EMPERADOR INC.

2017 ANNUAL REPORT

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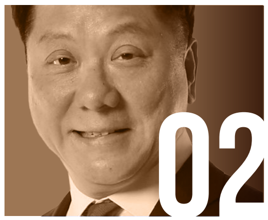
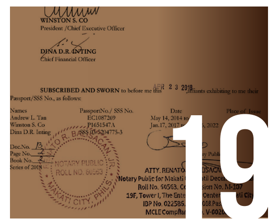
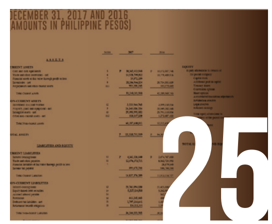






FINANCIAL HIGHLIGHTS

CHAIRMAN'S MESSAGE

"I cannot thank all our stakeholders enough for this continued success. As we move on to 2018 and beyond, I remain truly confident that the vision and commitment that have sustained us for decades will remain our beacon for more achievements in the future."

Year on year, we have met the challenges of the extremely competitive spirits industry. We have successfully sustained domination of the Philippine market and made bold moves to explore global routes through our acquisition of major foreign brands. We have kept a keen eye on the competition and acted swiftly and decisively to protect and grow our business. But more importantly, we have stayed true to our commitment to constantly try to do even better, to seek out new opportunities and not rest on our laurels as we seek to strike a balance between profitability and market share.

Emperador Inc. recorded revenues of PHP42.7 billion in 2017, 4% higher than year-ago revenues, with earnings amounting to PHP6.3 billion. Of this, our brandy business contributed PHP30.4 billion and our whisky business, PHP12.3 billion.

We have invested considerable amount of resources to bring new exciting products to the Philippines and the rest of the world. Our premiumization efforts and our strategy to grow our business worldwide are underway. We are excited about the prospect of these initiatives.

CHAIRMAN'S MESSAGE

A highlight of 2017 was Emperador's acquisition, through Bodega Las Copas, of the Domecq brandies and wines. Along with our purchase of Fundador in 2016, this agreement fits perfectly with our company's strategy to reinforce our leadership in the global brandy category.

Fundador continued to assert itself as a leading global brand. In 2017, the San Francisco World Spirits Competition, America's largest and most influential wine and spirit awards event judged by 41 highly respected spirit experts, bestowed the Gold Award to Fundador Supremo 15 years old Amontillado Cask and the Bronze Award to Fundador Exclusivo Solera Gran Reserva.

Likewise, our whisky business had a milestone year with Whyte & Mackay Asia growing over 100% through its strategy of premiumization and being named the International Wine and Spirit Competition (IWSC) Scotch Producer of the Year.

In the local market, despite stiff competition, we sustained our leadership through dynamic marketing and our reputation for product quality. We have created a brandy-drinking culture among Filipinos with our flagship Emperador brand. We are now well on our way to replicate this success in the relatively nascent domestic whisky market through our wide range of brands and offers. We expect an evolution brought about by improving Philippine economy and growing income of the middle class and are in an excellent position to capitalize on this.

Focus, alignment and hard work delivered for us again in 2017. I cannot thank all our stakeholders enough for this continued success. As we move on to 2018 and beyond I remain truly confident that the vision and commitment that have sustained us for decades will remain our beacon for more achievements in the future.

ANDREW L. TAN

WORLDWIDE REACH

WHISKY

2017 was another strong year for Whyte and Mackay as all regions of the business grew. The Dalmore was again a material growth driver through both the Core Range and the Rare Expressions. It was of particular note that The Dalmore 50 year old, celebrating Masterblender Richard Paterson's 50 years in the Scotch industry generated significant demand, with all those available for sale sold. These serve to demonstrate how highly Dalmore is regarded at the very apex of the Scotch whisky category.

Jura was also a major profit contributor in the year with a significant launch of the re-designed range in the US. This bottle and packaging upgrade has enjoyed widespread acclaim and will be rolled out globally in 2018 together with an exclusive travel retail range.

WHISKY

We also launched a new Blended Malt brand in 2017 called Shackleton, with a brand story based on the whisky that Ernest Shackleton took on his Antarctic exploration and which was found under the ice 100 years later. This brand was launched initially in the UK, US and Travel Retail and has resonated well with consumers. We expect to take this brand into broader distribution in 2018.

Within Blends, volumes have grown particularly through our customer-centric Private Label business, where our efficient and effective service offering of quality spirits is very well regarded.

Our third Single Malt brand, Tamnavulin, had a very successful second year since launch, with distribution gains across UK and Europe. The design and affordable price point of this brand clearly meet a consumer demand and in 2018 we expect to take the brand to other markets.

WHISKY

We have also continued to invest across the business for future growth. We have maintained a strong level of strategic marketing support across our expanding brand portfolio and we have increased our commercial resources in key disciplines and geographies. Moreover, we have again invested in the assets of the business to improve efficiency and flexibility and have continued to invest in barrels, ensuring our spirit quality remains at the highest levels. In summary, Whyte and Mackay continues to make good progress and to build material shareholder value, and with the award of the IWSC Scotch Producer of the Year 2017 title, its global excellence was recognized.

BRANDY

In 2017, Fundador strengthened its position as a leading global brand by consolidating gains in all its markets through the acquisition of more market share, disruptive innovation and premiumization.

Terry Centenario and Fundador Solera won market share in value in Spain, the second most important brandy market in the world. The two brands achieved the same in the mature and competitive Mexican market. Similarly, Tres Cepas and Fundador Solera gained share in the Guinea market as did Fundador Solera in Italy.

BRANDY

Fundador's brandy products have likewise conquered new and high potential markets such as Brazil, Colombia, Taiwan, Macao, Middle East, Ghana and Nigeria.

The bold move of using Terry White, as part of our disruptive innovation strategy based on white brandy targeted millennial drinkers, paved the way for a promising future in recruiting new consumers for the brandy market.

Within the premiumization focus, we have successfully launched Fundador Supremo 12YO, 15YO and 18YO in the Asian markets through the Duty Free channel.

Fundador Supremo 18YO, named "Brandy of the Year" at the 2017 China Wines and Spirits Awards, spearheaded a new Super Premium category within the brandy segment that targets new consumers of the single malt and cognac segments.

BRANDY

Harveys Bristol Cream continued to dominate the worldwide cream sherry market, particularly in the UK, USA and Canada. Harveys VORS Amontillado was awarded “Best Wine in the World” at the 2016 IWSC.

The year 2017 was highlighted by more international accolades. In the San Francisco World Spirits Competition, America’s largest and most influential wine and spirit event judged by 41 highly respected judges, Fundador Supremo 15 years old Amontillado Cask won the Gold Award while Fundador Exclusivo Solera Gran Reserva got the Bronze. Harveys Sherry, the United Kingdom’s number one sherry and only Spanish wine holding a Royal Warrant, won 27 awards in the industry´s most prestigious wine events, including the International Wine & Spirit Competition, the International Wine Challenge and the Decanters Awards.

The most recent recognition of Bodegas Fundador’s achievements was the 2017 “Fortified Wine Producer of the Year” bestowed by the IWSC.

In summary, Fundador further established itself as the purveyor of quality world-class brandies, spirits and wines in 2017 as it achieved progress in mature markets and made significant headway in the conquest of new ones.

BRANDY

Emperador took a bold step and stunned the Philippine spirits industry in 2017 with its “Tama Ka Dyan” campaign that positioned its flagship brand Emperador Light Brandy as a stronger alternative to beer.

Supported by a massive TV, radio and digital campaign, Emperador Light 350ml was introduced to the public as Bunso, a Filipino term of endearment for the youngest sibling. With Coco Martin, one of Philippines’ most popular actors as endorser, the communication delivered the simple direct message that based on alcohol content, Emperador Light is six times stronger than beer.

BRANDY

The message appealed to value-conscious drinkers, including millennials, and Emperador Bunso has since gained entry into even more outlets.

As the market leader, Emperador continues to build on memorable drinking experiences as it successfully establishes itself as the brand of choice among its target markets.

Emperador continues to be at the forefront of developing innovative products for the spirits market. With the emerging demand for trendy drinks to stir the interest of current and future liquor lovers, the Company launched Emperador Hotshot in May 2017 and Emperador Red in October 2017.

Emperador Hotshot is a brandy shooter spiced with a fiery delicious cinnamon flavor to deliver a smooth, sweet and spicy kick. A great way to start and keep every party hot, Emperador Hotshot targets young and daring drinkers.

BRANDY

The country's most popular young stars, James Reid and Nadine Lustre, were enlisted as celebrity endorsers to establish and reinforce the connection with millennial drinkers. The brand was initially launched via social media and then promoted through successful hot party launches and clubbing experience held at hundreds of famous bars in key cities nationwide. The brand also took a much more interactive approach digitally, creating buzz throughout Facebook and Instagram. With a hot new offer and aggressive and ingenious ways of talking about the product, Emperador is truly winning over the next generation of drinkers.

Filipinos work hard and deserve to be rewarded. Emperador Red was launched specifically for blue-collar workers who toil day and night to make a living.

Emperador Red has the rich robust taste, aroma, golden dark color and smoothness of Emperador Light Brandy, but with a stronger alcohol kick at a more affordable price – the perfect combination to celebrate each day's "tagumpay".

The brand was introduced through powerful TV and radio commercials and a massive experiential marketing campaign on mixed brandy drinks. With Emperador Red, Emperador makes a new play to establish itself as more than just a drink maker but rather a creator of drinking experiences.

BOARD OF DIRECTORS

ANDREW L. TAN
Chairman

Dr. Andrew L. Tan has been Director and Chairman of the Board of Emperador, Inc. since August 28, 2013 and concurrently the Chairman of Emperador Distillers, Inc.

He is also the Chairman of the Board and Chief Executive Officer of Alliance Global Group, Inc., the parent company of Emperador, Inc.; Megaworld Corporation and its subsidiaries Global-Estate Resorts, Inc. and Empire East Land Holdings, Inc.; and Travellers International Hotel Group, Inc.

Dr. Tan 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. Mr. 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 likewise 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 sits in the boards of Eastwood Cyber One Corporation, Megaworld Cayman Islands, Inc., Forbes Town Properties & Holdings, Inc., Gilmore Property Marketing Associates, Inc., Megaworld Central Properties, Inc., Raffles & Company, Inc., and The Andresons Group, Inc. He is the Vice-Chairman and Treasurer of Golden Arches Development Corporation and Golden Arches Realty Corporation and a Director and Treasurer of Andresons Global, Inc.

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

BOARD OF DIRECTORS

WINSTON S. CO
Director and President

Mr. Winston S. Co was first elected as Director and President of Emperador, Inc. on 28 August 2013. He has been Director and President of Emperador Distillers, Inc. since 2003 and currently a Director of Alliance Global Group, Inc., the parent company of Emperador, 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., McKesterPik-Nik International Limited, Raffles & Company, Incorporated, and The Bar Beverage, Inc.; and Senior Vice President of The Andresons Group, Inc.

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

KATHERINE L. TAN
Director and Treasurer

Ms. Katherine L. Tan was first elected as Director and Treasurer of Emperador, Inc. on 28 August 2013 and has been Director and Treasurer of Emperador Distillers, Inc. since 2003, and of Alliance Global Group, Megaworld Corporation, Alliance Global Brands, Inc., Yorkshire Holdings, Inc., and New Town Land Partners, Inc. She is currently the 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.

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

BOARD OF DIRECTORS

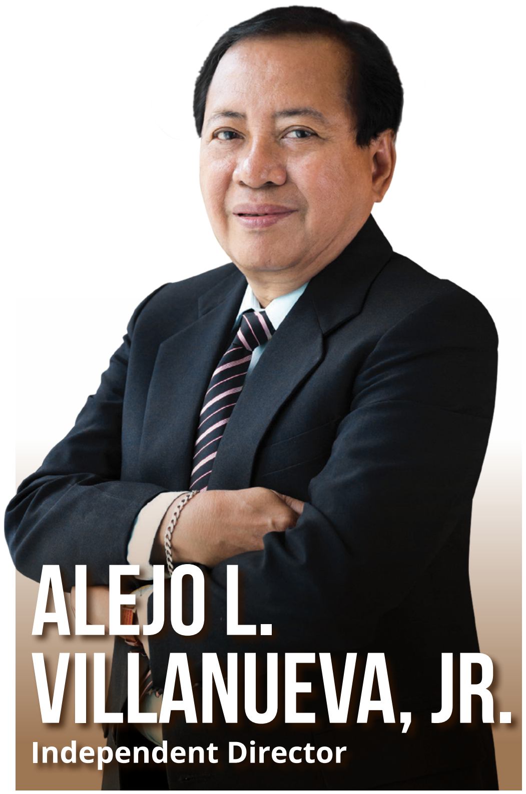
Mr. Kendrick Andrew L. Tan was first elected as Director of Emperador, Inc. on 28 August 2013. He has served as Corporate Secretary and Executive Director of Emperador Distillers, Inc. since 2007. He heads the Research & Development Division of Emperador Distillers, Inc. He is concurrently Director of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

Mr. Kevin Andrew L. Tan , was elected as Director of Emperador Inc. on 04 October 2017. He is Executive Director of Alliance Global Group, Inc. and Director of Global-Estate Resorts, Inc. and Empire East Land Holdings, Inc. He is a Director of Emperador Distillers, Inc., and of 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.

Mr. Tan has over 11 years of experience in retail leasing, marketing and operations. He currently heads the Commercial Division of Megaworld Corporation, which markets and operates the Megaworld Lifestyle Malls, including Eastwood Mall, 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 holds a degree in Business Administration major in Management from the University of Asia and the Pacific.



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.

BOARD OF DIRECTORS

Mr. Enrique M. Soriano III was first elected as Independent Director of the Company on May 16, 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

KEY PERFORMANCE INDICATORS

In Million Pesos	2017	2016	2015	% Growth 2017	% Growth 2016
Revenues	₱ 42,656	₱ 41,018	₱ 43,645	4.0	-6
Net profit	₱ 6,332	₱ 7,693	₱ 6,960	-17.7	10.5
Total assets	₱ 111,536	₱ 94,302	₱ 98,259	18.3	-4
Total current assets	₱ 51,248	₱ 42,290	₱ 59,193	21.2	-28.6
Total current liabilities	₱ 16,837	₱ 11,913	₱ 39,489	41.3	-69.8
Gross profit margin %	34.64	37.14	31.61		
Net profit rate %	14.85	18.76	15.95		
Return on assets %	5.7	8.16	7.08		
Current ratio	3.04x	3.55x	1.50x		
Quick ratio	1.49x	1.76x	1.08x		

- 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

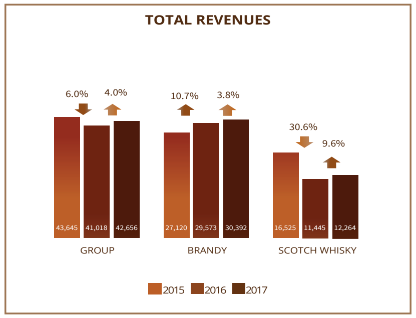
The Group had expanded its geographic footprint both in the Philippines and across the globe. From the Philippines, it found ground in Spain in early 2013 and February 2014, with the acquisition of Bodega San Bruno and investment in Bodega Las Copas ("BLC"), respectively. From Spain, business opportunity knocked in UK 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.

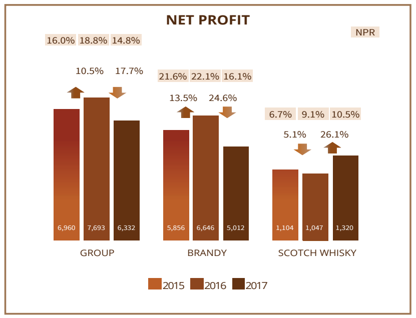
Having set the groundworks, Emperador moved on to brand investments in 2017.

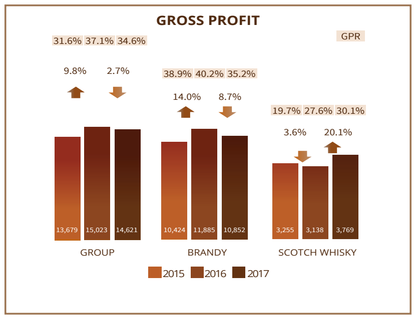
BLC is a joint venture which is accounted for under the equity method.

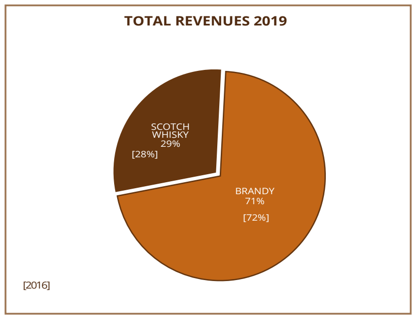
MANAGEMENT'S DISCUSSION AND ANALYSIS

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).









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

Revenues

Total revenues reached P42,656 million this year as compared to P41,018 million a year ago, a modest hike of 4.0% attributed to strong sales from offshore subsidiaries.

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. Total sales of the Group improved 4.4% to P42,206 million from P40,447 million a year ago.

Other revenues 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 this year 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 8.5% primarily due to higher costs in the Brandy segment, which grew faster than sales, while Scotch Whisky segment's costs inched 2.2% 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 37% in 2016. The GPMs of the Brandy and Scotch Whisky segments were respectively posted at 35% and 30% in 2017 and 40% and 28% in 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other operating expenses
Other operating expenses were up 8.3% to P5,810 million from P5,364 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.

Other charges
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.

Year Ended December 31, 2016 Compared With Year Ended December 31, 2015

Revenues
Total revenues were reported at P41,018 million this year as compared to P43,645 million a year ago, a 6.0% slowdown attributed primarily to the termination at end-2015 of the distribution of an agency brand from the Scotch whisky business. Own Scotch whisky labels, led by Dalmore and Jura, were driving offshore growth particularly in USA, Europe, Latin America and Travel Retail. The brandy business, which combined Emperador and Fundador brands, on the other hand, turned over revenues higher by 10.7% year-on-year.

Other revenues grew 51.4% to P571 million this year due to higher net results from BLC which in turn resulted in higher share in net profit recorded for this year, and higher interest income and foreign exchange gains as compared to a year ago.

Costs and Expenses
Total costs and expenses went down by 10.3% to P31,582 million in 2016 from P35,195 million a year ago, primarily due to Scotch whisky business.

Cost of Goods Sold
Costs decreased by 14.1% primarily due to the cost attributed to the agency brand which was no longer carried in 2016. The brandy segment, meanwhile, increased costs during the year by 8.1% primarily due to expanded sales which was beefed up by Fundador's ten-month sales.

Gross Profit
Gross profit improved by 9.8% to P15,022 million in 2016 from P13,678 million in 2015. The brandy segment's gross profit rate for 2016 was up at 40% as compared to 39% a year ago due to cost efficiencies. The Scotch whisky segment, which has a relatively low gross margin, likewise, improved its GP rate to 28% this year from 20% a year ago. On a consolidated level, gross profit rates were 37% and 32% for 2016 and 2015, respectively.

Other operating expenses
Selling and distribution expenses expanded by 8.0% to P3,511 million from P3,250 million, mainly due to strategic marketing spend by Whyte and Mackay on its core malt brands. General and administrative expenses were maintained at P1,853 million from P1,828 million. The general and administrative expenses in the Scotch whisky business were down due to provisions made in 2015 which related to US franchise states while those of the brandy business went up due to professional fees paid in 2016.

Other charges
Other charges climbed to P794 million from P528 million primarily due the interest expense on loans.

Profit before Tax
As a result of the foregoing, profit before tax was up by 11.7% to P9,436 million in 2016 from P8,450 million in 2015.

Tax Expense
Tax expense was up 17.0% to P1,742 million from P1,490 million a year ago due to higher taxable income.

Net Profit
As a result of the foregoing, net profit by 10.5% to P7,693 million from P6,960 million a year ago.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL CONDITION

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 is strongly liquid with current assets exceeding current liabilities 3.04 times by the end of the current year.

Trade and other receivables rose 38.5% or P4,146 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 Batañgas (which started operations in mid-March 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 mid-March 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 35.7% or P454 million with the completion of purchases with deposits at last year end.

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

December 31, 2016 and 2015

Total assets amounted to P94,302 million as of December 31, 2016 which is 4.0% down from P98,259 million as of December 31, 2015. The Group is strongly liquid with current assets exceeding current liabilities 3.55 times by the end of the current year.

Cash and cash equivalents dipped by 65.1% or P19,004 million in 2016 with the completion of the Bodegas Fundador acquisition, Tradewind acquisition, the debt repayments, and dividend payment. The Group ended 2016 with P10,174 million in its coffers from P29, 178 million at beginning of year.

Trade and other receivables fell by 20.7% or P2,813 million, primarily due to higher collections from customers and related parties.

Inventories increased 29.0% or P4,665 million, primarily from the maturing inventories of newly-acquired Bodegas Fundador and additions in WMG. WMG is currently laying down stocks for future growth.

Prepayments and other current assets soared 76.3% or P252 million due to timing of prepayments and subsequent charging to profit or loss of insurance, advertising, product cost, and overheads.

Investment in a joint venture increased primarily from the share in net profits of BLC for 2016.

Property, plant and equipment were up by 46.8% or P6,682 million primarily from the acquired assets of Bodegas Fundador and Tradewind.

Intangible assets rose by 45.2% or P8,023 million from the four acquired trademarks (Fundador, Terry Centenario, Harveys and Tres Cepas) and goodwill in the acquisition of Bodegas Fundador business.

Other non-current assets shrank 59.7% or P1,884 million with the completion of the Bodegas Fundador acquisition. The P2,850 million deposit paid last year for this acquisition was applied and closed upon completion in February 2016. The end-2016 balance included deposit for the Mexican brandy assets and acquired mortgage receivable on a leased bottling plant, which will decrease as rentals are billed.

Trade and other payables were reduced by 43.5% or P6,604 million as trade liabilities and advances from related parties were settled during the year.

Financial liabilities at fair value through profit or loss result from lower market values of foreign exchange contracts by the end of 2016.

Income tax payable increased by 53.3% or P225 million, due to higher taxes at end of year.

The non-current interest-bearing loan refers to the €370 million short-term loan in 2015 which was refinanced into a five-year term loan in 2016, and the P2,000 million five-year bank loan obtained for the completion of construction and related equipment of the Balayan distillery plant. The current interest bearing loans at end-2016 represent outstanding amounts of drawdown in a three-year revolving credit facility which was set up in 2016. All the other short-term loans in 2015 had been settled in 2016.

Accrued interest payable grew 98.5% or P279 million from interest accrued on the equity-linked debt securities issued to Arran. This accrued interest is not yet due and will be payable at the time of instrument conversion or maturity.

Provisions refer to the amount provided by WMG for leased properties located in Scotland. Provisions for onerous lease and dilapidations went down by 39.5% or P314 million due to dilapidation payments for the old head office now vacated and onerous lease provisions on spaces that now have new tenants.

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

Retirement benefit obligations escalated by 115.6% or P537 million from the additions booked by WMG.

Accumulated translation adjustments refer to the resulting difference in the translation of the foreign subsidiaries's 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revaluation reserves were reduced substantially by P671 million due to actuarial loss on retirement benefit obligations booked by WMG.

Non-controlling interest 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

A new era unfolds for Emperador, an era that will usher new ideas, new products, new results. The acquisitions in Spain and Mexico strengthen the Group's position as the world's largest brandy company in the world; and these, together with the Scotch whisky and Spanish sherry, add to the long heritage and prestige of Emperador. Having set the groundworks, the Group is best positioned to capitalize on premiumization opportunities and on innovation with its high-quality aged inventory.

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. and Subsidiaries*** (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has 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 APR 2 3 2018, affiants exhibiting to me their Passport/SSS No., as follows:

Names	PassportNo./ SSS No.	Date	Place of Issue
Andrew L. Tan	EC1087269	May 14, 2014 to 2019	Manila
Winston S. Co	P1651547A	Jan.17, 2017 to Jan. 16, 2022	Manila
Dina D.R. Inting	SSS 03-5204775-3		

Doc.No. 13
Page No. 2
Book No. 2
Series of 2018

RENATO R. BALISACAN, JR. NOTARY PUBLIC ROLL NO. 60563 MAKATI CITY, PHILS.

Notary Public

ATTY. RENATO R. BALISACAN, JR.
Notary Public for Makati City until December 31, 2019
Roll No. 60563. Commission No. M-107
19F, Tower I, The Enterprise Center, Makati City
IBP No. 022586. 1/3/2018.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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 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 the 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) Asset Acquisitions

Description of the Matter

In 2017, GES, through its wholly-owned subsidiary, Complejo Bodeguero San Patricio, S.L.U., acquired certain assets in Spain, including trademarks of well-known brands under the Garvey brand portfolio (the acquisition shall be herein referred to as "the Garvey Acquisition"). Also in 2017, GES, through Bodegas Las Copas, S.L. (BLC), a Spanish joint venture company, and its two Mexican subsidiaries, completed the acquisition from Pernod Ricard of the Domecq brand portfolio and other assets. These assets, together with the two Mexican subsidiaries of BLC, are subsequently transferred during the year to Domecq Bodega Las Copas, S.L., a newly-incorporated Spanish subsidiary of GES in 2017 (the acquisition shall be herein referred to as "the Domecq Acquisition").

The total consideration for the Garvey Acquisition and Domecq Acquisition amounted to P1.9 billion and P4.8 billion, respectively. The acquisitions are accounted for in the consolidated financial statements as asset acquisition; hence, no goodwill was recognized. We considered the acquisitions as a key audit matter due to the significance and complexity of the transactions and judgment required to assess an asset acquisition.

The Group's disclosures of the acquisitions, accounting policy for asset acquisition, and management judgment on distinction between business combination and asset acquisition, are disclosed in Notes 1, 2 and 3, 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 asset acquisitions included, among others, the following:

- Reviewing the relevant minutes of meeting of the Group and the related agreements for the acquisitions, and checking the consideration of the acquisitions and other terms and conditions;
- Evaluating whether the acquired assets constitute a business as defined under PFRS 3, *Business Combination*;
- Testing the assumptions and methodology used by the independent third party valuation expert engaged by the Group on the valuation of identifiable assets acquired and liabilities assumed, and purchase price allocation process;
- Checking the appropriateness of recognition and valuation of the tangible and intangible assets acquired; and,
- Evaluating the sufficiency and adequacy of disclosures in the Group's consolidated financial statements in accordance with PFRS.

(b) Impairment of Goodwill and Trademarks with Infinite Useful Life

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 infinite useful life for impairment. As of December 31, 2017, goodwill amounted to P9.4 billion while the trademarks, which include "Jura," "The Dalmore," "Fundador Brandy," "Terry Centenario," "Tres Cepas Brandy," "Harveys," "Garvey," "Domecq," "Azteca de Oro" and "Presidente," amounted to P20.5 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 flows 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 infinite useful life 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 infinite useful life, 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 infinite useful life included, among others, the following:

- Evaluating the reasonableness of assumptions and methodology 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; and, performing sensitivity analysis of the projections and discount rate to determine whether a reasonably possible change in assumptions could cause the carrying amount of cash generating units to exceed the recoverable amount; and,
- Comparing the carrying amounts of trademarks and goodwill against the net present value of excess earnings attributable to the trademarks and the cash generating units over which the goodwill was allocated.

(c) Revenue Recognition

Description of the Matter

Sale of goods in 2017 amounted to P42.2 billion and represents 99% of the Group's total revenues during the same year. The Group recognizes sale of goods when the risks and rewards of ownership of the goods have passed to the buyer, i.e., generally when the customer has acknowledged delivery of goods. We considered revenue recognition as a key audit matter since it involves significant volume of transactions, requires proper observation of cut-off procedures, and directly impacts the Group's profitability.

The Group's disclosures on its revenue recognition policy and details of total revenues are presented in Notes 2 and 17, 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 revenue recognition included, among others, the following:

- Testing, on a sample basis, the design and operating effectiveness of the Group's processes and controls over revenue recognition, approval and documentation;
- 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 actually occurred;
- Reviewing third party contracts and testing related sales invoices, delivery receipts and cash receipts, on sample basis, for bulk sales transactions;
- Obtaining confirmation of trade receivables, on a sample basis, as of the end of the reporting period from the sale of goods; and, performing alternative procedures such as examining subsequent collections, or sales invoices and delivery receipts;
- 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.

(d) Existence and Valuation of Inventories

Description of the Matter

Inventories as of December 31, 2017 amounts to P25.2 billion, which represent 23% of the Group's total assets as of that date. The valuation of inventories is at the lower of cost and 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 in the costs incurred 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.

How the Matter was Addressed in the Audit

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

On existence of inventories:

- Observing physical inventory count procedures, obtaining relevant cut-off information copy of count control documents, and verifying inventory movements during the interv periods between the actual count date and reporting date to further test the quantities 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, on as sample basis, the design and operating effectiveness of processes and controls over inventory costing, reconciliation, data entry and review;
- Updating our understanding of the method of inventory costing and accounting policy on the lower of cost and NRV;
- Performing a price test, on a sample basis, 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;
- Determining whether the application of the lower of cost and NRV is appropriate and consistent with prior periods; and,
- Evaluating the sufficiency and appropriateness of the amount of allowance for inventory write-down by testing the key assumptions used on the expected realization of inventories.

REPORT OF INDEPENDENT AUDITORS

(e) 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 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 financial statements of foreign subsidiaries are 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;

- Obtaining the consolidation schedule, verifying its mathematical accuracy, agreeing the columns for each entity in the consolidation schedule to the final adjusted trial balances for each entity and evaluating the consistency of the accounting policies applied by the Group;

- Verifying the reasonableness of foreign currency exchange rates used by the Group in translating foreign currency denominated financial statements of certain subsidiaries;

- Verifying the accuracy and appropriateness of intercompany elimination entries, such as but not limited to, elimination of investments in subsidiaries, elimination of intercompany balances and transactions, equity accounting adjustments, 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.

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 17-A, which we obtained prior to the date of the auditor's report, and the Group's SEC Form 20-IS (Definitive Information Statement) and Annual Report, which are expected to be made available to us after that date, for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon.

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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

REPORT OF INDEPENDENT AUDITORS

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

- 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 2017 audit resulting in this independent auditors' report is Mr. Romulado V. Murcia III.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 6616014, January 3, 2018, 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 Dec. 31, 2018)

April 6, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(AMOUNTS IN PHILIPPINE PESOS)

	Notes	2017	2016
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	P 10,162,413,848	P 10,173,907,748
Trade and other receivables - net	6	14,925,799,512	10,779,489,916
Financial assets at fair value through profit or loss	7	19,572,259	-
Inventories - net	8	25,186,966,124	20,754,501,639
Prepayments and other current assets	11.1	953,350,245	582,070,440
Total Current Assets		51,248,101,988	42,289,969,743
NON-CURRENT ASSETS			
Investment in a joint venture	12	3,233,944,765	3,999,150,056
Property, plant and equipment - net	9	26,340,856,254	20,949,282,168
Intangible assets - net	10	29,893,991,852	25,791,110,856
Other non-current assets - net	11.2	818,887,130	1,272,887,433
Total Non-current Assets		60,287,680,001	52,012,430,513
TOTAL ASSETS		P 111,535,781,989	P 94,302,400,256
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	13	P 4,161,326,840	P 2,674,767,650
Trade and other payables	15	12,076,373,731	8,562,724,993
Financial liabilities at fair value through profit or loss	7	-	28,879,840
Income tax payable		599,675,788	646,744,244
Total Current Liabilities		16,837,376,359	11,913,116,727
NON-CURRENT LIABILITIES			
Interest-bearing loans	13	28,761,094,050	21,425,000,000
Equity-linked debt securities	14	5,227,114,518	5,262,906,379
Accrued interest payable	14	-	562,730,466
Provisions	16	443,245,445	480,517,679
Deferred tax liabilities - net	21	1,797,284,641	1,432,691,492
Retirement benefit obligation	20	116,113,331	1,000,949,796
Total Non-current Liabilities		36,344,851,985	30,164,795,812
Total Liabilities		53,182,228,344	42,077,912,539

	Notes	2017	2016
EQUITY			
Equity attributable to owners of the parent company			
Capital stock	23.1	16,242,391,176	16,120,000,000
Additional paid-in capital	23.1	23,058,724,847	22,348,856,023
Treasury shares	23.2	(321,134,930)	-
Conversion options	14	136,151,386	-
Share options	23.4	57,967,086	31,008,917
Accumulated translation adjustments	2	(2,707,835,823)	(3,593,766,760)
Revaluation reserves	2	(6,169,201)	(630,758,672)
Legal reserves	2	9,689,175	-
Retained earnings	23	21,249,112,979	17,943,398,209
Total equity attributable to owners of the parent company		57,718,896,695	52,218,737,717
Non-controlling interest	23.6	634,656,950	5,750,000
Total Equity		58,353,553,645	52,224,487,717
TOTAL LIABILITIES AND EQUITY		P 111,535,781,989	P 94,302,400,256

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015
(AMOUNTS IN PHILIPPINE PESOS)

	Notes	2017	2016	2015
REVENUES	17	**P 42,655,527,544**	P 41,018,101,190	P 43,645,076,684
COSTS AND EXPENSES				
Costs of goods sold	18	**27,585,665,853**	25,424,445,626	29,589,385,943
Selling and distribution expenses	19	**3,793,601,789**	3,510,668,920	3,249,646,048
General and administrative expenses	19	**2,016,130,704**	1,853,248,968	1,828,201,914
Other charges	6, 7, 9 13, 14, 20	**1,424,757,176**	794,039,127	528,004,429
		34,820,155,522	31,582,402,641	35,195,238,334
PROFIT BEFORE TAX		**7,835,372,022**	9,435,698,549	8,449,838,350
TAX EXPENSE	21	**1,503,052,461**	1,742,331,316	1,489,782,064
NET PROFIT		**6,332,319,561**	7,693,367,233	6,960,056,286
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will be reclassified subsequently to profit or loss				
Translation gain (loss)	2	**659,294,821**	(2,189,511,224)	(718,670,753)
Items that will not be reclassified subsequently to profit or loss				
Net actuarial gain (loss) on retirement benefit obligation	20	**746,770,271**	(805,125,882)	419,835,089
Tax income (expense) on remeasurement of retirement benefit obligation	21	**(122,180,800)**	136,909,345	(69,367,587)
		624,589,471	(668,216,537)	350,467,502
		1,283,884,292	(2,857,727,761)	(368,203,251)
TOTAL COMPREHENSIVE INCOME		**P 7,616,203,853**	P 4,835,639,472	P 6,591,853,035

	Notes	2017	2016	2015
Net profit attributable to:				
Owners of the parent company		**P 6,321,783,945**	P 7,693,367,233	P 6,960,056,286
Non-controlling interest		**10,535,616**	-	-
		P 6,332,319,561	P 7,693,367,233	P 6,960,056,286
Total comprehensive income (loss) attributable to:				
Owners of the parent company		**P 7,832,304,353**	P 4,835,639,472	P 6,591,853,035
Non-controlling interest		**(216,100,500)**	-	-
		P 7,616,203,853	P 4,835,639,472	P 6,591,853,035
Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company - Basic and Diluted	24	**P 0.39**	P 0.48	P 0.43

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015
(AMOUNTS IN PHILIPPINE PESOS)

		Attributable to Owners of the Parent Company													
										Retained Earnings					
	Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares	Conversion Options Outstanding	Share Options Outstanding	Accumulated Translation Adjustments	Revaluation Reserves	Legal Reserves	Appropriated	Unappropriated	Total	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2017		P 16,120,000,000	P 22,348,856,023	P -	P -	P 31,008,917	(P 3,593,766,760)	(P 630,758,672)	P -	P 550,000,000	P 17,393,398,209	P 17,943,398,209	P 52,218,737,717	P 5,750,000	P 52,224,487,717
Issuances during the year	23	122,391,176	709,868,824	-	136,151,386	26,958,169	-	-	9,689,175	-	(9,689,175)	(9,689,175)	995,369,555	847,882,450	1,843,252,005
Acquisition of treasury shares during the year	23.2	-	-	(321,134,930)	-	-	-	-	-	-	-	-	(321,134,930)	-	(321,134,930)
Total comprehensive income for the year		-	-	-	-	-	885,930,937	624,589,471	-	-	6,321,783,945	6,321,783,945	7,832,304,353	(216,100,500)	7,616,203,853
Reversal of appropriation	23.5	-	-	-	-	-	-	-	-	(550,000,000)	550,000,000	-	-	-	-
Appropriation during the year	23.5	-	-	-	-	-	-	-	-	600,000,000	(600,000,000)	-	-	-	-
Redemption of preferred shares	23.6	-	-	-	-	-	-	-	-	-	-	-	-	(2,875,000)	(2,875,000)
Cash dividends declared during the year	23	-	-	-	-	-	-	-	-	-	(3,006,380,000)	(3,006,380,000)	(3,006,380,000)	-	(3,006,380,000)
Balance at December 31, 2017		**P 16,242,391,176**	**P 23,058,724,847**	**(P 321,134,930)**	**P 136,151,386**	**P 57,967,086**	**(P 2,707,835,823)**	**(P 6,169,201)**	**P 9,689,175**	**P 600,000,000**	**P 20,649,112,979**	**P 21,249,112,979**	**P 57,718,896,695**	**P 634,656,950**	**P 58,353,553,645**
Balance at January 1, 2016		P 16,120,000,000	P 22,348,856,023	P -	P -	P 4,050,748	(P 1,404,255,536)	P 40,162,823	P -	P 550,000,000	P 12,421,086,976	P 12,971,086,976	P 50,079,901,034	P 5,750,000	P 50,085,651,034
Issuances during the year	23	-	-	-	-	26,958,169	-	-	-	-	-	-	26,958,169	-	26,958,169
Total comprehensive income for the year		-	-	-	-	-	(2,189,511,224)	(668,216,537)	-	-	7,693,367,233	7,693,367,233	4,835,639,472	-	4,835,639,472
Addition from acquired subsidiary	23	-	-	-	-	-	-	(2,704,958)	-	-	-	-	(2,704,958)	-	(2,704,958)
Cash dividends declared during the year	23	-	-	-	-	-	-	-	-	-	(2,721,056,000)	(2,721,056,000)	(2,721,056,000)	-	(2,721,056,000)
Balance at December 31, 2016		P 16,120,000,000	P 22,348,856,023	P -	P -	P 31,008,917	(P 3,593,766,760)	(P 630,758,672)	P -	P 550,000,000	P 17,393,398,209	P 17,943,398,209	P 52,218,737,717	P 5,750,000	P 52,224,487,717
Balance at January 1, 2015		P 16,120,000,000	P 22,348,856,023	P -	P -	P -	(P 685,584,783)	(P 310,304,679)	P -	P -	P 8,429,030,690	P 8,429,030,690	P 45,901,997,251	P -	P 45,901,997,251
Issuances during the year	23	-	-	-	-	4,050,748	-	-	-	-	-	-	4,050,748	5,750,000	9,800,748
Total comprehensive income for the year		-	-	-	-	-	(718,670,753)	350,467,502	-	-	6,960,056,286	6,960,056,286	6,591,853,035	-	6,591,853,035
Cash dividends declared during the year	23	-	-	-	-	-	-	-	-	-	(2,418,000,000)	(2,418,000,000)	(2,418,000,000)	-	(2,418,000,000)
Appropriations during the year	23	-	-	-	-	-	-	-	-	550,000,000	(550,000,000)	-	-	-	-
Balance at December 31, 2015		P 16,120,000,000	P 22,348,856,023	P -	P -	P 4,050,748	(P 1,404,255,536)	P 40,162,823	P -	P 550,000,000	P 12,421,086,976	P 12,971,086,976	P 50,079,901,034	P 5,750,000	P 50,085,651,034

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015
(AMOUNTS IN PHILIPPINE PESOS)

	Notes	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 7,835,372,022**	P 9,435,698,549	P 8,449,838,350
Adjustments for:				
Interest expense	13, 14	**998,388,259**	775,852,427	519,361,430
Depreciation and amortization	9	**795,801,817**	708,238,131	536,641,735
Interest income		**(202,544,447)**	(201,395,080)	(183,976,825)
Share in net income of joint venture	12	**(154,101,850)**	(219,276,919)	(130,007,640)
Fair value losses (gains) on financial instruments at fair value through profit or loss	7	**(48,452,099)**	31,534,740	(2,641,000)
Impairment losses	6	**48,204,136**	20,066,707	3,426,329
Provisions	16	**77,921,880**	62,928,000	58,258,375
Share option benefits expense	23	**26,958,169**	26,958,169	4,493,028
Amortization of trademarks	10	**11,199,938**	102,872,668	102,872,668
Loss (gain) on sale of property, plant and equipment	9	**(1,542,396)**	2,002,676	(1,522,346)
Operating profit before working capital changes		**9,387,205,429**	10,745,480,068	9,356,744,104
Decrease (increase) in trade and other receivables		**(4,338,410,026)**	2,021,567,730	12,261,840
Decrease in financial instruments at fair value through profit or loss		**-**	-	806,574,658
Increase in inventories		**(4,058,334,497)**	(1,989,360,555)	(604,154,349)
Decrease (increase) in prepayments and other current assets		**(500,467,380)**	(345,075,130)	161,369,768
Decrease (increase) in other non-current assets		**4,691,091**	(985,060,933)	207,621,996
Increase (decrease) in trade and other payables		**3,313,644,855**	(8,276,834,432)	(5,084,772,878)
Decrease in retirement benefit obligation		**(16,961,383)**	(289,688,589)	(423,017,457)
Cash generated from operations		**3,791,368,089**	881,028,159	4,432,627,682
Cash paid for income taxes		**(1,328,291,861)**	(1,673,163,840)	(1,732,636,554)
Net Cash From (Used in) Operating Activities		**2,463,076,228**	(792,135,681)	2,699,991,128
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property, plant and equipment	9	**(6,544,564,864)**	(2,040,360,370)	(3,544,640,919)
Acquisitions of trademarks	10	**(2,938,865,934)**	-	-
Proceeds from withdrawal of investment in a joint venture	12	**858,354,900**	-	-
Interest received		**202,544,447**	201,395,080	183,976,825
Proceeds from sale of property, plant and equipment	9	**146,696,465**	25,719,832	11,677,624
Dividends received from a joint venture	12	**60,952,241**	93,391,294	-
Acquisitions of subsidiaries and a business unit	1	**-**	(13,470,583,230)	-
Deposit for asset acquisition	11	**-**	-	(2,848,690,163)
Net Cash Used in Investing Activities		**(8,214,882,745)**	(15,190,437,394)	(6,197,676,633)

	Notes	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from interest-bearing loans	13, 30	**9,429,100,456**	24,099,767,650	23,899,762,792
Dividends paid	23	**(3,006,380,000)**	(2,721,056,000)	(2,418,000,000)
Proceeds from issuance of shares of a subsidiary	23	**847,882,450**	-	-
Repayments of interest-bearing loans	13, 30	**(665,309,549)**	(23,899,762,792)	(23,827,219,465)
Interest paid	30	**(540,970,810)**	(500,010,272)	(213,945,152)
Acquisition of treasury shares	23	**(321,134,930)**	-	-
Redemption of preferred shares	23	**(2,875,000)**	-	-
Net Cash From (Used in) Financing Activities		**5,740,312,617**	(3,021,061,414)	(2,559,401,825)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(11,493,900)**	(19,003,634,489)	(6,057,087,330)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**10,173,907,748**	29,177,542,237	35,234,629,567
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 10,162,413,848**	P 10,173,907,748	P 29,177,542,237

Supplemental Information on Non-cash Investing and Financing Activities:

1) Share option benefits expense amounting to P27.0 million was recognized both in 2017 and 2016, and P4.5 million in 2015, with corresponding credits to Share Options account, net of documentary stamps tax (DST) amounting to P0.4 million in 2015 (see Notes 20.2 and 23.4).

2) In 2017 and 2016, the Group applied its deposit for asset acquisition amounting to P449.3 million and P2.8 billion made in 2016 and 2015, respectively, against the total considerations (see Notes 1 and 11).

3) 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, a compound instrument, was amended and the financial liability and equity components were recognized at P5.1 billion and P136.2 million, respectively. The amortization of equity-linked debt securities amounted to P83.3 million in 2017 (nil in 2016 and 2015) (see Note 14). The capitalized DST 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, P3.8 million in 2016 and P5.2 million in 2015, which were presented as part of Other Charges account in the consolidated statements of comprehensive income (see Note 4).

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017, 2016, AND 2015 (AMOUNTS IN PHILIPPINE PESOS)

1. CORPORATE INFORMATION AND UPDATE

Emperador Inc. (EMP or the Parent Company or the Company) is a holding company which operates an integrated business of manufacturing, bottling and distributing distilled spirits and other alcoholic beverages mainly from the Philippines, Spain and United Kingdom, through its wholly owned subsidiaries.

1.1 Corporate Name and Business

EMP was incorporated under the name Touch Solutions, Inc. (TSI) on November 26, 2001, primarily as an information technology (IT) services and products provider. On March 1, April 10 and July 31, 2013, the Board of Directors (BOD), stockholders and the Philippine Securities and Exchange Commission (SEC), respectively, approved the change in the primary purpose of the Company to become a holding company. Consequently, in April 2013, TSI transferred and conveyed its IT-related net assets totaling P28.6 million to Sagesoft Solutions, Inc. (SSI) and its investment in SSI to TSI's minority stockholders.

On June 19, August 27 and September 5, 2013, the BOD, stockholders and SEC, respectively, approved the change in corporate name to TrillionStars Holdings, Inc.. On August 28, September 19 and September 27, the BOD, stockholders by written assent, and the SEC, respectively, approved the change in corporate name to Emperador Inc.

On August 28, 2013, Alliance Global Group, Inc. (AGI or the Ultimate Parent Company) obtained a controlling interest in EMP through AGI's subscription to EMP's new capital stock (see Notes 1.2 and 23.1).

AGI is a domestic holding company with diversified investments in food and beverage, real estate, manufacturing, tourism-entertainment and gaming, and quick-service restaurant businesses.

The common shares of the EMP and AGI were first listed for trading in the Philippine Stock Exchange (PSE) on December 19, 2011 (under stock symbol "TSI" at that time) and April 19, 1999, respectively.

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.

1.2 Reverse Acquisition of Emperador Distillers, Inc.

Emperador Distillers, Inc. (EDI) became a wholly owned subsidiary on August 28, 2013 when EMP acquired EDI from AGI as a condition to AGI's subscription to EMP shares.

As part of the transaction, AGI transferred to EMP all the issued and outstanding shares of EDI owned by AGI at that time [see Notes 1.1 and 2.12(c)].

The acquisition of EDI by EMP was effectively an acquisition of a group of assets because EMP at that time did not constitute a business as defined under Philippine Financial Reporting Standard (PFRS) 3, *Business Combinations*. The consolidated financial statements of the Parent Company and EDI and its subsidiaries represent the continuation of the consolidated financial statements of EDI and its subsidiaries [see Note 2.12(c)].

(AMOUNTS IN PHILIPPINE PESOS)

1.3 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 2017	2016
EDI and subsidiaries (collectively, EDI Group):			
Emperador Distillers, Inc. (EDI)	(a), 1.2	**100%**	100%
Anglo Watsons Glass, Inc. (AWGI)	(b)	**100%**	100%
Tradewind Estates, Inc. (TEI)	(c)	**100%**	100%
Alcazar De Bana Holdings Company, Inc. (Alcazar De Bana)	(d)	**100%**	100%
Progreen Agricorp Inc. (PAI)	(d)	**100%**	100%
South Point Science Park Inc. (SSPI)	(d)	**100%**	100%
The Bar Beverage, Inc. (The Bar)	(e)	**100%**	100%
Cocos Vodka Distillers Philippines, Inc. (CVDPI)	(f)	**100%**	100%
Zabana Rum Company, Inc. (Zabana)	(g)	**100%**	-
EIL and offshore subsidiaries:			
Emperador International Ltd. (EIL)	(h)	**100%**	100%
Emperador Holdings (GB) Limited (EGB)	(i)	**100%**	100%
Emperador UK Limited (EUK)	(i)	**100%**	100%
Whyte and Mackay Group Limited (WMG)	(i), 1.4	**100%**	100%
Emperador Asia Pte. Ltd. (EA)	(j)	**100%**	100%
Grupo Emperador Spain, S.A. (GES)	(j), 1.5		
Emperador Europe Sarl (EES)	(k)	**100%**	100%

Explanatory notes:

(a) EDI and its subsidiaries are all engaged in businesses related to the main business of EDI in the Philippines. EDI became a wholly owned subsidiary on August 28, 2013 (see Note 1.2). 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, 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, also have their registered offices and places of business.

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

(c) TEI is a domestic corporation presently engaged in leasing its land and manufacturing complex in Sta. Rosa, Laguna and providing consultancy and advisory services in relation to the operations, management and development and maintenance of machineries to EDI. In 2016, EDI acquired full equity ownership in TEI from Alliance Global Brands, Inc., a wholly owned subsidiary of AGI, for a total consideration of P1.6 billion [see Notes 22.3(a) and 3.1(b)]. The net identifiable assets acquired and liabilities assumed are recognized as part of Trade and Other Receivables, Property, Plant and Equipment, Prepayments and Other Current Assets and Retirement Benefit Obligation accounts in the consolidated statements of financial position (see Notes 6, 9 and 20.3). There is no goodwill recognized for this transaction as the total consideration transferred approximates the fair values of net assets acquired and liabilities assumed.

(d) Alcazar De Bana is a domestic holding entity and presently holds 100% ownership interest in PAI, 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.

(e) The Bar was incorporated to carry out a general and commercial business of manufacturing, making, processing, importing, exporting, buying and selling any and all kinds of alcohol, wine or liquor products.

(f) CVDPI was established to manufacture, import, export, buy, sell, acquire, hold or otherwise dispose of and deal in, any alcohol, wine or liquor products.

(g) Zabana is a newly-incorporated domestic corporation to engage in manufacturing, importing, exporting, buying, selling, acquiring, holding or otherwise disposing of and dealing in any alcohol, wine or liquor products, flavoring essences, beverages, softdrinks, foodstuffs, goods, wares, merchandise and commodities of the same kind.

(AMOUNTS IN PHILIPPINE PESOS)

(h) 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 EDI'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.

(i) 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 Note 1.4).

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

(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, 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. 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 various subsidiaries and a joint venture that were established in Spain and Mexico with activities similar or related to its main business (see Note 1.5).

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

(k) 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.

1.4 Acquisition of Whyte and Mackay Group Limited

On May 9, 2014, a deal was signed between United Spirits (Great Britain) Limited and EUK for the latter's purchase of 100% ownership interest in WMG. This deal was completed on October 31, 2014. EUK's purchase of WMG Group is aligned with EMP's expansion strategies [see Notes 1.5 and 3.1(b)]. The goodwill arising from the acquisition 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 and WMG and the value attributed to WMG's workforce. The goodwill recognized is not expected to be deductible for income tax purposes. The table below summarizes the consideration paid for the acquisition of WMG Group and the recognized amounts of the identifiable assets acquired and liabilities assumed. For purposes of determining the goodwill, the Parent Company determined the fair value of the identified net assets as of October 31, 2014.

	Notes	
Consideration		
Cash		P 30,272,934,983
Recognized amounts of identifiable assets acquired:		
Tangible assets	8, 9	21,723,648,592
Intangible assets	10	9,972,144,142
Liabilities	16, 20, 21	(9,095,752,005)
Total identifiable net assets		22,600,040,729
Goodwill	10	**P 7,672,894,304**

(AMOUNTS IN PHILIPPINE PESOS)

WMG was incorporated in the United Kingdom (UK) on August 7, 2001. It is presently operating as an investment holding entity. WMG and all of its significant subsidiaries' registered office is located at St. Vincent Plaza, 319 St. Vincent Street, Glasgow, Scotland.

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. WMG's significant subsidiaries and WMG's corresponding percentage of ownership as of December 31, 2017, 2016 and 2015 are as follows:

Names of Subsidiaries	Explanatory Notes	Percentage of Ownership
Whyte and Mackay Limited (WML)	(a)	100%
Whyte and Mackay Warehousing Limited (WMWL)	(b)	100%

Explanatory notes:

(a) 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.

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

1.5 Acquisitions of Spanish Business Unit and of Assets

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 or Business Unit) in Jerez de la Frontera (Jerez), the brandy capital of Spain. The purchase includes four brands: Fundador Brandy, Terry Centenario Brandy, Tres Cepas Brandy, and Harveys sherry wine (see Notes 10 and 11.2). 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, and the purchase was subsequently completed on February 29, 2016.

GES's acquisition of the Business Unit is aligned with EMP's expansion strategies. The goodwill arising from this transaction similarly reflects the opportunity and benefit to that of EUK's acquisition of WMG Group (see Note 1.4). The goodwill recognized is not expected to be deductible for income tax purposes. The table below summarizes the consideration paid for the acquisition of the Business Unit and the recognized amounts of the identifiable assets acquired. For purposes of determining the goodwill, the Parent Company determined the fair value of the identified net assets as of February 29, 2016.

	Notes	
Consideration		
Cash		P 14,718,366,134
Recognized amounts of identifiable assets acquired:		
Tangible assets	8, 9	6,592,734,082
Intangible assets	10	6,662,974,698
Total identifiable net assets		13,255,708,780
Goodwill	10	**P 1,462,657,354**

The revenues and net profit of the Business Unit since the acquisition date that were included in the 2016 consolidated statement of comprehensive income amounted to P2.6 billion and P446.0 million, respectively, and were included as part of the Brandy segment (see Note 4.4).

(AMOUNTS IN PHILIPPINE PESOS)

On December 1, 2016, Bodega Las Copas, S.L. (BLC) signed an agreement with Pernod Ricard to acquire its Domecq brand portfolio and its related assets in Mexico (see Note 11.2). The purchase includes three brands of Mexican brandies: Presidente, Azteca de Oro and Don Pedro, and certain Mexican wine brands. The authorization from the Mexican Antitrust Authority to proceed was obtained on March 14, 2017. On March 30, 2017, BLC and its two Mexican subsidiaries completed the acquisition of the Domecq brand portfolio and its related assets (the acquisition shall be referred to herein as "the Domecq Acquisition"). These Mexican subsidiaries, including the assets acquired, were subsequently transferred to Domecq Bodega Las Copas, S.L. (DBLC), a newly-incorporated Spanish subsidiary of GES in latter part of 2017. Total acquisition is treated as an asset acquisition [see Notes 2.12(d) and 3.1(b)].

On January 19, 2017, GES, through its wholly owned subsidiary, Complejo Bodeguero San Patricio SLU (CBSP), acquired from the previous owners (collectively referred to as "Grupo Garvey") certain assets in Spain, including trademarks of well-known brands (the acquisition shall be referred to herein as "the Garvey Acquisition"). The purchase includes basket of brands of Grupo Garvey worldwide, including brandies, sherries, liqueurs, vinegars and vodka brands, inventories and casks related to Grupo Garvey's business and certain property, plant and equipment. The acquisition is treated as an asset acquisition [see Notes 2.12(d) and 3.1(b)].

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 date, are as follows:

	Notes	Domecq Acquisition	Garvey Acquisition
Tangible assets	8, 9	P 1,702,112,882	P 1,554,825,243
Intangible assets	10	3,123,564,000	332,598,228
		4,825,676,882	1,887,423,471
Liabilities	15	-	(34,361,071)
		P 4,825,676,882	**P 1,853,062,400**

GES, its subsidiaries and related party are as follows:

Company Names	Explanatory Notes	Percentage of Effective Ownership 2017	2016
Bodega San Bruno, S.L.	(a)	**100%**	100%
Bodegas Fundador, S.L.U (BFS)	(b), (c)	**100%**	100%
Emperador Gestion S.L.	(a)	**100%**	100%
Complejo Bodeguero San Patricio SLU (CBSP)	(b)	**100%**	100%
Domecq Bodega Las Copas, S.L. (DBLC)	(d), 3.1(c)	**50%**	-
Bodega Las Copas, S.L. (BLC)	(e), 12	**50%**	50%

Explanatory notes:

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

(b) 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.

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

(d) DBLC is a foreign entity incorporated in Spain 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 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.

(e) 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 Alcoholera dela Mancha Vinícola, S.L. and Vinedos del Rio Tajo S.L., which are both established in Spain with activities similar and related to the main businesses of GES and BLC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017, 2016, AND 2015
(AMOUNTS IN PHILIPPINE PESOS)

1.6 Approval of the Consolidated Financial Statements

The consolidated financial statements of EMP and its subsidiaries as of and for the year ended December 31, 2017 (including the comparative consolidated financial statements as of and for the years ended December 31, 2016 and 2015) were authorized for issue by the Parent Company's BOD on April 6, 2018.

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 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 and expenses and other comprehensive income or loss in a single consolidated statement of comprehensive income.

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

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Parent 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 2017 that are Relevant to the Group

The Group adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses
Annual Improvements to PFRS (2014-2016 Cycle)		
PFRS 12	:	Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale

Discussed below are the relevant information about these amendments and annual improvements.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative.* The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

The Group has applied these amendments in the current year and presented a reconciliation between the opening and closing balances of liabilities arising from financing activities, which includes both cash and non-cash changes, as presented in Note 30.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses.* The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has no impact on the Group's consolidated financial statements.

(iii) Annual Improvements to PFRS. Annual improvements to PFRS (2014-2016 Cycle) made minor amendments to a number of PFRS. Among those amendments, PFRS 12, *Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held of Sale*, is mandatorily effective for annual periods beginning on or after January 1, 2017 but has no material impact on the Group's consolidated financial statements as this amendment merely clarifies the existing requirements. The amendment clarifies that the disclosure requirements of PFRS 12 applies to interest in other entities classified as held for sale with practical concession in the presentation of summarized financial information. The amendment states that an entity need not present summarized financial information for interests in subsidiaries, associates, or joint ventures that are classified as held for sale.

(b) Effective Subsequent to 2017 but not Adopted Early

There are new PFRS, amendments, interpretations and annual improvements to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the relevant pronouncements 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 40 (Amendment), *Investment Property – Reclassification to and from Investment Property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use.

(ii) PFRS 2 (Amendments), *Classification and Measurement of Share-based Payment Transactions* (effective from January 1, 2018). 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.

(iii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). 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;
- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; 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.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income (FVTOCI) if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL. In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in consolidated other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in consolidated other comprehensive income rather than in consolidated profit or loss.

Based on an assessment of the Group's financial assets and financial liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has identified the following areas that are expected to be most impacted by the application of PFRS 9 (2014):

- On classification and measurement of the Group's financial assets, management holds these financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. Management expects the majority of these financial assets to continue to be accounted for at amortized cost. The Group will also apply a simplified model of recognizing lifetime expected credit losses on these financial assets as these do not have a significant financing component.
- The Group's financial instruments at FVTPL pertain to derivative assets and liabilities arising from foreign exchange margins trading spot and forward that will not qualify under the SPPI test (see Note 7). These financial instruments will continue to be measured at fair value, with mark-to-market fluctuations directly recognized in profit or loss, upon application of PFRS 9 (2014).
- Significant portion of the Group's financial liabilities are currently measured at amortized cost. Upon application of PFRS 9 (2014), management has assessed that the amortized cost classification for these financial liabilities will be retained.

(iv) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue,* PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (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. Based on an assessment and comprehensive study of the Group's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant source of revenues is within the scope of PFRS 15 and pertains to the sale of brandy, wine or other similar alcoholic beverage products, which shall be recognized when the risks and rewards of ownership of the goods have passed to the buyer.

(v) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). 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.

(vi) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendment), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* (effective from January 1, 2018) is relevant to the Group. The amendments clarify 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.

(vii) PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies 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 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of this amendment in its consolidated financial statements.

(viii) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of this amendment in its consolidated financial statements.

(ix) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

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 similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability 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).

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.

Management is currently assessing the impact of this new standard in its consolidated financial statements.

(x) 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. Management is currently assessing the impact of this interpretation in its consolidated financial statements.

(xi) Annual Improvements to PFRS 2015-2017 Cycle. 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.

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

2.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Notes 1.3, 1.4 and 1.5, 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. 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 certain entity in the Group that are prepared as of a date different from that of the date of these consolidated financial statements were adjusted to recognize the effects of significant transactions or events that occur between that date of their reporting period and the date of these consolidated financial statements. Adjustments are also made to bring into line any dissimilar accounting policies that may exist.

The Group accounts for its investments in subsidiaries, investment in 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(b)]. 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.

Investments in joint venture are 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 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 Other revenues – net which is part of Revenues or Other Charges which is part of Costs and Expenses section of the consolidated statement of comprehensive income.

Impairment loss is provided when there is objective evidence that the investment in 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.

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 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 uses 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.

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in consolidated profit or loss.

A more detailed description of the categories of financial assets that are relevant to the Group is as follows:

(a) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition (see Note 7). All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of each reporting period.

Financial assets at FVTPL are measured at fair value [see Note 3.2(b)], and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

The Group occasionally uses derivative financial instruments, such as foreign exchange forward contracts, to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative (see Note 2.10).

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.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented 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)] in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, 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.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss [see Note 3.2(a)] is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the loans and receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated cash flows discounted using the financial asset's effective interest rate. The amount of loss, or reversal thereof, is recognized in consolidated profit or loss.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in consolidated profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in the consolidated profit or loss.

All income and expenses, including impairment losses, relating to financial assets that are recognized in consolidated profit or loss are presented as part of Other revenues – net in the Revenues section and in the Other Charges account in the consolidated statement of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

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)].

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.

(AMOUNTS IN PHILIPPINE PESOS)

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 finite useful life for land can be determined, 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 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 cost 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 finite lives are amortized on a straight-line basis over their estimated useful lives of ten years. Capitalized costs for trademarks with infinite useful lives are not amortized. The useful lives are reviewed each reporting period to determine whether events and circumstances continue to support an infinite useful life assessment. Changes in the useful life assessment from infinite to finite 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.

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).

(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), financial liability component of equity-linked securities (ELS) instrument (see Note 14) and accrued interest payable (see Note 15), and is recognized when the Group becomes a party to the contractual agreements of the instrument.

Financial liabilities are initially recognized at their fair values and subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. The financial liability component of the ELS is recognized initially as the present value of the contractual stream of future cash flows, less any directly attributable transaction costs, and is subsequently measured at amortized cost using the effective interest method.

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

Dividend distributions to stockholders are recognized as financial liabilities 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 there is 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.

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.

(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", which will eventually be closed to additional paid-in capital. Also, any pre-acquisition income and expenses of a subsidiary are no longer included in the consolidated financial statements.

(c) *Reverse Acquisition Accounting Involving a Non-Operating Shell Company*

The acquisition of EDI disclosed in Note 1.2 has been accounted for similar to a reverse acquisition of a non-operating shell company. Such transaction was accounted for in the consolidated financial statements of the Parent Company, which is the legal parent (the accounting acquiree), as a continuation of the consolidated financial statements of the EDI Group, which is the legal subsidiary (the accounting acquirer).

(d) *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; goodwill or gain on bargain purchase is not recognized; and transaction costs are capitalized.

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 is measured by reference to the fair value of consideration received or receivable by the Group for goods sold, excluding VAT, rebates and trade discounts. Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably (see Note 17).

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

(a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, i.e., generally when the customer has acknowledged delivery of goods.

(b) *Rental income* – Income is recognized on a straight-line basis over the duration of the lease term (see Note 2.15).

(c) *Interest income* – This is recognized as the interest accrues taking into account the effective yield on the asset.

(d) *Dividend income* – Revenue is recognized when the Group's right to receive payment is established.

(e) *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) and as a result of the mark-to-market valuation of the securities classified as financial assets at FVTPL.

(f) *Services* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered.

Cost 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 they are incurred. All finance costs are reported in consolidated profit or loss on an accrual basis, except capitalized borrowing costs, if any, which are included as part of the cost of the related qualifying asset (see Note 2.20).

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. Lease 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 profit or loss.

(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 subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

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 Company'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.

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.

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 using a discount rate derived from the interest rates of zero coupon government bonds as published by Philippine Dealing & Exchange Corp., 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.

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 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 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 (for example 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 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.

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 deferred tax and current 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 of (see Note 23.2).

Conversion options 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 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 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.

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 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.

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) 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.

(b) 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.

The group of assets acquired in the Domecq Acquisition and Garvey Acquisition do not include an integrated set of activities that are capable of being managed. In addition, the group of assets acquired under the Garvey Acquisition was previously under receivership from various third parties. Accordingly, management has assessed that the Domecq Acquisition and Garvey Acquisition, as disclosed in Note 1.5, 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 and GES's purchases of Business Unit in Jerez as disclosed in Notes 1.3, 1.4 and 1.5, 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.

(c) 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 even though 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 1.5).

(d) 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 Receivables

The Group evaluates the amount of allowance for impairment [see Note 2.5(b)] based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Group's relationship with the counterparties, the counterparties' current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying value of Trade and Other Receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6 while the carrying values of Property Mortgage Receivable and Refundable Security Deposits are shown in Note 11.2.

(b) Fair Value Measurement for 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 amounts of fair value changes recognized during the years presented on the Group's financial instruments at FVTPL [see Note 2.5(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, 2017 and 2016 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 21.

(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 2017, 2016 and 2015 based on management's assessment.

(g) *Recognition of 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 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 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 Company presented the components separately as Equity-linked Debt Securities (see Note 14) and Conversion Options accounts under the Non-current Liabilities and Equity sections, respectively, of the 2017 consolidated statement 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.

(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.

(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. This is also the basis of the Group's executive committee for its strategic decision-making activities.

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, 2017, 2016 and 2015 (in millions) are as follows:

	BRANDY			SCOTCH WHISKY			Consolidated Total		
	2017	2016	2015	**2017**	2016	2015	**2017**	2016	2015
REVENUES									
External customers	**P 30,392**	P 29,573	P 27,120	**P 12,264**	P 11,445	P 16,525	**P 42,656**	P 41,018	P 43,645
Intersegment sales*	**782**	452	-	**307**	24	-	**-**	-	-
	31,174	30,025	27,120	**12,571**	11,469	16,525	**42,656**	41,018	43,645
COSTS AND EXPENSES									
Costs of goods sold	**19,631**	17,641	16,341	**7,955**	7,783	13,248	**27,586**	25,424	29,589
Intersegment cost of goods sold*	**307**	24	-	**782**	452	-	**-**	-	-
Selling and distribution expenses	**2,660**	2,450	2,494	**1,134**	1,061	756	**3,794**	3,511	3,250
General and administrative expenses	**721**	751	235	**1,295**	1,102	1,593	**2,016**	1,853	1,828
Other charges	**1,422**	686	469	**3**	108	59	**1,425**	794	528
	24,741	21,552	19,539	**11,170**	10,507	15,656	**34,820**	31,582	35,195
SEGMENT PROFIT BEFORE TAX	**6,434**	8,473	7,581	**1,401**	962	869	**7,835**	9,436	8,450
TAX EXPENSE (INCOME)	**1,422**	1,827	1,725	**81**	(85)	(235)	**1,503**	1,742	1,490
SEGMENT NET PROFIT	**P 5,012**	P 6,646	P 5,856	**P 1,320**	P 1,047	P 1,104	**P 6,332**	P 7,693	P 6,960
TOTAL ASSETS	**P 54,017**	P 51,965	P 54,833	**P 57,519**	P 42,337	P 43,426	**P111,536**	P 94,302	P98,259
TOTAL LIABILITIES	**36,634**	32,564	37,763	**16,548**	9,514	10,410	**53,182**	42,078	48,173

**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.

5. CASH AND CASH EQUIVALENTS

This account includes the following components:

	2017	2016
Cash on hand and in banks	**P 3,388,408,933**	P 3,804,364,733
Short-term placements	**6,774,004,915**	6,369,543,015
	P 10,162,413,848	P 10,173,907,748

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 1.8% to 2.75% in 2017, from 1.8% to 2.0% in 2016 and from 0.4% to 2.8% in 2015. Interest earned amounted to P202.5 million, P178.8 million and P100.8 million in 2017, 2016 and 2015, respectively, and is presented as part of Other revenues 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 2.5(b)]:

	Notes	**2017**	2016
Trade receivables	22.4	**P 13,019,338,813**	P 10,137,878,918
Advances to suppliers	22.11	**1,869,080,035**	545,464,796
Advances to officers and employees	22.5	**37,636,599**	22,402,245
Accrued interest receivable		**5,621,251**	-
Other receivables		**111,660,091**	150,488,640
		15,043,336,789	10,856,234,599
Allowance for impairment	3.2(a)	**(117,537,277)**	(76,744,683)
		P 14,925,799,512	P 10,779,489,916

(AMOUNTS IN PHILIPPINE PESOS)

Trade receivables are usually due within 30 days and do not bear any interest. All trade receivables are subject to credit risk exposure (see Note 26.2).

Advances to suppliers pertain to down payments made primarily for the purchase of goods from suppliers and of parcels of land from related parties.

All of the Group's trade and other receivables have been reviewed for indications of impairment. Adequate amounts of allowance for impairment have been recognized in 2017 and 2016 for those receivables found to be impaired.

A reconciliation of the allowance for impairment is shown below.

	2017	2016
Balance at beginning of year	**P 76,744,683**	P 56,899,427
Impairment losses	**48,204,136**	20,066,707
Recoveries	**(7,411,542)**	-
Write-offs	**-**	(221,451)
Balance at end of year	**P 117,537,277**	P 76,744,683

In 2017, the Group collected certain receivables previously provided with allowance for impairment amounting to P7.4 million. Consequently, this reduced the allowance for impairment by the same amount. In 2016, the Group wrote-off certain receivables amounting P0.2 million as the management believes that such accounts cannot be recovered in the succeeding years. There were no recoveries of previously impaired receivables in 2016 nor write-offs of receivables in 2017.

Recoveries during the year is presented as part of Other revenues – net in the Revenues section of the 2017 consolidated statement of comprehensive income (see Note 17), while impairment losses on trade and other receivables are presented as part of 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, 2017 and 2016 pertain to derivative assets amounting to P19.6 million and derivative liabilities amounting to P28.9 million, respectively [see Note 2.5(a)]. All financial instruments at FVTPL are classified held-for-trading. Derivative assets and derivative liabilities arise from foreign exchange margin trading spot and forward contracts entered into by the Group. The term of these forward contracts is usually one month to one year.

The net changes in fair values of these financial instruments [see Note 3.2(b)] are presented in the consolidated statements of comprehensive income as part of Other revenues – net in the Revenues section (for net fair value gains) or Other Charges account (for net fair value losses). The Group recognized fair value gains amounting to P48.4 million and P2.6 million in 2017 and 2015, respectively, and fair value losses amounting to P31.5 million in 2016.

The fair values of listed equity securities were determined directly by reference to quoted close prices in active markets (see Note 28.2). In 2015, the Group's recognized gains on trading of non-derivative financial assets at FVTPL amounting to P5.2 million is presented as part of Oth revenues – net in the Revenues section of the consolidated statement of comprehensive incon (see Note 17). There were no similar transactions in 2017 and 2016.

(AMOUNTS IN PHILIPPINE PESOS)

8. INVENTORIES

Details of inventories as of December 31, 2017 and 2016, which is valued at lower of cost and net realizable value, are shown below [see Notes 2.6 and 3.2(c)].

	Note	2017	2016
Work-in-process		**P 17,786,098,444**	P 13,532,427,366
Finished goods	22.1	**3,537,513,191**	3,182,542,312
Raw materials	22.1	**3,245,184,408**	3,099,194,084
Packaging materials		**536,891,527**	555,442,843
Machinery spare parts, consumables and factory supplies		**232,247,878**	516,760,137
		25,337,935,448	20,886,366,742
Allowance for inventory write-down		**(150,969,324)**	(131,865,103)
		P 25,186,966,124	P 20,754,501,639

WML has a substantial inventory of aged stocks which mature over periods of up to 60 years. The maturing whisky stock inventory amounting to P13.5 billion and P11.0 billion as of December 31, 2017 and 2016, 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 2017, 2016 and 2015 is presented in Note 18.

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

	2017	2016
Balance at beginning of year	**P 131,865,103**	P 144,968,995
Impairment losses	**19,104,221**	38,718,861
Reversal of impairment losses	**-**	(51,822,753)
Balance at end of year	**P 150,969,324**	P 131,865,103

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). Reversal of impairment losses is presented as part of Other revenues – net in the Revenues section of the 2016 consolidated statement of comprehensive income (see Note 17). There were no reversals of impairment losses in 2017.

(AMOUNTS IN PHILIPPINE PESOS)

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.

	Land	Land Improvements	Buildings and Improvements	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	Moulds and Dies	Construction in Progress	Total
December 31, 2017										
Cost	P 6,231,890,692	P 29,078,186	P 8,727,160,391	P 99,952,630	P13,445,295,382	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	-	(14,204,699)	(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	**P 6,231,890,692**	**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**
December 31, 2016										
Cost	P 5,246,813,812	P 29,078,186	P 6,999,854,811	P 76,815,536	P10,463,148,147	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	P 5,246,813,812	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
December 31, 2015										
Cost	P 2,592,928,420	P 29,078,186	P 4,744,219,634	P 76,420,470	P10,217,177,688	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	P 2,592,928,420	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
January 1, 2015										
Cost	P 1,577,601,130	P 28,636,221	P 4,384,952,765	P 66,697,854	P 9,368,152,491	P 314,385,676	P 496,289,338	P 71,817,348	P 1,542,618,830	P 17,851,151,653
Accumulated depreciation and amortization	-	(5,488,609)	(1,053,184,042)	(35,721,715)	(4,634,166,897)	(172,417,885)	(430,096,025)	(52,268,184)	-	(6,383,343,357)
Net carrying amount	P 1,577,601,130	P 23,147,612	P 3,331,768,723	P 30,976,139	P 4,733,985,594	P 141,967,791	P 66,193,313	P 19,549,164	P 1,542,618,830	P 11,467,808,296

(AMOUNTS IN PHILIPPINE PESOS)

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

	Land	Land Improvements	Buildings and Improvements	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	Moulds and Dies	Construction in Progress	Total
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	P4,247,914,675	P 20,949,282,168
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
Additions through asset acquisitions (see Note 1.5)	324,644,906	-	811,086,259	-	599,340,461	-	-	-	-	1,735,071,626
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	**P6,231,890,692**	**P 14,873,487**	**P7,235,305,591**	**P 52,475,660**	**P7,268,570,381**	**P 232,752,445**	**P 250,605,215**	**P 22,930,635**	**P5,031,452,148**	**P 26,340,856,254**
Balance at January 1, 2016, net of accumulated depreciation and amortization	P2,592,928,420	P 20,689,124	P3,599,384,610	P 37,231,117	P 5,016,608,242	P 150,836,361	P 106,888,002	P 22,023,325	P2,720,485,160	P 14,267,074,361
Additions due to acquired subsidiary and Business Unit (see Notes 1.3 and Note 1.5)	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	P5,246,813,812	P 17,781,306	P5,806,025,556	P 33,715,568	P 5,205,519,124	P 155,573,832	P 204,764,719	P 31,173,576	P4,247,914,675	P 20,949,282,168
Balance at January 1, 2015, net of accumulated depreciation and amortization	P1,577,601,130	P 23,147,612	P3,331,768,723	P 30,976,139	P 4,733,985,594	P 141,967,791	P 66,193,313	P 19,549,164	P 1,542,618,830	P 11,467,808,296
Additions	1,023,319,790	441,964	360,284,562	702,251	731,609,232	38,769,981	65,738,341	13,073,929	1,310,700,869	3,544,640,919
Disposals	(7,992,500)	-	(673,684)	-	(236,221)	(1,252,873)	-	-	-	(10,155,278)
Reclassifications	-	-	6,421,921	9,020,365	117,392,253	-	-	-	(132,834,539)	-
Depreciation and amortization charges for the year	-	(2,900,452)	(98,416,912)	(3,467,638)	(566,142,616)	(28,648,538)	(25,043,652)	(10,599,768)	-	(735,219,576)
Balance at December 31, 2015, net of accumulated depreciation and amortization	P2,592,928,420	P 20,689,124	P3,599,384,610	P 37,231,117	P 5,016,608,242	P 150,836,361	P 106,888,002	P 22,023,325	P2,720,485,160	P 14,267,074,361

(AMOUNTS IN PHILIPPINE PESOS)

In 2013, the Group started the construction of another distillery plant in Balayan, Batangas, which remains in progress as of December 31, 2017. 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 are being capitalized and presented as part of additions to Construction in progress (see Notes 13 and 2.20). The construction is completed in March 2018.

The amount of depreciation and amortization is allocated as follows:

	Notes	2017	2016	2015
Costs of goods sold	18	**P 710,858,353**	P 644,914,252	P 473,317,155
Selling and distribution expenses	19	**39,745,417**	33,324,735	29,173,831
General and administrative expenses	19	**45,198,047**	29,999,144	34,150,749
		795,801,817	708,238,131	536,641,735
Capitalized as part of work-in-process inventory		**272,876,050**	218,663,067	198,577,841
		P 1,068,677,867	P 926,901,198	P 735,219,576

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 2017, 2016 and 2015, certain property, plant and equipment with carrying amounts of P145.2 million, P27.7 million and P1.3 million, respectively, were sold for P146.7 million, P25.7 million, and P2.8 million, respectively. The resulting gains on disposals for both 2017 and 2015 amounting to P1.5 million, was recognized as part of Other revenues – net account under the Revenues section in the 2017 and 2015 consolidated statements of comprehensive income (see Note 17); while the resulting loss of P2.0 million in 2016 was recognized as part of Other Charges account in the 2016 consolidated statement of comprehensive income.

10. INTANGIBLE ASSETS

This account is composed of the following:

	Note	2017	2016
Infinite useful lives:	2.9		
Trademarks	1.4, 1.5	**P 20,507,380,260**	P 16,635,118,840
Goodwill	1.4, 1.5	**9,377,371,172**	9,135,551,658
		29,884,751,432	25,770,670,498
Finite useful lives – Trademarks – net	2.9	**9,240,420**	20,440,358
		P 29,893,991,852	P 25,791,110,856

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.

In 2014, as a result of the Group's acquisition of WMG Group (see Note 1.4), trademarks amounting to P4.5 billion and P5.5 billion for "Jura" and "The Dalmore", respectively, were recognized in the consolidated financial statements. In 2016, the Group's acquisition of the Business Unit in Jerez resulted in the recognition of four new trademarks, which amounted to P6.7 billion, to the Group's brand portfolio, namely "Fundador Brandy", "Terry Centenario Brandy", "Tres Cepas Brandy", and "Harveys" sherry wine (collectively, "Fundador brands"). These trademarks have infinite useful lives; hence, no amortization was recognized for these brands for the periods presented.

(AMOUNTS IN PHILIPPINE PESOS)

As discussed in Note 1.5, the Group, through CBSP and DBLC, acquired various trademarks with infinite useful lives amounting to P3.5 billion in 2017. 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 composition of the intangible assets with infinite useful lives is as follows:

	2017	2016
Goodwill breakdown:		
WMG	**P 7,700,756,272**	P 7,672,894,304
GES	**1,676,614,900**	1,462,657,354
	9,377,371,172	9,135,551,658
Trademarks with infinite useful lives:		
WMG brands	**9,643,667,360**	9,972,144,142
Fundador and other brands	**7,637,632,850**	6,662,974,698
Domecq brands	**2,851,351,100**	-
Grupo Garvey brands	**374,728,950**	-
	20,507,380,260	16,635,118,840
	P 29,884,751,432	P 25,770,670,498

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

	Note	**2017**	2016
Balance at beginning of year		**P 20,440,358**	P 123,313,026
Amortization during the year	19	**(11,199,938)**	(102,872,668)
Balance at end of year		**P 9,240,420**	P 20,440,358

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

	December 31, 2017	December 31, 2016
Emperador Deluxe	**5.5 years**	6.5 years
The BaR	**6 months**	1.5 years
Emperador Brandy	**-**	1 month
Generoso Brandy	**-**	1 month

The "Emperador Brandy" and "Generoso Brandy" trademarks were fully amortized as of December 31, 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 of the Selling and Distribution Expenses account of the 2017 consolidated statement of comprehensive income as the cost of renewal is not significant to capitalize (see Note 19).

The Group's trademarks with finite useful lives are expected to be amortized over their remaining useful lives. The amortization of trademarks amounting to P11.2 million in 2017 and P102.9 million in 2016 is presented as Amortization of trademarks under the Selling and Distribution Expenses account in the consolidated statements of comprehensive income (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):

	2017				2016			
	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 7.70	P 12.24	3.00%	12.30%	P 7.67	P 12.56	3.00%	12.73%
GES	1.68	4.46	1.60%	7.51%	1.46	2.35	1.60%	7.51%
Trademarks with indefinite lives:								
WMG brands	9.64	22.5	3.00%	12.30%	9.97	14.63	3.00%	12.73%
Fundador brands*	7.64	17.76	1.60%	8.14%				
Domecq brands*	2.85							
Grupo Garvey brands*	0.37							

* *Management believes that the carrying values of Domecq and Grupo Garvey brands as of December 31, 2017 and Fundador brands as of December 31, 2016 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, 2017 and 2016 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):

	2017	2016
Prepaid taxes	**P 640,052,321**	P 254,950,830
Deferred input VAT	**137,179,968**	61,243,171
Prepaid expenses	**129,055,834**	135,515,052
Other current assets	**47,062,122**	130,361,387
	P 953,350,245	P 582,070,440

Prepaid taxes pertain to excess 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	2017	2016
Property mortgage receivable		**P 654,595,116**	P 597,604,251
Deferred input VAT		**104,516,552**	173,683,678
Refundable security deposits	22.3	**46,467,016**	44,919,122
Deposit for acquisition	1.5	**-**	449,309,212
Others		**13,308,446**	7,371,170
		P 818,887,130	P 1,272,887,433

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.

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, were no longer recognized in the Group's consolidated financial statements.

In 2016, the Group made a deposit amounting to P449.3 million for the acquisition of Domecq brandy and wine business from Pernod Ricard, which was applied in full against the total consideration paid in 2017. Also, in 2015, the deposit for acquisition amounting to P2.8 billion pertains to the deposit made by the Group to acquire the brandy and sherry business from Beam Suntory (see Note 1.5), which was applied in full against the total consideration paid in 2016.

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, 2017 and 2016, the carrying amount of the investment in a joint venture, accounted for under the equity method [see Note 2.3(b)] in these consolidated financial statements, are as follows:

	2017	2016
Acquisition costs	**P 3,703,721,965**	P 3,703,721,965
Withdrawal	**(858,354,900)**	-
Accumulated share in net income:		
Balance at beginning of year	**295,428,091**	169,542,466
Share in net income for the year	**154,101,850**	219,276,919
Dividend received during the year	**(60,952,241)**	(93,391,294)
Balance at end of year	**388,577,700**	295,428,091
	P 3,233,944,765	P 3,999,150,056

The equity share in net income is recorded as part of Other revenues – net in the Revenues section of the consolidated statements of comprehensive income (see Note 17).

The amount withdrawn from this investment was used by the Group as part of the 50% capitalization of DBLC, a newly-incorporated subsidiary, in 2017 (see Note 1.5).

The aggregated amounts of assets, liabilities, revenues and net income of the joint venture as of December 31, 2017 and 2016 and for the years then ended are as follows (in thousands):

	Assets	Liabilities	Revenues	Net Income
2017	**P 4,460,318**	**P 1,253,479**	**P 2,686,510**	**P 308,204**
2016	P 5,132,925	P 1,056,563	P 4,140,938	P 438,554

(AMOUNTS IN PHILIPPINE PESOS)

13. INTEREST-BEARING LOANS

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

	2017	2016
Current:		
Foreign	**P 3,661,326,840**	P 2,674,767,650
Local	**500,000,000**	-
	4,161,326,840	2,674,767,650
Non-current:		
Foreign	**27,261,094,050**	19,425,000,000
Local	**1,500,000,000**	2,000,000,000
	28,761,094,050	21,425,000,000
	P 32,922,420,890	P 24,099,767,650

The summarized terms and conditions of each availed loan as at December 31, 2017 and 2016 are as follows:

Outstanding Balance 2017	Outstanding Balance 2016	Explanatory Notes	Interest Rate	Security	Maturity date
P 22,055,700,000	P 19,425,000,000	(a)	Margin of 1.55% plus EURIBOR	Unsecured	2021
3,580,796,290	2,674,767,650	(b)	0.75% over LIBOR	Secured	2019
2,980,500,000	-	(e)	Fixed at 1.6%	Unsecured	2022
2,305,424,600	-	(d)	Fixed at 1.55%	Unsecured	2027
750,000,000	750,000,000	(c)	Fixed at 5.245%	Unsecured	2021
750,000,000	750,000,000	(c)	Fixed at 5.113%	Unsecured	2021
500,000,000	500,000,000	(c)	Fixed at 5%	Unsecured	2021
P 32,922,420,890	P 24,099,767,650				

(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 P637.6 million and P2.7 billion in 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.

Also 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. 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 1.5). 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 2017 consolidated statement of financial position.

(e) Also in 2017, DBLC assumed from BLC foreign-currency-denominated loans totalling P3.0 billion from certain financial institutions relating to Domecq Acquisition (see Note 1.5).

In 2015, the Group obtained short-term foreign-currency-denominated bank loans amounting to P23.9 billion from international financial institutions. These loans were unsecured and bore annual interest ranging from 0.66% to 1.8%. These loans had all been fully settled in 2016.

Interest expense on the above loans for 2017, 2016 and 2015 amounted to P533.4 million, P301.0 million and P31.7 million, respectively, and is presented as part of Other Charges account in the consolidated statements of comprehensive income. Capitalized interest expense from the peso-denominated loan, on the other hand, amounted to P108.2 million and P74.2 million in 2017 and 2016, 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, 2017 and 2016 amounted to P86.1 million and P26.6 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 complies with the financial and non-financial covenants on these loans and borrowings.

14. EQUITY-LINKED DEBT SECURITIES

On November 7, 2014, EMP (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).

The Holder of the ELS may exercise the Holder Conversion Right which calls for the conversion of the ELS into a fixed number of EMP common shares (Conversion Shares) at any time until December 5, 2019 (Redemption Date). The Issuer may exercise the Issuer Conversion Right (ICR) which calls for the conversion of the ELS into the Conversion Shares at any time two (2) years after the Issue Date until Redemption Date, provided, that the share market price must be greater than P11.00 per share (Share Market Price) on the date the ICR is exercised. The Issuer has the option to extend the Redemption Date for the ELS until December 4, 2021 (Extended Redemption Date). The ELS shall be mandatorily converted into the Conversion Shares if, at any time during the period beginning on Redemption Date until Extended Redemption Date, the actual share market price is greater than the Share Market Price.

The ELS bear fixed interest rate of 5.0% (initially) compounded annually (Fixed Interest) and variable interest equal to the dividend price declared and payable to common stockholders (Variable Interest). The Fixed Interest is payable either in cash or in new shares (Interest Shares) on the conversion date, Redemption Date, or Extended Redemption Date, as applicable. The Variable Interest is payable in cash on the date that the Issuer pays dividends to its stockholders.

On June 15, 2017, the ELS was amended, stipulating among others (a) the change in the fixed number of Conversion Shares to 728,275,862 new and fully paid-up shares; (b) change in Fixed Interest rate to 0%; (c) the end of the ICR on June 15, 2017; and, (d) the amendment on Share Market Price for the mandatory conversion at any time during the period beginning on Redemption Date and ending on the Extended Redemption Date to greater than P7.25 per share. In addition, the accrued fixed interest amounting to P832.3 million was converted to 122,391,176 common shares of EMP (Accrued Interest Shares) (see Note 23.1).

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The ELS was reported wholly as a non-current liability at amortized cost in the 2016 consolidated statement of financial position [see Notes 2.10 and 3.2(g)]. Consequent to the amendments 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 from the Issue Price the financial liability component. The carrying amounts of the components are presented separately in the 2017 consolidated statement of financial position [see Notes 2.23 and 3.2(g)] while the amortization of the revalued financial liability component amounting to P83.3 million in 2017 is presented as part of Other Charges account in the 2017 consolidated statement of comprehensive income.

Fixed Interest costs amounted to P269.5 million, P279.2 million and P264.0 million each year in the three-year period ended December 31, 2017 and presented as part of Other Charges account in the consolidated statements of comprehensive income. The accrued fixed interest amounting to P562.7 million as of December 31, 2016 is presented as Accrued Interest Payable account under Non-current Liabilities section of the 2016 consolidated statement of financial position. There is no fixed interest payable as of December 31, 2017, as a result of the amendment to the ELS.

Variable Interest of P89.5 million, P81.0 million and P72.0 million were respectively paid in 2017, 2016, and 2015 and presented as part Other Charges account in the consolidated statements of comprehensive income.

The documentary stamps tax (DST) paid by EMP for the issuance of shares in 2014 amounted to P6.7 million and is charged against APIC; while the capitalized DST paid by EMP for the issuance of the ELS which amounted to P26.1 million were fully amortized in 2017 with amortization amounting to P17.1 million in 2017, P3.8 million in 2016 and P5.2 million in 2015, which were presented as part of Other Charges account in the 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	2017	2016
Trade payables	22.1, 22.3, 22.8	**P 6,644,999,637**	P 4,550,920,891
Accrued expenses	13	**4,121,324,604**	3,386,084,571
Output VAT payable		**616,174,653**	553,834,979
Advances from related parties	22.6	**328,070,715**	3,120,715
Others		**365,804,122**	88,763,837
		P 12,076,373,731	P 8,582,724,993

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, 2017 and 2016 is as follows:

	Onerous Lease	Dilapidations	Total
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	**P 295,593,594**	**P 147,651,851**	**P 443,245,445**

(AMOUNTS IN PHILIPPINE PESOS)

	Onerous Lease	Dilapidations	Total
Balance at January 1, 2016	P 476,915,255	P 317,343,255	P 794,258,510
Additional provisions	38,430,592	24,497,408	62,928,000
Utilized amounts	(96,770,381)	(207,364,882)	(304,135,263)
Reversal of unutilized amounts	(72,533,568)	-	(72,533,568)
Balance at December 31, 2016	P 346,041,898	P 134,475,781	P 480,517,679

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, 2017 and 2016, is between one to 13 years and one to 14 years, respectively.

Reversal of unutilized amounts in 2017 and 2016 are presented as part of Other revenues – net in the Revenues section of the consolidated statements of comprehensive income (see Note 17).

Additional provisions in 2017 and 2016 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 2017 and 2016 are presented as part of Provisions under the General and Administrative Expenses account in the consolidated statements of comprehensive income (see Note 19).

17. REVENUES

The details of revenues are shown below.

	Notes	**2017**	2016	2015
Sale of goods	2.14(a)	**P42,206,283,523**	P 40,446,981,708	P43,267,918,045
Other revenues – net	5, 6, 7, 8, 9, 12, 16.1, 22.7	**449,244,021**	571,119,482	377,158,639
		P 42,655,527,544	P 41,018,101,190	P 43,645,076,684

18. COSTS OF GOODS SOLD

The details of costs of goods sold for the years ended December 31, 2017, 2016 and 2015 are shown below.

	Notes	**2017**	2016	2015
Finished goods at beginning of year	8	**P 3,182,542,312**	P 2,326,981,897	P 2,109,429,719
Finished goods purchased	22.1	**2,708,008,237**	2,451,992,364	2,384,152,378
Finished goods from asset acquisition and acquired Business Unit	1.5	**72,967,150**	72,932,543	-
Costs of goods manufactured				
Raw and packaging materials at beginning of year	8	**3,654,636,927**	2,257,901,494	3,237,689,432
Net raw material purchases during the year	22.1	**24,130,040,271**	21,584,886,833	25,456,308,272
Raw materials from asset acquisition and acquired Business Unit	1.5	**71,725,250**	55,490,633	-
Raw and packaging materials at end of year	8	**(3,782,075,935)**	(3,654,636,927)	(2,257,901,494)
Raw materials used during the year		**24,074,326,513**	20,243,642,033	26,436,096,210
Balance carried forward		**P30,037,844,212**	P 25,095,548,837	P 30,929,678,307

(AMOUNTS IN PHILIPPINE PESOS)

	Notes	2017	2016	2015
Balance brought forward		**P30,037,844,212**	P 25,095,548,837	P 30,929,678,307
Work-in-process at beginning of year	8	**13,532,427,366**	11,494,183,891	9,901,698,258
Work-in-process from asset acquisition and acquired Business Unit	1.5	**1,136,866,550**	2,326,850,106	-
Direct labor	20.1	**942,212,981**	662,022,433	355,826,127
Manufacturing overhead				
Depreciation and amortization	9	**710,858,353**	644,914,252	473,317,155
Labor	20.1	**687,287,148**	370,816,640	352,087,287
Outside services	22.8	**266,253,636**	224,995,771	243,896,811
Communication, light and water		**265,495,168**	205,292,917	199,722,841
Rentals	22.3	**243,412,528**	287,119,043	263,111,349
Repairs and maintenance		**227,177,596**	199,587,113	118,267,079
Fuel and lubricants		**184,804,543**	258,845,115	276,502,232
Taxes and licenses		**130,527,539**	82,846,890	37,985,924
Commission		**115,079,828**	44,453,312	33,583,497
Consumables and supplies		**103,698,826**	80,688,274	90,219,850
Insurance		**46,293,269**	12,636,567	29,015,520
Transportation		**19,642,815**	21,887,826	14,062,146
Impairment losses	8	**19,104,221**	38,718,861	15,631,536
Meals		**11,832,479**	12,997,373	13,080,531
Gasoline and oil		**6,333,301**	7,091,410	9,084,216
Waste disposal		**-**	35,667,679	14,938,896
Miscellaneous		**222,125,129**	32,250,994	38,842,169
Work-in-process at end of year	8	**(17,786,098,444)**	(13,532,427,366)	(11,494,183,891)
		1,085,334,832	3,511,439,101	(986,689,533)
Finished goods at end of year	8	**(3,537,513,191)**	(3,182,542,312)	(2,326,981,897)
		P27,585,665,853	P 25,424,445,626	P 29,589,385,943

19. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

	Notes	2017	2016	2015
Advertising and promotions		**P 2,291,263,922**	P 2,039,096,773	P 1,388,252,577
Salaries and employee benefits	20.1	**1,267,285,851**	983,403,316	823,714,569
Freight and handling		**417,206,996**	437,708,284	888,372,559
Professional fees and outside services		**376,171,869**	785,204,281	548,353,765
Travel and transportation		**242,449,964**	193,034,711	179,234,217
Representation		**230,166,170**	169,207,464	139,968,574
Other services		**137,401,480**	139,271,026	152,280,665
Supplies		**135,303,486**	33,383,904	31,426,274
Rentals	22.3	**102,723,524**	81,644,936	116,178,960
Depreciation and amortization	9	**84,943,464**	63,323,879	63,324,580
Fuel and oil		**82,041,867**	67,001,705	64,562,374
Provisions	16	**77,921,880**	62,928,000	58,258,375
Taxes and licenses		**77,685,573**	57,822,484	63,810,806
Meals		**64,608,720**	60,904,788	59,476,344
Repairs and maintenance		**55,401,383**	6,410,108	46,097,042
Communication, light and water		**33,041,961**	22,846,569	28,405,326
Insurance		**13,472,816**	7,044,281	7,339,131
Amortization of trademarks	10	**11,199,938**	102,872,668	102,872,668
Trading fees		**-**	-	1,614,932
Others	10	**109,441,629**	50,808,711	314,304,224
		P 5,809,732,493	P 5,363,917,888	P 5,077,847,962

Others include royalty fees, subscription and association dues, postal services and other incidental expenses under the ordinary course of business.

(AMOUNTS IN PHILIPPINE PESOS)

These expenses are classified in profit or loss in the consolidated statements of comprehensive income as follows:

	2017	2016	2015
Selling and distribution expenses	**P 3,793,601,789**	P 3,510,668,920	P 3,249,646,048
General and administrative expenses	**2,016,130,704**	1,853,248,968	1,828,201,914
	P 5,809,732,493	P 5,363,917,888	P 5,077,847,962

20. EMPLOYEE BENEFITS

20.1 Salaries and Employee Benefits Expense

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

	Notes	2017	2016	2015
Salaries and wages		**P 2,250,519,987**	P 1,414,224,561	P 951,654,565
Post-employment defined contribution		**158,260,232**	154,347,392	178,991,900
Social security costs		**147,669,595**	133,340,737	144,009,108
Share options	20.2, 23.4	**26,958,169**	26,958,169	4,493,028
Post-employment defined benefit	20.3	**20,613,655**	13,358,011	14,382,872
Other short-term benefits		**292,764,342**	274,013,519	238,096,510
	18, 19	**P 2,896,785,980**	P 2,016,242,389	P 1,531,627,983

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	2017	2016	2015
Costs of goods sold (inventoriable costs)	18	**P 1,629,500,129**	P 1,032,839,073	P 707,913,414
General and administrative expenses	19	**1,032,198,005**	781,778,765	649,792,651
Selling and distribution expenses	19	**235,087,846**	201,624,551	173,921,918
		P 2,896,785,980	P 2,016,242,389	P 1,531,627,983

In 2017, 2016 and 2015, salaries and wages, post-employment benefits and other short-term benefits totaling P472.4 million, P461.7 million and P473.4 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.

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 2017 and 2016, and P4.5 million in 2015, while the corresponding cumulative credit to Share Options account is presented under the equity section of the consolidated statements of financial position (see Note 23.4).

(AMOUNTS IN PHILIPPINE PESOS)

20.3 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

Except for GES, which provides 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:

	2017	2016
Present value of the obligation	**P 13,022,020,968**	P 11,974,686,864
Fair value of plan assets	**(12,905,907,637)**	(10,973,737,068)
	P 116,113,331	P 1,000,949,796

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

	2017	2016
Balance at beginning of year	**P 11,974,686,864**	P 11,005,614,208
Foreign exchange adjustment	**1,181,203,320**	(1,443,156,000)
Benefits paid	**(546,884,250)**	(416,782,100)
Interest expense	**354,146,744**	389,220,205
Current service costs (see Note 20.1)	**20,613,655**	13,358,011
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in demographic assumptions	**(331,156,920)**	-
Changes in financial assumptions	**316,240,919**	2,392,254,665
Experience adjustments	**53,170,636**	26,213,217
Additions due to acquired subsidiaries	**-**	7,964,658
Balance at end of year	**P 13,022,020,968**	P 11,974,686,864

(AMOUNTS IN PHILIPPINE PESOS)

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

	2017	2016
Balance at beginning of year	**P 10,973,737,068**	P 10,541,446,500
Foreign exchange adjustment	**1,101,654,000**	(1,396,109,400)
Return on plan assets (excluding amounts included in net interest)	**785,024,906**	1,613,342,000
Interest income	**325,556,543**	375,840,068
Contributions to the plan	**266,819,370**	256,000,000
Benefits paid	**(546,884,250)**	(416,782,100)
Balance at end of year	**P 12,905,907,637**	P 10,973,737,068

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 P79.5 million in 2017 and P47.0 million in 2016.

The composition and the fair value of plan assets as at December 31, 2017 and 2016 by category and risk characteristics are shown below.

	2017	2016
Quoted equity securities	**P 5,919,218,027**	P 5,284,068,636
Index-linked gilts	**3,043,432,362**	2,269,299,186
Corporate bonds	**2,476,012,769**	2,137,745,610
Diversified growth fund	**825,337,590**	701,619,072
Property	**580,315,493**	482,363,112
Cash and cash equivalents	**61,591,396**	98,641,452
	P 12,905,907,637	P 10,973,737,068

Plan assets do not comprise any of the Group's own financial instruments 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:

	2017	2016	2015
Reported in profit and loss:			
Interest expense – net	**P 28,590,201**	P 13,380,137	P 36,190,473
Current service costs	**20,613,655**	13,358,011	14,382,872
	P 49,203,856	P 26,738,148	P 50,573,345
Reported in other comprehensive income (loss):			
Return on plan assets (excluding amount included in net interest)	**P 785,024,906**	P 1,613,342,000	(P 120,860,500)
Actuarial gains (losses) arising from:			
Changes in demographic assumptions	**331,156,920**	-	-
Changes in financial assumptions	**(316,240,919)**	(2,392,254,665)	540,878,062
Experience adjustments	**(53,170,636)**	(26,213,217)	(182,473)
	P 746,770,271	(P 805,125,882)	P 419,835,089

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 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.

(AMOUNTS IN PHILIPPINE PESOS)

In determining the amounts of the retirement benefit obligation, the following actuarial assumptions were used:

	2017	2016	2015
Discount rate	**2.64%-5.83%**	4.49%-5.51%	3.55%-5.38%
Expected rate of salary increase	**3.00%-6.00%**	4.00%-5.00%	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 male and female. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the retirement benefit obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Benefit Obligation*

The Group is exposed to actuarial risks such as interest rate risk, longevity risk and salary risk.

(i) *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 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 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, 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)**
December 31, 2016			
Discount rate	+0.25/-0.25%	(P 563,200,000)	P 608,000,000
Salary growth rate	+1.00%/-1.00%	134,400,000	(153,600,000)

(AMOUNTS IN PHILIPPINE PESOS)

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, 2017 and 2016, the plan is underfunded by P116.1 million and P1.0 billion, 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.

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

	2017	2016
Within one year	**P 288,616,904**	P 268,382,129
More than one but less than five years	**1,109,364,051**	1,050,198,219
More than five years but less than 10 years	**504,280,433**	484,400,982
	P 1,902,261,388	P 1,802,981,330

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:

	2017	2016	2015
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%, 25% and 20%	**P 1,376,256,022**	P 2,024,180,956	P 1,698,770,747
Final tax on interest income at 20% and 7.5%	**27,077,342**	28,393,807	26,760,146
Minimum corporate income tax (MCIT) at 2%	**7,077,616**	3,168,661	2,033,000
Deferred tax expense (income) relating to origination and reversal of temporary differences	**92,641,481**	(313,412,108)	(237,781,829)
	P 1,503,052,461	P 1,742,331,316	P 1,489,782,064
Reported in other comprehensive income (loss)			
Deferred tax expense (income) relating to remeasurements of retirement benefit obligation	**P 122,180,800**	(P 136,909,345)	P 69,367,587

(AMOUNTS IN PHILIPPINE PESOS)

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

	2017	2016	2015
Tax on pretax profit at 30%	**P 2,350,611,607**	P 2,830,709,565	P 2,534,951,505
Additional deduction in claiming optional standard deduction (OSD)	**(94,299,139)**	(405,692,407)	(558,234,820)
Adjustment for income subjected to different tax rates	**(13,692,546)**	(33,039,776)	(1,047,847)
Tax effects of:			
Non-taxable income	**(901,499,242)**	(696,837,326)	(396,976,869)
Non-deductible expenses	**288,392,765**	45,785,420	10,319,450
Unrecognized (utilization of) deferred tax asset on:			
Provision for interest expense	**(168,819,140)**	84,891,191	80,767,742
Net operating loss carry-over (NOLCO)	**164,157,566**	(25,321,576)	(8,710,298)
MCIT	**7,077,616**	3,168,661	2,033,000
Accelerated capital allowances and other short-term temporary differences	**(55,408,636)**	(20,989,168)	-
Equity in net income of joint venture	**(46,230,555)**	(65,783,076)	(39,002,292)
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	(134,317,507)
	P 1,503,052,461	P 1,742,331,316	P 1,489,782,064

The Group is 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. The Group paid RCIT in 2017, 2016 and 2015 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. In 2016, one of the foreign subsidiaries of the Group measured its deferred tax assets and deferred tax liabilities using the tax rate applicable when it expects to recover or settle the carrying amount of the related assets or liabilities.

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

	2017	2016
Brand valuation	**(P 1,639,406,000)**	(P 1,489,925,000)
Fair value adjustment	**(120,883,120)**	(101,765,080)
Short-term temporary differences	**(81,538,450)**	(53,700,740)
Capitalized borrowing costs	**(40,307,738)**	(12,393,502)
Retirement benefit obligation	**40,249,725**	183,809,568
Contingent liability	**30,539,600**	26,538,050
Allowance for impairment	**13,420,208**	13,997,223
Unamortized past service costs	**641,134**	747,989
Net deferred tax liabilities	**(P 1,797,284,641)**	(P 1,432,691,492)

(AMOUNTS IN PHILIPPINE PESOS)

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

	Profit or Loss			Other Comprehensive Income		
	2017	2016	2015	**2017**	2016	2015
Brand valuation	**P -**	(P307,484,000)	(P 197,019,801)	**P -**	P -	P -
Capitalized borrowing costs	**27,914,236**	12,393,502	-	**-**	-	-
Short-term temporary differences	**27,837,710**	196,110,132	(51,482,272)	**-**	-	-
Retirement benefit obligation	**287,560,855**	50,474,949	70,753,761	**(122,180,800)**	(136,909,345)	69,367,587
Fair value adjustment	**(247,353,640)**	(261,789,420)	(62,821,668)	**-**	-	-
Allowance for impairment	**577,015**	(5,389,576)	(1,027,899)	**-**	-	-
Unamortized past service costs	**106,855**	106,855	106,855	**-**	-	-
Contingent liability	**(4,001,550)**	2,165,450	3,709,195	**-**	-	-
Deferred tax expense (income)	**P 92,641,481**	(P 313,412,108)	(P 237,781,829)	**(P 122,180,800)**	(P 136,909,345)	P 69,367,587

In 2017, 2016 and 2015, 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 2017, 2016 and 2015 and the related outstanding balances as of December 31, 2017 and 2016 are as follows:

Related Party Category	Notes	Amount of Transaction			Outstanding Receivable (Payable)	
		2017	2016	2015	**2017**	2016
Ultimate Parent Company:						
Dividends paid	23.3	**P 2,461,037,736**	P 2,217,736,568	P 1,970,737,499	**P -**	P -
Advances obtained (paid)	22.6	**250,000,000**	-	-	**(250,000,000)**	-
Lease of properties	22.3(b)	**8,800,000**	8,000,000	8,000,000	**-**	(6,542,366)
Advances granted (collected)	22.7	**-**	(1,555,000,000)	(355,000,000)	**-**	-
Related Parties Under Common Ownership:						
Purchase of raw materials	22.1	**2,659,080,044**	3,368,144,240	3,014,462,087	**(388,836,242)**	(1,256,577,065)
Advances obtained (paid)	22.6	**75,000,000**	4,668,500,616	(6,537,641,100)	**(75,000,000)**	-
Sale of goods	22.4	**101,632,719**	95,353,130	40,865,368	**123,915,778**	69,152,844
Advances for land purchase	22.11	**46,350,000**	39,912,500	-	**231,066,071**	184,716,071
Lease of properties	22.3(a),(c)	**30,786,679**	25,576,466	82,457,771	**(1,976,198)**	(259,742)
Purchase of finished goods	22.1	**11,318,183**	10,684,018	4,686,357	**(205,786)**	(1,059,608)
Refundable deposits	22.3	**1,665**	-	-	**7,545,327**	7,543,672
Purchase of land	22.11	**-**	-	(992,082,400)	**-**	-
Acquisition of machinery and equipment	22.2	**-**	(191,584,700)	-	**-**	-
Acquisition of TEI	22.3(a), 1.3(c)	**-**	124,999,995	-	**-**	-
Advances granted (collected)	22.7	**-**	(73,798,800)	(1,960,700,222)	**-**	-
Management services	22.8	**-**	51,000,000	135,000,000	**(33,000,000)**	(33,000,000)
Interest income earned	22.7	**-**	22,485,362	76,798,759	**-**	-
Stockholder –						
Advances obtained (paid)	22.6	**(50,000)**	1,206,461	64,159	**(3,070,715)**	(3,120,715)
Officers and Employees –						
Advances granted (collected)	22.5	**15,234,354**	910,786	10,771,388	**37,636,599**	22,402,245
Key Management Personnel –						
Compensation	22.9	**238,913,371**	189,229,952	186,716,324	**-**	-

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 2017, 2016 and 2015 for related party receivables.

22.1 Purchase of Goods

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

The related unpaid purchases as of December 31, 2017 and 2016 are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

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) TEI

In 2014, the Group renewed its lease agreement with TEI, as the lessor, for a period of ten years ending on December 31, 2023, covering its main manufacturing plant facilities which include the production building, storage tanks for raw materials, and water treatment area, among others. Total rental expense arising from the above lease contract is presented as part of Rentals under the Costs of Goods Sold account in the 2015 consolidated statement of comprehensive income (see Note 18). In 2016, TEI became a wholly owned subsidiary of EDI and so intercompany rentals and balances in 2017 and 2016 were eliminated in the consolidation.

(b) 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, 2017 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). The outstanding liability from this transaction is shown as part of Trade payables under the Trade and Other Payables account in the 2016 consolidated statement of financial position (see Note 15). There was no outstanding liability as of December 31, 2017.

(c) Others

The Group also entered into lease contracts with Megaworld Corporation for the head office space of the Group's sales and bottling division. 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).

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).

(AMOUNTS IN PHILIPPINE PESOS)

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:

	2017	2016
Balance at beginning of year	**P 22,402,245**	P 21,491,459
Additions	**64,341,649**	28,218,049
Repayments	**(49,107,295)**	(27,307,263)
Balance at end of year	**P 37,636,599**	P 22,402,245

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:

	2017	2016
Balance at beginning of year	**P 3,120,715**	P 4,672,827,792
Additions (repayments)	**324,950,000**	(4,669,707,077)
Balance at end of year	**P 328,070,715**	P 3,120,715

22.7 Advances to Related Parties

In 2014, 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 is presented as part of Other revenues – net in the Revenues section of the consolidated statements of comprehensive income (see Note 17).

22.8 Management Services

EDI entered into a management agreement with TEI for the consultancy and advisory services in relation to the operation, management, development and maintenance of machineries. EDI also entered into another management agreement with Condis in relation to the same scope of work with respect to its distillery plant, which is transferred to PAI, EDI's subsidiary, when the distillery plant is leased to PAI starting 2017.

Total management fees incurred are presented as part of Outside services under the Costs of Goods Sold account in the 2016 and 2015 consolidated statements of comprehensive income (see Note 18). The outstanding liability as of December 31, 2017 and 2016 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.

	2017	2016	2015
Short-term benefits	**P 226,044,464**	P 181,160,370	P 185,587,151
Post-employment defined benefits	**12,868,907**	8,069,582	1,129,173
	P 238,913,371	P 189,229,952	P 186,716,324

(AMOUNTS IN PHILIPPINE PESOS)

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, 2017 and 2016 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 Corporation, a related party under common ownership, for a total consideration of P206.0 million. Of the total consideration, the Group already made cash payments totalling P46.4 million in 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, 2017; 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 Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

In 2015, the Group purchased certain parcels of land from Empire East Land Holdings, Inc., a related party under common ownership, located in Balayan, Batangas for a total consideration of P1.0 billion. There were no similar transactions in 2017 and 2016.

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, 2017 and 2016 is presented as part of Advances to suppliers under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

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.

23. EQUITY

23.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2017	2016	2015	**2017**	2016	2015
Common shares – P1 par value						
Authorized – 20.0 billion shares						
Issued and outstanding:						
Balance at beginning of year	**16,120,000,000**	16,120,000,000	16,120,000,000	**P 16,120,000,000**	P 16,120,000,000	P16,120,000,000
Additional issuance of shares (Note 14)	**122,391,176**	-	-	**122,391,176**	-	-
Treasury shares – at cost (Notes 2.23 and 23.2)	**(45,171,500)**	-	-	**(321,134,930)**	-	-
Balance at end of year	**16,197,219,676**	16,120,000,000	16,120,000,000	**P 15,921,256,246**	P 16,120,000,000	P16,120,000,000

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

On December 19, 2011, the Parent Company issued through initial public offering (IPO) an additional 22.0 million shares with an offer price of P4.50 per share. The Parent Company incurred P10.9 million IPO-related costs, P4.2 million of which was charged against APIC and the balance of P6.7 million was recognized as part of other operating expenses. Net proceeds from the IPO amounted to P90.8 million.

On December 27, 2012, the Parent Company issued additional 6.0 million shares with an offer price of P5.50 per share through a private placement.

On June 19, August 27 and September 5, 2013, the Parent Company's BOD, stockholders, and SEC, respectively, approved the increase in authorized capital stock of the Parent 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 Parent Company's BOD approved the issuance of 6.5 million shares at par value to two foreign investors. On August 28, 2013, AGI and other investors subscribed to an aggregate of 14.9 billion shares. Under the terms of AGI's subscription, the Parent Company acquired all of EDI shares held by AGI (see Notes 1.1 and 1.2).

On September 17, 2013, AGI launched an offering of 1.8 billion EMP shares, which is approximately 12.0% of the total issued shares. The said offering was priced at P8.98 per share. On September 25, 2013, the settlement date, the amount of P11.2 billion out of the net proceeds was directly remitted to EMP as an additional subscription price from AGI under the terms of the amended agreement with AGI; such amount is recorded as APIC in EMP's books. Costs related to the issuances amounting to P176.3 million were deducted from APIC.

On September 25, 2013, AGI beneficially acquired two of EMP's minority corporate stockholders which held a combined 9.55% of the total issued shares. Thus, AGI beneficially owns 87.55% of EMP as of December 31, 2013.

On December 4, 2014, the Parent Company issued additional 1.1 billion common shares with an offer price of P11.0 per share through private placement (see Note 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 Parent Company issued 122.4 million common shares at P6.80 per share in consideration of the accrued interest on ELS amounting to P832.3 million (see Note 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, 2017 and 2016, the quoted closing price per share is P7.35 and P7.00, respectively, and there are 161 and 188 holders for 2017 and 2016, respectively, which include nominee accounts, of the Parent Company's total issued and outstanding shares. The percentage shares of stocks owned by the public are 16.27% and 16.53% as of December 31, 2017 and 2016, respectively.

23.2 Treasury Shares

On May 12, 2017, the Parent Company's BOD authorized the buy-back of the Parent 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 Parent Company has repurchased 45.2 million shares for P321.1 million as of December 31, 2017. These repurchased shares are presented under Treasury Shares account in the 2017 consolidated statement of changes in equity and do not form part of the outstanding shares. There was no similar transaction in 2016 and 2015.

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).

(AMOUNTS IN PHILIPPINE PESOS)

23.3 Declaration of Dividends

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

	2017	2016	2015
Declaration date	**March 8, 2017**	July 18, 2016	June 17, 2015
Date of record	**April 3, 2017**	August 1, 2016	July 3, 2015
Date paid	**April 21, 2017**	August 18, 2016	July 28, 2015
Amount paid and declared	**P 3,006,380,000**	P 2,721,056,000	P 2,418,000,000

23.4 Employee Share Option

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

Pursuant to this ESOP, on November 6, 2015, the Parent Company granted share options to certain key executives of EDI to subscribe to 118.0 million common shares of the Parent Company, at an exercise price of P7.00 per share.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

Average option life	20.23 years
Average share price at grant date	P8.90
Average exercise price at grant date	P7.00
Average fair value at grant date	P4.09
Average standard deviation of share price returns	10.24%
Average dividend yield	1.08%
Average risk-free investment rate	4.89%

The underlying expected volatility was determined by reference to historical prices of the Parent Company's shares over a period of one year.

Share option benefits expense, which is included as part of Salaries and employee benefits under the General and Administrative Expenses account, amounting to P27.0 million was recognized both in 2017 and 2016, and P4.5 million in 2015, 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 Parent Company's ongoing share buy-back program restricts the Parent 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):

	2017	2016
DBLC	**P 631,781,950**	P -
AWGI	**2,875,000**	5,750,000
	P 634,656,950	P 5,750,000

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.

(AMOUNTS IN PHILIPPINE PESOS)

Also, in 2017, as discussed in Notes 1.5 and 3.1(c), the Group holds 50% ownership with DBLC; hence, the remaining 50% ownership interest and voting rights are held by NCI.

The summarized information of DBLC, before intragroup eliminations, is shown below.

Non-current assets	P 3,440,652,087
Current assets	2,937,848,903
Total assets	**P 6,378,500,990**
Non-current liabilities	P 2,902,362,801
Current liabilities	2,212,574,289
Total liabilities	**P 5,114,937,090**
Revenues	**P 1,117,037,292**
Profit for the period attributable to:	
Owners of Parent	P 10,535,616
NCI	10,535,616
Profit for the period	21,071,232
Other comprehensive loss attributable to:	
Owners of Parent	(226,636,116)
NCI	(226,636,116)
Other comprehensive loss for the period	**(453,272,232)**
Total comprehensive loss for the period	**(P 432,201,000)**
Net cash from (used in)	
Operating activities	(P 2,504,965,193)
Investing activities	(3,441,097,402)
Financing activities	6,136,745,813
Net cash inflow	**P 190,683,218**

No dividends were paid to the NCI in 2017 and 2016.

24. EARNINGS PER SHARE

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

	2017	2016	2015
Consolidated attributable to owners of the parent company	**P 6,321,783,945**	P 7,693,367,233	P 6,960,056,286
Divided by the weighted average number of outstanding common shares	**16,121,009,690**	16,120,000,000	16,120,000,000
Basic and diluted earnings per share	**P 0.39**	P 0.48	P 0.43

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).

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, 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.

(AMOUNTS IN PHILIPPINE PESOS)

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.

The future minimum rentals payable under these operating leases as of December 31, 2017 and 2016 are as follows:

		2017		2016
Within one year	P	49,267,606	P	86,634,548
After one year but not more than five years		49,486,609		50,023,365
	P	98,754,215	P	136,657,913

The future minimum rentals payable in 2017 no longer includes those pertaining to the lease with TEI [see Note 22.3(a)].

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 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, 2017 and 2016 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:

	2017	2016
Financial assets	**P 767,293,283**	P 618,636,298
Financial liabilities	**(215,872,099)**	(34,320,026)
	P 551,421,184	P 584,316,272

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.

	Reasonably possible change in rate	**Effect in consolidated profit before tax**	**Effect in consolidated equity**
2017	**4.09%**	**P 22,553,126**	**P 15,787,188**
2016	5.04%	P 29,449,540	P 20,614,678

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, 2017 and 2016, 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. These financial instruments will continue to be measured at fair value based on the index reference provided by certain foreign financial institution.

The Group believes that the change in foreign exchange rate related to foreign exchange margins trading spot rate and forward contracts will not materially affect the consolidated financial statements. The Group has recognized fair value gains in 2017 and 2015 and fair value losses in 2016 (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.

(AMOUNTS IN PHILIPPINE PESOS)

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 summarized below.

	Notes	2017	2016
Cash and cash equivalents	5	**P 10,162,413,848**	P 10,173,907,748
Trade and other receivables – net	6	**13,056,719,477**	10,234,025,120
Financial assets at FVTPL	7	**19,572,259**	-
Property mortgage receivable	11	**654,595,116**	597,604,251
Refundable security deposits	11	**46,467,016**	44,919,122
		P 23,939,767,716	P 21,050,456,241

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 and Financial Assets at FVTPL

The credit risk for cash and cash equivalents and financial assets at FVTPL is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements of EDI Group 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

In respect of trade and other receivables (except for advances to suppliers), the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good.

Some of the unimpaired trade receivables are past due as at the end of the reporting period. The trade receivables that are past due but not impaired are as follows:

	2017	2016
Not more than three months	**P 1,017,195,466**	P 1,356,838,529
More than three months but not more than six months	**614,043,343**	131,628,911
	P 1,631,238,809	P 1,488,467,440

The Group has no trade and other receivables that are past due for more than six months.

None of the financial assets are secured by collateral or other credit enhancements, except for cash, as described above.

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, 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.

(AMOUNTS IN PHILIPPINE PESOS)

The maturity profile of the Group's financial liabilities as at December 31, 2017 and 2016 based on contractual undiscounted payments is as follows:

	Within 6 Months	6 to 12 Months	1 to 10 Years
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
	P 11,889,562,698	**P 4,494,091,717**	**P 35,925,710,710**
December 31, 2016			
Interest-bearing loans	P 97,089,871	P 2,772,296,113	P 22,832,022,031
Trade and other payables	7,963,283,219	-	-
FVTPL liability	28,879,840	-	-
Equity-linked debt securities	-	-	6,738,766,650
	P 8,089,252,930	P 2,772,296,113	P 29,570,788,681

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

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.

		2017		2016	
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets:					
Loans and receivables:					
Cash and cash equivalents	5	**P 10,162,413,848**	**P 10,162,413,848**	P 10,173,907,748	P 10,173,907,748
Trade and other receivables - net	6	**13,056,719,477**	**13,056,719,477**	10,234,025,120	10,234,025,120
Property mortgage receivable	11	**654,595,116**	**654,595,116**	597,604,251	597,604,251
Refundable security deposits	11	**46,467,016**	**46,467,016**	44,919,122	44,919,122
		P 23,920,195,457	**P 23,920,195,457**	P 21,050,456,241	P 21,050,456,241
Financial assets at FVTPL	7	**P 19,572,259**	**P 19,572,259**	P -	P -
Financial Liabilities:					
Financial liabilities at amortized cost:					
Interest-bearing loans	13	**P 32,922,420,890**	**P 32,922,420,890**	P 24,099,767,650	P 24,099,767,650
Trade and other payables	15	**11,668,850,156**	**11,668,850,156**	7,963,283,219	7,963,283,219
Equity-linkeddebt securities	14	**5,227,114,518**	**5,227,114,518**	5,262,906,379	5,262,906,379
Accrued interest payable	14	**-**	**-**	562,730,466	562,730,466
		P49,818,385,564	**P 49,818,385,564**	P 37,888,687,714	P 37,888,687,714
Financial liabilities at FVTPL	7	**P -**	**P -**	P 28,879,840	P 28,879,840

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.

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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, 2017 and 2016 (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.

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 only to the Group's financial assets at FVTPL amounting to P19.6 million as of December 31, 2017 and financial liabilities at FVTPL amounting to P28.9 million as of December 31, 2016. These financial instruments are included in Level 2 as these comprise of foreign exchange spots and forward contracts classified as financial instruments at FVTPL (see Note 7). 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 [see Note 3.2(b)].

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.

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
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**

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	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities:				
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**

	2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 10,173,097,748	P -	P -	P 10,173,097,748
Trade and other receivables	-	-	10,234,025,120	10,234,025,120
Property mortgage receivable	-	-	597,604,251	597,604,251
Refundable security deposits	-	-	44,919,122	44,919,122
	P 10,173,097,748	P -	P 10,876,548,493	P 21,049,646,241
Financial liabilities:				
Interest-bearing loans	P -	P -	P 24,099,767,650	P 24,099,767,650
Trade and other payables	-	-	7,963,283,219	7,963,283,219
Equity-linked debt securities	-	-	5,262,906,379	5,262,906,379
Accrued interest payable	-	-	562,730,466	562,730,466
	P -	P -	P 37,888,687,714	P 37,888,687,714

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.

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:

	2017	2016
Total liabilities	**P 53,182,228,344**	P 42,077,912,539
Total equity	**58,353,553,645**	52,224,487,717
Debt-to-equity ratio	**0.91 : 1:00**	0.81 : 1:00

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial 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.

(AMOUNTS IN PHILIPPINE PESOS)

30. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

As a disclosure initiative, the Group presents below the reconciliation of the Group's liabilities arising from financing activities, which includes both cash and non-cash changes [see Note 2.2(a)(i)].

	Equity-linked Debt Securities (see Note 14)	Accrued Interest Payable (see Note 14)	Interest-bearing Loans (see Note 13)	Total
Balance as of January 1, 2017	P 5,262,906,379	P 562,730,466	P24,099,767,650	P 29,925,404,495
Cash flows from financing activities:				
Proceeds from additional loans obtained	-	-	9,429,100,456	9,429,100,456
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	-	89,520,000	510,313,143	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	P 5,227,114,518	P -	P32,922,420,890	P 38,149,535,408

CORPORATE INFORMATION

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Eastwood City CyberPark
188 E. Rodriguez Jr. Avenue
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Tel. No. 709-2038 to 41
Fax No. 709-1966

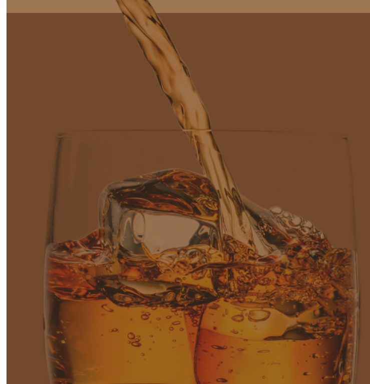
Date of Incorporation
November 26, 2001

Date of Public Listing
December 19, 2011

Stock Transfer Agent
BDO Stock Transfer
Banco De Oro Unibank, Inc.
15/F South Tower
BDO Corporate Center
7899 Makati Avenue
Makati City
Tel. No. 878-4052

Subsidiary
Emperador Distillers, Inc.

Principal Auditors
Punongbayan & Araullo
A Member Firm within
Grant Thornton International Ltd.
20/F Tower 1, The Enterprise Center
6766 Ayala Avenue, Makati City
Tel. No. 886-5511



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

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