling		470,887,193	417,206,996	437,708,284
Travel and transportation		383,930,269	242,449,964	193,034,711
Professional fees and outside services		355,187,389	376,171,869	785,204,281
Representation		250,480,210	230,166,170	169,207,464
Other services		239,238,327	137,401,480	139,271,026
Depreciation and amortization	9	159,392,677	84,943,464	63,323,879
Rentals	22.3	127,927,747	112,291,563	89,851,272
Repairs and maintenance		112,841,819	55,401,383	6,410,108
Fuel and oil		98,130,764	82,041,867	67,001,705
Provisions	16	92,789,663	77,921,880	62,928,000
Meals		56,950,925	64,608,720	60,904,788
Supplies		55,133,191	135,303,486	33,383,904
Taxes and licenses		51,497,606	77,685,573	57,822,484
Communication, light and water		39,466,669	37,659,915	28,773,673
Insurance		30,573,844	18,303,124	7,250,873
Amortization of trademarks	10	2,240,391	11,199,938	102,872,668
Others	10	83,024,267	132,871,323	86,047,367
		<u>P 7,477,628,628</u>	<u>P 6,130,708,529</u>	<u>P 5,647,324,608</u>

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 [see Note 2.1(b)]:

	2018	2017	2016
Selling and distribution expenses	P 5,567,696,147	P 4,611,427,335	P 4,082,481,208
General and administrative expenses	1,909,932,481	1,519,281,194	1,564,843,400
	<u>P 7,477,628,628</u>	<u>P 6,130,708,529</u>	<u>P 5,647,324,608</u>

20. EMPLOYEE BENEFITS

20.1 Salaries and Employee Benefits Expense

The expenses recognized for salaries and employee benefits are summarized below.

	Notes	2018	2017	2016
Salaries and wages		P 2,506,057,467	P 2,250,519,987	P 1,414,224,561
Post-employment defined contribution		180,607,937	158,260,232	154,347,392
Social security costs		170,973,022	147,669,595	133,340,737
Share options	20.2, 23.4	26,958,169	26,958,169	26,958,169
Post-employment defined benefit	20.3	20,584,922	20,613,655	13,358,011
Other short-term benefits		330,882,807	292,764,342	274,013,519
	18, 19	<u>P 3,236,064,324</u>	<u>P 2,896,785,980</u>	<u>P 2,016,242,389</u>

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	2018	2017	2016
Costs of goods sold (inventoriable costs)	18	P 1,324,506,139	P 1,350,970,088	P 799,011,041
General and administrative expenses	19	989,483,632	784,521,453	672,986,445
Selling and distribution expenses	19	922,074,553	761,294,439	544,244,903
		<u>P 3,236,064,324</u>	<u>P 2,896,785,980</u>	<u>P 2,016,242,389</u>

In 2018, 2017 and 2016, salaries and wages, post-employment benefits and other short-term benefits totaling P505.7 million, P472.4 million and P461.7 million, respectively, was capitalized to form part of the work-in-process inventory. Such capitalized amount represents salaries and employee benefits of personnel directly involved in the production of whisky.

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20.2 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 2018, 2017 and 2016, 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 23.4).

20.3 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 and certain employees of WMG, and provides a retirement benefit ranging from eighty-five percent (85%) to one hundred fifty percent (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 Group'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 obligation recognized in the consolidated statements of financial position are determined as follows:

	<u>2018</u>	<u>2017</u>
Present value of the obligation	P 12,405,949,410	P 13,022,020,968
Fair value of plan assets	<u>(12,295,257,177)</u>	<u>(12,905,907,637)</u>
	<u>P 110,692,233</u>	<u>P 116,113,331</u>

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P 13,022,020,968	P 11,974,686,864
Benefits paid	<u>(470,855,172)</u>	<u>(546,884,250)</u>
Interest expense	357,504,342	354,146,744
Past service costs	63,033,600	-
Current service costs (see Note 20.1)	20,584,922	20,613,655
Foreign exchange adjustment	7,310,649	1,181,203,320
Remeasurements –		
Actuarial losses (gains)		
arising from:		
Changes in financial assumptions	<u>(637,720,318)</u>	316,240,919
Experience adjustments	34,643,519	53,170,636
Changes in demographic assumptions	<u>9,426,900</u>	<u>(331,156,920)</u>
Balance at end of year	<u>P 12,405,949,410</u>	<u>P 13,022,020,968</u>

The movements in the fair value of plan assets are presented below.

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P 12,905,907,637	P 10,973,737,068
Return on plan assets (excluding amounts included in net interest)	<u>(782,859,975)</u>	785,024,906
Benefits paid	<u>(461,199,210)</u>	<u>(546,884,250)</u>
Interest income	353,177,655	325,556,543
Contributions to the plan	283,635,810	266,819,370
Foreign exchange adjustment	<u>(3,404,740)</u>	<u>1,101,654,000</u>
Balance at end of year	<u>P 12,295,257,177</u>	<u>P 12,905,907,637</u>

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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 P10.7 million in 2018 and P79.5 million in 2017.

The composition and the fair value of plan assets as at December 31, 2018 and 2017 by category and risk characteristics are shown below.

	<u>2018</u>		<u>2017</u>
Quoted equity securities	P 5,282,889,700	P	5,919,218,027
Corporate bonds	2,395,729,050		2,476,012,769
Liability driven instrument	2,211,442,200		-
Index-linked gilts	909,148,460		3,043,432,362
Diversified growth fund	786,290,560		825,337,590
Property	589,717,920		580,315,493
Cash and cash equivalents	<u>120,039,287</u>		<u>61,591,396</u>
	<u>P 12,295,257,177</u>	P	<u>12,905,907,637</u>

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 obligation are as follows:

	<u>2018</u>		<u>2017</u>		<u>2016</u>
<i>Reported in profit and loss:</i>					
Interest expense – net	P 4,326,687	P	28,590,201	P	13,380,137
Current service costs	<u>20,584,922</u>		<u>20,613,655</u>		<u>13,358,011</u>
	<u>P 24,911,609</u>	P	<u>49,203,856</u>	P	<u>26,738,148</u>

	<u>2018</u>		<u>2017</u>		<u>2016</u>
<i>Reported in other comprehensive income (loss):</i>					
Return on plan assets (excluding amount included in net interest)	(P 782,859,975)	P	785,024,906	P	1,613,342,000
Actuarial gains (losses) arising from:					
Changes in financial assumptions	637,720,318	(316,240,919)	(2,392,254,665)
Experience adjustments	(34,643,519)	(53,170,636)	(26,213,217)
Changes in demographic assumptions	<u>(9,426,900)</u>		<u>331,156,920</u>		<u>-</u>
	<u>(P 189,210,076)</u>	P	<u>746,770,271</u>	P	<u>805,125,882</u>

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 Finance and Other Charges (for net interest expense) accounts in the consolidated statements of comprehensive income.

Amounts recognized in other comprehensive income 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:

	<u>2018</u>		<u>2017</u>		<u>2016</u>
Discount rate	2.58%–7.52%		2.64%–5.83%		4.49%–5.51%
Expected rate of salary increase	5.00%–7.00%		3.00%–6.00%		4.00%–5.00%

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.

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(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) 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 and in the succeeding page.

(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, 2018			
Discount rate	+0.25/-0.25%	(P 534,494,943)	P 571,741,630
Salary growth rate	+1.00%/-1.00%	143,246,321	(139,732,751)
December 31, 2017			
Discount rate	+0.25/-0.25%	(P 588,140,375)	P 638,760,011
Salary growth rate	+1.00%/-1.00%	160,246,310	(150,563,714)

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) Funding Arrangements and Expected Contributions

As of December 31, 2018 and 2017, the plan is underfunded by P110.7 million and P116.1 million, respectively, based on the latest actuarial valuations. While there are no minimum funding requirement in the countries where the Group is operating, the size of the underfunding may pose a cash flow risk in about 11 years' time when a significant number of employees is expected to retire.

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The expected maturity of undiscounted expected benefits payments within 10 years is as follows:

	<u>2018</u>	<u>2017</u>
Within one year	P 319,044,513	P 288,616,904
More than one but less than five years	1,358,971,577	1,109,364,051
More than five years but less than 10 years	<u>770,049,180</u>	<u>504,280,433</u>
	<u>P 2,448,065,270</u>	<u>P 1,902,261,388</u>

The weighted average duration of the retirement benefit obligation at the end of the reporting period is 11 years.

21. CURRENT AND DEFERRED TAXES

The components of tax expense (income) as reported in the consolidated statements of comprehensive income are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>Reported in profit or loss</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%, 25% and 20%	P 1,349,706,463	P 1,376,256,022	P 2,024,180,956
Final tax on interest income at 20% and 7.5%	26,263,447	27,077,342	28,393,807
Minimum corporate income tax (MCIT) at 2%	886,622	7,077,616	3,168,661
Deferred tax expense (income) relating to origination and reversal of temporary differences	<u>230,558,146</u>	<u>92,641,481</u>	<u>(313,412,108)</u>
	<u>P 1,607,414,678</u>	<u>P 1,503,052,461</u>	<u>P 1,742,331,316</u>
<i>Reported in other comprehensive income (loss)</i>			
Deferred tax expense (income) relating to remeasurements of retirement benefit obligation	<u>(P 32,275,467)</u>	<u>P 122,180,800</u>	<u>(P 136,909,345)</u>

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Tax on pretax profit at 30%	P 2,530,909,323	P 2,350,611,607	P 2,830,709,565
Adjustment for income subjected to different tax rates	(16,137,960)	(13,692,546)	(33,039,776)
Additional deduction in claiming optional standard deduction (OSD)	(10,889,592)	(94,299,139)	(405,692,407)
Tax effects of:			
Non-taxable income	(1,266,876,700)	(901,499,242)	(696,837,326)
Non-deductible expenses	389,577,809	288,392,765	45,785,420
Unrecognized (utilization of) deferred tax asset on:			
Net operating loss carry-over (NOLCO)	66,941,564	164,157,566	(25,321,576)
Provision for interest expense	-	(168,819,140)	84,891,191
MCIT	-	7,077,616	3,168,661
Accelerated capital allowances and other short-term temporary differences	(26,436,827)	(55,408,636)	(20,989,168)
Equity in net income of joint venture	(59,672,939)	(46,230,555)	(65,783,076)
Adjustments to current tax for prior years	-	(27,237,835)	27,256,320
Change in tax rate	-	-	(100,089,472)
Unrelieved non-trading losses	-	-	98,272,960
	<u>P 1,607,414,678</u>	<u>P 1,503,052,461</u>	<u>P 1,742,331,316</u>

EMP and its Philippine subsidiaries are subject to the higher of RCIT at 30% of net taxable income or MCIT which is at 2% of gross income, as defined under the Philippine tax regulations. They paid RCIT in 2018, 2017 and 2016 as RCIT was higher in those years, except for EMP and TEI in which MCIT was higher than RCIT.

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.

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The net deferred tax liabilities as of December 31 relate to the following:

	2018	2017
Brand valuation	(P 1,832,968,656)	(P 1,639,406,000)
Fair value adjustment	(78,796,405)	(120,883,120)
Short-term temporary differences	(117,459,308)	(81,538,450)
Capitalized borrowing costs	(50,011,794)	(40,307,738)
Retirement benefit obligation	34,272,628	40,249,725
Allowance for impairment	16,586,469	13,420,208
Unamortized past service costs	534,279	641,134
Contingent liability	-	30,539,600
Net deferred tax liabilities	(P 2,027,842,787)	(P 1,797,284,641)

Movements in net deferred tax liabilities for the years ended December 31 are as follows.

	Profit or Loss			Other Comprehensive Income		
	2018	2017	2016	2018	2017	2016
Brand valuation	P 193,562,656	P -	(P 307,484,000)	P -	P -	P -
Capitalized borrowing costs	9,704,056	27,914,236	12,393,302	-	-	-
Short-term temporary differences	35,920,858	27,837,710	196,110,132	-	-	-
Retirement benefit obligation	5,977,997	287,560,855	50,474,949	(32,275,467)	(122,180,800)	(136,909,345)
Fair value adjustment	(42,086,715)	(247,353,640)	(261,789,420)	-	-	-
Allowance for impairment	(3,166,261)	577,015	(5,389,576)	-	-	-
Unamortized past service costs	106,855	106,855	106,855	-	-	-
Contingent liability	30,539,600	(4,001,550)	2,165,450	-	-	-
Deferred tax expense (income)	P 230,558,416	P 92,641,481	(P 313,412,108)	(P 32,275,467)	(P 122,180,800)	(P 136,909,345)

In 2018, 2017 and 2016, the Group opted to claim itemized deductions in computing its income tax due, except for EDI and AWGI which both opted to claim OSD during the same taxable years.

22. 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 in the succeeding pages.

The summary of the Group's transactions with its related parties in 2018, 2017 and 2016 and the related outstanding balances as of December 31, 2018 and 2017 are as follows:

Related Party Category	Notes	Amount of Transaction			Outstanding Receivable (Payable)	
		2018	2017	2016	2018	2017
Ultimate Parent Company:						
Dividends paid	23.3	P 1,964,126,804	P 2,461,037,736	P 2,217,736,568	P -	P -
Advances obtained (paid)	22.6	(250,000,000)	250,000,000	-	-	(250,000,000)
Lease of properties	22.3(a)	8,800,000	8,800,000	8,800,000	-	-
Advances granted (collected)	22.7	1,142,912,243	-	(1,555,000,000)	1,142,912,243	-
Related Parties Under Common Ownership:						
Purchase of						
raw materials	22.1	3,348,852,355	2,639,080,044	3,368,144,240	(941,949,372)	(388,836,242)
Advances obtained (paid)	22.6	(73,000,000)	73,000,000	4,668,300,614	-	(73,000,000)
Sale of goods	22.4	153,702,077	101,632,719	93,353,130	190,335,724	123,915,778
Advances for land purchase	22.11	46,330,000	46,330,000	39,912,300	277,416,071	231,056,071
Lease of properties	22.3(b)	34,695,202	30,786,679	23,276,466	(3,514,488)	(1,976,198)
Purchase of						
finished goods	22.1	23,643,366	11,318,183	10,684,018	(459,844)	(205,786)
Refundable deposits	22.3(b)	1,865,613	1,665	-	9,410,940	7,545,327
Acquisition of machinery and equipment						
Acquisition of T111	22.2	-	-	(191,384,700)	-	-
Acquisition of T112	22.2	-	-	124,999,995	-	-
Advances granted (collected)	22.7	-	-	(73,798,000)	-	-
Management services	22.8	60,000,000	45,000,000	-	76,500,000	(33,000,000)
Interest income earned	22.7	-	-	22,485,362	-	-
Stockholder -						
Advances obtained (paid)	22.6	-	(50,000)	1,206,461	(3,070,715)	(3,070,715)
Officers and Employees -						
Advances granted (collected)	22.5	3,125,784	15,234,354	910,786	40,762,383	37,636,599
Key Management Personnel -						
Compensation	22.9	245,077,717	238,913,371	189,229,952	-	-

The outstanding balance 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 2018, 2017 and 2016 for the related party receivables.

22.1 Purchase of Goods

The Group imports raw materials such as alcohol, flavorings and other items, and finished goods through Androsens Global, Inc. (AGI) and Condis, related parties under common ownership. These transactions are paid within 30 days. The Group also imports raw materials from Alcoholera dela Mancha Vinicola, S.L., a wholly owned subsidiary of B.L.C, which is considered a related party under joint control.

The related unpaid purchases as of December 31, 2018 and 2017 are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

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22.2 Acquisition of Machinery and Equipment

In 2010, the Group purchased certain machinery and equipment from TEI, a related party under common ownership at that time. The outstanding balance as of December 31, 2015, which was presented as part of Trade payables under the Trade and Other Payables account in the 2015 consolidated statement of financial position, was paid in full in 2016 prior to the Group's acquisition of TEI.

22.3 Lease Agreements

(a) AGI

The Group leases the glass manufacturing plant located in Laguna from AGI. The amount of rental is mutually agreed annually between AGI and AWGI. Rentals for each of three years in the period ended December 31, 2018 were charged to operations as part of Rentals under the Costs of Goods Sold account in the consolidated statements of comprehensive income (see Note 18). There was no outstanding liability from this transaction as of December 31, 2018 and 2017.

(b) Others

The Group also entered into lease contracts with Megaworld Corporation for the head office space of the Group. Total rental expense from this contract are presented as part of Rentals under the Selling and Distribution Expenses, General and Administrative Expenses, and Cost of Goods Sold accounts in the consolidated statements of comprehensive income (see Notes 18 and 19). The outstanding liability from this transaction are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15). 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).

22.4 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).

22.5 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:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P 37,636,599	P 22,402,245
Additions	43,771,298	64,341,649
Repayments	(40,645,514)	(49,107,295)
Balance at end of year	<u>P 40,762,383</u>	<u>P 37,636,599</u>

22.6 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 15).

The movements in the balance of Advances from related parties are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	P 328,070,715	P 3,120,715
Additions (repayments)	(325,000,000)	324,950,000
Balance at end of year	<u>P 3,070,715</u>	<u>P 328,070,715</u>

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22.7 Advances to Related Parties

In prior years, the Group made unsecured, interest-bearing cash advances to AGI and New Town Land Partners, Inc. (New Town), a related party under common ownership, for financial and working capital purposes, which were payable in cash upon demand. The advances bore an annual interest rate that was mutually agreed upon by the parties based on current bank rates. These advances had been fully settled in 2016. Interest income earned from these advances in 2016 is presented as part of Other income – net in the Revenues section of the 2016 consolidated statement of comprehensive income (see Note 17).

In 2018, the Group made unsecured cash advances to AGI which were payable in cash upon demand. The outstanding balance as of December 31, 2018 was presented as Advances to ultimate parent company under the Trade and Other Receivables account in the 2018 consolidated statement of financial position (see Note 6).

22.8 Management Services

EDI had a management agreement with Condis for the consultancy and advisory services in relation to the operation, management, development and maintenance of its distillery plant, which was transferred to Progreen, EDI's subsidiary, when the distillery plant is 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 18). The outstanding liability as of December 31, 2018 and 2017 is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15). The related liabilities are unsecured, noninterest-bearing and payable upon demand.

22.9 Key Management Personnel Compensation

The compensation of key management personnel for employee services is shown below.

	2018		2017		2016
Short-term benefits	P 234,113,062	P	226,044,464	P	181,160,370
Post-employment defined benefits	<u>10,964,655</u>		<u>12,868,907</u>		<u>8,069,582</u>
	<u>P 245,077,717</u>	P	<u>238,913,371</u>	P	<u>189,229,952</u>

22.10 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, 2018 and 2017 are presented in Note 20.3. The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments covered by any restrictions or liens.

22.11 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 totaling P46.4 million each year in 2018 and 2017, and P39.9 million in 2016. 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, 2018; 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 Other Non-current Assets account in the consolidated statements of financial position (see Note 11.2).

In 2014, the Group made payments to certain related party under common ownership for the acquisition of certain parcels of land. However, the planned acquisition was subsequently cancelled by both parties. The total cash payments made amounting to P144.8 million as of December 31, 2018 and 2017 is presented as part of Advances to suppliers under Other Non-current Assets account in the consolidated statements of financial position (see Note 11.2).

22.12 Guarantee Contract

Effective December 20, 2016, the Group provided guarantee jointly and severally with the Ultimate Parent Company to the U.S.\$500.0 million seven-year notes (the Notes) issued by Alliance Global Group Cayman Islands, Inc., a related party under common ownership, in 2010. The Notes bore interest at a rate of 6.5% per annum payable semi-annually in arrears on February 18 and August 18 each year and were listed in the Singapore Exchange Securities Trading Limited. In 2017, the Notes were redeemed and the Group had been relieved of its guarantee.

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23. EQUITY

23.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2018	2017	2016	2018	2017	2016
Common shares – P1 par value						
Authorized – 20.0 billion shares						
Issued and outstanding:						
Balance at beginning of year	16,197,219,676	16,120,000,000	16,120,000,000	P 15,921,256,246	P 16,120,000,000	P 16,120,000,000
Additional issuance of shares (Note 14)	-	122,391,176	-	-	122,391,176	-
Treasury shares – at cost (Notes 2.23 and 23.2)	(212,203,800)	(45,171,950)	-	(1,528,633,709)	(321,134,930)	-
Balance at end of year	15,985,015,876	16,197,219,676	16,120,000,000	P 14,392,622,076	P 15,921,256,246	P 16,120,000,000

The BOD of the PSE approved the listing of the common shares of the Company on October 16, 2011.

On December 19, 2011, the Company issued through initial public offering (IPO) an additional 22.0 million shares with an offer price of P4.50 per share. The 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 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 Company's BOD, stockholders, and SEC, respectively, approved the increase in authorized capital stock of the Company 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 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 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 Company issued additional 1.1 billion common shares with an offer price of P11.0 per share through private placement (see Note 14). 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 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 14). The excess of accrued interest over the par value amounting to P709.9 million was recorded as part of APIC (see Note 2.23).

As of December 31, 2018 and 2017, the quoted closing price per share is P7.11 and P7.35, respectively, and there are 160 and 161 holders for 2018 and 2017, respectively, which include nominee accounts, of the Company's total issued and outstanding shares. The percentage shares of stocks owned by the public are 15.16% and 16.27% as of December 31, 2018 and 2017, respectively.

23.2 Treasury Shares

On May 12, 2017, the Company's BOD authorized the buy-back of the Company'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. Accordingly, the Company has repurchased 212.2 million shares for P1.5 billion for the year ended December 31, 2018 and 45.2 million shares for P321.1 million for the year ended December 31, 2017. These repurchased shares are presented under Treasury Shares account in the consolidated statements of changes in equity and do not form part of the outstanding shares.

Under the 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 23.5).

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23.3 Declaration of Dividends

The details of the Company's cash dividend declarations are as follows:

	2018	2017	2016
Declaration date	April 11, 2018	March 8, 2017	July 18, 2016
Date of record	May 2, 2018	April 3, 2017	August 1, 2016
Date paid	May 22, 2018	April 21, 2017	August 18, 2016
Amount declared and paid	<u>P 2,399,048,170</u>	<u>P 3,006,380,000</u>	<u>P 2,721,056,000</u>

The Company's ongoing two-year buy-back program of up to P5.0 billion restricts the Company's retained earnings for distribution as dividends (see Note 23.2).

23.4 Employee Share Option

On November 7, 2014, the Company'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 Company's shares for nine months immediately preceding the date of grant.

Pursuant to this ESOP, on November 6, 2015, the Company granted share options to certain key executives of EDI to subscribe to 118.0 million common shares of the 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 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 2018, 2017 and 2016 (see Note 20.2), while the corresponding credit to Share Options account is presented under the Equity section of the consolidated statements of financial position.

23.5 Appropriation of Retained Earnings

In 2015, the Group appropriated portion of its retained earnings amounting to P550.0 million for the rehabilitation of the glass manufacturing plant, which was approved to be extended until 2017 in 2016. In 2017, the said appropriation was reversed with the completion of the intended purpose.

In 2017, the Group appropriated portion of its retained earnings amounting to P600.0 million necessary for additional capital expenditures at the glass manufacturing plant.

The Company's ongoing share buy-back program restricts the Company's retained earnings for distribution as dividends (see Note 23.2).

23.6 Subsidiaries with Non-controlling Interest

The composition of NCI account is as follows (see Note 2.23):

	Notes	Percentage of Ownership	2018	2017
DBLC	1.1(o)	50%	P 885,142,178	P 631,781,950
Boozylife	1.1(d)	51%	7,532,308	-
AWGI		-	-	2,875,000
			<u>P 892,674,486</u>	<u>P 634,656,950</u>

In 2015, AWGI issued preferred shares with voting rights which are considered as NCI as these do not result in the Group's loss of control in AWGI. Such NCI is presented as a separate line item in the consolidated statements of changes in equity. In 2017, AWGI redeemed the 57.5 million preferred shares at P0.05 par value for total amount of P2.9 million. In 2018, AWGI redeemed the remaining balance of its preferred shares.

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The summarized information of DBLC, which is considered as material non-controlling interest, before intragroup eliminations, is shown below.

	<u>2018</u>	<u>2017</u>
Non-current assets	P 3,731,332,397	P 3,440,652,087
Current assets	<u>3,499,304,958</u>	<u>2,937,848,903</u>
Total assets	<u>P 7,230,637,355</u>	<u>P 6,378,500,990</u>
Non-current liabilities	P 2,519,346,024	P 2,902,362,801
Current liabilities	<u>2,993,117,882</u>	<u>2,212,574,289</u>
Total liabilities	<u>P 5,512,463,906</u>	<u>P 5,114,937,090</u>
Revenues	<u>P 2,629,454,413</u>	<u>P 1,117,037,292</u>
Profit for the period attributable to:		
Owners of Parent	P 184,939,048	P 10,535,616
NCI	<u>184,939,048</u>	<u>10,535,616</u>
Profit for the period	<u>369,878,096</u>	<u>21,071,232</u>
Other comprehensive income (loss) attributable to:		
Owners of Parent	68,421,155	(226,636,116)
NCI	<u>68,421,155</u>	<u>(226,636,116)</u>
Other comprehensive income (loss) for the period	<u>136,842,310</u>	<u>(453,272,232)</u>
Total comprehensive income (loss) for the period	<u>P 506,720,406</u>	<u>(P 432,201,000)</u>
Net cash from (used in):		
Operating activities	P 956,769,673	(P 2,504,965,193)
Investing activities	(327,636,792)	(3,441,097,402)
Financing activities	<u>291,807,752</u>	<u>6,136,745,813</u>
Net cash inflow	<u>P 337,325,129</u>	<u>P 190,683,218</u>

No dividends were paid to the NCI in 2018 and 2017.

24. EARNINGS PER SHARE

Earnings per share were computed as follows (see Note 2.24):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Consolidated net profit attributable to owners of the parent company	P 6,658,236,381	P 6,321,783,945	P 7,693,367,233
Divided by the weighted average number of outstanding common shares	<u>16,102,482,130</u>	<u>16,121,009,690</u>	<u>16,120,000,000</u>
Basic and diluted earnings per share	<u>P 0.41</u>	<u>P 0.39</u>	<u>P 0.48</u>

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 the Parent Company, at an exercise price of P7.00 per share (see Note 23.4). As of December 31, 2018 and 2017, none of the share options have been exercised.

On June 15, 2017, the ELS instrument that was issued on December 4, 2014 was amended and, as a result of which, the number of Conversion Shares was fixed from 480.0 million to 728.3 million (see Note 14). As of December 31, 2018 and 2017, the ELS instrument has not yet been converted or redeemed.

The basic and diluted earnings per share are the same because the dilutive effect of potential common shares from the employee share option is negligible for the periods presented. Moreover, the potential common shares from the convertible ELS are considered to be antidilutive since they would increase earnings per share. 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.

25. COMMITMENTS AND CONTINGENCIES

The Group entered into non-cancellable leases covering certain manufacturing plant facilities, storage tanks and office spaces. The leases are for periods ranging from one to 50 years which are renewable thereafter upon mutual agreement of both parties. There are also several warehouse lease agreements with lease period ranging from one to three years, which are renewable thereafter upon mutual agreement between the parties.

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The future minimum rentals payable under these operating leases as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>		<u>2017</u>
Within one year	P 30,874,380	P	49,267,606
After one year but not more than five years	<u>30,929,131</u>		<u>49,486,609</u>
	<u>P 61,803,511</u>	P	<u>98,754,215</u>

Except for those provisions recognized in the consolidated financial statements (see Note 16), 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.

26. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to certain financial risks which result from its operating activities. The Group's financial assets and financial liabilities by category are summarized below and in the succeeding pages. 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 paragraphs.

26.1 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, 2018 and 2017 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:

	<u>2018</u>		<u>2017</u>
Financial assets	P 403,388,319	P	767,293,283
Financial liabilities	<u>(1,259,179,985)</u>		<u>(215,872,099)</u>
	<u>(P 855,791,666)</u>	P	<u>551,421,184</u>

The following table 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.

	<u>Reasonably possible change in rate</u>	<u>Effect in consolidated profit before tax</u>	<u>Effect in consolidated equity</u>
2018	3.81%	<u>(P 32,605,662)</u>	<u>(P 22,823,963)</u>
2017	4.09%	<u>P 22,553,126</u>	<u>P 15,787,188</u>

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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, 2018 and 2017, 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) (see Note 13). The EURIBOR, however, is currently at a negative rate or zero rate, and the Group does not see a material interest rate risk here in the short-term.

(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 and the investment in the Perpetual Notes. 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 and in the fair value of the Perpetual Notes will not materially affect the consolidated financial statements. The Group has recognized fair value losses in 2018 and 2016 and fair value gains in 2017 (see Note 7).

26.2 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 incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

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	2018	2017
Cash and cash equivalents	5	P 6,228,229,892	P 10,162,413,848
Trade and other receivables – net	6	15,671,386,210	13,056,719,477
Property mortgage receivable	11.2	650,178,519	654,595,116
Refundable security deposits	11.2	54,143,623	46,467,016
		<u>P 22,603,938,244</u>	<u>P 23,920,195,457</u>

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

The Group applies the PFRS 9 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).

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The expected loss rates for trade receivables are based on the payment profiles of sales over a period of 36 months before December 31, 2018 or January 1, 2018, respectively, 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.

Based on application of ECL methodology on the trade receivables as at January 1, 2018 (upon adoption of PFRS 9), the allowance for impairment as of that date is deemed to be adequate; hence, no further credit losses were recognized.

In 2018, the Group identified certain trade receivables amounting to P22.0 million to be fully impaired and for which additional allowance for impairment losses was recognized (see Note 6). Management believes that any additional expected credit losses in 2018 from the application of the ECL methodology would not be material to the Group's financial statements.

For the advances to the 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 Company is also a lessee over the same property and can apply such receivable against future lease payments.

26.3 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, 2018 and 2017 based on contractual undiscounted payments is as follows:

	<u>Within 6 Months</u>	<u>6 to 12 Months</u>	<u>1 to 10 Years</u>
December 31, 2018			
Interest-bearing loans	P 803,943,284	P 5,442,212,646	P 29,077,281,127
Trade and other payables	12,834,686,243	-	-
Equity-linked debt securities	-	-	5,402,665,931
	<u>P 13,638,629,527</u>	<u>P 5,442,212,646</u>	<u>P 34,479,947,058</u>
December 31, 2017			
Interest-bearing loans	P 220,712,542	P 4,494,091,717	P 30,400,378,848
Trade and other payables	11,668,850,156	-	-
Equity-linked debt securities	-	-	5,525,331,862
	<u>P 11,889,562,698</u>	<u>P 4,494,091,717</u>	<u>P 35,925,710,710</u>

The Group maintains cash to meet its liquidity requirements for up to seven-day periods. Excess cash funds are invested in short-term placements.

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27. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

27.1 Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

	Notes	2018		2017	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets:					
Financial assets at amortized cost:					
Cash and cash equivalents	5	P 6,228,229,892	P 6,228,229,892	P 10,162,413,848	P 10,162,413,848
Trade and other receivables - net	6	15,671,386,210	15,671,386,210	13,056,719,477	13,056,719,477
Property mortgage receivable	11.2	650,178,519	650,178,519	654,595,116	654,595,116
Refundable security deposits	11.2	54,143,623	54,143,623	46,467,016	46,467,016
		<u>P 22,603,938,244</u>	<u>P 22,603,938,244</u>	<u>P 23,920,195,457</u>	<u>P 23,920,195,457</u>
Financial assets at FVTPL	7	<u>P 1,208,707,500</u>	<u>P 1,208,707,500</u>	<u>P 19,572,250</u>	<u>P 19,572,250</u>
Financial Liabilities:					
Financial liabilities at amortized cost:					
Interest-bearing loans	13	P 34,014,800,228	P 34,014,800,228	P 32,922,420,890	P 32,922,420,890
Trade and other payables	15	12,834,686,243	12,834,686,243	11,668,850,156	11,668,850,156
Equity-linked debt securities	14	5,258,801,592	5,258,801,592	5,227,114,518	5,227,114,518
		<u>P 52,108,288,063</u>	<u>P 52,108,288,063</u>	<u>P 49,818,385,564</u>	<u>P 49,818,385,564</u>
Financial liabilities at FVTPL	7	<u>P 43,492,447</u>	<u>P 43,492,447</u>	<u>P -</u>	<u>P -</u>

See Notes 2.5 and 2.10 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 26.

27.2 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, 2018 and 2017 (see Note 2.11). 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.

28. FAIR VALUE MEASUREMENT AND DISCLOSURES

28.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and 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.

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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.

28.2 Financial Instruments Measured at Fair Value

The Group's financial instruments measured at fair value pertain to the Group's derivative instruments and investment in Perpetual Notes (see Note 7). These were presented as financial assets at FVTPL amounting to P1.2 billion and P19.6 million as of December 31, 2018 and 2017, respectively, and financial liabilities at FVTPL amounting to P43.5 million as of December 31, 2018.

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. The investment in Perpetual Notes are included in Level 1 as its fair value is determined through reference to quoted bid prices in an active market [see Notes 3.2(b) and 7].

28.3 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.

	2018			
	Level 1	Level 2	Level 3	Total
<i>Financial assets:</i>				
Cash and cash equivalents	P 6,228,229,892	P -	P -	P 6,228,229,892
Trade and other receivables	-	-	15,671,386,210	15,671,386,210
Property mortgage receivable	-	-	650,178,519	650,178,519
Refundable security deposits	-	-	54,143,623	54,143,623
	P 6,228,229,892	P -	P 16,375,708,352	P 22,603,938,244

	2018			
	Level 1	Level 2	Level 3	Total
<i>Financial liabilities:</i>				
Interest-bearing loans	P -	P -	P 34,014,800,228	P 34,014,800,228
Trade and other payables	-	-	12,892,038,806	12,892,038,806
Equity-linked debt securities	-	-	5,258,801,592	5,258,801,592
	P -	P -	P 52,165,640,626	P 52,165,640,626
	2017			
	Level 1	Level 2	Level 3	Total
<i>Financial assets:</i>				
Cash and cash equivalents	P 10,162,413,848	P -	P -	P 10,162,413,848
Trade and other receivables	-	-	13,056,719,477	13,056,719,477
Property mortgage receivable	-	-	654,595,116	654,595,116
Refundable security deposits	-	-	46,467,016	46,467,016
	P 10,162,413,848	P -	P 13,757,781,609	P 23,920,195,457
<i>Financial liabilities:</i>				
Interest-bearing loans	P -	P -	P 32,922,420,890	P 32,922,420,890
Trade and other payables	-	-	11,668,850,156	11,668,850,156
Equity-linked debt securities	-	-	5,227,114,518	5,227,114,518
	P -	P -	P 49,818,385,564	P 49,818,385,564

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.

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29. 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:

	2018	2017
Total liabilities	P 56,454,425,342	P 53,182,228,344
Total equity	<u>61,363,946,340</u>	<u>58,353,553,645</u>
Debt-to-equity ratio	<u>0.92 : 1.00</u>	<u>0.91 : 1.00</u>

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.

30. EVENT OCCURRING AFTER THE END OF REPORTING PERIOD

On February 20, 2019, Republic Act No. 112321, *An Act Providing for the Revised Corporation Code of the Philippines (RCC)* (effective March 8, 2019), was signed into law and published in the Official Gazette on February 21, 2019. Among the significant provisions of the RCC is the removal of the maximum 50-year corporate term for stock corporations who shall now have perpetual existence unless their Articles of Incorporation shall provide otherwise. Corporations incorporated prior to the effectivity of the RCC, and which continue to exist, shall now have perpetual existence, unless the corporation, upon a vote of its stockholders representing majority of its outstanding capital stock, notifies SEC that it elects to retain its corporate term as stated in its Articles of Incorporation. Furthermore, the RCC removed the minimum capital stock requirement for stock corporations, except as otherwise specifically provided by any special law.

31. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

The Group presents below 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 14)	Accrued Interest Payable (see Notes 14 and 15)	Interest- bearing Loans (see Note 13)	Total
Balance as of January 1, 2018	P 5,227,114,518	P 68,062,227	P 32,922,420,890	P 38,217,597,635
Cash flows from financing activities:				
Proceeds from additional loans obtained	-	-	3,451,057,163	3,451,057,163
Repayment of loans	-	-	(2,358,677,825)	(2,358,677,825)
Payment of interest expense	(108,392,304)	(664,184,051)	-	(772,576,355)
Non-cash financing activities:				
Interest expense (Note 14):				
Accrual of interest	108,392,304	668,851,992	-	777,244,296
Accretion of financial liability component	31,687,074	-	-	31,687,074
Balance as of December 31, 2018	<u>P 5,258,801,592</u>	<u>P 72,730,168</u>	<u>P 34,014,800,228</u>	<u>P 39,346,331,988</u>
Balance as of January 1, 2017	P 5,262,906,379	P 571,930,360	P 24,099,767,650	P 29,934,604,389
Cash flows from financing activities:				
Proceeds from additional loans obtained	-	-	9,487,962,789	9,487,962,789
Payment of interest expense	-	(451,450,810)	-	(451,450,810)
Payment of variable interest of ELS	-	(89,520,000)	-	(89,520,000)
Repayment of loans	-	-	(665,309,549)	(665,309,549)
Non-cash financing activities:				
Interest provision (Note 14) –				
Accrual of fixed interest of ELS	-	269,529,534	-	269,529,534
Interest expense (Note 14):				
Accrual of interest	-	599,833,143	-	599,833,143
Amortization of DST	17,093,621	-	-	17,093,621
Accretion of the financial liability component	83,265,904	-	-	83,265,904
Recognition of conversion options in equity (Note 2.23)	(136,151,386)	-	-	(136,151,386)
Settlement of accrued fixed interest payable through issuance of new shares (Note 23.1)	-	(832,260,000)	-	(832,260,000)
Balance as of December 31, 2017	<u>P 5,227,114,518</u>	<u>P 68,062,227</u>	<u>P 32,922,420,890</u>	<u>P 38,217,597,635</u>

Corporate Information

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Date of Incorporation

November 26, 2001

Date of Public Listing

December 19, 2011

Stock Transfer Agent

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BDO Corporate Center
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Major Subsidiaries

Emperador Distillers, Inc.
Emperador International Ltd.

Principal Auditors

Punongbayan & Araullo
A Member Firm within
Grant Thornton International Ltd.
20/F Tower 1, The Enterprise Center
6766 Ayala Avenue, Makati City
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Officers

Winston S. Co - President and CEO
Katherine L. Tan - Treasurer
Kendrick Andrew L. Tan - Executive Director
Dina D.R. Inting - Chief Financial Officer
Corporate Information Officer and
Compliance Officer
Dominic V. Isberto* - Corporate Secretary
Rolando D. Siatela - Assistant Corporate Secretary

**Resigned as of April 22, 2019*

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