CELEBRATING SUCCESS
TOGETHER

EMPERADOR INC.

2019 ANNUAL REPORT

Realizing success as a global player committed to the premiumization of our products and innovation of our processes

2019 ANNUAL REPORT

TABLE OF CONTENTS

ABOUT THE COVER

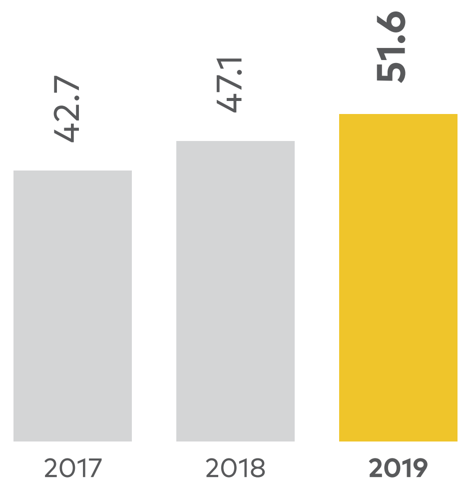
For decades now, Emperador has been enriching the celebration of special occasions of people across the globe. In every milestone, every festivity, and every moment, our products keep people company, making millions of celebrations more flavorful and memorable.

What if our positions were reversed? This 2019, we at Emperador invite you to join us as we toast to our performance highlights—from international recognitions to strong earnings growth—and embark on a journey to achieve more. Let's celebrate success together!

FINANCIAL HIGHLIGHTS

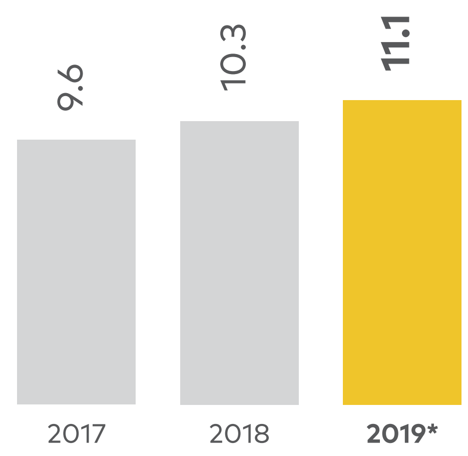
REVENUE

51.6 BN | +10% YOY



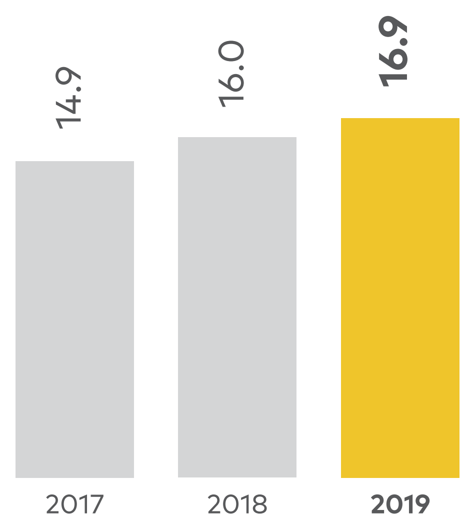
EBITDA

11.1 BN | +7% YOY



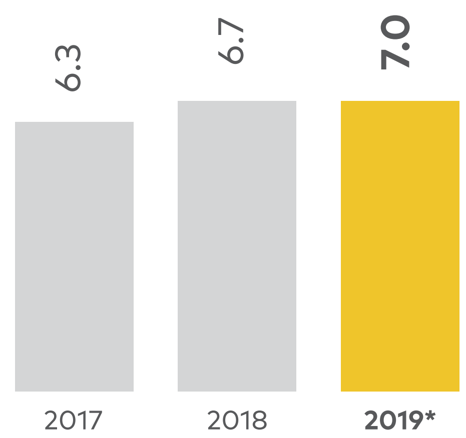
GROSS PROFIT

16.9 BN | +6% YOY



NET INCOME*

7.0 BN | +5% YOY



*Figures exclude nonrecurring gain. Net Income is attributable to parent only.

CHAIRMAN'S MESSAGE

Emperador remains steadfast and resilient in these unprecedented times. 2020 is a watershed year. As a well-managed company, Emperador will emerge stronger and pave the avenue for future growth.

DR. ANDREW L. TAN
Chairman

2019 marks our 40th anniversary. From humble beginnings 40 years ago, we have now become a global company. The company is well-placed to continue and improve its international presence and competitive positioning. Today, Emperador products can be found in more than 100 countries encompassing six continents around the world. I am very grateful and I am extending my deepest gratitude to our stakeholders, employees and partners for four decades of growth, expansion and success.

It is fitting that last year's revenues reached an all-time high of P51.6 billion, rising 10% year-on-year as both the Brandy and Scotch Whisky segments registered positive performances. Excluding a non-recurring charge, net profit jumped 4.0% to P7.1 billion and the portion attributable to owners rose 5.1% to P7 billion.

Your company continues to strive for product excellence and giving greater satisfaction to consumers' experience. Whyte and Mackay was named Scotch Whisky Producer of the Year and Fundador Supremo 18 won the Worldwide Brandy Trophy Award at the International Wine and Spirits Competition in 2019. These are testaments to our continued pursuit of innovation, quality and excellence.

Meanwhile, the year 2020 sees a liquor tax hike in the Philippines. The new taxation is a headwind for the domestic alcoholic beverage industry. And, again in early summer, the COVID-19 pandemic caught the world by surprise. Countries responded by imposing strict stay home quarantine. In the Philippines, the liquor ban was imposed by the local government units during the period of the Enhanced Community Quarantine. Our global presence continued to generate revenues and profit during the hard lockdown in the Philippines.

During this time, your company has responded by looking after the welfare of its employees and the needs of communities, here in the Philippines and abroad.

Emperador remains steadfast and resilient in these unprecedented times. 2020 is a watershed year. As a well-managed company, Emperador will emerge stronger and pave the avenue for future growth.

DR. ANDREW L. TAN
Chairman

EMP AT FORTY

1979

Dr Andew L Tan at age 27 goes into liquor, his first passion.

1990

Emperador Brandy, the first brandy label is launched in the Philippines.

2010

Emperador Light is launched in response to a growing market for alcoholic beverages with lower alcohol content and targeted at younger alcoholic beverage consumers.

2013

Emperador lists on the Philippine Stock Exchange.

2014

EMP acquires Whyte and Mackay Group Limited of UK, enters the Scotch whisky business.

2016 - 2017

EMP acquires Beam Suntory's Spain-based brandy and sherry business. Iconic Fundador, Terry, Tres Cepas, and Harveys become EMP brands.

EMP acquires the Domecq brandy and wine trademarks and related assets from Pernod Ricard, SA, giving it access to brandy market in Mexico.

2019

40 years of liquor

To successful ends and wonderful beginnings, let's all raise our glasses.

ASIA PACIFIC • MIDDLE EAST AND AFRICA • THE AMERICAS AND CANADA • EUROPE • TRAVEL RETAIL

BRANDY

THE WORLD'S BEST

"The best in the world" is the highest acclaim one can ever ask for.

INTERNATIONAL AWARDS WON IN 2019

6	DOUBLE GOLD MEDALS
10	GOLD MEDALS
21	SILVER MEDALS
2	BRONZE MEDALS

FUNDADOR SUPREMO 18

From its distinguished aroma to its notes of fruits and nuts, the Fundador Brandy never fails to give an exquisite drinking experience.

Conquering the World, Winning New Markets

2019 was a year of victories for Bodegas Fundador as it reaped worldwide distinction. Fundador Supremo – the 18 YO prestige expression of the "Sherry Cast Collection" – was hailed the Best Brandy in the World at the 2019 International Wine and Spirits Competition. Harveys Oloroso VORS was also recognized as the world´s Best Sherry. For these esteemed titles, it is no wonder why Bodegas Fundador also received the top credit of being the "Fortified Wine Producer of the Year".

The Supremo taste is described to have aromatic, warm and round notes of dried fruits and roasted nuts combined with smooth, strong and intensive hints of vanilla and walnuts. The notes of wood stand out and give a very elegant and lingering finish. It is part of the Sherry Cask Collection having three expressions of a Fundador Solera Gran Reserva, drawing from flavors of exquisite sherry wines aged 12, 15 and 18 years. The sherry cask is made from oak and it balances the spirit. This and its notes of creamy vanilla, dried fruits, and toasted nuts are what make this the champion brandy.

Loud and proud: Fundador's award-winning product line

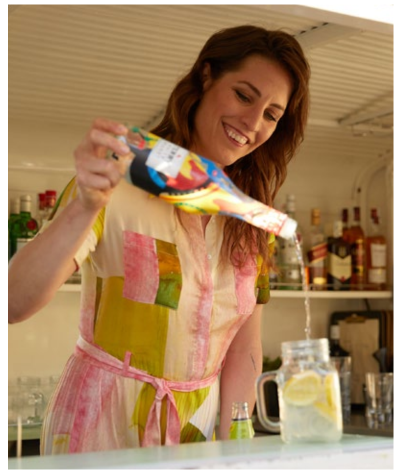
Supremo went on a Travel Retail campaign all over key locations in Spain to engage and educate new markets of the revolutionary and award–winning category. All over the world, more and more drinkers are experiencing the premier–tasting Fundador Brandy as it continues to enter new and promising markets in the United Kingdom and Asia. Meanwhile, we also clinched new alliances to reach new markets in Italy and Canada and to elevate awareness of its premium brands.

Harveys continued to be the market leader in the United Kingdom. During this time, it went on trial at the aperitifs retail space where demand is strong in Spain. In other markets in the US and Canada, Harveys was introduced with a new look, as part of its strategy to communicate the brand design.

Terry Centenario has its share of approval, maintaining a clear leadership in its category in Spain. Terry White Brandy launched a very dynamic communication plan to increase brand awareness and attention among the millennial generation. It also continues to expand and actively increase the numeric distribution bringing up visibility in these marketing channels. In Mexico, we strengthened our presence with new partners such as Casa Pedro Domecq. With a huge market filled with big opportunities for white spirits, we successfully launched the vividly bottled Terry White Brandy.

TERRY WHITE

That hip and vibrant packaging probably says it all.



Let creativity flow with every drop of Terry White. With its versatility, your own concoctions are sure to be thrilling!

Terry White Brandy is a unique expression that has a smooth refreshing flavor while brimming with a balanced and aromatic taste. Created to be a versatile drink that can be combined with any type of soft drink, juice or tonic, it dares to conquer new generations, particularly the millennial set, who finally have a brandy with which the boldest mixtures can be concocted. Whether alone watching the sunset and partying with friends, Terry White is enjoyed as the perfect cocktail companion.

Beginning 2020, brandy and sherry will see exciting developments as we have new projects already lined up. One is the new designs being readied for Triple Wood for Fundador. We are also excited for new Harveys variants to be concocted for sherry consumers coming from a younger crop.

WHISKY

EXPERTLY CRAFTED

Seeing the rising number of young consumers who are conscious of their alcohol intake, Whyte and Mackay developed a lighter spirit with 21.5% ABV—compared to other whiskeys which have at least 40% ABV.

Celebrating

175 years

in the whisky-making industry

WHYTE AND MACKAY LIGHT

The spirit drink is expertly crafted with the same younger, lighter consumer in mind.

Make hanging out more fun by pairing your long bonding with a light drink that still gives that intensive flavor.

Whyte and Mackay at 175: Strong, healthy and still growing

Whyte and Mackay once again delivered an outstanding performance in 2019. Our business continued to expand in every major region around the world. Growth was mainly driven by strong business in Asia, followed by very satisfactory results across Europe and North America. No wonder it won the award for "Scotch Whisky Producer of the Year" at the prestigious 2019 International Wine and Spirits Competition. This triumph is a perfect tribute to 175 years of whisky-making for the makers of world-renowned scotch whisky brands such as The Dalmore.

The Dalmore continued to deliver stellar performance as it once again reached the apex of the single malt category. It stood out in 2019 when rare releases broke into the market, driving demand up and giving consumers more opportunities to experience the exceptional quality of the liquids and the core range. The Dalmore brand continues to receive support with the company investing in a new "Brand Home" at the distillery.

Very promising consumer momentum across UK and Europe is driving growth in Jura, the second largest profit contributor. We introduced the new Jura Journey entry level malt, which together with

Whyte & Mackay Light, the latest innovation by W&M.

the aged 10– and 12–year olds, have consistently shown strong positioning in the very competitive mainstream category. This bodes well for future successes across other regions.

Our third single malt brand, Tamnavaulin, is performing as exceptionally. The excellent sherry–finished Speyside single malt is enjoyed and gaining a good share across all regions of the world where it has been launched. In UK and Europe, its new products and listings have been launched successfully. The Global Travel Retail range has likewise experienced significant success, a main key to support the long–term growth of the brand.

One full year after its launch in 2018, our final single malt brand, Fettercairn, has enjoyed widespread acclaim. With its new packaging with its standout iconic unicorn symbol, the exceptionally refined whisky, the rare range (28 YO, 40 YO and 50 YO) and the core 12-year-old all have enjoyed strong initial sales in all listings, indicating a huge global potential.

Beyond the scotch whisky performance, the year was packed with significant mileposts. Whyte and Mackay witnessed a remarkable year in the UK with the launch of a new bottle design and the introduction of Whyte & Mackay Light, bringing fresh and energetic momentum to the brand. Launched in 2018, Whyte & Mackay Light is the new lighter spirit drink crafted by the expert distillers at Whyte & Mackay.

Whyte & Mackay Light is the new lighter spirit drink crafted by the expert distillers at Whyte and Mackay.

This spirit drink is a blend of malt and grain whiskies, then enriched in sweet Sherry casks and freshly emptied Bourbon barrels resulting in a smooth and subtly smoky flavor. As a lighter spirit drink bottled at 21.5% ABV, this delivers an attractive option for the growing number of consumers — especially younger alcohol drinkers — who may be looking to keep an eye on their alcohol intake. The product, which can either be mixed as a long drink or enjoyed neat or over ice, is expectedly smooth and surprisingly intensive in flavor.

In the meantime, John Barr was launched in a targeted consumer campaign in the East Coast of the US as well at a step change distribution drive in France. The brand was well received in all these occasions, showing that this brand can effectively challenge others in this highly competitive market.

Our customer–centric Private Label business performed no less than our main brands. Our efficient and effective service offering of quality spirits is very well regarded and has allowed us to make material gains across a number of major international retailers.

Whyte & Mackay Light, the new premium, low-ABV spirit drink.

Proud as we are all these successes, we see that the best is yet to come. We have the foundations for expansion and continue to invest across the business for future growth. Our strength lies not only on our reach and accomplishments but deeply in the strong level of Strategic Marketing support that we maintain across our growing brand portfolio and in the increasing commercial resources we have in key disciplines and geographies. Our investments in the assets of the business are aligned with strategies that will improve efficiency and flexibility, while our investments in barrels will continue to ensure that our spirit quality are always at the highest levels.

Whyte and Mackay at 175 years old is in very good health and looks forward to many, many more years of growth.

GIN

NEWEST AND HIPPEST

When aesthetic and flavor unite, you'll get The BaR. Influenced by European trends, it is specifically tailored for millennials and their love for parties and social media.

3 VARIANTS FOR THE NEW GINERATION

- **Pink Gin**
- **Lime Gin**
- **Premium Dry Gin**

THE BAR

After the great launch of a new series of gin products in 2018, Emperador moved on in 2019 to drum up more attention for the newest and hippest alcoholic beverage in town.

Refreshingly fabulous and delightful, The BaR perfectly captures the flavors of youth.

Aimed at the young and social media-loving set, The BaR initially gained popularity in Europe and is now increasingly gaining ground in the local scene.

Emperador capitalized on the attraction of the color pink of its The BaR Pink Gin variant and used it in its marketing campaigns such as its "Pink - In Love" Valentine's Day campaign. Other sought-after variants of the citrusy-lime colored Green Gin and Premium Dry Gin were also pushed through its "Colors of Summer" campaign.

All variants of The BaR are widely available in leading supermarkets, groceries, convenience stores and even in sari-sari stores in many neighborhoods.

RUM

REAL PHILIPPINE RUM TO THE WORLD

The award winning Zabana Sherry Oak Cask is rum aged in sherry casks from Jerez de la Frontera, Spain.

Real rum crafted with the Philippines' finest sugarcane

ZABANA RUM

Proudly local, Zabana Rum conquers new heights in the international spotlight.

If Filipino pride had a taste, it would be Zabana Rum. Its distinctive tropical notes are definitely a reflection of its roots.

Zabana takes pride in being the Real Rum of the Philippines as it is crafted from the finest sugarcane grown by Filipino farmers and aged in extraordinary barrels.

The country's rich volcanic soil supplies the exact essential nutrients to grow sugarcane, while the tropical climate provides the right temperature and humidity to age rum.

Emperador has truly created an exceptional rum collection with the Zabana Rum variants garnering multiple awards, including two gold medals from the prestigious Monde Selection. The Zabana White Rum, one if its variants, has won four awards since it was launched in 2018. This outstanding rum has a unique blend of anise and citrus with tropical notes, making simple cocktails, extraordinary.

Zabana recently introduced three new variants under the Small Batch collection: Zabana 1997, Sherry Oak Cask, and Tropical Spiced Rum. This line is handcrafted and produced in limited quantities. The Zabana 1997 is from a solera system built—true to its name—in 1997. On the other hand, the Zabana Sherry Oak Cask is rum aged in sherry casks from Jerez de la Frontera, Spain, while the Zabana Tropical Spiced Rum has notes of warm spices and tropical fruits of the Philippines.

SUSTAINABILITY

HIGH-IMPACT ACTIVITIES IN THE SERVICE OF THE BIGGER COMMUNITY

Emperador's three-fold corporate philosophy—*sipag, tiyaga at responsibilidad* (diligence, forbearance, and responsibility)—is the anchor of the company's strong sense of sustainability and stewardship of the resources it uses for its business. Moreover, through the hard work and patience of its people, Emperador takes responsibility for the impact of its activities and products on the bigger community.

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

This statement stands on three pillars—social, environment, and economic—articulating the company's management approach to the company's sustainability performance.

Environment

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

Social

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

Economic

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

Thus, Emperador measures its success as a company on the preservation and sustainability of the environment and on the prosperity of the communities where it operates. On one hand, Emperador continuously improves its processes to use energy and water efficiently in its production and operations and reduce its carbon footprint. On the other, it undertakes a number of community-based programs that contribute to the success and welfare of the people and households it touches.

It takes to heart its commitment to bring people and communities together while fostering responsible consumption and enjoyment of its products.

Emperador's environmental and social programs cover a range of areas that support the United Nations Sustainable Development Goals (UN SDGs), especially seven that have been identified to be the most material to its operations.

As an alcoholic beverages company, Emperador identifies Responsible Consumption and Production, or SDG 12, as the topic most material to the company both financially and in terms of the UN SDGs. Apart from SDG 12, the most material topics pertain to SDG 3, Good Health and Well-Being; SDG 5, Gender Equality; SDG 6 Clean Water and Sanitation; SDG 7, Affordable and Clean Energy; SDG 8, Decent Work and Economic Growth; SDG 13, Climate Action; and SDG No. 14, Life Below Water.

SUSTAINABLE DEVELOPMENT GOALS

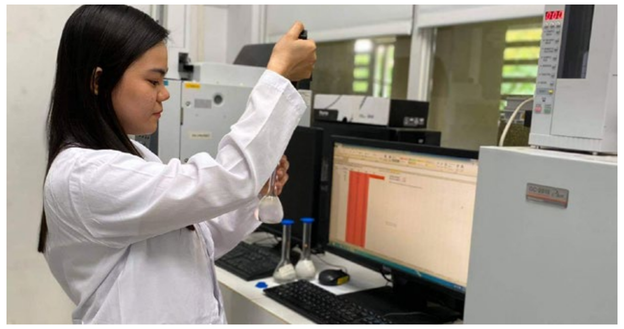
RESPONDING TO THE UN SUSTAINABLE DEVELOPMENT GOALS

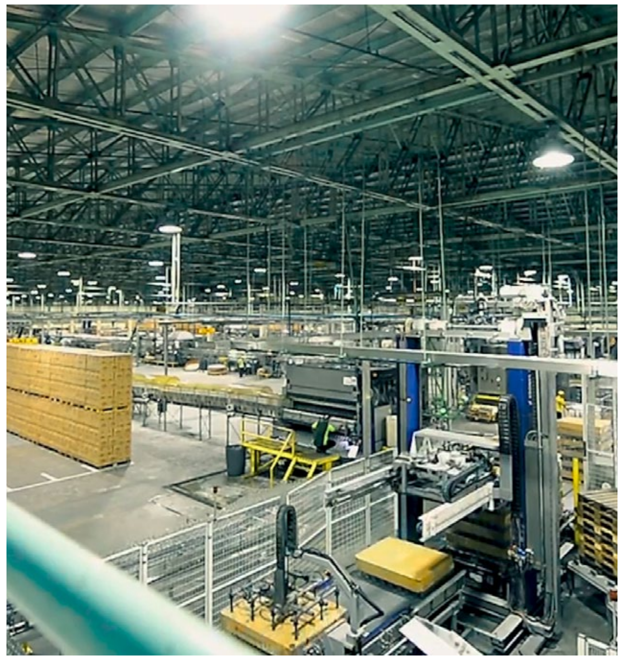
Through its business units in the Philippines, Spain, Mexico, and the United Kingdom, Emperador responds to the UN Sustainable Development Goals while staying true to its mission of celebrating life's special occasions while protecting the environment, deepening social interactions, and exercising prudent governance.

The matrix below shows some of the activities undertaken by Emperador in relation to SDGs identified to be of high financial materiality and high SDG exposure.

3 GOOD HEALTH AND WELL-BEING	Priority given to workplace safety; Safety Officer in all facilities
5 GENDER EQUALITY	Equal opportunity employment; Workforce diversity
6 CLEAN WATER AND SANITATION	Wastewater management; Protection of bodies of water
7 AFFORDABLE AND CLEAN ENERGY	Adoption of renewable energy sources; Conversion of byproducts into biogas; Creation of photovoltaic parks and use of solar panels; Utilization of LED lighting; Enhanced cooling/chilling systems
8 DECENT WORK AND ECONOMIC GROWTH	Employee training and development programs; Sufficient compensation and rewards; Respect for workers' right to organize; Promotion of work-at-home plans
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Utilization of recycled bottles; Facilities built for proper segregation and recycling of waste
13 CLIMATE ACTION	Energy-efficient facilities; Controlled deficit irrigation; Rainwater recovery systems; Adoption of spray-sprinkler systems; Segregation of waste generated in cullet washing; Building of clean areas for materials segregation and recycling
14 LIFE BELOW WATER	Adopt-a-river programs; Coastal cleanups; Wastewater treatment

ENVIRONMENTAL PERFORMANCE





The following areas showcase Emperador's sustainability efforts and programs for the welfare of employees and the communities hosting its facilities.

RENEWABLE ENERGY

Emperador promotes the use of renewable energy, particularly biomass and solar power.

Its distilleries in the Batangas towns of Nasugbu and Balayan operated by subsidiary Progreen Agricorp Inc. (Progreen) utilizes Anaerobic Biomethanation System. This treatment system converts the organic matter in the spent wash into useful energy in the form of biogas. The biogas that is generated from the bioreactor is then used as fuel in the boiler. Its wastewater treatment process produces significant quantities of renewable energy. In fact, 60% of the plant's energy requirements come from the naturally produced biogas. For both its plants in Batangas, Progreen had invested in in-house co-generation facility, enabling the plants to produce electricity to supply their own power requirement thereby enhancing their energy efficiency and reducing their dependence on fossil fuels.

Progreen also reuses its treated wastewater as organic fertilizer. Slops, or the spent wash resulting from the distillation process, is usually considered as waste but it has all the essential fertilizer elements needed for the growth of plants.

Progreen was issued with an environmental compliance certificate from the Department of Environment and Natural Resources (DENR) for its application of distillery waste as fertilizer.

In Mexico, there is an ongoing shift to the use of solar panels in the Pedro Domecq winery, which is expected to generate 53.4 kWh to power the internal and external lighting of winery's production and perimeter areas. The photovoltaic park is also expected to reduce the winery's carbon emissions by 63 tonnes.

The biogas produced through the anaerobic treatment of wastewater in Bodegas Fundador's distillery in Tomelloso, Spain, and used for its boilers effectively reduces approximately 40% of the plant's annual energy consumption.

ENERGY-EFFICIENT FACILITIES

Emperador's offices and production facilities have long implemented natural and LED lighting locally and globally. It has also adopted natural ventilation in the design of its facilities, reducing the group's GHG emissions and energy consumption.

In Mexico, in the Ensenada, Baja California plant, the chiller system equipment has been modified to use a more energy-efficient compound, replacing ammonia, realizing 229 MWh in energy savings and 106.5 tonnes in carbon reduction.

ENVIRONMENTAL PERFORMANCE

In 2019, as part of a groupwide initiative of Alliance Global Group, Inc. (AGI), Emperador identified the sustainability topics most material to the company. The exercise led to the establishment of baseline data on the impact of the company's businesses in terms of topics identified following the ESG—environmental, social, and governance—framework. With this information, the company aims to develop a clearer roadmap to future sustainability goals.

GREENHOUSE GAS EMISSIONS	
104,753 tCO2e	
SCOPE 1 EMISSIONS	72,837 tCO2e
SCOPE 2 EMISSIONS	30,410 tCO2e
SCOPE 3 EMISSIONS	1,506 tCO2e

In its exercise of stewardship of the resources it uses for its business, Emperador measured its operational greenhouse emissions, water consumption, and waste generation to further mitigate its impact on the environment.

OPERATIONAL GREENHOUSE GAS EMISSIONS

In 2019, Emperador accounted for 104,753 tCO2e in operational GHG, divided between Scope 1 emissions at 72,837 tCO2e; Scope 2 (location-based), 30,410 tCO2e; and Scope 3 (location-based), 1,506 tCO2e.

Scope 1, or direct, GHG emissions refer to emissions of company-owned vehicles and company facilities. Scope 2 emissions are from electricity purchased and used by the company. Scope 3 emissions come from activities of the company occurring in sources it does not own or control.

Scope 1 emissions from both stationary (70,419 tCO2e) and mobile emissions (2,418 tCO2e) accounted for most of the total volume. Scope 2 emissions came from electricity consumed in-location (30,410 tCO2), while Scope 3 came from waste generated during operations (456 tCO2e) and from business travel (1,051 tCO2e). Assessor showed that in 2019, the company's absolute water use was 5,472,306.1 million cu. meters, of which 4.8 million were directly abstracted (87.72%) and 671,809 (12.28%) supplied water by utilities. A total of 61,539.5 cu meters (1.12%) were reused.

ENVIRONMENTAL PERFORMANCE

EFFICIENT WATER USE

Emperador strives to efficiently use water, the primary ingredient of its products.

Its vineyards in Toledo, Spain have implemented controlled deficit irrigation on a massive scale. Controlled deficit irrigation is a water management strategy that concentrates the application of limited seasonal water supplies on critical crop growth stages. This allows the collection and reutilization of water in all the planting processes, without sacrificing the quantity and quality of the yield.

In Mexico, rainwater recovery systems have reduced water consumption by 19% during the harvest season and 38% for the rest of the year. Also in Mexico, Pedro Domecq has installed a spray sprinkler system that has cut the monthly consumption of water used for the hydration of barrels used in the aging of brandy by 45%.

PROTECTION OF BODIES OF WATER

Ensuring clean sources of water is paramount to the business of Emperador. Apart from continuously improving its production processes to conserve water resources, the company has undertaken various community projects focused on cleaning rivers and beaches.

Through Progreen, Emperador has adopted the Langgangan River in Balayan to protect the body of water from upstream waste coming from households and plant litter. The company has also planted trees in the area to improve the ecological health of the river system and the safety of the community. Another subsidiary, Anglo Watsons Glass Inc. (AWGI), has participated in river clean-ups by the Calamba, Laguna office of the DENR.

In 2019, Progreen also conducted a clean-up activity along the coast of Balayan Bay covering the coastal area of the company and of the host barangay, Gimalas. The activity yielded 80 sacks of waste—mostly household and organic waste, plastic bottles, and plastic bags—weighing 30 to 40 kgs each. Emperador also initiated a coastal clean-up drive in Paraw Beach Resort Iloilo and in General Luna, a municipality of Siargao.

ENVIRONMENTAL PERFORMANCE

ABSOLUTE WATER USE		
5,472,306.1 million cu.meters		
DIRECTLY ABSTRACTED	4.8 million	87.72%
SUPPLIED	671,809	12.28%

WATER USE

Water is a primary ingredient of all Emperador products; thus, the company endeavors to use this resource efficiently in its manufacturing processes. Baseline data gathered by the third-party assessor showed that in 2019, the company's absolute water use was 5,472,306.1 million cu. meters, of which 4.8 million were directly abstracted (87.72%) and 671,809 (12.28%) supplied water.

ENVIRONMENTAL PERFORMANCE

WASTE SEGREGATION AND RECYCLING

In the Philippines, Emperador recycles the bottles it uses for its brandy products, with 50% of its production utilizing recycled bottles.

In Laguna, AWGI's cullet washing facility enables proper segregation of aluminum caps, plastic and paper labels, ferrous caps/crowns, and other waste materials from the recovered bottles and broken or refuse glass. AWGI's new internal warehouse also eliminates the need to transport goods to external warehouses.

In Spain, the company built a "clean area" in its bottling plant to properly store and segregate glass, cardboard, wood, and solid rubbish for recycling.

ENVIRONMENTAL PERFORMANCE

Intensity of Emperador's operational GHG emissions, water consumption, and waste generation*

	Per sq. meter	Per employee	Per million PHP
GHG Intensity (in tCO2e)	4.09	30.3	2.03
Water Use Intensity (in cu. meters)	213.76	1,582.96	106.12
Waste Generated (in tonnes)	0.88	6.53	0.44

**According to total floor area of premises and facilities (25,600 sq. meters), number of employees (3,457), and revenue generated (PHP 51,565 million) in 2019.*

WASTE GENERATION AND RECYCLING

Absolute waste generated was 22,587.94 tonnes, 85% of which was recycled and 15% sent to landfill. Major types of waste that contributed to the total mass were solid waste, food waste, textile, glass, and paper.

To further promote responsible plastic use, all of Emperador's products are packaged mostly in 100% recyclable materials like glass, fiber boxes, and paper labels. It intends to increase its glass bottle recycling with the construction of its own bottle washing facility in Laguna, due for completion in the next three years.

ENVIRONMENTAL STANDARDS

Emperador's operations in all its locations—Philippines, Spain, Mexico, and Scotland—comply with applicable environmental laws and regulations. It has environmental management and waste management programs for effective contamination management and preservation of ecosystem services.

The Environment Management Program sets guidelines for the management of hazardous wastes, non-hazardous solid wastes, and air emissions; and energy and water conservation efforts. On the other hand, the Waste Management Program sets guidelines for waste classification into hazardous and non-hazardous; monitoring, handling, storage, treatment, and disposal of hazardous wastes; and preventing any risk to public health and environment in waste management.

In its production facilities in Spain, Bodegas Fundador maintains ISO 9001:2015 on quality management system and complies with ISO 14001:2015 on environmental management systems. ISO 14001: 2015 requires an organization to consider all environmental issues relevant to its operations, such as air pollution, water and sewage issues, waste management, soil contamination, climate change mitigation and adaptation, and resource use and efficiency.

SOCIAL ENGAGEMENT

EMPLOYEE WELFARE

In Spain, the company has launched a "work-at-home" plan, promoting teleworking and the use of technology-driven tools to drive productivity. In the United Kingdom, Whyte and Mackay promotes the use of Microsoft Teams to limit travel, without sacrificing collaboration and teamwork.

In all its locations, the company has undertaken various initiatives related to health in the workplace, i.e. health and safety plans.

COMMUNITY WELFARE

As a responsible corporate citizen, Emperador undertakes various local programs aimed at improving the conditions of the communities where they operate.

A number of initiatives were undertaken to promote responsible drinking. In the UK, the Whyte & Mackay Light was launched to meet the growing demand for lower ABV (alcohol by volume) drinks. And recognizing the problems that may arise from alcohol misuse, Whyte & Mackay has supported the Portman Group and the Drinkaware Trust in their goal of promoting and providing advice on packaging, advertising, and safe drinking behavior. In the Philippines, Emperador launched the Emperador Double Light, a lower ABV variant of Emperador Light and Original.

Whyte and Mackay identifies and supports employee-recommended causes. A different charity is identified on a monthly basis and provided with a range of financial and material assistance. As part of this initiative, Whyte and Mackay has supported the UK's Mental Health Foundation, participating in programs specifically aimed at recognizing individuals who have made a positive impact on the community.

Still in line with promoting mental health, Whyte and Mackay employees in its various locations have taken on the challenge of covering 29,000 miles around the world—walking, running, rowing, and cycling—to raise for mental health charities across the globe. This challenge was inspired by the heroic feats of Captain Sir Thomas Moore, former British Army officer and centenarian, who raised money for charity in the run-up to his 100th birthday in April 2020, in the midst of the COVID-19 pandemic. In the UK, the company is supporting the Scottish Association of Mental Health. Other charities being supported by this initiative are the Canadian Mental Health Association, Mental Health America (USA), The Syin-Lu Social Welfare Foundation (Taiwan), The Mental Health Association of Hong Kong, Al Jalila Foundation (UAE), and the South African Federation of Mental Health. As of end-July 2020, an impressive 17,000 miles have been recorded and £28,000 raised of the £50,000 target.

SOCIAL ENGAGEMENT

Emperador considers customers and employees as primary stakeholders and, as such, has sought to address their concerns adequately and maintain healthy and satisfactory relations with them at all times. The topics considered under social engagement include customer management, workforce diversity, workplace safety, employee training and development, compensation and rewards, and employee relations.

CUSTOMER MANAGEMENT

The company prioritizes feedback from customers. It is committed to resolving issues raised by customers through its credit and collections and customer relations departments. In addition, its commercial services team and quality assurance department address customer complaints and grievances expediently.

WORKFORCE DIVERSITY

Emperador is an equal-opportunity employer, and does not discriminate based on age, gender, race, color, religion, and other factors. It gives full and fair consideration to the employment of disabled persons and women for suitable jobs, as well as their training, career development, and promotion within the group.

As of 2019, the company employed a total of 3,457 workers worldwide, 76% (2,632) of whom are male and 24% (825) female.

Female representation in the executive ranks is notable in the Philippines and Mexico operations, at about 54% and 74%, respectively. In non-executive ranks, female representation in the UK workforce is the highest among the company's locations, at 67%.

PHILIPPINES		Executive	Non-Executive	Total Employees
Gender	Male	22	2045	2597
	Female	12	518	
Age Group	Under 30	0	984	
	30-50	19	1411	
	Over 50	15	168	

SPAIN		Executive	Non-Executive	Total Employees
Gender	Male	20	127	184
	Female	3	34	
Age Group	Under 30	0	3	
	30-50	17	89	
	Over 50	6	69	

MEXICO		Executive	Non-Executive	Total Employees
Gender	Male	74	7	136
	Female	55	0	
Age Group	Under 30	27	0	
	30-50	93	4	
	Over 50	9	3	

UK		Executive	Non-Executive	Total Employees
Gender	Male	78	259	540
	Female	29	174	
Age Group	Under 30	4	66	
	30-50	78	203	
	Over 50	25	164	

SOCIAL ENGAGEMENT

In the Philippines, community programs have been numerous and diverse. These programs include, among others, the annual blood-letting program held at the AWGI campus in Calamba in coordination with the Philippine Red Cross and participation in the Brigada Eskwela program of the Department of Education (DepEd). Brigada Eskwela is DepEd's annual clean-up and rehabilitation of school buildings and classrooms prior to the start of the schoolyear.

In early 2020, in response to calls for monetary donations for those affected by the eruption of Taal Volcano, Emperador employees held a silent auction of used clothing and bags donated by employees. Proceeds of the auction were given to 13 Emperador employees affected by the calamity. In addition, the company distributed 450 bags of relief goods to three barangays in the Batangas town of Talisay, which was badly hit by the eruption.

SOCIAL ENGAGEMENT

WORKPLACE SAFETY

At Emperador, the health and safety of employees is a top priority. In 2019, for permanent employees, the company's total recordable incident rate (TRIR) was 40.94 and the near-miss frequency rate (NMFR) was 34.97. For seasonal employees, TRIR was nil and NMFR was less than one (0.73).

Emperador has a Safety Officer that periodically organizes training programs and seminars to improve employee awareness and knowledge of health and safety at the workplace. In strategic locations in all its sites across the world, safety reminders are prominently displayed to inculcate health awareness and promotion among all employees. The company also provides personnel protective equipment (PPE) to all employees who need it for their work.

After every health and safety incident, the Safety Officer conducts a root-cause analysis of the incident and draws up an investigation report for further study and action. After identifying the cause, the Safety Officer debriefs the employee involved upon her return to work. In addition, the Safety Officer conducts a safety re-orientation session for all employees focused on the recent incident to prevent its recurrence.

EMPLOYEE TRAINING AND DEVELOPMENT

Emperador believes that employee training is an essential part of skills and career development. It conducts bi-annual employee performance and career development reviews to support career development, promotion, and merit enhancement.

In 2019, training completed for all employees reached 169,393 hours, with the company spending a total of P18.08-million for employee training programs. All its employees underwent regular performance and career development reviews.

COMPENSATION AND REWARDS

Emperador provides its employees with the compensation and benefits mandated by national labor laws and its own rewards program, such as leaves, salary loans, employee stock options, retirement benefits, medical benefits, and other benefits.

EMPLOYEE RELATIONS

Emperador recognizes employees' right to organize as an important component of healthy employee relations.

In the Philippines, AWGI has a collective bargaining agreement with its production employees effective until 2025. AWGI employees have agreed to follow established grievance procedures and to refrain from strikes during the term of the agreement.

In Spain, Bodegas Fundador has a collective wage agreement with their trade unions and employees. Fresh negotiations for a new collective wage agreement will be undertaken in 2020 when the current one expires. In Scotland, Whyte & Mackay has wage agreements with both UNITE and GMB trade unions.

Emperador has not, in any of its locations, experienced any disruptive labor dispute, strike, or threat of strike.

GOVERNANCE

Emperador implements the range of AGI's groupwide governance practices covering employees, customers, suppliers, and other stakeholders. The topics identified in this area specifically for Emperador include data privacy and security, handling of electronic waste, environmental and contamination management, supplier relationship management, responsible labelling, and business ethics.

DATA PRIVACY AND SECURITY

Emperador collects client and customer data following a privacy policy and applicable data privacy regulations. It maintains secondary data for all its companies as part of disaster recovery measures. In 2019, regulators did not make any data request from Emperador. There was no substantiated complaint on customer privacy. Likewise, there was no data security breach recorded for the period.

ELECTRONIC WASTE

Computer equipment, such as servers, PCs, mobile phones at end-of-life, and storage media, are disposed of using degaussers, erasers, and physical destruction devices, among others.

Upon the expiration of identified lawful business purposes or withdrawal of consent, Emperador takes reasonable steps to securely destroy or permanently anonymize personal information. When deemed appropriate, data may be anonymized to prevent unique identification of the data owner.

SUPPLIER RELATIONSHIP MANAGEMENT

A security policy for the health, quality, and environmental and social considerations of production facilities promotes adherence to social and environmental standards by suppliers. Emperador has a quality control manual and sanitation policy to identify risks of contamination and contain or resolve the same. Suppliers must also comply with a code of conduct and have the relevant permits and environmental compliance licenses to do business with Emperador.

The company's procurement policy references various standards, including ISO9001, FSSC 22000, BRC, IFS, and PRO-003 (for the evaluation of suppliers). In addition, Emperador has established a purchase and provisioning procedure to ensure food safety and security in procurement practice.

RESPONSIBLE LABELLING

The company takes every precaution so that its products are marketed only for their intended use and are labeled accordingly. All of its advertising impression is targeted only at consumer segments at or above the legal drinking age. Advertising on digital platforms go through age-verification controls. All marketing campaigns, on-trade and off-trade presentations, and product catalogues strictly adhere to legal drinking norms.

In 2019, there was no incident of non-compliance with industry or regulatory labelling and marketing codes. In addition, there was no monetary loss resulting from legal proceedings associated with marketing and labelling practices.

BUSINESS ETHICS

Emperador ensures that all transactions are executed fairly following the company's codes of conduct. It expects each employee to observe the highest standards of business ethics.

- **Whistleblowing policy.** Emperador values all information received from whistle blowers and anonymous sources. It encourages all stakeholders to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable practices and transactions entered by any of its employees and officers. Such reports may be brought directly to the Chairman or President of the concerned subsidiary or affiliate, ensuring the proper disposition of the report, confidentiality of information, and protection of the identity of the whistle blower.
- **Anti-corruption policy.** No employee can engage in any activity that would create conflict or interfere with the performance of responsibilities. Receiving gifts from third parties is not allowed. The company's risk management team periodically reviews project progress and compliance to various government agencies. The company's units in the Philippines operate in compliance with the Anti-Graft and Corrupt Practices Act (R.A. No. 3019), while offshore subsidiaries have their own anti-corruption policies.
- **Anti-money laundering policy.** The Philippine companies operate in compliance with the implementing rules and regulations of the R.A. No. 9160, or the Money Laundering Act of 2001. In 2019, there were no monetary losses recorded as a result of legal proceedings associated with money laundering.

COVID-19 RESPONSE

In the first half of 2020, Emperador took an active part in AGI's groupwide response to combat COVID-19.

Emperador donated one million liters of disinfectant alcohol worth around P250-million to various local government units as well as frontline workers—medical personnel, policemen, soldiers, and other community marshals. Emperador also sponsored three mobile kitchens of the Armed Forces of the Philippines (AFP) as part of the latter's massive feeding program initiative. Through the partnership with Emperador and other donors, the AFP Mobile Kitchen was able to put together 9,000 hot meals for poor families in Pasig City, particularly in the areas of Caliwag and Villa Monique in Barangay Pinagbuhatan, Sandoval, Rodrigo, Villa Aurora, Riverside, Floodway Westbank in Baranggay Maybunga, and various areas in Barangay Manggahan.

Information on how the company prepared their workplaces and facilities for returning employees and workers during the pandemic may be found on the next page.

REPORTING TO WORK IN THE TIME OF COVID-19

Philippines. Emperador has implemented a number of re-entry protocols including rapid testing of all employees before returning to work, and random and scheduled rapid testing at work. It has also made daily health declarations, temperature checks, and physical distancing mandatory. A strict contact tracing policy is in place.

Employees are given a monthly supply of disinfectant alcohol, vitamin supplements, face masks, and face shields. Virtual and telephone meetings have become the norm; physical meetings are prohibited.

A limited work-from-home policy was rolled out for immunocompromised employees and those in the marketing and legal departments. Employees are provided with virtual health consultations with the company physician.

Visitors have restricted access to company premises. Cleaning and sanitation activities of offices and production areas have been intensified. There are constant reminders of frequent handwashing and other safety practices and protocols.

United Kingdom. Head office employees of Whyte & Mackay are working from home until September. The company's production facilities implemented the following protocols: temperature checks, two-meter physical distancing, additional cleaning, additional acrylic partitions, staggered start and finish times, hand sanitizers located in multiple locations, additional hand washing, and regular reminders to staff.

Additional locker rooms and toilet facilities have also been installed, specifically for use of lorry drivers so they don't need to enter the main premises when coming on site.

Visitors are given only restricted access to company premises. The distillery shops are shut, and distillery tours have been cancelled.

Spain. During the lockdown, Bodegas Fundador closed the head office and visitors center. Production facilities continued operations but observed a number of measures including, among others, 50% of employees working on site at a time to practice physical distancing, mandatory wearing of masks and gloves, minimum distance of two meters between individuals, and disinfection of common areas. Other employees worked from home, using company-provided equipment and tools for videoconferencing.

Head office employees returned to work in the last week of June, but at-risk employees, e.g. pregnant women, continue to work from home. Only 50% of employees work on site at a time. Employees must wear face masks and observe mandatory health and safe measures at all times. The offices have been installed with acrylic partitions to separate workspaces.

Bodegas Fundador also leads the spirits industry in Spain in adopting preventive measures against the spread of COVID-19. It recently obtained the "Global Safe Site" certification from Bureau Veritas for complying with international standards in cleanliness, hygiene, and safety in all its facilities, including the vineyards, distillery, maturing and blending cellars, bottling lines, laboratories, Visitor Center, and the central headquarters.

Employee morale remains strong with the confidence that the company prioritizes their safety and welfare. They embraced the "bayanihan" spirit in coping with the pandemic as they all strive to emerge stronger together.

CORPORATE GOVERNANCE

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

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

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

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

The Risk Management Committee is composed of three members, at least one of whom must be an independent director, and oversees the management of the Company's risk policy and activities.

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

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

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

ENTERPRISE RISK MANAGEMENT

1. RISK MANAGEMENT SYSTEM

a. Overall risk management philosophy of the company

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

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

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

c. Frequency of review of risk management system and the directors' criteria for assessing its effectiveness

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

2. Risk Policy

a. Company

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

b. Group

The Board, through the Audit Committee, reviews the effectiveness of the Company's, including its subsidiaries and affiliates, risk management system with emphasis on monitoring of existing and emerging risks as well as risk mitigation measures and on identifying risks before these cause significant trouble for the business. Based on the set guidelines, directors are assigned specific subsidiaries, affiliates or business where they monitor compliance of the risk management system. Criteria used for review are compliance with established guidelines and controls and the appropriateness of risk management and risk mitigation measures taken.

ENTERPRISE RISK MANAGEMENT

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

• Minority Shareholders

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

3. Control System Set Up

a. Company

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

b. Group

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
1. Hazards and natural or other catastrophes	Have an emergency response plan/action	Allow the different business segments to continue operations even during natural disaster or calamity
2. Regulatory developments	Review of new laws and regulations	Ensure the different business segments are compliant with all laws and regulations
3. Money laundering and cheating at gaming areas	Constant security check and monitoring, check and balance system	Minimize situations when these activities can happen
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7. Philippine economic / political conditions	Review of business / political situation	Ensure the different business segments can immediately adapt to changes in economic/political conditions and can devise strategies to meet these changes

c. Committee

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

BOARD OF DIRECTORS

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

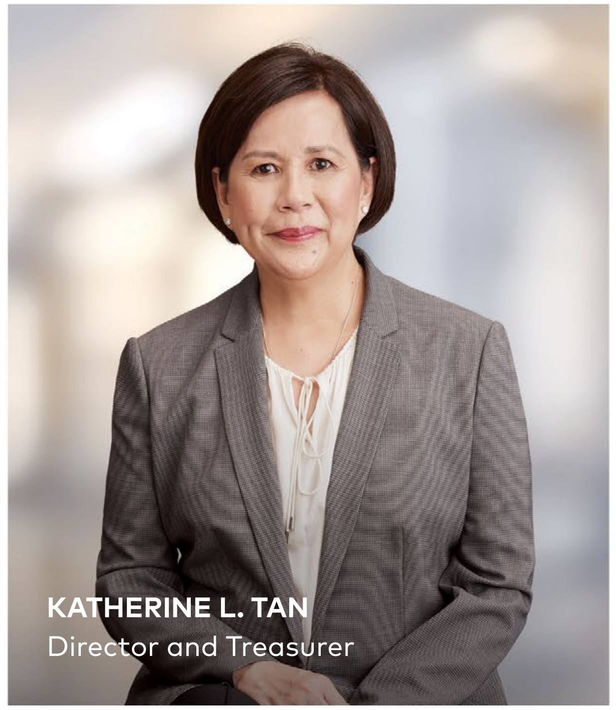
He pioneered the live-work-play-learn model in the real estate development through the Megaworld Corporation's integrated township communities, fueling the growth of the business process outsourcing ("BPO") industry, food and beverage, and quick service restaurants industries. Dr. Tan is concurrently the Chairman of the Board and President of Megaworld Land, Inc., Megaworld Globus Asia, Inc., Megaworld Newport Property Holdings, Inc., Mactan Oceanview Properties and Holdings, Inc., Richmonde Hotel Group International Limited, The BaR Beverage, Inc. and Yorkshire Holdings, Inc.

He is also the Chairman of Alliance Global Group Cayman Islands, Inc., Alliance Global Brands, Inc., Suntrust Properties, Inc., Adams Properties, Inc., Consolidated Distillers of the Far East, Inc., and Townsquare Development, Inc. He is the Chairman and Treasurer of The Andresons Group, Inc. and sits in the boards of Infracorp Development, Inc., Eastwood Cyber One Corporation, Megaworld Cayman Islands, Inc., Forbes Town Properties & Holdings, Inc., Gilmore Property Marketing Associates, Inc., Megaworld Central Properties, Inc., and Raffles & Company, Inc. He is also the Vice-Chairman and Treasurer of Golden Arches Development Corporation and Golden Arches Realty Corporation and a Director and Treasurer of Andresons Global, Inc.

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

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., McKester Pik-Nik International Limited, Raffles & Company, Incorporated, and The BaR Beverage, Inc.; and Senior Vice President of The Andresons Group, Inc.

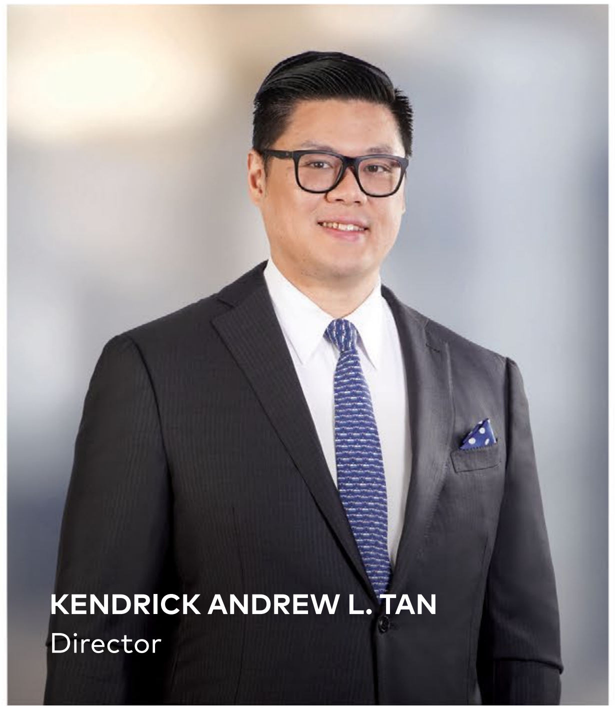
Mr. Co is a Magna Cum Laude graduate of Jose Rizal College with a Bachelor of Science in Commerce.



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

She is a Director and Treasurer of Emperador Distillers, Inc. since 2003, and of Alliance Global Brands, Inc., Yorkshire Holdings, Inc., and New Town Land Partners, Inc. She is concurrently Chairman and President of Andresons Global, Inc. and Choice Gourmet Banquet, Inc.; Director and President of The Andresons Group, Inc., Consolidated Distillers of the Far East, Inc., and Raffles & Company, Inc.; and Director and Corporate Secretary of The BaR Beverage, Inc. Ms. Tan graduated from St. Scholastica's College with a degree in Nutrition.

BOARD OF DIRECTORS



KENDRICK ANDREW L. TAN
Director

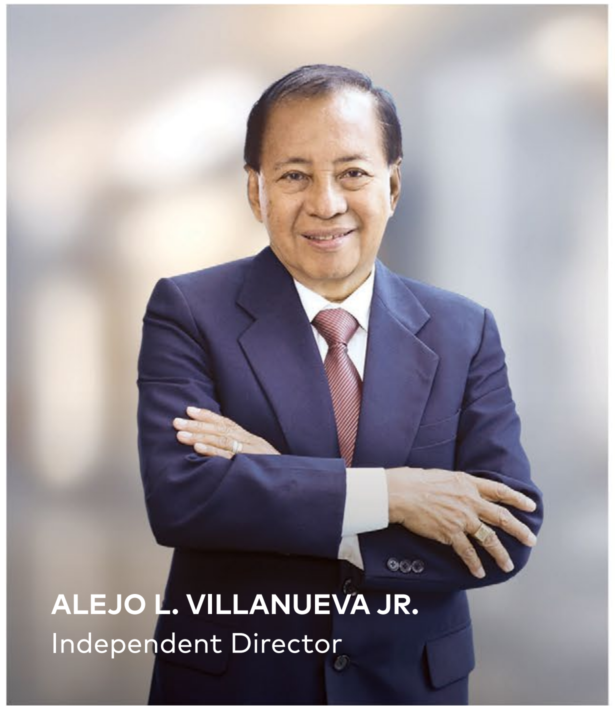
Mr. Kendrick Andrew L. Tan was first elected as Director of Emperador Inc. on 28 August 2013. He has served as Corporate Secretary and Executive Director of Emperador Distillers, Inc. since 2007. He heads the Research & Development Division of Emperador Distillers, Inc. He is concurrently a Director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

KEVIN ANDREW L. TAN
Director

Mr. Kevin Andrew L. Tan was first elected as Director on 04 October 2017. He was appointed as the Chief Executive Officer of Alliance Global Group, Inc. in September 2018. He is also a Director of Global-Estate Resorts, Inc. and Empire East Land Holdings, Inc. Mr. Tan has over 11 years of experience in retail leasing, marketing and operations. He is currently the Senior Vice President and Chief Strategy Officer of Megaworld Corporation where he is in-charge of developing corporate strategies, expansion and new opportunities, as well as investor and stakeholder relations. He was formerly head of the Commercial Division of Megaworld Corporation, which markets and operates the Megaworld Lifestyle Malls, including Eastwood Mall and The Clubhouse at Corinthian Hills in Quezon City, Venice Piazza at McKinley Hill, Burgos Circle at Forbestown Center, and Uptown Mall, all in Fort Bonifacio, Newport Mall at Resorts World Manila in Pasay City, and Lucky Chinatown Mall in Binondo, Manila. He is the Chairman of Infracorp Development, Inc. and Director of Emperador Distillers, Inc., Alliance Global Brands, Inc., Anglo Watsons Glass, Inc., Yorkshire Holdings, Inc., The BaR Beverage, Inc., Emperador Brandy, Inc., New Town Land Partners, Inc., and Consolidated Distillers of the Far East, Inc.

He holds a degree in Business Administration Major in Management from the University of Asia and the Pacific.



ALEJO L. VILLANUEVA JR.
Independent Director

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

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

ENRIQUE M. SORIANO III
Independent Director

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

Mr. Soriano is the Executive Director of the Wong & Bernstein Strategic Advisory Group and a member of the Philippine Marketing Association. He is the Chief Advocacy Office r 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.

FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

KEY PERFORMANCE INDICATORS

				% change yoy	
In Million Pesos	2019	2018	2017	2019	2018
Revenues	**P51,565**	P47,050	P42,655	**9.6**	10.3
Net profit	**P6,832**	P6,829	P6,332	**0.05**	7.8
Net profit to owners	**P6,725**	P6,658	P6,322	**1.0**	5.3
Total assets	**P125,986**	P117,818	P111,536	**6.9**	5.6
Total current assets	**P63,845**	P56,000	P 51,017	**14.0**	9.2
Total current liabilities	**P28,445**	P20,217	P 16,837	**40.7**	20.1
Gross profit margin %	**33.7**	34.6	35.4		
Net profit rate %	**13.2**	14.5	14.8		
Net profit rate to owners%	**13.0**	14.2	14.8		
Return on assets %	**5.4**	5.8	5.7		
Current ratio	**2.2x**	2.8x	3.0x		
Quick ratio	**1.1x**	1.3x	1.5x		

- o Revenue growth – measures the percentage change in revenues over a designated period of time
- o Net profit growth – measures the percentage change in net profit over a designated period of time.
- o 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.
- o Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- o Return on asets [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
- o 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 is presented into two segments: Scotch Whisky (representing the UK operations) and Brandy (representing the Philippine and Spanish operations, including the Fundador and Domecq operations starting March 2016 and September 2017, respectively). BLC is a joint venture which is accounted for under the equity method and reported under the Brandy Segment.

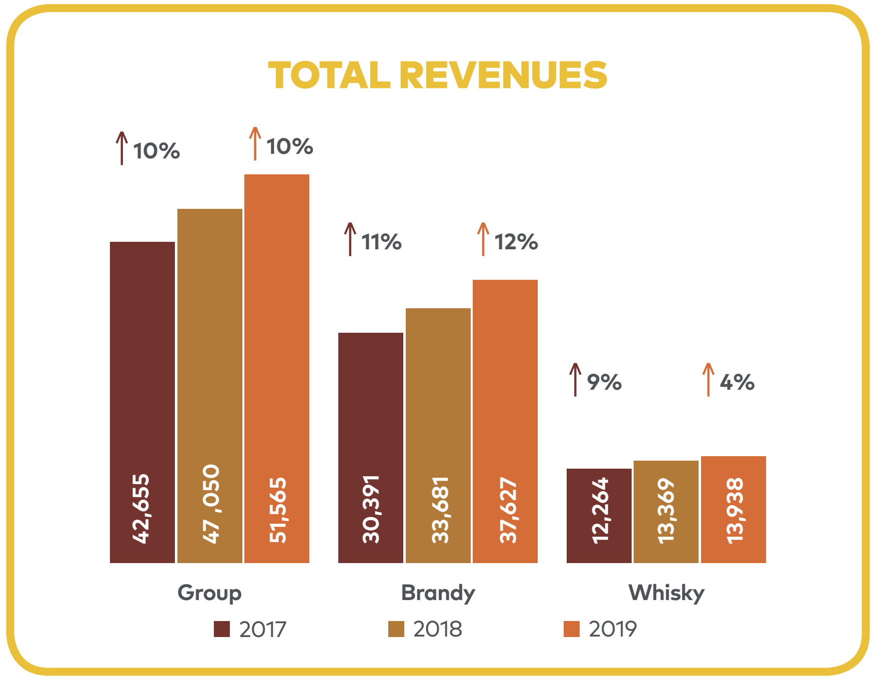
In 2019, the Group recorded a non-recurring loss from impairment of certain Spanish trademarks.

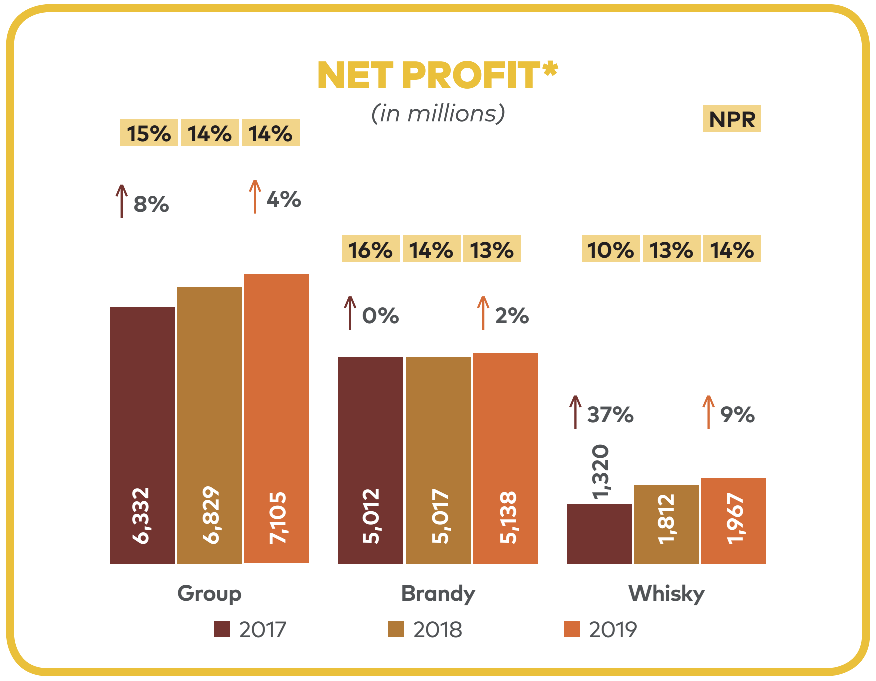
				% change yoy	
In Million Pesos	2019	2018	2017	2019	2018
Revenues	**P51,565**	P47,050	P42,655	**9.6**	10.3
Brandy	**37,627**	33,681	30,391	**11.7**	10.8
Scotch Whisky	**13,938**	13,369	12,264	**4.3**	9.0
Net Profit	**6,832**	6,829	6,332	**0.0**	7.8
Net Profit to owners	**6,725**	6,658	6,322	**1.0**	5.3
Non-recurring loss	**272**				
NP – recurring	**7,105**	6,829	6,332	**4.0**	7.8
Brandy	**5,138**	5,017	5,012	**2.4**	0.1
Scotch Whisky	**1,967**	1,812	1,320	**8.6**	37.3
NP to owners- recurring	**6,998**	6,658	6,322	**5.1**	5.3
Brandy	**5,031**	4,846	5,002	**3.8**	-3.1
Scotch Whisky	**1,967**	1,812	1,320	**8.6**	37.3

MANAGEMENT'S DISCUSSION AND ANALYSIS

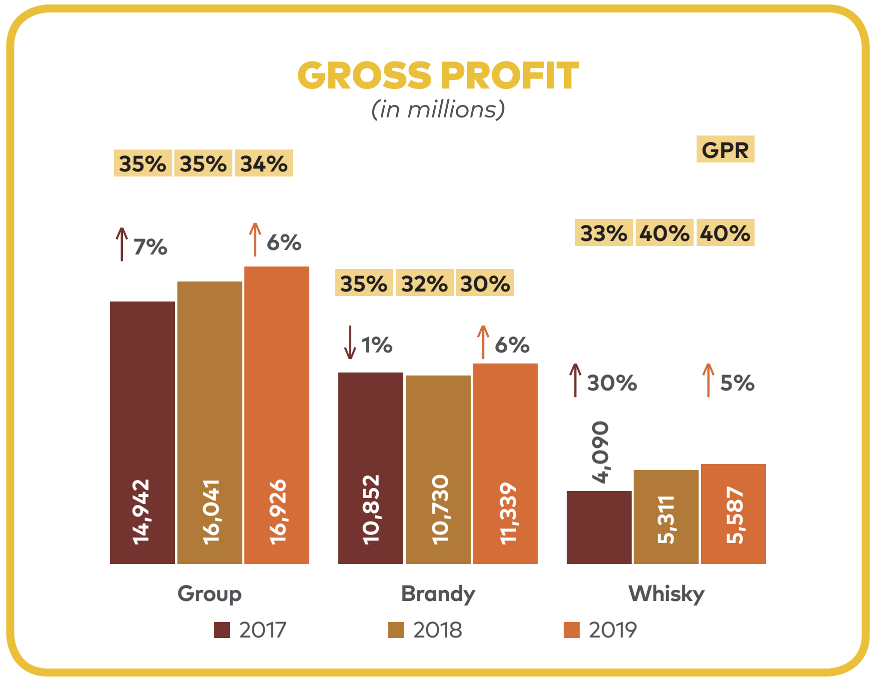
Year Ended December 31, 2019 Compared With Year Ended December 31, 2018

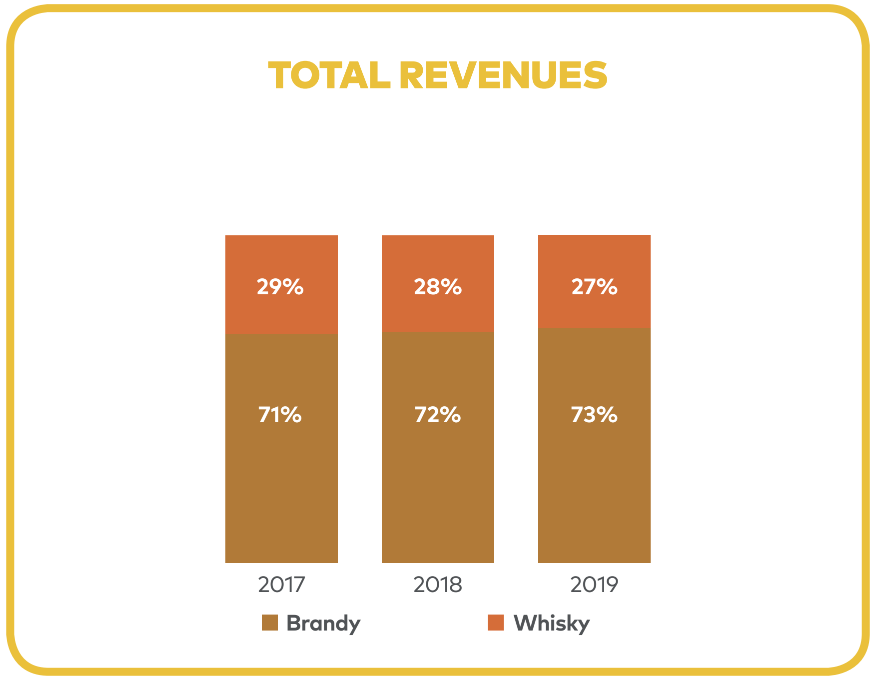
The Group continued to deliver positive growths in 2019. The Group reported P51.56 billion revenues, up 9.6% year-on-year. Excluding a one-time loss in 2019, which is due to impairment of certain trademarks, net profit reached P7.10 billion, of which P7.00 billion was attributable to owners, up 4.0% and 5.1% year-on-year, respectively.





*Excluding one-time loss in 2019





MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues

Total revenues reached P51,565 million in 2019 as compared to P47,050 million in 2018, rising 9.6% year-on-year as both the Brandy and Scotch Whisky segments registered growths.

The Brandy segment turned over revenues from external customers higher by 11.7% year-on-year, thereby increasing its share in EMP revenue pie to 73%. Emperador, Fundador, and Presidente remained to be the segment's top-selling Philippine, Spanish and Mexican brandy brands, respectively, followed by Spain's Terry and Tres Cepas and Mexico's Don Pedro. On the local front, Emperador Brandy remains the nationwide leader, particularly in key metro cities, amid fierce competition among local brands. Emperador introduced a lighter brandy, Emperador Double Light in July 2019 and a bundle pairing 'Apple of My Light' in August 2019. The 'Apple of My Light' is the second pairing of Emperador Light with Club Mix, this time with the Apple Tea Cordial variant. The first pairing bundle called 'Lime Light' pairs Emperador Light with Club Mix Lime Cordial, which came out in August 2018 is still being offered at present. The offshore brandies were seen growing in the Philippines, Spain, Mexico, Guinea and USA.

The Scotch Whisky segment turned over revenues to external customers higher by 4.3% year-on-year. The business is growing not only in UK but also in other parts of the world, especially in Asia, Greater Europe, USA, Canada, France/Germany, Latin America and Africa. Most of these territories showed double-digit growths which all together accounted for a big chunk of the segment's revenues. The single malts continued to attract sales. The blended malts further boosted sales.

Other income went up 85.3% to P1,306 million from P705 million a year ago due to higher interest income, scrap sales, gain on sale of securities, unrealized foreign exchange gains, and share in net profit of BLC recorded for this year.

Costs and Expenses

Total costs and expenses amounted to P43,085 million this year from P38,614 a year ago, up 11.6% year-on-year primarily from the Brandy business which, including intersegment purchases, increased 14.5% year-on-year while the Scotch Whisky business expanded 4.4%.

Cost of Goods Sold

Costs increased 10.0%, which was at almost same pace as sales. The slight difference was attributed to product mix and packaging for the new and re/packaged products this year.

Gross Profit

Gross profit margins (GPM) on consolidated level remained healthy at 34% in 2019 and 35% in 2018. The slight swing was attributed to product mix and promotional bundling, especially towards the last quarter of the year in time for the Christmas season. The GPMs of the Brandy and Scotch Whisky segments were respectively posted at 30% and 40% in 2019 as compared to 32% and 40% in 2018.

Other operating expenses

Other operating expenses went up 19.6% to P8,945 million from P7,478 million, mainly due to advertising and promotions as brand and marketing support; depreciation and amortization, due to new capital additions and right-of-use assets; professional fees, largely relating to loan refinancing and contracted services; and the impairment loss on certain Spanish trademarks.

Interest Expense and Other charges

Interest expense shrank 4.6% to P781 million from P819 million due to lower interest rate of the refinanced loan in 2019, which was offset partially by the finance cost under PFRS 16 this year. Other charges almost doubled to P24 million from P12 million a year ago mainly from loss on disposal of property.

Profit before Tax

As a result of the foregoing, profit before tax inched 0.5% to P8,480 million from P8,436 million in 2019.

Tax Expense

Tax expense increased 2.5% to P1,648 million from P1,607 million a year ago due to higher final tax on interest income.

Net Profit

As a result of the foregoing, net profit remained stable at P6,832 million from P6,829 million a year ago. Excluding the one-time loss, net profit jumped 4.0% to P7,105 million and the portion attributable to owners rose 5.1% to P6,998 million.

EBITDA

EBITDA, which is computed as profit before interest expense, tax, depreciation and amortization and non-recurring gains/losses, amounted to P11,080 million and P10,332 million for 2019 and 2018, respectively, showing margins of 21.5% and 22.0% in respective years.

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

Revenues

Total revenues climbed P47,050 million in 2018, up 10.3% from P42,655 million a year ago attributed to continuing sales growth from both the Brandy and Scotch Whisky segments.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Costs and Expenses

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

Cost of Goods Sold

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

Gross Profit

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

Other operating expenses

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

Interest Expense and Other charges

Interest expense went down 18.0% to P819 million from P998 million because there was no more fixed interest on ELS this year. Other charges decreased to P12 million from P426 million due to recovery from foreign exchange losses recorded in previous year.

Profit before Tax

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

Tax Expense

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

Net Profit

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

FINANCIAL CONDITION

December 31, 2019 and 2018

Total assets amounted to P125,986 million as at December 31, 2019, a 6.9% jump from P117,818 million as of December 31, 2018. The Group is strongly liquid with current assets exceeding current liabilities 2.2 times by the end of the current year.

Cash and cash equivalents swelled 24.3% or by P1,512 million mainly from operations.

Trade and other receivables increased by 25.7% or P4,845 million, primarily due to higher sales in the lead up to Christmas holidays and advances to suppliers and related party.

Financial assets at fair value through profit or loss of P1,209 million at beginning of the year were disposed of in the second quarter at a gain of P16.4 million.

Inventories expanded 7.4% or P2,113 million, from continued fillings of Scotch whisky and Spanish brandy and cased stocks of new products.

Prepayments and other current assets surged 45.2% or P583 million due to general prepayments, input vat and prepaid excise tax. These are mostly due to timing of prepayments.

Investments in a joint venture decreased 7.8% or P254 million from dividend return and translation adjustment.

Property, plant and equipment expanded 6.4% or P1,739 million primarily from set-up of right of use assets which has net carrying value of P1,603 million at year-end [see Notes 9.2 and 2.2(a)(iv) to the Consolidated Financial Statements], and capital additions during the year.

Retirement benefit obligations reversed 298% or P330 million, from actuarial gains booked in the interim period by UK resulting in retirement benefit assets of P220 million at year-end from liability of P110.7 million at last year-end.

The current interest-bearing loans increased 16.5% or P941 million while non-current portion decreased 10.6% or P3,016 million, for combined net decrease of P2,075 million, from net repayment of bank loans and translation adjustment.

Trade and other payables went up 28.5% or P3,778 million, mainly from trade payables representing obligations to various suppliers of raw materials such as alcohol, molasses, flavorings and other supplies; and accruals incurred by the group.

Equity-linked debt securities totaled P5,280 million at year-end, split into its current and non-current portions of P1,836 million and P3,444 million. The current portion was subsequently converted into common shares in February 2020.

Current and non-current lease liabilities were accounts brought about by the adoption of PFRS 16-Leases beginning January 1, 2019. These amounted to P305 million and P1,717 million, respectively, at end of the year. [See Notes 9.3 and 2.2(a)(iv) to the Consolidated Financial Statements]

Dividends payable pertained to unpaid dividends at year-end, presented net of final withholding tax, which were subsequently paid on January 20, 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial liabilities at fair value through profit or loss went down 79.1% or P34 million due to maturities at various points.

Income tax payable escalated 50.3% or P623 million primarily from higher unpaid income taxes by the Group at current year-end which is further attributed to higher taxable profit.

Provisions refer to the amounts provided by WMG for leased properties located in Scotland. Provisions went down by 68.6% or P360 million mainly due the fall in onerous lease provision upon adoption of accounting change under IFRS 16 starting January 1, 2019. [See Notes 16 and 2.2(a)(iv) to the Consolidated Financial Statements]

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

Equity attributable to owners of the parent company increased by 5.5% or P3,346 million mainly from net profit realized during the year as reduced by accumulated translation adjustments and treasury shares during the year.

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. Acquisitions during the year totaled P1,638 million.

Share options pertain to the options granted to qualified employees of the Group pursuant to an approved employee share option plan. The increment of 31.7% or P27 million was a result of recognition of additional share options for the year with a corresponding debit to Investments in EDI account.

Revaluation reserves shoot up by P90 million due to actuarial gain on retirement benefit obligations booked by WMG.

Other reserves include legal reserves that represent the statutory requirements in Luxembourg which comprise of net wealth tax reserve and capital reserve at year-end. In 2019 and 2018, grant received by GES in Spain were added as part of this account.

Non-controlling interest pertains to the minority interest in DBLC, a subsidiary consolidated by end-2017 and in Boozylife Inc., a local company consolidated starting in 2018.

December 31, 2018 and 2017

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

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

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

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

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

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

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

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

Income tax payable escalated 106.5% or P639 million primarily from higher unpaid income taxes by the Group at current year-end which is further attributed to higher taxable profit.

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

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

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

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

PROSPECTS FOR THE FUTURE

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

OTHER MATTERS

Except for what have been noted:

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

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, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

ANDREW L. TAN
Chairman of the Board

WINSTON S. CO
President/ Chief Executive Officer

DINA D.R. INTING
Chief Financial Officer

JUN 30 2020

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

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

Doc. No. 381
Page No. 78
Book No. 90
Series of 2020

ATTY. HENRY D. ADASA
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PTR NO. 9124087 - 01/03/2020 MLA
ROLL NO. 29579, TIN: 172-528-620
MCLE COMPL. NO. VII-0000165

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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Emphasis of a Matter

We draw attention to Note 31 to the consolidated financial statements, which describes the likely negative impact of the business disruption as a result of the coronavirus outbreak and consequent events to the Group's financial condition and performance after the end of the reporting period. Management has determined that these are non-adjusting events and as such, had no impact on the Group's consolidated financial statements as at and for the year ended December 31, 2019. As further stated in Note 31, management was unable to reliably estimate yet as at the issuance date of the consolidated financial statements the quantitative impact of the said events on the Group's financial conditions and operations in subsequent period. Our opinion is not modified with respect to this matter.

Key Audit Matters

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

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

Description of the Matter

Under Philippine Accounting Standard 36, *Impairment of Assets,* the Group is required to annually test the carrying amounts of its goodwill and trademarks with indefinite useful lives for impairment. As of December 31, 2019, goodwill amounted to P9.2 billion, while the trademarks with indefinite useful lives amounted to P19.7 billion. We considered the impairment of these assets as a key audit matter because the amounts of goodwill and trademarks are material to the consolidated financial statements. In addition, management's impairment assessment process is highly judgmental, and is based on significant assumptions, specifically the determination of the discount rate and cash flow projections used in determining the value-in-use of the trademarks and the cash-generating units over which the goodwill was allocated. The assumptions used by management are generally affected by expected future market and economic conditions.

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

How the Matter was Addressed in the Audit

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

- Evaluating the appropriateness and reasonableness of methodology and assumptions used in determining the value-in-use of cash-generating units attributable to the trademarks and goodwill, which include the discount rate, growth rate and the cash flow projections, by comparing them to external and historical data, through engagement of Firm's valuation specialists;

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

REPORT OF INDEPENDENT AUDITORS

- Performing independent sensitivity analysis of the projections and discount rate using the valuation model used to determine whether a reasonably possible change in assumptions could cause the carrying amount of cash generating units to exceed the recoverable amount.

(b) Revenue Recognition

Description of the Matter

Revenue is one of the key performance measures used to assess business performance. There is a risk that the amount of revenues presented in the consolidated financial statements is higher than what was actually earned by the Group. Revenue from sales in 2019 amounted to P50.3 billion and represented 97% of the Group's total revenues during the same year. Revenue from sales is recognized when control over the goods has been transferred at a point in time to the customer, i.e., generally when the customer has acknowledged receipt of the goods.

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

The Group's disclosures about its revenues and related receivables, and revenue recognition policies are included in Notes 2, 6 and 17.

How the Matter was Addressed in the Audit

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

- Testing the design and operating effectiveness of the Group's processes and controls over revenue recognition, approval and documentation, including the implemented information technology general and application controls over automated systems that record the revenue transaction;

- Evaluating appropriateness of the Group's revenue recognition policy in accordance with the requirements of PFRS 15, *Revenue from Contracts with Customers*;

- Testing, on a sample basis, sales invoices, delivery receipts and cash receipts of sales transactions throughout the current period to determine whether sale of goods is valid and existing;

- Confirming trade receivables using positive confirmation, on a sample basis, and performing alternative procedures for non-responding customers, such as, examining evidence of subsequent collections, or corresponding sales invoices and proof of deliveries;

- Testing sales invoices and delivery receipts immediately prior and subsequent to the current period to determine whether the related sales transactions are recognized in the proper reporting period; and,

- Performing substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of sales per product/brand and location, and sales mix composition based on our expectations and following up variances from our expectations; and, verifying that the underlying data used in the analyses are valid.

(c) Existence and Valuation of Inventories

Description of the Matter

Inventories as of December 31, 2019 amounts to P30.5 billion, which represent 24% of the Group's total assets as of that date. The valuation of inventories is at the lower of cost or net realizable value (NRV). The Group's core business is subject to changes in market factors that directly affect the demand for alcoholic beverages such as purchasing power of consumers, degree of competition, and other market-related factors. Future realization of inventories is affected by price changes and the costs necessary to complete and make a sale. Due to the significance of the volume of transactions and the balance of the carrying amount of inventories, and the high level of judgment in estimating its NRV, we considered the existence and valuation of inventories as significant to our audit.

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

How the Matter was Addressed in the Audit

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

On existence of inventories:

- Observing physical inventory count procedures, obtaining relevant cut-off information and copy of count control documents, and verifying inventory movements during the intervening periods between the actual count date and reporting date to further test the quantities of inventory items as of the end of the reporting date; and,

- Performing substantive analytical review procedures over inventory-related ratios such as, but not limited to, inventory turnover and current period's components of inventories; and, verifying that the underlying data used in the analyses are valid.

On valuation of inventories:

- Testing the design and operating effectiveness of processes and controls over inventory costing, reconciliation, data entry and review, including the implemented information technology general and application controls over automated systems that record the inventory transaction;

- Evaluating the appropriateness of the method used by management for inventory costing and valuation of the lower of cost or NRV and assessing consistency of their application from period to period;

- Performing, on a sample basis, a price test of inventory items by examining supporting documents such as, but not limited to, purchase contracts and invoices, and relevant importation documents;

- Performing detailed analysis of the Group's standard costing of inventories through analytical review procedures of actual costs during the current period against the budgeted standard, and testing significant actual costs, on a sample basis, by agreeing with contracts and invoices; and,

- Evaluating the appropriateness and sufficiency of the amount of allowance for inventory write-down by testing the key assumptions used on the expected realization of inventories.

REPORT OF INDEPENDENT AUDITORS

(d) Consolidation Process

Description of the Matter

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

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

How the Matter was Addressed in the Audit

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

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

(e) Performing Significant Portion of Audit Remotely

Description of the Matter

As disclosed in Note 31 of the consolidated financial statements, a novel strain of coronavirus (COVID-19) started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by implementation of enhanced community quarantine (ECQ) and social distancing measures and restrictions within the Luzon area with other cities and provinces in the country enacting similar measures thereafter. The ECQ and social distancing measures implemented by the government resulted in performing a significant portion of the engagement remotely.

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

How the Matter was Addressed in the Audit

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

- Considering the nature of the engagement and the engagement team's knowledge of the entity and its environment when determining whether it is possible to perform a significant portion, if not all of the engagement remotely;
- Following the requirements of the PSA including providing proper supervision and review, even when working remotely;
- Obtaining information through electronic means, which includes sending and receiving of confirmation electronically, obtaining calculations in electronic form to check the mathematical accuracy, scanning of hard-copy items for review and using real-time inspection technology such as video and screen-sharing;
- Determining the reliability of audit evidence provided electronically using enhanced professional skepticism;
- Performing inquiries through video call in order to judge body language and other cues and to have a more interactive audit engagement;
- Reviewing of workpapers of component auditors remotely through share screening and constant communication; and,
- Examining critical hard copy documents (e.g., contracts, billing invoices, purchase invoices and official receipts) physically in response to the risk in revenues and costs, which is considered to be significant.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

REPORT OF INDEPENDENT AUDITORS

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 8116550, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-4 (until Sept. 4, 2022)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-22-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

May 28, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

(Amounts In Philippine Pesos)

	Notes	2019	2018
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	P 7,740,605,656	P 6,228,229,892
Trade and other receivables - net	6	23,720,325,333	18,875,783,362
Financial assets at fair value through profit or loss	7	-	1,208,707,500
Inventories - net	8	30,509,303,278	28,395,973,338
Prepayments and other current assets	11.1	1,874,557,688	1,291,326,181
Total Current Assets		63,844,791,955	56,000,020,273
NON-CURRENT ASSETS			
Investment in a joint venture	12	3,023,567,743	3,277,607,392
Property, plant and equipment - net	9	28,986,637,262	27,247,873,634
Intangible assets - net	10	28,895,152,627	30,229,975,679
Retirement benefit asset - net	20	219,527,693	-
Other non-current assets - net	11.2	1,016,320,033	1,062,894,704
Total Non-current Assets		62,141,205,358	61,818,351,409
TOTAL ASSETS		P 125,985,997,313	P 117,818,371,682
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	13	P 6,641,109,379	P 5,700,075,335
Trade and other payables	15	17,012,924,217	13,235,235,723
Equity-linked debt securities	14	1,836,250,000	-
Lease liabilities	9	304,882,103	-
Dividends payable	23.3	779,231,315	-
Financial liabilities at fair value through profit or loss	7	9,105,954	43,492,447
Income tax payable		1,861,560,078	1,238,585,785
Total Current Liabilities		28,445,063,046	20,217,389,290
NON-CURRENT LIABILITIES			
Interest-bearing loans	13	25,298,729,207	28,314,724,893
Equity-linked debt securities	14	3,443,750,000	5,258,801,592
Lease liabilities	9	1,717,050,012	-
Provisions	16	164,914,200	524,974,547
Deferred tax liabilities - net	21	2,199,733,328	2,027,842,787
Retirement benefit obligation - net	20	-	110,692,233
Total Non-current Liabilities		32,824,176,747	36,237,036,052
Total Liabilities		61,269,239,793	56,454,425,342
EQUITY	23		
Equity attributable to owners of the parent company		63,817,525,550	60,471,271,854
Non-controlling interest		899,231,970	892,674,486
Total Equity		64,716,757,520	61,363,946,340
TOTAL LIABILITIES AND EQUITY		P 125,985,997,313	P 117,818,371,682

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
REVENUES	17	P 51,565,480,173	P 47,050,421,022	P 42,655,527,544
COSTS AND EXPENSES				
Costs of goods sold	18	33,334,124,597	30,305,123,521	27,264,689,817
Selling and distribution expenses	19	6,021,050,010	5,567,696,147	4,611,427,335
General and administrative expenses	6, 19	2,924,385,791	1,909,932,481	1,519,281,194
Interest expense	9, 13, 14, 20	781,494,014	818,886,057	998,388,259
Other charges	7, 9	24,455,158	12,418,407	426,368,917
		43,085,509,570	38,614,056,613	34,820,155,522
PROFIT BEFORE TAX		8,479,970,603	8,436,364,409	7,835,372,022
TAX EXPENSE	21	1,647,434,352	1,607,414,678	1,503,052,461
NET PROFIT		6,832,536,251	6,828,949,731	6,332,319,561
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will be reclassified subsequently to profit or loss				
Translation gain (loss)	2	(1,251,530,761)	220,002,448	659,294,821
Items that will not be reclassified subsequently to profit or loss				
Net actuarial gain (loss) on retirement benefit plan	20	176,881,507	(189,210,076)	746,770,271
Tax income (expense) on remeasurement of retirement benefit plan	21	(87,253,112)	32,275,467	(122,180,800)
		89,628,395	(156,934,609)	624,589,471
		(1,161,902,366)	63,067,839	1,283,884,292
TOTAL COMPREHENSIVE INCOME		P 5,670,633,885	P 6,892,017,570	P 7,616,203,853
Net profit attributable to:				
Owners of the parent company		P 6,725,536,563	P 6,658,236,381	6,321,783,945
Non-controlling interest		106,999,688	170,713,350	10,535,616
		P 6,832,536,251	P 6,828,949,731	P 6,332,319,561
Total comprehensive income (loss) attributable to:				
Owners of the parent company		P 5,664,076,401	P 6,652,883,065	P 7,832,304,353
Non-controlling interest		6,557,484	239,134,505	(216,100,500)
		P 5,670,633,885	P 6,892,017,570	P 7,616,203,853
Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company - Basic and Diluted	24	P 0.42	P 0.41	P 0.39

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Philippine Pesos)

		Capital Stock (see Note 23.1)	Additional Paid-in Capital (see Note 23.1)	Treasury Shares (see Note 23.2)	Conversion Options Outstanding (see Notes 3 and 14)	Share Options Outstanding (see Note 23.4)	Accumulated Translation Adjustments (see Note 2)
Balance at January 1, 2019,							
As previously reported		P 16,242,391,176	P 23,058,724,847	(P 1,849,768,100)	P 136,151,386	P 84,925,255	(P 2,556,254,530)
Effect of adoption of PFRS 16	2	-	-	-	-	-	-
As restated		16,242,391,176	23,058,724,847	(1,849,768,100)	136,151,386	84,925,255	(2,556,254,530)
Issuances during the year	23.4	-	-	-	-	26,958,170	-
Acquisition of treasury shares during the year	23.2	-	-	(1,638,071,312)	-	-	-
Total comprehensive income for the year		-	-	-	-	-	(1,151,088,557)
Appropriation during the year	23.5	-	-	-	-	-	-
Cash dividends declared during the year	23.3	-	-	-	-	-	-
Balance at December 31, 2019		**P 16,242,391,176**	**P 23,058,724,847**	**(P 3,487,839,412)**	**P 136,151,386**	**P 111,883,425**	**(P 3,707,343,087)**
Balance at January 1, 2018		P 16,242,391,176	P 23,058,724,847	(P 321,134,930)	P 136,151,386	P 57,967,086	(P 2,707,835,823)
Issuances during the year	23.4	-	-	-	-	26,958,169	-
Acquisition of treasury shares during the year	23.2	-	-	(1,528,633,170)	-	-	-
Total comprehensive income for the year		-	-	-	-	-	151,581,293
Redemption of preferred shares	23.6	-	-	-	-	-	-
Addition from acquired subsidiary		-	-	-	-	-	-
Cash dividends declared during the year	23.3	-	-	-	-	-	-
Balance at December 31, 2018		P 16,242,391,176	P 23,058,724,847	(P 1,849,768,100)	P 136,151,386	P 84,925,255	(P 2,556,254,530)
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)
Issuances during the year	14, 23.1, 23.4	122,391,176	709,868,824	-	136,151,386	26,958,169	-
Share options benefits for the year	20.2, 23.4						
Acquisition of treasury shares during the year	23.2	-	-	(321,134,930)	-	-	-
Total comprehensive income for the year		-	-	-	-	-	885,930,937
Reversal of appropriation	23.5	-	-	-	-	-	-
Appropriation during the year	23.5	-	-	-	-	-	-
Redemption of preferred shares	23.6	-	-	-	-	-	-
Cash dividends declared during the year	23.3	-	-	-	-	-	-
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)

Attributable to Owners of the Parent Company

		Revaluation Reserves (see Note 2)	Other Reserves (see Note 2)	Retained Earnings: Appropriated (see Note 23.5)	Retained Earnings: Unappropriated (see Note 23.5)	Retained Earnings: Total	Total	Non-controlling Interest (see Note 23.6)	Total Equity
Balance at January 1, 2019,									
As previously reported		(P 163,103,810)	P 15,792,199	P 600,000,000	P 24,902,413,431	P 25,502,413,431	P 60,471,271,854	P 892,674,486	P 61,363,946,340
Effect of adoption of PFRS 16	2	-	-	-	(23,323,421)	(23,323,421)	(23,323,421)	-	(23,323,421)
As restated		(163,103,810)	15,792,199	600,000,000	24,879,090,010	25,479,090,010	60,447,948,433	892,674,486	61,340,622,919
Issuances during the year	23.4	-	104,572,127	-	-	-	131,530,297	-	131,530,297
Acquisition of treasury shares during the year	23.2	-	-	-	-	-	(1,638,071,312)	-	(1,638,071,312)
Total comprehensive income for the year		89,628,395	-	-	6,725,536,563	6,725,536,563	5,664,076,401	6,557,484	5,670,633,885
Appropriation during the year	23.5	-	-	200,000,000	(200,000,000)	-	-	-	-
Cash dividends declared during the year	23.3	-	-	-	(787,958,269)	(787,958,269)	(787,958,269)	-	(787,958,269)
Balance at December 31, 2019		**(P 73,475,415)**	**P 120,364,326**	**P 800,000,000**	**P 30,616,668,304**	**P 31,416,668,304**	**P 63,817,525,550**	**P 899,231,970**	**P 64,716,757,520**
Balance at January 1, 2018		(P 6,169,201)	P 9,689,175	P 600,000,000	P 20,649,112,979	P 21,249,112,979	P 57,718,896,695	P 634,656,950	P 58,353,553,645
Issuances during the year	23.4	-	6,103,024	-	(5,739,354)	(5,739,354)	27,321,839	-	27,321,839
Acquisition of treasury shares during the year	23.2	-	-	-	-	-	(1,528,633,170)	-	(1,528,633,170)
Total comprehensive income for the year		(156,934,609)	-	-	6,658,236,381	6,658,236,381	6,652,883,065	239,134,505	6,892,017,570
Redemption of preferred shares	23.6	-	-	-	-	-	-	(2,875,000)	(2,875,000)
Addition from acquired subsidiary		-	-	-	(148,405)	(148,405)	(148,405)	21,758,031	21,609,626
Cash dividends declared during the year	23.3	-	-	-	(2,399,048,170)	(2,399,048,170)	(2,399,048,170)	-	(2,399,048,170)
Balance at December 31, 2018		(P 163,103,810)	P 15,792,199	P 600,000,000	P 24,902,413,431	P 25,502,413,431	P 60,471,271,854	P 892,674,486	P 61,363,946,340
Balance at January 1, 2017		(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	14, 23.1, 23.4	-	-	-	-	-	995,369,555	847,882,450	1,843,252,005
Share options benefits for the year	20.2, 23.4								
Acquisition of treasury shares during the year	23.2	-	-	-	-	-	(321,134,930)	-	(321,134,930)
Total comprehensive income for the year		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	-	9,689,175	600,000,000	(609,689,175)	(9,689,175)	-	-	-
Redemption of preferred shares	23.6	-	-	-	-	-	-	(2,875,000)	(2,875,000)
Cash dividends declared during the year	23.3	-	-	-	(3,006,380,000)	(3,006,380,000)	(3,006,380,000)	-	(3,006,380,000)
Balance at December 31, 2017		(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

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 8,479,970,603**	P 8,436,364,409	P 7,835,372,022
Adjustments for:				
Depreciation and amortization	9, 18, 19	**1,544,043,919**	1,074,666,926	795,801,817
Interest expense	9, 13, 14, 20	**781,494,014**	818,886,057	998,388,259
Interest income	5, 7, 11	**(345,272,714)**	(265,325,794)	(202,544,447)
Impairment losses on trademarks	10	**272,402,000**	-	-
Share in net profit of joint venture	12	**(239,168,070)**	(198,909,795)	(154,101,850)
Share option benefits expense	23	**26,958,169**	26,958,169	26,958,169
Impairment losses on trade and other receivables	6	**12,453,267**	22,029,978	48,204,136
Provisions	16	**6,620,361**	92,789,663	77,921,880
Loss (gain) on sale of property, plant and equipment	9	**5,832,899**	(6,744,917)	(1,542,396)
Amortization of trademarks	10	**1,615,391**	2,240,391	11,199,938
Operating profit before working capital changes		**10,546,949,839**	10,002,955,087	9,435,657,528
Increase in trade and other receivables		**(4,868,647,832)**	(3,942,624,042)	(4,338,410,026)
Decrease (increase) in financial instruments at fair value through profit or loss		**1,174,321,007**	(1,146,177,699)	(48,452,099)
Increase in inventories		**(1,782,580,256)**	(2,920,769,669)	(4,058,334,497)
Increase in prepayments and other current assets		**(655,812,469)**	(497,507,892)	(500,467,380)
Increase in retirement benefit asset		**(219,527,693)**	-	-
Decrease (increase) in other non-current assets		**45,637,206**	(244,307,084)	4,691,091
Increase in trade and other payables		**3,802,683,830**	1,139,466,605	3,254,782,522
Increase (decrease) in retirement benefit obligation		**51,454,223**	(204,585,861)	(16,961,383)
Cash generated from operations		**8,094,477,855**	2,186,449,445	3,732,505,756
Cash paid for income taxes		**(650,265,112)**	(551,522,212)	(1,328,291,861)
Net Cash From Operating Activities		**7,444,212,743**	1,634,927,233	2,404,213,895
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property, plant and equipment	9	**(2,158,685,600)**	(2,342,743,988)	(6,544,564,864)
Proceeds from sale of property, plant and equipment	9	**356,289,983**	64,018,578	146,696,465
Dividends received from a joint venture	12	**282,499,965**	93,314,288	60,952,241
Interest received	5, 7, 11	**243,885,422**	227,053,290	202,544,447
Acquisitions of trademarks	10	**-**	-	(2,938,865,934)
Proceeds from withdrawal of investment in a joint venture	12	**-**	-	858,354,900
Net Cash Used in Investing Activities		**(1,276,010,230)**	(1,958,357,832)	(8,214,882,745)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of interest-bearing loans	13, 30	**(3,226,111,642)**	(2,358,677,825)	(665,309,549)
Acquisition of treasury shares	23	**(1,638,071,312)**	(1,528,633,170)	(321,134,930)
Proceeds from interest-bearing loans	13, 30	**1,151,150,000**	3,451,057,163	9,487,962,789
Interest paid	30	**(705,636,523)**	(772,576,355)	(540,970,810)
Repayments of lease liabilities	9	**(237,157,272)**	-	-
Dividends paid	23	**-**	(2,399,048,170)	(3,006,380,000)
Redemption of preferred shares	23	**-**	(2,875,000)	(2,875,000)
Proceeds from issuance of shares of a subsidiary	23	**-**	-	847,882,450
Net Cash From (Used In) Financing Activities		**(4,655,826,749)**	(3,610,753,357)	5,799,174,950
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,512,375,764**	(3,934,183,956)	(11,493,900)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**6,228,229,892**	10,162,413,848	10,173,907,748
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 7,740,605,656**	P 6,228,229,892	P 10,162,413,848

Supplemental information on non-cash investing and financing activities is fully disclosed in Note 30 to the consolidated financial statements.

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

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

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

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

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

1.1 Subsidiaries

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

Names of Subsidiaries	Explanatory Notes	Percentage of Effective Ownership 2019	2018
EDI and subsidiaries (EDI Group)			
Emperador Distillers, Inc. ("EDI")	(a)	**100%**	100%
Anglo Watsons Glass, Inc. ("AWGI")	(b)	**100%**	100%
Alcazar De Bana Holdings Company, Inc. ("Alcazar De Bana")	(c)	**100%**	100%
Progreen Agricorp Inc. ("Progreen")	(c)	**100%**	100%
South Point Science Park Inc. ("SSPI")	(c)	**100%**	100%
The Bar Beverage, Inc.		**100%**	100%
Tradewind Estates, Inc. ("TEI")	(d)	**100%**	100%
Boozylife Inc. ("Boozylife")	(d)	**51%**	51%
Cocos Vodka Distillers Philippines, Inc.		**100%**	100%
Zabana Rum Company, Inc.		**100%**	100%

Names of Subsidiaries	Explanatory Notes	Percentage of Effective Ownership 2019	2018
EIL and offshore subsidiaries and joint venture:			
Emperador International Ltd. ("EIL")	(e)	**100%**	100%
Emperador Holdings (GB) Limited ("EGB")	(f)	**100%**	100%
Emperador UK Limited ("EUK")	(f)	**100%**	100%
Whyte and Mackay Group Limited ("WMG")	(g), 10	**100%**	100%
Whyte and Mackay Global Limited ("WMGL")	(g), (h)	**100%**	100%
Whyte and Mackay Limited ("WML")	(i)	**100%**	100%
Whyte and Mackay Warehousing Limited ("WMWL")	(j)	**100%**	100%
Emperador Asia Pte. Ltd. ("EA")	(k)	**100%**	100%
Grupo Emperador Spain, S.A. ("GES")	(l), 10	**100%**	100%
Bodega San Bruno, S.L. ("BSB")	(m)	**100%**	100%
Bodegas Fundador, S.L.U. ("BFS")	(l), (n), (o)	**100%**	100%
Grupo Emperador Gestion S.L. ("GEG")	(m)	**100%**	100%
Complejo Bodeguero San Patricio SLU ("CBSP")	(n), (r), 10	**100%**	100%
Stillman Spirits, S.L. ("Stillman")	(s)	**100%**	-
Domecq Bodega Las Copas, S.L. ("DBLC")	(p), 10	**50%**	50%
Bodegas Las Copas, S.L. ("BLC")	(q)	**50%**	50%
Emperador Europe Sarl ("EES")	(t)	**100%**	100%

Explanatory notes:

(a) EDI and its subsidiaries are engaged in businesses related to the main business of EDI in the Philippines. EDI became a wholly owned subsidiary on August 28, 2013 when EMP acquired it from AGI as a condition to AGI's subscription to EMP shares (see Note 23.1). EDI was incorporated in the Philippines on June 6, 2003 to primarily engage in the manufacturing and trading of brandy, wine or other similar alcoholic beverage products. EDI's brands include Emperador brandy, The BaR flavored alcoholic beverage, Andy Player whisky, Smirnoff Mule (under license), Andy Player whisky and Raffa sparkling white wine. EDI also imports and sells the products of EIL's offshore subsidiaries.

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

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

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

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

(d) TEI is a domestic corporation presently engaged in leasing its land and manufacturing complex in Sta. Rosa, Laguna. In 2018, TEI acquired 51% ownership in Boozylife for a total consideration of P45.0 million. The acquired identifiable net assets are not material to the Group's consolidated financial statements [see Notes 3.1(e) and 23.6]. Subsequently in January 2020, TEI increased its ownership to 62%.

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

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

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

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

(g) WMG is a foreign entity incorporated in the UK on August 7, 2001 and presently operating as an investment holding entity. WMG and its subsidiaries (collectively referred to as "WMG Group") are all engaged in businesses related to the main business of production, marketing and distribution of Scotch whisky, vodka, liqueurs and other alcoholic drinks. On September 5, 2019, the Group's Board of Directors ("BOD") approved WMG's restructuring by transferring its 100% direct ownership in WML and WMWL to its newly-incorporated wholly owned subsidiary, WMGL, through share exchange agreement [(see Note 1.1(h)]. The Group accounted this business combination under common control using pooling-of-interests method [see Note 2.12(b)]. As a result of the restructuring, WMGL now holds 100% ownership in WML and WMWL while WMG holds 100% ownership in WMGL. EUK acquired WMG from United Spirits (Great Britain) Limited on a deal signed on May 9, 2014 and closed on October 31, 2014 for a total cash consideration of P30.3 billion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The acquisition of its Domecq brand portfolio and its related assets in Mexico ("Domecq Acquisition") was signed by Pernod Ricard with BLC on December 1, 2016 and completed on March 30, 2017 by BLC and its two incorporated Mexican subsidiaries. Total acquisition is treated as an asset acquisition [see Notes 2.12(c), 3.1(e) and 23.6].

(q) 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.

(r) CBSP acquired from the previous owners (collectively referred to as "Grupo Garvey") certain tangible assets in Spain, including trademarks of well-known brands ("Garvey Acquisition") on January 19, 2017. The Garvey Acquisition is treated as an asset acquisition [see Notes 2.12(c) and 3.1(e)].

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

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

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

1.2 Approval of the Consolidated Financial Statements

The consolidated financial statements of EMP and its subsidiaries as of and for the year ended December 31, 2019 (including the comparative consolidated financial statements as of December 31, 2018 and for the years ended December 31, 2018 and 2017) were authorized for issue by the Parent Company's BOD on May 28, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Consolidated Financial Statements

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

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

(c) Functional and Presentation Currency

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

Items included in the consolidated financial statements of the Group are measured using the Parent Company's functional currency (see Note 2.16). 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 2019 that are Relevant to the Group

The Group adopted for the first time the following standards, amendments, interpretations and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee ("IFRIC") 23	:	Uncertainty over Income Tax Treatments
Annual Improvements to PFRS (2015-2017 Cycle)		
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends

PAS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 and PFRS 11 (Amendments)	:	Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation

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

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when an entity remeasures its net defined liability (asset). The application of these amendments had no significant impact on the Group's consolidated financial statements as there were no changes in the plan, curtailment or material settlement during the year.

(ii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures*. The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The application of these amendments had no significant impact on the Group's consolidated financial statements.

(iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the "solely payments of principal and interests" ("SPPI") test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income ("FVOCI"). The application of these amendments had no significant impact on the Group's consolidated financial statements as there was no financial asset identified with negative compensation.

(iv) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation: IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee ("SIC") 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and lease liability arising from contract that is, or contains, a lease.

For lessors, lease accounting is similar to PAS 17. 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. The basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Group adopted PFRS 16 and the related Philippine Interpretations Committee ("PIC") Questions and Answer ("Q&A") using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard resulted in adjustments to the amounts recognized in the consolidated financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Retained Earnings for the current period. Accordingly, comparative information were not restated.

Relative to the adoption of PFRS 16, the Group also applied the following PIC Q&A which are approved by the FRSC but still subject to approval by the BOA:

- PIC Q&A No. 2019-08, *Accounting for Asset Retirement or Restoration Obligation ("ARO") with the Adoption of PFRS 16, Leases*. This clarifies how a lessee should account for an ARO upon adoption of PFRS 16, including how a lessee should, on transition, account for any existing ARO that was previously recognized as a provision and capitalized as part of property and equipment when the lessee was applying PAS 17;

- PIC Q&A No. 2019-09, *Accounting for Prepaid Rent or Rent Liability Arising from Straight-lining under PAS 17 on Transition to PFRS 16 and the Related Deferred Tax Effects*. This clarifies the accounting treatment for any existing prepaid rent or rent liability in transition from PAS 17 to PFRS 16 using the modified retrospective approach and the related deferred tax effects;

- PIC Q&A 2019-11, *Determining the Current Portion of an Amortizing Loan/Lease Liability*. This clarifies the proper classification/presentation between current and non-current portion of amortizing loan/lease liability in the statement of financial position;

- PIC Q&A 2019-12, *Determining the Lease Term under PFRS 16*. This aims to provide guidance in determining the lease term under the new leases standard. Such exercise may require significant judgment especially when the lease agreement contains an option to either extend or terminate the lease; and,

- PIC Q&A 2019-13, *Determining the Lease Term of Leases that are Renewable Subject to Mutual Agreement of the Lessor and the Lessee*. This clarifies the lease term upon consideration of renewal option subject to mutual agreement of lessor and lessee.

The new accounting policies of the Group as a lessee are disclosed in Note 2.15(a), while the accounting policies of the Group as a lessor, as described in Note 2.15(b), were not significantly affected.

Discussed below are the relevant information arising from the Group's adoption of PFRS 16 and how the related accounts are measured and presented on the Group's consolidated financial statements as at January 1, 2019.

a. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.

b. The Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019. The Group's incremental borrowing rate applied to the lease liabilities of the local subsidiaries on January 1, 2019 ranges from 7.7% to 8.3%. Meanwhile, the average incremental borrowing rate used for foreign subsidiaries is 5.5%.

c. The Group has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Group has elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid lease payments and any estimated cost to restore the leased asset that existed as at January 1, 2019.

d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

e. The Group has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:

    i. application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
    ii. reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets; and,
    iii. use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The table in the succeeding page shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the consolidated statement of financial position as at January 1, 2019.

	Notes	Carrying Value (PAS 17) December 31, 2018	Reclassification	Remeasurement	Carrying Value (PFRS 16) January 1, 2019
Assets:					
Prepayments and and other current assets	c, 11.1	P 1,291,326,181	(P 6,314,179)	P -	P 1,285,012,002
Other non-current assets – net	c	1,062,894,704	(1,221,423)	-	1,061,673,281
Property, plant and equipment – net	c, 9.1 9.2	27,247,873,634	(331,471,286)	1,347,961,198	28,264,363,546
Liabilities:					
Deferred tax liabilities – net	21	(2,027,842,787)	-	104,872,616	(1,922,970,171)
Lease liabilities:					
Current	b	-	-	(127,696,856)	(127,696,856)
Non-current	b	-	-	(1,348,460,379)	(1,348,460,379)
Provisions	e(ii), 16.1	(524,974,547)	339,006,888	-	(185,967,659)
Impact on net assets			P -	(P 23,323,421)	

The Group presented the right-of-use assets as part of the Property, Plant and Equipment account in the 2019 consolidated statement of financial position (see Note 9).

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

	Notes	
Operating lease commitments, December 31, 2018 (PAS 17)	25	P 1,733,265,531
Recognition exemptions:		
Leases of low value assets	2.2(a)(iv)(d)	(893,543)
Leases with remaining term of less than 12 months	2.2(a)(iv)(d)	(73,487,357)
Reasonably certain extension options	2.2(a)(iv)(e)(iii)	48,203,532
Operating lease liabilities before discounting		1,707,088,163
Discount using incremental borrowing rate	2.2(a)(iv)(b)	(230,930,928)
Lease liabilities, January 1, 2019 (PFRS 16)		P 1,476,157,235

(v) IFRIC 23, *Uncertainty over Income Tax Treatments*. This 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. This interpretation had no significant impact on the Group's consolidated financial statements.

(vi) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2019, are relevant to the Group but are expected to have 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 an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.

- 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 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.

(b) Effective Subsequent to 2019 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2019, which are adopted by the FRSC. Management will adopt the following 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 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendments have also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency.

(ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. The Group has initially assessed that its accounting policies are still appropriate under the revised framework.

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

2.3 Basis of Consolidation

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

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

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

(a) *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and (iii) it has the ability to affect those returns through its power over the entity. The acquisition method is applied to account for acquired business subsidiaries [see Notes 2.12(a) and 3.1(e)]. Subsidiaries are consolidated from the date the Parent Company obtains control.

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

(b) *Investment in a Joint Venture*

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

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

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

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

Impairment loss is provided when there is objective evidence that the investment in a joint venture will not be recovered (see Note 2.17).

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

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

(c) *Transactions with Non-controlling Interest*

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

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

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

2.4 Segment Reporting

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

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

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

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

2.5 Financial Assets

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

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

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

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

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

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

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

(a) Classification and Measurement of Financial Assets

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

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

(i) Financial Assets at Amortized Cost

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

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

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

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

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

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

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

(ii) Financial Assets at Fair Value

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

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

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

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

The Group occasionally uses derivative financial instruments, such as foreign exchange forward contracts, to manage its risks associated with fluctuations in foreign currency. Derivative assets and derivative liabilities arise from foreign exchange margins trading spot and forward contracts entered into by the Group. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative [see Note 2.10(a)]. The term of these forward contracts is usually one month to one year.

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

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

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

(b) Impairment of Financial Assets

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

Since the Group's financial assets measured at amortized cost have no significant financing component, the Group applies the simplified approach in measuring ECL, which uses a lifetime ECL allowance for all trade receivables using provision matrix approach and loss rates approach, as the case may be. The lifetime ECL is estimated based on the expected cash shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. To calculate the ECL, the Group uses its historical experience, external indicators and forward-looking information. The Group also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due [see Notes 3.2(b) and 26.2].

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

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

- *Probability of Default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.
- *Loss Given Default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral or effect of any credit enhancement.
- *Exposure at Default* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation which pertains to its amortized cost.

(c) Derecognition of Financial Assets

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

(d) Reclassification of Financial Assets

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

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

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

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

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

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

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

There were no reclassification of financial assets in 2019 and 2018.

2.6 Inventories

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

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

2.7 Other Assets

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

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

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

2.8 Property, Plant and Equipment

Property, plant and equipment (see Note 9) are carried at acquisition cost and, except for land, less accumulated depreciation, amortization and any impairment losses (see Note 2.17). As no definite useful life for land can be determined, the related carrying amount (which is cost less any impairment losses) is not depreciated.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use, including borrowing costs (see Note 2.20). 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(e)]:

Buildings and improvements	25 to 50 years
Land improvements	10 years
Machinery and equipment (including tools and other equipment)	2 to 20 years
Transportation equipment	3 to 10 years
Office furniture and fixtures	3 to 10 years
Right-of-use assets	2 to 7 years

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

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

Construction in progress represents properties under construction and is stated at cost. This includes costs of construction, applicable borrowing costs (see Note 2.20) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

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

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

2.9 Intangible Assets

Intangible assets include trademarks and goodwill, which are accounted for under the cost model (see Note 10). The cost of the trademarks is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs for trademarks with definite lives are amortized on a straight-line basis over their estimated useful lives of ten years. Capitalized costs for trademarks with indefinite useful lives are not amortized. The useful lives are reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment. Changes in the useful life assessment from indefinite to definite, if any, are accounted for as change in accounting estimate. In addition, trademarks and goodwill are subject to impairment testing as described in Note 2.17.

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

2.10 Financial Liabilities

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

(a) *Financial Liabilities at FVTPL*

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

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

(b) *Financial Liabilities at Amortized Cost*

This category pertains to financial liabilities that are not held for trading or not designated as financial liabilities at FVTPL upon inception of the liability. This includes interest-bearing loans (see Note 13), trade and other payables [except output value-added tax ("VAT") and other tax-related payables] (see Note 15), lease liabilities (see Note 9.3), dividends payable (see Note 23.3) and the financial liability component of equity-linked securities ("ELS") instrument (see Note 14), and is recognized when the Group becomes a party to the contractual agreements of the instrument.

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

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

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

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

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

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

2.11 Offsetting of Financial Instruments

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

2.12 Business Combination and Asset Acquisition

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

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

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

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

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

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

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

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

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

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

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

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

No restatements are made to the financial information in the consolidated financial statements for periods prior to the business combination as allowed under PIC Q&A No. 2012-01, PFRS 3.2 – *Application of Pooling of Interest Method for Business Combination of Entities under Common Control in Consolidated Financial Statements*; hence, the profit and loss of the acquiree is included in the consolidated financial statements for the full year, irrespective of when the combination took place. Also, no goodwill is recognized as a result of the business combination and any excess between the net assets of the acquiree and the consideration paid is accounted for as "equity reserves". Also, any pre-acquisition income and expenses of a subsidiary are no longer included in the consolidated financial statements. The Group accounted for WMG's restructuring in 2019 using this method [see Note 1.1(g)].

(c) Accounting for Asset Acquisition

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

2.13 Provisions and Contingencies

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

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

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

2.14 Revenue and Expense Recognition

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

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

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

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

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

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

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

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

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

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

Costs and expenses (see Notes 18 and 19) are recognized in consolidated profit or loss upon utilization of goods or rendering of services or at the date these are incurred. All finance costs are reported in consolidated profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20).

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

Prior to 2018, the Group recognized revenues on sale of goods and services based on the provisions of PAS 18, *Revenue*. Accordingly, the Group recognized revenues on 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, and sale of services when the performance of contractually agreed tasks has been substantially rendered.

2.15 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

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

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

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

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

Subsequently, the right-of-use asset is depreciated on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.17).

On the other hand, the lease liability is measured at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease, if that rate is readily available, or the Group's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

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

(ii) Accounting for Leases in Accordance with PAS 17 (2018 and 2017)

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

(b) Group as Lessor

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

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

2.16 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 ("GBP") and European Union euro ("EUR"), their functional currencies, are translated to Philippine pesos, the Parent Company's functional currency, as follows:

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

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

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

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

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

2.17 Impairment of Non-financial Assets

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

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

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

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

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

2.18 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 for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds, using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation ("BVAL"), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

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

(b) Post-employment Defined Contribution Plan

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

(c) Short-term Employee Benefits

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

(d) Bonus Plans

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

(e) Compensated Absences

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

2.19 Share-based Employee Remuneration

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

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

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

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

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

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

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

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

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

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

2.22 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, (d) close members of the family of any such individual; and, (e) the Group's funded retirement plan.

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

Transactions amounting to 10% or more of the total assets based on the latest audited consolidated financial statements that were entered into with related parties are considered material. This is based on the requirement of SEC Memorandum Circular 2019-10, *Rules on Material Related Party Transactions for Publicly-listed Companies*.

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

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

2.23 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 outstanding represent the equity component of ELS. This will eventually be closed to APIC upon settlement or conversion of the ELS [see Note 3.2(h)]. Share options outstanding represent the accumulated total of employee share options' amortizations over the vesting period as share-based employee remuneration are recognized and reported in the consolidated statement of comprehensive income. This will eventually be closed to APIC upon exercise or expiration.

Accumulated translation adjustments represent the translation adjustments resulting from the translation of foreign currency-denominated financial statements of foreign subsidiaries into the Group's functional and presentation currency [see Note 2.16(b)(iii)].

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

Other reserves include legal reserves that represent the statutory requirements in Luxembourg, which comprise of net wealth tax reserve and capital reserve. In 2019 and 2018, certain statutory requirements based on Spanish legislation were included as part of this account.

Retained earnings, the appropriated portion of which is not available for dividend declaration (see Note 23.5), represent the current and all prior period results of operations as reported in the consolidated profit or loss section of the consolidated statement of comprehensive income, reduced by the amounts of dividends declared.

Non-controlling interests ("NCI") represent the portion of the net assets and profit or loss not attributable to the Parent Company's stockholders which are presented separately in the Group's consolidated statement of comprehensive income and within the equity in the Group's consolidated statement of financial position and consolidated statement of changes in equity (see Note 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. There are no post-year-end events that occurred up to date of issuance of the consolidated financial statements that would require disclosure or adjustment (see Note 31).

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

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

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

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

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

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

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

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

- how the performance of the business model and the financial assets held within the business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and,
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

(c) Determination of ECL on Financial Assets at Amortized Cost

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

The provision matrix and loss rates are based on the Group's historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Group's trade and other receivables are disclosed in Notes 2.5(b) and 26.2(b).

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

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

(e) Distinction Between Business Combination and Asset Acquisition

The Group determines whether an acquisition of an entity constitute a business combination or an asset acquisition. The accounting treatment for the acquisition is determined by assessing whether the transaction involved a purchase of a "business" taking into consideration the substance of the transaction. Failure to make the right judgment will result in misstatement of assets and other accounts that could have been affected by the transactions (see Note 2.12)

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

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

Moreover, WMG's transfers of ownership interest over WML and WMWL to WMGL are accounted for as business combination using pooling-of-interest method as these are transfers of interests in entities that are under the common control and there is no change of control before and after the restructuring [see Notes 1.1(g)].

(f) Determination of Control or Joint Control

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

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

(g) 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) Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)

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

(b) Impairment of Financial Assets at Amortized Cost

In measuring ECL, the Group added significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of counterparties defaulting and the resulting losses), as further detailed in Note 26.2. In 2017, under the previous standard (PAS 39, *Financial Instruments: Recognition and Measurement*), the Group evaluated impairment based on available facts and circumstances affecting collectability of accounts, including but not limited to, the length of the Group's relationship with the counterparties, counterparties' credit status, age of accounts and collection and historical loss experience. Based on the management's review, appropriate allowance for ECL has been recognized on the Group's financial assets in 2019, 2018 and 2017 (see Notes 2.5 and 6).

(c) Fair Value Measurement of Financial Instruments

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

The carrying values and amounts of fair value changes recognized during the years presented on the Group's financial instruments at FVTPL [see Notes 2.5(a)(ii) and 2.10(a)] are disclosed in Note 7.

(d) 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.

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

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

The estimated useful lives of property, plant and equipment, right-of-use assets and trademarks are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets [see Notes 2.8, 2.9 and 2.15(a)(i)]. The carrying amounts of property, plant and equipment, right-of-use assets and trademarks are presented in Notes 9.1, 9.2 and 10, respectively.

(f) Determination of Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2019 and 2018 will be fully utilized in the subsequent reporting periods. The carrying value of deferred tax assets as of those dates is disclosed in Note 21.

(g) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.17). 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 2019, 2018 and 2017, except for impairment of certain intangible assets in 2019 as shown in Note 10, based on management's assessment.

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

The ELS [see Notes 2.10(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 Parent Company's common shares. The value of the financial liability component is determined separately, which is deducted from the fair value of the compound instrument as a whole, and the residual amount is assigned as the value of the equity component.

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

Initially, the Group determined the carrying amount of the financial liability component by measuring the present value of the contractual stream of future cash flows, using the interest rate of similar liabilities that do not have an associated equity component. When the fair value of the financial liability is compared with the fair value of the compound financial instrument as a whole, which is equivalent to the issue price, there was no residual amount such that no value was assigned to the equity component; hence, no equity component was recognized in the consolidated financial statements at that time. Subsequently, the financial liability was measured at amortized cost. The total carrying amount of the ELS was presented as Equity-linked Debt Securities account under the Current and Non-current Liabilities section of the consolidated statements of financial position (see Note 14).

In 2017, as a result of the amendment of the ELS, management reassessed the compound financial instrument and recomputed the fair values of the components at the time of amendment, which resulted in a revalued financial liability component [see Note 2.10(b)] and an equity component with value (see Note 2.23). Accordingly, the Group presented the components separately as Equity-linked Debt Securities (see Note 14) and Conversion Options Outstanding accounts under the Non-current Liabilities and Equity sections, respectively, of the consolidated statements of financial position.

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

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

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

The amounts of post-employment defined benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 20.3.

(j) *Fair Value Measurement of Share Options*

The Group estimates the fair value of the share option by applying an option valuation model, taking into account the terms and conditions on which the share option was granted. The estimates and assumptions used are presented in Note 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 Note 23.4.

(k) *Determination of Provision for Onerous Lease*

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

Upon adoption of PFRS 16, these provisions were directly adjusted against the beginning balance of the Group's right-of-use assets [see Note 2.2(a)(iv)(e)(ii)]. An analysis of the Group's provisions for onerous lease is presented in Note 16.1.

(l) Determination of Provision for Restoration of Leased Property

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

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

4. SEGMENT INFORMATION

4.1 Business Segments

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

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

4.2 Segment Assets and Liabilities

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

4.3 Intersegment Transactions

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

4.4 Analysis of Segment Information

Segment information for the years ended December 31, 2019, 2018 and 2017 (in millions) are presented in the succeeding page.

	BRANDY			SCOTCH WHISKY			Consolidated Balances[1]		
	2019	2018	2017	**2019**	2018	2017	**2019**	2018	2017
REVENUES									
External customers	**P 37,627**	P 33,681	P 30,391	**13,938**	13,369	12,264	**P 51,565**	P 47,050	P42,655
Intersegment sales*	**786**	766	783	**241**	158	307	**-**	-	-
	38,413	34,447	31,174	**14,179**	13,527	12,571	**51,565**	47,050	42,655
COSTS AND EXPENSES									
Costs of goods sold	**25,662**	23,013	19,630	**7,672**	7,292	7,634	**33,334**	30,305	27,264
Intersegment cost of goods sold*	**241**	158	307	**786**	766	783	**-**	-	-
Selling and distribution expenses	**3,649**	3,278	2,660	**2,372**	2,290	1,952	**6,021**	5,568	4,612
General and administrative expenses	**1,986**	975	721	**938**	935	798	**2,924**	1,910	1,519
Interest expense and other charges	**633**	680	1,422	**173**	151	3	**806**	831	1,425
	32,171	28,104	24,740	**11,941**	11,434	11,170	**43,085**	38,614	34,820
SEGMENT PROFIT BEFORE TAX	**6,242**	6,343	6,434	**2,238**	2,093	1,401	**8,480**	8,436	7,835
TAX EXPENSE	**1,377**	1,326	1,422	**271**	281	81	**1,648**	1,607	1,503
SEGMENT NET PROFIT	**P 4,865**	P 5,017	P 5,012	**P 1,967**	P 1,812	P 1,320	**P 6,832**	P 6,829	P 6,332

**Intersegment sales and intersegment cost of goods sold are eliminated in consolidation. Numbers may not add up due to rounding.*
[1]*See Reconciliation presented in Note 4.5.*

	BRANDY			SCOTCH WHISKY			Consolidated Balances		
	2019	2018	2017	**2019**	2018	2017	**2019**	2018	2017
TOTAL ASSETS*	**P88,453**	P71,415	P54,017	**P37,533**	P 46,403	P 57,519	**P125,986**	P117,818	P111,536
TOTAL LIABILITIES*	**47,407**	44,549	36,634	**13,862**	11,905	16,548	**61,269**	56,454	53,182
Depreciation and amortization	**1,241**	859	622	**305**	218	185	**1,546**	1,077	807
Interest expense	**659**	668	967	**122**	151	31	**781**	819	998
Equity share in net income of joint venture	**239**	199	154	**-**	-	-	**239**	199	154

**Amounts shown do not include intersegment accounts. 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.

4.5 Reconciliations

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

	Segment Totals	Intercompany Accounts	Consolidated Balances
2019			
Revenues	**P 52,592**	**(P 1,027)**	**P 51,565**
Costs and expenses	**44,112**	**(1,027)**	**43,085**
Total assets	**182,514**	**(56,528)**	**125,986**
Total liabilities	**69,137**	**(7,868)**	**61,269**
Other segment information:			
Depreciation and amortization	**1,546**	**-**	**1,546**
Interest expense	**781**	**-**	**781**
Share in net profit of joint venture	**239**	**-**	**239**

	Segment Totals	Intercompany Accounts	Consolidated Balances
2018			
Revenues	47,974	(924)	47,050
Costs and expenses	39,538	(924)	38,614
Total assets	172,393	(54,575)	117,818
Total liabilities	62,097	(5,643)	56,454
Other segment information:			
Depreciation and amortization	1,077	-	1,077
Interest expense	819	-	819
Share in net profit of joint venture	199	-	199
2017			
Revenues	43,745	(1,090)	42,655
Costs and expenses	35,910	(1,090)	34,820
Total assets	162,857	(51,321)	111,536
Total liabilities	56,549	(3,367)	53,182
Other segment information:			
Depreciation and amortization	807	-	807
Interest expense	998	-	998
Share in net profit of joint venture	154	-	154

5. CASH AND CASH EQUIVALENTS

This account includes the following components:

	2019	2018
Cash on hand and in banks	**P 3,739,621,605**	P 4,133,707,424
Short-term placements	**4,000,984,051**	2,094,522,468
	P 7,740,605,656	P 6,228,229,892

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 3.1% to 6.6% in 2019, from 2.9% to 6.6% in 2018, and from 1.8% to 2.8% in 2017. Interest earned amounted to P315.8 million, P218.6 million and P202.5 million in 2019, 2018 and 2017, respectively, and is presented as part of Interest income under the Revenues section of 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(a)(i)]:

	Notes	**2019**	2018
Trade receivables	22.3	**P 15,612,615,832**	P 14,524,773,347
Advances to suppliers	2.7	**6,005,315,403**	3,204,397,152
Advances to ultimate parent company	22.6	**2,095,371,956**	1,142,912,243
Advances to officers and employees	22.4	**33,518,316**	40,762,383
Accrued interest receivable	17	**513,731**	17,665,846
Other receivables		**61,676,921**	78,280,618
		23,809,012,159	19,008,791,589
Allowance for impairment	3.2(b)	**(88,686,826)**	(133,008,227)
		P 23,720,325,333	P 18,875,783,362

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

All of the Group's trade and other receivables have been assessed for impairment using the ECL model adopted by the Group [see Notes 2.5(b), 3.1(c) and 3.2(b)]. Certain trade and other receivables were found to be impaired using the ECL methodology as determined by the management; hence, adequate amounts of allowance for impairment have been recognized (see Note 26.2).

A reconciliation of the allowance for impairment at the beginning and end of 2019 and 2018 is shown below.

	2019	2018
Balance at beginning of year	**P 133,008,227**	P 117,537,277
Impairment losses	**12,453,267**	22,029,978
Recoveries	**(56,774,668)**	(6,559,028)
Balance at end of year	**P 88,686,826**	P 133,008,227

Recoveries pertain to collection of certain receivables previously provided with allowance. There were no write-offs of receivables in 2019 and 2018.

Net impairment losses on trade and other receivables are presented as part of General and Administrative Expenses account under the Cost and Expenses section of 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 liablities at FVTPL as of December 31, 2019 and 2018 pertain to derivative liabilities amounting to P9.1 million and P43.5 million, respectively [see Note 2.5(a)(ii)] while the Group's financial assets at FVTPL as of December 31, 2018 which were disposed of in 2019 pertain to investments in Megaworld Corporation's ("Megaworld") US$200.0-million Fixed-For-Life Senior Perpetual Notes ("Perpetual Notes") amounting to P1.2 billion. The Group recognized a gain amounting to P16.4 million from the disposal and this is presented as part of Other income in the Revenues section of the 2019 consolidated statement of comprehensive income (see Notes 17 and 22.12).

The net changes in fair values and interest income earned on these financial instruments are presented in the consolidated statements of comprehensive income as part of Other income and Interest income, respectively, in the Revenues section (see Notes 17 and 22.12). The Group recognized fair value loss amounting to P62.5 million in 2018 and fair value gains amounting to P48.5 million in 2017. The Group also recognized interest income from these financial instruments amounting to P29.4 million and P46.7 million in 2019 and 2018, respectively.

The fair value of the financial instruments at FVTPL are measured through valuation techniques using the net present value computation (for derivative financial instruments), or through reference to quoted bid prices in an active market (for the investment in Perpetual Notes) [see Notes 3.2(c) and 28.2].

8. INVENTORIES

Details of inventories as of December 31, 2019 and 2018, which are valued at lower of cost and net realizable value, are shown below [see Notes 2.6 and 3.2(d)].

	Notes	2019	2018
Finished goods	18, 22.1	**P 5,800,242,939**	P 4,928,444,192
Work-in-process	9.1, 18 20.1	**20,746,632,386**	19,310,965,391
Raw materials	18, 22.1	**3,220,265,567**	3,260,045,413
Packaging materials	18	**689,278,349**	672,306,578
Machinery spare parts, consumables and factory supplies		**266,885,473**	429,891,513
		30,723,304,714	28,601,653,087
Allowance for inventory write-down		**(214,001,436)**	(205,679,749)
		P 30,509,303,278	P 28,395,973,338

WML has a substantial inventory of aged stocks which mature over periods of up to 60 years. The maturing whisky stock inventory amounting to P16.7 billion and P15.4 billion as of December 31, 2019 and 2018, 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 2019, 2018 and 2017 is presented in Note 18. A reconciliation of the allowance for inventory write-down is shown below.

	2019	2018
Balance at beginning of year	**P 205,679,749**	P 150,969,324
Impairment losses	**8,321,687**	54,710,425
Balance at end of year	**P 214,001,436**	P 205,679,749

Impairment losses on inventories are presented as part of Impairment losses under the Cost of Goods Sold account in the consolidated statements of comprehensive income (see Note 18). There were no reversals of impairment losses in 2019, 2018 and 2017.

9. PROPERTY, PLANT AND EQUIPMENT

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

	Notes	2019	2018
Property, plant and equipment	9.1	**P 27,383,160,263**	P 27,247,873,634
Right-of-use assets	9.2	**1,603,476,999**	-
		P 28,986,637,262	P 27,247,873,634

No impairment losses were recognized in 2019, 2018 and 2017 for the Group's property, plant and equipment, and right-of-use assets.

9.1 *Carrying Values of 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 are 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, 2019										
Cost	P 6,083,382,676	P 29,078,186	P11,712,328,369	P 185,659,001	P17,981,196,764	P 659,562,281	P 663,089,701	P 83,945,086	P 1,224,332,802	P 38,622,574,866
Accumulated depreciation and amortization	-	(20,020,336)	(2,479,834,634)	(69,449,304)	(7,969,341,890)	(353,414,603)	(298,587,290)	(48,766,546)	-	(11,239,414,603)
Net carrying amount	P 6,083,382,676	P 9,057,850	P 9,232,493,735	P 116,209,697	P10,011,854,874	P 306,147,678	P 364,502,411	P 35,178,540	P 1,224,332,802	P 27,383,160,263
December 31, 2018										
Cost	P 6,253,586,921	P 29,078,186	P11,228,371,737	P 160,159,383	P16,944,662,428	P 630,896,655	P 514,717,079	P 62,308,101	P 1,431,738,532	P 37,255,519,022
Accumulated depreciation and amortization	-	(17,112,517)	(2,210,387,546)	(56,213,626)	(7,149,071,973)	(299,472,526)	(239,949,715)	(35,437,485)	-	(10,007,645,388)
Net carrying amount	P 6,253,586,921	P 11,965,669	P 9,017,984,191	P 103,945,757	P 9,795,590,455	P 331,424,129	P 274,767,364	P 26,870,616	P 1,431,738,532	P 27,247,873,634
January 1, 2018										
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

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

	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, 2019, net of accumulated depreciation and amortization										
As previously reported	P 6,253,586,921	P 11,965,669	P 9,017,984,191	P 103,945,757	P 9,795,590,455	P 331,424,129	P 274,767,364	P 26,870,616	P 1,431,738,532	P 27,247,873,634
Effect of PFRS 16	-	-	(46,776,972)	-	-	-	-	-	-	(46,776,972)
As restated	6,253,586,921	11,965,669	8,971,207,219	103,945,757	9,795,590,455	331,424,129	274,767,364	26,870,616	1,431,738,532	27,201,096,662
Additions	48,079,546	-	224,668,334	24,543,078	1,248,873,887	38,402,331	151,192,133	26,659,154	396,267,137	2,158,685,600
Disposals	(218,832,143)	-	(696,102)	-	(64,085,994)	(4,478,507)	(323,187)	-	(73,706,949)	(362,122,882)
Reclassifications of construction in progress	548,352	-	341,714,363	956,540	186,155,063	-	591,600	-	(529,965,918)	-
Depreciation and amortization charges for the year	-	(2,907,819)	(304,400,079)	(13,235,678)	(1,154,678,537)	(59,200,275)	(61,725,499)	(18,351,230)	-	(1,614,499,117)
Balance at December 31, 2019, net of accumulated depreciation and amortization	P6,083,382,676	P 9,057,850	P9,232,493,735	P 116,209,697	P10,011,854,874	P 306,147,678	P 364,502,411	P 35,178,540	P1,224,332,802	P 27,383,160,263

	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, 2018, 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
Additions	41,692,482	-	371,664,730	60,165,415	1,280,603,363	132,977,572	65,001,674	28,449,760	362,188,992	2,342,743,988
Disposals	-	-	(215,618)	-	(54,450,996)	(2,565,295)	(41,751)	-	-	(57,273,660)
Reclassifications of construction in progress	(19,996,253)	-	1,669,794,550	41,340	2,282,570,844	18,829,860	10,662,267	-	(3,961,902,608)	-
Depreciation and amortization charges for the year	-	(2,907,818)	(258,565,062)	(8,736,658)	(981,703,137)	(50,570,453)	(51,460,041)	(24,509,779)	-	(1,378,452,948)
Balance at December 31, 2018, net of accumulated depreciation and amortization	P6,253,586,921	P 11,965,669	P9,017,984,191	P 103,945,757	P9,795,590,455	P 331,424,129	P 274,767,364	P 26,870,616	P 1,431,738,532	P 27,247,873,634
Balance at January 1, 2017, net of accumulated depreciation and amortization	P5,246,813,812	P 17,781,306	P5,806,025,556	P 33,715,568	P5,205,519,124	P 155,573,832	P 204,764,719	P 31,173,576	P4,247,914,675	P 20,949,282,168
Additions through asset acquisitions (see Note 10)	324,644,906	-	811,086,259	-	599,340,461	-	-	-	-	1,735,071,626
Additions	660,431,974	-	783,828,031	14,507,861	2,105,867,791	120,247,059	85,334,560	15,969,251	1,084,147,869	4,870,334,396
Disposals	-	-	(5,621,650)	-	(841,708)	(7,172,456)	(15,555)	-	(131,502,700)	(145,154,069)
Reclassifications of construction in progress	-	-	62,052,133	8,629,233	98,426,330	-	-	-	(169,107,696)	-
Depreciation and amortization charges for the year	-	(2,907,819)	(222,064,738)	(4,377,002)	(739,741,617)	(35,895,990)	(39,478,509)	(24,212,192)	-	(1,068,677,867)
Balance at December 31, 2017, net of accumulated depreciation and amortization	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

With the adoption of PFRS 16, the Group reclassified its capitalized dilapidations with carrying amount of P46.8 million, presented as part of Buildings and improvements as of January 1, 2019, to Right-of-use assets [see Note 2.2(a)(iv) and 9.2].

The construction of another distillery plant in Balayan, Batangas, which started in 2013, was completed in 2018 and reclassified to their specific property, plant and equipment accounts. In 2018 and 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. In 2018 and 2017, the borrowing costs from the loan were capitalized and presented as part of additions to Construction in progress (see Notes 2.20 and 13).

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

The amount of depreciation and amortization is allocated as follows:

	Notes	2019	2018	2017
Costs of goods sold	18	**P 802,312,571**	P 915,274,249	P 710,858,353
Selling and distribution expenses	19	**61,946,694**	51,711,352	39,745,417
General and administrative expenses	19	**429,791,618**	107,681,325	45,198,047
		1,294,050,883	1,074,666,926	795,801,817
Capitalized as part of work-in-process inventories	8	**320,448,234**	303,786,022	272,876,050
		P 1,614,499,177	P 1,378,452,948	P 1,068,677,867

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 2019, 2018 and 2017, certain property, plant and equipment with carrying amounts of P362.1 million, P57.3 million and P145.2 million, respectively, were sold for P356.3 million, P64.0 million, and P146.7 million, respectively. The resulting gains on disposals for 2018 and 2017 amounting to P6.7 million and P1.5 million, respectively, were recognized as part of Other income under the Revenues section in the 2018 and 2017 consolidated statements of comprehensive income (see Note 17); while the resulting loss on disposals amounting to P5.8 million in 2019 was recognized as part of Other Charges account under the Cost and Expenses section in the 2019 consolidated statement of comprehensive income.

9.2 Right-of-use Assets

The Group has leases for certain manufacturing plant, warehouses, building space, commercial building, and vehicles, fittings and equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the 2019 consolidated statement of financial position as Right-of-use assets under the Property, Plant and Equipment account and Lease Liabilities account.

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

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

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

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

	Plant	Warehouses	Building Space	Buildings	Vehicles, Fittings and Equipment	Total
Balance at beginning of year						
As previously reported	P -	P -	P -	P -	P -	P -
Effect of adoption of PFRS 16 [Note 2.2(a)(iv)]	52,577,374	115,129,560	27,992,658	796,331,578	71,235,714	1,063,266,884
As restated	52,577,374	115,129,560	27,992,658	796,331,578	71,235,714	1,063,266,884
Additions	-	542,950,264	171,059,601	76,193,286	-	790,203,151
Amortization charges for the year	(6,572,172)	(122,125,987)	(29,430,591)	(84,946,732)	(6,917,554)	(249,993,036)
Balance at end of year	**P 46,005,202**	**P 535,953,837**	**P 169,621,668**	**P 787,578,132**	**P 64,318,160**	**P 1,603,476,999**

Upon adoption of PFRS 16, the Group has relied on its historical assessments as to whether leases were onerous immediately before the date of initial application as alternative to performing an impairment review on right-of-use assets, and accordingly reclassified portion of its provision for onerous lease amounting to P355.6 million against the beginning balance of right-of-use assets [see Note 2.2(a)(iv)]. In 2018, these are presented as part of Provision for onerous lease (see Note 16.1).

Also, a portion of the Group's buildings and improvements, which was related to the capitalized dilapidation costs, amounting to P46.8 million was reclassified to right-of-use assets.

The amount of amortization in 2019 is allocated as follows:

	Notes	
Cost of goods sold	18, 22.2	P 139,148,721
General and administrative expenses	19, 22.2	70,480,909
Selling and distribution expenses	19	40,363,406
		P 249,993,036

9.3 Lease Liabilities

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

Current	P 304,882,103
Non-current	1,717,050,012
	P 2,021,932,115

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

The lease liabilities are secured by the related underlying assets and by a property mortgage (see Note 11.2). The undiscounted maturity analysis of lease liabilities at December 31, 2019 is as follows:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More Than 5 years	Total
Lease liabilities	P 422,978,548	P 367,901,125	P 350,249,522	P 268,841,960	P 235,557,176	P 1,033,147,478	P 2,678,675,809
Finance charges	(118,096,445)	(97,261,649)	(77,549,509)	(58,826,220)	(48,819,581)	(256,190,290)	(656,743,694)
Net present values	**P 304,882,103**	**P 270,639,476**	**P 272,700,013**	**P 210,015,740**	**P 186,737,595**	**P 776,957,188**	**P 2,021,932,115**

9.4 Lease Payments Not Recognized as Liabilities

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

The expenses relating to short-term leases and low-value assets, which are presented as Rentals under the Cost of Goods Sold and Other Operating Expenses, in the 2019 consolidated statement of comprehensive income amounted to P84.3 million and P55.2 million, respectively (see Notes 18 and 19).

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

9.5 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of lease liabilities amounted to P237.2 million in 2019. Interest expense in relation to lease liabilities amounted to P120.0 million and is presented as part of Interest Expense account under the Cost and Expenses section of the 2019 consolidated statement of comprehensive income.

10. INTANGIBLE ASSETS

This account is composed of the following:

	Note	**2019**	2018
Indefinite useful lives	2.9		
Trademarks – net		**P 19,653,436,800**	P 20,734,188,972
Goodwill		**9,236,331,189**	9,488,786,678
		28,889,767,989	30,222,975,650
Definite useful lives			
Trademarks – net	2.9	**5,384,638**	7,000,029
		P 28,895,152,627	P 30,229,975,679

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

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

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

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

For purposes of determining the goodwill [see Note 2.12(a)], the Parent Company determined the fair value of the identified net assets as of October 31, 2014 and February 29, 2016 for WMG and Fundador Business Unit, respectively, as presented below.

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

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

	Note	Domecq Acquisition	Garvey Acquisition
Tangible assets	9.1	P 1,702,112,882	P 1,554,825,243
Intangible assets		3,123,564,000	332,598,228
		4,825,676,882	1,887,423,471
Liabilities		-	(34,361,071)
		P 4,825,676,882	**P 1,853,062,400**

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

	2019	2018
Goodwill breakdown:		
WMG	**P 7,647,189,600**	P 7,792,765,200
GES	**1,589,141,589**	1,696,021,478
	9,236,331,189	9,488,786,678
Trademarks with indefinite useful lives:		
WMG brands	**9,482,748,132**	9,626,426,135
Fundador and other brands	**7,238,968,943**	7,725,835,725
Domecq brands	**2,844,016,926**	3,002,659,087
Grupo Garvey brands - net	**87,702,799**	379,268,025
	19,653,436,800	20,734,188,972
	P 28,889,767,989	P 30,222,975,650

The trademarks under Grupo Garvey brands were impaired by P272.4 million in 2019 (nil in 2018). The impairment was charged to General and administrative expenses under Cost and Expenses account of the 2019 consolidated statement of comprehensive income (see Note 19).

A reconciliation of the carrying amounts of intangible assets with indefinite useful lives at the beginning and end of 2019 and 2018 is shown below.

	Goodwill	**Trademarks**	**Total**
Balance at January 1, 2019, net of translation adjustments	P 9,488,786,678	P 20,734,188,972	P 30,222,975,650
Translation adjustments	(252,455,489)	(808,350,172)	(1,060,805,661)
Impairment losses during the year	-	(272,402,000)	(272,402,000)
Balance at December 31, 2019, net of impairment losses and translation adjustments	**P 9,236,331,189**	**P19,653,436,800**	**P28,889,767,989**
Balance at January 1, 2018, net of translation adjustments	P 9,377,371,172	P 20,507,380,260	P 29,884,751,432
Translation adjustments	111,415,506	226,808,712	338,224,218
Balance at December 31, 2018, net of translation adjustments	P 9,488,786,678	P20,734,188,972	P 30,222,975,650

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

	Note	**2019**	2018
Balance at beginning of year		**P 7,000,029**	P 9,240,420
Amortization during the year	19	**(1,615,391)**	(2,240,391)
Balance at end of year		**P 5,384,638**	P 7,000,029

As of December 31, 2019 and 2018, the remaining useful life of the Group's "Emperador Deluxe" trademark with definite life is 3.5 years and 4.5 years, respectively.

The "The BaR", and "Emperador Brandy" and "Generoso Brandy" trademarks were fully amortized since 2018 and 2017, respectively. Consequently, the Group renewed the trademark application of "Emperador Brandy" with the Intellectual Property Office of the Philippines in 2017. The related costs of renewal was directly charged to expense as part of Others under the Selling and Distribution Expenses account in the 2017 consolidated statement of comprehensive income as the cost of renewal is not significant to be capitalized (see Note 19). There are no similar transactions in 2019 and 2018.

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

	2019				2018			
	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 7.65**	**P 12.17**	**2.00%**	**9.75%**	P 7.79	P 12.78	1.90%	9.75%
GES	**1.59**	**10.23**	**1.60%**	**7.51%**	1.70	10.95	1.60%	7.51%
Trademarks with indefinite lives:								
WMG brands	**9.48**	**41.83**	**2.00%**	**9.75%**	9.63	44.27	1.90%	9.75%
Fundador brands	**7.24**	**10.57**	**1.60%**	**8.06%**	7.73	17.97	1.60%	8.14%
Domecq brands**	**2.84**				3.00			
Grupo Garvey brands**	**0.09**				0.38			

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

** *As of December 31, 2019, management believes that Domecq brands are not impaired as DBLC's operations, which carry the Domecq brands, have reported revenues of P3.0 billion in 2019 and P2.6 billion in 2018 (see Note 23.6). Moreover, management believes that after the impairment provided for Grupo Garvey brands, the value-in-use as of December 31, 2019 approximates its carrying value. As of December 31, 2018, management believes that the carrying values of Domecq and Grupo Garvey brands approximate their value-in-use as of those dates since these were only acquired in 2017.*

The value-in-use of each group of cash generating unit was determined using cash flow projections for five years, taking into consideration the impact of COVID-19, and extrapolating cash flows beyond the projection period using a steady terminal growth rate (see Note 31.4). The discount rates and growth rates are the key assumptions used by management in determining the value-in-use of the cash generating units. In 2019, due to the continuous decline of the Group's revenue from the products under Grupo Garvey brands, the management assessed that portion of these trademarks are impaired. Accordingly, the Group recognized an impairment loss amounting to P272.4 million and is presented as part of General and Administrative Expenses account in the 2019 consolidated statement of comprehensive income (see Note 19).

Management believes that both the goodwill and trademarks, except for certain trademarks identified above, are not impaired as of December 31, 2019 and 2018 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):

	2019	2018
Prepaid expenses	**P 877,379,918**	P 616,943,680
Prepaid taxes	**822,448,287**	545,721,769
Deferred input VAT	**54,202,344**	54,884,517
Refundable security deposits	**19,941,320**	626,409
Others	**100,585,819**	73,149,806
	P 1,874,557,688	P 1,291,326,181

Prepaid expenses include prepayments of rentals, insurance and general prepayments. Upon adoption of PFRS 16 in 2019, the Group reclassified certain prepaid rent amounting to P6.3 million to right-of-use assets [see Note 2.2(a)(iv)].

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

11.2 Other Non-current Assets

This account is composed of the following:

	Notes	2019	2018
Property mortgage receivable		**P 636,946,200**	P 650,178,519
Advances to suppliers	22.10	**324,286,315**	277,416,071
Deferred input VAT		**26,996,323**	54,352,935
Refundable security deposits	22.2	**17,791,961**	54,143,623
Others		**10,299,234**	26,803,556
		P 1,016,320,033	P 1,062,894,704

In 2016, the Group purchased from one of its property lessors an outstanding mortgage debt on one of the Group's leased properties. The purchased mortgage asset entitles the Group to full security over the leased property and to monthly interest payments from the property lessor. However, the Group remains as lessee over the property; hence, it is still required to make monthly lease payments to the property lessor until 2036. Following the adoption of PFRS 16 in 2019, the Group recognized right-of-use assets and lease liabilities from this leased property [see Notes 2.2(a)(iv), 9.2 and 9.3).

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

12. INVESTMENT IN A JOINT VENTURE

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

As of December 31, 2019 and 2018, the carrying amount of the investment in a joint venture, which is accounted for under the equity method [see Note 2.3(b)] in these consolidated financial statements, are as follows:

	2019	2018
Acquisition costs	**P 2,845,367,065**	P 2,845,367,065
Accumulated share in net profit:		
Balance at beginning of year	**432,240,327**	388,577,700
Share in net profit for the year	**239,168,070**	198,909,795
Reductions	**(493,207,719)**	(155,247,168)
Balance at end of year	**178,200,678**	432,240,327
	P 3,023,567,743	P 3,277,607,392

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

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

The summarized financial information of the joint venture as of December 31, 2019 and 2018 and for the years then ended are as follows (in thousands):

	2019	2018
Current assets	**P 2,421,905**	P 3,832,033
Non-current assets	**1,653,886**	1,373,904
Total assets	**P 4,075,791**	P 5,205,937
Current liabilities	**P 1,050,467**	P 1,760,747
Non-current liabilities	**2,398**	2,694
Total liabilities	**P 1,052,865**	P 1,763,441
Revenues	**P 5,641,501**	P 6,239,402
Net profit for the year	**P 478,336**	P 397,820

13. INTEREST-BEARING LOANS

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

	2019	2018
Current:		
Foreign	**P 5,634,442,713**	P 4,778,408,668
Local	**1,006,666,666**	921,666,667
	6,641,109,379	5,700,075,335
Non-current:		
Foreign	**24,877,062,540**	26,886,391,560
Local	**421,666,667**	1,428,333,333
	25,298,729,207	28,314,724,893
	P 31,939,838,586	P 34,014,800,228

The summarized terms and conditions of each availed loan as at December 31, 2019 and 2018 are as follows:

Outstanding Balance 2019	Outstanding Balance 2018	Explanatory Notes	Interest Rate	Security	Maturity date
P 22,882,500,021	P 22,310,991,675	(a)	Margin of 1.05% plus EURIBOR	Unsecured	2021
5,047,206,120	4,051,446,785	(b)	0.50% over LIBOR	Secured	2020
2,581,799,112	2,970,252,180	(e)	Fixed at 1.6%	Unsecured	2022
312,500,000	562,500,000	(c)	Fixed at 5.245%	Unsecured	2021
312,500,000	562,500,000	(c)	Fixed at 5.113%	Unsecured	2021
350,000,000	500,000,000	(f)	Fixed at 5.9641%	Unsecured	2021
245,000,000	350,000,000	(f)	Fixed at 6.1277%	Unsecured	2021
208,333,333	375,000,000	(c)	Fixed at 5%	Unsecured	2021
-	2,332,109,588	(d)	Fixed at 1.55%	Unsecured	2027
P 31,939,838,586	P 34,014,800,228				

(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 was repayable in full at maturity. In 2019, EIL obtained an unsecured five-year bank loan from a syndicate of foreign financial institutions at a lower margin, to prepay existing loans. Both these EIL loans are presented under the Non-current Liabilities section of the consolidated statements of financial position in the respective period.

(b) In 2016, WMG set up a three-year foreign currency-denominated revolving credit facility with a foreign bank, where it had drawn down P1.1 billion, P2.1 billion and P637.6 million in 2019, 2018 and 2017, respectively. The loan is secured by way of floating charge against WMG's inventories. The interest and the principal can be paid anytime up to, or balloon payment at the end of, three years. Since this is a revolver, the drawn amount plus the accrued interest thereon is presented under the Current Liabilities section of the consolidated statements of financial position.

(c) In 2016, EDI obtained an unsecured five-year peso-denominated loan at a total amount of P2.0 billion from a local commercial bank, specifically to finance the construction of a distillery plant and the purchase of related equipment (see Note 9.1). The loan was released in three tranches from January to October 2016 with principal repayment of 12 equal quarterly amortizations starting on the ninth quarter after the initial drawdown. In 2019 and 2018, total payments on the loan amounted to P666.7 million and P500.0 million, respectively. These loans are presented under the Current Liabilities and Non-current Liabilities sections of the consolidated statements of financial position.

(d) In 2017, GES obtained an unsecured five-year foreign-currency-denominated loan amounting to P2.3 billion from certain financial institution for the purpose of refinancing Garvey Acquisition (see Note 10). This loan has two-year grace period with principal repayment starting on the 24th month after the date of the loan. In 2019, the Group prepaid the loan in full. This loan is presented under the Non-current Liabilities section of the 2018 consolidated statement of financial position.

(e) In 2017, DBLC assumed from BLC unsecured, interest-bearing and foreign-currency-denominated loans totalling P3.0 billion from certain financial institutions relating to Domecq Acquisition (see Note 10). In 2018, DBLC acquired an additional loan amounting to P0.1 million. In 2019, DBLC paid portion of the loans amounting toP388.5 million.

(f) In 2018, EDI obtained additional unsecured, interest-bearing loans at a total amount of P850.0 million from same local commercial bank for working capital purposes. The loans shall be payable in 12 equal quarterly amortizations commencing on the beginning of the ninth quarter from the initial drawdown or starting on April 10, 2019. In 2019, total payments on the loan amounted to P255.0 million. These loans are presented under the Current Liabilities and Non-current Liabilities sections of the consolidated statements of financial position.

Interest expense on the above loans for 2019, 2018 and 2017 amounted to P589.2 million, P668.9 million and P533.4 million, respectively, and is presented as part of Interest Expense account under the Cost and Expenses section of the consolidated statements of comprehensive income. On the other hand, capitalized interest expense in 2018 and 2017 relates to the peso-denominated loans specifically acquired in funding the Group's construction in progress that was completed in 2018 and has a capitalization rate of 28.4% and 9.1% in 2018 and 2017, respectively. Interest expense from this loan amounted to P52.5 million in 2018 and P108.2 million in 2017 and is presented as part of the additions to Construction in progress under the Property, Plant and Equipment account (see Notes 2.20 and 9.1).

Accrued interest payable as of December 31, 2019 and 2018 amounted to P135.1 million and P72.7 million, respectively, and presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

The Group complied with the financial and non-financial covenants on these loans and borrowings as of December 31, 2019 and 2018.

14. EQUITY-LINKED DEBT SECURITIES

The breakdown of this account follows:

	Note	2019	2018
Current	31.2	**P 1,836,250,000**	P -
Non-current		**3,443,750,000**	5,258,801,592
		P 5,280,000,000	P 5,258,801,592

On November 7, 2014, EMP, as the Issuer, entered into a subscription agreement with Arran Investment Private Limited ("Arran" or "the Holder") for the issuance of 1.1 billion common shares at a total subscription price of P12.3 billion (see Note 23.1) and an ELS amounting to P5.3 billion ("Issue Price") [see Note 2.10(b)]. The shares and the ELS were issued on December 4, 2014 ("Issue Date"). The ELS may be converted into a fixed number of common shares ("Conversion Shares").

Arran had the Holder Conversion Right for the conversion of the ELS into all of Conversion Shares at any time during the period beginning on the Issue Date until December 5, 2019 ("Redemption Date"). The Group had the Issuer Conversion Right ("ICR") for the conversion of the ELS into all of the Conversion Shares at any time during the period beginning on the date that is two (2) years after the Issue Date until Redemption Date, provided, that the share market price must be greater than the stipulated price ("Share Market Price") on the date the ICR is exercised. If Arran and EMP failed to exercise their conversion rights within the said periods and the ELS was not converted into shares, EMP had the option to extend the Redemption Date for the ELS until December 4, 2021 ("Extended Redemption Date"), upon notice to Holder at least thirty (30) days prior to the Redemption Date. The ELS would be mandatorily converted into the Conversion Shares at any time during the period beginning on Redemption Date until Extended Redemption Date when Share Market Price was reached.

The ELS bore a fixed interest rate compounded annually ("Fixed Interest"), payable either in cash or in new shares ("Interest Shares") on the conversion date, Redemption Date, or Extended Redemption Date, as applicable (see First Amendment below). The ELS also bears a variable interest in an amount equal to the dividends that would be payable on the Conversion Shares if they are issued prior to the date that any dividend is declared by EMP ("Variable Interest"), payable in cash on the date that EMP pays dividends to its stockholders.

On June 15, 2017, the parties formally agreed to amend the ELS (the "First Amendment"), which amendments included the following:

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

Consequent to the amendments in certain terms of the ELS in 2017 as mentioned in the preceding paragraph, the financial liability component was revalued at P5.1 billion and the equity component was valued at P136.2 million, which represented the residual amount after deducting the financial liability component from the Issue Price. The carrying amounts of the components are presented separately in the consolidated statements of financial position [see Notes 2.23 and 3.2(h)], while the amortization of the revalued financial liability component is presented as part of Interest Expense account under the Cost and Expenses section of the consolidated statements of comprehensive income.

On December 4, 2019, EMP exercised the option to extend the Redemption Date to Extended Redemption Date. This did not result to substantial modification of terms.

On December 23, 2019, the parties entered into an amendment (the "Second Amendment") which included the following:

(a) The Holder is given the right to request conversion of:
   (i) P1,836,250,000 into 253,275,862 shares, which shall come from the Parent Company's treasury shares ("Tranche 1 Conversion Shares") ("Tranche 1 Conversion"); and,
   (ii) P3,443,750,000 into 475,000,000 shares ("Tranche 2 Shares") ("Tranche 2 Conversion").
(b) The Holder is allowed to transfer the ELS to an affiliate of EMP.

Subsequent to 2019, on January 31, 2020, the parties entered into another amendment (the "Third Amendment"), which removed the mandatory conversion of the ELS when the Share Market Price is reached; and on February 5, 2020, the Holder exercised its Tranche 1 Conversion right in accordance with the Second Amendment (see Notes 31.1 and 31.2).

Fixed Interest amounted to P269.5 million in 2017 and is presented as part of Interest Expense account under the Cost and Expenses section of the 2017 consolidated statement of comprehensive income. There are no similar transactions in 2019 and 2018.

Variable Interest of P36.4 million, P108.4 million and P89.5 million were respectively incurred in 2019, 2018 and 2017 and are presented as part of Interest Expense account under the Cost and Expenses section of the consolidated statements of comprehensive income. The accrued interest payable, which represents variable interest payable in January 2020, amounting to P36.4 million (nil in 2018) is presented as part of Accrued expenses under the Trade and Other Payables account in the 2019 consolidated statement of financial position (see Note 15).

Documentary stamps tax ("DST") of P26.4 million for the issuance of the ELS, which was capitalized and initially charged to the outstanding liability, was fully amortized in 2017 with amortization amounting to P17.1 million, and is presented as part of Interest Expense account under the Cost and Expenses section of the 2017 consolidated statement 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	**2019**	2018
Trade payables	22.1, 22.2, 22.7	**P 11,762,232,956**	P 8,479,981,846
Accrued expenses	13, 14	**4,582,707,784**	4,151,532,389
Output VAT payable		**397,978,309**	257,093,560
Advances from related parties	22.5	**3,070,715**	3,070,715
Others	23.3	**266,934,453**	343,557,213
		P 17,012,924,217	P 13,235,235,723

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 and ELS, marketing, operations, and other activities. The accrued interest is expected to be paid subsequently on the scheduled interest payment date (see Notes 13 and 14).

16. PROVISIONS

The breakdown of this account as of December 31, 2019 and 2018 is as follows:

	Onerous Lease (see Note 16.1)	**Dilapidations** (see Note 16.2)	**Total**
Balance at January 1, 2019			
As previously reported	P 375,407,231	P 149,567,316	P 524,974,547
Adoption of PFRS 16 [see Note 2.2(a)(iv)]	(339,006,888)	-	(339,006,888)
As restated	36,400,343	149,567,316	185,967,659
Utilized amounts	(22,177,145)	(5,496,675)	(27,673,820)
Additional provisions	-	6,620,361	6,620,361
Balance at December 31, 2019	**P 14,223,198**	**P 150,691,002**	**P 164,914,200**
Balance at January 1, 2018	P 295,593,594	P 147,651,851	P 443,245,445
Additional provisions	89,035,919	3,753,744	92,789,663
Utilized amounts	(9,222,282)	(1,838,279)	(11,060,561)
Balance at December 31, 2018	P 375,407,231	P 149,567,316	P 524,974,547

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, 2019 and 2018, is between one to 11 years and one to 12 years, respectively.

In line with the adoption of PFRS 16 in 2019, the Group adjusted certain provision amounting to P399.0 million against the beginning balance of right-of-use asset (see Note 9.2). The outstanding provision for onerous lease pertains to the remaining maintenance services expected to be settled with third party.

In 2018 and 2017, additional provisions are presented as part of Provisions under the General and Administrative Expenses account in the 2018 and 2017 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 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	**2019**	2018	2017
Sales	2.14	**P50,259,676,633**	P 46,345,675,149	P42,206,283,523
Others:				
Interest income	5, 7, 11	**345,272,714**	265,325,794	202,544,447
Equity in net profit of joint venture	12	**239,168,070**	198,909,795	154,101,850
Other income – net	7, 9.1, 22.12	**721,362,756**	240,510,284	92,597,724
		1,305,803,540	704,745,873	449,244,021
		P 51,565,480,173	P 47,050,421,022	P 42,655,527,544

18. COSTS OF GOODS SOLD

The details of costs of goods sold for the years ended December 31, 2019, 2018 and 2017 are shown below [see Note 2.1(b)].

	Notes	**2019**	2018	2017
Finished goods at beginning of year	8	**P 4,928,444,192**	P 3,537,513,191	P 3,182,542,312
Finished goods purchased	22.1	**4,994,755,739**	4,010,450,050	2,708,008,237
Finished goods from asset acquisition and acquired Business Unit	10	**-**	-	72,967,150
Costs of goods manufactured				
Raw and packaging materials at beginning of year	8	**3,932,351,991**	3,782,075,935	3,654,636,927
Net raw material purchases during the year	22.1	**26,133,746,725**	24,911,936,335	24,130,040,271
Raw materials from asset acquisition and acquired Business Unit	10	**-**	-	71,725,250
Raw and packaging materials at end of year	8	**(3,909,543,916)**	(3,932,351,991)	(3,782,075,935)
Raw materials used during the year		**26,156,554,800**	24,761,660,279	24,074,326,513
Work-in-process at beginning of year	8	**19,310,965,391**	17,786,098,444	13,532,427,366
Work-in-process from asset acquisition and acquired Business Unit	10	**-**	-	1,136,866,550
Direct labor	20.1	**1,376,658,047**	1,222,300,646	942,212,981
Manufacturing overhead:				
Depreciation and amortization	9.1, 9.2	**941,461,292**	915,274,249	710,858,353
Fuel and lubricants		**318,963,537**	311,854,703	184,804,543
Repairs and maintenance		**285,073,846**	284,322,167	227,177,596
Consumables and supplies		**243,509,236**	124,640,547	103,698,826
Communication, light and water		**240,089,684**	347,138,447	260,877,214
Outside services	22.7	**234,555,623**	253,244,690	266,253,636
Commission		**172,482,671**	155,064,098	115,079,828
Taxes and licenses		**169,354,177**	153,311,403	130,527,539
Labor	20.1	**118,360,434**	102,205,493	408,757,107
Rentals	9.4, 22.2	**84,348,779**	247,847,598	233,844,489
Waste disposal		**55,411,172**	83,932,612	-
Insurance		**48,183,322**	47,864,412	41,462,961
Transportation		**25,402,013**	24,935,673	19,642,815
Meals		**18,467,771**	13,624,721	11,832,479
Gasoline and oil		**14,859,781**	9,174,401	6,333,301
Impairment losses	8	**8,321,687**	54,710,425	19,104,221
Miscellaneous		**134,776,728**	97,364,855	198,695,435
Work-in-process at end of year	8	**(20,746,632,386)**	(19,310,965,391)	(17,786,098,444)
		29,211,167,605	27,685,604,472	24,838,685,309
Finished goods at end of year	8	**(5,800,242,939)**	(4,928,444,192)	(3,537,513,191)
		P 33,334,124,597	P 30,305,123,521	P 27,264,689,817

19. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below and in the succeeding page [see Note 2.1(b)].

	Notes	2019	2018	2017
Advertising and promotions		**P 3,116,353,049**	P 2,956,377,492	P 2,291,263,922
Salaries and employee benefits	20.1	**1,995,174,906**	1,911,558,185	1,545,815,892
Professional fees and outside services		**652,796,060**	355,187,389	376,171,869
Depreciation and amortization	9.1, 9.2	**602,582,627**	159,392,677	84,943,464
Freight and handling		**470,860,051**	470,887,193	417,206,996
Travel and transportation		**455,779,892**	383,930,269	242,449,964
Representation		**396,390,974**	250,480,210	230,166,170
Impairment loss on trademarks	10	**272,402,000**	-	
Other services		**208,277,021**	239,238,327	137,401,480
Repairs and maintenance		**121,494,548**	112,841,819	55,401,383
Fuel and oil		**98,819,432**	98,130,764	82,041,867
Taxes and licenses		**76,639,949**	51,497,606	77,685,573
Meals		**61,837,742**	56,950,925	64,608,720
Supplies		**55,536,966**	55,133,191	135,303,486
Rentals	9.4, 22.2	**55,221,770**	127,927,747	112,291,563
Communication, light and water		**50,413,716**	39,466,669	37,659,915
Insurance		**28,726,202**	30,573,844	18,303,124
Provisions	16	**6,620,361**	92,789,663	77,921,880
Amortization of trademarks	10	**1,615,391**	2,240,391	11,199,938
Others	10	**217,893,144**	83,024,267	132,871,323
		P 8,945,435,801	P 7,477,628,628	P 6,130,708,529

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

These expenses are classified in profit or loss in the consolidated statements of comprehensive income as follows [see Note 2.1(b)]:

	2019	2018	2017
Selling and distribution expenses	**P 6,021,050,010**	P 5,567,696,147	P 4,611,427,335
General and administrative expenses	**2,924,385,791**	1,909,932,481	1,519,281,194
	P 8,945,435,801	P 7,477,628,628	P 6,130,708,529

20. EMPLOYEE BENEFITS

20.1 Salaries and Employee Benefits Expense

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

	Notes	2019	2018	2017
Salaries and wages		**P 2,752,672,662**	P 2,506,057,467	P 2, 250,519,987
Post-employment defined contribution		**180,607,937**	180,607,937	158,260,232
Social security costs		**175,819,949**	170,973,022	147,669,595
Share options	20.2, 23.4	**26,958,169**	26,958,169	26,958,169
Post-employment defined benefit	20.3	**21,236,656**	20,584,922	20,613,655
Other short-term benefits		**332,898,014**	330,882,807	292,764,342
	18, 19	**P 3,490,193,387**	P 3,236,064,324	P 2,896,785,980

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	2019	2018	2017
Costs of goods sold (inventoriable costs)	18	**P 1,495,018,481**	P 1,324,506,139	P 1,350,970,088
General and administrative expenses	19	**1,004,037,452**	989,483,632	784,521,453
Selling and distribution expenses	19	**991,137,454**	922,074,553	761,294,439
		P 3,490,193,387	P 3,236,064,324	P 2,896,785,980

In 2019, 2018 and 2017, salaries and wages, post-employment benefits and other short-term benefits totaling P432.5 million, P505.7 million and P472.4 million, respectively, were capitalized to form part of the work-in-process inventory (see Note 8). Such capitalized amount represents salaries and employee benefits of personnel directly involved in the production of whisky.

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 2019, 2018 and 2017, while the corresponding cumulative credit to Share Options Outstanding account is presented under the Equity section of the consolidated statements of financial position (see Note 23.4).

20.3 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

Except for GES, which provides employee benefits through a defined contribution plan, the Group maintains a funded, tax-qualified, noncontributory retirement benefit plan which is being administered by a trustee bank that is legally separated from the Group.

The post-employment plan covers all regular full-time employees of EDI, AWGI, TEI and certain employees of WMG, and provides a retirement benefit ranging from 85% to 150% of plan salary for every year of credited service.

The normal retirement age is 60 with a minimum of five years of credited service. The plan provides for an early retirement at the age of 50 with a minimum of ten years of credited service and likewise a late retirement age that is not beyond 65, with a minimum of five years of credited service both subject to the approval of the Parent Company's BOD.

(b) *Explanation of Amounts Presented in the Consolidated Financial Statements*

Actuarial valuations are made regularly to update the post-employment benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation reports obtained from independent actuaries.

The amounts of retirement benefit asset (obligation) recognized in the consolidated statements of financial position are determined as follows:

	2019	2018
Fair value of plan assets	**P 14,035,171,864**	P 12,295,257,177
Present value of the obligation	**(13,815,644,171)**	(12,405,949,410)
	P 219,527,693	(P 110,692,233)

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

	2019	2018
Balance at beginning of year	**P 12,405,949,410**	P 13,022,020,968
Benefits paid	**(676,943,710)**	(470,855,172)
Interest expense	**364,718,983**	357,504,342
Foreign exchange adjustment	**(182,097,017)**	7,310,649
Current service costs (see Note 20.1)	**21,236,656**	20,584,922
Past service costs	**-**	63,033,600
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	**1,438,052,849**	(637,720,318)
Changes in demographic assumptions	**509,916,000**	9,426,900
Experience adjustments	**(65,189,000)**	34,643,519
Balance at end of year	**P 13,815,644,171**	P 12,405,949,410

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

	2019	2018
Balance at beginning of year	**P 12,295,257,177**	P 12,905,907,637
Return on plan assets (excluding amounts included in net interest)	**2,059,661,356**	(782,859,975)
Benefits paid	**(676,943,710)**	(470,855,172)
Interest income	**356,319,932**	353,177,655
Contributions to the plan	**269,657,710**	283,635,810
Foreign exchange adjustment	**(268,780,601)**	6,251,222
Balance at end of year	**P 14,035,171,864**	P 12,295,257,177

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 P86.7 million in 2019 and P1.1 million in 2018.

The composition and the fair value of plan assets as at December 31, 2019 and 2018 by category and risk characteristics are shown below.

	2019	2018
Cash and cash equivalents	**P 126,220,842**	P 120,039,287
Quoted equity securities	**6,041,185,204**	5,282,889,700
Diversified growth fund	**897,570,432**	786,290,560
	6,938,755,636	6,069,180,260
Debt securities:		
Corporate bonds	**2,734,784,910**	2,395,729,050
Liability driven instrument	**2,524,416,840**	2,211,442,200
Index-linked gilts	**1,037,815,812**	909,148,460
	6,297,017,562	5,516,319,710
Property	**673,177,824**	589,717,920
	P 14,035,171,864	P 12,295,257,177

Aside from the property investment, which is classified as Level 3 in the fair value hierarchy, the fair values of the above quoted securities and instruments are determined based on quoted market prices in active markets; hence, classified as Level 1 of the fair value hierarchy.

Plan assets do not comprise any of the financial instruments of the Group or its related parties, or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and other comprehensive income or loss in respect of the retirement benefit asset (obligation) are as follows:

	2019	2018	2017
Reported in profit or loss:			
Current service costs	**P 21,236,656**	P 20,584,922	P 20,613,655
Interest expense – net	**8,399,051**	4,326,687	28,590,201
	P 29,635,707	P 24,911,609	P 49,203,856
Reported in other comprehensive income or loss:			
Return on plan assets (excluding amount included in net interest)	**P 2,059,661,356**	(P 782,859,975)	P 785,024,906
Actuarial gains (losses) arising from:			
Changes in financial assumptions	**(1,438,052,849)**	637,720,318	(316,240,919)
Changes in demographic assumptions	**(509,916,000)**	(9,426,900)	331,156,920
Experience adjustments	**65,189,000**	(34,643,519)	(53,170,636)
	P 176,881,507	(P 189,210,076)	P 746,770,271

The amounts of post-employment benefits expense recognized in profit or loss are presented as part of General and Administrative Expenses (for current service costs) and as part of Interest Expense (for net interest expense) accounts under the Cost and Expenses section in the consolidated statements of comprehensive income.

Amounts recognized in other comprehensive income or loss were included within items that will not be reclassified subsequently to profit or loss.

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

	2019	2018	2017
Discount rate	**5.21%-5.35%**	2.58%-7.52%	2.64%-5.83%
Expected rate of salary increase	**5.10%-7.00%**	5.00%-7.00%	3.00%-6.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of an individual retiring at the age of 60 is 23 years for both males and females. These assumptions were developed by management with the assistance of independent actuaries. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the retirement benefit obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Benefit Obligation

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

(i) Investment and Interest Rate Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the retirement benefit obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing debt and equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the participants during their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the participants will result in an increase in the retirement benefit obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of the end of the reporting periods:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2019			
Discount rate	**+0.25%/-0.25%**	**(P 644,628,235)**	**P 691,198,728**
Salary growth rate	**+1.00%/-1.00%**	**189,208,298**	**(182,897,448)**
December 31, 2018			
Discount rate	+0.25%/-0.25%	(P 534,494,943)	P 571,741,630
Salary growth rate	+1.00%/-1.00%	143,246,321	(139,732,751)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the retirement benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the retirement benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its Management Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., quoted equity securities and corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of the plan assets as at December 31, 2019 and 2018 consists of quoted equity securities, corporate bonds and other instruments, although the Group also invests in funds.

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

	2019	2018
Within one year	**P 275,400,578**	P 319,044,513
More than one but less than five years	**1,212,132,535**	1,358,971,577
More than five years but less than 10 years	**674,720,665**	770,049,180
	P 2,162,253,778	P 2,448,065,270

The weighted average duration of the retirement benefit obligation at the end of the reporting period is 9.8 years.

21. CURRENT AND DEFERRED TAXES

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

	2019	2018	2017
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%, 25%, 20% and 19%	**P 1,335,421,308**	P 1,349,706,463	P 1,376,256,022
Final tax on interest income at 20%, 15% and 7.5%	**118,539,408**	26,263,447	27,077,342
Minimum corporate income tax (MCIT) at 2%	**4,464,793**	886,622	7,077,616
	1,458,425,509	1,376,856,532	1,410,410,980
Deferred tax expense relating to origination and reversal of temporary differences	**189,008,843**	230,558,146	92,641,481
	P 1,647,434,352	P 1,607,414,678	P 1,503,052,461
Reported in other comprehensive income or loss			
Deferred tax expense (income) relating to remeasurements of retirement benefit obligation	**P 87,253,112**	(P 32,275,467)	P 122,180,800

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

	2019	2018	2017
Tax on pretax profit at 30%	**P 2,543,991,181**	P 2,530,909,323	P 2,350,611,607
Adjustment for income subjected to different tax rates	**(47,844,059)**	(16,137,960)	(13,692,546)
Adjustments in claiming optional standard deduction (OSD)	**284,614,862**	(10,889,592)	(94,299,139)
Tax effects of:			
Non-taxable income	**(1,348,401,507)**	(1,267,763,322)	(901,499,242)
Non-deductible expenses	**336,337,394**	389,577,809	288,392,765
Equity in net income of joint venture	**(71,750,421)**	(59,672,939)	(46,230,555)
Adjustments to current tax for prior years due to change in tax rate	**(36,330,480)**	-	(27,237,835)
Accelerated capital allowances and other short-term temporary differences	**(21,504,817)**	(26,436,827)	(55,408,636)
Unrecognized (utilization of) deferred tax asset on:			
MCIT	**4,464,793**	886,622	7,077,616
Net operating loss carry-over (NOLCO)	**3,857,406**	66,941,564	164,157,566
Provision for interest expense	**-**	-	(168,819,140)
Tax expense	**P 1,647,434,352**	P 1,607,414,678	P 1,503,052,461

EMP and its Philippine subsidiaries are subject to the higher of RCIT at 30% of net taxable income or MCIT at 2% of gross income, as defined under the Philippine tax regulations. They paid RCIT in 2019, 2018 and 2017 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.

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

	2019	2018
Brand valuation	(P 1,612,067,160)	(P 1,832,968,656)
Right-of-use assets	(870,050,632)	-
Lease liabilities	850,964,738	-
Short-term temporary differences	(280,151,919)	(117,459,308)
Fair value adjustment	(250,030,968)	(78,796,405)
Capitalized borrowing costs	(53,828,274)	(50,011,794)
Allowance for impairment	19,105,907	16,586,469
Retirement benefit obligation (asset)	(4,102,444)	34,272,628
Unamortized past service costs	427,424	534,279
Net deferred tax liabilities	(P 2,199,733,328)	(P 2,027,842,787)

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

	Consolidated Profit or Loss			Consolidated Other Comprehensive Income or Loss		
	2019	2018	2017	2019	2018	2017
Brand valuation	(P 220,901,496)	P 193,562,656	P -	P -	P -	P -
Fair value adjustment	171,234,563	(42,086,715)	(247,353,640)	-	-	-
Short-term temporary differences	162,692,611	35,920,858	27,837,710	-	-	-
Lease liabilities	120,136,046	-	-	-	-	-
Retirement benefit obligation (asset)	(48,878,040)	5,977,097	287,560,855	87,253,112	(32,275,467)	122,180,800
Capitalized borrowing costs	3,816,480	9,704,056	27,914,236	-	-	-
Right-of-use assets	3,321,262	-	-	-	-	-
Allowance for impairment	(2,519,438)	(3,166,261)	577,015	-	-	-
Unamortized past service costs	106,855	106,855	106,855	-	-	-
Contingent liability	-	30,539,600	(4,001,550)	-	-	-
Deferred tax expense (income)	P 189,008,843	P 230,558,146	P 92,641,481	P 87,253,112	(P 32,275,467)	P 122,180,800

In 2019, 2018 and 2017, 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 page.

The summary of the Group's transactions with its related parties in 2019, 2018 and 2017 and the related outstanding balances as of December 31, 2019 and 2018 are presented below.

Related Party Category	Notes	Amount of Transaction			Outstanding Balance	
		2019	2018	2017	2019	2018
Ultimate Parent Company:						
Advances granted	22.6	P 952,459,713	P 1,142,912,243	P -	P 2,095,371,956	P 1,142,912,243
Dividends	23.3	596,182,620	1,964,126,804	2,461,037,736	(596,182,620)	-
Lease of properties:	22.2(a)					
Rentals paid		9,680,000	8,800,000	8,000,000	-	-
Right-of-use assets		6,572,172	-	-	46,005,202	-
Lease liabilities		4,313,895	-	-	(52,001,463)	-
Advances obtained (paid)	22.5	-	(250,000,000)	250,000,000	-	-
Related Parties Under Common Ownership:						
Purchase of raw materials	22.1	3,709,697,815	3,348,852,355	2,659,080,044	(1,019,713,848)	(941,949,372)
Perpetual notes	22.12	1,254,552,250	14,242,630	-	-	1,208,707,500
Sale of goods	22.3	228,827,930	153,702,077	101,632,719	251,683,560	190,335,724
Advances for land purchase	22.10	83,350,000	46,350,000	46,350,000	310,328,571	277,416,071
Management services	22.7	60,000,000	60,000,000	45,000,000	(77,000,000)	(76,500,000)
Lease of properties:	22.2(b)					
Rentals paid		40,197,217	34,695,202	30,786,679	-	(3,514,488)
Right-of-use assets		29,430,591	-	-	169,621,668	-
Lease liabilities		9,980,298	-	-	(162,716,611)	-
Refundable security deposits		(3,592,411)	1,865,613	1,665	3,907,691	9,410,940
Purchase of finished goods	22.1	28,098,331	23,643,366	11,318,183	(1,710,514)	(459,844)
Advances obtained (paid)	22.5	-	(75,000,000)	75,000,000	-	-
Stockholder –						
Advances obtained (paid)	22.5	-	-	(50,000)	(3,070,715)	(3,070,715)
Officers and Employees –						
Advances granted (collected)	22.4	(7,244,067)	3,125,784	15,234,354	33,518,316	40,762,383
Employee share option	23.4	26,958,169	26,958,169	26,958,169	-	-
Key Management Personnel –						
Compensation	22.8	236,404,840	249,290,202	243,125,856	-	-

The outstanding balances from the above transactions with related parties are unsecured, noninterest-bearing and payable or collectible on demand, unless otherwise stated. No impairment loss was recognized, and none is deemed necessary, in 2019, 2018 and 2017 for the related party receivables.

22.1 Purchase of Goods

The Group imports raw materials such as alcohol, flavorings and other items, and finished goods through Andresons Global, Inc. ("AGL"), a related party under common ownership. These transactions are normally being paid within 30 days. The Group also imports raw materials from Alcoholera dela Mancha Vinicola, S.L., a wholly owned subsidiary of BLC, which is considered a related party under joint control (see Note 8).

The related unpaid purchases as of December 31, 2019 and 2018 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 Lease of Properties

(a) AGI

AWGI leases the glass manufacturing plant located in Laguna from AGI. The amount of rental is mutually agreed upon by the parties at the start of each year, as provided in their lease contract.

Following the adoption of PFRS 16 in 2019, AWGI recognized right-of-use assets and lease liabilities from this lease agreement, which will be amortized and paid, respectively, over the lease term in lieu of the annual rent expense. Amortization of right-of-use assets and interest expense recognized from the lease liabilities amounted to P6.6 million and P4.3 million, respectively, and are presented as part of Depreciation and amortization under the Cost of Goods Sold account and as part of Interest Expense account in the 2019 consolidated statement of comprehensive income, respectively. The Group paid P9.7 million in 2019, P8.8 million in 2018, and P8.0 million in 2017, and there were no outstanding balances nor refundable security deposits arising from this lease agreement as of December 31, 2019 and 2018.

Rentals in 2018 and 2017 were charged to operations as part of Rentals under the Costs of Goods Sold account in the 2018 and 2017 consolidated statements of comprehensive income (see Note 18).

(b) Megaworld

The Group also entered into lease contracts with Megaworld, a related party under common ownership, for the head office space of the Group.

Following the adoption of PFRS 16 in 2019, EDI, PAI and AWGI recognized right-of-use assets and lease liabilities from lease agreements with Megaworld. Amortization of right-of-use assets amounting to P22.2 million and P7.3 million are presented as part of Depreciation and amortization under the Cost of Goods Sold account and under the General and Administrative Expenses account, respectively, in the 2019 consolidated statement of comprehensive income (see Notes 18 and 19). Interest expense from the lease liabilities amounting to P10.0 million is presented as part of Interest Expense account in the 2019 consolidated statement of comprehensive income. The Group paid P40.2 million in 2019, P34.7 million in 2018, and P30.8 million in 2017. The outstanding liability from these transactions amounting to P3.5 million is shown as part of Trade payables under the Trade and Other Payables account in the 2018 consolidated statement of financial position (nil in 2019) (see Note 15).

Rentals in 2018 and 2017 from this contract are presented as part of Rentals under the Cost of Goods Sold account, Selling and Distribution Expenses, and General and Administrative Expenses in the 2018 and 2017 consolidated statements of comprehensive income (see Notes 18 and 19).

The refundable security deposits paid to the lessors are shown as part of Other Non-current Assets account in the consolidated statements of financial position (see Note 11.2).

The outstanding right-of-use assets and lease liabilities from these lease agreements with AGI and Megaworld as of December 31, 2019 are presented as part of Property, Plant, and Equipment – net account and Lease Liabilities account in the 2019 consolidated statement of financial position (see Note 9).

22.3 Sale of Goods

The Group sold finished goods to related parties. Goods are sold on the basis of the price lists in force and terms that would be available to non-related parties. The outstanding receivables from sale of goods are generally noninterest-bearing, unsecured and settled through cash within three to six months. These receivables are presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

22.4 Advances to Officers and Employees

In the normal course of business, the Group grants noninterest-bearing, unsecured, and payable on demand cash advances to certain officers and employees. The outstanding balance arising from these transactions is presented as Advances to officers and employees under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The movements in the balance of Advances to Officers and Employees account are as follows:

	2019	2018
Balance at beginning of year	**P 40,762,383**	P 37,636,599
Repayments	**(48,290,061)**	(40,645,514)
Additions	**41,045,994**	43,771,298
Balance at end of year	**P 33,518,316**	P 40,762,383

22.5 Advances from Related Parties

AGI and other entities within the AGI Group, and other related parties grant cash advances to the Group for its working capital, investment and inventory purchases requirements. These advances are unsecured, noninterest-bearing and repayable in cash upon demand. These are presented as Advances from related parties under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

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

	2019	2018
Balance at beginning of year	**P 3,070,715**	P 328,070,715
Repayments	**-**	(325,000,000)
Balance at end of year	**P 3,070,715**	P 3,070,715

22.6 Advances to Ultimate Parent Company

In 2019 and 2018, the Group made unsecured cash advances to AGI for its investment activities, which were payable in cash upon demand. The outstanding balance as of December 31, 2019 and 2018 was presented as Advances to ultimate parent company under the Trade and Other Receivables account in the consolidated statements of financial position, respectively (see Note 6).

The movements in the balance of Advances to ultimate parent company are as follows:

	2019	2018
Balance at beginning of year	**P 1,142,912,243**	P -
Advances during the year	**952,459,713**	1,142,912,243
Balance at end of year	**P 2,095,371,956**	P 1,142,912,243

22.7 Management Services

EDI had a management agreement with Condis for consultancy and advisory services in relation to the operation, management, development and maintenance of its distillery plant, which was transferred to Progreen when the distillery plant was leased to Progreen starting 2017.

Total management fees incurred are presented as part of Outside services under the Costs of Goods Sold account in the consolidated statements of comprehensive income (see Note 18). The outstanding liability as of December 31, 2019 and 2018 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.

22.8 Key Management Personnel Compensation

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

	2019	2018	2017
Short-term benefits	**P 213,788,841**	P 234,113,062	P 226,044,464
Post-employment defined benefits	**18,403,514**	10,964,655	12,868,907
Share options	**4,212,485**	4,212,485	4,212,485
	P 236,404,840	P 249,290,202	P 243,125,856

22.9 Retirement Plan

The Group's retirement funds for its post-employment defined benefit plan is administered and managed by a trustee bank. The fair value and the composition of the plan assets as of December 31, 2019 and 2018 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.

22.10 Purchase of Land

In 2016, the Group entered into a contract to purchase certain parcels of land located in Iloilo and Cebu from Megaworld for a total consideration of P206.0 million. Of the total consideration, the Group already made cash payments of P46.4 million each year 2019, 2018 and 2017, respectively. 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, 2019; hence, the land was not yet recorded as an asset by the Group. The total cash payments made by the Group are presented as part of Advances to suppliers under the Other Non-current Assets account in the consolidated statements of financial position (see Note 11.2).

In 2014, the Group made cash payments to certain related party under common ownership for the acquisition of certain parcels of land. However, the planned acquisition was temporarily suspended by both parties. The outstanding balance amounting to P131.4 million and P144.8 million as of December 31, 2019 and 2018, respectively, is presented as part of Advances to suppliers under the Other Non-current Assets account in the consolidated statements of financial position (see Note 11.2).

In 2019, the Group also purchased a parcel of land located in Legazpi City from a certain related party amounting to P37.0 million. The acquired land was paid in full during the year and capitalized as part of Land under the Property, Plant, and Equipment – net account of the 2019 consolidated statement of financial position (see Note 9.1). The portion of the payment amounting to P13.4 million was offset from the Advances to suppliers, which was presented under the Other Non-current Assets account in the 2019 consolidated statement of financial position (see Note 11.2).

22.11 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.

22.12 Perpetual Notes

In 2018, the Group acquired Megaworld Perpetual Notes amounting to P1.2 billion (see Note 7). The investment was sold in 2019 and the Group recognized a gain on disposal amounting to P16.4 million, which is presented as part of Other income in the Revenues section of the 2019 consolidated statement of comprehensive income (see Note 17). The Group also recognized interest income from these financial instruments amounting to P29.4 million and P14.2 million in 2019 and 2018, respectively.

23. EQUITY

23.1 Capital Stock

Capital stock consists of:

	Shares			**Amount**		
	2019	2018	2017	**2019**	2018	2017
Common shares – P1 par value						
Authorized – 20.0 billion shares						
Issued and outstanding:						
Balance at beginning of year	**15,985,015,876**	16,197,219,676	16,120,000,000	**P 14,392,623,076**	P 15,921,256,246	P 16,120,000,000
Additional issuance of shares (Note 14)	**-**	-	122,391,176	**-**	-	122,391,176
Treasury shares – at cost (Notes 2.23 and 23.2)	**(225,850,500)**	(212,203,800)	(45,171,500)	**(1,638,071,312)**	(1,528,633,170)	(321,134,930)
Balance at end of year	**15,759,165,376**	15,985,015,876	16,197,219,676	**P 12,754,551,764**	P 14,392,623,076	P 15,921,256,246

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

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

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

On June 19, August 27 and September 5, 2013, the Parent Company's BOD, stockholders, and SEC, respectively, approved the increase in authorized capital stock of EMP from P100.0 million divided into 100.0 million shares to P20.0 billion divided into 20.0 billion shares both with par value of P1.00 per share. On July 4, 2013, the Parent Company's BOD approved the issuance of 6.5 million shares at par value to two foreign investors. On August 28, 2013, AGI and other investors subscribed to an aggregate of 14.9 billion shares. Under the terms of AGI's subscription, the Parent Company acquired all of EDI shares held by AGI.

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

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

On December 4, 2014, the Parent Company issued additional 1.1 billion common shares with an offer price of P11.0 per share through private placement (see Note 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, 2019 and 2018, the quoted closing price per share is P7.21 and P7.11, respectively, and there are 158 and 160 holders in 2019 and 2018, respectively, which include nominee accounts, of the Parent Company's total issued and outstanding shares. The percentage shares of stock owned by the public are 12.94% and 15.16% as of December 31, 2019 and 2018, respectively.

23.2 Treasury Shares

On May 12, 2017, the Parent Company's BOD authorized the buy-back of EMP's common shares of up to P5.0 billion for a term of 2 years commencing on May 16, 2017 and ending on May 16, 2019. On May 7, 2019, the buy-back program of the Parent Company's common shares of up to P3.0 billion was extended for another 12 months ending May 16, 2020 (see Note 31.3). In 2019, 2018 and 2017, the Parent Company has repurchased 225.9 million, 212.2 million and 45.2 million shares for P1.64 billion, P1.53 billion and P321.1 million, respectively (see Note 31.2). These repurchased shares are presented under Treasury Shares account in the consolidated statements of changes in equity and do not form part of the outstanding shares.

Under the Revised Corporation Code, 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).

23.3 Declaration of Dividends

The details of the Parent Company's cash dividend declarations in 2019, 2018 and 2017 as follows:

Date of Declaration	Date of Stockholders' Record	No. of Shares Outstanding	Dividend per Share	Total
December 17, 2019	January 7, 2020	15,759,165,376	P 0.0500	P 787,958,269
April 11, 2018	May 2, 2018	16,118,938,376	0.1488	2,399,048,170
March 8, 2017	April 3, 2017	16,120,000,000	0.1865	3,006,380,000

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

As of December 31, 2019, the dividends declared in 2019 that are not yet payable are presented as Dividends Payable in the 2019 consolidated statement of financial position. The dividends payable amounting to P779.2 million is net of final withholding taxes ("FWT") of P8.7 million, while the same FWT is presented as part of Others under the Trade and Other Payables account in the 2019 consolidated statement of financial position (see Note 15). The dividends declared in 2018 and 2017 were paid within the same year of declaration.

23.4 Employee Share Option

On November 7, 2014, the Group's BOD approved an employee share option plan ("ESOP") for qualified employees of the Group.

The options shall generally vest on the 60th birthday of the option holder and may be exercised until the date of his/her retirement from the Group provided that the employee has continuously served for 11 years of service after the option offer date. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Parent Company's shares for nine months immediately preceding the date of grant.

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

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

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

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

Share option benefits expense, which is included as part of Salaries and employee benefits under the General and Administrative Expenses account, amounting to P27.0 million was recognized in 2019, 2018 and 2017 (see Note 20.2), while the corresponding credit to Share Options Outstanding account is presented as part of Equity Attributable to Owners of the Parent Company under the Equity section of the consolidated statements of financial position.

23.5 Appropriation of Retained Earnings

In 2017, the P550.0 million appropriation in prior year was reversed with the completion of its intended purpose.

In 2017, the Group appropriated a portion of its retained earnings amounting to P600.0 million for capital expenditures at the glass manufacturing plant. On January 22, 2019, the Group appropriated additional P200.0 million to the said appropriation. The project is expected to be completed in 2022.

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

23.6 Subsidiaries with Non-controlling Interest

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

	Notes	Percentage of Ownership of NCI	**2019**	2018
DBLC	1.1(p)	50%	**P 907,699,530**	P 885,142,178
Boozylife	1.1(d)	49%	**(8,467,560)**	7,532,308
			P 899,231,970	P 892,674,486

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. In 2017, AWGI redeemed the 57.5 million preferred shares at P0.05 par value for total amount of P2.9 million. In 2018, AWGI redeemed the remaining balance of its preferred shares.

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

	2019	2018
Current assets	**P 4,221,684,256**	P 3,499,304,958
Non-current assets	**3,619,076,730**	3,731,332,397
Total assets	**P 7,840,760,986**	P 7,230,637,355
Current liabilities	**P 3,365,331,968**	P 2,993,117,882
Non-current liabilities	**2,452,010,909**	2,519,346,024
Total liabilities	**P 5,817,342,877**	P 5,512,463,906
Revenues	**P 2,959,388,405**	P 2,629,454,413
Profit for the period attributable to:		
Owners of Parent Company	**P 122,999,575**	P 184,939,048
NCI	**122,999,575**	184,939,048
Profit for the year	**245,999,150**	369,878,096
Other comprehensive income (loss) attributable to:		
Owners of Parent Company	**(35,427,188)**	68,421,155
NCI	**(35,427,188)**	68,421,155
Other comprehensive income (loss) for the year	**(70,854,376)**	136,842,310
Total comprehensive income for the year	**P 175,144,774**	P 506,720,406
Net cash from (used in):		
Operating activities	**P 293,761,019**	P 956,769,673
Investing activities	**(211,359,893)**	(327,636,792)
Financing activities	**(51,727,230)**	(291,807,752)
Net cash inflow	**P 30,673,896**	P 337,325,129

No dividends were paid to the NCI in 2019 and 2018.

24. EARNINGS PER SHARE

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

	2019	2018	2017
Consolidated net profit attributable to owners of the parent company	**P 6,725,536,563**	P 6,658,236,381	P 6,321,783,945
Divided by the weighted average number of outstanding common shares	**15,919,123,588**	16,102,482,130	16,121,009,690
Basic and diluted earnings per share	**P 0.42**	P 0.41	P 0.39

On November 6, 2015, the Parent Company's BOD granted share options to certain key executives of EDI to subscribe to 118.0 million common shares of EMP, at an exercise price of P7.00 per share (see Note 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, 2019 and 2018, the ELS instrument has not yet been converted or redeemed.

The basic and diluted earnings per share are the same because the dilutive effects of potential common shares from the employee share options and convertible ELS are negligible for the periods presented. Thus, the weighted average number of issued and outstanding common shares presented above does not include the effect of the potential common shares from the employee share options and convertible ELS.

25. COMMITMENTS AND CONTINGENCIES

The Group entered into non-cancellable leases covering certain manufacturing plant facilities, storage tanks and office spaces as lessee in 2018. 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, 2018 are as follows:

Within one year	P 223,451,474
After one year but not more than five years	1,509,814,057
	P 1,733,265,531

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 main types of risks are market risk, credit risk, liquidity risk and price risk. There have been no significant changes in the Group's financial risk management objectives and policies during the period.

The Group's risk management is coordinated with AGI, in close cooperation with the BOD appointed by AGI, and focuses on actively securing the Group's short-to-medium term cash flows by minimizing the exposure to financial markets.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

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, 2019 and 2018 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:

	2019	2018
Financial assets	**P 419,366,573**	P 403,388,319
Financial liabilities	**(2,523,016,704)**	(1,259,179,985)
	(P 2,103,650,131)	(P 855,791,666)

The table in the succeeding page 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
2019	**5.97%**	**(P 125,587,913)**	**(P 87,911,539)**
2018	3.81%	(P 32,605,662)	(P 22,823,963)

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, 2019 and 2018, the Group is exposed to changes in market rates through its cash in banks and short-term placements which are generally subject to 30-day repricing intervals (see Note 5). Due to the short duration of short-term placements, management believes that interest rate sensitivity and its effect on the net results and equity are not significant. The Group's interest-bearing loans are subject to fixed interest rates and are therefore not subject to interest rate risk, except for certain loans that are based on Euro Interbank Offered Rate ("EURIBOR") and London Inter-bank Offered Rate ("LIBOR") (see Note 13). However, the EURIBOR is currently at a negative rate or a zero rate, and the Group does not see a material interest rate risk in the short-term.

The sensitivity of the Group's profit before tax on its loans arising from LIBOR is analyzed based on a reasonably possible change in interest rates of +/-2.13% in 2019 and +/-1.85% in 2018. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if LIBOR increased by 2.13% and 1.85% in 2019 and 2018, profit before tax would have decreased by P64.1 million and P48.0 million, respectively. Conversely, if the interest rates decreased by the same percentages, profit before tax in 2019 and 2018 would have been higher by the same amounts.

(c) Other Price Risk

The Group was exposed to other price risk in respect of its financial instruments at FVTPL, which pertain to derivative assets and liabilities arising from foreign exchange margins trading spot and forward contracts. These financial instruments will continue to be measured at fair value based on the index reference provided by certain foreign financial institution and through reference to quoted bid prices, respectively.

The Group believes that the change in foreign exchange rate related to foreign exchange margins trading spot rate and forward contracts will not materially affect the consolidated financial statements. The Group has recognized fair value gains in 2019 and 2017, and fair value losses in 2018 (see Note 7).

26.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting advances and selling goods to customers including related parties and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

In general, the Group's financial assets are not covered with any collateral or credit enhancement. Accordingly, the Group manages credit risk by setting limits on the amount of risk in relation to a particular customer including requiring payment of any outstanding receivable before a new credit is extended. Such risk is monitored on a regular basis and subject to an annual or more frequent review. Approval for credit limits are secured from the credit manager.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown in the consolidated statements of financial position or in the detailed analysis provided in the notes to the consolidated financial statements, as follows:

	Notes	2019	2018
Cash and cash equivalents	5	**P 7,740,605,656**	P 6,228,229,892
Trade and other receivables – net	6	**17,681,491,614**	15,630,623,827
Property mortgage receivable	11.2	**636,946,200**	650,178,519
Refundable security deposits	11.1, 11.2	**37,733,281**	54,770,032
		P 26,096,776,751	P 22,563,802,270

The Group's management considers that all the above financial assets that are not impaired as at the end of reporting period under review are of good credit quality.

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Cash and cash equivalents include cash in banks and short-term placements in the Philippines which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) Trade and Other Receivables, Property Mortgage Receivable, and Refundable Security Deposits

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade receivables and other receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets).

The expected loss rates for trade receivables are based on the payment profiles of sales over a period of 36 months before December 31, 2019 and 2018, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Product and inflation rates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the total loss allowance based on the provision matrix determined based on months past due is P88.7 million and P133.0 million as at December 31, 2019 and 2018, respectively. For receivables outstanding for not more than three months, no loss allowance is recognized since the expected loss rate is at 0%. For receivables outstanding for more than three months, loss allowance during the year amounting to P12.5 million in 2019 and P22.0 million in 2018 is recognized since the computed loss rate is 100%.

In general, the Group's financial assets are not covered with any collateral or credit enhancement. Accordingly, the Group manages credit risk by setting limits on the amount of risk in relation to a particular customer including requiring payment of any outstanding receivable before a new credit is extended. Such risk is monitored on a regular basis and subject to an annual or more frequent review. Approval for credit limits are secured from the credit manager.

For the advances to the ultimate parent company and refundable security deposits, the lifetime ECL rate is assessed at 0%, as there were no historical credit loss experience from the counterparties. The counterparties have low credit risk and strong financial position and sufficient liquidity to settle its obligations to the Group once they become due. With respect to property mortgage receivable, management assessed that these financial assets have low probability of default since the Parent Company is also a lessee over the same property and can apply such receivable against future lease payments.

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include the cessation of enforcement activity and where the value of any assets that the Group may get from the customers is less than the outstanding contractual amounts of the financial assets to be written-off. There are no write-offs made in 2019 and 2018.

26.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 60-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The contractual maturities of Trade and Other Payables (except for output VAT payable, and withholding tax payables and advances from suppliers under Others) and Interest-bearing Loans reflect the gross cash flows, which approximate the carrying values of the liabilities at the end of each reporting period.

The maturity profile of the Group's financial liabilities as at December 31, 2019 based on contractual undiscounted payments is as follows:

	Current		Non-current	
	Within 6 Months	**6 to 12 Months**	**1 to 5 Years**	**More Than 5 Years**
Interest-bearing loans and borrowings	P 1,501,718,673	P 5,628,076,178	P26,606,131,225	P -
Trade and other payables	16,468,100,821	-	-	-
Equity-linked debt securities	1,836,250,000	66,892,742	3,510,642,742	-
Lease liabilities	209,937,077	213,041,471	1,222,549,783	1,033,147,478
Dividends payable	779,231,315	-	-	-
	P20,795,237,886	**P 5,908,010,391**	**P31,339,323,750**	**P 1,033,147,478**

This compares to the maturity profile of the Group's financial liabilities as of December 31, 2018 as follows:

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	More Than 5 Years
Interest-bearing loans and borrowings	P 803,943,284	P 5,442,212,646	P29,077,281,127	P -
Trade and other payables	12,834,686,243	-	-	-
Equity-linked debt securities	-	-	5,402,665,931	-
	P13,638,629,527	P 5,442,212,646	P34,479,947,058	P -

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 Values and Fair Values of Financial Assets and Financial Liabilities

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

		2019		2018	
	Notes	**Carrying Values**	**Fair Values**	Carrying Values	Fair Values
Financial Assets:					
Financial assets at amortized cost:					
Cash and cash equivalents	5	**P 7,740,605,656**	**P 7,740,605,656**	P 6,228,229,892	P 6,228,229,892
Trade and other receivables - net	6	**17,681,491,614**	**17,681,491,614**	15,630,623,827	15,630,623,827
Property mortgage receivable	11.2	**636,946,200**	**636,946,200**	650,178,519	650,178,519
Refundable security deposits	11.1, 11.2	**37,733,281**	**37,733,281**	54,770,032	54,770,032
		P 26,096,776,751	**P 26,096,776,751**	P 22,563,802,270	P 22,563,802,270
Financial assets at FVTPL	7	**P -**	**P -**	P 1,208,707,500	P 1,208,707,500
Financial Liabilities:					
Financial liabilities at amortized cost:					
Interest-bearing loans	13	**P 31,939,838,586**	**P 31,939,838,586**	P 34,014,800,228	P 34,014,800,228
Trade and other payables	15	**16,468,100,821**	**16,468,100,821**	12,834,686,243	12,834,686,243
Equity-linked debt securities	14	**5,280,000,000**	**5,280,000,000**	5,258,801,592	5,258,801,592
Lease liabilities	9	**2,021,932,115**	**2,021,932,115**	-	-
Dividends payable	23.3	**779,231,315**	**779,231,315**	-	-
		P56,489,102,837	**P 56,489,102,837**	P 52,108,288,063	P 52,108,288,063
Financial liabilities at FVTPL	7	**P 9,105,954**	**P 9,105,954**	P 43,492,447	P 43,492,447

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 26.

27.2 *Offsetting of Financial Assets and Financial Liabilities*

Currently, the Group's financial assets and financial liabilities are settled on a gross basis because there is no relevant offsetting arrangement on them as of December 31, 2019 and 2018 (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 financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

28.2 *Financial Instruments Measured at Fair Value*

The Group's financial instruments measured at fair value pertain to the Group's derivative instruments and investment in Perpetual Notes (see Note 7). These were presented as financial assets at FVTPL amounting to P1.2 billion as of December 31, 2018, and financial liabilities at FVTPL amounting to P9.1 million and P43.5 million as of December 31, 2019 and 2018, respectively.

The derivative instruments, which comprise of foreign exchange spots and forward contracts, are included in Level 2. The fair values of derivative financial instruments that are not quoted in an active market are determined through valuation techniques using the net present value computation. The investment in Perpetual Notes are included in Level 1 as its fair value is determined through reference to quoted bid prices in an active market [see Notes 3.2(c) and 7].

28.3 *Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The table below 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.

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Cash and cash equivalents	P 7,740,605,656	P -	P -	P 7,740,605,656
Trade and other receivables	-	-	17,681,491,614	17,681,491,614
Property mortgage receivable	-	-	636,946,200	636,946,200
Refundable security deposits	-	-	37,733,281	37,733,281
	P 7,740,605,656	**P -**	**P 18,356,171,095**	**P 26,096,776,751**
Financial liabilities:				
Interest-bearing loans	P -	P -	P 31,939,838,586	P 31,939,838,586
Trade and other payables	-	-	16,468,100,821	16,468,100,821
Equity-linked debt securities	-	-	5,280,000,000	5,280,000,000
Lease liabilities	-	-	2,021,932,115	2,021,932,115
Dividends payable	-	-	779,231,315	779,231,315
	P -	**P -**	**P 56,489,102,837**	**P 56,489,102,837**

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 6,228,229,892	P -	P -	P 6,228,229,892
Trade and other receivables	-	-	15,630,623,827	15,630,623,827
Property mortgage receivable	-	-	650,178,519	650,178,519
Refundable security deposits	-	-	54,770,032	54,770,032
	P 6,228,229,892	P -	P 16,335,572,378	P 22,563,802,270
Financial liabilities:				
Interest-bearing loans	P -	P -	P 34,014,800,228	P 34,014,800,228
Trade and other payables	-	-	12,834,686,243	12,834,686,243
Equity-linked debt securities	-	-	5,258,801,592	5,258,801,592
	P -	P -	P 52,108,288,063	P 52,108,288,063

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:

	2019	2018
Total liabilities	**P 61,269,239,793**	P 56,454,425,342
Total equity	**64,716,757,520**	61,363,946,340
Liabilities-to-equity ratio	**0.95 : 1.00**	0.92 : 1.00

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to stockholders, issue new shares or sell assets to reduce debt.

30. SUPPLEMENTAL INFORMATION ON CASH FLOWS

30.1 Reconciliation of Liabilities from Financing Activities

The Group presents below and in the succeeding page the reconciliation of the Group's liabilities arising from financing activities, which includes both cash and non-cash changes.

	Equity-linked Debt Securities (see Note 14)	**Accrued Interest Payable** (see Notes 13, 14 and 15)	**Interest-bearing Loans** (see Note 13)	**Lease Liabilities** (see Notes 2 and 9)	**Total**
Balance as of January 1, 2019	P 5,258,801,592	P 72,730,168	P 34,014,800,228	P -	P 39,346,331,988
Effect of adoption of PFRS 16	-	-	-	1,476,157,235	1,476,157,235
Cash flows from financing activities:					
Repayment of loans	-	-	(3,226,111,642)	-	(3,226,111,642)
Proceeds from additional loans obtained	-	-	1,151,150,000	-	1,151,150,000
Repayment of lease liabilities	-	-	-	(237,157,272)	(237,157,272)
Payment of interest expense	-	(585,733,890)		(119,902,633)	(705,636,523)
Non-cash financing activities:					
Additions to lease liabilities in exchange for increased right-of-use assets	-	-	-	782,932,152	782,932,152
Interest amortization on lease liabilities	-	-	-	119,902,633	119,902,633
Accrual of interest	21,198,408	654,482,807	-	-	675,681,215
Balance as of December 31, 2019	**P 5,280,000,000**	**P 141,479,085**	**P 31,939,838,586**	**P 2,021,932,115**	**P 39,383,249,786**

	Equity-linked Debt Securities (see Note 14)	Interest Payable (see Notes 13, 14 and 15)	Accrued Interest-bearing Loans (see Note 13)	Total
Balance as of January 1, 2018	P 5,227,114,518	P 68,062,227	P 32,922,420,890	P 38,217,597,635
Cash flows from financing activities:				
Proceeds from additional loans obtained	-	-	3,451,057,163	3,451,057,163
Repayment of loans	-	-	(2,358,677,825)	(2,358,677,825)
Payment of interest expense	(108,392,304)	(664,184,051)	-	(772,576,355)
Non-cash financing activities:				
Interest expense (Note 14):				
Accrual of interest	108,392,304	668,851,992	-	777,244,296
Accretion of financial liability component	31,687,074	-	-	31,687,074
Balance as of December 31, 2018	P 5,258,801,592	P 72,730,168	P34,014,800,228	P 39,346,331,988

30.2 Supplemental Information on Non-cash Activities

The following discusses the supplemental information on non-cash investing and financing activities as presented in the consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017:

- Share option benefits expense amounting to P27.0 million was recognized in each of the years 2019, 2018 and 2017, with corresponding credits to Share Options account (see Note 20.2 and 23.4).

- In 2017, the Group applied its deposit for asset acquisition amounting to P449.3 million made in 2016 against the total consideration for Domecq and Garvey acquisitions (see Note 1.1).

- 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, with the amendment of the ELS instrument, the equity-linked debt securities were revalued and conversion options were recognized at P5.1 billion and P136.2 million, respectively. Subsequently, the accretion of discount on equity- linked debt securities amounting to P21.2 million, P31.7 million and P83.3 million for 2019, 2018 and the remainder of 2017, respectively, is presented as part of Interest Expense account in the consolidated statements of comprehensive income. The capitalized documentary stamp tax paid by EMP for the issuance of the ELS in 2014 were fully amortized in 2017 with amortization amounting to P17.1 million, and is presented as part of Interest Expense account in the 2017 consolidated statement of comprehensive income (see Note 14). The extension in 2019 did not result in substantial modification of terms.

- On January 1, 2019, the Group recognized right-of-use assets and lease liabilities amounting to P1,016.5 million and P1,476.2 million, respectively, upon initial adoption of PFRS 16 (see Notes 2 and 9).

31. EVENTS OCCURING AFTER THE END OF REPORTING PERIOD

31.1 Third Amendment of the ELS

On January 31, 2020, the parties on the ELS entered into another amendment (the "Third Amendment"), which removed the mandatory conversion of the ELS during the period until Extended Redemption Date (see Note 14).

31.2 Tranche 1 Conversion

On February 5, 2020, pursuant to the exercise by Arran of its Holder Conversion Right under the Second Amendment of the ELS (see Note 14), EMP issued 253.3 million commons shares from its treasury shares, as conversion of P1.84 billion portion of the ELS or the Tranche 1 Conversion.

31.3 Extension of Buy-Back Program

On May 16, 2020, the BOD approved the extension of the Parent Company's buy-back program for another 12 months, ending on May 16, 2021.

31.4 Impact of Coronavirus Disease 2019 ("COVID-19")

Subsequent to the end of the reporting period, the Group and other businesses have been significantly exposed to the risks brought about by a novel strain of coronavirus ("COVID-19"), which has rapidly spread worldwide. On March 11, the World Health Organization ("WHO") characterized COVID-19 as a pandemic as it reached 110 countries and territories. As of May 28, 2020, about 212 countries and territories have been affected by the pandemic, including Philippines, Spain and UK where the Group has significant operations.

To prevent further spread of COVID-19 and bring down its transmission, the governments across the world have implemented extensive measures such as travel bans/restrictions, home isolation (stay-at-home orders), social distancing, gathering limitations and closing of non-essential businesses (all types of recreational venues and most public places included). To restart economic activities, they formulate plans to gradually ease these lockdown restrictions.

In the Philippines, the country is put into varying degrees of lockdown, which it calls community quarantine ("CQ") – a phased transition from the strictest enhanced community quarantine ("ECQ") to modified ECQ ("MECQ") to general community quarantine ("GCQ") to modified GCQ ("MGCQ"). In particular, the entire Luzon, including its associated islands, were placed under ECQ from March 17 to May 15 and afterwards under the lower phases depending on their level of risk assessments. The National Capital Region remains under MECQ up to end of May. During ECQ and MECQ, strict home quarantine is enforced, non-essential businesses are closed and public means of transportation are suspended. Many local government units ("LGUs") imposed liquor bans. During GCQ, some businesses and public transportation, to some extent, are allowed to operate upon compliance with safety protocols and physical distancing requirements. Emperador gradually resumed business operations as allowed by the LGUs to where it operates. LGUs started lifting liquor bans during the GCQ.

Offshore, Spain, one of the hardest hit by the pandemic, has imposed strict lockdown from March 14 (similar to our ECQ) and started loosening restrictions in May. About half of Spain has moved already to open restaurants, cafes and bars at 40% dining capacity but not yet in Madrid, where GES head office is located. Meantime, Bodegas Fundador which is located in Jerez (a place which has a very low infection rate), continues its regular production and distribution. Travel between provinces remains strictly limited.

In UK, lockdown started on March 23. All bars, pubs, cafes and restaurants closed three days earlier. The process of easing the lockdown has started in May and expected to last until June. Because alcohol production is considered a critical industry by the government, WMG is able to continue its off-premise distribution to a certain degree as well as its production when and as necessary. Meanwhile, head office has remained closed and travel restricted.

While the foregoing disruptions are currently expected to be temporary, the Group anticipates that these would impact market conditions that could hurt the Group's results of operations but may not affect its financial condition. Management is confident that there will be no significant impairment on its intangible assets as the market share and popularity of the Group's products would not be significantly affected by the pandemic in the long run (see Note 10). Also, the Group does not foresee any breaches from its existing loan covenant given its measures to address risk of losses and its healthy financial position.

While management currently believes that it has adequate liquidity and business plans to continue to operate the business and mitigate the risks associated with COVID-19, the ultimate impact of the pandemic is highly uncertain and subject to change. The severity of the consequences will depend on certain developments, including the duration and spread of the outbreak and impact on the Group's customers, suppliers and employees. Financial consequences are uncertain and cannot be predicted as of the date of issuance of the Group's consolidated financial statements. Accordingly, management cannot reliably estimate the quantitative impact of the outbreak on the Group's consolidated financial position and results of operations for future periods.

As the Group puts paramount importance to the health and welfare of its employees, customers, counterparties and other stakeholders, the Group has implemented safety and hygienic measures, in consonance with government-required protocols, and activated its business continuity procedures in order to mitigate any negative impact the pandemic may have to the Group's business and to its financial condition and performance.

The Group has determined that these events are non-adjusting subsequent events. Accordingly, their impact was not reflected in the Group's consolidated financial statements as of and for the year ended December 31, 2019.

32. OTHER INFORMATION REQUIRED BY THE SECURITIES AND EXCHANGE COMMISSION

The Revised Corporation Code took effect on March 8, 2019. The new provisions of the Revised Corporation Code or any amendments thereof have no significant impact to the Group's consolidated financial statements.

CORPORATE INFORMATION

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Date of Public Listing
December 19, 2011

PRINCIPAL AUDITORS

Punongbayan & Araullo
Philippine Member Firm of Grant Thornton International Ltd.
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STOCK TRANSFER AGENT

BDO Stock Transfer
Banco De Oro Unibank, Inc.
15th Floor South Tower, BDO Corporate Center
7899 Makati Avenue, Makati City
Tel. No. 8-878-4053

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
Compliance Officer

Atty. Anna Michelle T. Llovido
Corporate Secretary
Data Protection Officer

INVESTOR RELATIONS

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