

## SECURITIES AND EXCHANGE COMMISSION

### SEC FORM 20-IS

#### INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

- Preliminary Information Statement  
 Definitive Information Statement

2. Name of Registrant as specified in its charter

EMPERADOR INC.

3. Province, country or other jurisdiction of incorporation or organization

METRO MANILA, PHILIPPINES

4. SEC Identification Number

A200117595

5. BIR Tax Identification Code

214-815-715-000

6. Address of principal office

7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark 188 E. Rodriguez Jr.  
 Avenue, Bagumbayan, Quezon City  
 Postal Code  
 1110

7. Registrant's telephone number, including area code

632) 87092038 to 40

8. Date, time and place of the meeting of security holders

August 20, 2020, 10:00 AM, by livestream access via  
<https://www.emperadorbrandy.com/asm2020>

9. Approximate date on which the Information Statement is first to be sent or given to security holders

Jul 23, 2020

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor

N/A

Address and Telephone No.

N/A

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	15,920,376,438
Treasury	322,014,738

13. Are any or all of registrant's securities listed on a Stock Exchange?

- Yes  No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange; Common Shares

*The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.*



EMPERADOR INC.

# Emperador Inc.

## EMP

**PSE Disclosure Form 17-5 - Information Statement for Annual or  
Special Stockholders' Meeting  
References: SRC Rule 20 and  
Section 17.10 of the Revised Disclosure Rules**

<b>Date of Stockholders' Meeting</b>	Aug 20, 2020
<b>Type (Annual or Special)</b>	Annual
<b>Time</b>	10:00AM
<b>Venue</b>	by livestream access via <a href="https://www.emperadorbrandy.com/asm2020">https://www.emperadorbrandy.com/asm2020</a>
<b>Record Date</b>	Jul 22, 2020

**Inclusive Dates of Closing of Stock Transfer Books**

<b>Start Date</b>	N/A
<b>End date</b>	N/A

**Other Relevant Information**

None.

**Filed on behalf by:**

<b>Name</b>	Anna Michelle Llovido
<b>Designation</b>	Corporate Secretary

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S.E.C. Registration Number

<b>E</b>	<b>M</b>	<b>P</b>	<b>E</b>	<b>R</b>	<b>A</b>	<b>D</b>	<b>O</b>	<b>R</b>																
<b>I</b>	<b>N</b>	<b>C</b>	<b>.</b>																					

(Company's Full Name)

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<b>1</b>	<b>8</b>	<b>8</b>		<b>E</b>	<b>.</b>	<b>R</b>	<b>O</b>	<b>D</b>	<b>R</b>	<b>I</b>	<b>G</b>	<b>U</b>	<b>E</b>	<b>Z</b>		<b>J</b>	<b>R</b>	<b>.</b>	<b>A</b>	<b>V</b>	<b>E</b>	<b>.</b>					
<b>B</b>	<b>A</b>	<b>G</b>	<b>U</b>	<b>M</b>	<b>B</b>	<b>A</b>	<b>Y</b>	<b>A</b>	<b>N</b>		<b>Q</b>	<b>U</b>	<b>E</b>	<b>Z</b>	<b>O</b>	<b>N</b>		<b>C</b>	<b>I</b>	<b>T</b>	<b>Y</b>						

(Business Address: No. Street City/ Town/ Province)

**DINA D. INTING**

Contact Person

**8709-2038 to 41**

Company Telephone Number

**1 2 3 1**

Month Day  
Fiscal Year

**SEC Form 20-IS**

(Definitive Information Statement)

FORM TYPE

**Third Monday  
of May**

Month Day  
Annual Meeting

**Registration of  
Securities**

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

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STAMPS

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## EMPERADOR INC.

7<sup>th</sup> Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, Bagumbayan, Quezon City, Metro Manila  
Tel Nos. 87092038 to 41

### NOTICE AND AGENDA OF THE ANNUAL MEETING OF STOCKHOLDERS

#### TO ALL STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Emperador Inc. (the "Company") will be held on **20 AUGUST 2020** at **10:00 A.M.** to be conducted virtually, through the link <https://www.emperadorbrandy.com/asm2020>, that can be accessed through the Company's website, with the following agenda:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Meeting of Stockholders held on 20 May 2019
4. Annual Report of Management
5. Amendment of Sections 5 and 7 of Article II and Sections 7 of Article III of the Amended By-laws
6. Appointment of External Auditors
7. Ratification of Acts and Resolutions of the Board of Directors, Board Committees, and Management
8. Election of Directors
9. Other matters
10. Adjournment

Stockholders of record as of 22 July 2020 will be entitled to notice of, and to vote at, the Annual Meeting.

To conform with the government's regulation on social distancing and prohibition on mass gatherings, the Company decided to hold the Annual Meeting via remote communication, and allow the stockholders to cast their votes by remote communication or in *absentia*, or by proxy.

To participate in the Annual Meeting, stockholders must register from 9:00 AM of **07 August 2020** until 5:00 PM of **13 August 2020**. The procedure for participation via remote communication and in *absentia* are contained in the Information Statement.

Stockholders who wish to appoint proxies may submit proxy instruments until 5:00 PM of **13 August 2020**, to the Office of the Corporate Secretary at 7<sup>th</sup> Floor, 1880 Eastwood Avenue Building, Eastwood City CyberPark, 188 E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City, or by email to [corporatesecretary@emperadorinc.com](mailto:corporatesecretary@emperadorinc.com). Validation of proxies shall be held on 14 August 2020. A sample proxy form will be enclosed in the Information Statement for your convenience.

The Information Statement and other pertinent documents and information on the Annual Meeting are available through the Company's website. For any clarifications, please contact the Office of the Corporate Secretary via email at [corporatesecretary@emperadorinc.com](mailto:corporatesecretary@emperadorinc.com).

Quezon City, Metro Manila, Philippines, 17 July 2020.

**ANNA MICHELLE T. LLOVIDO**  
Corporate Secretary

## EXPLANATION OF AGENDA ITEMS

### 1. **Call to Order**

The Annual Meeting will be formally opened at approximately 10:00 o'clock in the morning.

### 2. **Proof of Notice and Determination of Quorum**

The Corporate Secretary will certify that the written notice for the meeting was duly sent to stockholders of record, including the date of publication and the newspapers where the notice was published. The Corporate Secretary will also certify that a quorum exists, and the stockholders representing at least a majority of the outstanding capital stock, present in person or by proxy, shall constitute a quorum for the transaction of business.

Pursuant to Sections 23 and 57 of the Revised Corporation Code which allow voting *in absentia* by the stockholders, stockholders may register by submitting requirements via email at [corporatesecretary@emperadorinc.com](mailto:corporatesecretary@emperadorinc.com) and vote *in absentia* on the matters for resolution at the meeting. A stockholder who votes in absentia as well as a stockholder participating by remote communication shall be deemed present for purposes of quorum.

Please refer to **Annex "A"** on the Procedures and Requirements for Voting and Participation in the Annual Meeting for complete information on remote participation or voting in absentia, as well as on how to join the livestream for the Annual Meeting.

### 3. **Approval of Minutes of the Previous Annual Meeting**

The minutes of the meeting held on 20 May 2019 are available at the Company's website, <https://www.emperadorbrandy.com/minutes-of-annual-special-stockholders-meetings.html>.

### 4. **Annual Report of Management for Year 2019**

The performance of the Company in 2019 will be reported.

### 5. **Amendment of Sections 5 and 7 of Article II and Sections 7 of Article III of the Amended By-laws**

Approval by the stockholders representing at least majority of the outstanding capital stock will be sought to amend Section 5 (Quorum), and Section 7 (Manner of Voting) of Article II and Section 7 (Quorum and Manner of Acting), Article III of the Company's Amended By-Laws to allow the stockholders to participate and vote in the Annual Meeting through remote communication or alternative modes of communication, and also allow the Board of Directors to participate and vote in the board meetings through remote communication. The amendments are discussed in the Information Statement. The Board approved this proposed amendment during its meeting on 08 July 2020.

### 6. **Appointment of Independent Auditors**

The election of the external auditor for the ensuing year will be endorsed to the stockholders for approval. The external auditor conducts an independent verification of the Company's financial statements and provides an objective assurance on the accuracy of its financial statements.

**7. Ratification of Acts and Resolutions of the Board of Directors, Board Committees and Management**

The actions of the Board and its committees were those taken since the annual stockholders' meeting on 20 May 2019 until 19 August 2020. These include, among others, the internal procedures for participation in meetings and voting through remote communication or *in absentia*, the appointment of officers in the corporation, opening and maintenance of bank accounts and other bank transactions, approval and issuance of financial statements, declaration of cash dividends, appointment of proxies and nominees, designation of authorized contract signatories and representatives, appointment of attorneys-in-fact, approval of agreements, projects, investments, financing, and treasury-related matters, matters covered by disclosures to the Securities and Exchange Commission and the Philippine Stock Exchange, activities in the ordinary course of business, and other similar activities of the Company. The acts of the officers were those taken to implement the resolutions of the Board or its committees or made in the general conduct of business.

**8. Election of Directors**

Nominees for election of seven (7) members of the Board of Directors, including two (2) independent directors, will be submitted for election by the stockholders. The profiles of the nominees to the Board of Directors are provided in the Information Statement.

**9. Other Matters**

Other concerns or matters raised by stockholders will be discussed.

**10. Adjournment**

Upon determination that there are no other matters to be considered, the meeting shall be adjourned.

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 20-IS  
INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:  
 Preliminary Information Statement  
 **Definitive Information Statement**
2. Name of Registrant as specified in its charter **EMPERADOR INC.**
3. **METRO MANILA, PHILIPPINES**  
Province, country or other jurisdiction of incorporation or organization
4. SEC Identification Number **A200117595**
5. BIR Tax Identification Code **214-815-715-000**
6. **7<sup>th</sup> Floor, 1880 Eastwood Avenue, Eastwood City CyberPark**  
**188 E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City** **1110**  
Address of principal office Postal Code
7. Registrant's telephone number, including area code **(632) 87092038 to 40**
8. **August 20, 2020, 10:00 AM**  
**by livestream access via <https://www.emperadorbrandy.com/asm2020>**  
Date, time and place of the meeting of security holders
9. Approximate date on which the Information Statement is first to be sent or given to security holders **23 July 2020**
11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):
- | Title of Each Class    | Number of Shares of Common Stock<br>Outstanding or Amount of Debt Outstanding<br>(as of 30 June 2020) |
|------------------------|---|
| <b><u>Common</u></b>   | <b><u>15,920,376,438</u></b>  |
| <b><u>Treasury</u></b> | <b><u>322,014,738</u></b>   |
12. Are any or all of registrant's securities listed in a Stock Exchange?  
Yes  No
- If yes, disclose the name of such Stock Exchange and the class of securities listed therein:  
Philippine Stock Exchange Common Shares

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE NOT REQUESTED TO SEND US A PROXY**

**SAMPLE ONLY**

**PROXY**

The undersigned shareholder(s) of **EMPERADOR INC.** (the "Company") hereby appoint/s \_\_\_\_\_ or in his absence, the Chairman of the Annual Shareholders' Meeting, as proxy of the undersigned shareholder(s) at the Annual Meeting of Shareholders scheduled on 20 August 2020 at 10:00 in the morning, via livestream access through the link available at the Company's website, and/or at any postponement or adjournment thereof, and/or any annual shareholders' meeting of the Company, which appointment shall not exceed five (5) years from date hereof.

The undersigned shareholder(s) hereby direct/s the said proxy to vote all shares on the agenda items set forth below as expressly indicated by marking the same with [√] or [X]:

ITEM NO.	SUBJECT	ACTION		
		FOR	AGAINST	ABSTAIN
3	Approval of the Minutes of the Annual Meeting of Stockholders held on 20 May 2019			
5	Amendment of Sections 5 and 7 of Article II and Sections 7 of Article III of the Amended By-laws			
6	Appointment of Independent Auditors			
7	Ratification of Acts of the Board of Directors, Board Committees and Officers			
8	Election of Directors			
	Andrew L. Tan			
	Winston S. Co			
	Katherine L. Tan			
	Kendrick Andrew L. Tan			
	Kevin Andrew L. Tan			
	Enrique M. Soriano III - Independent Director			
	Alejo L. Villanueva, Jr. - Independent Director			

PRINTED NAME OF SHAREHOLDER \_\_\_\_\_ SIGNATURE OF SHAREHOLDER/ AUTHORIZED SIGNATORY \_\_\_\_\_ NUMBER OF SHARES TO BE REPRESENTED \_\_\_\_\_ DATE \_\_\_\_\_

This proxy should be received by the Corporate Secretary not later than end of business hours on **13 August 2020.**

This proxy when properly executed will be voted in the manner as directed herein by the shareholder. If no direction is made, the proxy will be voted for the election of all nominees and for the approval of all matters stated above and for such other matters as may properly come before the meeting in the manner described in the information statement.

A shareholder giving a proxy has the power to revoke it at any time before the right granted is exercised. A proxy is also considered revoked if the shareholder attends the meeting in person and expressed his intention to vote in person.

This proxy does not need to be notarized. (Partnerships, Corporations and Associations must attach certified resolutions thereof designating Proxy/Representative and Authorized Signatories.)

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE NOT REQUESTED TO SEND US A PROXY**



**PART I.**

**INFORMATION REQUIRED IN INFORMATION STATEMENT**

**A. GENERAL INFORMATION**

**Item 1. Date, time and place of meeting of security holders.**

Date & time: 20 August 2020, 10:00 AM  
Place: by livestream access via <https://www.emperadorbrandy.com/asm2020>  
Principal office: 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City

Approximate date on which the Information Statement is first to be sent or given: **23 July 2020**

**The Company is not soliciting proxies. We are not asking for a proxy. Neither are you required to send us a proxy.**

**Item 2. Dissenters' Right of Appraisal**

There are no matters to be acted upon or proposed corporate action in the agenda for the annual meeting of stockholders that may give rise to possible exercise by a dissenting stockholder of its appraisal rights under Title X of the Revised Corporation Code of the Philippines.

Any stockholder of the Company shall have the right to dissent and demand payment of the fair value of his shares in the following instances: (1) in case an amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (2) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Code; (3) in case of merger or consolidation, and (4) in case of investment of corporate funds for any purpose other than the primary purpose of the Company;

The dissenting stockholder who votes against a proposed corporate action may exercise the right of appraisal by making a written demand on the Company for the payment of the fair value of shares held within thirty (30) days from the date on which the vote was taken, provided, that failure to make the demand within the 30-day period shall be deemed a waiver of the appraisal right. From the time of the demand for payment of the fair value of a stockholder's shares until either the abandonment of the corporate action involved or the purchase of the dissenting shares by the Company, all rights accruing to such shares shall be suspended in accordance with the provisions of the Code, except the right of such stockholder to receive payment of the fair value thereof, provided that if the dissenting stockholder is not paid the value of his shares within 30 days after the award, the voting and dividend rights shall immediately be restored. If the proposed corporate action is implemented or effected, the Company shall pay to such stockholder, upon surrender of the stock certificate(s) representing his shares, the fair value thereof as of the day before the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If the fair value is not determined within sixty (60) days from the date the corporate action was approved by the stockholders, it will be determined and appraised by three (3) disinterested persons (one chosen by the Company, another chosen by the dissenting stockholder and the third by the two thus chosen). The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made. *Provided*, that no payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment: *Provided*, further, that upon payment by the Company of the agreed or awarded price, the dissenting stockholder shall forthwith transfer his shares to the Company.

### Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

(a) No officer or director at any time since the beginning of the fiscal year, or nominee for election as director, or associate of any of these persons, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election to office.

(b) No director has informed the Company in writing of his/her intention to oppose any matter to be acted upon at the Annual Stockholders' Meeting (the "Meeting").

### **B. CONTROL AND COMPENSATION INFORMATION**

#### Item 4. Voting Securities and Principal Holders Thereof

(a) Each of the 15,918,333,038 common shares outstanding as of 22 July 2020 shall be entitled to one vote with respect to all matters to be taken up during the Meeting.

(b) All stockholders of record as of 22 July 2020 are entitled to notice and to vote at the Meeting.

(c) Pursuant to Sections 23 and 57 of the Revised Corporation Code and SEC Memorandum Circular No. 06, Series of 2020 allowing voting through remote communication or in absentia, stockholders may now participate in the Annual Meeting by remote communication and cast their votes in absentia. A stockholder may cast his/her votes by remote communication or *in absentia* until 5:00 pm of 13 August 2020. A stockholder voting remotely or *in absentia* shall be deemed present for purposes of quorum. Please refer to **Annex "A"** on the Procedures and Requirements for Voting and Participation in the 2020 ASM for complete information on voting via remote participation or voting in absentia, as well as on how to join the livestream for the Annual Meeting.

(d) All stockholders have cumulative voting rights in the election of the members of the board of directors of the Company. Cumulative voting entitles each stockholder to cumulate his shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or distribute them on the same principle among as many nominees as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

(e) Security ownership of certain record and beneficial owners and management

#### **Security Ownership of Owners Holding More than Five Percent (5%) of Voting Securities as of 30 June 2020:**

TITLE OF CLASS	NAME, ADDRESS OF RECORD OWNER AND RELATIONSHIP WITH ISSUER	NAME OF BENEFICIAL OWNER AND RELATIONSHIP WITH RECORD OWNER	CITIZENSHIP	NO. OF SHARES HELD	PERCENT
Common	Alliance Global Group, Inc. 7/F, 1880 Eastwood Avenue, Eastwood City CyberPark 188 E. Rodriguez, Jr. Avenue, Bagumbayan Quezon City Parent of the Issuer	Alliance Global Group, Inc.	Filipino	12,034,652,400	75.59%
		Alliance Global Group, Inc., ultimate parent <sup>1</sup>		720,000,000	4.52%
Common	PCD Nominee Corporation (Non-Filipino)	The Hongkong And Shanghai	Non-Filipino	1,563,712,238	9.82%

<sup>1</sup>AGI beneficially owns shares held by foreign subsidiaries totaling 720,000,000 shares representing 4.52%. The Board of Directors of AGI has voting and investment power over shares of stock held by AGI in Company. AGI authorized the Chairman of the Board of the Company, or in his absence, the Chairman of the Meeting, to vote shares of stock held by AGI in the Company

	G/F Makati Stock Exchange Bldg., 6767 Ayala Avenue, Makati City	Banking Corp. Ltd. -Clients' Acct.			
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**Security ownership of management as of 30 June 2020:**

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
<i>Directors</i>				
Common	Andrew L. Tan	1 (direct)	Filipino	Nil
Common	Winston S. Co	1 (direct)	Filipino	Nil
Common	Katherine L. Tan	1 (direct)	Filipino	Nil
Common	Kendrick Andrew L. Tan	1 (direct)	Filipino	Nil
Common	Kevin Andrew L. Tan	1 (direct)	Filipino	Nil
Common	Enrique M. Soriano III	1 (direct)	Filipino	Nil
Common	Alejo L. Villanueva, Jr.	1 (direct)	Filipino	Nil
<i>Other Executive Officers</i>				
Common	Winston S. Co		Same as above	
Common	Katherine L. Tan		Same as above	
Common	Kendrick Andrew L. Tan		Same as above	
Common	Dina D.R. Inting	0	Filipino	N/A
Common	Anna Michelle T. Llovido	0	Filipino	N/A

There are no indirect beneficial ownership of the named Directors and Officers as indicated above.

*Voting trust holders of 5% or more* - The Company is not aware of the existence of persons holding more than five percent (5%) of its common shares under a voting trust or similar agreement.

*Change in control* - The Company is not aware of any arrangement which may result in a significant change in control.

**Item 5. Directors and Executive Officers**

*Incumbent*

The following are the incumbent directors and executive officers of the Company:

Name	Age	Citizenship	Position
Andrew L. Tan	70	Filipino	Chairman
Winston S. Co	62	Filipino	Director, President and CEO
Katherine L. Tan	68	Filipino	Director and Treasurer
Kendrick Andrew L. Tan	38	Filipino	Executive Director
Kevin Andrew L. Tan	40	Filipino	Director
Enrique M. Soriano III	52	Filipino	Independent Director
Alejo L. Villanueva, Jr.	78	Filipino	Lead Independent Director
Dina D.R. Inting	60	Filipino	Chief Financial Officer, Compliance Officer and Corporate Information Officer
Anna Michelle T. Llovido	41	Filipino	Corporate Secretary

There are seven (7) members of the Company's Board of Directors, two (2) of whom are independent directors. All incumbent directors were elected during the Annual Meeting of the Board of Directors held on 20 May 2019 and will hold office for one (1) year and/or until their successors are elected and qualified.

### Brief Background of the Directors and Officers

The overall management and supervision of the Company is undertaken by the Board of Directors (“Board”). Currently, the Board consists of seven members, of which two are independent directors. All of the directors were elected at the Company’s annual stockholders meeting on 20 May 2019 and will hold office until their successors have been duly elected and qualified.

The table below sets forth each member of the Company’s Board as of June 30, 2020:

<b>Name</b>	<b>Age</b>	<b>Gender</b>	<b>Citizenship</b>	<b>Type/Position</b>	<b>Date First Elected</b>
Andrew L. Tan	70	Male	Filipino	Non-exec/ Chairman	Aug 28, 2013
Winston S. Co	62	Male	Filipino	Executive Director	Aug 28, 2013
Katherine L. Tan	69	Female	Filipino	Executive Director	Aug 28, 2013
Kendrick Andrew L. Tan	38	Male	Filipino	Executive Director	Aug 28, 2013
Kevin Andrew L. Tan	40	Male	Filipino	Non-Exec Director	Oct 04, 2017
Alejo L. Villanueva, Jr.	78	Male	Filipino	Independent Director	Aug 28, 2013
Enrique M. Soriano III	52	Male	Filipino	Independent Director	May 16, 2016

The table below sets forth the Company’s executive officers as of June 30, 2020:

<b>Name</b>	<b>Age</b>	<b>Gender</b>	<b>Citizenship</b>	<b>Position</b>
Winston S. Co	62	Male	Filipino	President and Chief Executive Officer
Katherine L. Tan	69	Female	Filipino	Treasurer
Kendrick Andrew L. Tan	38	Male	Filipino	Executive Director
Alejo L. Villanueva, Jr.	78	Male	Filipino	Lead Independent Director
Dina D.R. Inting	60	Female	Filipino	Chief Financial Officer, Compliance Officer, and Corporate Information Officer
Anna Michelle T. Llovido	41	Female	Filipino	Corporate Secretary

### Andrew L. Tan Chairman of the Board

Mr. Tan was first elected as Director and Chairman of the Board on August 28, 2013. He holds position in the following other listed companies:

<b>Listed Company</b>	<b>Position</b>	<b>Date First Elected</b>	<b>Date Last Elected</b>	<b>No. of Term/ Years</b>
Alliance Global Group, Inc.	Chairman of the Board	Sep 2006	June 2019	13
	Chief Executive Officer	Sep 2006	Sep 2017	11
	Vice Chairman of the Board	Aug 2003	Sep 2006	3
Megaworld Corporation	Chairman and President	Aug 1989	June 2019	30
Global-Estate Resorts, Inc. (subsidiary of Megaworld)	Chairman	Jan 2011	June 2018	7
Empire East Land Holdings, Inc. (subsidiary of Megaworld)	Chairman	July 1994	June 2018	24

He is also the Chairman of Emperador Distillers, Inc. since its incorporation in 2003. 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. Mr. Tan is concurrently the

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

**Winston S. Co**  
**Director, President and CEO**

Mr. Co was first elected as Director and President on 28 August 2013. He holds position in the following listed company:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/ Years
Alliance Global Group, Inc. (the parent company)	Director	June 1998	June 2019	21
	Vice Chairman	Nov 1999	Aug 2003	4
	Chairman	June 1998	Oct 1999	1

He is also a Director and President of Emperador Distillers, Inc. since 2003. His field of expertise is in finance and marketing of consumer products. He is concurrently Chairman and President of New Town Land Partners, Inc.; Chairman of Anglo Watsons Glass, Inc.; a Director of Alliance Global Brands, Inc., Forbes Town Properties & Holdings, Inc., McKester Pik-Nik International Limited, Raffles & Company, Incorporated, and The Bar Beverage, Inc.; and Senior Vice President of The Andresons Group, Inc. Mr. Co is a Magna Cum Laude graduate of Jose Rizal College with a Bachelor of Science in Commerce.

**Katherine L. Tan**  
**Director and Treasurer**

Ms. Tan was first elected as Director and Treasurer on 28 August 2013. She holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/Years
Alliance Global Group, Inc. (the parent company)	Director and Treasurer	Feb 2007	June 2019	12
Megaworld Corporation	Director	Aug 1989	June 2019	30
	Treasurer	Aug 1989	June 1995	6

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.

**Kendrick Andrew L. Tan**  
**Director**

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

**Kevin Andrew L. Tan**  
**Director**

Mr. Tan, was elected as Director on 04 October 2017. He holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/Years
Alliance Global Group, Inc.	Chief Executive Officer	June 2018	June 2019	2
	Vice Chairman	Sept 2018	June 2019	2
	Director	April 2012	June 2019	7
	Executive Director	Sept 2016	Sept 2017	1
Global-Estate Resorts, Inc.	Director	June 2014	June 2018	4
Empire East Land Holdings, Inc.	Director	June 2015	June 2018	3

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., The Town Land Partners, Inc., and Consolidated Distillers of the Far East, Inc. He holds a degree in Business Administration Major in Management from the University of Asia and the Pacific.

[Note: The tenure of an independent director is set to a cumulative term of nine years. Independent directors (IDs) who have served for nine years may continue as a non-independent director of the company. Reckoning of the cumulative nine-year term is from 2012, in connection with SEC Memorandum Circular No. 9, Series of 2011.]

**Alejo L. Villanueva, Jr.**  
**Independent Director**

Mr. Villanueva was first elected as Independent Director on 28 August 2013. He holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Terms/ Years
Alliance Global Group, Inc. (the parent company)	Independent Director	Aug 2001	June 2019	18
Empire East Land Holdings, Inc.	Independent Director	June 2007	June 2019	12
Suntrust Home Developers, Inc.	Independent Director	Oct 2012	Oct 2019	7

He 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 who has more than twenty years of experience in the fields of training and development, public relations, community relations, institutional communication, and policy advocacy, among others. He has done consulting work with the Office of the Vice President, the Office of the Senate President, the Commission on Appointments, the Securities and Exchange Commission, the Home Development Mutual Fund, the Home Insurance Guaranty Corporation, Department of Agriculture, Philippine National Railways, International Rice Research Institute, Rustan's Supermarkets, Louis Berger International (USAID-funded projects on Mindanao growth), World Bank (Subic Conversion Program), Ernst & Young (an agricultural productivity project), Chemonics (an agribusiness project of USAID), Price Waterhouse (BOT program, a USAID project), Andersen Consulting (Mindanao 2000, a USAID project), Renardet S.A. (a project on the Privatization of MWSS, with World Bank funding support), Western Mining Corporation, Phelps Dodge Exploration, and Marubeni Corporation. Mr. Villanueva obtained his bachelor's degree in Philosophy from San Beda College, summa cum laude. He has a master's degree in Philosophy from the University of Hawaii under an East-West Center Fellowship. He also took up special studies in the Humanities at Harvard University. He studied Organizational Behavior at INSEAD in Fontainebleau, France. He taught at the Ateneo Graduate School of Business, the UST Graduate School, and the Asian Institute of Journalism.

**Enrique M. Soriano III**  
**Independent Director**

Mr. Soriano was first elected as Independent Director of the Company on May 16, 2016. He is also the Executive Director of the Wong & Bernstein Strategic Advisory Group and a member of the Philippine Marketing Association. He is the Chief Advocacy Officer of Asia America Policy Institute and Consultant of International Finance Corporation/World Bank Group. He is a Family Business Coach, Book Author, Professor of Global Marketing, Program Director for Real Estate and former Chairman of the Marketing Cluster of the Ateneo Graduate School of Business. He is also the Past President of Association of Marketing Educators. He holds a B.A. in History from the University of the Philippines, an MBA from De La Salle University, and Doctorate Units at the UP National College of Public Administration and pursued Executive Education at the National University of Singapore Business School.

**Dina D.R. Inting**  
**Chief Financial Officer, Corporate Information Officer**  
**and Compliance Officer**

Ms. Inting was first elected as Compliance Officer and Corporate Information Officer on 28 August 2013. She holds position in the following other listed company:

Listed Company	Position	Date First Appointed/ Elected	Date Last Appoint/Elected	No. of Terms/ Years
Alliance Global Group, Inc.	Chief Financial Officer (Principal Financial Officer)	January 1995	June 2019	32
	Compliance Officer	August 2005	June 2019	14
	Corporate Information Officer	August 2002	June 2019	17

She is currently director of Progreen Agricornp, Inc. She gained an extensive experience in the fields of audit, comptrollership, treasury, finance, branch operations and personnel management from her previous employments. She is a Cum Laude graduate of Bachelor of Science in Commerce major in Accounting, Honors Program, at the Philippine College of Commerce (Polytechnic University of the Philippines), holds a certificate in Organizational Development from the Ateneo de Manila University, and is a Certified Public Accountant.

**Anna Michelle T. Llovido**  
**Corporate Secretary**

Ms. Llovido was first elected as Assistant Corporate Secretary on 20 May 2019 until her appointment as Corporate Secretary on April 30, 2020. She holds position in the following other listed company:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/Years
Megaworld Corporation	Corporate Secretary	August 2014	June 2019	5

Ms. Llovido concurrently serves as Senior Corporate Legal Counsel of Emperador Distillers, Inc. She is an experienced in-house counsel with 14 years of practice in mergers and acquisitions, financing, regulatory compliance, transactional contracts negotiation, data privacy, litigation, labor and intellectual property law. She is the data privacy officer of Emperador Inc. and Emperador Distillers, Inc.

Prior to her employment in Emperador Distillers, Inc., Ms. Llovido was a Manager at Reeves & Associates International Corporation and was charged with the management of its Philippine representative office. She also served as Legal Counsel to Transnational Diversified Group, Inc. from May 2008 to September 2009 where she serviced the legal requirements of over 30 companies engaged in total logistics, ship management, air and travel services, and information and communications technology. She was an Associate Lawyer at Tantoco Villanueva De Guzman & Llamas law offices from April 2006 to April 2008. Ms. Llovido obtained her bachelor's degrees in Laws in 2004 and Hotel and Restaurant Management in 1999 from the University of Santo Tomas.

*The Corporate Governance Committee and Independent Directors*

SRC Rule 38 and the Company's Manual on Corporate Governance provides that the nomination and election of independent directors shall be conducted in accordance with the following rules:

1. Nomination of independent directors shall be conducted by the Corporate Governance Committee prior to a stockholders' meeting. All recommendations shall be signed by nominating stockholders and shall bear the conformity of the nominees.
2. The Corporate Governance Committee shall pre-screen the nominees and prepare a final list of candidates.
3. The final list of candidates shall contain the business and/or professional experience of the nominees for independent directors, which list shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Statement, in accordance with SRC Rule 20, or in such other reports the Company is required to submit to the Commission. The name of the person or group of persons who recommended the nominees for independent directors shall be identified in such report including any relationship to the nominees.
4. Only nominees whose names appear in the final list of candidates shall be eligible for election as independent directors. No other nominations shall be entertained after the final list of candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.
5. The conduct of the election of independent directors shall be made in accordance with the standard election procedures of the Company in its By-laws, subject to pertinent laws, rules and regulations of the Commission.
6. It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent directors. He shall ensure those independent directors are elected during the stockholders' meeting.
7. In case of failure of election for independent directors, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

The Company complies with The Securities and Regulation Code and its Amended Implementing Rules and Regulations and with the Manual on Corporate Governance and has at least two (2) independent directors in its Board of Directors, who are each independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the Company. An independent director should have at least one (1) share of the Company's common stock, a college



graduate or has been engaged or exposed to the business for at least five (5) years, and possesses integrity/probity and assiduousness. Pursuant to SEC Memorandum Circular 19, Series of 2016, the Board's independent directors should serve for a maximum cumulative term of nine years. After which, the independent director should be perpetually barred from re-election as such in the same company, but may continue to qualify for nomination and election as a non-independent director. In the instance that the company wants to retain an independent director who has served for nine years, the Board should provide meritorious justification/s and seek shareholders' approval during the annual stockholders' meeting. Reckoning of the cumulative nine-year term is from 2012, in connection with the SEC Memorandum Circular 9-2011. Any term beyond nine years for an Independent Director is subjected to particularly rigorous review, taking into account the need for progressive change in the Board to ensure an appropriate balance of skills and experience. However, shareholders may, in exceptional cases, choose to re-elect an independent director who has served for nine years. In such instances, the Board must provide a meritorious justification for the re-election.

#### *Nominees*

Directors are elected annually by the stockholders at the annual stockholders' meeting to serve until the election and qualification of their successors. The Corporate Governance Committee composed of Alejo L. Villanueva, Jr. as Chairman and Enrique M. Soriano III and Kendrick Andrew L. Tan as members accept nominees to the Board of Directors, including nominees for independent directors.

The Committee is responsible for screening and qualifying the list of nominees. The following is the complete and final list of nominees for members of the Board of Directors:

1. Andrew L. Tan
2. Winston S. Co
3. Katherine L. Tan
4. Kendrick Andrew L. Tan
5. Kevin Andrew L. Tan
6. Enrique M. Soriano III – Independent Director
7. Alejo L. Villanueva, Jr. - Independent Director

Mr. Kevin Andrew L. Tan and Mr. Winston S. Co nominated Mr. Enrique M. Soriano III and Mr. Alejo L. Villanueva, Jr. as Independent Directors, respectively, for another term. Messrs. Tan, Co, Soriano III, and Villanueva are not related by consanguinity or affinity up to the fourth civil degree.

The above disclosures on the business experience of the named directors, officers, and nominees, all cover the past five (5) years.

#### *Disagreements with the Company*

No director has resigned or declined to stand for re-election to the Board of Directors since the date of the last annual stockholders' meeting because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices.

#### *Significant Employees*

While the Company values its workforce, the business of the Company is not highly dependent on the services of personnel outside of Senior Management.

#### *Family Relationships*

Chairman Andrew L. Tan is married to Director and Treasurer Katherine L. Tan while their sons, Kendrick Andrew L. Tan and Kevin Andrew L. Tan, are also Directors. Kendrick is currently serving as director of Anglo Watsons Glass, Inc. and Executive Director and Corporate Secretary of EDI. Kevin is currently serving as Director of other listed companies: Alliance Global Group, Inc. (where he is the

Vice-Chairman and CEO), Global-Estate Resorts, Inc. and Empire East Land Holdings, Inc, and EVP and CSO of Megaworld Corporation.

*Involvement in Legal Proceedings*

The Company is not aware of the occurrence during the past five (5) years up to the date hereof of any of the following events that are material to an evaluation of the ability or integrity of any director, any nominee for election as director, or executive officer:

1. Any bankruptcy petition filed by or against any business of a director, nominee for election as director, or executive officer who was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. Any conviction by final judgment in a criminal proceeding, domestic or foreign, or a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
3. Any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
4. Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law of regulation, and the judgment has not been reversed, suspended, or vacated.

*Certain Relationships and Related Transactions*

Except for the material related party transactions described in the notes to the consolidated financial statements of the Company for the years 2019 and 2018 (*please see as filed in here*), there has been no material transaction during the last two years, nor is there any material transaction currently proposed, to which the Company was or is to be a party, in which any director or executive officer, any nominee for election as director, stockholder of ten percent (10%) or more of the Company's voting shares, and any member of the immediate family (including spouse, parents, children, siblings, and in-laws) of any such director or officer or stockholder of ten percent (10%) or more of the Company's voting shares had or is to have a direct or indirect material interest.

**Item 6. Compensation of Directors and Executive Officers**

The following table identifies the Company's Chief Executive Officer and the four most highly compensated executive officers and summarize their aggregate annual compensation in the last two completed years and the estimated aggregate compensation for the ensuing year. Such compensation is received from EDI and none from the Company.

	<b>Name and principal position</b>	<b>Year</b>	<b>Salary (P) '000</b>	<b>Bonus (P)</b>	<b>Other Annual Compensation</b>
CEO	<b>Winston S. Co, President</b>				
A	Katherine L. Tan, Treasurer				
B	Kendrick Andrew L. Tan, Executive Director				
C	Glenn Manlapaz, Director for Asia and the Pacific				
	Total - President and four most highly compensated executive officer	2018 2019 2020 (estimate)	29,132 27,372 28,172		None None None

E	All other officers and named directors as a group	2018	0		
		2019	0		
		2020	0		

The Company's By-Laws stipulates that, except for reasonable per diem, directors, as such, are entitled to receive only such compensation as may be granted to them upon the recommendation of the Compensation and Remuneration Committee and subsequent approval by vote of stockholders representing at least a majority of outstanding capital stock at a regular or special meeting of stockholders. In no case shall the total yearly compensation of directors, as such, exceed 10% of the net income before tax of the Corporation for the preceding year.

*Employment Contracts and Termination of Employment and Change-in-Control Arrangements*

There are no employment contract between the Company and a named executive officer; and no compensatory plan or arrangement, including payments to be received from the Company, with respect to a named executive officer, that results or will result from the resignation, retirement or any other termination of such executive's employment with the Company and its subsidiaries or from a change-in-control of the Company or a change in the named executive officer's responsibilities following a change-in-control and amount involved, including all periodic payments or installments, exceeds P2.5 million.

*Warrants and Options Outstanding held by Directors or Officers*

On December 15, 2014, stockholders holding more than 2/3 of the subscribed and outstanding capital stock of the Company approved an Employee Stock Option Plan (the "Plan") for qualified employees of the Company and its subsidiaries.

Under the Plan, stock options may be granted within ten (10) years from approval by stockholders of the Company owning at least 2/3 of its outstanding capital stock. The exercise price shall be at a 15% discount from the volume weighted average closing price (VWAP) of the Company's common shares for the nine months immediately preceding the date of grant; however, for the first batch of options to be granted, the exercise price shall be at PHP7.00/share. The Company shall reserve up to 1,000,000,000 common shares representing 5% of the authorized capital stock for issuance pursuant to the Plan. Stock options may be exercised by the grantee beginning on his 60<sup>th</sup> birthday subject to the terms and conditions of the Plan.

The Plan shall be administered by the Compensation and Remuneration Committee of the Board, which shall determine the eligible participants of the Plan for a particular calendar year as well as the number of shares to be covered by each option so granted, taking into consideration their position and responsibilities, nature and value of their services and accomplishments, and their present and potential contribution to the success of the Company, and such other factors as the Committee may deem relevant.

The purpose of the Plan is to enable qualified employees of the Company to participate in the growth of the Company, thereby encouraging long-term commitment to the Company and to encourage senior management to develop and train future leaders that will continue business growth and success of the Company.

On November 5, 2015, stock options were granted to qualified employees of the Company and its subsidiaries giving them the right to subscribe to a total of 118 million common shares of the Company at the exercise price of P7.00 per share. The options, which were issued under the Company's Employee Stock Option Plan, shall generally vest on the 60<sup>th</sup> birthday of the Option Holder provided that he has continuously served for 11 years of service after the Option Offer Date, subject to the terms and conditions of the Plan.

## **Item 7. Independent Public Accountants**

Punongbayan&Araullo (“P&A”) is the appointed principal auditor for 2018 and 2019. It audited the Company’s consolidated financial statements for the years 2013 to 2019. In compliance with SEC Rule 68 paragraph 3 (b) (iv) (Rotation of External Auditors), and as adopted by the Company, external auditors or engagement partners are rotated or changed every five years. The lead engagement partner for 2017-2019 is Mr. Romualdo V. Murcia III.

Representatives of Punongbayan & Araullo are expected to be present at the Meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

### *External audit fees and services*

The combined fees billed by P&A for the audit of the 2019 and 2018 annual financial statements of the Company and its subsidiaries, excluding out-of-pocket expenses, totaled P5.2 million and P4.9 million, respectively. The services are those normally provided in connection with statutory and regulatory filings or engagements.

### *Tax fees and all other fees*

There were no separate tax fees billed and no other products and services provided by P&A for the last two fiscal years.

The professional fees, remuneration and terms of engagement of the external auditor for audit and non-audit services of the external auditors of the Company are approved by the Company’s Audit Committee after approval by the stockholders of the engagement and prior to the commencement of each audit season. The Audit Committee also ensures that the external auditor or the lead, engagement, or handling partner having primary responsibility for the audit or review of the Corporation is changed every five (5) years or earlier, and that the external auditor complies with auditing standards. The Chairman of the Committee, or in his absence, the Chairman of the meeting, reports to the Board on the decisions and recommendations made by the Committee following a meeting.

### *Changes in and disagreements with accountants on accounting and financial disclosure*

P&A issued an unqualified opinion on the consolidated financial statements. There are no disagreements with them on any matter of accounting principles or practices, financial statement disclosures, and auditing scope or procedure which, if not resolved would have caused the auditors to make reference thereto in its reports.

### *Information Incorporated by Reference*

Financial Statements of the Company and its subsidiaries as of 31 December 2019 as well as the Management’s Discussion and Analysis of Operations and Financial Condition for the corresponding periods are included in the Company’s Management Report and are incorporated herein by reference.

## **C. OTHER MATTERS**

### **Item 8. Action with Respect to Reports**

The minutes of the Annual Meeting of Stockholders held on 20 May 2019 will be submitted to the stockholders for approval. The Minutes will refer to the adoption of stockholder’s resolutions pertaining to the following matters: approval of Minutes of the Annual Stockholders’ Meeting held on 21 May 2018; ratification of acts and resolutions of the Board of Directors, Board Committees, and Management; appointment of external auditors; and election of directors.

The approval or disapproval of the Minutes will constitute merely an approval or disapproval of the correctness of the minutes but will not constitute an approval or disapproval of the matters referred to in the Minutes.

## Item 9. Other Proposed Action

### **Sections 5 and 7 of Article II and Section 7 of Article III of the Amended By-laws**

On 06 July 2020, the Board of Directors approved the amendment of Sections 5 and 7 of Article II and Section 7 of Article III of the Amended By-laws. The amendment will allow the stockholders to participate and vote in the Annual Meeting through remote communication or alternative modes of communication, and also allow the Board of Directors to participate and vote in the board meetings through remote communication. The Amended By-laws shall be amended as follows:

#### ARTICLE II MEETING OF STOCKHOLDERS

Section 5. Quorum. – Unless otherwise provided by law, in regular or special meeting of the stockholders, a majority of the outstanding capital stock must be present or represented in order to constitute a quorum. If no quorum is constituted, the meeting shall be adjourned until the requisite amount of stock shall be represented.

**Stockholders, voting through remote communication or in absentia, electronically or otherwise, shall be deemed present for purposes of determining the existence of quorum.**

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Section 7. Manner of Voting. – At all meetings of stockholders, a stockholder may vote in person, **though remote communication or in absentia, electronically or otherwise, subject to compliance with such rules and regulations as may be issued by the Securities and Exchange Commission. Voting may also be exercised** by proxy executed in writing by the stockholder or his duly authorized attorney-in-fat. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the secretary.

All proxies must be in the hands of the secretary before the time set for the meeting. Such proxies filed with the secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the secretary prior to scheduled meeting or by their personal presence at the meeting.

#### ARTICLE III BOARD OF DIRECTORS

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Section 7. Quorum and Manner of Acting. – Except as otherwise provided by statute, the Articles of Incorporation, or these By-laws, a majority of the number of directors specified in the Articles of Incorporation shall constitute a quorum for the transaction of the business at any meeting, and the act of a majority of the directors present at any meeting at which there is quorum shall be valid as a corporate act. In the absence of a quorum, a majority of the directors present may adjourn any meeting from time to time until a quorum is achieved. Notice of any adjourned meeting need not be given.

**Directors may participate and vote in a meeting through remote communication, such as videoconferencing or teleconferencing, and shall be deemed present for purposes of determining the existence of quorum.**

Pursuant to Section 16 of SEC Memorandum Circular No. 6, series of 2020, the Annual Meeting may already be conducted by means of remote communication or other alternative modes of communication for the purpose of approving the foregoing amendments to the Amended By-laws.

*Ratification of Acts and Resolutions of the Board of Directors,  
Board Committees and Management*

The stockholders will be asked to ratify all acts and resolutions of the Board of Directors, Board Committees, and of Management adopted and taken during the period up to the date of the Meeting. These include, among others, the internal procedures for participation in meetings and voting through remote communication or *in absentia*, the appointment of officers in the corporation, opening and maintenance of bank accounts and other bank transactions, approval and issuance of financial statements, declaration of cash dividends, appointment of proxies and nominees, designation of authorized contract signatories and representatives, appointment of attorneys-in-fact, matters covered by disclosures to the Securities and Exchange Commission and the Philippine Stock Exchange, approval of agreements, projects, investments, financing, and treasury-related matters in the ordinary course of business of the Company, and other similar activities of the Company. The acts of the officers were those taken to implement the resolutions of the Board or its committees or made in the general conduct of business.

**Item 10. Voting Procedures**

*Vote Required*

In the election of directors, the seven (7) nominees garnering the highest number of votes will be elected as members of the board of directors, provided that there shall always be elected at least two (2) independent directors in the Company's board of directors.

For all the other matters proposed to be acted upon, the vote of a majority of the outstanding capital stock will be required for approval.

*Method of Counting of Votes*

Each holder of common share will be entitled to one (1) vote with respect to all matters to be taken up during the Meeting; provided, that in the election of directors, each stockholder may vote such number of shares for as many persons as there are directors to be elected or may cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many nominees as he shall see fit; provided further, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

There will be seven (7) persons to be elected to the Company's board of directors, including at least two (2) independent directors. In the event that the number of nominees to the board of directors exceeds the number of board seats, voting shall be done by ballot. However, if the number of nominees to the board of directors does not exceed the number of board seats, voting will be done by a show of hands. Election inspectors duly appointed during the meeting shall be responsible for counting the number of votes, subject to validation by representatives of Punongbayan & Araullo, the Company's external auditors.

**The Company undertakes to provide without charge to a stockholder a copy of the Annual Report on SEC Form 17-A upon written request addressed to Ms. Dina D.R. Inting, Chief Financial Officer and Corporate Information Officer, at 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City, Metro Manila, Philippines.**

**The Corporation undertakes to post the Sec Form 17-Q Quarterly Report for the period ending 30 June 2020 at the Corporation's website <https://www.emperadorbrandy.com/>, at least five days before the Annual Stockholders' Meeting on 20 August 2020, or as soon as it is filed with the Commission.**


## SIGNATURES

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

**Date: 17 July 2020**

**EMPERADOR INC.**

By:



**DINA D.R. INTING**

Chief Financial Officer, Corporate Information  
Officer and Compliance Officer

## MANAGEMENT REPORT AS REQUIRED BY SRC RULE 20

### 1. BUSINESS

#### BUSINESS DEVELOPMENT

**EMPERADOR INC.** (“the Company” or “EMP” or “Emperador”) is a holding company which operates an integrated business of manufacturing, bottling and distributing distilled spirits and other alcoholic beverages from the Philippines, United Kingdom, Spain and Mexico through its wholly-owned subsidiaries. At present, EMP and its subsidiaries (collectively referred to as “the Group”) has a wide range of products in its portfolio – from value to super premium – and an international reach to at least 102 countries. The Group belongs under the umbrella of **Alliance Global Group, Inc.** (“AGI”), the ultimate holding company. The Group has acclaimed renown as the world’s largest brandy producer, leading the brandy segment in the Philippines and Spain, and the world’s fifth largest Scotch whisky producer.

Emperador has established its identity in the Philippine alcoholic beverages business as producer of high-quality liquor and innovative products – predominated by its own brand ‘Emperador Brandy’ which was introduced in 1990 through **Emperador Distillers, Inc.** (“EDI”), the Philippines’ largest liquor company and the world’s largest brandy producer. This strong presence was further fortified by ensuing offshore acquisitions.

EMP has enriched its heritage through the acquisition of century-old businesses in Jerez, Spain, known as the world capital of sherry wine and home of the Brandy De Jerez, and in Scotland, United Kingdom, home of Scotch whisky, which themselves were acclaimed as being the first and oldest facility in Spain and the fifth largest Scotch whisky manufacturer in the world.

The Company was originally incorporated under the name of Touch Solutions, Inc. (“TSI”) in the Philippines on November 26, 2001 and first listed its shares on December 19, 2011 under the symbol “TSI”. On August 28, September 16 and September 27, 2013, the Board of Directors (“BOD”), stockholders and Philippine Securities and Exchange Commission (“SEC”) respectively approved the change in corporate name to **Emperador Inc.** The Company’s shares are presently traded on the First Board of the Philippine Stock Exchange (“PSE”) under the symbol “EMP”.

It was in 2013 that the Company transformed into a holding company and increased its capitalization base to P20 billion. In a series of transactions in August and September 2013, AGI acquired majority control with 88% ownership interest in the Company at that time and the Company concurrently acquired 100% ownership in EDI from AGI. The Company thus became a subsidiary of AGI and the immediate parent of EDI (see Note 23.1 to the Consolidated Financial Statements). As of March 31, 2020, AGI holds 84% ownership interest in the Company.

On October 31, 2014, Emperador through its indirect wholly-owned subsidiary, **Emperador UK Limited** (“EUK”), completed a deal signed on May 9, 2014, for the acquisition of the entire issued share capital of **Whyte and Mackay Group Limited** (“WMG” or “Whyte and Mackay”) from United Spirits (Great Britain) Limited, an indirect wholly-owned subsidiary of United Spirits Limited (“USL”), at an enterprise value of £430 million. Emperador took the reins from the world’s liquor giants - USL of India (the world’s largest spirits company by volume) which was forced to put Whyte and Mackay up on sale because of UK anti-trust concerns, when London-based Diageo Plc (the world’s leading premium drinks manufacturer) gained controlling interest in USL.

On December 4, 2014, with the completion of the Whyte and Mackay acquisition as a condition precedent to its entry, Singapore sovereign wealth fund **GIC Private Ltd.** (“GIC”), through its private equity arm, **Arran Investment Pte. Ltd.** (“Arran”) initially invested P17.6 billion in the Company split into 70%-equity and 30%-equity-linked securities (“ELS”), which is convertible to equity between 2 to 7 years. Through this initial investment, Arran acquired 7% ownership interest in EMP and AGI’s 88% at that time was diluted to 81%. In 2017, additional new shares were issued to Arran in consideration for the three-year accrued interest on the ELS. On February 5, 2020, Arran partly converted a portion of its ELS into EMP shares which EMP issued from its treasury. As of March 31, 2020, Arran owns 9% in EMP out of these shares.



On February 29, 2016, EMP, through its indirect wholly-owned subsidiary **Bodegas Fundador S.L.U. (“Bodegas Fundador”)**, acquired Beam Suntory’s Spanish brandy and sherry business in Jerez de la Frontera, the brandy capital of Spain. The purchase included the iconic brands of ‘Fundador’, the Philippines’ best-selling premium imported brandy; ‘Terry Centenario’, Spain’s number one selling brandy; ‘Tres Cepas’, the number one brandy in Equatorial Guinea; and ‘Harveys’, the number one selling sherry wine in the United Kingdom. The all-cash offer was agreed at a value of €275 million. It also included production facilities, ageing cellars, vineyards and blending and bottling facilities. The completion of the purchase marked the birth of the world’s biggest brandy company, and a new era began not only for Emperador and Fundador but for the whole brandy and sherry industry in Spain.

On December 1, 2016, **Bodega Las Copas S.L. (“BLC”)**, a joint-venture company of Grupo Emperador Spain S.A.U. (“**GES**”) and **Gonzalez Byass, S.A. (“Gonzalez Byass”)**, signed an agreement to acquire the Domecq brandy and wine trademarks and related assets from the Mexican and Spanish subsidiaries of Pernod Ricard S.A. plus the Domecq inventories. The transaction included the Domecq brand portfolio of Mexican brandies ‘Don Pedro’, ‘Presidente’ (the first Mexican brandy) and ‘Azteca de Oro’; and ‘Domecq’ and ‘Brandy Domecq’ brands for Brazil and Colombia (collectively, “**Domecq brand portfolio**”) as well as the winery related to the production of Mexican wines in Ensenada, Mexico, together with the relevant inventories related to the Domecq brands in markets, including Spain, the US, Belgium and the Netherlands. On March 30, 2017, BLC, and the Mexican subsidiaries **Pedro Domecq S.A. de C.V.** and **Bodega Domecq S.A. de C.V.**, completed the sale transaction for €81 million.

On December 20, 2017, with the aim of streamlining the group’s structure and obtaining the greatest efficiency, GES and Gonzalez Byass approved the restructuring of BLC. This allowed the economic and organizational differentiation of the different lines of business by transferring the Domecq brand portfolio to a newly incorporated company, **Domecq BLC**, effective September 1, 2017. The restructuring was implemented by means of, on the one hand, the partial spin-off of BLC, under which BLC transferred to Domecq BLC the majority stake in the Mexican company Pedro Domecq S.A. de C.V., and on the other hand, the acquisition by Domecq BLC of the majority stakes in two other Mexican companies, **Gonzalez Byass de Mexico S.A. de C.V. (now known as Domecq Distribucion de Bebidas SA de CV)** and **Bodega Domecq S.A. de C.V.**, and of the Domecq brand portfolio worldwide. In 2019 Pedro Domecq S.A. de C.V. absorbed Bodega Domecq S.A. de CV, due to synergies of merging both companies.

For its part, BLC keeps its main activities - planting, cultivation and exploitation of vineyards in order to produce grapes for distillation, and manufacture, storage, distribution, sale of wine spirits, liquors, spirits and similar – which are developed throughout its Spanish fully owned subsidiaries **Alcoholera de la Mancha Vinícola, S.A.U. (“Alcomasa”)** and **Viñedos del Río Tajo, S.L.U. (“Viñedos”)**, and the remaining stakes in the Mexican companies referred to above.

## **SUBSIDIARIES**

### **EDI**

**EDI** is the leading brandy manufacturer and distributor in the Philippines, and acknowledged as the largest brandy producer in the world.

It was incorporated on June 6, 2003 and it acquired the brandy manufacturing assets and related brands led by ‘Emperador’ Brandy, from Consolidated Distillers of the Far East, Inc. (“**Condis**”) in January 2007. AGI subsequently acquired full ownership of EDI from **The Andresons Group, Inc. (“TAGI”)** and the Tan Family in February 2007. In the second half of 2013, AGI transferred its full ownership in EDI to EMP. This acquisition of EDI by EMP is accounted for similar to a reverse acquisition of a non-operating shell company, wherein the legal subsidiary, which is EDI, is deemed as the acquirer and the legal parent, which is the Company, is deemed as the acquired. Thus, the consolidated financial statements prior to the acquisition date have been prepared as a continuation of the consolidated financial statements of EDI and its subsidiaries (collectively referred to as “**EDI Group**”), except for the capital structure which represent that of the Company.

In April 2009, EDI launched flavored vodka and gin beverages under 'The BaR' brand. 'The BaR' became the first flavored vodka and gin products manufactured by a Philippine company. In the third quarter of 2012, EDI introduced 'The BaR' cocktails line primarily targeted at younger alcoholic beverage consumers and female customers.

EDI began selling the 'Emperador Deluxe' brand in March 2013 which is being manufactured in Spain for export to Philippines under a supply agreement with Gonzalez Byass. A couple of months earlier, the acquisition of Bodega San Bruno from one of the largest and oldest liquor and wine conglomerates in Spain allowed Emperador to own one of the world's best brandy stocks that are rare, high quality and aged for more than 40 years in Spain.

In April 2015, EDI launched the ready-to-drink 'Smirnoff Mule', which is being manufactured and distributed under license from Diageo North America, Inc. A few months later, in October, EDI reintroduced 'Andy Player' whisky. 'Andy Player' is a popular drink in the '80s. During the year, EDI also began selling the Whyte and Mackay products locally.

In March 2016, EDI assumed the distribution of Fundador brandy in the Philippines. It was also in 2016 when EDI launched the new Tres Cepas Light, a product of Bodegas Fundador, into the Philippine market. EDI further introduced its new ready-to-drink products: 'Andy Cola', which is Andy Player Whisky and Cola, and 'Raffa' sparkling wine spirit.

In 2017, EDI launched 'Emperador Hotshot', its first brandy shooter spiced with cinnamon, as well as 'Emperador Red', a brandy with a stronger alcohol content. EDI also started distributing Bodegas Fundador's 'Harveys Bristol Cream' and the newly developed 'Fundador Double Light'.

In 2018, EDI takes on a promotional pair packaging of a mixer, Club Mix Lime Juice, a lime drink cordial, and Emperador Light brandy that go perfectly well together as 'LimeLight' and 'GreenLight'. In mid-September, EDI launched 'the gin for the new generation' 'The BaR Premium Gin', infused with flavors and botanicals from the gardens of Andalusia, Spain in Pink Berries, Green Lime and Premium Dry. These variants, especially the Pink Gin, are targeted towards a growing young and social media focused demographics of the country. This line takes from a successful trend of pink products globally and brings this trend into the Philippine context.

In 2019, EDI launched 'Emperador Double Light', a lower alcohol premium drink made from imported Spanish brandies finely aged in sherry casks. 'Emperador Double Light' advocates both mindful drinking, as well as responsible drinking. Despite having lower alcohol content, the product is positioned for social enjoyment, rather than to boost intake. EDI introduced another pair packaging of a mixer, Club Mix Apple Tea cordial, and Emperador Light or Emperador Double Light or The Bar.

EDI has established distribution footprint to 55 countries as of end-2019 and it plans to open up markets in at least 6 countries for 2020.

EDI also distributes Ernest & Julio Gallo wines and Pik-Nik shoestring-shaped potato snacks.

It operates two manufacturing plants in Laguna. The main plant is being leased from its wholly-owned subsidiary **Tradewind Estates, Inc.** ("TEI" or "**Tradewind**") while the annex plant was acquired from Diageo Philippines in May 2012.

EDI owns two distillery plants located in Balayan and Nasugbu, Batangas, both of which are being leased and operated by its subsidiary **Progreen Agricorp, Inc.** ("**Progreen**").

It has 22 billion shares authorized capital stock, 12.5 billion shares of which were issued and outstanding as of to-date.

### **Emperador International Ltd.**

**Emperador International Ltd.** (“EIL”) is a business company incorporated in the British Virgin Islands on December 13, 2006. It is an investment and holding company which is the parent company of the Group’s offshore subsidiaries. Its group is primarily responsible for the offshore investments and properties in Spain and United Kingdom. At present, EIL is 84% and 16% directly owned by EMP and EDI, respectively. Thus, it is 100% beneficially owned by EMP.

### **Emperador Spain**

**Emperador Asia Pte Ltd.** (“EAsia”), a wholly-owned subsidiary of EIL, was incorporated in Singapore. It wholly owns *GES*, a public liability company in Spain, incorporated on September 28, 2011.

**GES** main activities are the production of wines, fortified wines, brandies and all types of alcoholic drinks, as well as the purchase and operation of any type of land and, in particular, vineyards. In 2013, it acquired **Bodega San Bruno, S.L.** (“BSB”), a wholly-owned subsidiary, whose business activities involved the plantation, growing and operation of vineyards. BSB was incorporated on January 10, 2013.

The Spain group acquired vineyard estates in Toledo, called Daramezas and Bergonza, and in Madrid, called Monte Batres, in 2013-2014. And from hereon, the Spain group started growing.

In 2014, GES invested in **BLC**, a 50%-50% joint venture with Gonzalez Byass. BLC is a company that converts and produces alcohol and spirits. BLC’s main industrial facilities are located at Jerez de la Frontera in Cadiz and Tomelloso in Ciudad Real.

**Bodegas Fundador**, a wholly-owned subsidiary of GES, incorporated on September 28, 2011 under its former name Brandy Emperador Spain, acquired the Spanish brandy and sherry business from Beam Suntory Inc. on February 29, 2016. The purchase includes Spain’s largest and oldest brandy cellars established in 1730 with sizeable brandy inventory aged more than 50 years; four iconic brands including ‘Fundador Brandy de Jerez’; production and bottling facilities, vineyards, distillery and winery facilities. Bodegas Fundador was consolidated starting March 2016.

**Complejo Bodeguero San Patricio, S.L.U.** (“CBSP”), a wholly-owned subsidiary of GES, incorporated on October 11, 2016, acquired the Grupo Garvey brands and associated inventories and casks and real estate properties on January 19, 2017. Bodegas Garvey, founded in 1780 by the Irish aristocrat William Garvey and based in Jerez de la Frontera, is one of the ancient brandy and sherry companies in Spain.

On March 30, 2017, BLC, Pedro Domecq S.A. de C.V. and Bodega Domecq S.A. de C.V. completed the acquisition of the Domecq brand portfolio and related assets, which was signed on December 1, 2016. During the last quarter of 2017, the Domecq brandy portfolio and wine business were integrated into **Domecq BLC**.

**Domecq BLC**, a subsidiary of GES incorporated on December 20, 2017, holds the spun-off Domecq brandy and wine portfolio and related assets and was consolidated starting September 1, 2017. Its wholly-owned subsidiaries in Mexico, **Pedro Domecq SA de CV** and **Bodega Domecq SA de CV** were incorporated on March 15, 2017 while **Gonzales Byass de Mexico SA de CV** was incorporated on October 2, 2001. The first is involved in the manufacturing, bottling and selling of spirits, the second is

involved in business management while the latter is the distribution and sale of foods and beverages, which currently is mainly for the former two subsidiaries.

**Grupo Emperador Gestion, S.L.U.**, a wholly-owned subsidiary of GES, was incorporated on October 11, 2016, with a share capital of €3,000.

**Stillman Spirits, S.L.U.**, a wholly-owned subsidiary of GES, was incorporated on March 20, 2019, with a share capital of €3,000. It will carry the business of GES in UK, following UK's exit from the European Union.

#### *Emperador Europe*

**Emperador Europe SARL ("EES")**, a wholly-owned subsidiary of EIL, is a private limited liability company incorporated in Luxembourg in September 2014. The objective of the company is the holding of participations in any form whatsoever and all other forms of investments.

**Emperador Holdings (GB) Limited ("EHGB" or "EGB")**, the ultimate UK parent undertaking and controlling entity, is a wholly-owned subsidiary of EIL. EGB is a private company incorporated under the laws of England and Wales on June 19, 2014. It operates as an investment and holding company and wholly owns EUK. As of December 31, 2019, its authorized called-up share capital totaled 1 thousand shares at £1 per share, all of which were allotted and fully paid up by EIL.

**Emperador UK Limited ("EUK")**, a subsidiary of EGB, is a private limited company incorporated in Scotland on May 6, 2014. It is the immediate parent of WMG. As of December 31, 2019, it has authorized called up share capital of 1,250 shares at £1 per share, all of which were allotted and fully paid up by EGB and EES.

**Whyte and Mackay Group Limited ("WMG")** is the smallest consolidating group under EGB. WMG was incorporated on August 7, 2001, in Scotland. It wholly owns **Whyte and Mackay Global Limited ("WM Global")** which was incorporated on December 4, 2018 in Scotland. The main trading entity is WM Global's wholly owned subsidiary, **Whyte and Mackay Limited ("WML")**, which was incorporated on January 20, 1927 in Scotland. WML's principal activity is the production, marketing and distribution of distilled potable alcoholic drinks which include Scotch whisky, vodka, liqueurs and other alcoholic drinks.

WM Global also wholly owns **Whyte and Mackay Warehousing Ltd. ("WMW")**, incorporated in Scotland, and **Whyte and Mackay Americas Ltd, LLC ("WMA")**, incorporated in the United States of America. WMW's principal activity is the warehousing and blending of bulk whisky for related and third-party customers while WMA, a direct subsidiary of WML, was formed to handle Whyte and Mackay's business portfolio in US market. There are forty-five dormant companies within WMG Group that have been retained for branding purposes.

Whyte and Mackay is the fifth largest Scotch whisky manufacturer in the world with a history of 175 years and ownership of some of the most iconic Scotch brands in the industry, including British luxury brands 'The Dalmore Single Highland Malt', 'Jura Single Malt', 'Tamnavulin Single Malt', 'Fettercairn Single Malt' and 'Whyte & Mackay Blended Scotch Whisky'. The products are distributed in approximately 102 countries across the world including a strong presence in the global travel retail space. Some of these products are now being distributed in the Philippines by EDI.

#### **Philippine Subsidiaries**

**Anglo Watsons Glass, Inc. ("AWGI")**, a wholly-owned subsidiary of EDI, was incorporated in the Philippines on July 22, 1999. EDI acquired AWGI from its previous owner, AGI, in 2012. AWGI's business is the manufacture of flint glass containers.

AWGI operates a manufacturing plant at the Canlubang Industrial Estate in Canlubang, Laguna, Philippines which runs on a 24-hour shift and has a capacity of 200 metric tons per day. The manufacturing plant is being rented from AGI. It is generally running at full capacity. Due to the high demand of EDI and capacity constraints, AWGI currently services EDI's bottling requirements only.

**The Bar Beverage, Inc.**, a wholly-owned subsidiary of EDI, was incorporated in the Philippines on August 11, 2008 for the purpose of engaging primarily in the manufacturing, processing, importing and/or exporting, buying, selling, acquiring, holding or otherwise dealing in, any and all kinds of alcoholic beverage products, flavorings, essences, beverages, softdrinks, foodstuffs, goods, wares, merchandise and/or commodities of the same or similar kind as well as products, natural or artificial, of the Philippines or elsewhere.

**Tradewind** a wholly-owned subsidiary of EDI, was incorporated in the Philippines on September 22, 2000. EDI acquired TEI from its previous owner, Alliance Global Brands, Inc. (a wholly-owned subsidiary of AGI), in March 2016. TEI owns and leases to EDI a manufacturing complex in Sta. Rosa, Laguna which serves as EDI's main plant. On July 4, 2018, TEI acquired controlling interest in Boozylife Inc., a local e-commerce company engaged in the on-demand delivery of alcoholic and non- alcoholic beverages.

**Alcazar De Bana Holdings Company, Inc. ("Alcazar")**, a wholly-owned subsidiary of EDI, was incorporated in the Philippines on July 20, 2016. It currently wholly owns **Progreen**, a domestic corporation engaged in the production, distillation, distribution and trading of alcohol and alcohol-related products as well as alcoholic beverages, wines, and liquors. Progreen handles the domestic distillery operations and leases from EDI the distillery plants in Batangas. Progreen started its commercial operations in November 2016. It wholly owns **South Point Science Park, Inc.**, a domestic corporation incorporated to engage in management and maintenance of office, commercial, industrial and institutional developments in a science park, which has started its port operations.

## DESCRIPTION OF BUSINESS

Prior to the introduction of Emperador Brandy in 1990, the Philippine spirits industry was dominated by longstanding and well-established gin and rum manufacturers. Through dynamic marketing and by establishing a reputation for product quality, EDI created demand for brandy in the Philippine spirits market following the launch of Emperador Brandy, which has remained as the market leader among the local brandy brands in terms of sales volume since 1990. EDI continues to lead based on the national sales volume of top three domestic spirit manufacturers. Currently, Brandy is the largest spirits segment of the Philippine spirits and 'Emperador' is the leading Philippine brand in the local brandy segment (Source: 2019 Nielsen report).

EDI keeps on innovating its product offerings with creative flavors and packaging, to suit the discriminating taste of drinkers, especially the youthful ones who are generally seeking variety and sensory experiences. In particular, in 2010, the first light brandy, 'Emperador Light', was introduced to capture the taste preferences of Filipino consumers. In 2017, 'Emperador Hotshot', the first brandy shooter spiced with cinnamon, and 'Emperador Red', a stronger brandy, were launched. In 2018, EDI added excitement to Emperador Light drinkers by pairing Emperador Light with Club Mix Lime Cordial, dubbed as 'LimeLight' and 'GreenLight', and in 2019 introduced another pairing with Club Mix Apple Cordial, which it called 'Apple of My Light'. Also in 2019, EDI launched a smooth and fruity "lighter" drink 'Emperador Double Light', the "*Doble Swabe, Doble Sarap*" drink. Its pleasantly sweet, caramel-vanilla notes become soft and mellow with the addition of ice, creating an unforgettable very smooth and suave sipping experience for younger and lighter drinkers. With the increasing number of drinkers who are drinking multiple types of alcoholic beverages, EDI's flavored vodka and tequila products under 'The BaR' brand were born in 2009. The BaR is the first flavored vodka, gin and tequila beverages to be produced by a Philippine company. In 2018, 'The BaR Premium Gin' line came out in three variants infused with flavors and botanicals imported from Spain. The most exciting variant is the Pink Gin because of its very millennial pink color, a trend that is fast gaining popularity globally. EDI produces brandy products that had 99.3% share of the domestic brandy market in terms of sales volume. (Source: 2019 Nielsen Report).

With the introduction of 'Emperador Deluxe' in 2013, EDI is the first to bring an imported liquor brand produced entirely in Spain that focuses on the Philippine market. And with the purchase of Bodegas Fundador in Spain, EDI took over the Philippine distribution of 'Fundador Brandy', the Philippine bestselling imported premium brandy, beginning March 2016 and launched locally 'Tres Cepas Light' in December 2016, 'Tres Cepas VS' and 'Harveys' in 2017, and 'Fundador Double Light' in 2018.

EDI continues premiumization of its product portfolio with the introduction of the higher-priced single-malt and blended Scotch whisky products in the local market. In October 2015, 'Andy Player Black Blended Whisky' was launched, with the aim of cultivating a whisky-drinking culture in the local market. Currently, the Philippine whisky sector is so small and Emperador believes, whisky can bring new business and lead a new category.

EDI has extensive nationwide distribution network that provides it with a distinct competitive advantage. Its distribution network is operated through sales offices and distribution outlets throughout the Philippines. In addition, EDI employs its own sales and distribution force and vehicles fleet. EDI employs a majority of its sales force in-house that enables EDI to work closely with its customers and develop strong relationships with them. It continually seeks ways to expand the reach of its distribution network. EDI has established its distribution footprint to 55 countries by end-2019.

The **Scottish whisky industry** is a homegrown industry that dates back to the 15th Century and has long been considered a cornerstone of the UK economy. Whisky accounts for 21% of total UK food and drink exports, with the majority of bottles shipped to European Union and North America. In 2019, the Scotch whisky exports grew 4.4% in value to a record £4.9 billion and 2.4% in volume to 1.31 billion of 70cl bottles. Scotch whisky is considered the world's number one internationally traded spirit. (Source: Scotch Whisky Association).

The Whyte and Mackay business traces its history to the docks of Glasgow, Scotland in 1844. By the late 19<sup>th</sup> century, Glasgow was famous for its shipbuilding, pioneering its craft all over the world. It was at this time that James Whyte and Charles Mackay began to marry the best whiskies of Scotland with the intention of creating the smoothest and most distinctive blend of Scotch Whisky. In 1960, the Dalmore distillery, which has been producing exceptional single malt whisky since 1839, was acquired; and by 1965 'Whyte & Mackay' became the fifth most popular brand in Scotland. This achievement was followed by a successful redoubling of efforts in the export markets. Whyte and Mackay is considered the fifth largest maker of Scotch whisky in the world and owns some of the most iconic Scotch brands in the industry. The products are sold in at least 102 countries mainly in Europe and North America, with strong presence in the global travel retail space.

Whyte and Mackay is headquartered in Glasgow and has significant malt and grain production capability from its four malt distilleries and one large grain distillery. It also has a leased bottling facility with a capacity of 6.5 million cases per annum. In 2019, Whyte and Mackay were again awarded with the International Wine and Spirits Competition ("IWSC") Scotch Producer of the Year; it also received the same award in 2017 highlighting the extremely high-quality liquids the business produces.

Its luxurious brand, which is regarded at the very apex of the Scotch Whisky category, was again the major growth driver as the brand continued to excel at the apex of the single malt category. 2019 saw more rare releases entering the market to allow consumers expanded opportunities to experience this brand and its exceptional liquids, together with the continued success of the core range. A new Brand Home was also opened at the distillery, a further material investment to support the brand. The continued demand for these new releases demonstrates how highly this luxury brand is regarded.

The second largest profit-contributor brand has shown some real consumer momentum across UK and Europe in particular. The new Jura Journey entry level malt together with aged 10 and 12 year-olds have consistently shown they can compete strongly in the very competitive mainstream category which bodes well for future success across further regions. The very special nature of this island single malt is widely loved.

The third Single Malt brand, Tamnavulin, has had an exceptional year and continues to go from strength to strength. This excellent sherry finished Speyside Malt has gained share across all the regions of the world where it has been launched and enjoyed particular success in UK and Europe with new products and listings. The Global Travel Retail range has also experienced significant success which will further support the long term growth of the brand.

2019 was the first full year after launch for our fourth single malt brand – 'Fettercairn'. The new packaging combined with the exceptionally refined whisky has enjoyed widespread acclaim and both

the rare range (28 year old, a 40 year old and 50 year old) and the core 12 year old have enjoyed strong initial sales where listed. This brand has huge global potential under its iconic unicorn symbol.

Within Blends, 'Whyte and Mackay' enjoyed an exceptional year in the UK with a new bottle design and the launch of 'Whyte and Mackay Light' bringing real energy and momentum to the brand. 'John Barr' had a number of international successes with a targeted consumer campaign in the East Coast of the US and a step change distribution drive in France showing that this brand can compete effectively in a competitive market.

**Jerez** is known as the world capital of sherry wine. It has been a center of viniculture since winemaking was introduced to Spain by the Phoenicians in 1100 BC. The Moors conquered the region in 711 and introduced distillation which led to the development of brandy and fortified wine. Sherry became very popular in Great Britain. **Brandy de Jerez** is a brandy that is produced only in Jerez area of Andalusia, Spain. The name brandy is derived from the Dutch word "brandewijn" which means burnt wine while the term "holanda" is derived from Holland where most of exports went. Brandy de Jerez is produced by distilling wine, and generally contains 35-60% alcohol per volume. The creation of brand names for Brandy de Jerez occurred during the nineteenth century on the initiative of Sherry firms who were pioneers in the sale of brands which exist today, not only in Spain but in other countries worldwide.

Founded in the year 1730, Bodegas Fundador is the oldest brandy and sherry company in Spain. Bodegas Fundador started with wine cellars that produced sherry wine for both the Spanish and English Royalties. In 1778, it expanded its vineyards by acquiring the historic Machurnado Castle of the Machurnado District in Jerez, home of 'El Majuelo' – a 268-hectare vineyard where the best quality of vines can be found. 'El Majuelo' has a special micro-climate that is the heart and the footstone for 'Fundador Brandy'. 'Fundador Brandy' was born in 1874 when Pedro Domecq aged exceptional quality holandas through the traditional criadera and solera system in sherry-soaked American oak barrels discovering a golden liquid with an incredible aroma. 'Fundador' was the first ever "Brandy de Jerez" and has grown, over the centuries, to be Spain's most recognized and largest export brandy. The versatility and size of Bodegas Fundador encompass a large and varied spectrum of well-known products aside from 'Fundador Brandy'. Bodegas Fundador also produces other brandies such as 'Terry Centenario', Spain's top-selling brandy, and 'Tres Cepas', Guinea's best-selling brandy, as well as 'Harveys', the number 1 sherry in the world.

Taking age-old traditions to contemporary markets worldwide, Bodegas Fundador through its vineyards and cellars in Jerez, Spain and its distillery in Tomelloso, Spain, produce around 2 million nine-liter cases yearly for different markets around the world. In 2005, they were recognized as the best winery of the year, and in 2017 and 2019, the best fortified wine producer of the year, both by the IWSC. The year 2019 has been another highlight year for Bodegas Fundador as it continues to reap awards. Fundador Supremo 18YO was recognized as the "Best Brandy in the World", while Harveys Oloroso VORS garnered the Best Sherry accolade, from IWSC for 2019.

Bodegas Fundador continues to expand its foothold around the world, as it partners with distributors in key markets such as Italy and Canada. In Spain, 'Terry Centenario' maintain its clear leadership, performing better in the category. 'Terry White Brandy' continues to expand and increased actively in distribution and gaining visibility in the Spanish market, while 'Fundador Supremo' is performing well in Travel Retail. Bodegas Fundador partnered with Casa Pedro Domecq in Mexico, resulting in the successful launch of 'Terry White Brandy'.

To improve and strengthen its worldwide presence and positioning on the wines and spirits' markets, GES, in 2014, entered into a business collaboration scheme with Gonzalez Byass with the acquisition by GES of a 50% stake in BLC, with the remaining 50% in the hands of Gonzalez Byass and later that year with the incorporation of two fully owned subsidiaries of BLC, Alcomasa, focused on the manufacturing of spirits through a distillery in Tomelloso (Ciudad Real) and a bottling center in Jerez de la Frontera, and Viñedos, devoted to the planting and farming of several vineyards in Toledo.

In 2017, once again a business collaboration with Gonzales Byass took place with the formation of a new company joint venture equally owned by GES and Gonzalez Byass, Domecq BLC, who manages the business related to the Pedro Domecq brand portfolio, and three Mexican subsidiaries called Pedro

Domecq S.A. de C.V., Bodega Domecq S.A. de C.V. and Domecq Distribucion de Bebidas SA de CV (known as Gonzalez Byass de Mexico at that time).

At present, this is the broad range of products that the Emperor group offers:

Luxury		PHP 3,500-13,000 USD 69.1 – 256.9
Super Premium		PHP 1,250 – 1,900 USD 24.7 – 37.5
Premium		PHP 300 – 1,250 USD 5.93 – 24.7
Standard		PHP 142 - 300 USD 2.81 – 5.93
Millennials / RTD		PHP 27 – 120 USD 0.53 – 2.37
Mainstream		PHP 84 - 100 USD 1.66 - 1.98



## PRODUCTS / New Products

'Emperador Brandy', the first brandy label, was launched in 1990 in the Philippines and is currently the leading local brandy in the country. In 2010, 'Emperador Light' was introduced in response to a growing market for alcoholic beverages with lower alcohol content and targeted at younger alcoholic beverage consumers. In March 2013, EDI introduced 'Emperador Deluxe Spanish Edition', a premium brandy imported from Spain that is created specifically to appeal to the Philippine palate. The sin tax regime on liquor, which started on January 1, 2013, leveled the playing field for imported liquors and provided a prime opportunity to introduce 'Emperador Deluxe' to the Philippine market. In July 2017, a game-changing 'Emperador Hotshot®', a brandy shooter spiced up in a fiery delicious cinnamon flavor delivering a smooth, sweet & spicy kick to start every party hot, was launched targeting the young and daring drinkers. Another innovative product was launched in October 2017, 'Emperador Red®' which has the rich robust taste and smoothness of 'Emperador Light Brandy', but with a stronger alcohol kick at an affordable price. Our cellar masters aged this rich and extra smooth spirit to attain full body and aroma with golden dark color. This makes up a perfect drink to reward yourself on your everyday *tagumpay*! In June 2019, a lighter variant was introduced, the 'Emperador Double Light' for that *dobleng saya, dobleng tagumpay* feeling. This lower alcohol, lower calories smooth fruity drink targets the younger generation of drinkers who are growing more mindful about health and wellness trends.

At the 2016 International Review of Spirits, organized by Beverage Testing Institute in Chicago, **Emperador Solera Brandy** won the silver award (highly-recommended), with added special recognition as "Best Buy", by garnering 89 points while 'Emperador Light' received the bronze award (recommended) with 83 points. The "Best Buy" recognition is an added excellence award given only to the spirits or wines that provide uncommon value. Emperador is the only Filipino brandy to be included as one of the best brandies in the world with Solera and Emperador Light.

The premium and imported lines, 'Emperador Deluxe Special Reserve' and 'Emperador Grand Supreme' are retail store exclusives.



'**Andy Player Whisky**', a popular drink in the '80s, was revived in October 2015. The new whisky blend has a unique character, rich aroma and complex taste which include orange marmalade and maple syrup. In October 2016, '**Andy Player Whisky and Cola**' or Andy Cola was launched in the Philippine market. It is a premium blend of refreshing cola and the smooth blend of Andy Player Whisky. It is a ready-to-drink alcoholic product that uniquely preserves the taste of cola with the right mix of whisky.

'**The BaR**', a flavored vodka and gin beverage was launched in 2009. 'The BaR' is marketed as a ready-to-serve flavored alcoholic beverage with low alcohol content. The gin comes in lemon-and-lime flavor while the vodka comes in orange, apple and strawberry flavors. In 2012, 'The BaR Cocktails Margarita' line was launched. The Company targets the sales of 'The Bar' products to a younger demographic, specifically, the 18 to 35 year old age bracket.

Another gin line was launched in 2018, '**The BaR Premium Gin**', infused with botanicals from Spain that gives it a delicious burst of flavor not found in local gin products. This world-class premium gin line comes in three variants: **Pink** with flavors of mixed berries, **Green** infused with lime flavors, and **Premium Dry** infused with imported botanicals. The Bar Premium Gin is not only far better but also different. It is dubbed as 'the gin for the new generation'.

'**Smirnoff Mule**', a ready-to-drink blend of Smirnoff Vodka, ginger beer, and lime, was launched on April 28, 2015. It is a classic iconic drink that delivers a smooth, full flavored refreshment with a unique ginger taste. It is known as 'Mule' because of its mix of premium vodka, ginger beer and lime, creating a ginger kick effect. The "Stubbornly Refreshing" drink is being manufactured and distributed in the Philippines, under license from Diageo North America, Inc.

'**Raffa Sparkling**' is a delightful drink that has the elegance of sparkling wine with a fruity and refreshing finish. It only has 4% ABV making it a drink to be enjoyed by everyone. It is meant for leisurely lunches, extended dinners and long get-togethers. Raffa is made from the finest white grapes grown in Bodega San Bruno's very own vineyard along the scenic Tajo River near Toledo. The product was launched in to the Philippine market in December 2016.

'**Zabana Single Barrel Reserve Philippine Rum**' is an EDI store exclusive. Since its release, this product was able to garner several awards: Gold Award for the 2016 Cathay Pacific Hong Kong International Wine & Spirit Competition, Gold Award in the 2017 Monde Selection, and Silver recognition in the International Spirits Challenge 2017.

EDI also imports and distributes the Group's products from the distilleries in Spain and Scotland. In 2015, EDI introduced its Scotch Whisky variants in the local market. It also began distributing 'Fundador Brandy', the Philippine best-selling imported premium brandy, in March 2016 and launched locally 'Tres Cepas Light' in December 2016. EDI also started distributing 'Harveys Bristol Cream' and the newly developed '**Fundador Double Light**' in 2017.

EDI also distributes '**Pik-Nik**' brand shoestring potato snacks and **Ernest and Julio Gallo wines**. The 'Pik-Nik' brand is owned by AGI Group.

**Scotch whisky** is Scotland's leading indigenous product and is now established as the leading international spirit drink, making it one of Britain's most important exports. It is a distilled spirit made (distilled and matured) in Scotland using *only* cereals, water and yeast. Most whiskies mature far longer than the legal minimum of three years, and the maturation period varies for different whiskies. The age statement on a bottle reflects the amount of time the youngest whisky in that bottle has spent maturing in a cask.

WMG offers Single Malt and Blended Scotch whiskies, liquers and vodkas, under the following key brands:

'**The Dalmore Single Malt Scotch Whisky**' sits at the apex of the category in which it competes. It is positioned as a luxury brand. The Dalmore's powerful stag emblem is built on a heritage that is rooted in the saving of King Alexander III of Scotland from being gored by a raging stag with a single arrow in 1263 by an ancestor of Mackenzie clan. The grateful king granted him the right to bear a stag's head in

his coat of arms and so every bottle of The Dalmore is adorned with this noble emblem: a stag's head with twelve points to its antlers, signifying 'royalty'. The Mackenzie family ran the Dalmore distillery from the mid 1800's until Whyte and Mackay took over. It is considered the most revered single malt whisky in the world. 'The Dalmore Principal Collection' consists of six expressions positioned as Accessible (The 12, Port Wood Reserve, The 15, Cigar Malt Reserve, The 18, King Alexander III) and Aspirational (The 25). Positioned at the apex is 'The Dalmore Constellation Collection' which is a rare ensemble of unique vintage single malts from the Highland distillery. 'The Dalmore' is renowned for rare editions that have sold for industry redefining prices, including the most expensive bottle ever sold in a retail store. The rare and aged collection includes The Dalmore 20 Year Old, The Dalmore 21 Year Old, The Dalmore 30 Year Old, The Dalmore 35 Year Old, The Dalmore 40 Year Old, The Dalmore 45 Year Old, and The Dalmore 50 Year Old.

**'The Dalmore Quintessence'** is the first and only single malt whisky in the world with five red wine cask finish. Master Distiller Richard Paterson travelled to California to hand select the five different casks in which this exceptional whisky would be matured; Zinfandel, Pinot Noir, Syrah, Merlot and Cabernet Sauvignon, each bringing their individual nuances to create a totally unique single malt.

**'The Dalmore Port Wood Reserve'** is released in 2018 as an addition to the Core Range.

**'Jura Single Malt Scotch Whisky'** is a premium Scotch whisky that is considered an accessible single malt whisky. It is produced at the only distillery on the Isle of Jura, a very remote island off the west coast of Scotland. This brand is built upon a captivating island environment and its "A long way from ordinary" banner encapsulates the very special nature of this island single malt.

**'Jura 12 Years'** is an Asian exclusive. A modern classic aged 12 years. Reassuringly rich with smoky sherry sweetness. Matured in American white oak ex-bourbon barrels for 12 years and finished in Oloroso Sherry casks from Jerez, Spain. This 12-year old has refined succulent tropical aromas of chocolate, walnut, and citrus fruit. The exquisite taste is a medley of coffee, liquorice, salted bananas and brown sugar with a whisper of smoke in the finish.

**'Tamnavulin Single Malt Scotch whisky'** was launched in 2016, initially in the UK. The Tamnavulin Distillery was built in 1966 and was acquired by WMG in 1993. 'Tamnavulin' is the epitome of a Speyside malt; rich, smooth, elegant and refreshing. Tamnavulin is the Gaelic translation for 'Mill on the Hill,' named in part after the 16th century woollen mill which sits on the site of the distillery. This Speyside is double cask. Matured in American Oak Barrels and finished in Amoroso Oloroso Sherry casks for a rich, full-bodied, sweet and mellow taste. EDI started distributing this product in the Philippines in 2018.

Tamnavulin Single Malt Scotch Whisky Vintage Collection rare range with expressions from the years 2000, 1979, 1973 and 1970, together with a new Tempranillo finish was launched in 2018 for Global Travel Retail

**'Fettercairn'** comes from Fettercairn distillery which was founded in 1824 and acquired by WMG in 1973. The arch and the unicorn are two symbols that are heavily associated with the long history of the Fettercairn Distillery. In 2018 new packaging and range were launched with a core 12 year old supported by rare releases of 28, 40 and 50 year olds. This distillery has huge potential and over the coming years the range and distribution will be expanded.

**'Fettercairn Single Malt'** was relaunched in 2018 with a new packaging with the lead expression 12year old supported by a 28year old, a 40year old, and a 50year old, all four showcasing the iconic unicorn symbol.

**'Whyte and Mackay Blended Scotch Whisky'** is produced using a unique triple maturation process that ensures a smoother, richer taste. In 2019, a new innovative product, **'Whyte and Mackay Light'**, was launched in the UK to allow consumers to enjoy a great whisky taste whilst consuming lower units of alcohol. At 21.5% ABV, this product is a first in the UK and it received widespread acclaim for quality and for the important messaging it represents. This new lighter spirit drink has been enriched by sweet Sherry casks and freshly emptied Bourbon barrels and tastes great – smooth with a subtle hint of smoke and perfectly enjoyed straight over ice, or with your favorite mixer.

'**Shackleton**' is the newest Blended Malt brand launched in 2017. It was inspired by a 1907 whisky which was extracted after 100 years under ice. A conservation team carefully extracted crates of whisky left behind by renowned polar explorer Sir Ernest Shackleton. Whyte and Mackay master blender Richard Paterson carefully selected 20 of the finest highland malts to recreate the antique whisky supplied to the British Antarctic Expedition. It has hints of vanilla, ginger and licorice on the nose, with a taste of demirara sugar, manuka honey and dried pineapples, and a whisper of bonfire smoke in the finish.

**John Barr, Cluny** and **Claymore** are all blended Scotch whiskies, a combination of malt whiskies and grain whiskies from a number of different distilleries.

'**Glavya**', a liqueur made from a blend of aged Scotch whiskies, a selected range of spices, Mediterranean tangerines, cinnamon, almonds and honey. It has a deep golden colour and a distinctive flavor.

'**Vladivar Vodka**' is a brand of vodka distilled in the UK. It is a Pure Grain, triple distilled, charcoal filtered vodka. Originally made in Warrington by the G & J Greenall distillery, the brand was sold in 1990 to Whyte and Mackay and is today bottled in Scotland.

From **Bodegas Fundador**, the following iconic brands manufactured and distributed from Spain are under EMP Group beginning March 1, 2016:

'**Fundador**' is a Brandy de Jerez, the brandy capital of Spain. Fundador means the founder, as it was the first Spanish brandy to be marketed, this happened in 1874 by Pedro Domecq Loustau. It is sold in over 70 countries worldwide, and the no. 1 imported premium brandy in the Philippines. The brand has an excellent range ending with the high premium brand '**Fundador Exclusivo**'.

'**Fundador Light**' is currently the best-selling 'Fundador' in the Philippines, having a balanced and clean aroma with a fragrance of wood seasoned sherry and a smooth light taste of brandy from our cellars in Jerez.

'**Fundador Double Light**' is an exceptional spirit from sherry casks in our cellars in Jerez, Spain. It guarantees double smoothness and double satisfaction in every bottle. It is the ultimate expression of Fundador Light with a different concept. It has more ageing profile and character that is an effect of the double casks.

'**Fundador Double Wood**' is a Brandy de Jerez Solera Reserve, inspired in the brandies originally crafted in the 19th century, where the prolonged aging makes the holandas acquire the most important and unique characteristics of wood.

'**Fundador Triple Wood**' is a Brandy de Jerez Solera Gran Reserve obtained through a very long ageing process that triples the standards of brandy production. A unique expression that reveals the depth of the elements contributed by the wood to a powerful bouquet from the long periods of aging.

'**Terry Centenario**' is the largest brandy in Spain. Centenario means centenary, and it evokes the change to the twentieth century when the Terry family started producing brandies in its bodegas in Puerto de Santa María. It is a premium and distinguished brand with the iconic net and the unique logo of the Terry Horse.

'**Terry White**', a new expression, a new category, a new Classic "White Brandy" was born in 2017 to renew the brandy category in Spain by shaking the market through a modern concept of a white spirit. Through mixology platform, this disruptive concept was launched to a fashionable position for a spirit drink for a future halo of Brandy de Jerez.

'**Tres Cepas**' is a market leader in Equatorial Guinea. In the beginning, Domecq had three brands, Una Cepa (One vine), Dos Cepas (Two vines) and Tres Cepas (Three vines), that were in increasing order

of quality and age. It is a premium brand result of a special selection of wines distilled aged in sherry oak casks by the traditional Criadera and Solera system. In 1902, the brand Tres Cepas was launched in the market and started to be a successful brand. The year 2016 saw the renaissance of the brand in the Philippines, and a special expression of **'Tres Cepas Light'**, with a different concept and bottle, was launched in December at a very affordable introductory price. Tres Cepas Spirit is a delicate selection of wines distilled carefully aged in Bodegas Fundador's wineries in Jerez, smooth with mineral notes and beautiful amber tone. In 2017, **'Tres Cepas VS'** was launched. It is an ultimate expression, as the master blended carefully tasted the oldest soleras and selected barrels with special characters and notes to make a unique blend for this Very Special Tres Cepas.

**'Harveys'** is the number 1 selling Sherry Wine in the world and the leader in the UK. It is a recipient of twenty-four quality awards in 2015. It holds Royal warrant in UK which distinguishes it as the only sherry wine that can be served to the Queen in Buckingham Palace. It is also the unique Spanish Company that supplies to the Royal Household. This brand was registered in Bristol by the Harvey family in 1886 and was the first cream Sherry to be marketed. **'Harveys Bristol Cream'** is a unique blend of sherries combining the character and body of aged olorosos with the aroma and finesse of finos and amontillados.

**Harveys Bristol Cream®** is a proprietary blend of three sherry types: Fino, Amontillado and Oloroso, all created from the Palomino grape. It is clean and fresh, with spicy overtones. Crisp and elegant with fruity grape flavors, it is loaded with woody and nutty flavors, but remains mellow with velvety smoothness. "Everyday's A Holiday" with Harveys Bristol Cream®, taken alone or with fruit or used as ingredient to desserts and baking.

**'Harveys Very Old Amontillado 30-Year Old V.O.R.S.'** was awarded the "The Best Wine in the World" by the International Wine Challenge (IWC), by bagging the Champion of Champions' Trophy 2016, while **'Harveys V.O.R.S. Palo Cortado'** was awarded in 2015 by the IWC as the "Best Sherry". Also in 2016, the IWSC awarded gold medals to **'Harveys Pedro Ximenez 30 Year Old V.O.R.S.'** and **'Harveys Rich Old Oloroso Sherry 30 Year Old V.O.R.S.'**

Harveys launched in 2013 an ultimate expression Signature by Harveys which is a 12-Year Old Cream Sherry, this product was awarded the silver medal by the IWSC in 2016.

From the ***Domecq brands of brandies and wines*** come these Mexican brandies: 'Presidente', the first Mexican brandy, 'Don Pedro', which has been more than 50 years in the market, and 'Azteca De Oro', which has been more than 36 years in the market. These brands are also distributed in USA. In Brazil, 'Domecq Brandy' is a strong brand which covers all market in Brazil.

Vendors may sell the products at higher or lower prices than EDI's suggested retail prices, depending on outlet margin requirements and their operating costs. The Government does not regulate the price of alcoholic beverages in the Philippines. However, manufacturers of alcoholic beverages in the Philippines are required to pay an excise tax on alcohol production based on the percentage of alcohol contained in the beverage and net retail price.

## **MARKETING, SALES AND DISTRIBUTION**

EDI products are marketed, sold and distributed in the Philippines through its extensive nationwide distribution network that provides it with a distinct competitive advantage. Marketing has also expanded outside the traditional platforms to reach into the digital space platform. EDI local products are now available in 55 countries outside the Philippines.

Bodegas Fundador operates as a global brandy and sherry company, with more than 80% of the revenues coming from Spain, Philippines and Mexico, and the rest coming from other European, American and African markets. The global brandy and wine business is further fortified by the Domecq trademarks that fall under Spain and Mexico and have commercial reach to South America, particularly Brazil and Colombia, and USA. Strategic growth will be brands-led but will be supported by private label business.

Whyte and Mackay's overriding objective is to operate as a global branded drinks company which delivers sustainable rates of growth and returns that increase overall shareholder value. The Group operates in the UK and increasingly in international markets including the Travel Retail sector. International accounts for more than 70% of revenues. More than 40% of brand revenues come from UK and other European countries and around 28% from Asia, Pacific and Africa, with the balance coming from Travel Retail, Middle East and Americas. Whyte and Mackay continues to invest across the business for future growth. It maintains a strong level of Strategic Marketing support across its expanding brand portfolio and increased its commercial resources in key disciplines and geographies. Moreover, Whyte and Mackay invested in the assets of the business to improve efficiency and flexibility and has continued to invest in barrels, ensuring its spirit quality remains at the highest levels

The Company attributes its leading position to: (i) strong brand equity gained through brand building; (ii) targeted marketing; and (iii) local distribution network and, now a global reach.

### **Brand Equity**

The Company believes that branding is a critical factor in a consumer's choice of beverage. Active brand promotion and advertising are essential tools to build image and market share, and establish consumer brand loyalty. EDI continually increases its market share by promoting its brands as distinct and unique with the objective to convey its unique and enduring message to promote its image and products. Marketing strategies focus on emphasizing Emperador Brandy's premium value image to consumers as well as the taglines: "*Sa Totoong Tagumpay*" ("*To true success*"), "*Gawin Mong Light*" ("*Make It Light*"), "*Tagumpay Araw-araw*" ("*Reward Every Day*") and "*Doble Swabe, Doble Sarap*" ("*Double the Smoothness*" and *Double the Character*"). EDI markets its brandies as a drink for the celebration of life successes though values of diligence, perseverance and responsibility. Its labeling includes a lion and a bullfighter wherein the lion symbolizes power and success while the bullfighter symbolizes grace and superiority. Emperador Deluxe carries the imagery of luxury and class. It is marketed as an affordable luxury for everyday consumption.

In 2018, Emperador Light celebrated its success with the 'Galing ng Pilipino' thematic campaign that paid tribute to the enduring spirit of every Filipino and the qualities that make the Filipino truly a cut above the rest : Magaling. Ibang Klase ang Talino . May sipag na angkat sa iba. The campaign was anchored on an original song entitled "Ating Tagumpay," and endorsed by one of the country's biggest celebrities, Coco Martin. The song encouraged Filipinos to celebrate everyday milestones and to continue doing great things, the lyrics of which were even posted and has taken over EDSA Billboards during its launch. The campaign ran up to mid-2019.

The versatility and size of Bodegas Fundador encompasses a large and varied spectrum of well-known products, allowing it to take age old tradition to contemporary markets. 'Fundador', which means "Founder", is the first and original Spanish brandy. It is aged through the Criadera and Solera System in American Oak casks, previously seasoned with sherry and distilled alcohol. Legend tells that Pedro Domecq Lustau received an order of 500 barrels containing "Holanda". At the moment of the payment, the order was not attended and the "Hollandas" were stored back in barrels that had previously contained sherry. After more than five years, it was discovered that the liquid's color had changed into a golden amber one and that it had gained in aroma due to the time spent in the barrels that had previously contained sherry. Out of this chance, and after improving the distillation and aging processes, the first Spanish brandy 'FUNDADOR' was born in 1874.

'Terry Centenario' is most important Spanish brandy, a symbolic legacy of its heritage. Terry Bodegas and Brandies currently enjoy great prestige and recognition at both an international and national level. With their yellow mesh and Carthusian horses emblem, 'Terry Centenario' and 'Terry 1900' are unmistakable symbols of the most traditional Brandy producers in the Jerez triangle. Centenario means centenary, and it evokes the change to the twentieth century when the Terry family started producing brandies in its bodegas in Puerto de Santa María. It is a premium and distinguished brand with the iconic net and the unique logo of the Terry Horse. A new expression and a new Classic White Brandy is created in 'Terry White', to renew the brandy category in Spain by shaking the market though a modern concept of a white spirit. Through mixology platform, 'Terry White' is launched in this disruptive concept to a fashionable position for a spirit drink for a future halo of Brandy de Jerez.

'Tres Cepas' is a particular brandy that was known as "One Vine" ("una cepa"), "Two Vines" ("dos cepas") and "Three Vines" ("tres cepas") that were increasing in quality, character and age. It is a premium brand result of a special selection of wines distilled aged in sherry oak casks by the traditional Criadera and Solera system.

'Harveys' is one of the largest wineries in Jerez and 'Harveys Bristol Cream' is its most famous brand worldwide. 'Harveys' was founded in 1796 in Bristol (England) by the merchant William Perry, who stored wines mainly imported from Spain and Portugal in some ancient cellars dating from the 13th century. In 1822 John Harvey joined the company as an apprentice and took control; to give it its current name; in 1871. Harveys Bristol Cream is the result of a meticulous selection comprised of 30 wines aged in American oak casks using the traditional system of soleras and criaderas.

It is the most sold brand of Jerez wine in the world, available in more than 70 countries and a market leader in the United Kingdom, USA and Canada. It is also the unique Spanish company supplying to Her Majesty The Queen Elizabeth II of England since 1895.

Very Old Rare Sherry (VORS) are the pinnacle of the sherry range; the most luxurious expressions, certified by Jerez's Regulating Council to be over 30 years old, a distinction only given to Amontillado, Palo Cortado, and Pedro Ximénez.

The key brands in Whyte and Mackay are well defined. The Dalmore Single Malt Scotch Whisky is a brand of supreme quality that is positioned at the apex of the category in which it competes. Truly a luxury brand, The Dalmore's stag iconography is built on a heritage that is rooted in the saving of King Alexander III of Scotland from a raging stag in 1263 by an ancestor of the Mackenzie clan. The grateful king granted him the right to bear a stag's head in his coat of arms and so every bottle of The Dalmore is adorned with this noble emblem: a stag's head with twelve points to its antlers, signifying 'royalty'.

Jura Single Malt Scotch Whisky hails from a remote island of just over 200 people, 6,000 red deer, one road and a distillery. This brand is built upon a captivating island environment that has two distinct sides, the wild, rugged west and the temperate east. Its '*A long way from ordinary*' banner encapsulates the very nature of this island single malt.

'Tamnavulin Single Malt Scotch whisky' is the epitome of a Speyside malt; rich, smooth, elegant and refreshing with a sherry finish. Tamnavulin is the Gaelic translation for 'Mill on the Hill,' named in part after the 16th century woollen mill which sits on the site of the distillery.

Fettercairn' is a highland malt with the main brand symbol being the unicorn. This brand was re-launched in 2018 with new packaging and a new range of ages.

The 'Whyte & Mackay Blended Scotch whisky' brand has had new packaging introduced and launched a new communication campaign to reinforce its unique Triple Maturation process that delivers a smoother, richer taste which have both been well received.

### **Targeted Marketing**

To maximize market penetration, EDI supports both traditional advertising and marketing as well as proprietary market research tools. It uses multiple consumer research agencies and methodologies to assess consumer insight, trend, behavior and preferences, and markets its products accordingly. The brands are also marketed through an integrated 360-degree marketing campaign including the traditional above-the-line media, such as television and radio commercials, print and digital advertisements, including social media initiatives for Facebook and Twitter, below-the-line promotions and sponsorships. In addition, management supports creativity and innovation in product marketing by encouraging managers to take ownership of strategic geographic areas. Its creative consumer research has qualitative and quantitative aspects and includes face-to-face interviews and information gathering exercises with consumers at local neighborhood events and gatherings.

The Scotch single malts are marketed internationally designed to reinforce the brands' core positioning, talking to a well-defined consumer target in each market.

The flagship brands of Bodegas Fundador: Fundador, Tres Cepas and Terry brandies are marketed internationally using a combination of digital communication and activation, as well as more traditional ways of retail activations and marketing on site. Communication is driven to focus on the key positioning of the brands and the well-defined target consumers. On the other hand, Harveys is marketed internationally adapting the range of products to the characteristics of each national market, using a combination of digital and traditional marketing approaches, focusing on the different core positioning of each range, that have specific target consumers.

### ***Sales and Distribution Network***

The Company has an extensive sales and distribution network which is one of its key strengths that will continue to drive its future growth. EDI has a nationwide distribution network operated through sales offices and distribution outlets strategically located in the country, which supply national and regional customers, hypermarkets, supermarkets, wholesalers, traders, grocery outlets, convenient stores, and local neighborhood small sari-sari, stores. It continually seeks ways to expand the reach of its distribution network, especially in the fast-growing regions of Mindanao and the Visayas. It employs its own sales and distribution force and vehicles fleet for direct delivery service. It uses direct sales vehicles such as cash vans to cover sari-sari stores across the country. Cash vans sell the brands directly to these small retailers on a cash-only basis, where the average transaction is for two cases. Other accounts get credit terms which vary from 15 to 30 days. Riding on the EDI network, the distribution base of Fundador and Tres Cepas are significantly broadened in the Philippines.

The Company believes that the day-to-day interaction its sales team has with its trade partners is essential to maintaining product availability as well as access to its consumers.

The Company has a standard volume-based pricing model that is applied evenly across all customer segments and discounts are offered on large volume transactions.

The Emperador local brands have established international distribution to 55 countries by end-2019.

The WMG business has a strong, international Route to Market. In UK, a dedicated sales team covers all trade channels and customers. It also has a dedicated Global Travel Retail team which manages its brands in a channel that is critical for single malt whisky equity building and sales. In other markets Whyte and Mackay has established a network of distribution partners that represent the brands in each territory. The goal is to develop long term partnerships with a strong local distributor in every market, with selection based on strength and commitment in the channels offering the greatest opportunity in each market. In 2016, Whyte and Mackay appointed E&J Gallo as their exclusive importer into the USA for certain key brands.

The Dalmore opened its first flagship store in the Philippines in Uptown Bonifacio, an exclusive retail store that houses some of the rarest and most expensive whisky collection in the Philippines. The Keeper's Den, a by-invite only lounge within the store, is also open to its VVIPs to enjoy their Dalmore bottles along with their guests. As of end 2019, there are fifteen (15) retail stores in the Philippines.

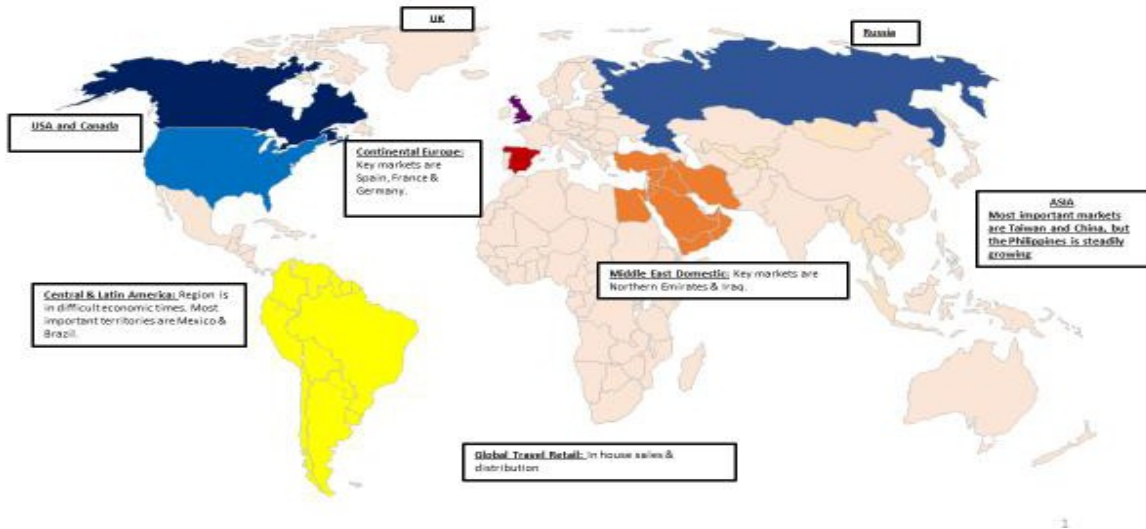
The Dalmore also extended its flagship store and opened the Cigar Lounge. The Dalmore Cigar Lounge curates the Dalmore classics: the King Alexander III (the only single malt in the world with six different finishes — spirits matured in ex-bourbon casks, Matusalem oloroso sherry butts, Madeira barrels, Marsala casks, Port pipes and Cabernet Sauvignon wine barriques); the Quintessence (with five wine finishes: Zinfandel, Merlot, Cabernet Sauvignon, Syrah and Pinot Noir); and The Dalmore

25. One can pair The Dalmore Cigar Malt Reserve with Cuban cigars (Cohiba Robusto, Cohiba Esplendidos, Hoyo de Monterrey Epicure No. 1, Montecristo No. 2, Partagas Serie E No. 2, and Romeo Y Julieta Short Churchill) which are also available at the lounge.

Bodegas Fundador partners with the best player in the distribution market, having long term agreements with country and region wine and spirit distributors in place. In 2016, EDI took over the distribution of Fundador in the Philippines, while Whyte and Mackay took over the distribution in UK and Canada. This combination assures a deep sell out market presence around the world. In particular, Bodegas Fundador products are now present in Columbia, Ecuador, Paraguay, Latvia, Ghana, Gabon, Macau and Taiwan.

In 2018, the first Fundador Café was created in the Philippines which is located at Venice Grand Canal at McKinley Hill. It offers hot and cold drinks and blended ones infused with Fundador products and sweets with Harvey Bristol Cream variances.

The map below shows WMG global reach:



The areas in red below shows the markets where Bodegas Fundador is present:



## COMPETITION



The Company competes primarily against established Philippine spirits companies that produce and distribute brandy and other spirits to the domestic market.

The main competitors in the Philippine brandy market mainly comprise of 'Primera Brandy' manufactured by Ginebra San Miguel, Inc. (GSMI) and 'Alfonso Brandy' imported/distributed by Montosco Inc. With respect to flavored vodka, gin and other alcohol products, it primarily competes with other local vodka and gin companies that also produce ready-to-serve alcoholic beverages as well as imported labels. The whisky segment in the Philippines is not well tapped at present, and the Company aims to revive this segment.

The principal competitive factors with respect to the Company's products include brand equity, product range and quality, price, ability to source raw materials, distribution capabilities and responsiveness to consumer preferences, with varying emphasis on these factors depending on the market and the product. The Company believes it has a track record of proven strength on these areas.

The Company believes that its products are strongly positioned within their respective markets, as measured by market share and brand recognition. 'Emperador Brandy' accounted for 99.3% share of the domestic brandy market in terms of sales volume, according to 2019 Nielsen Report. The Company believes its 'Emperador' brand is a status brand in the Philippines, and is associated with a certain level of success and sophistication that its potential customers aspire to. The Company believes that its range of well-established and highly recognized brands present significant barriers to new competitors, and are particularly important to its ability to both attract and maintain consumers.

Fundador brands face stiff competition in the Spanish market and internationally in the brandy and sherry businesses, among which are Osborne and Torres. The management monitors the market and the strategies of the competitors to safeguard the overall competitive position.

WMG, on the other hand, competes in the UK market and internationally. Competitors use brand strength together with price and product range to compete. The major Scotch whisky brand owners are Diageo, Pernod Ricard, William Grant, Edrington and Bacardi who are all materially larger than WMG. WMG can compete as they have differentiated brands in a fragmented Malt whisky market and their Blended Scotch brands are competitively priced. WMG management monitors market prices on an on-going basis and takes steps to safeguard the overall competitive position.

## **SOURCES AND AVAILABILITY OF RAW MATERIALS**

The principal raw materials for the manufacture of the alcoholic beverage products are distilled neutral spirit, brandy distillates, grain and malt whiskies, and water. It also requires a regular supply of glass bottles and packaging materials. It can also source raw materials from subsidiaries and third-party suppliers. All of the water for blending is sourced from two deep wells located in the Santa Rosa, Laguna manufacturing facility. The facilities in Laguna are located on top of one of the best fresh water supplies in the Philippines. There is also a filtration system for the water it uses at its Laguna facilities.

EDI sources its bottles from AWGI, which produces a majority of the new glass bottles; and the rest are imported. EDI also reuses returned bottles. AWGI canvasses suppliers twice a year to seek the most competitive prices for its raw materials. While terms for different suppliers vary, AWGI generally orders raw materials to meet its projected supply requirements for one year and prices are subject to review on a quarterly basis. For imported raw materials, new purchase orders for supplies are generally sought two months prior to the expiration of existing purchase orders. For raw materials sourced in the Philippines, orders are finalized one month before existing orders terminate. At least three suppliers are maintained for major raw materials. In addition, major raw materials' suppliers typically maintain a warehouse in close proximity to the AWGI plant to cover possible delays in shipments and to prevent delivery interruptions. AWGI also maintains its own inventory of raw materials to prevent interruptions to production.

EDI sources final packing material such as carton boxes and closures from at least three different suppliers.

The Company has not experienced and does not anticipate any significant difficulty in obtaining adequate supplies of raw materials and dry goods at satisfactory prices under its supply arrangements. AWGI doubled its production capacity in the fourth quarter of 2012 and is able to manufacture enough glass bottles to meet the Company's requirements. The Company believes that AWGI has not had, and does not expect to have, difficulty sourcing glass bottles on behalf of the Company from third party suppliers, as required.

Whyte and Mackay and Bodegas Fundador have long-term relationships with their suppliers to meet the current business requirements. Pricing agreements are in place with all suppliers.

### **Financial Statements**

The audited consolidated financial statements, together with Statement of Management's Responsibility and Auditors' Report, and supplementary schedules, and unaudited interim consolidated financial statements for the first quarter of 2020 (per filing under SEC 17Q), are attached and filed herewith.

The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards ('PFRS'), 'on the historical cost basis except for the measurement of certain financial assets and liabilities. The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and related notes. The estimation and judgments are based upon management's evaluation of relevant facts and circumstances of the financial statements. Actual results may ultimately vary from those estimates.

The interim consolidated financial statements ("ICFS") have been prepared in accordance with PFRSs and Philippine Accounting Standard 34, *Interim Financial Reporting*. As such, they do not include all of the information and disclosures required for full annual consolidated financial statements, and thus should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended December 31, 2019 ("ACFS"). The accounting policies and methods of computations used are consistent with those applied in the audited consolidated financial statements of the Group as at and for the year ended December 31, 2019. The ICFS have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expenses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### KEY PERFORMANCE INDICATORS

<i>In Million Pesos</i>				% change yoy	
	2019	2018	2017	2019	2018
Revenues	₱ 51,565	₱ 47,050	₱ 42,655	9.6	10.3
Net profit	₱ 6,832	₱ 6,829	₱ 6,332	0.05	7.8
Net profit to owners	₱ 6,725	₱ 6,658	₱ 6,322	1.0	5.3
Total assets	₱ 125,986	₱ 117,818	₱ 111,536	6.9	5.6
Total current assets	₱ 63,845	₱ 56,000	₱ 51,017	14.0	9.2
Total current liabilities	₱ 28,445	₱ 20,217	₱ 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		

- Revenue growth – measures the percentage change in revenues over a designated period of time
- Net profit growth – measures the percentage change in net profit over a designated period of time.
- Gross profit margin – computed as percentage of gross profit [which is sales less cost of sales] to sales – gives indication of pricing, cost structure and production efficiency.
- Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- Return on assets [or capital employed] – the ratio of net profit to total assets - measures the degree of efficiency in the use of resources to generate net income
- Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.

### RESULTS OF OPERATIONS

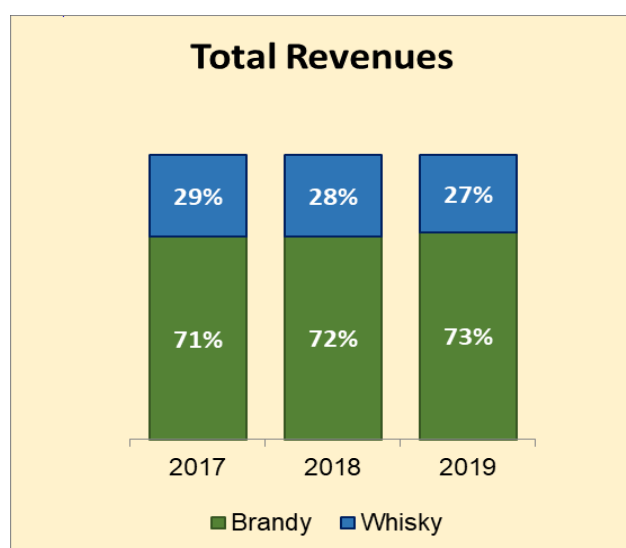
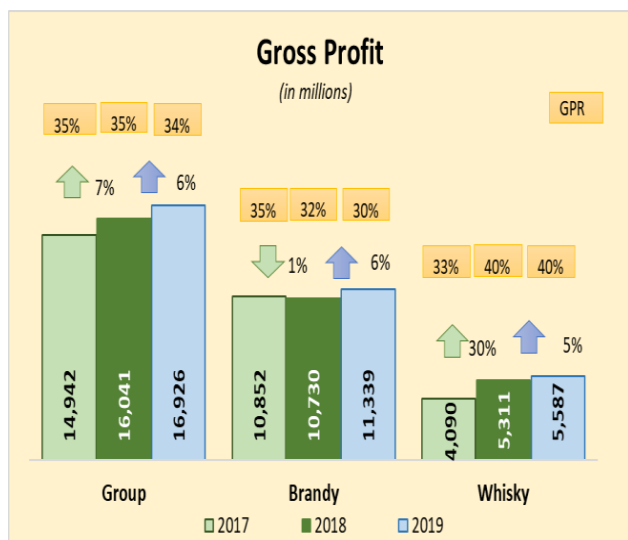
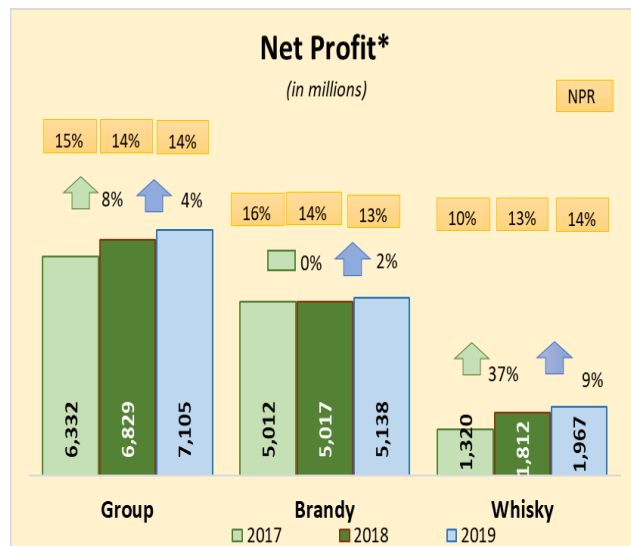
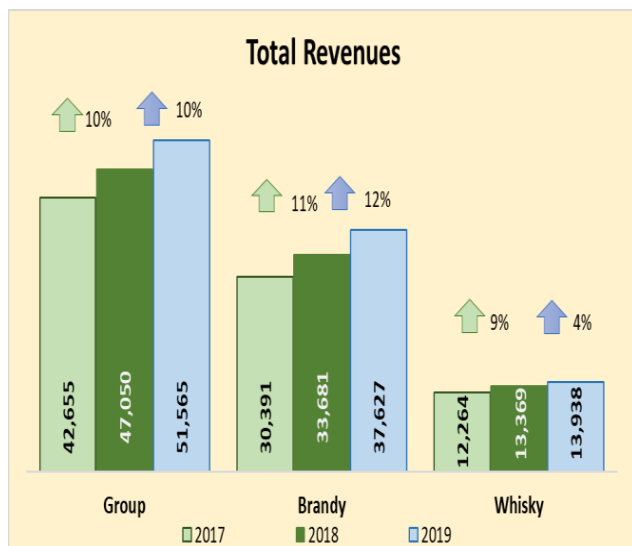
The Group is presented into two segments: Scotch Whisky (representing the UK operations) and Brandy (representing the Philippine and Spanish operations, including the Fundador and Domecq operations starting March 2016 and September 2017, respectively). BLC is a joint venture which is accounted for under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

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

<i>In Million Pesos</i>				% yoy	
	2019	2018	2017	2019	2018
Revenues	51,565	47,050	42,655	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

## 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.



## 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 35 YO, 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 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 include strategic marketing spends (new and repackaged products launched this year by

both segments), salaries and employee benefits (due to more employees and new positions created) and travel and transportation (for international sales promotions).

#### *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.

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% 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.

## **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.

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.

### First Quarter of 2020

#### Management's Discussion and Analysis of Financial Condition and Results of Operations

The world saw the rapid spread of COVID-19, a novel strain of coronavirus, during the first quarter of the year. In January, the outbreak was declared as a public health emergency of international concern; and in March, it was characterized as a pandemic as it had reached 114 countries and territories, including the Philippines, Spain and UK where the Group operate. To prevent the further spread of COVID-19 and bring down its transmission, the governments across the world have implemented extensive measures such as travel bans/restrictions, lockdowns, 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). The entire Luzon and almost the whole country were under lockdown from the second half of March, which paralyzed all non-essential business activities. It is in this general backdrop that the Group operated in the first quarter.

#### Results of Operations – First Quarter 2020 vs 2019

The Group ended the first quarter of the year with P10.7 billion revenues slipping 3% from P11.0 billion a year ago, which resulted in net profit to owners sliding 16% year-on-year to P1.5 from P1.7 billion. This was mainly attributed to the lockdown and travel restrictions that hampered sales growth.

<i>In Million Pesos</i>	Q1	Q1	YoY	
	2020	2019	YoY	%
<b>Revenues</b>	10,658	11,026	(368)	-3
Brandy	7,580	7,690	(109)	-1
Scotch Whisky	3,078	3,336	(258)	-8
<b>NP</b>	1,421	1,743	(322)	-18
Brandy	1,098	1,086	12	1
Scotch Whisky	323	657	(334)	-51
<b>NP to owners</b>	1,457	1,738	(280)	-16
Brandy	1,135	1,081	54	5
Scotch Whisky	323	657	(334)	-51
<b>GP margin</b>	33%	34%		
Brandy	32%	30%		
Scotch Whisky	34%	42%		
<b>NP-owners margin</b>	14%	16%		

The Brandy segment realized a 5% year-on-year uptick in net profit to owners, reported at P1.1 billion this year, inspite of a 1% slash in revenues to external customers recorded at P7.6 billion as compared to P7.7 billion a year ago. 'Emperador' was experiencing a good kickoff when it was halted by the lockdown implemented from mid-March which caused Emperador to suspend production and distribution in compliance with government mandate. Liquor bans were also imposed by most localities. Offshore, Spain was in a similar lockdown situation at about the same time. Bodegas Fundador, however, was able to continue its regular production and distribution in Jerez while its head office in Madrid was under lockdown. The segment's gross profit margin improved to 32% as compared to 30% a year ago due to product mix, inspite of higher Philippine excise taxes which took effect at the start of the year.

The Scotch Whisky segment registered 8% less revenues to external customers which totaled P3.1 billion this quarter as compared to P3.3 billion a year ago, out of which it tucked in net profit to owners of P323 million. Last year's sales got a push from Brexit contingency orders. This year, international sales slowed down due to travel restrictions and lockdowns in most countries. In UK, Whyte and Mackay was able to continue its off-premise distribution to a certain degree as well as its production when and as necessary because alcohol production is considered a critical industry by the government. Meanwhile, head office remained closed and travel restricted as of end-March. The segment made gross profit margin of 34% as compared to 42% a year ago due to sales mix as the low-margin products sold popularly in UK during the first quarter.

Operating expenses for this year remained at P1.7 billion because the 17% contraction (-P96 million) in general and administrative expenses to P469 million was offset by the 9% growth (+P104 million) in selling and distribution expenses to P1.3 billion. Advertising and promotions increased year-on-year while transportation and travel-related expenses decreased because of the lockdowns and travel bans and as a precautionary measure as well.

Interest expense decreased 23% or P45 million to P152 million this period due to lower interest rates in effect and payments of principal amortizations this quarter as compared to a year ago.

Other charges of P114 million represent foreign exchange losses recorded in this quarter.

EBITDA, which is computed as profit before interest expense, tax, depreciation and amortization, amounted to P2.2 billion and P2.5 billion for 2020 and 2019, respectively, showing margins of 21% and 23-% in respective years.

#### *Financial Condition*

Total assets amounted to P118.2 billion at March 31, 2020, a 6% depletion (-P7.8 billion) from P126.0 billion at December 31, 2019. The Group is strongly liquid with current assets exceeding current liabilities 2.7 times by the end of the current interim period, as compared to 2.2 times last year-end.

Cash and cash equivalents were less by 9% or P663 million at end of interim period, as the Group spent more cash for its financing activities (mainly, payment of loans, acquisition of treasury shares, dividend payment) than its cash flows from operating activities.

Trade and other receivables dipped 33% or P7.9 billion, primarily due to collections from customers (-P6.0 billion), who at year-end had larger balances due to purchases in the lead up to the Christmas period, and application of advances to suppliers of inventories or services (-P2.1 billion).

Financial assets at fair value through profit or loss of P1.8 billion at end of interim period represent the acquisitions of marketable securities held for trading during the period.

Prepayments and other current assets accelerated 18% or P347 million due to timing of prepayments and subsequent charging to profit or loss in general. These included prepaid advertising (+P203 million), taxes (+P132 million) and rent (+P30 million).

Intangible assets decelerated nearly 5% or P1.4 billion from effect of translating foreign- denominated assets to end-March rate.

Retirement benefit assets continued to grow as they doubled by P250 million during the interim period to end at P473 million.

Other non-current assets increased 38% or P385 million as advances to suppliers of long-term assets increased.

Current Interest-bearing loans decelerated by 11% or P741 million and non-current interest bearing loans by 4% or P990 million due to repayment of bank loans and the effect of translation adjustment.

Trade and other payables went down 24% or P4.0 billion as trade payables, accruals and output vat were settled during the period.

Current Lease liabilities increased 110% or P334 million while the non-current lease liabilities decreased 24% or P411 million, for combined reduction of 4% (-P77million) due to rental payments during the interim period.

Financial liabilities at fair value through profit or loss almost tripled to P35 million as a result of marked-to-market valuation.

Current Equity-linked securities were reduced to zero as these got converted to common shares in February by the Holder, while Dividends payable was settled on payable date.

Non-controlling interest pertains primarily to the minority interest in DBLC, a subsidiary consolidated by end-2017. The decrease of P374 million pertains to share in translation adjustment and in net profit of non-controlling shareholders recorded during the current period.

#### *Five Key Performance Indicators*

- Revenue growth – measures the percentage change in revenues over a designated period of time.
- Net profit growth – measures the percentage change in net profit over a designated period of time.
- Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- Return on assets – the ratio of net profit to total assets - measures the degree of efficiency in the use of resources to generate net income
- Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.
- Interest rate coverage ratio – computed as profit before tax and interest expense divided by interest expense -measures the business' ability to meet its interest payments.

	Q1	Q1	Growth	
<i>In Million Pesos</i>	2020	2019	YoY	%
Revenues	10,658	11,026	(368)	-3
Net profit [NP]	1,421	1,743	(322)	-18
NP to owners	1,457	1,738	(280)	-16
NP rate	13%	16%		
NP owners rate	14%	16%		
	Q1	Q1	Growth	
<i>In Million Pesos</i>	2020	2019	YoY	%
EBIT	1,862	2,218	(356)	-16
Interest expense	152	198	(45)	-23
Interest coverage	12%	11%		

	Mar 31	Dec 31	Growth	
<i>In Million Pesos</i>	2020	2019	YoY	%
Current assets	57,665	63,845	(6,180)	-10
Current liabilities	21,487	28,445	(6,958)	-24
Total Assets	118,155	125,986	(7,831)	-6
Current ratio	2.68x	2.24x		
Return on assets	1.2%	5.7%		
	1qtr	1yr		

*YoY, year-on-year.*

### *Financial Soundness Indicators*

Please see submitted schedule.

### *Other Required Disclosures*

As at March 31, 2020, except for what has been noted, there were no other known items –such as trends, demands, commitments, events or uncertainties- affecting assets, liabilities, equity, sales, revenues, net profit or cash flows that were unusual because of their nature, size, or incidents, and that will result in or that are reasonably likely to result in the liquidity increasing or decreasing in any material way, or that would have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

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

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 within the year.

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.

## Market Price and Dividends on Common Shares

The common shares of the Company are traded on the Philippine Stock Exchange (“PSE”) under the symbol of EMP. The Company’s common stock was first listed on the PSE on December 19, 2011. The closing price of the said shares on **16 July 2020, the latest practicable trading date is Php9.20.**

The following table sets out, for the periods indicated, the high and low sales price for the Company’s common shares as reported on the PSE:

Year		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2018	High	8.96	7.65	7.57	7.45
	Low	7.21	7.10	6.97	6.85
2019	High	7.78	7.70	7.85	7.42
	Low	7.07	7.21	7.00	6.95
2020	High	9.50	8.50	-	-
	Low	6.00	7.62	-	-

Source: PSE Research Department

## Shareholders

As of June 30, 2020, the Company had 34 shareholders of record holdings 15,920,376,438 common shares. The Top 20 shareholders of the Company as of June 30, 2020 are as follows:

	SHAREHOLDER	NO. OF SHARES SUBSCRIBED	TYPE OF SHARES	% OF OWNERSHIP
1	Alliance Global Group, Inc.	12,754,652,400 <sup>2</sup>	Common	80.12
2	PCD Nominee Corporation (Non-Filipino)	2,112,087,498	Common	13.27
3	The Andresons Group, Inc.	545,931,900	Common	3.43
4	PCD Nominee Corporation (Filipino)	507,120,463 <sup>3</sup>	Common	3.19
5	William Ragos Enrile II	300,000	Common	0.00
6	John T. Lao	60,000	Common	-nil-
7	Eric U. Lim	40,000	Common	-nil-
8	Marjorie Anne Lim Lee	30,000	Common	-nil-
9	Edwin U. Lim	30,000	Common	-nil-
10	Lelen Valderrama	30,000	Common	-nil-
11	Lelen Valderrama ITF Yasmin Ayn A. Valderrama	30,000	Common	-nil-
12	Lelen Valderrama ITF Yadin Ayn A. Valderrama	30,000	Common	-nil-
13	Lelen Valderrama ITF Gerent Arn A. Valderrama	30,000	Common	-nil-
14	Dondi Ron R. Limgenco	1,111	Common	-nil-
15	Frederick D. Go	1,000	Common	-nil-
16	Stephen G. Soliven	1,000	Common	-nil-
17	Demetrio D. Mateo	500	Common	-nil-
18	Christine F. Herrera	100	Common	-nil-
19	Julius Victor Emmanuel D. Sanvictores	100	Common	-nil-
20	Joseph A. Sy &/or Evangeline T. Sy	100	Common	-nil-
	Others	266	Common	-nil-
	TOTAL	15,920,376,438	Common	100.00%

<sup>2</sup> Includes shares which AGI beneficially owns held by foreign subsidiaries totaling 720,000,000 shares or 4.52%

<sup>3</sup> Excludes 21,046,900 shares beneficially owned by TAGI and 111,000,000 shares beneficially owned by AGI

### *Dividend Policy*

Under Philippine law, a corporation may generally declare dividends if it has unrestricted retained earnings. Unrestricted retained earnings represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual or legal purposes and which are free for distribution to the shareholders as dividends. If declared by the corporation's board of directors, a corporation may pay dividends in cash, by the distribution of property, by the issuance of shares or by a combination of the three, as the board of directors shall determine and subject to the approval of the SEC, as may be required by law. A cash dividend declaration does not require any further approval from shareholders. Stock dividends can be issued with the approval of shareholders representing at least two-thirds of the issued and outstanding stock voting at a shareholders' meeting duly called for the purpose. The board of directors may not declare dividends which will impair its capital.

The Company declared a cash dividend of P0.14883413 and Php0.05 per share on April 11, 2018 and December 17, 2019, respectively.

The Company may declare dividends when there are unrestricted earnings available, but any such declaration will take into consideration a number of factors including restrictions that may be imposed by current and prospective financial covenants, projected levels of operating results of its businesses/subsidiaries, working capital needs and long-term capital expenditures of its businesses/subsidiaries; and regulatory requirements on dividend payments, among others. Pursuant to the provision in the Corporation Code of the Philippines, in connection with the Company's ongoing buyback program, the Company can purchase or acquire its own shares provided that it has unrestricted retained earnings to cover the shares to be purchased or acquired.

The Company has declared approximately 40% of the preceding year's consolidated net profit as dividends in the past three years.

### *Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction*

In November 2015, pursuant to Employee Stock Option Plan (the "Plan") for qualified employees of the Company and its subsidiaries, stock options were granted to qualified employees of the Company and its subsidiaries giving these employees the right to subscribe to a total of 118 million common shares of the Company at the exercise price of Php7.00 per share. The Company shall reserve up to 1,000,000,000 common shares representing 5% of the authorized capital stock for issuance pursuant to the Plan. Stock options may be exercised by the grantee beginning on his 60<sup>th</sup> birthday subject to the terms and conditions of the Plan. No grantee has exercised its option as of December 31, 2019.

On November 28, 2017, pursuant to the amended Equity Linked Securities agreement ("ELS") between the Company and Arran, the Company issued 122,391,176 new common shares to Arran for the total consideration of P832,260,000 to cover the accrued fixed interest due under the ELS. On February 5, 2020, the Company issued 253,275,862 shares from its treasury shares to Arran, as conversion of Php1,836,250,000.00 portion of the ELS. (See Note 14 to the Consolidated Financial Statements).

### *Changes In and Disagreements with Accountants on Accounting and Financial Disclosure*

P&A issued an unqualified opinion on the consolidated financial statements. There are no disagreements with them on any matter of accounting principles or practices, financial statement disclosures, and auditing scope or procedure which, if not resolved would have caused the auditors to make reference thereto in its reports.

### *Discussion on Compliance with Leading Practice on Corporate Governance*

The Company remains focused on ensuring the adoption of systems and practices of good corporate governance in enhancing value for its shareholders.



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 two (2) independent directors voting in the Audit Committee, Corporate Governance Committee, Board Risk Oversight Committee, and Related Party Transaction Committee. To date, the Company has elected two independent directors, Alejo L. Villanueva, Jr. and Enrique M. Soriano III.

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 adopted policies for corporate governance pursuant to the SEC Memorandum Circular No. 19, Series of 2016 on the Code of Corporate Governance for Publicly-Listed Companies.

**The Company undertakes to provide without charge to a stockholder a copy of the Annual Report on SEC Form 17-A upon written request addressed to Ms. Dina D. Inting, Corporate Information Officer, at 7<sup>th</sup> Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City, Metro Manila, Philippines.**

## **ANNEX "A"**

### **EMPERADOR INC.**

#### **Procedures and Requirements for Voting and Participation in the 2020 Annual Stockholders' Meeting**

To conform with the government's regulations on social distancing and prohibition on mass gatherings and to protect the safety of its stockholders during the COVID-19 pandemic crisis, Emperador Inc. (the "Company") will dispense with the physical attendance of its stockholders for the 2020 Annual Stockholders' Meeting (ASM). Instead, the Company will conduct the 2020 ASM scheduled on 20 August 2020 at 10:00 AM by remote communication and will conduct electronic voting *in absentia*.

Only stockholders of record as of 22 July 2020 are entitled to participate and vote in the 2020 ASM.

The Company has adopted the following procedures and requirements to enable its stockholders to participate and vote in the 2020 ASM.

#### **I. ONLINE REGISTRATION STEPS AND REQUIREMENTS**

- A. Stockholders may register from 9:00 AM of 07 August 2020 until 5:00 PM of 13 August 2020 to signify his/her/its intention to participate in the 2020 ASM by remote communication. The registration steps and requirements are available the Company's website: <https://www.emperadorbrandy.com/asm2020>.
- B. To register, stockholders shall submit the following requirements to the Office of the Corporate Secretary via email at [corporatesecretary@emperadorinc.com](mailto:corporatesecretary@emperadorinc.com).

#### **B.1 For Individual Stockholders –**

- (i) Scanned copy of stock certificate issued in the name of the individual stockholder;

- (ii) Valid email address and active contact number;
- (iii) Scanned copy of valid government-issued identification card; and
- (iv) Recent photo of stockholder.

**B.2 For Stockholders with Joint Accounts –**

- (i) Authorization letter signed by all stockholders indicating the name of the person authorized to cast the votes;
- (ii) Scanned copy of stock certificate issued in the name of the joint stockholders;
- (iii) Valid email address and active contact number of the authorized stockholder;
- (iv) Scanned copy of valid government-issued identification card of the authorized stockholder; and
- (v) Recent photo of the authorized stockholder.

**B.3 For Stockholders under PCD Participant/Brokers Account or holding 'Scripless Shares'-**

- (i) Stockholders should coordinate with their broker and request for the full account name and reference number or account number they provided the Company;
- (ii) Broker's Certification on the stockholder's number of shareholdings;
- (iii) Valid email address and active contact number of the stockholder;
- (iv) Scanned copy of valid government-issued identification card of stockholder; and
- (v) Recent photo of stockholder.

**B.4 For Corporate Stockholders –**

- (i) Secretary's Certificate attesting to the authority of the representative to vote the shares on behalf of the corporate stockholder;
- (ii) Scanned copy of stock certificate issued in the name of the corporate stockholder;
- (iii) Valid email address and active contact number of authorized representative;
- (iv) Valid government-issued identification card of authorized representative; and
- (v) Recent photo of stockholder.

- C. The documents submitted will then be verified by the Office of the Corporate Secretary. The validation process will be completed by the Company no later than three (3) business days from the stockholder's receipt of an email from the Company acknowledging receipt of the stockholder's registration documents. Once validated, the stockholder will receive an email that his/her/its account has been verified and shall provide instructions for the stockholder's access to the Company's electronic voting and to access the ASM livestreaming link.

**II. ELECTRONIC VOTING IN ABSENTIA**

- A. Duly registered stockholders have the option to vote for the matters contained in the agenda for the 2020 ASM through electronic voting *in absentia*. The deadline for registration is 5:00 PM of 13 August 2020. Beyond this date, stockholders may no longer avail of the option to electronically vote *in absentia*.
- B. After verification, the Company shall send a ballot to the registered stockholder through his/her/its e-mail address which shall contain all the agenda items for approval as indicated in the Notice of Meeting and the registered stockholder may vote as follows:
- (1) For items other than Election of Directors, the registered stockholder has the option to vote: In Favor of, Against, or Abstain. The vote is considered cast for all the registered stockholder's shares.
  - (2) For the Election of Directors, the registered stockholder may vote for all nominees, not vote for any of the nominees, or vote for some nominees only, in such number of shares as preferred

by the stockholder, provided that the total number of votes cast shall not exceed the number of shares owned, multiplied by the number of directors to be elected. The total number of votes the stockholder is allowed to cast shall be based on the number of shares he/she or it owns.

- (3) Once voting on the agenda items is finished, the stockholder can proceed to submit the accomplished ballot via email to [corporatesecretary@emperadorinc.com](mailto:corporatesecretary@emperadorinc.com).
  - (4) After the ballot has been submitted, the stockholder may no longer change his/her vote. The stockholder will receive a confirmation email that his/her/its vote has been recorded.
- C. Thereafter, the Office of the Corporate Secretary, through election inspectors appointed for the meeting, shall tabulate all valid and confirmed votes cast through electronic voting, together with the votes through proxies, subject to validation by representatives of the Company's external auditors.
- D. Registered stockholders shall have until 5:00 PM of **13 August 2020** to cast their votes *in absentia*. Stockholders will not be allowed to cast votes during the livestream of the 2020 ASM.

### III. VOTING BY PROXY

A. For individual stockholders holding certificated shares of the Company – Download the proxy form that is available at <https://www.emperadorbrandy.com/asm2020>.

B. For stockholders holding 'scripless' shares, or shares held under a PCD Participant/Broker – Download the proxy form that is available at <https://www.emperadorbrandy.com/asm2020>. Stockholders are advised to coordinate with their brokers first for the execution of this type of proxy.

C. For corporate stockholders - Download the proxy form that is available at <https://www.emperadorbrandy.com/asm2020>. A copy of the duly signed and notarized Secretary's Certificate must be submitted together with the proxy form. For reference, a sample Secretary's Certificate is also available at <https://www.emperadorbrandy.com/asm2020>.

D. General Instructions on Voting by Proxy:

- (1) Download and fill up the appropriate proxy form. Follow the instructions on how to cumulate or allocate votes in the election of directors.
- (2) Send the scanned copy of the duly executed proxy form via email to [corporatesecretary@emperadorinc.com](mailto:corporatesecretary@emperadorinc.com) or submit the original proxy form to the Office of the Corporate Secretary at 7<sup>th</sup> Floor, 1880 Eastwood Ave., Eastwood City CyberPark, E. Rodriguez Jr. Ave., Bagumbayan, Quezon City.
- (3) Deadline for the submission of proxies is at 5:00 PM of **13 August 2020**.
- (4) Validation of proxies will be on **14 August 2020**.
- (5) If a stockholder avails of the option to cast his/her vote electronically *in absentia* and also issues proxy votes with differing instructions, the duly accomplished ballots sent through e-mail shall replace the proxy votes issued by the stockholder.

#### **IV. PARTICIPATION BY REMOTE COMMUNICATION**

- A. Only duly registered stockholders will be included in determining the existence of a quorum.
- B. Duly registered stockholders may send their questions and/or comments prior to the ASM through email at [corporatesecretary@emperadorinc.com](mailto:corporatesecretary@emperadorinc.com). The deadline for submitting questions shall be at 5:00 PM of 13 August 2020.
- C. The proceedings during the 2020 ASM will be recorded.

For any clarifications, please contact the Office of the Corporate Secretary via email at [corporatesecretary@emperadorinc.com](mailto:corporatesecretary@emperadorinc.com).



**P&A**  
**Grant Thornton**

**An instinct for growth™**

## **Emperador Inc. and Subsidiaries**

Audited Consolidated Financial Statements

Supplementary Schedules to the Consolidated  
Financial Statements



# EMPERADOR INC.

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

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of *Emperador Inc. and Subsidiaries* (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 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. ODASA**  
NOTARY PUBLIC UNTIL DEC. 31, 2020  
NOTARIAL COMMISSION 2020-162 MLA  
IBP NO. 200920 - 01/03/2020, PASIG  
PTR NO. 9124087 - 01/03/2020 MLA  
ROLL NO. 29679, 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.)**  
7<sup>th</sup> 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,



- 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.

**(d) Consolidation Process**

*Description of the Matter*

The Group's consolidated financial statements comprise the financial statements of Emperor 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.

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.

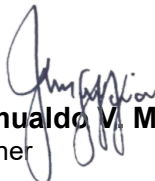
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

	Notes	2019	2018
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
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
<b>NON-CURRENT ASSETS</b>			
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
<b>TOTAL ASSETS</b>		<b>P 125,985,997,313</b>	<b>P 117,818,371,682</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
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
<b>NON-CURRENT LIABILITIES</b>			
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
<b>EQUITY</b>			
Equity attributable to owners of the parent company	23	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
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 125,985,997,313</b>	<b>P 117,818,371,682</b>

*See Notes to Consolidated Financial Statements.*

**EMPERADOR INC. AND SUBSIDIARIES**  
*(A Subsidiary of Alliance Global Group, Inc.)*  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

	Notes	2019	2018	2017
<b>REVENUES</b>	17	<b><u>P 51,565,480,173</u></b>	<b><u>P 47,050,421,022</u></b>	<b><u>P 42,655,527,544</u></b>
<b>COSTS AND EXPENSES</b>				
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
		<b><u>43,085,509,570</u></b>	<b><u>38,614,056,613</u></b>	<b><u>34,820,155,522</u></b>
<b>PROFIT BEFORE TAX</b>		<b>8,479,970,603</b>	<b>8,436,364,409</b>	<b>7,835,372,022</b>
<b>TAX EXPENSE</b>	21	<b><u>1,647,434,352</u></b>	<b><u>1,607,414,678</u></b>	<b><u>1,503,052,461</u></b>
<b>NET PROFIT</b>		<b><u>6,832,536,251</u></b>	<b><u>6,828,949,731</u></b>	<b><u>6,332,319,561</u></b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Item that will be reclassified subsequently to profit or loss				
Translation gain (loss)	2	<b><u>( 1,251,530,761 )</u></b>	<b><u>220,002,448</u></b>	<b><u>659,294,821</u></b>
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	<b><u>( 87,253,112 )</u></b>	<b><u>32,275,467</u></b>	<b><u>( 122,180,800 )</u></b>
		<b><u>89,628,395</u></b>	<b><u>( 156,934,609 )</u></b>	<b><u>624,589,471</u></b>
		<b><u>( 1,161,902,366 )</u></b>	<b><u>63,067,839</u></b>	<b><u>1,283,884,292</u></b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b><u>P 5,670,633,885</u></b>	<b><u>P 6,892,017,570</u></b>	<b><u>P 7,616,203,853</u></b>
Net profit attributable to:				
Owners of the parent company		<b><u>P 6,725,536,563</u></b>	<b><u>p 6,658,236,381</u></b>	<b><u>6,321,783,945</u></b>
Non-controlling interest		<b><u>106,999,688</u></b>	<b><u>170,713,350</u></b>	<b><u>10,535,616</u></b>
		<b><u>P 6,832,536,251</u></b>	<b><u>P 6,828,949,731</u></b>	<b><u>P 6,332,319,561</u></b>
Total comprehensive income (loss) attributable to:				
Owners of the parent company		<b><u>P 5,664,076,401</u></b>	<b><u>p 6,652,883,065</u></b>	<b><u>P 7,832,304,353</u></b>
Non-controlling interest		<b><u>6,557,484</u></b>	<b><u>239,134,505</u></b>	<b><u>( 216,100,500 )</u></b>
		<b><u>P 5,670,633,885</u></b>	<b><u>P 6,892,017,570</u></b>	<b><u>P 7,616,203,853</u></b>
<b>Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company - Basic and Diluted</b>	24	<b><u>P 0.42</u></b>	<b><u>P 0.41</u></b>	<b><u>P 0.39</u></b>

*See Notes to Consolidated Financial Statements.*



**EMPERADOR INC. AND SUBSIDIARIES**  
*(A Subsidiary of Alliance Global Group, Inc.)*  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

	Attributable to Owners of the Parent Company											Non-controlling Interest (see Note 23.6)	Total Equity															
	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)	Revaluation Reserves (see Note 2)	Other Reserves (see Note 2)	Appropriated (see Note 23.5)	Retained Earnings (see Note 23.5)				Total	Total													
Balance at January 1, 2019,																												
As previously reported	P	16,242,391,176	P	23,058,724,847	(P	1,849,768,100)	P	136,151,386	P	84,925,255	(P	2,556,254,530)	(P	163,103,810)	P	15,792,199	P	600,000,000	P	24,902,413,431	P	25,502,413,431	P	60,471,271,854	P	892,674,486	P	61,363,946,340
Effect of adoption of PFRS 16	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)		(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	-	-	-	-	-	-	26,958,170	-	26,958,170	-	-	-	-	-	-	-	-	-	24,879,090,010	-	25,479,090,010	-	60,447,948,433	-	892,674,486	-	61,340,622,919
Acquisition of treasury shares during the year	23.2	-	-	(1,638,071,312)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,638,071,312)	-	-	-	(1,638,071,312)	
Total comprehensive income for the year		-	-	-	-	-	-	-	-	(1,151,088,557)	-	89,628,395	-	-	-	-	-	-	-	-	6,725,536,563	6,725,536,563	5,664,076,401	-	6,557,484	-	5,670,633,885	
Appropriation during the year	23.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	200,000,000	-	200,000,000	-	-	(200,000,000)	-	-	-	-	-	-	-
Cash dividends declared during the year	23.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(787,958,202)	(787,958,202)	(787,958,202)	-	-	-	(787,958,202)	
<b>Balance at December 31, 2019</b>		<b>P 16,242,391,176</b>	<b>P 23,058,724,847</b>	<b>(P 3,487,839,412)</b>	<b>P 136,151,386</b>	<b>P 111,883,425</b>	<b>(P 3,707,343,087)</b>	<b>(P 73,475,415)</b>	<b>P 120,364,326</b>	<b>P 800,000,000</b>	<b>P 30,616,668,304</b>	<b>P 31,416,668,304</b>	<b>P 63,817,525,550</b>	<b>P 899,231,970</b>	<b>P 64,716,757,520</b>													
Balance at January 1, 2018		P 16,242,391,176	P 23,058,724,847	(P 321,134,930)	P 136,151,386	P 57,967,086	(P 2,707,835,823)	(P 6,169,201)	P 9,689,175	P 600,000,000	P 20,649,112,979	P 21,249,112,979	P 57,718,896,695	P 634,656,950	P 58,353,553,645													
Issuances during the year	23.4	-	-	-	-	26,958,169	-	-	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)	-	(1,528,633,170)													
Total comprehensive income for the year		-	-	-	-	-	151,581,293	(156,934,609)	-	-	6,658,236,381	6,658,236,381	6,652,883,065	239,134,505	6,892,017,570													
Redemption of preferred shares	23.6	-	-	-	-	-	-	-	-	-	-	-	(2,875,000)	(2,875,000)														
Addition from acquired subsidiary		-	-	-	-	-	-	-	-	-	(148,405)	(148,405)	(148,405)	21,758,031														
Cash dividends declared during the year	23.3	-	-	-	-	-	-	-	-	-	(2,399,048,170)	(2,399,048,170)	(2,399,048,170)	(2,399,048,170)														
<b>Balance at December 31, 2018</b>		<b>P 16,242,391,176</b>	<b>P 23,058,724,847</b>	<b>(P 1,849,768,100)</b>	<b>P 136,151,386</b>	<b>P 84,925,255</b>	<b>(P 2,556,254,530)</b>	<b>(P 163,103,810)</b>	<b>P 15,792,199</b>	<b>P 600,000,000</b>	<b>P 24,902,413,431</b>	<b>P 25,502,413,431</b>	<b>P 60,471,271,854</b>	<b>P 892,674,486</b>	<b>P 61,363,946,340</b>													
Balance at January 1, 2017		P 16,120,000,000	P 22,348,856,023	P -	P -	P 31,008,917	(P 3,593,766,760)	(P 630,758,672)	P -	P 550,000,000	P 17,393,398,209	P 17,943,398,209	P 52,218,737,717	P 5,750,000	P 52,224,487,717													
Issuances during the year	14, 23.1, 23.4	122,391,176	709,868,824	-	136,151,386	26,958,169	-	-	-	-	-	-	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)	-	(321,134,930)													
Total comprehensive income for the year		-	-	-	-	-	885,930,937	624,589,471	-	-	6,321,783,945	6,321,783,945	7,832,304,353	(216,100,500)	7,616,203,853													
Reversal of appropriation	23.5	-	-	-	-	-	-	-	-	(550,000,000)	550,000,000	-	-	-														
Appropriation during the year	23.5	-	-	-	-	-	-	-	-	609,689,175	(609,689,175)	(9,689,175)	-	-														
Redemption of preferred shares	23.6	-	-	-	-	-	-	-	9,689,175	-	-	-	(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)														
<b>Balance at December 31, 2017</b>		<b>P 16,242,391,176</b>	<b>P 23,058,724,847</b>	<b>(P 321,134,930)</b>	<b>P 136,151,386</b>	<b>P 57,967,086</b>	<b>(P 2,707,835,823)</b>	<b>(P 6,169,201)</b>	<b>P 9,689,175</b>	<b>P 600,000,000</b>	<b>P 20,649,112,979</b>	<b>P 21,249,112,979</b>	<b>P 57,718,896,695</b>	<b>P 634,656,950</b>	<b>P 58,353,553,645</b>													

See Notes to Consolidated Financial Statements.

**EMPERADOR INC. AND SUBSIDIARIES**  
*(A Subsidiary of Alliance Global Group, Inc.)*  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

	Notes	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
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 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
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
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		1,512,375,764	( 3,934,183,956 )	( 11,493,900 )
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		6,228,229,892	10,162,413,848	10,173,907,748
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		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.*

**EMPERADOR INC. AND SUBSIDIARIES**  
**(A Subsidiary of Alliance Global Group, Inc.)**  
**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 7<sup>th</sup> 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
<b>EDI and subsidiaries (EDI Group)</b>			
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
<b>EIL and offshore subsidiaries and joint venture:</b>			
Emperador International Ltd. (“EIL”)	(e)	100%	100%
Emperador Holdings (GB) Limited (“EGB”)	(f)	100%	100%
<i>Emperador UK Limited</i> (“EUK”)	(f)	100%	100%
<i>Whyte and Mackay Group Limited</i> (“WMG”)	(g), 10	100%	100%
<i>Whyte and Mackay Global Limited</i> (“WMGL”)	(g), (h)	100%	100%
<i>Whyte and Mackay Limited</i> (“WML”)	(i)	100%	100%
<i>Whyte and Mackay Warehousing Limited</i> (“WMWL”)	(j)	100%	100%
Emperador Asia Pte. Ltd. (“EA”)	(k)	100%	100%
Grupo Emperador Spain, S.A. (“GES”)	(l), 10	100%	100%
<i>Bodega San Bruno, S.L.</i> (“BSB”)	(m)	100%	100%
<i>Bodegas Fundador, S.L.U.</i> (“BFS”)	(l), (n), (o)	100%	100%
<i>Grupo Emperador Gestion S.L.</i> (“GEG”)	(m)	100%	100%
<i>Complejo Bodeguero San Patricio SLU</i> (“CBSP”)	(n), (r), 10	100%	100%
<i>Stillman Spirits, S.L.</i> (“Stillman”)	(s)	100%	-
<i>Domecq Bodega Las Copas, S.L.</i> (“DBLC”)	(p), 10	50%	50%
<i>Bodegas Las Copas, S.L.</i> (“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 7<sup>th</sup> 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 26<sup>th</sup> Floor, Alliance Global Tower 4, 36<sup>th</sup> Street cor. 11<sup>th</sup> 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, 4<sup>th</sup> 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, 3<sup>rd</sup> 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 María 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
<i>Assets:</i>					
Prepayments 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
<i>Liabilities:</i>					
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)	<u>339,006,888</u>	<u>-</u>	( 185,967,659)
Impact on net assets			<u>P -</u>	<u>(P 23,323,421)</u>	

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)	<u>48,203,532</u>
Operating lease liabilities before discounting		1,707,088,163
Discount using incremental borrowing rate	2.2(a)(iv)(b)	<u>(230,930,928)</u>
Lease liabilities, January 1, 2019 (PFRS 16)		<u>P 1,476,157,235</u>

- (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 or 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 <sup>1</sup>		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
<b>REVENUES</b>									
External customers	P 37,627	P 33,681	P 30,391	13,938	13,369	12,264	P 51,565	P 47,050	P 42,655
Intersegment sales*	786	766	783	241	158	307	-	-	-
	<u>38,413</u>	<u>34,447</u>	<u>31,174</u>	<u>14,179</u>	<u>13,527</u>	<u>12,571</u>	<u>51,565</u>	<u>47,050</u>	<u>42,655</u>
<b>COSTS AND EXPENSES</b>									
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
	<u>32,171</u>	<u>28,104</u>	<u>24,740</u>	<u>11,941</u>	<u>11,434</u>	<u>11,170</u>	<u>43,085</u>	<u>38,614</u>	<u>34,820</u>
<b>SEGMENT PROFIT BEFORE TAX</b>	6,242	6,343	6,434	2,238	2,093	1,401	8,480	8,436	7,835
<b>TAX EXPENSE</b>	1,377	1,326	1,422	271	281	81	1,648	1,607	1,503
<b>SEGMENT NET PROFIT</b>	<u>P 4,865</u>	<u>P 5,017</u>	<u>P 5,012</u>	<u>P 1,967</u>	<u>P 1,812</u>	<u>P 1,320</u>	<u>P 6,832</u>	<u>P 6,829</u>	<u>P 6,332</u>

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

<sup>1</sup>See Reconciliation presented in Note 4.5.

	BRANDY			SCOTCH WHISKY			Consolidated Balances		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
<b>TOTAL ASSETS*</b>	P88,453	P71,415	P54,017	P37,533	P 46,403	P 57,519	P125,986	P117,818	P111,536
<b>TOTAL LIABILITIES*</b>	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
<b>2019</b>			
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

	<u>Segment Totals</u>	<u>Intercompany Accounts</u>	<u>Consolidated Balances</u>
<u>2018</u>			
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
<u>2017</u>			
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:

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

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have an average maturity of 30 to 45 days and earn effective annual interest rates ranging from 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	<u>2019</u>	<u>2018</u>
Trade receivables	22.3	<b>P 15,612,615,832</b>	P 14,524,773,347
Advances to suppliers	2.7	<b>6,005,315,403</b>	3,204,397,152
Advances to ultimate parent company	22.6	<b>2,095,371,956</b>	1,142,912,243
Advances to officers and employees	22.4	<b>33,518,316</b>	40,762,383
Accrued interest receivable	17	<b>513,731</b>	17,665,846
Other receivables		<u><b>61,676,921</b></u>	<u>78,280,618</u>
		<b>23,809,012,159</b>	19,008,791,589
Allowance for impairment	3.2(b)	<u><b>( 88,686,826)</b></u>	<u>( 133,008,227)</u>
		<u><b>P 23,720,325,333</b></u>	<u>P 18,875,783,362</u>

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

All of the Group's trade and other receivables have been assessed for 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.

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

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

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.

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

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:

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

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.

	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Leasehold Improvements</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Office Furniture and Fixtures</u>	<u>Moulds and Dies</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 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	<u>P 6,083,382,676</u>	<u>P 9,057,850</u>	<u>P 9,232,493,735</u>	<u>P 116,209,697</u>	<u>P 10,011,854,874</u>	<u>P 306,147,678</u>	<u>P 364,502,411</u>	<u>P 35,178,540</u>	<u>P 1,224,332,802</u>	<u>P 27,383,160,263</u>
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	<u>P 6,253,586,921</u>	<u>P 11,965,669</u>	<u>P 9,017,984,191</u>	<u>P 103,945,757</u>	<u>P 9,795,590,455</u>	<u>P 331,424,129</u>	<u>P 274,767,364</u>	<u>P 26,870,616</u>	<u>P 1,431,738,532</u>	<u>P 27,247,873,634</u>
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	<u>P 6,231,890,692</u>	<u>P 14,873,487</u>	<u>P 7,235,305,591</u>	<u>P 52,475,660</u>	<u>P 7,268,570,381</u>	<u>P 232,752,445</u>	<u>P 250,605,215</u>	<u>P 22,930,635</u>	<u>P 5,031,452,148</u>	<u>P 26,340,856,254</u>

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.

	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Leasehold Improvements</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Office Furniture and Fixtures</u>	<u>Moulds and Dies</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 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	<u>P 6,083,382,676</u>	<u>P 9,057,850</u>	<u>P 9,232,493,735</u>	<u>P 116,209,697</u>	<u>P 10,011,854,874</u>	<u>P 306,147,678</u>	<u>P 364,502,411</u>	<u>P 35,178,540</u>	<u>P 1,224,332,802</u>	<u>P 27,383,160,263</u>



	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Leasehold Improvements</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Office Furniture and Fixtures</u>	<u>Moulds and Dies</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2018, net of accumulated depreciation and amortization	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
Additions	41,692,482	-	371,664,730	60,165,415	1,280,603,363	132,977,572	65,001,674	28,449,760	362,188,992	2,342,743,988
Disposals	-	-	( 215,618)	-	( 54,450,996)	( 2,565,295)	( 41,751)	-	-	( 57,273,660)
Reclassifications of construction in progress	( 19,996,253)	-	1,669,794,550	41,340	2,282,570,844	18,829,860	10,662,267	-	( 3,961,902,608)	-
Depreciation and amortization charges for the year	-	( 2,907,818)	( 258,565,062)	( 8,736,658)	( 981,703,137)	( 50,570,453)	( 51,460,041)	( 24,509,779)	-	( 1,378,452,948)
Balance at December 31, 2018, net of accumulated depreciation and amortization	<u>P 6,253,586,921</u>	<u>P 11,965,669</u>	<u>P 9,017,984,191</u>	<u>P 103,945,757</u>	<u>P 9,795,590,455</u>	<u>P 331,424,129</u>	<u>P 274,767,364</u>	<u>P 26,870,616</u>	<u>P 1,431,738,532</u>	<u>P 27,247,873,634</u>
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 5,246,813,812	P 17,781,306	P 5,806,025,556	P 33,715,568	P 5,205,519,124	P 155,573,832	P 204,764,719	P 31,173,576	P 4,247,914,675	P 20,949,282,168
Additions through asset acquisitions (see Note 10)	324,644,906	-	811,086,259	-	599,340,461	-	-	-	-	1,735,071,626
Additions	660,431,974	-	783,828,031	14,507,861	2,105,867,791	120,247,059	85,334,560	15,969,251	1,084,147,869	4,870,334,396
Disposals	-	-	( 5,621,650)	-	( 841,708)	( 7,172,456)	( 15,555)	-	( 131,502,700)	( 145,154,069)
Reclassifications of construction in progress	-	-	62,052,133	8,629,233	98,426,330	-	-	-	( 169,107,696)	-
Depreciation and amortization charges for the year	-	( 2,907,819)	( 222,064,738)	( 4,377,002)	( 739,741,617)	( 35,895,990)	( 39,478,509)	( 24,212,192)	-	( 1,068,677,867)
Balance at December 31, 2017, net of accumulated depreciation and amortization	<u>P 6,231,890,692</u>	<u>P 14,873,487</u>	<u>P 7,235,305,591</u>	<u>P 52,475,660</u>	<u>P 7,268,570,381</u>	<u>P 232,752,445</u>	<u>P 250,605,215</u>	<u>P 22,930,635</u>	<u>P 5,031,452,148</u>	<u>P 26,340,856,254</u>

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:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Costs of goods sold	18	<b>P 802,312,571</b>	P 915,274,249	P 710,858,353
Selling and distribution expenses	19	<b>61,946,694</b>	51,711,352	39,745,417
General and administrative expenses	19	<u><b>429,791,618</b></u>	<u>107,681,325</u>	<u>45,198,047</u>
		<b>1,294,050,883</b>	1,074,666,926	795,801,817
Capitalized as part of work-in-process inventories	8	<u><b>320,448,234</b></u>	<u>303,786,022</u>	<u>272,876,050</u>
		<b>P 1,614,499,177</b>	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	<b>P 46,005,202</b>	<b>P 535,953,837</b>	<b>P 169,621,668</b>	<b>P 787,578,132</b>	<b>P 64,318,160</b>	<b>P 1,603,476,999</b>

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:

	<u>Notes</u>		
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		<u>40,363,406</u>
		<b>P</b>	<b><u>249,993,036</u></b>

### 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	<u>1,717,050,012</u>
	<b><u>P 2,021,932,115</u></b>

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:

	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>More Than 5 years</u>	<u>Total</u>
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	<u>P 304,882,103</u>	<u>P 270,639,476</u>	<u>P 272,700,013</u>	<u>P 210,015,740</u>	<u>P 186,737,595</u>	<u>P 776,957,188</u>	<u>P 2,021,932,115</u>

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

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.

	<u>WMG</u>	<u>Fundador Business Unit</u>
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	<u>22,600,040,729</u>	<u>13,255,708,780</u>
Goodwill at transaction date	<b><u>P 7,672,894,254</u></b>	<b><u>P 1,462,657,354</u></b>

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.

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

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

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

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.

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Total</u>
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	<u>-</u>	<u>( 272,402,000)</u>	<u>( 272,402,000)</u>
Balance at December 31, 2019, net of impairment losses and translation adjustments	<b><u>P 9,236,331,189</u></b>	<b><u>P19,653,436,800</u></b>	<b><u>P28,889,767,989</u></b>
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	<u>111,415,506</u>	<u>226,808,712</u>	<u>338,224,218</u>
Balance at December 31, 2018, net of translation adjustments	<u>P 9,488,786,678</u>	<u>P20,734,188,972</u>	<u>P 30,222,975,650</u>

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

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

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
<b>Goodwill:</b>								
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%
<b>Trademarks with indefinite lives:</b>								
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
	<b>P 1,874,557,688</b>	<b>P 1,291,326,181</b>



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:

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

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:

	<u>2019</u>	<u>2018</u>
Acquisition costs	<b>P 2,845,367,065</b>	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	<u>178,200,678</u>	<u>432,240,327</u>
	<b>P 3,023,567,743</b>	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):

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

### 13. INTEREST-BEARING LOANS

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

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

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

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

- (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 24<sup>th</sup> 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 to P388.5 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	<b>2019</b>	2018
Current	31.2	<b>P 1,836,250,000</b>	P -
Non-current		<b><u>3,443,750,000</u></b>	<u>5,258,801,592</u>
		<b><u>P 5,280,000,000</u></b>	<u>P 5,258,801,592</u>

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)]:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Trade payables	22.1, 22.2, 22.7	<b>P 11,762,232,956</b>	P 8,479,981,846
Accrued expenses	13, 14	<b>4,582,707,784</b>	4,151,532,389
Output VAT payable		<b>397,978,309</b>	257,093,560
Advances from related parties	22.5	<b>3,070,715</b>	3,070,715
Others	23.3	<b><u>266,934,453</u></b>	<u>343,557,213</u>
		<b><u>P 17,012,924,217</u></b>	<b><u>P 13,235,235,723</u></b>

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:

	<b>Onerous Lease</b> (see Note 16.1)	<b>Dilapidations</b> (see Note 16.2)	<b>Total</b>
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)]	( <u>339,006,888</u> )	-	( <u>339,006,888</u> )
As restated	36,400,343	149,567,316	185,967,659
Utilized amounts	( 22,177,145 )	( 5,496,675 )	( 27,673,820 )
Additional provisions	<u>-</u>	<u>6,620,361</u>	<u>6,620,361</u>
Balance at December 31, 2019	<b><u>P 14,223,198</u></b>	<b><u>P 150,691,002</u></b>	<b><u>P 164,914,200</u></b>
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	( <u>9,222,282</u> )	( <u>1,838,279</u> )	( <u>11,060,561</u> )
Balance at December 31, 2018	<u>P 375,407,231</u>	<u>P 149,567,316</u>	<u>P 524,974,547</u>

### 16.1 Provision for Onerous Lease

WML has existing non-cancellable lease agreements on leasehold properties located in Glasgow and Edinburgh, Scotland, covering manufacturing plant facilities, buildings and parking spaces, which are vacant or subleased at a discount. The provisions take account of current market conditions, expected future vacant periods, expected future sublet benefits and are calculated by discounting expected net cash outflows on a pre-tax basis over the remaining period of the lease, which as of December 31, 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.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Sales	2.14	<b><u>P50,259,676,633</u></b>	<u>P 46,345,675,149</u>	<u>P42,206,283,523</u>
Others:				
Interest income	5, 7, 11	<b>345,272,714</b>	265,325,794	202,544,447
Equity in net profit of joint venture	12	<b>239,168,070</b>	198,909,795	154,101,850
Other income – net	7, 9.1, 22.12	<b>721,362,756</b>	240,510,284	92,597,724
		<b><u>1,305,803,540</u></b>	<u>704,745,873</u>	<u>449,244,021</u>
		<b><u>P 51,565,480,173</u></b>	<u>P 47,050,421,022</u>	<u>P 42,655,527,544</u>



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

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

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

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

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

## 20. EMPLOYEE BENEFITS

### 20.1 Salaries and Employee Benefits Expense

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

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

Other short-term benefits represent other employee benefits that were incurred during the reporting periods in which the employees render the related service.

The amount of salaries and employee benefits expense is allocated as follows:

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

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:

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

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

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

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

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

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.

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

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:

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

The amounts of post-employment benefits expense recognized in profit or loss are presented as part of General and Administrative Expenses (for current service costs) and 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Discount rate	<b>5.21%-5.35%</b>	2.58%-7.52%	2.64%-5.83%
Expected rate of salary increase	<b>5.10%-7.00%</b>	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:

	<u>Impact on Retirement Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<b><u>December 31, 2019</u></b>			
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)
<b><u>December 31, 2018</u></b>			
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:

	<u>2019</u>	<u>2018</u>
Within one year	<b>P 275,400,578</b>	P 319,044,513
More than one but less than five years	<b>1,212,132,535</b>	1,358,971,577
More than five years but less than 10 years	<u><b>674,720,665</b></u>	<u>770,049,180</u>
	<u><b>P 2,162,253,778</b></u>	<u>P 2,448,065,270</u>

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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Reported in profit or loss</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%, 25%, 20% and 19%	<b>P 1,335,421,308</b>	P 1,349,706,463	P 1,376,256,022
Final tax on interest income at 20%, 15% and 7.5%	<b>118,539,408</b>	26,263,447	27,077,342
Minimum corporate income tax (MCIT) at 2%	<u>4,464,793</u>	<u>886,622</u>	<u>7,077,616</u>
	<b>1,458,425,509</b>	1,376,856,532	1,410,410,980
Deferred tax expense relating to origination and reversal of temporary differences	<u>189,008,843</u>	<u>230,558,146</u>	<u>92,641,481</u>
	<b><u>P 1,647,434,352</u></b>	<b><u>P 1,607,414,678</u></b>	<b><u>P 1,503,052,461</u></b>
<i>Reported in other comprehensive income or loss</i>			
Deferred tax expense (income) relating to remeasurements of retirement benefit obligation	<b><u>P 87,253,112</u></b>	<b><u>(P 32,275,467)</u></b>	<b><u>P 122,180,800</u></b>

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Tax on pretax profit at 30%	<b>P 2,543,991,181</b>	P 2,530,909,323	P 2,350,611,607
Adjustment for income subjected to different tax rates	<b>( 47,844,059)</b>	( 16,137,960)	( 13,692,546)
Adjustments in claiming optional standard deduction (OSD)	<b>284,614,862</b>	( 10,889,592)	( 94,299,139)
Tax effects of:			
Non-taxable income	<b>( 1,348,401,507)</b>	( 1,267,763,322)	( 901,499,242)
Non-deductible expenses	<b>336,337,394</b>	389,577,809	288,392,765
Equity in net income of joint venture	<b>( 71,750,421)</b>	( 59,672,939)	( 46,230,555)
Adjustments to current tax for prior years due to change in tax rate	<b>( 36,330,480)</b>	-	( 27,237,835)
Accelerated capital allowances and other short-term temporary differences	<b>( 21,504,817)</b>	( 26,436,827)	( 55,408,636)
Unrecognized (utilization of) deferred tax asset on:			
MCIT	<b>4,464,793</b>	886,622	7,077,616
Net operating loss carry-over (NOLCO)	<b>3,857,406</b>	66,941,564	164,157,566
Provision for interest expense	<u>-</u>	<u>-</u>	<u>( 168,819,140)</u>
Tax expense	<b><u>P 1,647,434,352</u></b>	<b><u>P 1,607,414,678</u></b>	<b><u>P 1,503,052,461</u></b>

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:

	<u>2019</u>	<u>2018</u>
Brand valuation	<b>(P 1,612,067,160)</b>	(P 1,832,968,656)
Right-of-use assets	<b>( 870,050,632)</b>	-
Lease liabilities	<b>850,964,738</b>	-
Short-term temporary differences	<b>( 280,151,919)</b>	( 117,459,308)
Fair value adjustment	<b>( 250,030,968)</b>	( 78,796,405)
Capitalized borrowing costs	<b>( 53,828,274)</b>	( 50,011,794)
Allowance for impairment	<b>19,105,907</b>	16,586,469
Retirement benefit obligation (asset)	<b>( 4,102,444)</b>	34,272,628
Unamortized past service costs	<b>427,424</b>	534,279
Net deferred tax liabilities	<b><u>(P 2,199,733,328)</u></b>	<b><u>(P 2,027,842,787)</u></b>

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

	<u>Consolidated Profit or Loss</u>			<u>Consolidated Other Comprehensive Income or Loss</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Brand valuation	<b>(P 220,901,496)</b>	P 193,562,656	P -	<b>P -</b>	P -	P -
Fair value adjustment	<b>171,234,563</b>	( 42,086,715)	( 247,353,640)	-	-	-
Short-term temporary differences	<b>162,692,611</b>	35,920,858	27,837,710	-	-	-
Lease liabilities	<b>120,136,046</b>	-	-	-	-	-
Retirement benefit obligation (asset)	<b>( 48,878,040)</b>	5,977,097	287,560,855	<b>87,253,112</b>	( 32,275,467)	122,180,800
Capitalized borrowing costs	<b>3,816,480</b>	9,704,056	27,914,236	-	-	-
Right-of-use assets	<b>3,321,262</b>	-	-	-	-	-
Allowance for impairment	<b>( 2,519,438)</b>	( 3,166,261)	577,015	-	-	-
Unamortized past service costs	<b>106,855</b>	106,855	106,855	-	-	-
Contingent liability	<b>-</b>	30,539,600	( 4,001,550)	-	-	-
Deferred tax expense (income)	<b><u>P 189,008,843</u></b>	<b><u>P 230,558,146</u></b>	<b><u>P 92,641,481</u></b>	<b><u>P 87,253,112</u></b>	<b><u>(P 32,275,467)</u></b>	<b><u>P 122,180,800</u></b>

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
<b>Ultimate Parent Company:</b>						
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	-	-
<b>Related Parties Under Common Ownership:</b>						
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	-	-
<b>Stockholder –</b>						
Advances obtained (paid)	22.5	-	-	( 50,000)	( 3,070,715)	( 3,070,715)
<b>Officers and Employees –</b>						
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	-	-
<b>Key Management Personnel –</b>						
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:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	<b>P 40,762,383</b>	P 37,636,599
Repayments	<b>( 48,290,061)</b>	( 40,645,514)
Additions	<b><u>41,045,994</u></b>	<u>43,771,298</u>
Balance at end of year	<b><u>P 33,518,316</u></b>	<u>P 40,762,383</u>

### **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:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	<b>P 3,070,715</b>	P 328,070,715
Repayments	<b><u>-</u></b>	<u>( 325,000,000)</u>
Balance at end of year	<b><u>P 3,070,715</u></b>	<u>P 3,070,715</u>

### **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:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	<b>P 1,142,912,243</b>	P -
Advances during the year	<u>952,459,713</u>	<u>1,142,912,243</u>
Balance at end of year	<b><u>P 2,095,371,956</u></b>	<b><u>P 1,142,912,243</u></b>

### ***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.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Short-term benefits	<b>P 213,788,841</b>	P 234,113,062	P 226,044,464
Post-employment defined benefits	<b>18,403,514</b>	10,964,655	12,868,907
Share options	<u>4,212,485</u>	<u>4,212,485</u>	<u>4,212,485</u>
	<b><u>P 236,404,840</u></b>	<b><u>P 249,290,202</u></b>	<b><u>P 243,125,856</u></b>

### ***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	<b>15,985,015,876</b>	16,197,219,676	16,120,000,000	<b>P14,392,623,076</b>	P 15,921,256,246	P16,120,000,000
Additional issuance of shares (Note 14)	-	-	122,391,176	-	-	122,391,176
Treasury shares – at cost (Notes 2.23 and 23.2)	<b>( 225,850,500)</b>	( 212,203,800)	( 45,171,500)	<b>( 1,638,071,312)</b>	( 1,528,633,170)	( 321,134,930)
Balance at end of year	<b><u>15,759,165,376</u></b>	<u>15,985,015,876</u>	<u>16,197,219,676</u>	<b><u>P 12,754,551,764</u></b>	<u>P 14,392,623,076</u>	<u>P15,921,256,246</u>

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:

<u>Date of Declaration</u>	<u>Date of Stockholders' Record</u>	<u>No. of Shares Outstanding</u>	<u>Dividend per Share</u>	<u>Total</u>
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 60<sup>th</sup> 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%	<b>P 907,699,530</b>	P 885,142,178
Boozylife	1.1(d)	49%	<b>( 8,467,560)</b>	<u>7,532,308</u>
			<b><u>P 899,231,970</u></b>	<u>P 892,674,486</u>

In 2015, AWGI issued preferred shares with voting rights which are considered as NCI as these do not result in the Group's loss of control in AWGI. 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.

	<u>2019</u>	<u>2018</u>
Current assets	<b>P 4,221,684,256</b>	P 3,499,304,958
Non-current assets	<u>3,619,076,730</u>	<u>3,731,332,397</u>
Total assets	<b><u>P 7,840,760,986</u></b>	<b><u>P 7,230,637,355</u></b>
Current liabilities	<b>P 3,365,331,968</b>	P 2,993,117,882
Non-current liabilities	<u>2,452,010,909</u>	<u>2,519,346,024</u>
Total liabilities	<b><u>P 5,817,342,877</u></b>	<b><u>P 5,512,463,906</u></b>
Revenues	<b><u>P 2,959,388,405</u></b>	<b><u>P 2,629,454,413</u></b>
Profit for the period attributable to:		
Owners of Parent Company	<b>P 122,999,575</b>	P 184,939,048
NCI	<u>122,999,575</u>	<u>184,939,048</u>
Profit for the year	<b><u>245,999,150</u></b>	<b><u>369,878,096</u></b>
Other comprehensive income (loss) attributable to:		
Owners of Parent Company	<b>( 35,427,188)</b>	68,421,155
NCI	<u>( 35,427,188)</u>	<u>68,421,155</u>
Other comprehensive income (loss) for the year	<b><u>( 70,854,376)</u></b>	<b><u>136,842,310</u></b>
Total comprehensive income for the year	<b><u>P 175,144,774</u></b>	<b><u>P 506,720,406</u></b>
Net cash from (used in):		
Operating activities	<b>P 293,761,019</b>	P 956,769,673
Investing activities	<b>( 211,359,893)</b>	<b>( 327,636,792)</b>
Financing activities	<b><u>( 51,727,230)</u></b>	<b><u>( 291,807,752)</u></b>
Net cash inflow	<b><u>P 30,673,896</u></b>	<b><u>P 337,325,129</u></b>

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):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Consolidated net profit attributable to owners of the parent company	<b>P 6,725,536,563</b>	P 6,658,236,381	P 6,321,783,945
Divided by the weighted average number of outstanding common shares	<u><b>15,919,123,588</b></u>	<u>16,102,482,130</u>	<u>16,121,009,690</u>
Basic and diluted earnings per share	<u><b>P 0.42</b></u>	<u>P 0.41</u>	<u>P 0.39</u>

On November 6, 2015, the Parent Company's BOD granted share options to certain key executives of EDI to subscribe to 118.0 million common shares of 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	<u>1,509,814,057</u>
	<u><u>P 1,733,265,531</u></u>

Except for those provisions recognized in the consolidated financial statements (see Note 16), there are other commitments and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. Management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Group's consolidated financial statements.

## 26. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to certain financial risks which result from its operating activities. The 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:

	<u>2019</u>	<u>2018</u>
Financial assets	<b>P 419,366,573</b>	P 403,388,319
Financial liabilities	<b>( 2,523,016,704)</b>	( 1,259,179,985)
	<b>(P 2,103,650,131)</b>	(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.

	<u>Reasonably possible change in rate</u>	<u>Effect in consolidated profit before tax</u>	<u>Effect in consolidated equity</u>
2019	5.97%	<u>(P 125,587,913)</u>	<u>(P 87,911,539)</u>
2018	3.81%	<u>(P 32,605,662)</u>	<u>(P 22,823,963)</u>

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:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	5	<b>P 7,740,605,656</b>	P 6,228,229,892
Trade and other receivables – net	6	<b>17,681,491,614</b>	15,630,623,827
Property mortgage receivable	11.2	<b>636,946,200</b>	650,178,519
Refundable security deposits	11.1, 11.2	<b><u>37,733,281</u></b>	<u>54,770,032</u>
		<b><u>P 26,096,776,751</u></b>	<u>P 22,563,802,270</u>

The Group's management considers that all the above financial assets that are not impaired as at the end of reporting period under review are of good credit quality.

*(a) Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Cash and cash equivalents include cash in banks and short-term placements in the Philippines which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

*(b) Trade and Other Receivables, 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	-	-	-
	<b><u>P20,795,237,886</u></b>	<b><u>P 5,908,010,391</u></b>	<b><u>P31,339,323,750</u></b>	<b><u>P 1,033,147,478</u></b>



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	P 29,077,281,127	P -
Trade and other payables	12,834,686,243	-	-	-
Equity-linked debt securities	-	-	5,402,665,931	-
	<u>P 13,638,629,527</u>	<u>P 5,442,212,646</u>	<u>P 34,479,947,058</u>	<u>P -</u>

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

## 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.

	Notes	2019		2018	
		Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial Assets:</b>					
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
		<u>P 26,096,776,751</u>	<u>P 26,096,776,751</u>	<u>P 22,563,802,270</u>	<u>P 22,563,802,270</u>
Financial assets at FVTPL	7	<u>P -</u>	<u>P -</u>	<u>P 1,208,707,500</u>	<u>P 1,208,707,500</u>
<b>Financial Liabilities:</b>					
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	-	-
		<u>P 56,489,102,837</u>	<u>P 56,489,102,837</u>	<u>P 52,108,288,063</u>	<u>P 52,108,288,063</u>
Financial liabilities at FVTPL	7	<u>P 9,105,954</u>	<u>P 9,105,954</u>	<u>P 43,492,447</u>	<u>P 43,492,447</u>

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 26.

## ***27.2 Offsetting of Financial Assets and Financial Liabilities***

Currently, the Group's financial assets and financial liabilities are settled on a gross basis because there is no relevant offsetting arrangement on them as of December 31, 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
<b>Financial assets:</b>				
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
	<b><u>P 7,740,605,656</u></b>	<b><u>P -</u></b>	<b><u>P 18,356,171,095</u></b>	<b><u>P 26,096,776,751</u></b>
<b>Financial liabilities:</b>				
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
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 56,489,102,837</u></b>	<b><u>P 56,489,102,837</u></b>
2018				
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
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
	<b><u>P 6,228,229,892</u></b>	<b><u>P -</u></b>	<b><u>P 16,335,572,378</u></b>	<b><u>P 22,563,802,270</u></b>
<b>Financial liabilities:</b>				
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
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 52,108,288,063</u></b>	<b><u>P 52,108,288,063</u></b>

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:

	<u>2019</u>	<u>2018</u>
Total liabilities	<b>P 61,269,239,793</b>	P 56,454,425,342
Total equity	<u><b>64,716,757,520</b></u>	<u>61,363,946,340</u>
Liabilities-to-equity ratio	<u><b>0.95 : 1.00</b></u>	<u>0.92 : 1.00</u>

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to stockholders, issue new shares or sell assets to reduce debt.

### 30. 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.

	<u>Equity-linked Debt Securities (see Note 14)</u>	<u>Accrued Interest Payable (see Notes 13, 14 and 15)</u>	<u>Interest- bearing Loans (see Note 13)</u>	<u>Lease Liabilities (see Notes 2 and 9)</u>	<u>Total</u>
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	<u>21,198,408</u>	<u>654,482,807</u>	<u>-</u>	<u>-</u>	<u>675,681,215</u>
Balance as of December 31, 2019	<u><b>P 5,280,000,000</b></u>	<u><b>P 141,479,085</b></u>	<u><b>P 31,939,838,586</b></u>	<u><b>P 2,021,932,115</b></u>	<u><b>P 39,383,249,786</b></u>

	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	<u>31,687,074</u>	<u>-</u>	<u>-</u>	<u>31,687,074</u>
Balance as of December 31, 2018	<u>P 5,258,801,592</u>	<u>P 72,730,168</u>	<u>P 34,014,800,228</u>	<u>P 39,346,331,988</u>

### ***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 OCCURRING 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. Emperor 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.



**P&A**  
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**Report of Independent Auditors  
to Accompany Supplementary  
Information Required by the  
Securities and Exchange Commission  
Filed Separately from the Basic  
Consolidated Financial Statements**

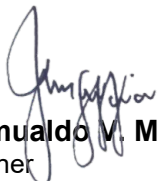
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**The Board of Directors and Stockholders  
Emperor Inc. and Subsidiaries  
(A Subsidiary of Alliance Global Group, Inc.)**  
7<sup>th</sup> Floor, 1880 Eastwood Avenue  
Eastwood City CyberPark  
188 E. Rodriguez, Jr. Avenue  
Bagumbayan, Quezon City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Emperor Inc. and Subsidiaries (“the Group”) for the year ended December 31, 2019, on which we have rendered our report dated May 28, 2020. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) are presented for purposes of additional analysis in compliance with the requirements of the Revised Securities Regulation Code Rule 68, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group’s management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

  
**By: Romualdo M. 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 08-002511-022-2019 (until Sept. 4, 2022)  
Firm’s BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

May 28, 2020

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**Certified Public Accountants**

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd (GTIL).

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SEC Accreditation No. 0002-FR-5



**EMPERADOR INC. AND SUBSIDIARIES**  
**List of Supplementary Information**  
**December 31, 2019**

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<b>Other Required Information</b>		
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	Map Showing the Relationship Between the Company and its Related Entities	7
	Aging Schedule of Trade and Other Receivables	8

**EMPERADOR INC. AND SUBSIDIARIES**

SEC Released Revised SRC Rule 68

Annex 68-J

Schedule A - Financial Assets

December 31, 2019

*(Amounts in Philippine Pesos)*

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount	Amount Shown in the Consolidated Statement of Financial Position	Value Based on Market Quotation at Statement of Condition Date	Income Received and Accrued
<b>FINANCIAL ASSETS AT AMORTIZED COST</b>				
Cash and cash equivalents		P 7,740,605,656	P 7,740,605,656	P 315,849,964
Trade and other receivables - net		17,681,491,614	17,681,491,614	-
Property mortgage receivable		636,946,200	636,946,200	-
Refundable security deposits		<u>37,733,281</u>	<u>37,733,281</u>	<u>-</u>
<b>GRAND TOTAL</b>		<b><u>P 26,096,776,751</u></b>	<b><u>P 26,096,776,751</u></b>	<b><u>P 315,849,964</u></b>

**EMPERADOR INC. AND SUBSIDIARIES**

SEC Released Revised SRC Rule 68

Annex 68-J

Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

December 31, 2019

*(Amounts in Philippine Pesos)*

Name and designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts paid (collected)	Amounts written off	Current	Not current	

***Advances to Officers and Employees***

(under the "Trade and Other Receivables" account)

P 40,762,383	P -	(P 7,244,067)	p -	P 33,518,316	p -	P 33,518,316
--------------	-----	---------------	-----	--------------	-----	--------------

EMPERADOR INC. AND SUBSIDIARIES

SEC Released Revised SRC Rule 68

Annex 68-J

Schedule C - Amounts of Receivable/Payable from/to Related Parties which are Eliminated During the Consolidation of Financial Statements

December 31, 2019

(Amounts in Philippine Pesos)

**TERMS & CONDITIONS:**

All receivables/payables are unsecured, noninterest-bearing, collectible/payable on demand, unimpaired and generally settled in cash.

Name and designation of debtor	Affected accounts	Balance at beginning of year	Additions	Deductions		Ending balance		Balance at the end of the period
				Amounts collected	Amounts written off	Current	Non current	
Emperador Distillers, Inc.	Trade and other payables	P 1,178,824,379	P 3,316,380,192	( P 149,188,000 )	p -	P 4,346,016,571	p -	P 4,346,016,571
Emperador International, Ltd.	Trade and other receivables	1,178,824,379	3,316,380,192	( 149,188,000 )	-	4,346,016,571	-	4,346,016,571
Emperador Distillers, Inc.	Trade and other payables	717,114,885	119,807,316	-	-	836,922,201	-	836,922,201
Anglo Watsons Glass, Inc.	Trade and other receivables	717,114,885	119,807,316	-	-	836,922,201	-	836,922,201
Alcazar De Bana Holdings Company, Inc.	Trade and other payables	670,229,480	-	( 130,309,047 )	-	539,920,433	-	539,920,433
Emperador Distillers, Inc.	Trade and other receivables	670,229,480	-	( 130,309,047 )	-	539,920,433	-	539,920,433
Emperador International, Ltd.	Trade and other receivables	282,700,000	( 21,875,840 )	-	-	260,824,160	-	260,824,160
Anglo Watsons Glass, Inc.	Trade and other payables	282,700,000	( 21,875,840 )	-	-	260,824,160	-	260,824,160
Emperador Distillers, Inc.	Trade and other payables	62,807,598	47,024,885	-	-	109,832,483	-	109,832,483
Tradewind Estates, Inc.	Trade and other receivables	62,807,598	47,024,885	-	-	109,832,483	-	109,832,483
Anglo Watsons Glass, Inc.	Trade and other payables	27,231	38,137,269	-	-	38,164,500	-	38,164,500
Emperador Distillers, Inc.	Trade and other receivables	27,231	38,137,269	-	-	38,164,500	-	38,164,500
Emperador Distillers, Inc.	Trade and other payables	-	11,286,000	-	-	11,286,000	-	11,286,000
Alcazar De Bana Holdings Company, Inc.	Trade and other receivables	-	11,286,000	-	-	11,286,000	-	11,286,000
Emperador Distillers, Inc.	Trade and other receivables	-	3,892,462	-	-	3,892,462	-	3,892,462
Boozylife, Inc.	Trade and other payables	-	2,456,011	-	-	2,456,011	-	2,456,011
Progreen Agricorp, Inc.	Trade and other payables	-	1,427,728	-	-	1,427,728	-	1,427,728
Anglo Watsons Glass, Inc.	Trade and other payables	-	8,723	-	-	8,723	-	8,723
Emperador Distillers, Inc.	Subscription payable	1,875,000	-	-	-	1,875,000	-	1,875,000
The Bar Beverage, Inc.	Subscription receivable	1,875,000	-	-	-	1,875,000	-	1,875,000
Emperador Distillers, Inc.	Subscription payable	1,875,000	-	-	-	1,875,000	-	1,875,000
Cocos Vodka Distillers Philippines, Inc.	Subscription receivable	1,875,000	-	-	-	1,875,000	-	1,875,000
Emperador Distillers, Inc.	Subscription payable	1,875,000	-	-	-	1,875,000	-	1,875,000
Zabana Rum Company, Inc.	Subscription receivable	1,875,000	-	-	-	1,875,000	-	1,875,000
Emperador Distillers, Inc.	Subscription payable	25,270	-	-	-	25,270	-	25,270
Alcazar De Bana Holdings, Inc.	Subscription receivable	25,270	-	-	-	25,270	-	25,270

**EMPERADOR INC. AND SUBSIDIARIES**

SEC Released Revised SRC Rule 68

Annex 68-J

Schedule D - Long-term Debt

December 31, 2019

*(Amounts in Philippine Pesos)*

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet
Equity-linked debt securities	P <u>5,280,000,000</u>	P <u>1,836,250,000</u>	P <u>3,443,750,000</u>
Interest-bearing loans	P <u>31,939,838,586</u>	P <u>6,641,109,379</u>	P <u>25,298,729,207</u>

**EMPERADOR INC. AND SUBSIDIARIES**

SEC Released Revised SRC Rule 68

Annex 68-J

Schedule G - Capital Stock

December 31, 2019

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Capital stock - P1 par value	20,000,000,000	15,759,165,376	846,275,862	13,720,522,095	7	2,038,643,274

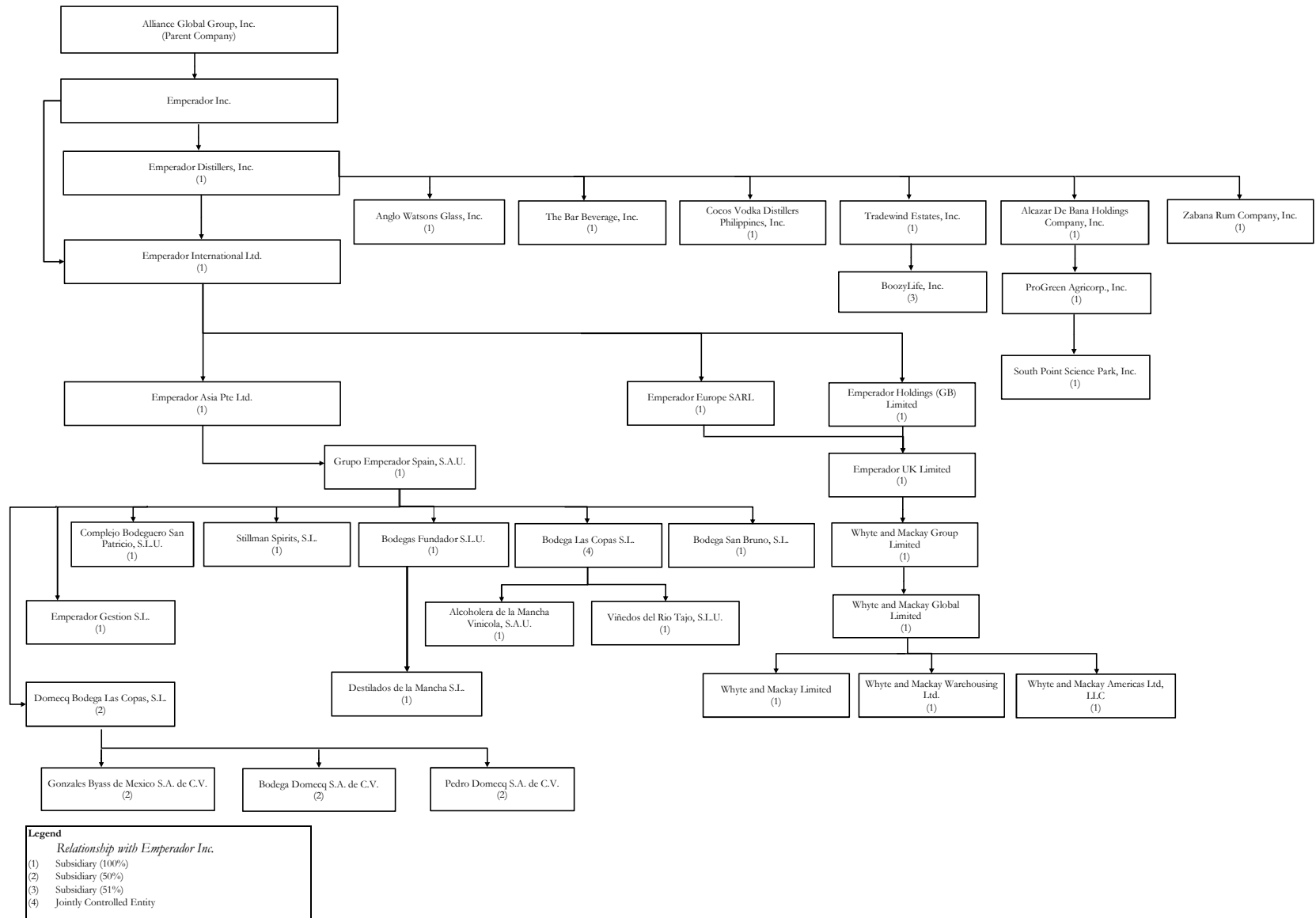
EMPERADOR INC.

7<sup>th</sup> Floor, 1880 Eastwood Avenue, Eastwood City CyberPark  
188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City

Schedule H - Reconciliation of Retained Earnings Available for Dividend Declaration  
For the Year Ended December 31, 2019

Unappropriated Retained Earnings at Beginning of Year	P	2,635,686,346	
Retained Earnings Restricted for Treasury Shares	(	<u>1,849,768,100</u> )	
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted		785,918,246	
Net income per Audited Financial Statements		2,507,505,273	
<b>Other Transactions During the Year</b>			
Acquisition of treasury shares	( P	1,638,071,312)	
Dividends declared	(	<u>787,958,269</u> )	( <u>2,426,029,581</u> )
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year	<b>P</b>	<b><u>867,393,938</u></b>	

**EMPERADOR INC. AND SUBSIDIARIES**  
**Map Showing the Relationship Between Emperor Inc.**  
**and its Related Parties**  
**December 31, 2019**





**EMPERADOR INC. AND SUBSIDIARIES**  
**SCHEDULE J - AGING SCHEDULE OF TRADE AND OTHER RECEIVABLES**  
**DECEMBER 31, 2019**  
*(Amounts in Thousand Philippine Pesos)*

Trade Receivables	
Current	12,190,005
1 to 30 days	2,312,361
31 to 60 days	422,375
Over 60 days	<u>599,188</u>
 Total	 15,523,929
 Other receivables	 <u>8,196,396</u>
 <b>Balance at December 31, 2019</b>	 <b><u><u>23,720,325</u></u></b>



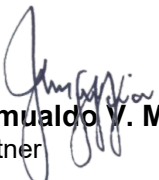
## **Report of Independent Auditors on Components of Financial Soundness Indicators**

**Punongbayan & Araullo**  
20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines  
T +63 2 8988 22 88

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Emperador Inc. and Subsidiaries (“the Group”) for the year ended December 31, 2019 and 2018, on which we have rendered our report dated May 28, 2020. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group’s management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group’s consolidated financial statements as at December 31, 2019 and 2018 and for each of the two years in the period ended December 31, 2019 and no material exceptions were noted.

### **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 08-002511-022-2019 (until Sept. 4, 2022)  
Firm’s BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

May 28, 2020

**EMPERADOR INC. AND SUBSIDIARIES**  
**Supplemental Schedule of Financial Soundness Indicators**  
**December 31, 2019 and 2018**

<b>Ratio</b>	<b>Formula</b>	<b>2019</b>	<b>Formula</b>	<b>2018</b>
Current ratio	Total Current Assets divided by Total Current Liabilities  Total Current Assets 63,844,791,955 Divide by: Total Current Liabilities 28,445,063,046 Current ratio 2.24	2.24	Total Current Assets divided by Total Current Liabilities  Total Current Assets 56,000,020,273 Divide by: Total Current Liabilities 20,217,389,290 Current ratio 2.77	2.77
Acid test ratio	Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities  Total Current Assets 63,844,791,955 Less: Inventories 30,509,303,278 Other Current Assets 1,874,557,688 Quick Assets 31,460,930,989 Divide by: Total Current Liabilities 28,445,063,046 Acid test ratio 1.11	1.11	Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities  Total Current Assets 56,000,020,273 Less: Inventories 28,395,973,338 Other Current Assets 1,291,326,181 Quick Assets 26,312,720,754 Divide by: Total Current Liabilities 20,217,389,290 Acid test ratio 1.30	1.30
Solvency ratio	Earnings before interest, taxes, depreciation and amortization ("EBITDA") divided by Total Debt  EBITDA 10,807,123,927 Divide by: Total Debt 37,219,838,586 Solvency ratio 0.29	0.29	EBITDA divided by Total Debt  EBITDA 10,332,157,783 Divide by: Total Debt 39,273,601,820 Solvency ratio 0.26	0.26
Debt-to-equity ratio	Total Debt divided by Total Equity  Total Debt 37,219,838,586 Divide by: Total Equity 64,716,757,520 Debt-to-equity ratio 0.58	0.58	Total Debt divided by Total Equity  Total Debt 39,273,601,820 Divide by: Total Equity 61,363,946,340 Debt-to-equity ratio 0.64	0.64
Assets-to-equity ratio	Total Assets divided by Total Equity  Total Assets 125,985,997,313 Divide by: Total Equity 64,716,757,520 Assets-to-equity ratio 1.95	1.95	Total Assets divided by Total Equity  Total Assets 117,818,371,682 Divide by: Total Equity 61,363,946,340 Assets-to-equity ratio 1.92	1.92
Interest rate coverage ratio	Earnings before interest and taxes ("EBIT") divided by Interest expense  EBIT 9,261,464,617 Divide by: Interest expense 781,494,014 Interest rate coverage ratio 11.85	11.85	EBIT divided by Interest expense  EBIT 9,255,250,466 Divide by: Interest expense 818,886,057 Interest rate coverage ratio 11.28	11.28
Liabilities-to-equity ratio	Total Liabilities divided by Total Equity  Total Liabilities 61,269,239,793 Divide by: Total Equity 64,716,757,520 Liabilities-to-equity ratio 0.95	0.95	Total Liabilities divided by Total Equity  Total Liabilities 56,454,425,342 Divide by: Total Equity 61,363,946,340 Liabilities-to-equity ratio 0.92	0.92
Return on equity	Net Profit divided by Total Equity  Net Profit 6,832,536,251 Divide by: Total Equity 64,716,757,520 Return on equity 0.11	0.11	Net Profit divided by Total Equity  Net Profit 6,828,949,731 Divide by: Total Equity 61,363,946,340 Return on equity 0.11	0.11

<b>Ratio</b>	<b>Formula</b>	<b>2019</b>	<b>Formula</b>	<b>2018</b>
Return on assets	Net Profit divided by Average Total Assets Net Profit 6,832,536,251 Divide by: Average total Assets 121,902,184,498 Return on assets 0.06	0.06	Net Profit divided by Average Total Assets Net Profit 6,828,949,731 Divide by: Average total Assets 114,677,076,836 Return on assets 0.06	0.06
Net profit margin	Net Profit divided by Total Revenue Net Profit 6,832,536,251 Divide by: Total Revenue 51,565,480,173 Net profit margin 0.13	0.13	Net Profit divided by Total Revenue Net Profit 6,828,949,731 Divide by: Total Revenue 47,050,421,022 Net profit margin 0.15	0.15

Trucost  
ESG Analysis

S&P Global

# Emperador Inc.

# ESG Report

Financial Year 2019



**Credits**

**Erik Christianto** | Account Director

**Rochelle March** | Manager

**Byford Tsang** | Senior Analyst

**Ankita Sinha** | Senior Specialist

**About Trucost**

Trucost is part of S&P Global. A leader in carbon and environmental data and risk analysis, Trucost assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors. Companies and financial institutions use Trucost intelligence to understand their ESG exposure to these factors, inform resilience and identify transformative solutions for a more sustainable global economy. S&P Global's commitment to environmental analysis and product innovation allows us to deliver essential ESG investment-related information to the global marketplace. For more information, visit [www.trucost.com](http://www.trucost.com).

**About S&P Global**

S&P Global (NYSE: SPGI) is a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide. For more information, visit [www.spglobal.com](http://www.spglobal.com).

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## About Emperador

Emperador Inc. (hereafter “*Emperador*”) is a holding company which operates an integrated business of manufacturing, bottling, and distributing distilled spirits and other alcoholic beverages worldwide. It offers brandy, whisky, vodka, gin, Scotch whisky, wine and rum. In addition, it engages in warehousing and blending bulk whisky, operating vineyards, manufacturing flint glass containers, managing and maintaining office, commercial, industrial and institutional developments in a science park, and undertakes management of port operations. It markets its products primarily to hypermarkets, supermarkets, wholesalers, traders, grocery outlets, convenient stores, and local neighborhood small sari-sari, stores. The company is based in Quezon City, Philippines. Emperador operates as a subsidiary of Alliance Global Group, Inc. It has subsidiaries located in the Philippines, Scotland, Spain and Mexico.

## Introduction

Companies in the alcoholic beverages industry rely on purchased electricity and fuel as critical inputs for value creation. Companies that manage their overall energy use through increased efficiency and use of alternative energy sources can increase profitability by lowering expenses and reducing risk. The alcoholic beverages sector also uses a large amount of water in its operations, as water is a key input to its finished products. Improving water management through increased efficiency and recycling, particularly in regions with baseline water stress, can lead to lower operating costs, reduced risk, and higher intangible asset value.

The alcoholic beverages industry can face reputational harm, or even taxes and lawsuits, due to irresponsible consumption of alcoholic beverages by customers that can lead to accidents or mortality. Through education, engagement, community partnerships and responsible marketing, particularly to underage individuals, companies can address and mitigate many of the issues associated with alcohol misuse. Companies that effectively manage this issue can reduce the likelihood of extraordinary expenses, improve market share, and decrease liabilities.

Emperador engaged Trucost to review its reporting of environmental, social and governance (ESG) impacts for the financial year of 2019 (FY2019), which comprised January 2019-December 2019. Emperador is interested in measuring its baseline ESG impact that it can use to track progress against ESG-related activities over time. The results from this report are in line with common sustainability reporting frameworks and can be reporting in alignment with GRI, CDP, SASB and TCFD, among others, and can satisfy the sustainability reporting requirements for the Philippines Securities and Exchange Commission.

Proactively identifying key materiality issues provides companies with the opportunity to increase their value, both in business and financial terms. Focusing on these material ESG issues can allow companies to positively impact their growth in terms of profit and customers, while failure to address these issues can have an effect on a company's reputation and profits. Through the ESG report, Emperador can communicate the company's commitment to sustainable development and its key achievements, practices, and management approaches to its target audiences and stakeholders.

## Scope

Emperador assessed and disclosed environmental, social and governance impacts for its owned buildings and operations in the Philippines, Spain, Mexico and Scotland.

Environmental indicators covered include:

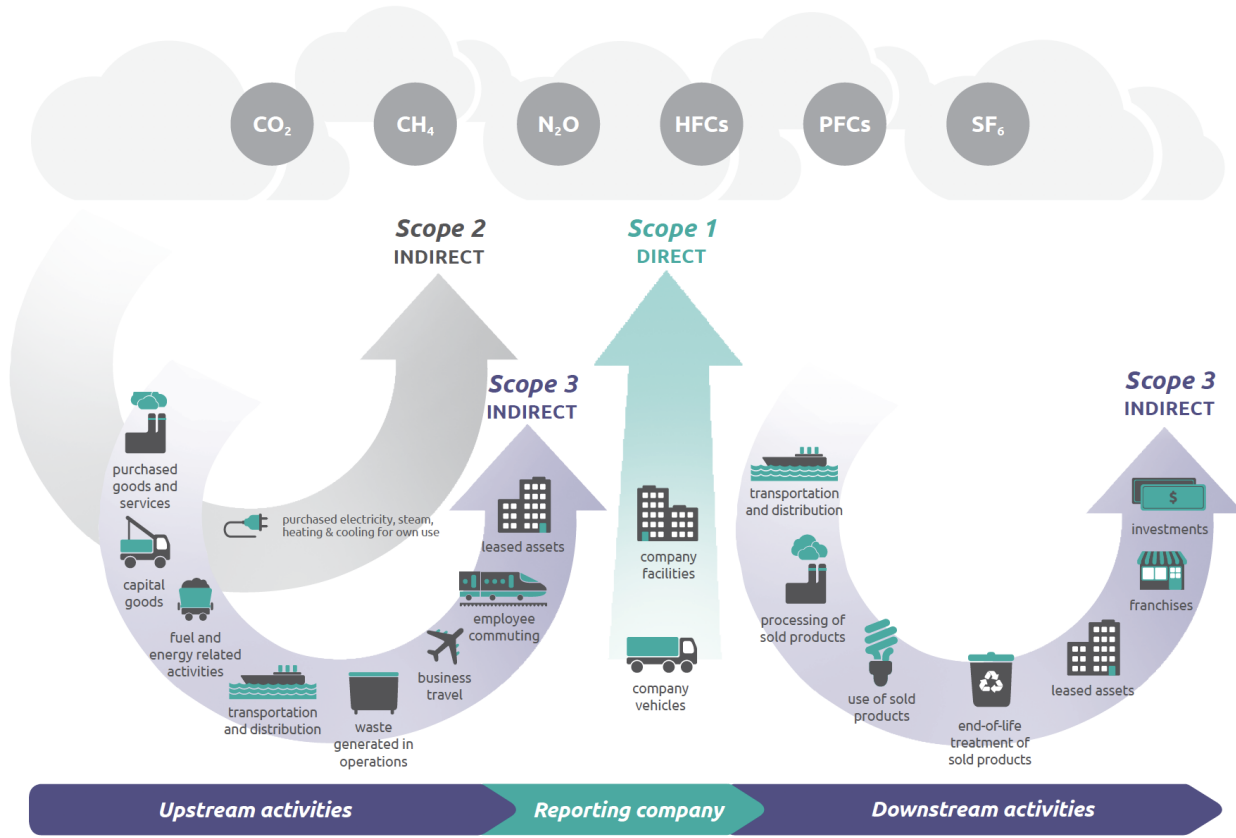
- GHG emissions, scope 1, 2 and select scope 3 (see exhibit 1 below)
- Electricity use
- Waste generation
- Water use



- Environmental standards

The figure below summarizes an organization’s sources of GHG emissions, across scope 1 (direct emissions), scope 2 (indirect emissions, primarily purchased electricity) and scope 3 (indirect emissions from upstream suppliers and downstream customers).

FIGURE 1: SCOPE OF VALUE CHAIN GHG EMISSIONS FOOTPRINT



Source: WRI (2015) GHG Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard

Social indicators covered include:

- Workforce diversity
- Workforce safety
- Employee training and development

Governance indicators covered include:

- Data privacy and security
- Electronic waste
- Stakeholder management
- Business ethics

## Board Statement

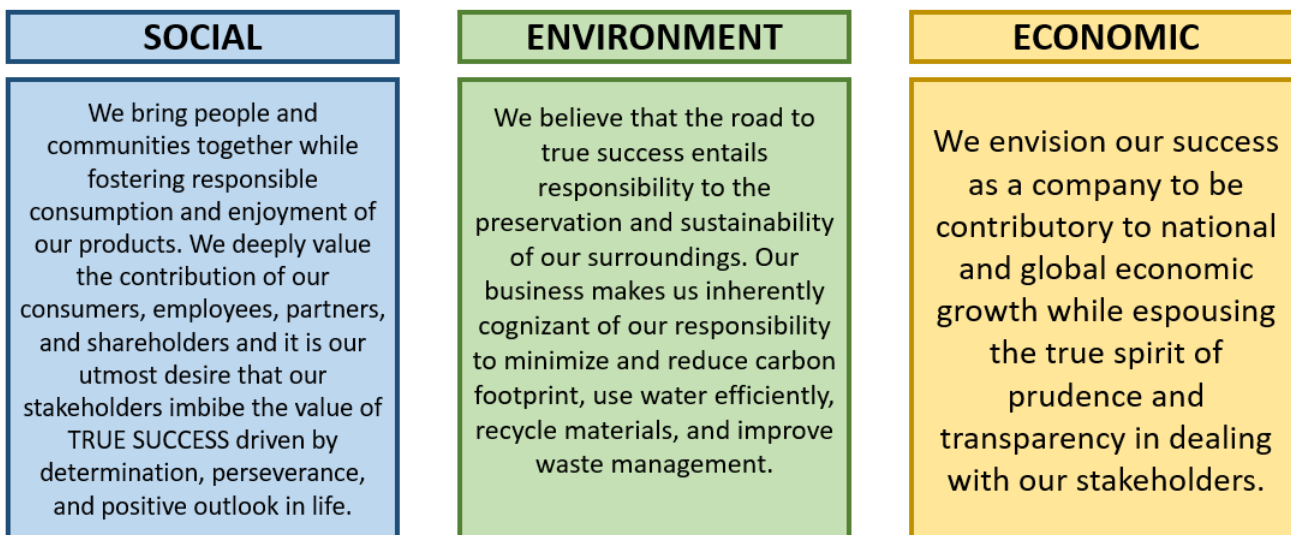
*The Board of Directors of the Company (the “Board” or the “Directors”) are committed to maintaining a high standard of corporate governance and transparency within the Group and adopt sustainability reporting practices based on the Securities Exchange Commission’s Sustainability Reporting Guidelines for Publicly-Listed Companies (“Guidelines”). The Board has adopted the Guidelines where appropriate so as to strengthen corporate governance and reporting practice and foster greater corporate disclosure.*

*In addition, it has embraced the Guidelines, which requires every listed issuer to prepare an annual sustainability report. This report is developed in line with the Guidelines on a ‘comply or explain’ basis. The policies, targets, risks and opportunities identified within an external independent review are monitored and reported within this ESG report and the Board commits to oversee the appropriate activities are undertaken to achieve the good practice targets set.*

*The Company recognizes the importance of good governance for continued growth and investors’ confidence. In line with the commitment by the Company to maintaining high standards of corporate governance, the Company will continually review its corporate governance processes to strive to fully comply with the Guidelines. The Board confirms that for the financial year ended 31 December 2019 (“FY2019”), the Company has generally adhered to the principles and guidelines set out in the Guidelines, and where there are deviations from the Guidelines, appropriate explanations are provided.*

## Emperador Sustainability Statement

**OUR PURPOSE IS TO PARTICIPATE AND ENRICH THE CELEBRATION OF LIFE’S SPECIAL OCCASSIONS WHILE WE MAKE VIABLE EFFORTS AT CONTRIBUTING TO THE PROTECTION OF THE ENVIRONMENT, DEEPENING OF SOCIAL INTERACTIONS, AND BETTERMENT OF PRUDENCE IN GOVERNANCE.**



# ESG Materiality



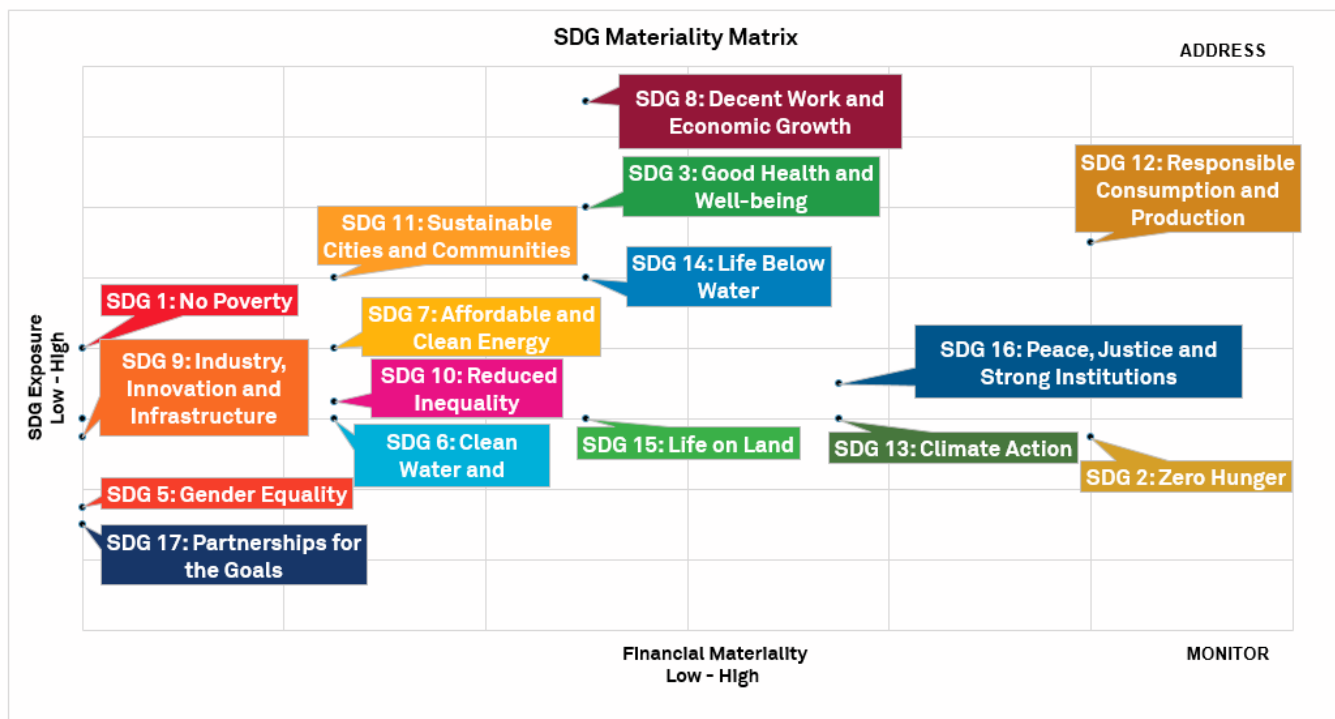
Trucost considered sector-level materiality to identify all issues relevant to companies operating in the associated sectors. These themes were identified using SASB, investor trend review and a wider literature review. Sector-level materiality was identified and refined based on specific practices of the company. Many of these issues are not applicable to Emperor due to its specific operations. Exhibit 1 highlights the material ESG issues identified for Emperor. Sector level issues that are not relevant to Emperor, but were considered, are represented with dark grey shading, while issues that are immaterial for the sector and operations are colored light grey.

## SDG Materiality

In 2015, the United Nations developed a blueprint for achieving peace and prosperity for people and the planet by 2030 in the form of 17 global goals and 169 targets for sustainable development. The United Nations Sustainable Development Goals (SDGs) are a call to action for governments, society and the private sector to achieve a more sustainable future. Since their launch in 2015, the SDGs have garnered widespread backing among companies and investors who have made progress towards aligning business strategies and capital allocation with the SDGs.

Exhibit 2 displays the top material SDGs for Emperor based on the company’s operating sector and geographies and financial materiality<sup>1</sup>. The matrix ranks the SDGs for Emperor based on the level of importance of issues related to an SDG based on Emperor’s operating sectors and geographies and the degree of financial materiality of issues underlying each SDG. SDGs in the right-hand upper quadrant of the matrix are considered high in both financial materiality and potential risk exposure related to the SDGs; it is recommended that Emperor prioritize activities related to addressing these SDGs in order to mitigate any adverse impacts to or by the company. In the right-hand lower quadrant are SDGs that are considered high in financial materiality, but lesser in magnitude in terms of issues related to the SDGs that may affect or be affected by Emperor; it is recommended to monitor these SDG-related issues.

EXHIBIT 2: SDG MATERIALITY MATRIX



<sup>1</sup> Top financial material issues are provided by the SASB Materiality Matrix (<https://materiality.sasb.org/>) and mapped by Trucost to associated SDGs.

## Environmental Impact

### Operational Greenhouse Gas Emissions

Trucost reviewed Emperador’s environmental data for FY2019. Exhibit 3 below relates the key findings for environmental impacts. These impacts are described in absolute terms, or their total volume, as well as in intensity terms by m<sup>2</sup> of Emperador floor area (25,600 m<sup>2</sup>), by employee (3,457 employees) and revenue (51,565 mPHP).

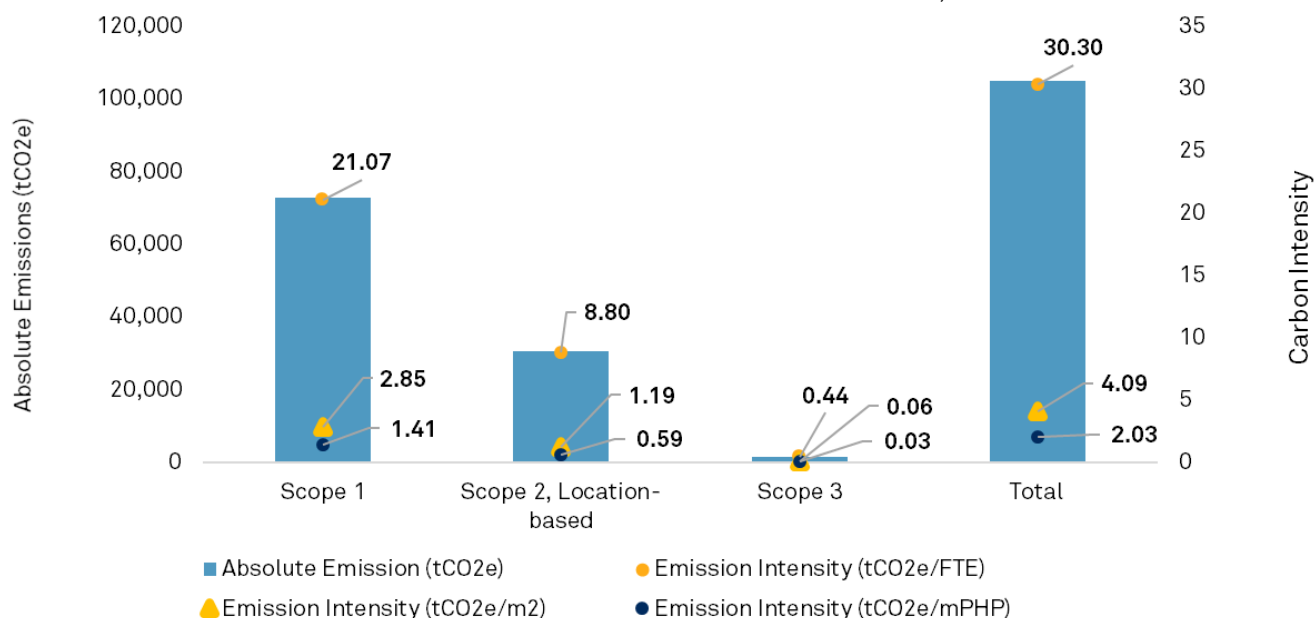
EXHIBIT 3: COMBINED DIRECT AND INDIRECT OPERATIONAL GREENHOUSE GAS EMISSIONS, FY2019

Scope	Absolute Emissions	Carbon Intensity		
		tCO2e per million PHP revenue	tCO2e per employee	tCO2e per m2 floor area
Scope 1	72,837	1.41	21.07	2.85
Scope 2 (Location-Based)	30,410	0.59	8.80	1.19
Scope 3 (Location-based)	1,506	0.03	0.44	0.06
<b>Total Emissions</b>	<b>104,753</b>	<b>2.03</b>	<b>30.30</b>	<b>4.09</b>

Breakdown of emissions

Scope	Category	Absolute emissions tCO2e
Scope 1	Stationary Emissions	70,419
Scope 1	Mobile Emissions	2,418
Scope 2	Electricity: Location-based	30,410
Scope 3	Category 5: Waste generated in operations	456
Scope 3	Category 6: Business travel	1,051
<b>Total Emissions</b>		<b>104,753</b>

EXHIBIT 4: GHG EMISSIONS ABSOLUTE VALUES AND INTENSITY VALUES, FY2019



### Direct (Scope 1) GHG Emissions

One component of GHG emissions from organizational operations are direct (or scope 1) emissions derived from propane, diesel, natural gas consumption for boilers, gas turbine, diesel generators, owned transportation and refrigeration processes. Emperador’s scope 1 emissions during FY2019 was 72,837.34 tCO<sub>2</sub>e, and the intensities of GHG emissions normalized by square meter of floor area, employees and revenue were 2.85 tCO<sub>2</sub>e/m<sup>2</sup>, 21.07 tCO<sub>2</sub>e/employee and 1.41 tCO<sub>2</sub>e/mPHP, respectively.

### Indirect (Scope 2) GHG Emissions

A second component of GHG emissions related to organizational operations are indirect scope 2 emissions primarily from the consumption of purchased electricity. Emperador’s scope 2 emissions during FY2019 was 30,409.52 tCO<sub>2</sub>e. Emperador relies on electricity purchased from an electric grid for most of its energy requirements. However, biomass is used as an alternative source of energy in its distillery operations, which includes five distilleries in Scotland, one in Spain and two in the Philippines. At its distilleries in the Philippines, Emperador has also invested in anaerobic digester technology, while Progreen units use biofuel for their energy needs. The intensities of GHG emissions normalized by square meter floor area, employees and revenue were 1.19 tCO<sub>2</sub>e/m<sup>2</sup>, 8.8 tCO<sub>2</sub>e/employee and 0.59 tCO<sub>2</sub>e/mPHP, respectively.

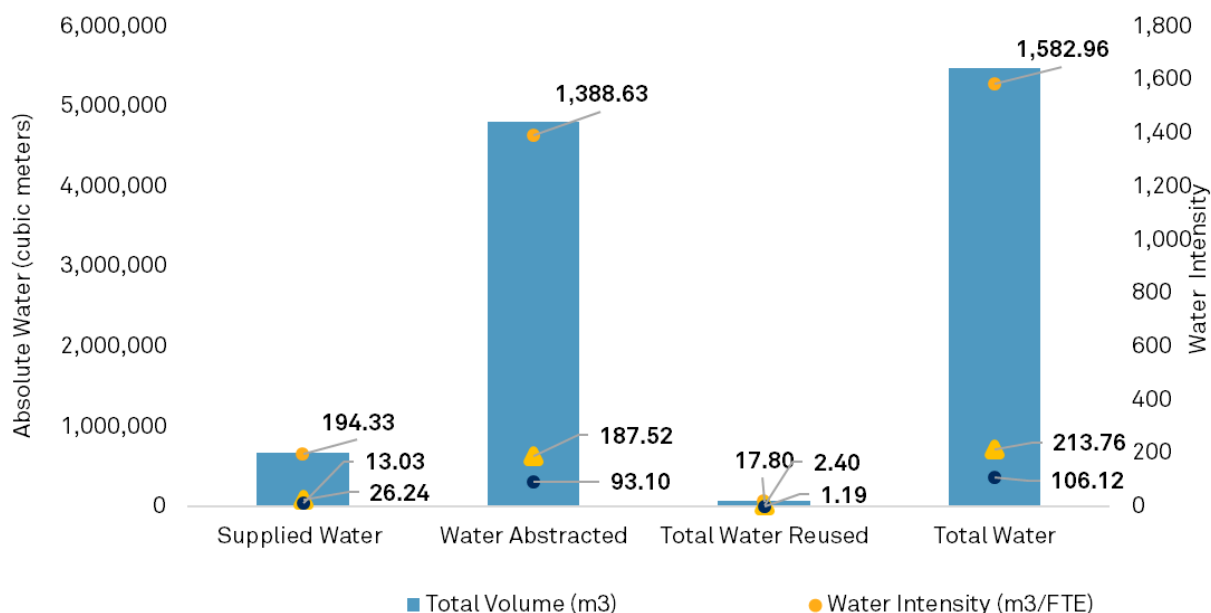
### Indirect (Scope 3) GHG Emissions

A final component of GHG emissions related to organizational operations are indirect scope 3 emissions. Emperador’s scope 3 emissions during FY2019 was estimated for category 5, waste generated in operations and category 6, business travel. The intensities of GHG emissions normalized by square meter floor area, employees and revenue were 0.06 tCO<sub>2</sub>e/m<sup>2</sup>, 0.44 tCO<sub>2</sub>e/employee and 0.03 tCO<sub>2</sub>e/mPHP, respectively.

## Water Use

In FY2019, absolute water use was 5,472,306.1 cubic meters (m<sup>3</sup>), with 671,809 m<sup>3</sup> from supplied water from utilities and 4,800,497.1 m<sup>3</sup> directly abstracted. A total of 61,539.5 m<sup>3</sup> or 1.12% of total water was reused. In order to regulate water intensity, the vineyards in Spain have already invested in controlled deficit irrigation technology that controls the water use in vine irrigation while ensuring collection and reuse of water. Water use intensity normalized by square meter of floor area, employee and revenue were 213.76 m<sup>3</sup>/m<sup>2</sup>, 1,582.96 m<sup>3</sup>/employee and 106.12 m<sup>3</sup>/mPHP, respectively.

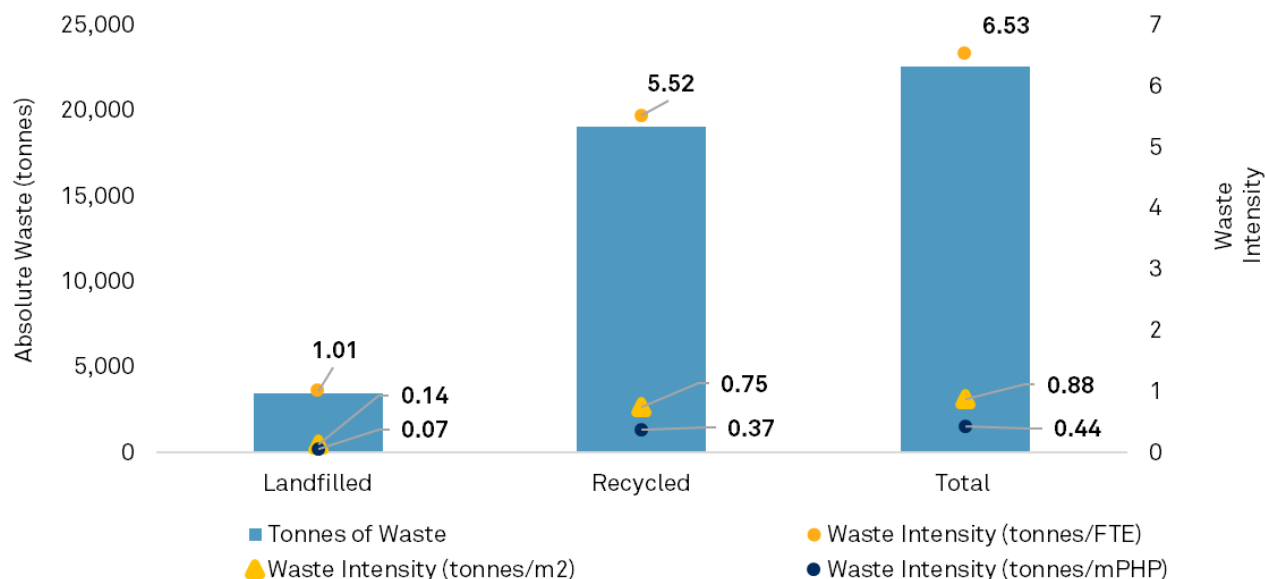
EXHIBIT 5: WATER USE, FY2019



## Waste Generation and Recycling

Absolute waste generated in FY2019 was 22,587.94 tonnes, with 85% of waste recycled and the remaining 15% sent to landfill. Major types of waste that contributed to the total mass were solid waste, food waste, textile, glass and paper. The intensity of total waste generated normalized by square meter of floor area, employee and revenue were 0.88 tonnes/m<sup>2</sup>, 6.53 tonnes/employee and 0.44 tonnes/mPHP.

EXHIBIT 6: LANDFILLED AND RECYCLED WASTE, FY2019



## Environmental Standard

The operation at Emperador’s Bodegas Fundador plant in Spain is in adherence with ISO 14001 for the production, blending and bottling of wine spirits. Emperador’s operation in the Philippines, Mexico and Scotland complies with the applicable environmental legislations and regulations.

## Contamination Risk Management

Emperador has environmental management policies in place to reduce their negative ecological impact and preserve ecosystem and their services. The Environment Management Program and the Waste Management Program at EDI serve the purpose of setting guidelines for effective contamination management and ecosystem preservation.

The Environment Management Program at EDI sets guidelines for

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

The Waste Management Program at EDI sets guidelines for

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

These guidelines/ programs are in line with the following acts:

- RA 9003: Ecological Solid Waste Management of 2000
- RA 6969: Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990
- RA 8749: Philippine Clean Air Act of 1999
- RA 9275: Clean Water Act of 2002
- DENR Administrative Order No. 2013-22: Revised Procedures and Standards for Management of Hazardous Wastes (Revised DAO 2004-36)



## Social Impact

### Workforce Diversity

Overall, the company has 3,457 employees with approximately 76% male and 24% female representation.

EXHIBIT 7: DIVERSITY AND EMPLOYEE REPRESENTATION, FY2019

Male	Female	Total
2,632	825	3,457

### Workplace Safety

In FY2019, the recordable incident rate (TRIR) for permanent employees was 40.94 and the near miss frequency rate (NMFR) was 34.97. The total recordable incident rate (TRIR) for seasonal employees was nil and the near miss frequency rate (NMFR) was reported to be 0.73.

EXHIBIT 8: WORKPLACE SAFETY, FY2019

Workplace Safety		
Permanent Employees		Seasonal Employees
Total recordable incident rate (TRIR)	40.94	0
Near miss frequency rate (NMFR)	34.97	0.73

At Emperador, health and safety of employees is a top priority. The Safety Officer, periodically organizes training programs and seminars to improve employee awareness and knowledge on health and safety at workplace. Safety reminders, in the form of sign-boards, have been placed at various strategic location across all the sites to further improve employee sensitization towards health and safety. The company also provides all the necessary Personnel Protective Equipment (PPE) to all its employees.

After every health and safety incident, the Safety Team undertakes a root-cause analysis of the incident and prepares an investigation report for further perusal. After identifying the cause, the Safety Officer conducts debriefing to the involved employee when he/she reports back to work. The Safety Officer further conducts a safety re-orientation session as a reminder for all other employees focusing on the recent incident to prevent recurrence.

### Employee Training and Development

Emperador recognizes that training and education form an important part in the development of employee skills and supporting career development. In 2019, the company dedicated 18,077,311 PHP on training employees. Additionally, performance reviews are scheduled bi-annually to support in career development, promotion and merit enhancement. Emperador also provides several government mandated and voluntary benefits to its employees such as leaves, salary loans, saving benefits, several loans options, medical benefits, and other benefits.

EXHIBIT 9: EMPLOYEE TRAINING AND DEVELOPMENT, FY2019

Employee Training	
Number of hours of training completed for all employees	169,393
Total expenditure on employee training programs	18,077,311 PHP
Employee Development	

<b>Percentage of employees receiving regular performance and career development reviews</b>	100%
---	------

## Customer Management

Emperador values its customers as one of its most important stakeholders. Thus, the management of customer complaints and grievances are given a high priority. Customer complaints are handled by both Commercial Services team and the Quality Assurance Department.

Emperador also carries out periodic Customer Satisfaction Survey to know the degree of satisfaction of its clients with respect to issues related to the service, quality and food safety of the products. In addition, its Customer Satisfaction Policy describes the procedures and actions for addressing customer satisfaction and the collection of important data on the satisfaction of customers. This policy references the following standards:

- ISO9001
- FSSC22000
- BRC and IFS

## Governance

### Data Privacy and Security

Emperador collects clients and customer data in accordance to its privacy policy and applicable data privacy regulations. Emperador maintains secondary data for all its companies as part of its disaster recovery measures. During the reporting period, no requests for data were made by regulatory authorities in the past year.

EXHIBIT 10: DATA PRIVACY AND SECURITY, FY2019

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

### Electronic Waste

Computer equipment, such as disk servers, desktop computers and mobile phones at end-of-life, especially storage media, are disposed of provided that the procedure shall include the use of 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 de-identify/anonymize personal information if it is no longer needed. Data may be pseudomized/anonymized, as deemed appropriate, to prevent unique identification of an individual.

### Stakeholder Management

Emperador considers suppliers, communities and customers as its primary stakeholders. The company has a supplier code of conduct and suppliers must have relevant permits to operate with Emperador. The company is committed in resolving issues raised by customers through its Credit and Collections department and its Customer Relations department.

Regarding suppliers, Emperador has a Security Policy for the health, quality and environmental and social considerations of its facilities that produce the company's products. The policy promotes an ambitious adherence to social and

environmental priorities for suppliers. In addition, Emperador has a procurement policy regarding the purchase of equipment, services and products for the production of its products that references the following standards:

- ISO9001
- FSSC22000
- BRC and IFS
- PRO-003 for the evaluation procedure for suppliers

## Responsible labelling

As an alcoholic beverage company, it becomes imperative for Emperador to ensure that its business undertakes all necessary precautions in marketing to ensure only intended use of its products. One such effort is through responsible labelling.

Emperador ensures that its advertising impression is targeted at consumer segment above the legal drinking age. Digital platforms have age-verified gateway. Similarly, all other marketing campaigns, on trade and off trade presentations and product catalogues strictly adhere to the norms of legal drinking age.

### EXHIBIT 11: RESPONSIBLE LABELLING

Responsible Labelling	
Percentage of total advertising impressions made on individuals at or above the legal drinking age	100%
Number of incidents of non-compliance with industry or regulatory labelling and/or marketing codes	0
Total amount of monetary losses as a result of legal proceedings associated with marketing and/or labeling practices	0

Some of the efforts taken to promote responsible consumption of alcohol are:

- Launch of Club Mix non-alcoholic mixers, to promote mixing for Emperador and The Bar gin products, which lowers the ABV
- Launch of Emperador Double Light and Whyte and Mackay Light – lower ABV variant
- Launch of Pink Responsibly (Drink Responsibly) Campaign at The Bar Pink Gin
- Membership of Drink aware and Scottish Government Alcohol Group
- In Spain:
  - i) Collaboration with FEBE in the commitment to society and the problems derived from the consumption of alcoholic beverages
  - ii) Processing the creativities to AUTOCONTROL, which is an independent advertising self-regulatory organisation (SRO) in Spain for responsible advertising and comprises of advertisers, advertising agencies, media and professional associations

## Business Ethics

Emperador ensures that all transactions are executed fairly within the company’s codes of conduct. Emperador expects each employee to observe the highest standards of business ethics. An employee cannot engage in any activity that would create conflict or interfere with the performance of his responsibilities. Receiving of gifts from third parties is not allowed.

Emperador values all information received from whistle blowers and/or 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.

The company's risk management periodically reviews project progress and compliance to various government agencies. Given that constructions are contracted to suppliers, Emperador vets them carefully and ensures that they have secured environmental compliance licenses.

EXHIBIT 12: GOVERNANCE INDICATORS, FY2019

<b>Policies and Practices</b>	
<b>Total amount of monetary losses as a result of legal proceedings associated with money laundering</b>	None
<b>Anti-money laundering policy in place</b>	Yes The policy is in accordance with RA 9160 Anti-Money Laundering Act – its implementing rules and regulations.
<b>Anti-corruption policy in place?</b>	A group-level policy is currently being drafted but offshore subsidiaries have their policies in place. The Philippine units operate in compliance with the Anti-Graft and Corrupt Practices Act.
<b>Grievance mechanism in place for whistle-blowers</b>	For each subsidiary or affiliate, reports of wrongdoing may be made directly to the Chairman or President for proper disposition to ensure confidentiality of information and protection of the identity of the whistle blower.
<b>Policy or standard practices to identify risk of contamination, and the containment or remediation strategies deployed?</b>	Yes Emperador has quality control manual and sanitation policy for this purpose.
<b>Ethical procurement policy in place?</b>	Yes Emperador has a Purchase and Provisioning procedure that takes into consideration food safety and food security in procurement practice.

## UN Sustainability Development Goals

For 2019, Emperador introduced its support, which is relentlessly being carried out to date, to the United Nations Sustainable Development Goals (UN SDGs). The aim is to showcase its cumulative efforts through the years as aligned to the UN SDGs and how it brings about the company's impact to the community at large. Emperador focused on the following UN SDGs:



### #3: Good Health and Well-Being

Emperador promotes responsible consumption and enjoyment of its products. It runs marketing campaigns focusing on responsible drinking, and partners with organization to attain such objectives. Emperador started training their employees about the dangers related to drinking, in particular when driving under the influence of alcohol. It plans to roll-out these programs outside the organization for 2020, by educating its consumers.

It also partners with local government and organizations in its annual medical and dental missions, as well as feeding and blood-letting programs.

### #5: Gender Equality

Emperador values the contribution of women in the workplace, and empowers them by appointing women in the executive management team.

### #7: Affordable and Clean Energy

Emperador have long transitioned to natural and LED lighting. This process is on-going as it refurbished existing facilities and construct new ones, locally and globally. It also implements natural ventilation in the designs in all its facilities globally. These efforts reduce carbon emissions and energy consumption.

In its distilleries in Nasugu and Balayan, Batangas, Emperador invested in Anaerobic Digester. This process reduces the plants' waste materials and at the same time generate useful byproduct - biogas. The biogas produced through this process is used by the plant as a source of renewable energy.

In its offshore vineyards and distilleries, Emperador also use renewable energy particularly biomass and solar. Last year, Bodegas Fundador increased their biogas consumption in the waste treatment facility for the distillation process by 15%. It currently holds ISO 14000, an environmental management certification. The ISO 14000 family of standards provides practical tools for companies and organizations looking to manage their environmental responsibilities.

The group plans to explore other renewable energy options starting with its Mexican business as it shifts to solar panels for their winery in 2020, the shift will reduce 63 tons of carbon and save electricity use by 30%.

### #8: Decent Work and Economic Growth

Emperador's global businesses employ both white-collar and blue-collar jobs. It provides employment opportunities to qualified people in the localities where its production facilities are located. Through its Philippine distilleries and sugar mill operations, it provides opportunities for Filipino sugar cane planters.

### **#12: Responsible Consumption and Production**

Emperador promotes responsible consumption of its products and sustainable production processes by reducing its waste generation.

In its Philippines distilleries, waste which is not turned into biogas are converted to liquid fertilizers which can be used further by farmers in their crops, and even the sugar cane fibers are converted to solid fertilizers.

### **#13: Climate Action**

Emperador's environmental initiatives are geared towards its advocacy on climate action. Emperador continuously improves its processes in order to use energy and water efficiently in its production and operations.

As part of its process, Emperador's production facilities in Scotland, Spain and the Philippines, recycle water and treat its waste water. In its vineyards in Spain, it implements techniques of 'controlled deficit irrigation' for the vine irrigation, reutilization and collection of water from all processes. In Mexico, it has a rainwater recovery system which represents 19% savings in water consumption during the harvest season and 38% for the rest of the year.

### **#14: Life Below Water**

In line with its environmental efforts, Emperador forges partnership with local government and organizations in order to participate in coastal clean-up and Adopt-A-River programs.

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S.E.C. Registration Number

E M P E R A D O R I N C .

(Company's Full Name)

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E A S T W O O D C I T Y C Y B E R P A R K ,
B A G U M B A Y A N , Q U E Z O N C I T Y

(Business Address: No. Street/City/ Town/ Province)

DINA D.R. INTING

Contact Person

8709-2038 to 41

Company Telephone Number

1 2 3 1

Month Day Fiscal Year

1 7 - Q

FORM TYPE

(QUARTERLY REPORT FOR MARCH 31, 2020)

0 5 3rd Monday

Month Day Annual Meeting

Registration of Securities

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Domestic

Foreign

Foreign

To be accomplished by SEC Personnel concerned

File Number

File Number

LCU

LCU

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Cashier

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Remarks = pls. use black ink for scanning purposes



**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended.....**March 31, 2020**
2. Commission identification number.....**A200117595**
3. BIR Tax Identification No.....**214-815-715-000**
4. Exact name of issuer as specified in its charter.....**EMPERADOR INC.**
5. **METRO MANILA, PHILIPPINES**  
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code:  (SEC Use Only)
7. **7<sup>th</sup> Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez Jr. Ave.,  
Bagumbayan, Quezon City** **1110**  
Address of issuer's principal office Postal Code
8. Issuer's telephone number, including area code.....**632-870920-38 to -41**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding <b>As of March 31, 2020</b>
<b>COMMON</b>	<b>15,926,289,938</b> <b>(net of 316,101,238 treasury shares)</b>

11. Are any or all of the securities listed on a Stock Exchange? If yes, state the name of such Stock Exchange and the class/es of securities listed therein.

Yes  No  **PHILIPPINE STOCK EXCHANGE, INC. Common Shares**

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes  No

- (b) has been subject to such filing requirements for the past ninety (90) days.

Yes  No

## PART I - FINANCIAL INFORMATION

### 1. Financial Statements

The following interim financial statements, notes and schedules are submitted as part of this report:

- Consolidated Statements of Financial Position
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Changes in Equity
- Consolidated Statements of Cash Flows
- Notes to Interim Consolidated Financial Statements
- Schedule of Financial Soundness Indicators
- Aging of Trade and Other Receivables

The interim consolidated financial statements (“ICFS”) have been prepared in accordance with PFRSs and Philippine Accounting Standard 34, *Interim Financial Reporting*. As such, they do not include all of the information and disclosures required for full annual consolidated financial statements, and thus should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended December 31, 2019 (“ACFS”). The accounting policies and methods of computations used are consistent with those applied in the audited consolidated financial statements of the Group as at and for the year ended December 31, 2019. The ICFS have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expenses.

### 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The world saw the rapid spread of COVID-19, a novel strain of coronavirus, during the first quarter of the year. In January, the outbreak was declared as a public health emergency of international concern; and in March, it was characterized as a pandemic as it had reached 114 countries and territories, including the Philippines, Spain and UK where the Group operate. To prevent the further spread of COVID-19 and bring down its transmission, the governments across the world have implemented extensive measures such as travel bans/restrictions, lockdowns, 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). The entire Luzon and almost the whole country were under lockdown from the second half of March, which paralyzed all non-essential business activities. It is in this general backdrop that the Group operated in the first quarter.

#### *Results of Operations – First Quarter 2020 vs 2019*

The Group ended the first quarter of the year with P10.7 billion revenues slipping 3% from P11.0 billion a year ago, which resulted in net profit to owners sliding 16% year-on-year to P1.5 from P1.7 billion. This was mainly attributed to the lockdown and travel restrictions that hampered sales growth.

	Q1	Q1	YoY	
<i>In Million Pesos</i>	2020	2019	YoY	%
<b>Revenues</b>	<b>10,658</b>	<b>11,026</b>	<b>(368)</b>	<b>-3</b>
Brandy	7,580	7,690	(109)	-1
Scotch Whisky	3,078	3,336	(258)	-8
<b>NP</b>	<b>1,421</b>	<b>1,743</b>	<b>(322)</b>	<b>-18</b>
Brandy	1,098	1,086	12	1
Scotch Whisky	323	657	(334)	-51
<b>NP to owners</b>	<b>1,457</b>	<b>1,738</b>	<b>(280)</b>	<b>-16</b>
Brandy	1,135	1,081	54	5
Scotch Whisky	323	657	(334)	-51
<b>GP margin</b>	<b>33%</b>	<b>34%</b>		
Brandy	32%	30%		
Scotch Whisky	34%	42%		
<b>NP-owners margin</b>	<b>14%</b>	<b>16%</b>		

The Brandy segment realized a 5% year-on-year uptick in net profit to owners, reported at P1.1 billion this year, inspite of a 1% slash in revenues to external customers recorded at P7.6 billion as compared to P7.7 billion a year ago. ‘Emperador’ was experiencing a good kickoff when it was halted by the lockdown implemented from mid-March which caused Emperador to suspend production and distribution in compliance with government mandate. Liquor bans were also imposed by most localities. Offshore, Spain was in a similar lockdown situation at about the same time. Bodegas Fundador, however, was able to continue its regular production and distribution in Jerez while its head office in Madrid was under lockdown. The segment’s gross profit margin improved to 32% as compared to 30% a year ago due to product mix, inspite of higher Philippine excise taxes which took effect at the start of the year.

The Scotch Whisky segment registered 8% less revenues to external customers which totaled P3.1 billion this quarter as compared to P3.3 billion a year ago, out of which it tucked in net profit to owners of P323 million. Last year’s sales got a push from Brexit contingency orders. This year, international sales slowed down due to travel restrictions and lockdowns in most countries. In UK, Whyte and Mackay was able to continue its off-premise distribution to a certain degree as well as its production when and as necessary because alcohol production is considered a critical industry by the government. Meanwhile, head office remained closed and travel restricted as of end-March. The segment made gross profit margin of 34% as compared to 42% a year ago due to sales mix as the low-margin products sold popularly in UK during the first quarter

Operating expenses for this year remained at P1.7 billion because the 17% contraction (-P96 million) in general and administrative expenses to P469 million was offset by the 9% growth (+P104 million) in selling and distribution expenses to P1.3 billion. Advertising and promotions increased year-on-year while transportation and travel-related expenses decreased because of the lockdowns and travel bans and as a precautionary measure as well.

Interest expense decreased 23% or P45 million to P152 million this period due to lower interest rates in effect and payments of principal amortizations this quarter as compared to a year ago.

Other charges of P114 million represent foreign exchange losses recorded in this quarter.

EBITDA, which is computed as profit before interest expense, tax, depreciation and amortization, amounted to P2.2 billion and P2.5 billion for 2020 and 2019, respectively, showing margins of 21% and 23-% in respective years.

### *Financial Condition*

Total assets amounted to P118.2 billion at March 31, 2020, a 6% depletion (-P7.8 billion) from P126.0 billion at December 31, 2019. The Group is strongly liquid with current assets exceeding current liabilities 2.7 times by the end of the current interim period, as compared to 2.2 times last year-end.

Cash and cash equivalents were less by 9% or P663 million at end of interim period, as the Group spent more cash for its financing activities (mainly, payment of loans, acquisition of treasury shares, dividend payment) than its cash flows from operating activities.

Trade and other receivables dipped 33% or P7.9 billion, primarily due to collections from customers (-P6.0 billion), who at year-end had larger balances due to purchases in the lead up to the Christmas period, and application of advances to suppliers of inventories or services (-P2.1 billion).

Financial assets at fair value through profit or loss of P1.8 billion at end of interim period represent the acquisitions of marketable securities held for trading during the period.

Prepayments and other current assets accelerated 18% or P347 million due to timing of prepayments and subsequent charging to profit or loss in general. These included prepaid advertising (+P203 million), taxes (+P132 million) and rent (+P30 million).

Intangible assets decelerated nearly 5% or P1.4 billion from effect of translating foreign-denominated assets to end-March rate.

Retirement benefit assets continued to grow as they doubled by P250 million during the interim period to end at P473 million.

Other non-current assets increased 38% or P385 million as advances to suppliers of long-term assets increased.

Current Interest-bearing loans decelerated by 11% or P741 million and non-current interest bearing loans by 4% or P990 million due to repayment of bank loans and the effect of translation adjustment.

Trade and other payables went down 24% or P4.0 billion as trade payables, accruals and output vat were settled during the period.

Current Lease liabilities increased 110% or P334 million while the non-current lease liabilities decreased 24% or P411 million, for combined reduction of 4% (-P77million) due to rental payments during the interim period.

Financial liabilities at fair value through profit or loss almost tripled to P35 million as a result of marked-to-market valuation.

Current Equity-linked securities were reduced to zero as these got converted to common shares in February by the Holder, while Dividends payable was settled on payable date.

Non-controlling interest pertains primarily to the minority interest in DBLC, a subsidiary consolidated by end-2017. The decrease of P374 million pertains to share in translation adjustment and in net profit of non-controlling shareholders recorded during the current period.

*Five Key Performance Indicators*

- Revenue growth – measures the percentage change in revenues over a designated period of time.
- Net profit growth – measures the percentage change in net profit over a designated period of time.
- Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- Return on assets – the ratio of net profit to total assets - measures the degree of efficiency in the use of resources to generate net income
- Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.
- Interest rate coverage ratio – computed as profit before tax and interest expense divided by interest expense -measures the business' ability to meet its interest payments.

	Q1	Q1	Growth	
<i>In Million Pesos</i>	2020	2019	YoY	%
Revenues	10,658	11,026	(368)	-3
Net profit [NP]	1,421	1,743	(322)	-18
NP to owners	1,457	1,738	(280)	-16
NP rate	13%	16%		
NP owners rate	14%	16%		

	Q1	Q1	Growth	
<i>In Million Pesos</i>	2020	2019	YoY	%
EBIT	1,862	2,218	(356)	-16
Interest expense	152	198	(45)	-23
Interest coverage	12%	11%		

	Mar 31	Dec 31	Growth	
<i>In Million Pesos</i>	2020	2019	YoY	%
Current assets	57,665	63,845	(6,180)	-10
Current liabilities	21,487	28,445	(6,958)	-24
Total Assets	118,155	125,986	(7,831)	-6
Current ratio	2.68x	2.24x		
Return on assets	1.2%	5.7%		
	1qtr	1yr		

*YoY, year-on-year.*

*Financial Soundness Indicators*

Please see submitted schedule.

### *Other Required Disclosures*

As at March 31, 2020, except for what has been noted, there were no other known items –such as trends, demands, commitments, events or uncertainties- affecting assets, liabilities, equity, sales, revenues, net profit or cash flows that were unusual because of their nature, size, or incidents, and that will result in or that are reasonably likely to result in the liquidity increasing or decreasing in any material way, or that would have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

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

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 within the year.

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.

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

	<u>Notes</u>	<u>Unaudited March 31, 2020</u>	<u>Audited December 31, 2019</u>
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	P 7,077,280,569	P 7,740,605,656
Trade and other receivables - net	6	15,778,388,751	23,720,325,333
Financial assets at fair value through profit or loss	24.2	1,809,750,319	-
Inventories - net	7	30,777,577,460	30,509,303,278
Prepayments and other current assets	10.1	<u>2,221,822,651</u>	<u>1,874,557,688</u>
Total Current Assets		<u>57,664,819,750</u>	<u>63,844,791,955</u>
<b>NON-CURRENT ASSETS</b>			
Investment in a joint venture	11	3,053,380,940	3,023,567,743
Property, plant and equipment - net	8	28,027,321,617	28,986,637,262
Intangible assets - net	9	27,534,466,123	28,895,152,627
Retirement benefit asset - net	20	473,423,512	219,527,693
Other non-current assets - net	10.2	<u>1,401,695,802</u>	<u>1,016,320,033</u>
Total Non-current Assets		<u>60,490,287,994</u>	<u>62,141,205,358</u>
<b>TOTAL ASSETS</b>		<u><b>P 118,155,107,744</b></u>	<u><b>P 125,985,997,313</b></u>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans	12	P 5,900,070,628	P 6,641,109,379
Trade and other payables	14	12,981,161,827	17,012,924,217
Lease liabilities	8	638,776,754	304,882,103
Financial liabilities at fair value through profit or loss	24.2	35,323,029	9,105,954
Income tax payable		1,931,546,831	1,861,560,078
Equity-linked debt securities	13	-	1,836,250,000
Dividends payable	20.2	<u>-</u>	<u>779,231,315</u>
Total Current Liabilities		<u>21,486,879,069</u>	<u>28,445,063,046</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans	12	24,309,066,327	25,298,729,207
Equity-linked debt securities	13	3,443,750,000	3,443,750,000
Lease liabilities	8	1,306,436,497	1,717,050,012
Provisions		160,557,138	164,914,200
Deferred tax liabilities - net		<u>2,153,338,392</u>	<u>2,199,733,328</u>
Total Non-current Liabilities		<u>31,373,148,354</u>	<u>32,824,176,747</u>
Total Liabilities		<u>52,860,027,423</u>	<u>61,269,239,793</u>
<b>EQUITY</b>			
Equity attributable to owners of the parent company	20	64,769,429,667	63,817,525,550
Non-controlling interest		<u>525,650,654</u>	<u>899,231,970</u>
Total Equity		<u>65,295,080,321</u>	<u>64,716,757,520</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>P 118,155,107,744</b></u>	<u><b>P 125,985,997,313</b></u>

*See Notes to Consolidated Financial Statements.*

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

	Notes	<u>2020</u>	<u>2019</u>
<b>REVENUES</b>	15	<b>P 10,657,587,933</b>	P 11,025,489,827
<b>COSTS AND EXPENSES</b>			
Costs of goods sold	16	6,949,915,592	7,083,155,559
Selling and distribution expenses	17	1,262,717,932	1,159,161,333
General and administrative expenses	6, 17	469,173,064	565,232,269
Interest expense	8, 12, 13	152,218,826	197,637,623
Other charges	8	<u>114,000,698</u>	<u>-</u>
		<u>8,948,026,112</u>	<u>9,005,186,784</u>
<b>PROFIT BEFORE TAX</b>		<b>1,709,561,821</b>	2,020,303,043
<b>TAX EXPENSE</b>	18	<u>288,827,842</u>	<u>277,596,805</u>
<b>NET PROFIT</b>		<u>1,420,733,979</u>	<u>1,742,706,238</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Item that will be reclassified subsequently to profit or loss			
Translation gain (loss)		( <u>2,071,580,083</u> )	<u>587,053,716</u>
Items that will not be reclassified subsequently to profit or loss			
Net actuarial gain (loss) on retirement benefit plan		241,605,000	197,916,400
Tax income (expense) on remeasurement of retirement benefit plan		( <u>45,904,950</u> )	( <u>33,645,788</u> )
		<u>195,700,050</u>	<u>164,270,612</u>
		( <u>1,875,880,033</u> )	<u>751,324,328</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		( <u>P 455,146,054</u> )	P <u>2,494,030,566</u>
Net profit (loss) attributable to:			
Owners of the parent company		P 1,457,468,218	P 1,737,729,141
Non-controlling interest		( <u>36,734,239</u> )	<u>4,977,097</u>
		<u>P 1,420,733,979</u>	<u>P 1,742,706,238</u>
Total comprehensive income (loss) attributable to:			
Owners of the parent company		( P 81,564,738 )	P 2,614,609,020
Non-controlling interest		( <u>373,581,316</u> )	( <u>120,578,454</u> )
		( <u>P 455,146,054</u> )	<u>P 2,494,030,566</u>
<b>Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company -</b>			
Basic and Diluted	24	<u>P 0.09</u>	<u>P 0.11</u>

*See Notes to Consolidated Financial Statements.*



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

		Attributable to Owners of the Parent Company													
		Capital Stock	Additional Paid-in Capital	Treasury Shares	Conversion Options Outstanding	Share Options Outstanding	Accumulated Translation Adjustments	Revaluation Reserves	Other Reserves	Retained Earnings			Non-controlling Interest	Total Equity	
		(see Note 23.1)	(see Note 23.1)	(see Note 23.2)	(see Notes 3 and 14)	(see Note 23.4)	(see Note 2)	(see Note 2)	(see Note 2)	Appropriated	Unappropriated	Total	Total	(see Note 23.6)	
										(see Note 23.5)	(see Note 23.5)				
	Balance at January 1, 2020,	P 16,242,391,176	P 23,058,724,847	( P 3,487,839,412)	P 136,151,386	P 111,883,425	( P 3,707,343,087)	( P 73,475,415)	P 120,364,326	P 800,000,000	P 30,616,668,304	P 31,416,668,304	P 63,817,525,550	P 899,231,970	P 64,716,757,520
	Additions during the year	-	47,652,985	-	( 47,652,985)	-	-	-	( 44,516,539)	-	-	-	( 44,516,539)	-	( 44,516,539)
	Issuances during the year	-	-	1,836,250,000	-	-	-	-	-	-	-	-	1,836,250,000	-	1,836,250,000
	Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	during the year	-	-	( 758,264,606)	-	-	-	-	-	-	-	-	( 758,264,606)	-	( 758,264,606)
201	Total comprehensive income for the year	-	-	-	-	-	( 1,734,733,006)	193,700,050	-	-	1,457,468,218	1,457,468,218	( 81,564,738)	( 373,381,316)	( 455,146,054)
	Balance at March 31, 2020	<b>P 16,242,391,176</b>	<b>P 23,106,377,832</b>	<b>( P 2,409,854,018)</b>	<b>P 88,498,401</b>	<b>P 111,883,425</b>	<b>( P 5,442,076,093)</b>	<b>P 122,224,635</b>	<b>P 75,847,787</b>	<b>P 800,000,000</b>	<b>P 32,074,136,522</b>	<b>P 32,874,136,522</b>	<b>P 64,769,429,667</b>	<b>P 525,650,654</b>	<b>P 65,295,080,321</b>
	Balance at January 1, 2019	P 16,242,391,176	P 23,058,724,847	( P 1,849,768,100)	p 136,151,386	P 84,925,255	( P 2,556,254,530)	( P 163,103,810)	p 15,792,199	P 600,000,000	P 24,902,413,431	P 25,502,413,431	P 60,471,271,854	P 892,674,486	P 61,363,946,340
	Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	during the year	-	-	( 12,947,324)	-	-	-	-	-	-	-	-	( 12,947,324)	-	( 12,947,324)
	Total comprehensive income for the year	-	-	-	-	-	712,609,267	164,270,612	-	-	1,737,729,141	1,737,729,141	2,614,609,020	( 120,578,454)	2,494,030,566
	Balance at March 31, 2019	<b>P 16,242,391,176</b>	<b>P 23,058,724,847</b>	<b>( P 1,862,715,424)</b>	<b>P 136,151,386</b>	<b>P 84,925,255</b>	<b>( P 1,843,645,263)</b>	<b>P 1,166,802</b>	<b>P 15,792,199</b>	<b>P 600,000,000</b>	<b>P 26,640,142,572</b>	<b>P 27,240,142,572</b>	<b>P 63,072,933,550</b>	<b>P 772,096,032</b>	<b>P 63,845,029,582</b>

See Notes to Consolidated Financial Statements.

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

	Notes	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		P 1,709,561,821	P 2,020,303,043
Adjustments for:			
Depreciation and amortization	8, 16, 17	350,069,609	319,196,385
Interest expense	8,12,13,19	152,218,826	197,637,623
Interest income	5,10	( 23,478,383 )	( 99,818,090 )
Share in net profit of joint venture	11	( 52,983,486 )	( 71,757,189 )
Provisions		6,620,361	10,179,054
Amortization of trademarks	9	403,848	403,847
Loss (gain) on sale of property, plant and equipment	8	( 350,000 )	-
Fair value losses (gains) on financial instruments at fair value through profit or loss		( 101,590,691 )	( 18,747,032 )
Impairment losses on trade and other receivables	6	-	1,046,598
Operating profit before working capital changes		<u>2,040,471,905</u>	<u>2,358,444,239</u>
Decrease in trade and other receivables		7,769,988,062	3,030,809,819
Decrease (increase) in financial instruments at fair value through profit or loss		( 1,716,640,588 )	11,604,478
Increase in inventories		( 623,648,553 )	( 1,551,464,077 )
Increase in prepayments and other current assets		( 352,022,609 )	( 667,136,822 )
Increase in retirement benefit asset		( 253,895,819 )	
Increase in other non-current assets		( 397,197,998 )	( 324,823,909 )
Increase (decrease) in trade and other payables		( 4,241,047,801 )	641,975,975
Increase (decrease) in retirement benefit obligation		<u>241,605,000</u>	<u>( 34,111,698 )</u>
Cash generated from operations		2,467,611,599	3,465,298,005
Cash paid for income taxes		( 202,729,629 )	( 183,027,733 )
Net Cash From Operating Activities		<u>2,264,881,970</u>	<u>3,282,270,272</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of property, plant and equipment	8	( 321,659,441 )	( 932,243,958 )
Interest received	5, 7, 11	19,192,726	75,051,342
Proceeds from sale of property, plant and equipment	8	<u>910,059</u>	<u>138,643,405</u>
Net Cash Used in Investing Activities		( 301,556,656 )	( 718,549,211 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of interest-bearing loans	12	( 1,045,510,178 )	( 427,443,244 )
Acquisition of treasury shares	20	( 758,264,606 )	( 12,947,324 )
Proceeds from interest-bearing loans	12	130,134,952	361,460,000
Interest paid		( 173,779,254 )	( 99,675,900 )
Dividends paid	20	( 779,231,315 )	-
Net Cash Used In Financing Activities		( 2,626,650,401 )	( 178,606,468 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		( 663,325,087 )	2,385,114,593
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>7,740,605,656</u>	<u>6,228,229,892</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><b>P 7,077,280,569</b></u>	<u><b>P 8,613,344,485</b></u>

**Supplemental Information on Non-cash Investing and Financing Activities:**

- 1) Share option benefits expense were recognized in 2020 and 2019, with corresponding credits to Share Options.
- 2) The conversion of Tranche 1 of ELS into EMP shares from treasury in February 2020 was credited to Treasury Shares.  
In 2019, accretion of discount on ELS was charged to Interest Expense.

**EMPERADOR INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**  
**MARCH 31, 2020**

	3/31/2020	12/31/2019
Current ratio	2.68	2.24
Quick ratio	1.15	1.11
Liabilities-to-equity ratio	0.81	0.95
Asset -to-equity ratio	1.81	1.95
Debt-to-equity ratio	0.52	0.58
	<b>Q1 2020</b>	<b>Q1 2019</b>
Net profit margin	0.13	0.16
Return on assets	0.01	0.01
Return on equity/investment	0.02	0.03
Solvency Ratio	0.07	0.07
Interest rate coverage ratio	12.23	11.22

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.

Current ratio - computed as current assets divided by current liabilities

Quick ratio - computed a cash, marketable securities, accounts receivable divided by current liabilities.

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term debt.

Solvency ratio - computed as EBITDA divided by total liabilities.

Liabilities-to-equity ratio - computed as total liabilities divided by stockholders'equity.

Debt-to-equity ratio- computed as total debt divided by stockholders' equity.

ASSET-TO-EQUITY RATIOS measure financial leverage and long-term solvency. It shows how much of the assets are owned by the company. It is computed as total assets divided by stockholders'equity.

INTEREST RATE COVERAGE RATIOS measure the business' ability to meet its interest payments.

It is computed as profit before income tax and interest expense ("EBIT") divided by interest.

PROFITABILITY RATIOS measure the business' ability to generate earnings.

Net profit margin - computed as net profit divided by revenues

Return on assets - net profit divided by average assets

Return on equity investment - net profit divided by total stockholders' equity

**EMPERADOR INC. AND SUBSIDIARIES**  
**AGING SCHEDULE OF TRADE AND OTHER RECEIVABLES**  
**MARCH 31, 2020**  
*(Amounts in Thousand Philippine Pesos)*

Trade Receivables	
Current	7,063,603
1 to 30 days	1,109,042
31 to 60 days	477,458
Over 60 days	<u>856,036</u>
Total	9,506,139
Other receivables	<u>6,272,250</u>
Balance at 2020	<u><u>15,778,389</u></u>

**EMPERADOR INC. AND SUBSIDIARIES**  
*(A Subsidiary of Alliance Global Group, Inc.)*  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2020**  
*(With Comparative Figures for December 31, 2019 and March 31, 2019)*  
*(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 property development, food and beverage, quick-service restaurants, and tourism-entertainment and gaming businesses.

The registered principal office of EMP is located at 7<sup>th</sup> 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:

<u>Names of Subsidiaries</u>	<u>Explanatory Notes</u>	<u>Percentage of Effective Ownership</u>	
		<u>2020</u>	<u>2019</u>
<b>EDI and subsidiaries (EDI Group)</b>			
Emperador Distillers, Inc. (“EDI”)		<b>100%</b>	100%
Anglo Watsons Glass, Inc. (“AWGI”)		<b>100%</b>	100%
Alcazar De Bana Holdings Company, Inc. (“Alcazar De Bana”)		<b>100%</b>	100%
<i>Progreen Agricornp Inc. (“Progreen”)</i>		<b>100%</b>	100%
<i>South Point Science Park Inc. (“SSPI”)</i>		<b>100%</b>	100%
The Bar Beverage, Inc.		<b>100%</b>	100%
Tradewind Estates, Inc. (“TEI”)		<b>100%</b>	100%
<i>Boozylife Inc. (“Boozylife”)</i>		<b>62%</b>	51%
Cocos Vodka Distillers Philippines, Inc.		<b>100%</b>	100%
Zabana Rum Company, Inc.		<b>100%</b>	100%

Names of Subsidiaries	Explanatory Notes	Percentage of Effective Ownership	
		2020	2019
<b>EIL and offshore subsidiaries and joint venture:</b>			
Emperador International Ltd. (“EIL”)		100%	100%
Emperador Holdings (GB) Limited (“EGB”)		100%	100%
<i>Emperador UK Limited</i> (“EUK”)		100%	100%
<i>Whyte and Mackay Group Limited</i> (“WMG”)		100%	100%
<i>Whyte and Mackay Global Limited</i> (“WMGL”)		100%	100%
<i>Whyte and Mackay Limited</i> (“WML”)		100%	100%
<i>Whyte and Mackay Warehousing Limited</i> (“WMWL”)		100%	100%
Emperador Asia Pte. Ltd. (“EA”)		100%	100%
Grupo Emperador Spain, S.A. (“GES”)		100%	100%
<i>Bodega San Bruno, S.L.</i> (“BSB”)		100%	100%
<i>Bodegas Fundador, S.L.U.</i> (“BFS”)		100%	100%
<i>Grupo Emperador Gestion S.L.</i> (“GEG”)		100%	100%
<i>Complejo Bodeguero San Patricio SLU</i> (“CBSP”)		100%	100%
<i>Stillman Spirits, S.L.</i> (“Stillman”)		100%	100%
<i>Domecq Bodega Las Copas, S.L.</i> (“DBLC”)		50%	50%
<i>Bodegas Las Copas, S.L.</i> (“BLC”)		50%	50%
Emperador Europe Sarl (“EES”)		100%	100%

## 1.2 Approval of the Consolidated Financial Statements

The consolidated financial statements of the Group as of and for the period ended March 31, 2020 (including the comparative consolidated financial statements as of December 31, 2019 and for the interim period ended March 31, 2019) were authorized for issue by the Parent Company’s Board of Directors through the Audit Committee on June 24, 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation of Consolidated Financial Statements

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

These interim consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with PFRS, and should be read in conjunction with the Group’s audited consolidated financial statements as of and for the year ended December 31, 2019.

The significant accounting policies and methods of computations used in the preparation of these interim consolidated financial statements are consistent with those applied in the most recent annual consolidated financial statements as of and for the year ended December 31, 2019, except for the application of adopted standards that became effective on January 1, 2020, as discussed in Note 2.2.

These interim 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.

## **2.2 Adoption of Amended PFRS and Interpretation**

### *(a) Effective in 2020 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, 2020. These do not have material impact on the Group's financial statements as these amendments merely clarify existing requirements.

- (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).
- (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.
- (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).

## **2.3 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.

## **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 judgments, apart from those involving estimation, which are consistent with those applied in the last year-end.

### ***3.2 Key Sources of Estimation Uncertainty***

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, are consistent with those of the preceding year-end

## **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 periods ended March 31, 2020 and 2019 and as of December 31, 2019 (in millions) are as follows:

	BRANDY		SCOTCH WHISKY		TOTAL	
	March 31,		March 31,		March 31,	
	2020	2019	2020	2019	2020	2019
<b>REVENUES</b>						
External Customers	7,580	7,690	3,078	3,336	10,658	11,026
Intersegment sales*	47	77	13	36	-	-
	<u>7,627</u>	<u>7,767</u>	<u>3,091</u>	<u>3,372</u>	<u>10,658</u>	<u>11,026</u>
<b>COSTS AND EXPENSES</b>						
Cost of goods sold	5,012	5,226	1,938	1,857	6,950	7,083
Intersegment COGS*	13	36	47	77	-	-
	<u>5,025</u>	<u>5,262</u>	<u>1,985</u>	<u>1,934</u>	<u>6,950</u>	<u>7,083</u>
Selling and distribution expenses	811	694	452	465	1,263	1,159
General and administrative expenses	278	325	191	241	469	566
Other charges	177	182	89	16	266	198
	<u>6,291</u>	<u>6,463</u>	<u>2,717</u>	<u>2,656</u>	<u>8,948</u>	<u>9,006</u>
<b>SEGMENT PROFIT BEFORE TAX</b>	<b>1,336</b>	<b>1,304</b>	<b>374</b>	<b>716</b>	<b>1,710</b>	<b>2,020</b>
<b>TAX EXPENSE (INCOME)</b>	<b>238</b>	<b>218</b>	<b>51</b>	<b>59</b>	<b>289</b>	<b>277</b>
<b>SEGMENT NET PROFIT</b>	<b>1,098</b>	<b>1,086</b>	<b>323</b>	<b>657</b>	<b>1,421</b>	<b>1,743</b>
Depreciation and Amortization	274	264	77	56	351	320
Interest expense	96	182	56	16	152	198
Share in NP of JV	53	72	-	-	53	72
	<u>Mar 2020</u>	<u>Dec 2019</u>	<u>Mar 2020</u>	<u>Dec 2019</u>	<u>Mar 2020</u>	<u>Dec 2019</u>
<b>TOTAL ASSETS</b>	<b>84,627</b>	<b>88,453</b>	<b>33,528</b>	<b>37,533</b>	<b>118,155</b>	<b>125,986</b>
<b>TOTAL LIABILITIES</b>	<b>41,950</b>	<b>47,407</b>	<b>10,910</b>	<b>13,862</b>	<b>52,860</b>	<b>61,269</b>

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

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

#### 5. CASH AND CASH EQUIVALENTS

This account includes the following components:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash on hand and in banks	P 4,397,054,428	P 3,739,621,605
Short-term placements	P 2,680,226,141	P 4,000,984,051
	<u>P 7,077,280,569</u>	<u>P 7,740,605,656</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have an average maturity of 30 to 53 days and earn effective annual interest rates ranging from 5.8% to 6.6% in the first three months of 2020. Interest earned amounted to P23.5 million and P99.8 million in 2020 and 2019 respectively, and is presented as part of Other revenues under the Revenues account in the consolidated statements of comprehensive income (see Note 15).

## 6. TRADE AND OTHER RECEIVABLES

Details of this account are as follows:

	<u>Note</u> <u>s</u>	March 31, 2020  (Unaudited)	December 31, 2019  (Audited)
Trade receivables	19.3	P 9,590,212,083	P 15,612,615,832
Advances to suppliers		3,906,843,780	6,005,315,403
Advances to related parties	19.5	2,303,517,712	2,095,371,956
Advances to officers and employees	19.4	20,815,847	33,518,316
Accrued interest receivable		3,493,916	513,731
Other receivables		37,578,333	61,676,921
		<u>15,862,461,671</u>	<u>23,809,012,159</u>
Allowance for impairment		(84,072,920)	(88,686,826)
		<u>P 15,778,388,751</u>	<u>P 23,720,325,333</u>

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

All of the Group's trade and other receivables have been assessed for indications of impairment using the ECL model and adequate amounts of allowance for impairment have been recognized in 2020 and 2019 for those receivables found to be impaired (see Note 23.2). A reconciliation of the allowance for impairment is shown below.

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of year	P 88,686,826	P 133,008,227
Impairment losses	-	12,453,267
Recoveries	(4,613,906)	(56,774,668)
	<u>P 84,072,920</u>	<u>P 88,686,826</u>

Recoveries pertain to collection of certain receivables previously provided with allowance. There were no write-offs of receivables in March 31, 2020 and December 31, 2019.

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

## 7. INVENTORIES

Inventories as of March 31, 2020 and December 31, 2019, except for certain finished goods and raw materials, are all stated at cost, which is lower than their net realizable values. The details of inventories are as shown below.

	Notes	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Work-in-process		P 20,175,638,960	P 20,746,632,386
Raw materials	19.1	3,916,690,890	3,220,265,567
Finished goods	19.1	5,805,218,923	5,800,242,939
Packaging materials		799,781,325	689,278,349
Machinery spare parts, consumables, factory supplies		276,695,537	266,885,473
		<u>30,974,025,635</u>	<u>30,723,304,714</u>
Allowance for inventory write-down		(196,448,175)	(214,001,436)
		<u>P 30,777,577,460</u>	<u>P 30,509,303,278</u>

WML has a substantial inventory of aged stocks which mature over periods of up to 60 years. The maturing whisky stock inventory amounting to P16.3 billion and P16.7 billion as of March 31, 2020 and December 31, 2019, respectively, is presented as part of work-in-process inventories, and is stored in various locations across Scotland.

An analysis of the cost of inventories included in costs of goods sold for the periods ended March 31, 2020 and 2019 is presented in Note 16.

## 8. PROPERTY, PLANT AND EQUIPMENT

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

	<u>Notes</u>	<b>March 31, 2020</b> <b>(Unaudited)</b>	December 31, 2019 <b>(Audited)</b>
Property, plant and equipment	8.1	<b>P 26,520,451,805</b>	P 27,383,160,263
Right-of-use assets	8.2	<u><b>1,506,869,812</b></u>	<u>1,603,476,999</u>
		<u><b>P 28,027,321,617</b></u>	<u>P 28,986,637,262</u>

### 8.1 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.

	<b>March 31, 2020</b> <b>(Unaudited)</b>	December 31, 2019 <b>(Audited)</b>
Cost	<b>P 37,795,127,601</b>	P 38,622,574,866
Accumulated depreciation and amortization	<u><b>(11,274,675,796)</b></u>	<u>(11,239,414,603)</u>
Net carrying amount	<u><b>P 26,520,451,805</b></u>	<u>P 27,383,160,263</u>

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.

<u>Notes</u>	<b>March 31, 2020</b> <b>(Unaudited)</b>	December 31, 2019 <b>(Audited)</b>
Balance at beginning of period, net of accumulated depreciation and amortization	<b>P 27,383,160,263</b>	P 27,201,096,662
Additions during the period	<b>321,659,441</b>	2,525,654,233
Translation Adjustment	<b>(769,244,723)</b>	(366,968,633)
Disposals during the period	<b>(560,059)</b>	( 362,122,882)
Depreciation/amortization charges for the period	<u><b>(414,563,117)</b></u>	<u>( 1,614,499,117)</u>
Balance at the end of the period, net of accum. depreciation and amortization	<u><b>P 26,520,451,805</b></u>	<u>P 27,383,160,263</u>

In 2018 and 2016, the Group obtained a term loan from a local commercial bank to finance the construction of a distillery plant in Batangas, including purchase of related equipment.

The amount of depreciation and amortization is allocated as follows:

	<b>Not es</b>	<b>For the Three Months Ended</b>	
		<b>March 31, 2020 (Unaudited)</b>	<b>March 31, 2019 (Unaudited)</b>
Cost of goods sold	16	<b>P 265,053,153</b>	P 273,804,599
Selling and distribution Expenses	17	<b>18,312,733</b>	13,776,365
Administrative expenses	17	<b>46,430,461</b>	31,615,421
		<b>329,796,347</b>	319,196,385
Capitalized to inventory		<b>84,766,768</b>	80,833,997
		<b>P 414,563,115</b>	P 400,030,382

The capitalized amounts form part of the work-in-process inventory and represent 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.

## 8.2 Right-of-use Assets

The Group has leases for certain manufacturing plant, warehouses, building space, commercial building, and vehicles, fittings and equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the consolidated 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 carrying amounts and the movements of the Group's right-of-use assets are shown below.

	<b>March 31, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
Cost	<b>P 1,777,136,109</b>	P 1,853,470,035
Accumulated depreciation and amortization	<b>(270,266,297)</b>	( 249,993,036)
Net carrying amount	<b>P 1,506,869,812</b>	P 1,603,476,999

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

<u>Notes</u>	<b>March 31, 2020</b> <b>(Unaudited)</b>	<b>December 31,</b> <b>2019</b> <b>(Audited)</b>
Balance at beginning of period, net of accumulated amortization	P <u>1,603,476,999</u>	P 1,063,266,884
Additions	-	790,203,151
Translation Adjustment	( 76,333,927)	-
Amortization of ROUA	<u>( 20,273,260)</u>	<u>( 249,993,036)</u>
Balance at the end of period net of accumulated amortization	P <u><u>1,506,869,812</u></u>	P <u><u>1,603,476,999</u></u>

The amount of amortization in March 31, 2020 is allocated as follows:

Cost of goods sold	P 18,971,127
General and administrative expenses	<u>1,302,133</u>
	<b>P <u><u>20,273,260</u></u></b>

### 8.3 Lease Liabilities

Lease liabilities are presented in the consolidated statement of financial position as at March 31, 2020 as follows:

	<b>March 31, 2020</b> <b>(Unaudited)</b>	<b>December 31, 2019</b> <b>(Audited)</b>
Current	P <u>638,776,754</u>	P 304,882,103
Non-current	<u>1,306,436,497</u>	1,717,050,012
Net carrying amount	P <u><u>1,945,213,251</u></u>	P <u><u>2,021,932,115</u></u>

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. The undiscounted maturity analysis of lease liabilities at March 31, 2020 and December 31, 2019 is as follows:

	<b>March 31, 2020</b> <b>(Unaudited)</b>	<b>December 31, 2019</b> <b>(Audited)</b>
Lease liabilities	P <u>2,021,932,115</u>	P 2,678,675,809
Translation Adjustments	( 60,929,860)	-
Finance charges	<u>( 15,789,004)</u>	<u>( 656,743,694)</u>
Net present values	P <u><u>1,945,213,251</u></u>	P <u><u>2,021,932,115</u></u>

## 9. INTANGIBLE ASSETS

This account is composed of the following:

	<b>March 31, 2020</b> <b>(Unaudited)</b>	December 31, 2019 <b>(Audited)</b>
Indefinite useful lives:		
Trademarks	<b>P 18,590,790,349</b>	<b>P 19,653,436,800</b>
Goodwill	<u>8,938,694,984</u>	<u>9,236,331,189</u>
	<b>27,529,485,333</b>	<b>28,889,767,989</b>
Definite useful lives:		
Trademarks- net	<u>4,980,790</u>	<u>5,384,638</u>
	<b>P <u>27,534,466,123</u></b>	<b>P <u>28,895,152,627</u></b>

Certain trademarks were determined to have a finite useful life. The net carrying amounts of these trademarks are as follows:

	<b>March 31, 2020</b> <b>(Unaudited)</b>	December 31, 2019 <b>(Audited)</b>
Balance at beginning	<b>P 5,384,638</b>	<b>P 7,000,029</b>
Amortization	<u>( 403,848)</u>	<u>(1,615,391)</u>
Balance at end of the period	<b>P <u>4,980,790</u></b>	<b>P <u>5,384,638</u></b>

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

## 10. OTHER ASSETS

### 10.1 Prepayments and Other Current Assets

This account is composed of the following:

	<b>March 31, 2020</b> <b>(Unaudited)</b>	December 31, 2019 <b>(Audited)</b>
Prepaid expenses	<b>P 1,094,863,684</b>	<b>P 877,379,918</b>
Prepaid taxes	<b>954,755,399</b>	<b>822,448,287</b>
Deferred input VAT	<b>34,824,796</b>	<b>54,202,344</b>
Refundable security deposits	<b>19,941,320</b>	<b>19,941,320</b>
Other current assets	<u>117,437,452</u>	<u>100,585,819</u>
	<b>P <u>2,221,822,651</u></b>	<b>P <u>1,874,557,688</u></b>

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

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

## 10.2 Other Non-current Assets

This account is composed of the following:

	<u>Not</u> <u>es</u>	<b>March 31, 2020</b> <b>(Unaudited)</b>	December 31, 2019 (Audited)
Property mortgage receivable	<b>P</b>	<b>607,128,039</b>	P 636,946,200
Advance to Suppliers	19.7	<b>687,150,756</b>	324,286,315
Deferred input VAT		<b>61,740,673</b>	26,996,323
Refundable security deposits	19.2	<b>36,190,696</b>	17,791,961
Others		<b>9,485,638</b>	10,299,234
	<b>P</b>	<b>1,401,695,802</b>	P 1,016,320,033

In 2016, the Group purchased from one of its property lessors an outstanding mortgage debt on one of the Group's leased properties. The purchased mortgage asset entitles the Group to full security over the leased property and to monthly interest payments from the property lessor. However, the Group remains as lessee over the property; hence, it is still required to make monthly lease payments to the property lessor until 2036.

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

## 11. INVESTMENT IN A JOINT VENTURE

The carrying amount of the investment in Bodegas Las Copas, a joint venture with Gonzales Byass SA, accounted for under the equity method in these consolidated financial statements, are as follows:

	<b>March 31, 2020</b> <b>(Unaudited)</b>	December 31, 2019 (Audited)
Acquisition cost	<b>P 2,845,367,065</b>	P 2,845,367,065
Accumulated share in net profit:		
Balance at beginning of year	<b>178,200,678</b>	432,240,327
Share in net profit for the year	<b>52,983,486</b>	239,168,070
Reduction	<b>(23,170,289)</b>	( 493,207,719)
Balance at end of year	<b>P 208,013,875</b>	P 178,200,678
	<b>P 3,053,380,940</b>	P 3,023,567,743

The share in net profit is recorded as part of Other revenues – net in the Revenues section in the interim consolidated statement of comprehensive income (see Note 15). Reductions pertain to dividend income received from the joint venture and the foreign currency translation adjustment on the investment.

## 12. INTEREST-BEARING LOANS

The composition of the Group's outstanding bank loans is shown below.

	<b>March 31, 2020</b>	December 31, 2019
	<b>(Unaudited)</b>	(Audited)
Current:		
Foreign	<b>P 4,893,403,961</b>	P 5,634,442,713
Local	<u>1,006,666,667</u>	<u>1,006,666,666</u>
	<u>5,900,070,628</u>	<u>6,641,109,379</u>
Non-current:		
Foreign	24,139,066,327	24,877,062,540
Local	<u>170,000,000</u>	<u>421,666,667</u>
	<u>24,309,066,327</u>	<u>25,298,729,207</u>
	<u><b>P 30,209,136,955</b></u>	<u>P 31,939,838,586</u>

## 13. EQUITY-LINKED DEBT SECURITIES

The equity-linked debt securities instrument ("ELS") amounting to P5.3 billion were issued to Arran Investment Private Limited ("Arran" or "Investor") in 2014, as part of its investment in EMP. The ELS may be converted into a fixed number of common shares ("conversion shares") of EMP. On June 15, 2017, the parties agreed to amend the ELS instrument such that conversion shares be 728,275,862 new shares; fixed interest that has accrued up to 2017 was applied as consideration for the Investor's acquisition of 122,391,176 new common shares (accrued interest shares); and fixed interest rate is now 0%. On December 4, 2019, EMP exercised the option to extend the Redemption Date to Extended Redemption Date which did not result to substantial modification of terms.

On December 23, 2019, the parties entered into an amendment (the "Second Amendment") which gave the Holder the right to request conversion of P1,836,250,000 into 253,275,862 shares which would come from the Parent Company's treasury shares ("Tranche 1 Conversion") and P3,443,750,000 into 475,000,000 shares ("Tranche 2 Conversion").

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.

Interest expense for the interim period ended March 31, 2019 amounted to P38.5 million while there was no more interest expensed for 2020, and this is presented as part of Interest Expense in the interim consolidated statements of comprehensive income. The interest expense in 2019 was the accretion of the discount on the revalued financial liability component.

There were no related collaterals on the ELS.



#### 14. TRADE AND OTHER PAYABLES

The breakdown of this account is as follows:

	<u>Notes</u>	<u>March 31, 2020</u> <u>(Unaudited)</u>	<u>December 31, 2019</u> <u>(Audited)</u>
Trade payables	19.1, 19.2	<b>P 8,346,976,297</b>	P 11,762,232,956
Accrued expenses		<b>4,267,206,392</b>	4,582,707,784
Advances from related parties	19.5	<b>3,070,715</b>	3,070,715
Output VAT payable		<b>121,051,402</b>	397,978,309
Others		<b>242,857,021</b>	266,934,453
		<b>P 12,981,161,827</b>	P 17,012,924,217

#### 15. REVENUES

The details of revenues are shown below.

	<u>Notes</u>	<u>For the Three Months Ended</u>	
		<u>March 31, 2020</u> <u>(Unaudited)</u>	<u>March 31, 2019</u> <u>(Unaudited)</u>
Sales	19.3	<b>P 10,359,513,665</b>	P 10,771,533,530
Others:			
Share in net profit of JV	11	<b>52,983,486</b>	71,757,189
Other income – net	5,6	<b>245,090,782</b>	182,199,108
		<b>298,074,268</b>	253,956,297
		<b>P 10,657,587,933</b>	P 11,025,489,827

#### 16. COSTS OF GOODS SOLD

The details of costs of goods sold For the Three Months Ended March 31, 2020 and 2019 are shown below:

	<u>Notes</u>	<u>For the Three Months Ended</u>	
		<u>March 31, 2020</u> <u>(Unaudited)</u>	<u>March 31, 2019</u> <u>(Unaudited)</u>
Finished goods, beginning	7	<b>P 5,800,242,939</b>	P 4,928,444,192
Finished goods purchased	19.1	<b>1,239,998,819</b>	813,339,637
Costs of goods manufactured			
Raw and packaging materials, beginning	7	<b>3,909,543,916</b>	3,932,353,820
Net purchases	19.1	<b>4,852,047,807</b>	6,899,671,409
Raw and packaging materials, end	7	<b>(4,716,472,215)</b>	(4,874,910,853)
Raw materials used		<b>4,045,119,508</b>	5,957,114,376
Work-in-process, beginning	7	<b>20,746,632,386</b>	19,310,965,391
Direct labor		<b>276,690,282</b>	297,101,202
Manufacturing overhead:			
Depreciation and amortization	8	<b>284,024,280</b>	273,804,599
Labor		<b>26,654,016</b>	25,409,550
Fuel and lubricants		<b>77,141,090</b>	78,818,766
Outside services	19.6	<b>64,346,672</b>	63,007,769
Rentals	19.2	<b>40,981,257</b>	47,630,644
Communication, light and water		<b>69,730,580</b>	90,004,574

Repairs and Maintenance		57,443,052	71,842,379
Consumables and Supplies		16,895,576	39,034,508
Taxes and licenses		75,349,190	68,926,591
Insurance		13,283,431	13,101,588
Waste Disposal		20,959,242	16,362,123
Commission		27,392,951	38,761,706
Transportation		5,039,768	6,037,568
Gasoline and oil		3,506,533	2,995,609
Meals		8,834,487	2,394,422
Miscellaneous		30,507,416	35,385,098
Work-in-process, end	7	<u>(20,175,638,960)</u>	<u>(20,151,203,577)</u>
		5,714,892,755	330,380,510
Finished goods, end	7	<u>(5,805,218,923)</u>	<u>(4,946,123,156)</u>
		<b>P 6,949,915,592</b>	<b>P 7,083,155,559</b>

## 17. OTHER OPERATING EXPENSES

	Notes	For the Three Months Ended	
		March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Salaries and employee benefits	P	495,951,471	482,619,649
Advertising		573,016,628	497,344,683
Freight out		121,425,708	135,151,137
Professional fees and outside services		96,886,296	35,460,771
Taxes and licenses		50,918,533	114,039,203
Travel and transportation		77,383,859	125,517,991
Depreciation & amortization	8	66,045,327	45,391,786
Rentals	19.2	25,090,142	32,891,289
Other Services		54,148,966	47,627,579
Amortization of trademarks	9	403,848	403,847
Fuel and oil		21,431,707	22,336,074
Meals		8,433,046	8,858,666
Representation		42,080,181	45,897,138
Repairs and maintenance		25,478,528	25,627,889
Insurance		10,302,621	14,404,238
Consumables and supplies		12,019,651	12,661,470
Utilities		9,960,173	11,185,506
Others		40,914,311	66,974,686
		<b>P 1,731,890,996</b>	<b>P 1,724,393,602</b>

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 interim consolidated statements of comprehensive income as follows:

		For the Three Months Ended	
		March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Selling and distribution expenses	P	1,262,717,932	P 1,159,161,333
General and administrative expenses		469,173,064	565,232,269
	<b>P</b>	<b>1,731,890,996</b>	<b>P 1,724,393,602</b>

## 18. TAXES

EMP and its Philippine subsidiaries are subject to the higher of regular corporate income tax (“RCIT”) at 30% of net taxable income or minimum corporate income tax (“MCIT”) at 2% of gross income, as defined under the Philippine tax regulations. They paid RCIT in the three months period of 2020 and 2019 as RCIT was higher in those years, except for EMP and TEI in which MCIT was higher than RCIT.

The Group opts to claim itemized deductions in computing its income tax due, except for EDI, Progreen and AWGI which opt to claim OSD during the same taxable years. Taxes also include the final tax withheld on interest income.

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.

## 19. RELATED PARTY TRANSACTIONS

The Group’s related parties include the ultimate parent company, stockholders, officers and employees, and other related parties under common ownership as described below.

The summary of the Group’s transactions with its related parties in March 31, 2020 and 2019 and the related outstanding balances as of March 31, 2020 and December 31, 2019 are shown in the next page.

	Notes	Amount of Transaction For the Three Months Ended		Outstanding Receivable (Payable) as of	
		March 31, 2020	March 31, 2019	March 31, 2020	December 31, 2019
<b>Ultimate Parent Company:</b>					
Lease of properties	19.2(a)	2,601,500	2,420,000	-	
Advances granted	6	208,145,756	-	2,303,517,712	2,095,371,956
Dividends			-		( 596,182,620)
<b>Related Parties Under Common Ownership:</b>					
Purchase of raw materials	19.1	841,448,985	1,134,397,474	(1,019,713,848)	( 1,019,713,848)
Purchase of finished goods	19.1	4,699,985	4,914,703	( 75,871)	( 1,710,514)
Lease of properties	19.2(b)	9,751,040	8,964,752	( 1,656,281)	-
Advances for land purchase	19.7	271,247,467	-	581,576,038	310,328,571
Sale of goods	19.3	30,061,408	49,775,048	256,108,151	251,683,560
Management Services	19.6	15,000,000	15,000,000	( 92,000,000)	( 77,000,000)
Refundable deposits		-	1,655	3,907,691	3,907,691
<b>Stockholder -</b>					
Advances paid (obtained)	19.5	-	-	( 3,070,715)	( 3,070,715)
<b>Officers and Employees -</b>					
Advances granted (payment)	19.4	( 12,702,469)	(12,006,506)	20,815,847	33,518,316

The Group’s outstanding receivables from and payables to related parties arising from the above transactions are unsecured, noninterest-bearing and payable on demand, unless otherwise stated. No impairment loss was recognized For the three months ended March 31, 2020 and 2019 for related party receivables.

### 19.1 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 March 31, 2020 and December 31, 2019 are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 14).

### **19.2 Lease Agreements**

#### **(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 are presented as part of Depreciation and amortization under the Cost of Goods Sold account and as part of Finance and Other Charges account in the consolidated statement of comprehensive income, respectively. The Group paid P2.6 million and P2.4 million in rentals for the three months ended March 31, 2020 and 2019, respectively and there were no outstanding balances nor refundable security deposits arising from this lease agreement as of December 31, 2020 and 2019.

Rentals in the first quarter of 2019 was charged to operations as part of Rentals under the Costs of Goods Sold account in the consolidated statements of comprehensive income (see Note 16).

#### **(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 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 consolidated statement of comprehensive income (see Notes 16 and 17). Interest expense from the lease liabilities Interest Expense account in the consolidated statement of comprehensive income.

Rentals in the first quarter of 2019 was charged to operations as part of Rentals under the Cost of Goods Sold account, Selling and Distribution Expenses, and General and Administrative Expenses in the consolidated statements of comprehensive income (see Notes 16 and 17).

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 10.2).

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 8).

### **19.3 Sale of Goods**

The Group sold finished goods to some of its 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 these transactions are generally noninterest-bearing, unsecured and settled through cash within nine to six months. These receivables are presented as part of Trade receivables under the Trade and Other Receivables account in the interim consolidated statements of financial position (see Note 6).

#### **19.4 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 interim consolidated statements of financial position (see Note 6).

The movements in the balance of Advances to Officers and Employees are as follows:

	<b>March 31, 2020</b>		December 31, 2019
	<b>(Unaudited)</b>		(Audited)
Balance at the beginning	<b>P 33,518,316</b>	P	40,762,383
Additions	-		41,045,994
Payments	<b>( 12,702,469)</b>		( 48,290,061)
Balance at the end	<b>P 20,815,847</b>	P	33,518,316

#### **19.5 Advances to (from) Related Parties**

Certain entities within the AGI Group and other related parties grant cash advances to (from) the Group for its working capital, investment and inventory purchases requirements. These advances are unsecured, noninterest-bearing and repayable upon demand in cash. These are presented as Advances from related parties under the Trade and Other Payables account (see Note 14).

There are no movements in the balance of Advances from related parties.

#### **19.6 Management Services**

Progreen has a management agreement with Condis for consultancy and advisory services in relation to the operation, management, development and maintenance of its distillery plant.

Total management fees incurred are presented as part of Outside services under the Cost of Goods Sold account in the consolidated statements of comprehensive income. The outstanding liability is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position. The related liabilities are unsecured, noninterest-bearing and payable upon demand.

#### **19.7 Purchase of Land**

In 2016, the Group entered into a contract to purchase certain parcels of land located in Iloilo and Cebu from Megaworld Corporation, a related party under common ownership. The Group already made partial cash payments. 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 March 31, 2020; hence, the land was not yet recorded as an asset by the Group. The total cash payments made by the Group are presented as part of Advances to suppliers under the Other Non-current Assets account in the consolidated statements of financial position (see Note 10.2).

In 2014, the Group made payments to certain related party under common ownership for the acquisition of certain parcels of land. However, the planned acquisition was subsequently cancelled by both parties.

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 8.1). 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 10.2).

## 20. EQUITY

### 20.1 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. On May 16, 2020 the BOD approved the extension of the present buy-back program for another 12 months, ending on May 16, 2021 under the same terms and conditions.

As of March 31, 2020, EMP has repurchased 316,101,238 shares for P2,409,854,018.33 pursuant to its ongoing two-year repurchase program, which was announced last May 15, 2017. The Board of Directors ("BOD") approved up to P5 billion for this program.

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.

### 20.2 Declaration of Dividends

The details of the Parent Company's latest cash dividend declarations as of March 31, 2020:

Date of Declaration	Date of 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

The Parent Company's ongoing buy-back program restricts its retained earnings for distribution as dividends.

The Dividends Payable as of December 31, 2019 had been fully paid on January 20, 2020.

### 20.3 Subsidiaries with Non-controlling Interest

The composition of NCI account is as follows:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
DBLC	P 538,510,785	P 907,699,530
Boozylife	(12,860,131)	(8,467,560)
	<u>P 525,650,654</u>	<u>P 899,231,970</u>

## 21. EARNINGS PER SHARE

Earnings per share were computed as follows:

	For the Three Months Ended	
	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
Consolidated net profit attributable to owners of parent company	P 1,457,468,219	P 1,737,729,141
Divided by weighted average number of outstanding common shares	<u>15,919,123,588</u>	<u>15,984,573,614</u>
Basic and diluted earnings per share	<u>P 0.09</u>	<u>P 0.11</u>

The basic and diluted earnings per share are the same because the dilutive effects of the potential common shares from the employee share options have no significant impact as they were only issued in November 2015. On the other hand, the potential common shares from the convertible ELS are

considered to be antidilutive since their conversion to ordinary shares would increase earnings per share. Thus, 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.

The Treasury shares under the ongoing repurchase program (see Note 20.1) do not form part of outstanding shares.

## 22. 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 paragraph.

### 22.1 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 both its operating, investing and financing activities.

#### (a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, US dollars, Euros, and UK pounds, 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 US 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 US dollars as of March 31, 2020 and December 31, 2019 while the foreign subsidiaries have cash and cash equivalents, receivables and payables in US dollars. To mitigate the Group's exposure to foreign currency risk, non-functional currency cash flows are being 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:

	<b>March 31, 2020</b> <b>(Unaudited)</b>		December 31, 2019 (Audited)
Financial assets	<b>P 304,402,029</b>	P	419,366,573
Financial liabilities	<b>( 2,448,604,028)</b>		<b>( 2,523,016,704)</b>
Net assets (liabilities)	<b>P( 2,144,201,999)</b>	P	<b>( 2,103,650,131)</b>

The following table illustrates the sensitivity of the Group's 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 profit before tax	Effect in equity before tax
<b>March 31, 2020</b>	<b>4.32%</b>	<b><u>(P 92,629,526)</u></b>	<b><u>(P 64,840,668)</u></b>
December 31, 2019	5.97%	<u>(P 125,587,913)</u>	<u>(P 87,911,539)</u>

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 March 31, 2020 and December 31, 2019, the Group is exposed to changes in market rates through its cash in banks and short-term placements which are generally subject to 30-day re-pricing 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 and borrowings 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"). The EURIBOR, however, is currently at a negative rate or zero rate, and the Group does not see a material interest rate risk here in the short-term.

*(c) Other Price Risk*

The Group was exposed to other price risk in respect of its financial instruments at FVTPL, which pertain to derivative assets and liabilities arising from foreign exchange margins trading spot and forward contracts. 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

## 22.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting advances and selling goods to customers including related parties and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown in the interim consolidated statements of financial position or in the detailed analysis provided in the notes to the consolidated financial statements, as summarized in the following table.

	Notes	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash and cash equivalents	5	<b>P 7,077,280,569</b>	P 7,740,605,656
Trade and other receivables – net	6	<b>11,850,729,124</b>	17,681,491,614
Refundable security deposits	10	<b>56,132,016</b>	37,733,281
Property mortgage receivable	10	<b><u>607,128,039</u></b>	<u>636,946,200</u>
		<b><u>P 19,591,269,748</u></b>	<u>P 26,096,776,751</u>

The Group's management considers that all the above financial assets that are not impaired as at the end of reporting period under review are of good credit quality.



(a) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Cash and cash equivalents include cash in banks and short-term placements in the Philippines which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) *Trade and Other Receivables, 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).

Based on application of ECL methodology on the trade receivables, the allowance for impairment is deemed to be adequate; hence, no further credit losses were recognized.

On December 31, 2019, the Group identified certain trade receivables amounting to P12.5 million respectively, to be fully impaired and for which additional allowance for impairment losses was recognized (see Note 6). Management believes that any additional expected credit losses from the application of the ECL methodology would not be material to the Group's financial statements.

For the advances to the parent company and refundable security deposits, the lifetime ECL rate is assessed at 0%, as there was no historical credit loss experience from the counterparties. The counterparties have low credit risk and strong financial position and sufficient liquidity to settle its obligations to the Group once they become due. With respect to property mortgage receivable, management assessed that these financial assets have low probability of default since the Company is also a lessee over the same property and can apply such receivable against future lease payments.

### 23.2 *Liquidity Risk*

The Group manages its liquidity needs by carefully monitoring cash out flows 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 March 31, 2020 and December 31, 2019 based on contractual undiscounted payments is as follows:

	March 31, 2020 (Unaudited)			
	CURRENT		NON CURRENT	
	Within 6 months	6 to 12 months	1 to 5 years	More than 5 years
Interest-bearing loans and borrowings	737,055,746	5,491,506,300	25,709,350,459	
Trade and other payables	12,838,880,172			
Equity-linked debt securities	-	62,000,000	3,505,750,000	
Lease liabilities	210,713,176	465,418,549	1,175,199,207	774,860,609
Dividends payable	-	-	-	-
	<u>13,786,649,094</u>	<u>6,018,924,849</u>	30,390,299,666	774,860,609

	December 31, 2019 (Audited)			
	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	P 26,606,131,225	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	-	-	-
	<u>P 20,795,237,886</u>	<u>P 5,908,010,391</u>	<u>P 31,339,323,750</u>	<u>P 1,033,147,478</u>

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

## 23. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 23.1 Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities

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

	Notes	March 31, 2020 (Unaudited)		December 31, 2019 (Audited)	
		Carrying Values	Fair Values	Carrying Values	Fair Values
<i>Financial Assets</i>					
Financial assets at amortized cost:					
Cash and cash equivalents	5	P 7,077,280,569	P 7,077,280,569	P 7,740,605,656	P 7,740,605,656
Trade and other receivables	6	11,850,729,124	11,850,729,124	17,681,491,614	17,681,491,614
Refundable security deposits	10	56,132,016	56,132,016	37,733,281	37,733,281
Property mortgage receivable	10	607,128,039	607,128,039	636,946,200	636,946,200
		<u>P 19,591,269,748</u>	<u>P 19,591,269,748</u>	<u>P 26,096,776,751</u>	<u>P 26,096,776,751</u>
Financial assets at FVTPL		<u>P 1,809,750,319</u>	<u>P 1,809,750,319</u>	<u>P -</u>	<u>P -</u>
<i>Financial Liabilities</i>					
Financial liabilities at amortized cost:					
Interest -bearing loans	12	P 30,209,136,955	P 30,209,136,955	P 31,939,838,586	P 31,939,838,586
Trade and other payables	14	12,838,880,172	12,838,880,172	16,468,100,821	16,468,100,821
Equity-linked debt securities	13	3,443,750,000	3,443,750,000	5,280,000,000	5,280,000,000
Lease liabilities		1,945,213,251	1,945,213,251	2,021,932,115	2,021,932,115
Dividends payable				779,231,315	779,231,315
		<u>P 48,436,980,378</u>	<u>P 48,436,980,378</u>	<u>P 56,489,102,837</u>	<u>P 56,489,102,837</u>
Financial liabilities at FVTPL		<u>P 35,323,029</u>	<u>P 35,323,029</u>	<u>P 9,105,954</u>	<u>P 9,105,954</u>

A description of the Group's risk management objectives and policies for financial instruments is provided in Note 22.

### 23.2 Offsetting of Financial Assets and Financial Liabilities

Currently, the Group's other financial assets and financial liabilities are settled on a gross basis because there is no relevant offsetting arrangement on them as of March 31, 2020 and December 31, 2019. 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.

## 24. FAIR VALUE MEASUREMENT AND DISCLOSURES

### 24.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into nine levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- b) 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,
- c) 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.

### 24.2 Financial Instruments Measured at Fair Value

The Group's financial instruments measured at fair value pertains only to the Group's financial assets at FVTPL amounting to P1.8 billion as of March 31, 2020 and financial liabilities at FVTPL amounting P35.3 million and P9.1 million as of March 31, 2020 and December 31, 2019. 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.

### 24.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table that follows summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the interim consolidated statement of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
<i>Financial assets:</i>				
Cash and cash equivalents	P 7,077,280,569	P -	P -	P 7,077,280,569
Trade and other receivables	-	-	11,850,729,124	11,850,729,124
Property mortgage receivable	-	-	607,128,039	607,128,039
Refundable security deposits	-	-	56,132,016	56,132,016
	<u>P 7,077,280,569</u>	<u>P -</u>	<u>P 12,513,989,179</u>	<u>P 19,591,269,748</u>

	Level 1	Level 2	Level 3	Total
<i>Financial liabilities:</i>				
Interest-bearing loans	P -	P -	30,209,136,955	P 30,209,136,955
Trade and other payables	-	-	12,838,880,172	12,838,880,172
Lease Liabilities	-	-	1,945,213,251	1,945,213,251
ELS	-	-	<u>3,443,750,000</u>	<u>3,443,750,000</u>
	<u>P -</u>	<u>P -</u>	<u>P 48,436,980,378</u>	<u>P 48,436,980,378</u>

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.

## 25. 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 shareholders 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 interim consolidated statements of financial position. Capital at the end of each reporting period is summarized as follows:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Total liabilities	<b>P 52,860,027,423</b>	P 61,269,239,793
Total equity	<b><u>65,295,080,321</u></b>	<u>64,716,757,520</u>
Liabilities-to-equity ratio	<b><u>P 0.81 : 1.00</u></b>	<u>P 0.95 : 1.00</u>

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

## 26. COVID-19 PANDEMIC UPDATE

The COVID-19 pandemic which put the Philippines in a state of calamity is still continuing as of date of this report. Subsequent to end of first quarter, there were varying stages of community quarantine put in place depending on the level of risk assessment. Emperor resumed local business operations starting mid-May, as allowed by the local government units where it has business operations, following the restrictions set by the government. The ultimate impact of the pandemic is highly uncertain and subject to change. 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.

## SIGNATURES

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

Issuer: **EMPERADOR INC.**

By:



**DINA D.R. INTING**  
Chief Financial Officer,  
Corporate Information Officer  
& Duly Authorized Officer  
(Principal Financial/Accounting Officer)  
June 24, 2020