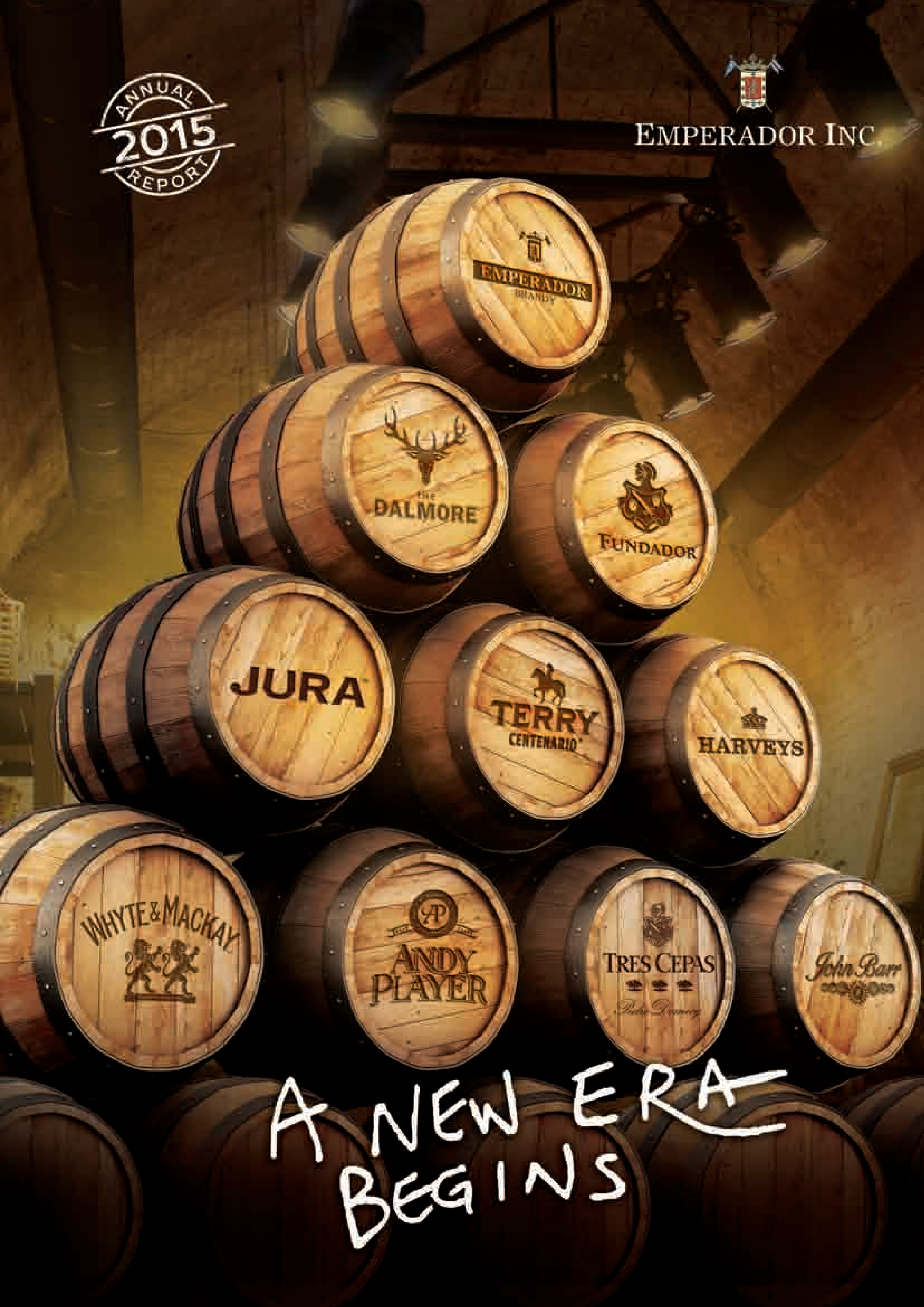
ANNUAL 2015 REPORT

EMPERADOR INC.



A NEW ERA BEGINS

EMPERADOR

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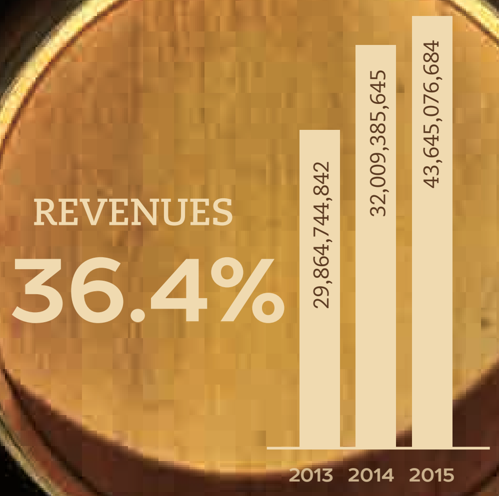
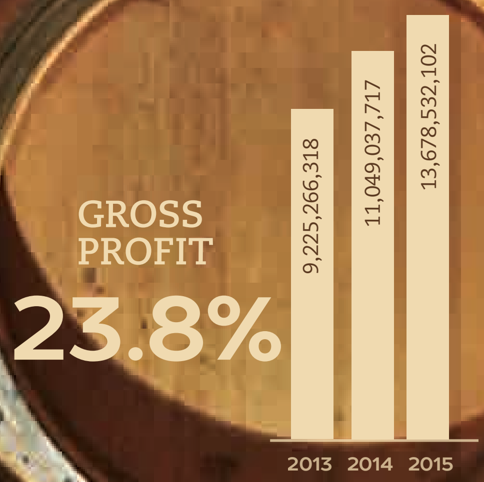
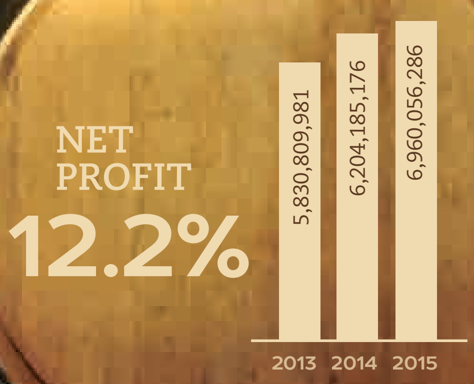
INCORPORATED

EMPERADOR INCORPORATED
FINANCIAL HIGHLIGHTS







EMPERADOR

CHAIRMAN'S MESSAGE

INCORPORATED

CHAIRMAN'S MESSAGE

We said early last year that 2015 would be the busiest and most exciting year for the company.

From a Philippine enterprise 37 years ago, the company has grown to become a global player with heritage brands under its portfolio. In a span of two years, our company has become global. Our products have access to 100 countries around the world. We acquired Whyte & Mackay in Scotland in 2014 and the Fundador brandy in Spain in 2015.

The culmination of last year's initiatives was Fundador. We signed a deal in November 2015 to acquire Fundador and other Spanish brandy assets from Beam Suntory for 275 million euros. In particular, the products involved in the acquisition include the iconic Fundador Brandy – Spain's largest export brandy sold in more than 30 countries and a Philippine favorite for over 100 years; Terry Centenario, Spain's top-selling brandy; Tres Cepas, Equatorial Guinea's leading brandy; and Harveys, the world's top sherry wine. Likewise acquired with Fundador Pedro Domecq were Bodegas Fundador, Spain's largest and oldest brandy cellar, along with production facilities, aging cellars, vineyards and state-of-the-art blending and bottling facilities in Jerez. This opportunity has been a long time dream of mine. During my earlier years, I had my first sip of brandy to celebrate my college graduation. It was Fundador, and it then served as my inspiration. This was the reason why I named my brandy Emperador, as Fundador inspired it. Now, I am very happy to have this iconic brand as part of the Emperador group. Overall, this acquisition has further strengthened Emperador's position as the world's largest brandy company and has made the Philippines one of the largest foreign investors in Spain.

Capitalizing on the acquisition of Whyte and Mackay in 2014, we made our luxury and premium single malt products, The Dalmore and Jura, available in various supermarkets locally in 2015. We also opened exclusive boutiques around Metro Manila, where we exclusively sell Emperador and Fundador high-end brandies and whisky from the Whyte and Mackay portfolio.

In September 2015, we brought back Andy Player whisky to the Philippines after its 25-year break. This was a popular drink in the 1980s, coming back to the market with my personal blend that exudes hints of orange marmalade and maple syrup. We aim to reach the younger and sophisticated consumers. The opportunity to launch the Andy Player whisky came in 2014 when we acquired Whyte and Mackay, which is a rich source of whisky raw materials. By entering into the whisky business, we are tapping a new liquor category and potentially paving the way for future-proofing our liquor dominance in the country.

On the financial aspect, our performance also marked a milestone. We reported consolidated revenues of almost PHP44 billion, up 36% year-on-year and our net income was nearly PHP7 billion. This was all due to both Emperador's domestic business as well as our foreign business that's largely driven by Whyte and Mackay.

The year 2015 proved to be as eventful as we foresaw. This was because of all the efforts of our people in Emperador and the support of all our stakeholders – consumers, dealers, fund managers, analysts, and of course, you our dear stockholders. This, as our Emperador Brandy ad says in Filipino, is *"Tagumpay nating lahat"* or "Our shared success."

We look forward to constantly raising the bar in 2016 and beyond.

ANDREW L. TAN
Chairman

EMPERADOR

EMPERADOR BRANDY

INCORPORATED

A Toast to Success

EMPERADOR BRANDY ORIGINAL

Emperador Brandy holds its position as the world's largest selling brandy and undisputed market leader in the Philippines because of its distinctive aroma, flavor and consistent mellow quality. It is a world class brandy produced through a delicate blending and aging process, yet easily available and affordable.

In the Philippines alone, an average of a million bottles were sold daily in supermarkets, groceries, and convenience and *sari-sari* stores across the country.

The 750 ml and 1 liter sizes continued to be most popular with the 350 ml offering, introduced in the middle of 2014, gaining ground and contributing more to overall sales.

Make It Light.
Make It Emperador Light.

EMPERADOR LIGHT

Emperador Light meets the demand among a new breed of brandy drinkers.

Light, smooth and full of taste and character, Emperador Light is ideal for every occasion and bonding moments with close friends.

EMPERADOR BRANDY INCORPORATED

Golden Success

EMPERADOR GOLD

Emperador Gold is the newest brand in our selection. It is an exceptionally fine work of art, an elegant spirit with a unique and complex character, crafted using some of the finest spirit in the best cellars of Spain.

EMPERADOR

EMPERADOR DELUXE

INCORPORATED

Live Luxuriously

EMPERADOR DELUXE SPANISH EDITION

The Bodega San Bruno in Jerez, Spain is the source of Emperador Deluxe, a uniquely fragrant, golden amber brandy with notes of Palomino grapes, toffee, roasted almond and honey. Expertly blended and aged using the traditional Solera method, Emperador Deluxe, is the pride and joy of Grupo Emperador Spain, S.A.

More Luxury in a Glass

EMPERADOR DELUXE SPECIAL RESERVE

Emperador Deluxe Special Reserve traces its roots to vineyards in Toledo, a distillery in La Mancha, and the cellars of San Bruno and Las Copas in Jerez. Aged in choice old sherry casks for many years, this brandy is imbued with history and a true taste of Spain.

100% produced and bottled in Spain, under Grupo Emperador, SA.

EMPERADOR
EMPERADOR DELUXE
INCORPORATED

Supreme Luxury

EMPERADOR GRAND SUPREME

Emperador Grand Supreme is a brandy of exceptional heritage. Crafted at Bodega San Bruno, it spends many, many years in choice barrels previously used to age Oloroso sherry. Our blend master carefully selects every cask before blending, ensuring that the brandy in each bottles has the grand flavor and supreme quality that is distinctly Emperador.

EMPERADOR
THE BaR
INCORPORATED

So Wonderful!

The BaR fruit flavored vodka continue to provide the younger more adventurous consumers with a fun and fruity alcoholic drink that they can truly enjoy with their peers. Throughout the years, The BaR has taken the number 1 spot in the flavored vodka industry – with the ever popular The BaR Apple Vodka leading the race.

With the generation becoming more experimental with mixing their drinks, consumers personalize their own concoctions using The BaR Silver Pure Spirit because of its clean and smooth taste that perfectly goes well with any kind of mix. Likewise, The BaR Silver Pure Spirit has also become a staple both in restaurants and bars as their go-to pouring drink for their special cocktail offerings.

More product offerings are in the pipeline so consumers may expect more exciting choices from The BaR.

EMPERADOR

THE BaR

INCORPORATED

Throughout the years, The BaR is a favorite in the flavored vodka industry – with the ever popular The BaR Apple Vodka leading the race.

EMPERADOR SMIRNOFF MULE INCORPORATED

Stubbornly Refreshing

EDI partnered with Diageo North America in 2015 to bring Smirnoff Mule to the Philippines – a smooth, full flavored, edgy drink unlike anything available in the country before.

Launched in the summer of that year, Smirnoff Mule is a classic signature drink that delivers a refreshing taste with a ginger beer kick at 6% ABV. With its unique mix of Smirnoff Vodka, ginger beer, and lime, Smirnoff Mule has revitalized the ready-to-drink category and has the captured the interest of the young, fun-loving crowd looking beyond the common fare.

The product is an upgrade and a sophisticated alternative to beer.

EMPERADOR

SMIRNOFF MULE

INCORPORATED

With its unique mix of Smirnoff Vodka, ginger beer, and lime, Smirnoff Mule has revitalized the ready-to-drink category and has the captured the interest of the young, fun-loving crowd looking beyond the common fare.

EMPERADOR
CARLO ROSSI
INCORPORATED

Cheers to good times!

The EDI wine business celebrates another milestone performance in 2015 as it continues to dominate the wine market in the Philippines.

The E&J Gallo Wines market share remains consistently high at 30%, and its flagship brand, Carlo Rossi California Red, now reigns as the highest selling single SKU.

Carlo Rossi is the Philippines' favorite and largest selling wines. Its fresh fruit character pairs well with Filipino cuisine.

EDI's Gallo Wine range featuring Carlo Rossi had a 2015 annual compounded growth rate of 20% and a market share of 30%.

The E&J Gallo Wines market share remains consistently high at 30%, and its flagship brand, Carlo Rossi California Red, now reigns as the highest selling single SKU.

EMPERADOR
ANDY PLAYER
INCORPORATED

Andy Player, The Whisky

Andy Player Whisky caters to a new consumer class looking for world-class quality whisky. Andy Player blend exudes hints of orange marmalade and maple syrup truly, a whisky that is hip, rich and smooth. It can be enjoyed in different ways to suit different tastes – straight on the rocks or mixed with cola or citrus soda. To reach its young and sophisticated target, its marketing strategy includes the use of digital and social media with the website www.andyplayer.com, its Facebook page Andy Player and Instagram #HaveYouMetAndy. The opportunity to launch the Andy Player brand came in 2014 when EDI marked its foray in the whisky market by acquiring Whyte and Mackay [Group Limited].

ANDY PLAYER

EMPERADOR INCORPORATED

Andy Player Whisky caters to a new consumer class looking for world-class quality whisky.

#HaveYouMetAndy

Life’s a Pik-Nik

The fun and energy for Pik-Nik soared high in 2015 with our Original Shoestring Potatoes tops in the list for snacking. Our flavored SKUs, Ketchup and Cheddar Cheese have become new favorites as well.

Under the campaign, “#Pik-Nik=Fun,” Pik-Nik aggressively reached out to our youthful targets in the school fairs and intramurals, college and university events, fun runs, marathons and blockbuster movie screenings.

The fun and energy for Pik-Nik soared high in 2015 with our Original Shoestring Potatoes tops in the list for snacking.

EMPERADOR
PIK-NIK
INCORPORATED

EMPERADOR

WHYTE & MACKAY

INCORPORATED

Expanding access, growing the business

EDI continued to capitalize on the benefits arising from its acquisition in 2014 of Whyte and Mackay, a Scottish company founded in 1843 and based in Glasgow. The acquisition allowed EDI access to the global market.

Whyte and Mackay holds one of the world's biggest aged whisky inventory. With five distilleries and one bottling plant in Scotland, it has a production capacity of 50 million liters of alcohol per annum.

Whyte & Mackay offers a diverse range of Scotch whiskies that cater to different target consumers. The brands are collectively called The Three As:

- Apex – To the discerning ultrahigh networth individuals, we have The Dalmore, a contemporary British luxury brand and the apex of single malt scotch whiskies;
- Accessible – To the scotch drinker who wants to venture into single malt, Jura is the access into the category
- Always – To the individual who wants to be part of the scotch culture, Whyte & Mackay Special is the brand for always.

Whisky is the second fastest growing spirits segment in the world next to brandy. EDI hopes to tap the rising demand and further enhance its product range.

The Whyte & Mackay Blended Scotch Whisky is the second largest whisky brand in Scotland and the third largest selling brand in the UK.

Whyte & Mackay offers a diverse range of Scotch whiskies that cater to different target consumers.

EMPERADOR
WHYTE & MACKAY
INCORPORATED

EMPERADOR

THE DALMORE

INCORPORATED

Forever standing apart

The Dalmore whisky range is steeped in history and tradition that goes back to 1839 – from the location of Its original distillery on an isolated area on the banks of the Cromarty Firth to the combination of different stills of various sizes to its unique maturation process using exceptional casks, showcasing woods from world-renowned bodegas and exclusive wineries.

THE DALMORE KING ALEXANDER III

The Dalmore King Alexander III is one of a kind. It is the only single malt in the world aged in six different casks resulting in a complex yet smooth single malt. It is a multi-awarded whisky, the most recent one being the Cathay Pacific Hong Kong International Wine & Spirit Competition where it not only took the gold medal amongst its many peers but it has gone on to take the Trophy for "The Best Single Malt Scotch Whisky – No Age Stated" in the Competition.

The Dalmore King Alexander III was awarded "The Best Single Malt Scotch Whisky – No Age Stated" by the Cathay Pacific Hong Kong International Wine & Spirit Competition.

THE DALMORE 12, 15 AND 18 YEAR

The Dalmore Principal Collection begins with The Dalmore 12-year old, cited as “Andrew Mackenzie’s masterpiece.” Touted as The Dalmore House Style, The Dalmore 15-year old is a smooth, rich and well rounded spirit aged in American oak barrels, marrying with the flavours emanating from Matusalem oloroso, Apostles, and Amoroso sherry. The Dalmore 18-year old is a bolder take on The Dalmore House Style. The expression showcases the robust flavors of extended maturation with only the use of two types of wood barrels.

EMPERADOR
THE DALMORE
INCORPORATED

THE DALMORE CIGAR MALT RESERVE

A fine whisky with a spicy sweet aroma, The Dalmore Cigar Malt Reserve is a one-of-a-kind whisky made for cigar lovers. The in-depth flavors of three kinds of oak barrels produce the perfect accompaniment fine cigar.

A fine whisky with a spicy sweet aroma, The Dalmore Cigar Malt Reserve is a one-of-a-kind whisky made for cigar lovers.

EMPERADOR

THE DALMORE

INCORPORATED

THE DALMORE 25 YEAR OLD

A marriage of various complex flavor profiles comes together in The Dalmore 25 year old. The whisky is a product of celebrated Master Blender and Distiller Richard Paterson’s pursuit of impeccable casks for The Dalmore, producing a multi-faceted fruity essence with a dark chocolate, gingerbread and maple finish.

The Dalmore 25 year old is a prized expression of the collection.

EMPERADOR JURA INCORPORATED

There's something in the water

Jura is an island in the Inner Hebrides off the West Coast of Scotland. It is so remote that the author George Orwell described it as 'the most un-get-at-able place', while writing "1984". The Jura Distillery uses tall stills to create a uniquely crafted mix of whiskies that sets it apart from other distilleries.

Jura Discovery is the Everyman's gateway into the world of single malt, as it features uniquely crafted expressions which range from sweet to smoky. It is a dream for those wanting to discover single malt as they will be able to experience the vast landscape of single malt flavors, which transitions from Origin (light and sweet), Journey (lightly smoky), and finally, Destiny (smoky).

JURA ORIGIN

Origin. Slumbering for a full decade in quiet contentment, this beguiling spirit has a lingering taste of sweet pear, crushed apples and maple syrup with gentle notes of honey, caramel, soft licorice and roasted coffee beans.

Jura Discovery is the Everyman's gateway into the world of single malt, as it features uniquely crafted expressions which range from sweet to smoky.

JURA JOURNEY

Journey. An enticing whisky with delicate smoky notes and the enriching tastes of roasted chestnuts, ripe banana, gingerbread, pear and grapefruit.

JURA DESTINY

Destiny. Crafted from a selection of the finest aged Jura single malt whiskies. This mysterious spirit has a unique style and character, with tastes of tangy cinnamon, ginger spice, and honey with whispers of salty sea spray, rich coffee and roasted chestnuts.

JURA DISCOVERY PACK

Jura Discovery features 3 20cl bottles of Origin, Journey and Destiny which encapsulates the entire landscape of flavor profiles single malt has to offer. The perfect single malt starter kit!

EMPERADOR
FUNDADOR
INCORPORATED

More than a century of leadership in the Philippines

EDI continued its strategic acquisition and expansion with the purchase of Fundador Pedro Domecq, Spain's largest and oldest brandy, worth 275 million euros in November 2015.

With Grupo Emperador Spain S.A. acquiring the Spanish brandy and sherry business, EDI strengthens its position as the world's largest brandy company and made the Philippines one of the largest foreign investors in the country. Apart from Fundador Brandy, the acquisition includes Terry Centenario, Spain's top-selling brandy; Tres Cepas, Equatorial Guinea's leading brandy; and Harveys, the world's top sherry wine.

EMPERADOR
FUNDADOR
INCORPORATED

Likewise acquired with Fundador Pedro Domecq were Bodegas Fundador, Spain's largest and oldest brandy cellar, along with production facilities, aging cellars, vineyards and state-of-the art blending and bottling facilities in Jerez. EDI also took over Bodega Las Copas in Tomelloso, Spain, with its substantial aging inventory of brandy and sherry stocks.

The acquisition of the Spanish assets and Fundador Brandy immediately impacts both EDI's revenue and net income positively. With the earlier purchase of whisky makers Whyte and Mackay, EDI now has access to more than 100 countries around the world.

Fundador (Spanish for "founder") was the first brand to be marketed by Pedro Domecq Loustau in 1874. It is made from Airen and Palomino grapes and aged in a sherry-soaked Solera – a series of casks, graded according to age, in which sherries and brandies are stored while maturing. Fundador is Spain's largest export brandy and sold in more than 30 countries.

EDI continued its aggressive acquisition and expansion strategy with the purchase of Fundador Pedro Domecq, Spain's largest and oldest brandy...

The Original

FUNDADOR SOLERA

Since 1874, Fundador Solera has remained the world's most renowned Spanish brandy. Drawn from the finest grapes and aged using the Jerez original Solera system, it was also the first true Spanish brandy ever to land on Philippine shores.

Its smoothness, distinct aroma, and rich, full-bodied flavor are proof of its prestigious heritage.

After more than 140 years, Fundador Solera has become the preferred premium brandy among Filipinos and the symbol of lasting friendships.

Straight, on Ice or in Combination for Any Occasion

FUNDADOR LIGHT

Fundador Light is a high quality distillate, aged in our bodegas by the traditional system of criaderas and soleras in American oak barrels previously seasoned with sherry wine. Its characteristic aroma and smooth flavor are ideal to be enjoyed straight, on ice or in combination for any occasion.

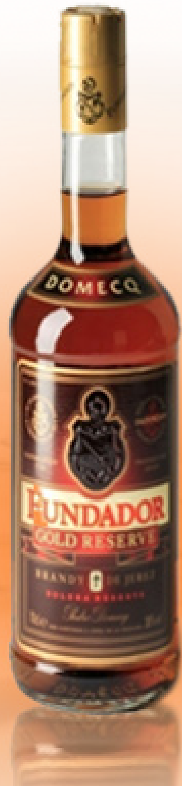
Well Worth the Wait

FUNDADOR GOLD RESERVE

Since 1874, the world-renowned House of Fundador has upheld the uncompromising standards of traditional Solera brandy making. Fundador is distilled from the finest Spanish grapes, aged in oak sherry casks, and stored in the bodegas of Fundador Pedro Domecq in Jerez, Spain.

But only through further ageing and careful blending, with brandies from the personal reserves of Don Beltran Domecq, does it earn the distinction of bearing the name Fundador Gold Reserve.

The extra time spent in the barrels create a rich, warm, aromatic brandy that is truly a pleasure to savor.



Enjoy it Smooth

FUNDADOR ULTRA SMOOTH

Fundador Ultra Smooth is a premium quality distillate with a special and selected blend of wine spirits aged in oak barrels previously seasoned with Oloroso sherry wine through the traditional system of criaderas and soleras.

It has a distinguished and unique smooth taste, rich and mellow flavor also ideal to be enjoyed straight, on ice or in combination for any occasion.

EMPERADOR
FUNDADOR
INCORPORATED

Simply Exclusive

FUNDADOR EXCLUSIVO

Fundador Exclusivo Brandy de Jerez Solera Gran Reserva is distilled from the finest Spanish grapes and aged for years in oak barrels of Jerez. Elegant and refined, deep amber color, it leaves a lasting taste on the palate.

Spain’s Favorite

TERRY CENTENARIO

Terry Centenario is Spain’s leading brandy. It has a delicate and pleasant aroma with a smooth, persistent flavor and balance. The Terry family, which founded the Bodegas Terry in the 1850s originally came from Southern Ireland. The name “Centenario”, marks the beginning of the twentieth century, when the Terry family began producing brandies in its ‘bodegas’ in Puerto de Santa María.

EMPERADOR
FUNDADOR
INCORPORATED

A Legacy of Excellence

TRES CEPAS

Tres Cepas is made from the distillation of selected grape wines, aged for a long time by the traditional system of hatcheries and sills. It has a balanced and clean aroma with a fragrance of wood seasoned by rich sherry. Its flavor is mild, leaving a lingering pleasantness in the mouth. This unique brand has been aged in the traditional Solera system, giving it a smooth, mellow taste.

Taste is Never Old Fashioned

HARVEYS BRISTOL CREAM

Harveys is the world's largest selling sherry wine. Harveys was founded in 1796 in Bristol, England by the merchant William Perry. Harveys became one of the largest importers of sherry from Cadiz Bay to the port of Bristol. In 1970, the company was established in the region of Jerez through the acquisition of wineries and vineyards.

Harveys Bristol Cream is the result of a careful selection composed of 30 wines aged in American oak casks with genuine solera system and hatcheries.It is a unique blend of Fino, Amontillado, Oloroso and Pedro Ximinez wines. Bristol Cream tastes smoother and more complex than other sherries due to the high quality and extra age of its components. It can be served chilled or on ice, or enjoyed as a dessert wine. It has a deep golden chestnut and amber color, with clean, fresh and tangy dried fruit aromas, fruity grape flavors and creamy velvet, smooth, mellow, woody nutty and earthy flavors and finish.

EMPERADOR

WORLDWIDE REACH

INCORPORATED

For Emperador, Inc. the year 2015 marked the rapid expansion of its businesses, both in the domestic and global markets.

The acquisition of Fundador Pedro Domecq and its assets, coming just a year after that of Whyte and Mackay, and the earlier agreement with González Byass S.A. for a 50 percent participation in Bodega Las Copas S.L., further established Emperador, Inc. as a true global player.

Encouraged by healthy growth forecasts in the brandy market, record revenues brought about by a wider international reach arising from the acquisitions, and a strong balance sheet, Emperador, Inc. has set even more ambitious targets for itself. A key factor to the achievement of these targets is using its financial resources to take advantage of more acquisition and expansion opportunities in the domestic and global markets.

The acquisition of Fundador Pedro Domecq has bolstered the prospects in the brandy market even more, not only because of Fundador's very strong brand equity but also its established presence in over 30 countries.

Emperador, Inc. is fully committed to replicate this success in the whisky market by leveraging on its synergies with Whyte and Mackay in the areas of scale and sharing of best practices. Emperador, Inc. now uses Whyte and Mackay's international route to sell Emperador products in emerging markets and, conversely, allows Whyte and Mackay access to its Asian distribution channels.

Travel retail is also a major initiative for Emperador. A strategy has been set to be more active in Duty Free travel retail shops globally and to supply Emperador products from either the Philippines or Spain, depending on the price points required by its international clients. This is a concrete step in the direction of global dominance – transforming Emperador, Inc.'s global presence into a global competitive advantage.

EMPERADOR

WORLDWIDE REACH

INCORPORATED

The acquisition of Fundador Pedro Domecq has bolstered the prospects in the brandy market even more, not only because of Fundador's very strong brand equity but also its established presence in over 30 countries.

BOARD OF DIRECTORS

Andrew L. Tan
Chairman

Winston S. Co
Director & President

Andrew L. Tan

Mr. Tan, was first elected as Director and Chairman of the Board on August 28, 2013. He is also the Chairman of Emperador Distillers, Inc. since its incorporation in 2003. He has served as Director of Alliance Global Group, Inc. since 2003, as its Chairman of the Board and Chief Executive Officer from September 2006 to present, and as Vice-Chairman of the Board from August 2003 to September 2006. Mr. Tan is also the Chairman of the Board and President of Megaworld Corporation since August 1989 to present. 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. He also holds the position as Chairman of the Board of Global-Estate Resorts, Inc. and Empire East Land Holdings, Inc., both subsidiaries of Megaworld Corporation. He was elected as Director of Travellers International Hotel Group, Inc. on July 2008. 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 sits in the boards of Eastwood Cyber One Corporation, Megaworld Cayman Islands, Inc., Forbes Town Properties & Holdings, Inc., Gilmore Property Marketing Associates, Inc., Megaworld Central Properties, Inc., Raffles & Company, Inc., The Andresons Group, 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

Mr. Co was first elected as Director and President on 28 August 2013. He is also a Director and President of

BOARD OF DIRECTORS

Katherine L. Tan
Director & Treasurer

Kendrick Andrew L. Tan
Director

Emperador Distillers, Inc. since 2003. He has served as Director of Alliance Global Group, Inc. since 1998 where he previously was Vice Chairman of the Board from November 1999 to August 2003 and Chairman from June 1998 to October 1999. 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

Ms. Tan was first elected as Director and Treasurer on 28 August 2013. She has also been a Director and Treasurer of Alliance Global Group, Inc. since February 2007. She has also served a Director of Megaworld Corporation since August 1989 to present and as Treasurer since August 1989 to June 1995. 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. Ms. Tan graduated from St. Scholastica's College with a degree in Nutrition.

Kendrick Andrew L. Tan

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.

EMPERADOR

BOARD OF DIRECTORS

INCORPORATED

Kingson U. Sian
Director

Miguel B. Varela
Independent Director

Kingson U. Sian

Mr. Sian was first elected as Director on 28 August 2013. He also holds the position of President and Chief Operating Officer of Alliance Global Group, Inc. since February 2007. He is currently a member of the Board of Megaworld Corporation and is its Executive Director since April 2007. Mr. Sian also holds the position of Director and President of Travellers International Hotel Group, Inc. since June 2015 and as Chief Executive Officer since October 2014. He is concurrently President and Director of Forbestown Properties Holdings, Inc., and Eastwood Cyber One Corporation and a Director of Alliance Global Group Cayman Islands, Inc. He is also Chairman and President of Prestige Hotels & Resorts, Inc. and is the Chief Operating Officer of Megaworld Land, Inc. Mr. Sian was formerly a Vice President of FBP Asia Ltd/First Pacific Bank in Hongkong from 1990 to 1995 and, prior to that, was connected with Citicorp Real Estate, Inc. in the United States from 1988 to 1990. He graduated from the University of the Philippines with the degree of Bachelor of Science in Business Economics. He obtained his Masters Degree in Business Administration for Finance and Business Policy from the University of Chicago.

Miguel B. Varela

Mr. Varela, Filipino was first elected as Independent Director on 28 August 2013. He also holds the position as Independent Director of Global-Estate Resorts, Inc. since September 2012 and in Megaworld Corporation since June 2006. He is presently the President of the Philippine Chamber of Commerce and Industry (PCCI) and Director, NPC Alliance Corporation. He is the Chairman of the Employers' Confederation of the Philippines (ECOP), Board of Trustee of Philippines Trade Foundation, Inc. Chairman of Pribadong Institusyon Laban sa Kahirapan (PILAK). Chairman of the Philippine Association of Voluntary Arbitration Foundation (PAVAF), and Chairman of Philippine Dispute Resolution Center, Inc. (PDRCI). He is also the Vice President of the International Labor Organization, Inc., and Trustee and Corporate Secretary of the Streetwatch Commission an Foundation for Crime Prevention. He is an accredited international arbitrator

EMPERADOR BOARD OF DIRECTORS INCORPORATED

Alejo L. Villanueva, Jr.
Independent Director

of the Paris-based International Court of Arbitration. A member of the Philippine Bar, he pursued his Bachelor of Laws in the Ateneo de Manila Law School and his Associate in Liberal Arts from the San Beda College. He attended a Top Management and Productivity Program from the Asian Institute of Management (AIM) as well as special courses sponsored by ILO, Geneva, Switzerland, Asian Productivity Organization (APO), and the Nikkeren, Japan, covering areas of Managerial Management and Organizational Development, Productivity, Legal Management, Labor and Industrial Relations, Development of SME's among others. He is a member of the Philippine Bar Association, a Commissioner of the Consultative Commission on Constitutional Reform and a Lifetime Member of the Philippine Constitution Association (PHILCONSA). He is the recipient of various awards and citations such as San Beda College's Outstanding Alumni Award for Business Leadership, and San Beda Hall of Fame Awardee. Presidential Medal of Merit for Outstanding Service to the Republic of the Philippines, Tamaraw Leadership Award, Katipunan Leadership Award and Leadership Award from ECOP, PCCI and ASEAN Productivity Organization and Confederation of Asia-Pacific Chamber of Commerce and Industry (CACCI) Medallion for Distinguished Service Award. He was also conferred by the Central Luzon State University with the degree of Doctor of Humanities (honoriscausa), and by the Eulogio "Amang" Rodriguez University of Science and Technology with a Doctorate in Business Technology (honoris causa).

Alejo L. Villanueva, Jr.

Mr. Villanueva was first elected as Independent Director on 28 August 2013. He also holds the position as Independent Director of Alliance Global Group, Inc. since August 2001, in Empire East Land Holdings, Inc. since June 2007 and in Suntrust Home Developers, Inc. since October 2012. 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 ofUSAID), 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.

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 Board of Directors has formally adopted a Manual on Corporate Governance that incorporates the established governance policies and practices in accordance with SEC Memorandum Circular No. 2, Series of 2002, as amended by SEC Memorandum Circular No. 6, Series of 2009, as further amended by SEC Memorandum Circular No. 9, Series of 2014.

The Audit Committee is composed of three members, at least one of whom must be an independent director, and is tasked to oversee and review financial and accounting matters and oversees the management of the Company's risk policy and activities.

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

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

The Company's By-laws require it to have two independent directors in its Board of Directors while the Manual requires that there must be at least one independent director voting in the Audit Committee, Nomination Committee, and Compensation and Remuneration Committee.

To date, the Company has elected two independent directors, Miguel B. Varela and Alejo L. Villanueva, Jr.

In 2015, the directors of the Company were required to take a Corporate Governance Orientation course and are encouraged to undergo further training in corporate governance.

The Company likewise complies with its Manual on Corporate Governance requirement that it rotate its external auditor or change the handling partner every five (5) years or earlier.

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. No sanctions were imposed on any director, officer or employee on account of non-compliance with the Company's Manual on Corporate Governance.

The Board has no immediate plans to adopt new policies for corporate governance.

EMPERADOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

INCORPORATED

KEY PERFORMANCE INDICATORS

								% Growth	
In Million Pesos			2015		2014		2013	2015	2014
Revenues		P	43,645	P	32,009	P	29,865	36.4	7.2
Net profit		P	6,960	P	6,204	P	5,831	12.2	6.4
Total assets		P	98,259	P	99,558	P	35,225	-1.3	182.6
Total current assets		P	59,193	P	66,099	P	30,787	-10.4	114.7
Total current liabilities		P	39,489	P	44,280	P	4,249	-10.8	942.1
Gross profit margin	%		31.61		35.12		32.25		
Net profit rate	%		15.95		19.38		19.52		
Return on investment	%		7.08		6.23		16.55		
Current ratio			1.50x		1.49x		7.25x		
Quick ratio			1.08x		1.13x		6.37x		

- 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 investment [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 years 2013 to 2015 saw the offshore growth of Emperador business. The Group acquired Bodegas Las Copas ("BLC") and Bodega San Bruno in Spain in February 2014 and early 2013, respectively, and Whyte and Mackay ("WMG") in UK in October 2014. BLC is a joint venture which is accounted for under the equity method while WMG is a wholly owned subsidiary which is consolidated beginning November 2014. These provided platforms for international expansion and domestic premiumization for Emperador. Another feat is the acquisition of a brandy and sherry business in Spain, a deal inked in November 2015 and the assets turned over in March 2016.

Year Ended December 31, 2015 Compared With Year Ended December 31, 2014

Revenues

Total revenues hit 36.4% growth to P43,645 million in 2015 from P32,009 million a year ago, on the back of Whyte and Mackay full year results consolidated this year while Emperador experienced soft volume locally during the year.

Other revenues were lower this year due to the divestment of temporary short-term investments.

Costs and Expenses

Total costs and expenses went up by 47.2% to P35,195 million in 2015 from P23,901 million a year ago, primarily due to WMG operations that were consolidated beginning November 2014.

Cost of Goods Sold

Costs went up by 45.0% primarily due to WMG. Emperador's costs during the year decreased by 6% due to soft volume and cost efficiencies.

Gross Profit

As a result, gross profit improved by 23.8% to P13,678 million in 2015 from P11,049 million in 2014. Emperador's gross profit rate for 2015 was up at 32% as compared to 35% a year ago due to cost efficiencies. WMG has a relatively low gross margin which is at 19.7% in 2015.

Other operating expenses

Selling and distribution expenses expanded by 22.5% to P3,250 million from P2,652 million while general and administrative expenses climbed by 169.7% to P1,828 million from P678 million. These increases are attributed to expenses incurred by Whyte and Mackay, particularly in advertising and promotions, salaries and employee benefits, outside services and freight and handling.

Other charges

Other charges soared by 226.2% to P528 million from P162 million primarily due the interest expense recorded from the equity-linked securities and foreign-currency denominated loans which were incurred to partly finance the acquisition of WMG in October 2014.

Profit before Tax

As a result of the foregoing, profit before tax was up by 4.2% to P8,450 million in 2015 from P8,108 million in 2014.

Tax Expense

Tax expense was down 21.8% to P1,490 million from P1,904 million a year ago primarily as a result of the lower taxable income of Emperador and deferred tax benefit of WMG.

Net Profit

As a result of the foregoing, net profit increased by 12.2% to P6,960 million from P6,204 million a year ago.

Year Ended December 31, 2014 Compared With Year Ended December 31, 2013

Revenues

Total revenues grew by 7.2% to P32,009 million in the year 2014 from P29,865 million a year ago primarily due to the revenues contributed by Whyte and Mackay which were derived from its two-month operations. Emperador sales for the year were at about the same level as last year.

Other revenues appeared to have gone down by more than half to P551 million from P1,258 million due to foreign currency gains booked in 2013.

Costs and Expenses

Total costs and expenses went up by 8.8% to P23,901 million in the year 2014 from P21,960 million a year ago primarily due to those attributed to Whyte and Mackay's two months operations.

Cost of Goods Sold

Costs of goods sold increased by 5.3% to P20,409 million in 2014 from P19,382 million a year ago due to the two month's costs from Whyte and Mackay. While Emperador's sales remain flat, its costs during the year decreased by about 10.0% due to cost efficiencies attributed substantially to the good retrieval of recycled bottles.

Gross Profit

As a result, gross profit improved by 16.5% to P11,049 million for 2014 from P9,225 million for 2013. Emperador's gross profit rate for 2014 climbed to 35% as compared to 32% a year ago.

Other operating expenses

Selling and distribution expenses expanded by 26.4% to P2,652 million from P2,098 million while general and administrative expenses ballooned by 212.4% to P678 million from P217 million. These increases are attributed to Whyte and Mackay spends which totaled P519 million and the non-recurring expenses incurred in the acquisition of WMG which totaled P310 million.

Other charges

Other charges decreased by 38.5% to P162 million from P263 million primarily due the reversal of the P212 million fair value loss on derivatives booked in 2013. Also in 2014, interest on borrowings incurred to partly finance the acquisition of WMG totalled to about P71 million.

Profit before Tax

As a result of the foregoing, profit before tax was slightly higher by 2.6% to P8,108 million in the year 2014 from P7,905 million in the year 2013.

Tax Expense

Tax expense shrank by 8.2% to P1,904 million in 2014 from P2,074 million in 2013 primarily as a result of the higher deductible expenses.

Net Profit

As a result of the foregoing, net profit increased by 6.4% to P6,204 million in 2014 from P5,831 million in 2013.

FINANCIAL CONDITION

December 31, 2015 and 2014

Total assets amounted to P98,259 million as of December 31, 2015 which is 1.3% down from P99.558 million as of December 31, 2014, which is primarily attributed to repayment of debts associated with the WMG acquisition. The Group is strongly liquid with current assets exceeding current liabilities 1.50 times by the end of the current year.

Cash and cash equivalents shrank by 17.2% or P6,057 million in 2015 because of debts repayment, additions to property, plant and equipment and dividend payment. The Group ended 2015 with P29,177 million in its coffers.

Financial assets at fair value through profit or loss were disposed of to pay off debts.

Inventories went up by 5.2% or P803 million, primarily due to increase in work-in-process at WMG which are basically maturing whisky stocks stored in various locations across Scotland.

Prepayments and other current assets dropped by almost half or P304 million due to timing of prepayments and subsequent charging to profit or loss of rent, advertising and general accounts, mostly from WMG.

Investment in a joint venture represents the share in net profits of BLC for 2015.

Property, plant and equipment went up by 24.4% or P2,799 million from costs incurred in the ongoing construction of new distillery plant in Batangas, upgrade of IT system and buildings in UK.

Other non-current assets swelled by 737.2% or P2,780 million, due to the deposit paid to Beam Suntory for the acquisition of the brandy and sherry business in Spain.

Trade and other payables went down by P4,477 million or 22.8%, primarily due to repayment of advances from related parties which were used in the acquisition of WMG. Similarly, short-term loans totaling P23,827.2 million in 2014 were fully paid in 2015; new loans were, however, obtained anew from banks to finance the acquisition from Beam Suntory.

Financial liabilities at fair value through profit or loss were booked in 2014 as a result of lower market values of foreign exchange contracts at that time.

Income tax payable decreased by 25.9% or P148 million, due to lower unpaid taxes at end of year.

Equity-linked debt securities represent the debt instrument issued to Arran for its initial investment paid in December 2014, presented net of the related P26.4 million documentary stamp tax. The P5 million increase represents the amortization of such tax. The interest accrued on the debt instrument amounted to P264 million in 2015 and is presented under non-current liability because such will be payable at the time of conversion or maturity.

Provisions refer to the amount provided by WMG for leased properties located in Scotland. These include restoration costs to be incurred for the restoration of the leased properties to specified condition at the end of the lease, and tenant repairing clauses. Also, there is provision for the vacant or discounted sublet portions of the leased properties. There was drop in onerous lease provision because of having a new tenant in one of the units which cause a change in the assumptions.

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

Revaluation reserves refer to actuarial valuation remeasurements of retirement benefit obligations, which is attributed to WMG.

Accumulated translation adjustments refer to the resulting difference in the translation of the foreign subsidiaries's financial statements to Philippine pesos.

Non-controlling interest refers to the redeemable, non-reissuable, non-participating preferred shares of AWGI issued to Arran in 2015. The same amount was received in 2014 and reported under deposit for future stock subscription in 2014.

December 31, 2014 and 2013

Total assets grew by 182.6% to P99,559 million as of December 31, 2014 from P35,225 million as of December 31, 2013, or 675.8% from P12,834 million as of December 31, 2012. These growths rates are attributable to the assets consolidated from the UK and Spain subsidiaries in 2014 and the capital stock subscriptions in both recent years. UK assets totaled P40.6 billion as of December 31, 2014.

With the debts incurred and the cash money flowed out in 2014 from the UK acquisition, current assets exceeded current liabilities by 1.5 times only at yearend-2014 as comparedto 7.2 times at year-end 2013. Current assets amounted to P66,099 million while current liabilities amounted to P44,280 million at yearend 2014.

Cash and cash equivalents increased by 46.6% or P11,194 million in 2014, primarily due to investment that came from Arran which was received in December 2014. The Group ended 2014 with P35,235 million in its coffers.

Trade and other receivables grew by 359.5% or P10,877 million, primarily due to trade receivables in EGB Group, a downpayment for a land acquisition by EDI and its advances to related parties.

Financial assets at fair value through profit or loss represent equity securities held by EMP. These are temporary investments made by EMP to park its excess cash during 2014.

Inventories swelled by 333.5% or P11,760 million, primarily due to the inventories at WMG which consist of inventories of cased stock, maturing whisky stock, and other materials. Maturing whisky stocks are reported as Work in process; these are stored in various locations across Scotland.

Prepayments and other current assets rose by 225.4% or P440 million, primarily due to the accounts at EGB which amounted to P369.6 million at yearend.

Investment in a joint venture represents the cost put to acquire Bodegas Las Copas plus the share in its net profits for 2014.

Property, plant and equipment enlarged by 205.7% or P7,716 million, primarily due to the P6.3 billion assets of WMG, which include five distillery plants in Scotland. Another vineyard land in Spain was also acquired in 2014 while the construction of a new distillery plant is still in progress.

Intangible assets were up by P17,542 million, because of the trademarks, distribution rights and goodwill brought about by the acquisition of the WMG group.

Other non-current assets increased by 15.9% or P50 million, due to additional deferred input vat.

Trade and other payables expanded by 435.0% or P15,972 million, due to the advances obtained from related parties and used in the acquisition of WMG. Similarly, short-term loans totaling P23,827 million were obtained from banks to bridge and complete the money required for the said acquisition.

Financial liabilities at fair value through profit or loss increased by P195 million as a result of lower market values of foreign exchange contracts.

Income tax payable increased by 5.8% or P31 million, due to higher taxable profit in the fourth quarter.

Equity-linked debt securities represent the debt instrument issued to Arran for its initial investment paid in December 2014, presented net of the related P26.4 million documentary stamp tax. The debt may be converted to 480 million common shares anytime by Arran and two years after issue date by EMP. Redemption is at end of five years, extendible up to two more years by EMP. The interest accrued on the debt instrument amounted to P19.5 million and is presented under non-current liability because such will be payable at the time of conversion or maturity.

Provisions refer to the amount provided by WMG for leased properties located in Scotland. These include restoration costs to be incurred for the restoration of the leased properties to specified condition at the end of the lease, and tenant repairing clauses. Also, there is provision for the vacant or discounted sublet portions of the leased properties.

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

Capital stock and Additional paid-in capital ("APIC") increased by P1,120 million and P11,193 million, respectively, as a result of the initial equity investment paid by Arran in December 2014. The subscription corresponds to 1,120 million new common shares at P11.00 per share. The P6.7 million documentary stamp tax paid for this transaction is net out in APIC.

Revaluation reserves refer to loss on actuarial valuation remeasurements of retirement benefit obligations, P292 million of which is attributed to WMG.

Accumulated translation adjustments refer to the resulting difference in the translation of the foreign subsidiaries's financial statements to Philippine pesos. Monetary assets and liabilities are translated at the closing rate, non-monetary ones at historical cost, and income and expenses at average exchange rates. For this year, the P685.6 million balance represent loss from such monetary translations.

LIQUIDITY AND CAPITAL RESOURCES

In the past, the Group sourced funds from operations and equity offering. In 2015 and 2014, it availed of short-term borrowings. The Company expects to meet its working capital and investment 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, including peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

PROSPECTS FOR THE FUTURE

A new era begins for Emperador in 2016. It now has a much bigger product portfolio of brandy and whisky that have greater global reach. The core local product, Emperador brandy, is seen to benefit from this international route to market given export opportunities in other countries. The Group is best positioned to capitalize on premiumization opportunities with its broad spectrum of products available locally ranging from standard value to premium to super premium to luxury. Emperador brandy remains to be the leader in the local spirits industry. And the Group has a compelling presence in foreign brands in the Philippines with the single malt Scotch whisky products, The Dalmore and Jura, and now the Fundador brandy de Jerez.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of *Emperador Inc.* is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Company and its subsidiaries in accordance with Philippine Standards on Auditing and, in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

ANDREW L. TAN
Chairman of the Board

WINSTON S. CO
President / Chief Executive Officer

DINA D.R. INTING
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this April 4, 2016, affiants exhibiting to me their Passport/SSS No., as follows:

Names	Passport No./SSS No.	Date	Place of Issue
Andrew L. Tan	EC1087269	May 14, 2014 to 2019	Manila
Winston S. Co	EB5747522	June 25, 2012 to 2017	Manila
Dina D.R. Inting	SSS 03-5204775-3		

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Book No. XIII
Series of 2016

MA. ESMERALDA R. CUNANAN
Notary Public
Until December 31, 2017
Appt. No. M-28 (2016-2017) Attorney's No. 34562
MCLE Compliance No. IV-0010453/9-18-2015
PTR No. MKT5329136/1-04-2016/Makati City
IBP Lifetime Member Roll No. 05413
Ground Level, Dela Rosa Carpark I
Makati City

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of Emperador Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, 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, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the over-all presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Emperador Inc. and Subsidiaries as at December 31, 2015 and 2014, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Mailene Sigue-Bisnar
Partner
CPA Reg. No. 0090230
TIN 120-319-128
PTR No. 5321724, January 2, 2016, Makati City
SEC Group A Accreditation
Partner – No. 0396-AR-2 (until Oct. 15, 2018)
Firm – No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-20-2015 (until Mar 18, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 1, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2015 AND 2014 (Amounts in Philippine Pesos)

	Notes	2015	2014
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	P 29,177,542,237	P 35,234,629,567
Trade and other receivables - net	6	13,592,915,689	13,902,568,185
Financial assets at fair value through profit or loss	7	2,654,900	1,040,340,021
Inventories - net	8	16,089,751,648	15,287,019,458
Prepayments and other current assets		330,175,997	634,606,527
Total Current Assets		59,193,040,471	66,099,163,758
NON-CURRENT ASSETS			
Investment in a joint venture	12	3,873,264,431	3,743,256,791
Property, plant and equipment - net	9	14,267,074,361	11,467,808,296
Intangible assets - net	10	17,768,351,472	17,871,224,140
Other non-current assets - net	11	3,156,901,823	377,098,482
Total Non-current Assets		39,065,592,087	33,459,387,709
TOTAL ASSETS		P 98,258,632,558	P 99,558,551,467
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	13	P 23,899,762,792	P 23,827,219,465
Trade and other payables	15	15,167,221,745	19,643,818,731
Financial liabilities at fair value through profit or loss	7	-	233,751,463
Income tax payable		421,891,614	569,582,757
Deposit for future stock subscription		-	5,750,000
Total Current Liabilities		39,488,876,151	44,280,122,416
NON-CURRENT LIABILITIES			
Equity-linked debt securities	14	5,259,137,443	5,253,911,638
Accrued interest payable	14	283,528,767	19,528,767
Provisions	16	794,258,510	919,469,601
Deferred tax liabilities - net	21	1,883,012,945	2,051,427,187
Retirement benefit obligation	20	464,167,708	1,132,094,607
Total Non-current Liabilities		8,684,105,373	9,376,431,800
Total Liabilities		48,172,981,524	53,656,554,216
EQUITY			
Equity attributable to owners of the parent company			
Capital stock	23	16,120,000,000	16,120,000,000
Additional paid-in capital	23	22,348,856,023	22,348,856,023
Accumulated translation adjustments	2	(1,404,255,536)	(685,584,783)
Revaluation reserves		40,162,823	(310,304,679)
Share options		4,050,748	-
Retained earnings	23	12,971,086,976	8,429,030,690
Total equity attributable to owners of the parent company		50,079,901,034	45,901,997,251
Non-controlling interest		5,750,000	-
Total Equity		50,085,651,034	45,901,997,251
TOTAL LIABILITIES AND EQUITY		P 98,258,632,558	P 99,558,551,467

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013 (Amounts in Philippine Pesos)

	Notes	2015	2014	2013
REVENUES	17	**P 43,645,076,684**	P 32,009,385,645	P 29,864,744,842
COSTS AND EXPENSES				
Costs of goods sold	18	**29,589,385,943**	20,409,136,993	19,381,725,433
Selling and distribution expenses	19	**3,249,646,048**	2,652,209,005	2,097,852,769
General and administrative expenses	19	**1,828,201,914**	677,801,497	216,970,460
Other charges	6, 7, 13, 14, 20	**528,004,429**	161,880,966	263,092,696
		35,195,238,334	23,901,028,461	21,959,641,358
PROFIT BEFORE TAX		**8,449,838,350**	8,108,357,184	7,905,103,484
TAX EXPENSE	21	**1,489,782,064**	1,904,172,008	2,074,293,503
NET PROFIT		**6,960,056,286**	6,204,185,176	5,830,809,981
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will be reclassified subsequently to profit or loss				
Translation gain (loss)	2	**(718,670,753)**	(820,041,951)	137,988,773
Items that will not be reclassified subsequently to profit or loss				
Net actuarial gain (loss) on retirement benefit obligation	20	**419,835,089**	(358,625,137)	(23,968,477)
Tax income (expense) on remeasurement of retirement benefit obligation	21	**(69,367,587)**	70,563,930	7,190,543
		350,467,502	(288,061,207)	(16,777,934)
		(368,203,251	(1,108,103,158)	121,210,839
TOTAL COMPREHENSIVE INCOME		**P 6,591,853,035**	P 5,096,082,018	P 5,952,020,820
Earnings per share - Basic and Diluted	24	**P 0.43**	P 0.41	P 0.52

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013 (Amounts in Philippine Pesos)

		Attributable to Owners of the Parent Company											
								Retained Earnings					
	Note	Capital Stock	Additional Paid-in Capital	Accumulated Translation Adjustment	Revaluation Reserves	Share Options Outstanding	Equity Reserves	Appropriated	Unappropriated	Total	Total	Noncontrolling Interest	Total Equity
Balance at January 1, 2015		P 16,120,000,000	P 22,348,856,023	(P 685,584,783)	(P 310,304,679)	P -	P -	P -	P 8,429,030,690	P 8,429,030,690	P 45,901,997,251	P -	P 45,901,997,251
Issuances during the year		-	-	-	-	4,050,748	-	-	-	-	4,050,748	5,750,000	9,800,748
Total comprehensive income for the year		-	-	(718,670,753)	350,467,502	-	-	-	6,960,056,286	6,960,056,286	6,591,853,035	-	6,591,853,035
Cash dividends declared during the year	23	-	-	-	-	-	-	-	(2,418,000,000)	(2,418,000,000)	(2,418,000,000)	-	(2,418,000,000)
Appropriations during the year	23	-	-	-	-	-	-	550,000,000	(550,000,000)	-	-	-	-
Balance at December 31, 2015		P 16,120,000,000	P 22,348,856,023	(P 1,404,255,536)	P 40,162,823	P 4,050,748	P -	P 550,000,000	P 12,421,086,976	P 12,971,086,976	P 50,079,901,034	P 5,750,000	P 50,085,651,034
Balance at January 1, 2014		P 15,000,000,000	P 11,155,461,023	P 134,457,168	(P 26,249,891)	P -	P -	P -	P 4,624,845,514	P 4,624,845,514	P 30,888,513,814	P -	P 30,888,513,814
Issuances during the year	23	1,120,000,000	11,193,395,000	-	-	-	-	-	-	-	12,313,395,000	-	12,313,395,000
Total comprehensive income for the year		-	-	(820,041,951)	(288,061,207)	-	-	-	6,204,185,176	6,204,185,176	5,096,082,018	-	5,096,082,018
Addition from acquired subsidiary		-	-	-	4,006,419	-	-	-	-	-	4,006,419	-	4,006,419
Cash dividends declared during the year	23	-	-	-	-	-	-	-	(2,400,000,000)	(2,400,000,000)	(2,400,000,000)	-	(2,400,000,000)
Balance at December 31, 2014		P 16,120,000,000	P 22,348,856,023	(P 685,584,783)	(P 310,304,679)	P -	P -	P -	P 8,429,030,690	P 8,429,030,690	P 45,901,997,251	P -	P 45,901,997,251
Balance at January 1, 2013		P 61,750,005	P 99,789,060	(P 3,531,605)	(P 9,471,957)	P -	P 5,838,460,935	P -	P 2,496,169,584	P 2,496,169,584	P 8,483,166,022	P -	P 8,483,166,022
Issuances during the year	23	14,938,249,995	11,055,671,963	-	-	-	(5,838,460,935)	-	-	-	20,155,461,023	-	20,155,461,023
Increase (decrease) during the year		-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	137,988,773	(16,777,934)	-	-	-	5,830,809,981	5,830,809,981	5,952,020,820	-	5,952,020,820
Cash dividends declared during the year	23	-	-	-	-	-	-	-	(3,702,134,051)	(3,702,134,051)	(3,702,134,051)	-	(3,702,134,051)
Balance at December 31, 2013		P 15,000,000,000	P 11,155,461,023	P 134,457,168	(P 26,249,891)	P -	P -	P -	P 4,624,845,514	P P4,624,845,514	P 30,888,513,814	P -	P 30,888,513,814

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 8,449,838,350	P 8,108,357,184	P 7,905,103,484
Adjustments for:				
Depreciation and amortization	9	536,641,735	374,555,576	312,760,208
Interest expense		519,361,430	96,756,338	2,899,330
Interest income		(183,976,825)	(241,455,589)	(133,053,603)
Share in net income of joint venture	12	(130,007,640)	(39,534,826)	-
Amortization of trademarks	10	102,872,668	102,872,668	102,334,204
Provisions	16	58,258,375	12,411,409	-
Share option		4,493,028	-	-
Impairment losses	6	3,426,329	7,875,358	6,159,219
Fair value losses (gains) on financial assets and financial liabilities at fair value through profit or loss	7	(2,641,000)	36,111,750	212,020,646
Gain on sale of property, plant and equipment	9	(1,522,346)	(2,569,463)	(1,534,684)
Operating profit before working capital changes		9,356,744,104	8,455,380,405	8,406,688,804
Decrease (increase) in trade and other receivables		12,261,840	(6,782,655,481)	(1,044,801,252)
Decrease (increase) in financial instruments at fair value through profit or loss		806,574,658	(881,331,451)	(2,711,523)
Increase in inventories		(604,154,349)	(1,041,818,041)	(188,383,637)
Decrease (increase) in prepayments and other current assets		161,369,768	(597,163,989)	(320,743,498)
Decrease (increase) in other non-current assets		207,621,996	183,875,462	(182,318,700)
Increase (decrease) in trade and other payables		(5,084,772,878)	10,358,979,361	74,341,384
Increase (decrease) in retirement benefit obligation		(423,017,457)	8,829,806	6,787,638
Cash generated from operations		4,432,627,682	9,704,096,072	6,748,859,216
Cash paid for income taxes		(1,732,636,554)	(1,741,201,096)	(1,872,609,734)
Net Cash From Operating Activities		2,699,991,128	7,962,894,976	4,876,249,482
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property, plant and equipment	9	(3,544,640,919)	(2,027,740,563)	(2,051,683,004)
Deposit for asset acquisition	11	(2,848,690,163)	-	-
Interest received		183,976,825	232,513,623	118,942,570
Proceeds from sale of property, plant and equipment	9	11,677,624	3,459,020	3,063,295
Acquisition of a subsidiary	1	-	(30,272,934,983)	(13,500,000,000)
Investment in joint venture	12	-	(3,703,721,965)	-
Acquisition of trademark	10	-	-	(16,153,914)
Net Cash Used in Investing Activities		(6,197,676,633)	(35,768,424,868)	(15,445,831,053)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid	23	(2,418,000,000)	(2,400,000,000)	(3,702,134,051)
Interest paid		(213,945,152)	-	-
Net proceeds from loans and borrowings	13	72,543,327	23,827,219,465	-
Proceeds from additional capital subscription	23	-	12,313,395,000	33,655,461,023
Proceeds from equity-linked debt securities	14	-	5,253,600,000	-
Proceeds from future stock subscription		-	5,750,000	-
Net Cash From (Used in) Financing Activities		(2,559,401,825)	38,999,964,465	29,953,326,972
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(6,057,087,330)	11,194,434,573	19,383,745,401
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		35,234,629,567	24,040,194,994	4,656,449,593
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 29,177,542,237	P 35,234,629,567	P 24,040,194,994

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Change in Corporate Name

Emperador Inc. (EMP or the Parent Company or the Company) was incorporated under the name of Touch Solutions, Inc. (TSI) on November 26, 2001. On June 19, 2013, the Board of Directors (BOD) approved the change in corporate name to TrillionStars Holdings, Inc. This was ratified by the stockholders and approved by the Philippine Securities and Exchange Commission (SEC) on August 27 and September 5, 2013, respectively.

On August 28, September 16 and September 27, 2013, the BOD, stockholders by written assent, and SEC, respectively, approved the change in corporate name to Emperador Inc.

1.2 Corporate Update

The Parent Company was incorporated in the Philippines and registered with the SEC, primarily as an information technology (IT) services and products provider. On March 1, April 10 and July 31, 2013, the BOD, stockholders and SEC, respectively, approved the change in the primary purpose of the Parent Company to become a holding company. Consequently, the Parent Company disposed of its IT-related net assets in April 2013 (see Note 1.7).

On June 19, August 27 and September 5, 2013, the BOD, stockholders and SEC, respectively, approved the increase in authorized capital stock to 20.0 billion shares from 100.0 million shares (see Note 23.1).

On August 28, 2013, Alliance Global Group, Inc. (AGI or the Ultimate Parent Company) obtained a controlling interest in EMP through AGI's subscription to EMP's new capital stock. As part of this transaction, AGI transferred to EMP all the issued and outstanding shares of Emperador Distillers, Inc. (EDI) owned by AGI (see Note 1.3).

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

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

On May 30, June 23, and October 16, 2014, the BOD, stockholders, and SEC, respectively, approved the change in the registered principal office of EMP to 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City where the registered office of AGI is also presently located.

1.3 Acquisition of EDI by the Parent Company

EDI became a wholly owned subsidiary on August 28, 2013 when EMP acquired EDI from AGI as a condition to AGI's subscription to EMP shares [see Notes 1.2 and 2.3(a)(iii)].

The acquisition of EDI by the Parent Company was effectively an acquisition of a group of assets because the Parent Company does not constitute a business as defined under Philippine Financial Reporting Standard (PFRS) 3, *Business Combinations*. The consolidated financial statements of the Parent Company and EDI and its subsidiaries represent the continuation of the consolidated financial statements of EDI and its subsidiaries [see Note 2.3(a)(iii)].

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 (in three variants, namely Classic, Light and imported Deluxe), Andy Player whisky, The BaR flavored alcoholic beverage (in gin, vodka and tequila variants) and Smirnoff Mule vodka. EDI and its subsidiaries (collectively referred to as the "EDI Group") are all engaged in businesses related to the main business of EDI. The liquor production business was acquired in 2007 from the Andrew Tan family who started it in 1979. EDI's subsidiaries are as follows:

Name of Subsidiaries	Explanatory Notes	Percentage of Effective Ownership 2015	2014
Anglo Watsons Glass, Inc. (AWGI)	(a)	100%	100%
The Bar Beverage, Inc. (The Bar)	(b)	100%	100%
Cocos Vodka Distillers Philippines, Inc. (CVDPI)	(c)	100%	-
Emperador International Ltd. (EIL)	(d)	16%	32%

(Amounts in Philippine Pesos)

Explanatory Notes:

(a) AWGI is a domestic corporation presently engaged in flint glass container manufacturing and primarily supplies EDI's bottle requirements. In 2015, AWGI issued 115.0 million preferred shares to Arran Investment Private Limited (Arran), which effectively reduced the voting ownership of the Group to 78%. While these preferred shares are voting, they are non-participating and do not qualify for dividends nor to any surplus on liquidation of AWGI.

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

(c) CVDPI was established in 2015 to manufacture, import, export, buy, sell, acquire, hold or otherwise dispose of and deal in, any alcohol, wine or liquor products.

(d) A foreign entity incorporated in the British Virgin Islands primarily to handle the international sales, marketing and merchandising of EDI's products. EIL is presently operating as an investment holding entity. It ceased to be a direct subsidiary of EDI in 2014 when its ownership interest was diluted upon EMP's direct investment to EIL in 2015 and 2014 (see Note 1.4).

EDI's registered office, which is also its principal place of business, is located at 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City where its subsidiaries, except for EIL, have their registered offices and place of business also. EIL's registered office and principal place of business is at the offices of Portcullis TrustNet (BVI) Limited, which is currently located at Porctcullis Trust Net Chambers, 4th Floor Skelton Building, 3076 Drake's Highway, Road Town, Tortola, British Virgin Islands.

1.4 Direct Investment in EIL by the Parent Company

In 2015 and 2014, the Parent Company made direct investments in EIL amounting to P17.6 billion and P11.7 billion, respectively. This resulted in the dilution of EDI's investment in EIL from 100% in 2013 to 32% in 2014 and 16% in 2015 (see Note 1.3). There was no change in control over EIL as EIL is still 100% beneficially owned by EMP.

EIL is presently operating as an investment holding entity. EIL's subsidiaries as of December 31, 2015 and 2014 are as follows:

Name of Subsidiaries	Explanatory Notes	Percentage of Ownership
Emperador Holdings (GB) Limited (EGB)	(a)	100%
Emperador Asia Pte. Ltd. (EA)	(b)	100%
Emperador Europe Sarl (EES)	(c)	100%

Explanatory Notes:

(a) EGB is a foreign entity incorporated in the UK to operate as an investment holding entity. It holds 100% ownership interest over Emperador UK Limited (EUK) who in turn holds 100% ownership interest over WMG Group (see Note 1.5).

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

(Amounts in Philippine Pesos)

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

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

(c) 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.

1.5 *Acquisition of Whyte and Mackay Group Limited (WMG)*

On May 9, 2014, a deal was signed between United Spirits (Great Britain) Limited and EUK, a wholly owned subsidiary of EGB, for EUK's purchase of 100% ownership interest in WMG. EGB is a wholly owned subsidiary of EIL (see Note 1.4). This deal was completed on October 31, 2014.

WMG was incorporated in the United Kingdom (UK) on August 7, 2001. It is presently operating as an investment holding entity. WMG and all of its significant subsidiaries' registered office is located at Dalmore House, 310 St. Vincent Street, Glasgow, Scotland.

WMG and its subsidiaries (collectively referred to as "WMG Group") are all engaged in businesses related to the main business of production, marketing and distribution of Scotch whisky, vodka, liqueurs and other alcoholic drinks. WMG's significant subsidiaries and WMG's corresponding percentage of ownership as of December 31, 2015 and 2014 are as follows:

Name of Subsidiaries	Explanatory Notes	Percentage of Ownership
Whyte and Mackay Limited (WML)	(a)	100%
Whyte and Mackay Warehousing Limited (WMWL)	(b)	100%
Whyte and Mackay Property Limited (WMPL)	(c)	100%
KI Trustees Limited (KITL)	(c)	100%

Explanatory Notes:

(a) WML is a foreign entity incorporated in the UK to carry out the production, marketing and distribution of Scotch whisky, vodka, liqueurs and other alcoholic drinks. WML's core brands include Whyte and Mackay, The Dalmore, Isle of Jura, Vladivar, Glayva, Claymore and John Barr. WML holds 100% ownership interest in 37 dormant companies, all incorporated in the UK, and one active company, Whyte & Mackay Americas, who handles the distribution of Whyte and Mackay brands within the United States of America.

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

(c) WMPL and KITL are foreign entities incorporated in the UK and are currently dormant.

EUK's purchase of WMG Group is aligned with EMP's expansion strategies. The goodwill arising from the acquisition reflects the opportunity to strengthen the Group's position in the global drinks market, the synergies and economies of scale expected from combining the operations of the Group and WMG and the value attributed to WMG's workforce. The goodwill recognized is not expected to be deductible for income tax purposes.

(Amounts in Philippine Pesos)

The following table summarizes the consideration paid for the acquisition of WMG Group and the recognized amounts of the identifiable assets acquired and liabilities assumed. For purposes of determining the goodwill, the Parent Company determined the fair value of the identified net assets as of October 31, 2014.

	Notes	
Consideration		
Cash		P 30,272,934,983
Recognized amounts of identifiable assets acquired:		
Tangible assets	6, 8, 9	21,723,648,592
Intangible assets	10	9,972,144,142
Liabilities	16, 20, 21	(9,095,752,005)
Total identifiable net assets		22,600,040,679
Goodwill (see Note 10)		**P 7,672,894,304**

The revenues and net income of WMG Group for November and December that were included in the 2014 consolidated statement of comprehensive income amounted to P4.0 billion and P149.5 million, respectively.

1.6 *Acquisition of brandy and sherry business*

On November 27, 2015, GES reached a definitive agreement with Beam Suntory, Inc. to purchase its Spanish brandy and sherry business in Jerez, the brandy capital of Spain. The purchase includes four brands: Fundador Brandy, Terry Centenario Brandy, Tres Cepas Brandy, and Harveys sherry wine (see Note 11). GES assigned its rights and obligations under the agreement to its direct wholly-owned subsidiary, Bodegas Fundador S.L.U. on January 28, 2016. The purchase amounting to €275.0 million was subsequently completed on February 29, 2016.

1.7 *Discontinuance of IT operations*

On March 1 and April 10, 2013, the Company's BOD and stockholders, respectively, approved the transfer of all or substantially all the assets and liabilities related to the IT business. In April 2013, the Parent Company (then named TSI) disposed of its investment in Sagesoft Solutions, Inc. (SSI) to TSI's minority stockholders and transferred and conveyed its IT-related net assets totaling to P28.6 million to SSI (see Note 1.2).

1.8 *Acquisition of Tradewind Estates, Inc. (TEI)*

On March 11, 2016, EDI acquired full ownership of TEI by way of common stock purchase. EDI presently leases its main plant from TEI.

1.9 *Approval of the Consolidated Financial Statements*

The consolidated financial statements of EMP and its subsidiaries (collectively referred to as the "Group") as of and for the year ended December 31, 2015 (including the comparative consolidated financial statements as of and for the years ended December 31, 2014 and 2013) were authorized for issue by the Parent Company's BOD on April 1, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 *Basis of Preparation of Consolidated Financial Statements*

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) *Presentation of Consolidated Financial Statements*

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

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning on the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed. In 2015, only one comparative period was presented in the consolidated statement of financial position as none of these situations are applicable.

Certain account in the 2014 consolidated statement of comprehensive income was reclassified to conform with the consolidated financial statement presentation in 2015. The reclassification did not impact the Group's consolidated income in the said year.

(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 its functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

2.2 *Adoption of Amended PFRS and Interpretation*

(a) *Effective in 2015 that are Relevant to the Group*

The Group adopted the following amendment and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after July 1, 2014, for its annual reporting period beginning January 1, 2015:

PAS 19 (Amendment)	:	Employee Benefits – Defined Benefit Plans – Employee Contributions
Annual Improvements	:	Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle)

Discussed below are the relevant information about these amendment and improvements.

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions*. The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. The amendment did not have a significant impact on the Group's consolidated financial statements since the Group's defined benefit plan does not require employees or third parties to contribute to the benefit plan.

(ii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify the existing requirements :

Annual Improvements to PFRS (2010-2012 Cycle)

- PAS 16 (Amendment), *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*, and PAS 38 (Amendment), *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

- PAS 24 (Amendment), *Related Party Disclosures – Disclosure of Key Management Personnel*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.

- PFRS 2 (Amendment), *Share-based Payment – Definition of Vesting Condition*. This amendment clarifies the definitions of "vesting condition" and "market condition" and defines a "performance condition" and a "service condition".

- PFRS 3 (Amendment), *Business Combinations – Accounting for Contingent Consideration in a Business Combination*. This amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity in accordance with PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.

- PFRS 8 (Amendment), *Operating Segments – Aggregation of Operating Segments, and Reconciliation of the Total of the Reportable Segment's Assets to the Entity's Assets*. This amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.

Annual Improvements to PFRS (2011-2013 Cycle)

- PAS 40 (Amendment), *Investment Property – Clarifying the Interrelationship between PFRS 3 and PAS 40*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40, *Investment Property,* or a business combination in accordance with PFRS 3, *Business Combinations*.

- PFRS 3 (Amendment), *Business Combinations – Scope Exceptions for Joint Ventures*. It clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11, *Joint Arrangements*, in the financial statements of the joint arrangement itself.

- PFRS 13 (Amendment), *Fair Value Measurement – Scope of Portfolio Exception*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39, *Financial Instruments: Recognition and Measurement,* or PFRS 9, *Financial Instruments,* regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32, *Financial Instruments: Presentation*.

(b) *Effective Subsequent to 2015 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2015 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 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that the principle of materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) PAS 16 (Amendment), *Property, Plant and Equipment,* and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(iii) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

(iv) PFRS 10 (Amendment), *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities,* and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. It clarifies which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of PFRS 10 and clarifies whether the exemption to present consolidated financial statements, set out in paragraph 4 of PFRS 10, is available to a parent entity that is a subsidiary of an investment entity. This amendment also permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

(v) PFRS 10 (Amendment), *Consolidated Financial Statements,* and PAS 28 (Amendment), *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 amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3 between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendment has 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. In December 2015, the IASB deferred the mandatory effective date of these amendments (i.e., from January 1, 2016) indefinitely.

(vi) PFRS 11 (Amendment), *Joint Arrangements – Accounting for Acquisitions of Interest in Joint Operations* (effective from January 1, 2016). This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3 to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.

(vii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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

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

Management is currently assessing the impact of PFRS 9 on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(viii) Annual Improvements to PFRS (2012-2014 Cycle) (effective from January 1, 2016). Among the improvements, the following amendments are relevant to the Group but management does not expect these to have material impact on the Group's consolidated financial statements:

- PAS 19 (Amendment), *Employee Benefits – Discount Rate*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

- PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

2.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Notes 1.3, 1.4 and 1.5, after the elimination of material intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as that of the Parent Company, using consistent accounting policies.

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

(i) Accounting for Business Combination using the Acquisition Method

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest 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 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 non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets [See Note 2.3(c)].

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss.

(ii) Accounting for Business Combination using the Pooling-of-interests Method

Business combinations arising from transfers of interests in entities that are under the common control of the principal shareholder are accounted for under the pooling-of-interests method. Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting. No restatements are made to the financial information in the consolidated financial statements for periods prior to the business combination; hence, the profit and loss of the acquiree is included in the consolidated financial statements only from the acquisition date. Also, any pre-acquisition income and expenses of a subsidiary are no longer included in the consolidated financial statements.

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

The acquisition of EDI disclosed in Note 1.3 has been accounted for similar to a reverse acquisition of a non-operating shell company. Such transaction was accounted for in the consolidated financial statements of the Parent Company, which is the legal parent (the accounting acquiree), as a continuation of the consolidated financial statements of the EDI Group, which is the legal subsidiary (the accounting acquirer).

(b) Investment in Joint Venture

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

Investments in joint venture are initially recognized at cost and subsequently accounted for using the equity method.

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

All subsequent changes to the ownership interest in the equity of the joint venture are recognized in the venturer's carrying amount of the investments. Changes resulting from the profit or loss generated by the joint venture are credited or charged against the Share in net income of joint venture under the Revenues account in the consolidated statement of comprehensive income.

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

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

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

(c) Transactions with Non-controlling Interests

AWGI issued preferred shares in 2015 which are considered as non-controlling interests as these do not result in the Group's loss of control in AWGI. Such non-controlling interest is presented as a separate line item in the consolidated statements of changes in equity.

2.4 Segment Reporting

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

In identifying its operating segments, management generally follows the Group's product lines, which represent the main products provided by the Group.

Each of these operating segments is managed separately as each of these product lines requires different processes and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its financial statements.

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

2.5 Financial Assets

Financial assets are recognized when the Company 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: Recognition and Measurement*. All other non-derivative financial instruments are treated as debt instruments.

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

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the categories of financial assets that are relevant to the Group is as follows:

(i) Financial Assets at FVTPL

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

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

(ii) Loans and Receivables

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

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (except Advances to suppliers) and Refundable security deposits (presented as part of Other Non-current Assets) in the statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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

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

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the profit or loss.

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

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

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

2.6 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Finished goods and work-in-process inventories 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 include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

(Amounts in Philippine Pesos)

Net realizable value of finished goods is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of raw materials is the current replacement cost.

2.7 Prepayments and Other Assets

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

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

2.8 Property, Plant and Equipment

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; 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:

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

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

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction 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 and estimated useful lives 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 impairment loss, 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 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. The cost of the trademarks is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs for trademarks with finite lives are amortized on a straight-line basis over their estimated useful lives of ten years. Capitalized costs for trademarks with infinite useful lives are not amortized. The useful lives are reviewed each reporting period to determine whether events and circumstances continue to support an infinite useful life assessment. Changes in the useful life assessment from infinite to finite are accounted for as change in accounting estimate. In addition, trademarks 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 profit or loss.

2.10 Financial Liabilities

The categories of financial liabilities relevant to the Group are more fully described below.

(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.

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

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 profit or loss for the period.

The Group's financial liabilities categorized at financial liabilities at FVTPL are presented as Financial Liabilities at Fair Value Through Profit or Loss in the consolidated statement of financial position.

(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 and borrowings, trade and other payables [except output value-added tax (VAT) and other tax-related payables], equity-linked debt securities, and accrued interest payable, 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.

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

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group.

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

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.11 Offsetting of Financial Instruments

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

2.12 Business Combination

Business acquisitions are accounted for using the acquisition or pooling-of-interest method of accounting.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill, if any, is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Negative goodwill, which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost, is charged directly to income.

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 profit or loss or 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 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.13 Provisions and Contingencies

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

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

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

2.14 Revenue and Expense Recognition

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods sold, excluding VAT, rebates and trade discounts.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

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

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

(c) *Dividends* – Revenue is recognized when the Group's right to receive payment is established.

(d) *Trading gain* – Trading gain is recognized when the ownership of the securities is transferred to the buyer (at an amount equal to the excess of the selling price over the carrying amount of securities) and as a result of the mark-to-market valuation of the securities classified as financial assets at FVTPL.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs, if any, which are included as part of the cost of the related qualifying asset (see Note 2.20).

2.15 Leases – Group as Lessee

Leases are classified as operating lease when all the risks and benefits of ownership of the asset are not substantially transferred to the Group. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

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

2.16 Foreign Currency Transactions and Translation

(a) Transactions and Balances

The accounting records of the Group are maintained in Philippine pesos. 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 year-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 a Foreign Subsidiary

The operating results and financial position of EIL, which are measured using the U.S. dollar, its functional currency, are translated to Philippine pesos, the Group's functional currency, as follows:

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

(ii) Non-monetary assets and liabilities for each statement of financial position presented, which are measured in terms of historical cost, are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities which are measured at fair value are translated using the exchange rates at the date when the fair value was determined;

(iii) 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,

(iv) All resulting translation adjustments are recognized in other comprehensive income and in a separate component of consolidated statement of changes in equity under Accumulated Translation Adjustments.

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 U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.17 Impairment of Non-financial Assets

The Group's property, plant and equipment, intangible assets, investment in a joint venture and other non-financial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

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

Impairment loss is recognized in 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. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.18 Employment Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability recognized in the consolidated statement of financial position for defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of zero coupon government bonds as published by Philippine Dealing & Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions) and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest is reported as part of Other Charges account in the consolidated statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) Post-employment Defined Contribution Plan

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

(c) Bonus Plans

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

(d) Compensated Absences

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

2.19 Share-based Employee Remuneration

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

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

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

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. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

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

2.21 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax recognized in the profit or loss.

Current tax assets or 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 liabilities are recognized as a component of tax expense in profit or loss.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or 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.

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

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

2.23 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Accumulated translation adjustments represent the translation adjustments resulting from the conversion of foreign currency-denominated financial statements of a certain subsidiary into the Group's presentation currency [see Notes 2.16(b)(iv) and 26.1].

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

Share options represent the current and all prior period share-based employee remuneration as reported in the consolidated statement of comprehensive income.

Equity reserves represent the difference between the net assets of the EDI Group and the sum of the legal capital of the Parent Company and the combined retained earnings and other equity account of the EDI Group as a result of the accounting for reverse acquisition involving a non-operating shell company [see Note 2.3(a)(iii)].

Retained earnings represent the current and all prior period results of operations as reported in the profit or loss section of the consolidated statement of comprehensive income, reduced by the amounts of dividends declared.

2.24 Earnings Per Share

Basic earnings per share (EPS) is determined by dividing the net profit for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to any stock dividends, stock split or reverse stock split declared in the current year.

Diluted EPS is also computed by dividing the net profit for the year by the weighted average number of common shares issued and outstanding during the year. However, the weighted average number of common shares outstanding is adjusted to assume conversion of dilutive potential shares. The Group has dilutive potential shares outstanding related to its employee share options, which are deemed to have been converted to common shares at the issuance of the option.

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; and if not material, the Group has the option to or not to disclose.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Distinction Between Operating and Finance Leases

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

(b) Business Combinations Accounted for Under 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 profit or loss in the subsequent period. Details of acquired assets and liabilities assumed are given in Note 1.5.

(c) 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

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

(a) Impairment of Trade and Other Receivables

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6.

(b) *Fair Value Measurement for Financial Instruments*

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

The amounts of fair value changes recognized during the years presented on the Group's financial instruments at FVTPL are disclosed in Note 7.

(c) *Net Realizable Values of Inventories*

In determining the net realizable values of inventories, 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 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 financial year.

A reconciliation of the allowance for inventory write-down is presented in Note 8.

(d) *Useful Lives of Property, Plant and Equipment and Intangible Assets*

The Group estimates the useful lives of property, plant and equipment, and trademarks based on the period over which the assets are expected to be available for use. Trademarks for The Dalmore and Jura were determined to have indefinite useful lives because these brands have been in existence for more than 100 years. The estimated useful lives of property, plant and equipment, and trademarks are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets (see Notes 2.8 and 2.9). The carrying amounts of property, plant and equipment and trademarks are presented in Notes 9 and 10, respectively.

(e) *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, 2015 and 2014 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 21.

(f) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. 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 2015, 2014 and 2013 based on management's assessment.

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

Equity-linked debt securities (ELS) instrument contains both a liability and an equity component as this instrument grants an option to the holder to convert it into an equity instrument of the issuer. The equity component is assigned the residual value of the fair value of the instrument as a whole, after deducting the amount separately determined for the liability component.

The Group determined the carrying amount of the liability component by measuring the fair value of similar liabilities that do not have an associated equity component. Consequently, after deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole, it was determined that the equity component of the ELS has no value; hence, no equity component was recognized in the consolidated financial statements. The carrying amount of the ELS is presented under the Non-current Liabilities section of the consolidated statements of financial position (see Note 14).

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 credit risk (both own and counterparty), 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.

(h) Valuation of Post-employment Defined Benefit

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by 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 benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 20.

(i) Fair Value 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 were granted. The estimates and assumptions used are presented in Note 23.3 which include, among other things, the option's time of expiration, applicable risk-free interest rate, expected dividend yield, volatility of the Parent Company's share price and fair value of the Parent Company's common shares. Changes in these factors can affect the fair value of share options at grant date.

(j) Provision for Onerous Lease

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

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

(k) Provision for Restoration of Leased Property

Determining provision for leased property restoration requires estimation of the cost of dismantling and restoring the leased properties to their original condition. The estimated cost was initially determined based on a recent cost to restore the facilities and is being adjusted to consider the estimated incremental annual costs up to the end of the lease term. A significant change in the credit-adjusted risk-free rate used in discounting the estimated cost would result in a significant change in the amount of provision recognized with a corresponding effect on 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, Emperador and WMG, which represent the two major distilled spirits categories where the Group operates, namely the brandy and Scotch whisky. This is also the basis of the Group's executive committee for its strategic decision-making activities.

In 2014, the Group reviewed operating results of all alcoholic beverage products as one segment; hence, the Group only had one operating segment in the 2014 consolidated financial statements.

4.2 Segment Assets and Liabilities

Segment assets and liabilities represent the assets and liabilities reported in the 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, 2015 and 2014 (in thousands) are as follows:

	EMPERADOR		WMG		Total	
	2015	2014	**2015**	2014	**2015**	2014
REVENUES	**P 27,120,209**	P 28,388,192	**P 16,524,868**	P 3,621,194	**P 43,645,077**	P 32,009,386
COSTS AND EXPENSES						
Costs of goods sold	**16,341,007**	17,443,372	**13,248,379**	2,965,765	**29,589,386**	20,409,137
Selling and distribution expenses	**2,493,669**	2,465,363	**755,977**	186,846	**3,249,646**	2,652,209
General and administrative expenses	**234,819**	345,521	**1,593,383**	332,280	**1,828,202**	677,801
Other charges	**469,306**	123,318	**58,699**	38,564	**528,005**	161,882
	19,538,801	20,377,574	**15,656,438**	3,523,455	**35,195,239**	23,901,029
SEGMENT PROFIT BEFORE TAX	**7,581,408**	8,010,618	**868,430**	97,739	**8,449,838**	8,108,357
TAX EXPENSE (INCOME)	**1,725,102**	1,916,737	**(235,320)**	(12,565)	**1,489,782**	1,904,172
SEGMENT NET PROFIT	**P 5,856,306**	P 6,093,881	**P 1,103,750**	P 110,304	**P 6,960,056**	P 6,204,185
TOTAL ASSETS	**P 54,832,345**	P 58,938,262	**P 43,426,288**	P 40,620,289	**P 98,258,633**	P 99,558,551
TOTAL LIABILITIES	**37,762,618**	44,586,862	**10,410,364**	9,069,692	**48,172,982**	53,656,554

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:

	2015	2014
Cash on hand and in banks	**P 16,296,974,597**	P 18,395,082,504
Short-term placements	**12,880,567,640**	16,839,547,063
	P 29,177,542,237	P 35,234,629,567

(Amounts in Philippine Pesos)

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have an average maturity of 30 days and earn effective annual interest rates ranging from 0.4% to 2.8% in 2015, 0.9% to 1.5% in 2014 and 1.2% to 2.5% in 2013. Interest earned amounted to P100.8 million, P206.8 million and P128.4 million in 2015, 2014 and 2013, respectively, and is presented as part of Other revenues under the Revenues account in the consolidated statements of comprehensive income (see Note 17).

6. TRADE AND OTHER RECEIVABLES

Details of this account are as follows:

	Notes	2015	2014
Trade receivables	22.4	P 11,627,694,408	P 8,703,651,759
Advances to related parties	22.7	1,628,798,800	3,944,499,022
Advances to suppliers		336,354,121	1,271,946,815
Advances to officers and employees	22.5	21,491,459	10,720,071
Accrued interest receivable		201,972	22,688,748
Other receivables		35,274,356	27,379,893
		13,649,815,116	13,980,886,308
Allowance for impairment		(56,899,427)	(78,318,123)
		P 13,592,915,689	P 13,902,568,185

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

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

All of the Group's trade and other receivables have been reviewed for indications of impairment and adequate amounts of allowance for impairment have been recognized.

A reconciliation of the allowance for impairment is shown below.

	2015	2014
Balance at beginning of year	P 78,318,123	P 19,670,880
Impairment reversal	(24,845,025)	-
Impairment losses	3,426,329	7,875,358
Allowance carried from acquired subsidiary	-	50,771,885
Balance at end of year	P 56,899,427	P 78,318,123

In 2015, certain receivables previously provided with allowance for impairment were collected. Consequently, this reduced the allowance for impairment by the same amount and recognized as part of Other revenues under the Revenues account in the 2015 consolidated statement of comprehensive income (see Note 17).

Impairment losses on trade and other receivables are presented as part of Other Charges in the consolidated statements of comprehensive income.

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

(Amounts in Philippine Pesos)

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's financial instruments at FVTPL pertain to listed equity securities and derivative assets and liabilities. All financial assets at FVTPL are classified as held-for-trading. Derivative assets and liabilities arise from foreign exchange margins trading spot and forward contracts entered into by the Group. The term of these forward contracts is usually one month to one year.

As of December 31, 2014, the Group owns certain equity securities listed in the PSE amounting to P1.0 billion. In 2015, these were sold to a related party (see Note 22).

The net changes in fair values of these financial instruments are presented in the consolidated statements of comprehensive income as part of Other revenues under the Revenues (for net fair value gains) account or Other Charges (for net fair value losses). The Group recognized fair value gains amounting to P2.6 million and P58.9 million in 2015 and 2014, respectively, and fair value loss amounting to P212.2 million in 2013 (see Note 17).

The fair values of listed equity securities were determined directly by reference to quoted close prices in active markets (see Note 28.2). In 2015 and 2014, the Group's recognized gains on trading financial assets at FVTPL amounting to P5.2 million and P159.0 million, respectively, are presented as part of Other revenues under the Revenues account in the consolidated statement of comprehensive income (see Note 17). There were no similar transactions in 2013.

8. INVENTORIES

Inventories as of December 31, 2015 and 2014, 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 shown below.

	Note	2015	2014
Work-in-process		P 11,494,183,891	P 9,901,698,258
Finished goods	22.1	2,326,981,897	2,109,429,719
Raw materials	22.1	1,858,531,561	2,843,409,742
Packaging materials		399,369,933	394,279,690
Machinery spare parts, consumables and factory supplies		155,653,361	167,539,508
		16,234,720,643	15,416,356,917
Allowance for inventory write-down		(144,968,995)	(129,337,459)
		P 16,089,751,648	P 15,287,019,458

WML has a substantial inventory of aged stocks which mature over periods of up to 60 years. The maturing whisky stock inventory amounting to P11.1 billion and P9.5 billion as of December 31, 2015 and 2014, 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 2015, 2014 and 2013 is presented in Note 18.

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

	2015	2014
Balance at beginning of year	P 129,337,459	P -
Impairment losses	15,631,536	-
Allowance carried from acquired subsidiary	-	129,337,459
Balance at end of year	P 144,968,995	P 129,337,459

Impairment losses on inventories are presented as part of Impairment losses under Cost of Goods Sold account in the 2015 consolidated statement of comprehensive income (see Note 18).

(Amounts in Philippine Pesos)

9. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property, plant and equipment at the beginning and end of 2015 and 2014 are shown below.

	Land	Land Improvement	Buildings and Improvements	Leasehold Improvement	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	Moulds and Dies	Construction in Progress	Total
December 31, 2015										
Cost	P 2,592,928,420	P 29,078,186	P 4,744,219,634	P 76,420,470	P 10,217,177,688	P 345,769,525	P 562,490,376	P 84,891,277	P 2,720,485,160	P 21,373,460,736
Accumulated depreciation and amortization	-	(8,389,062)	(1,144,835,024)	(39,189,353)	(5,200,569,446)	(194,933,164)	(455,602,374)	(62,867,952)	-	(7,106,386,375)
Net carrying amount	P 2,592,928,420	P 20,689,124	P 3,599,384,610	P 37,231,117	P 5,016,608,242	P 150,836,361	P 106,888,002	P 22,023,325	P 2,720,485,160	P 14,267,074,361
December 31, 2014										
Cost	P 1,577,601,130	P 28,636,221	P 4,384,952,765	P 66,697,854	P 9,368,152,491	P 314,385,676	P 496,289,338	P 71,817,348	P 1,542,618,830	P 17,851,151,653
Accumulated depreciation and amortization	-	(5,488,609)	(1,053,184,042)	(35,721,715)	(4,634,166,897)	(172,417,885)	(430,096,025)	(52,268,184)	-	(6,383,343,357)
Net carrying amount	P 1,577,601,130	P 23,147,612	P 3,331,768,723	P 30,976,139	P 4,733,985,594	P 141,967,791	P 66,193,313	P 19,549,164	P 1,542,618,830	P 11,467,808,296
January 1, 2014										
Cost	P 924,583,429	P 28,636,221	P 281,204,398	P 55,633,085	P 2,689,582,222	P 237,746,928	P 59,968,801	P 57,756,463	P 464,731,277	P 4,799,842,824
Accumulated depreciation and amortization	-	(2,624,987)	(42,146,930)	(26,545,608)	(774,973,851)	(132,514,180)	(27,538,081)	(42,179,277)	-	(1,048,522,914)
Net carrying amount	P 924,583,429	P 26,011,234	P 239,057,468	P 29,087,477	P 1,914,608,371	P 105,232,748	P 32,430,720	P 15,577,186	P 464,731,277	P 3,751.319,910

A reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of 2015, 2014 and 2013 is shown below.

	Land	Land Improvement	Buildings and Improvements	Leasehold Improvement	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	Moulds and Dies	Construction in Progress	Total
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 1,577,601,130	P 23,147,612	P 3,331,768,723	P 30,976,139	P 4,733,985,594	P 141,967,791	P 66,193,313	P 19,549,164	P 1,542,618,830	P 11,467,808,296
Additions	1,023,319,790	441,964	360,284,562	702,251	731,609,232	38,769,981	65,738,341	13,073,929	1,310,700,869	3,544,640,919
Disposals	7,992,500	-	(673,684)	-	(236,221)	(1,252,873)	-	-	-	(10,155,278)
Reclassifications	-	-	6,421,921	9,020,365	117,392,253	-	-	-	(132,834,539)	-
Depreciation and amortization charges for the year	-	(2,900,452)	(98,416,912)	(3,467,638)	(566,142,616)	(28,648,538)	(25,043,652)	(10,599,768)	-	(735,219,576)
Balance at December 31, 2015, net of accumulated depreciation and amortization	P 2,592,928,420	P 20,689,124	P 3,599,384,610	P 37,231,117	P 5,016,608,242	P 150,836,361	P 106,888,002	P 22,023,325	P 2,720,485,160	P 14,267,074,361
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 924,583,429	P 26,011,234	P 239,057,468	P 29,087,477	P 1,914,608,371	P 105,232,748	P 32,430,720	P 15,577,186	P 464,731,277	P 3,751,319,910
Additions due to acquired subsidiary	194,686,056	-	2,904,349,608	-	2,944,291,075	970,334	50,146,111	-	-	6,094,443,184
Additions	458,331,645	-	14,053,173	248,661	95,412,343	62,754,373	3,326,381	14,060,885	1,379,553,102	2,027,740,563
Disposals	-	-	-	-	(38,640)	(850,917)	-	-	-	(889,557)
Reclassifications	-	-	212,678,814	7,271,371	89,352,818	2	(7,637,456)	-	(301,665,549)	-
Depreciation and amortization charges for the year	-	(2,863,622)	(38,370,340)	(5,631,370)	(309,640,373)	(26,138,749)	(12,072,443)	(10,088,907)	-	(404,805,804)
Balance at December 31, 2014, net of accumulated depreciation and amortization	P 1,577,601,130	P 23,147,612	P 3,331,768,723	P 30,976,139	P 4,733,985,594	P 141,967,791	P 66,193,313	P 19,549,164	P 1,542,618,830	P 11,467,808,296
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 132,830,000	P -	P 161,610,808	P 16,670,064	P 1,482,999,445	P 61,941,418	P 34,942,800	P 15,728,071	P 107,203,119	P 2,013,925,725
Additions	791,753,429	28,636,221	101,556,519	20,592,353	660,876,063	72,353,276	8,110,961	10,276,024	357,528,158	2,051,683,004
Disposals	-	-	-	-	-	(1,528,611)	-	-	-	(1,528,611)
Depreciation and amortization charges for the year	-	(2,624,987)	(24,109,859)	(8,174,940)	(229,267,137)	(27,533,335)	(10,623,041)	(10,426,909)	-	(312,760,208)
Balance at December 31, 2013, net of accumulated depreciation and amortization	P 924,583,429	P 26,011,234	P 239,057,468	P 29,087,477	P 1,914,608,371	P 105,232,748	P 32,430,720	P 15,577,186	P 464,731,277	P 3,751,319,910

(Amounts in Philippine Pesos)

In 2013, the Group acquired the distilling facility of Consolidated Distillers of the Far East, Inc. (Condis), a related party under common ownership, located in Lumbangan, Nasugbu, Batangas (see Note 22.9). In the same year, the Group started the construction of another distillery plant in Balayan, Batangas which is still ongoing as of December 31, 2015.

Also reported under Construction in Progress were the construction costs related to the expansion of the main bottling plant in Sta. Rosa, Laguna, which was started in 2012 and completed in 2014. The accumulated construction costs were then reclassified to Buildings in 2014.

The Group, through EIL, acquired in 2014 and 2013, certain parcels of land in Spain. The assets owned by WMG were presented as Additions due to an acquired subsidiary in 2014.

The amount of depreciation and amortization is allocated as follows:

	Notes	2015	2014	2013
Costs of goods sold	18	P 473,317,155	P 322,671,428	P 273,193,221
Selling and distribution expenses	19	29,173,831	30,582,692	37,712,739
General and administrative expenses	19	34,150,749	21,301,456	1,854,248
		P 536,641,735	P 374,555,576	P 312,760,208

In 2015 and 2014, depreciation expense amounting to P198.6 million and P30.3 million, respectively, was capitalized to form part of the work-in-process inventory. Such capitalized amount 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 2015, 2014 and 2013, certain transportation equipment with carrying amounts of P1.3 million, P0.8 million and P1.5 million, respectively, were sold for P2.8 million, P3.4 million, and P3.1 million, respectively, which resulted to gains of P1.5 million,P2.6 million and P1.5 million in 2015, 2014 and 2013, respectively. The resulting gains on disposals were recognized as part of Other revenues under the Revenues account in the consolidated statements of comprehensive income (see Note 17).

10. INTANGIBLE ASSETS

This account is composed of the following:

	Note	2015	2014
Infinite useful lives:			
Trademarks	1.5	P 9,972,144,142	P 9,972,144,142
Goodwill	1.5	7,672,894,304	7,672,894,304
		17,645,038,446	17,645,038,446
Finite useful lives – Trademarks		123,313,026	226,185,694
		P 17,768,351,472	P 17,871,224,140

The Group's trademarks include those that were acquired from Condis, to manufacture and sell distilled spirits, particularly brandy, under the brand names "Emperador Brandy" and "Generoso Brandy." The Group also has another trademark for its flavored-alcoholic beverage under the brand name "The BaR". In 2013, the Group registered another trademark under the new brand name "Emperador Deluxe." In 2014, as a result of the Group's acquisition of WMG Group, additional trademarks amounting to P4.5 billion and P5.5 billion for "Jura" and "The Dalmore", respectively, were also recognized in the consolidated financial statements. The trademarks "Jura" and "The Dalmore" have infinite useful life; hence, no amortization was recognized for these brands during the year.

(Amounts in Philippine Pesos)

The remaining useful lives of the trademarks subject to amortization are as follows:

	December 31, 2015	December 31, 2014
Emperador Brandy	**1 year**	2 years
Generoso Brandy	**1 year**	2 years
The BaR	**2.5 years**	3.5 years
Emperador Deluxe	**7.5 years**	8.5 years

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

	Note	2015	2014
Balance at beginning of year		P **226,185,694**	P 329,058,362
Amortization during the year	19	(**102,872,668**)	(102,872,668)
Balance at end of year		P **123,313,026**	P 226,185,694

Management believes that the trademarks are not impaired as of December 31, 2015 and 2014 as the Group's products that carry such brands and trademarks are still performing very well in the market; hence, no impairment is necessary to be recognized in the periods presented.

11. OTHER NON-CURRENT ASSETS

This account is composed of the following:

	Notes	2015	2014
Deposit for asset acquisition	1.6	P **2,848,690,163**	P -
Deferred input VAT		**258,615,169**	330,106,435
Refundable security deposits - net	22.3	**41,422,457**	38,829,045
Others		**8,174,034**	8,163,002
		P **3,156,901,823**	P 377,098,482

Deposit for asset acquisition pertains to deposits made by the Group to acquire the brandy and sherry business from Beam Suntory (see Note 1.6).

12. INVESTMENT IN A JOINT VENTURE

On February 2, 2014, GES, a wholly owned subsidiary of EAPI entered into an agreement with Gonzales Byass, S.A. (Gonzalez), for the joint control of Bodegas Las Copas, S.L. (BLC or the jointly controlled entity) 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. The acquisition cost includes the fair value adjustments totaling P1.9 billion. Its registered address is at no. 12, C.P.11403, Jerez de la Frontera (Cadiz), Spain. 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, 2015 and 2014, the carrying amount of the investment in joint venture, accounted for under the equity method in these consolidated financial statements, are as follows:

		2015		2014
Acquisition costs:	P	**3,703,721,965**	P	3,703,721,965
Accumulated share in net income:				
Balance at beginning of year		**39,534,826**		-
Share in net income for the year		**130,007,640**		39,534,826
Balance at end of year		**169,542,466**		39,534,826
	P	**3,873,264,431**	P	3,743,256,791

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

The aggregated amounts of assets, liabilities, revenues and net income of the joint venture as of December 31, 2015 and 2014 and for the years then ended are as follows (in thousands):

		Assets		Liabilities		Revenues		Net Income
2015	P	**5,054,709**	P	**1,063,831**	P	**3,315,098**	P	**260,015**
2014		5,641,502		2,002,312		5,447,846		79,070

13. INTEREST-BEARING LOANS AND BORROWINGS

In fourth quarter of 2015, the Group obtained short-term foreign currency denominated interest-bearing loans and borrowings amounting to P23.9 billion from international financial institutions. These loans are generally unsecured and bear annual interest ranging from 0.66% to 1.8%. Interest period are agreed upon at the last day of each interest period. Interest expense on these loans for 2015 amounted to P31.7 million and is presented as part of Other Charges in the 2015 consolidated statement of comprehensive income. Accrued interest payable as of December 31, 2015 amounted to P32.6 million and presented as part of Accrued expenses under the Trade and Other Payables account in the 2015 consolidated statement of financial position (see Note 15). The Group complies with the financial covenants on these loans and borrowings.

In 2014, the Group obtained short-term foreign currency denominated interest-bearing loans and borrowings amounting to P23.8 billion from local and international financial institutions. The loans were unsecured which bore annual interest rates ranging from 1.4% to 1.8%. Interest expense for 2015 and 2014 amounted to P85.6 million and P51.4 million, respectively, and are presented as part of Other Charges in the consolidated statements of comprehensive income. Accrued interest payable as of December 31, 2014 amounted to P21.9 million and presented as part of Accrued expenses under the Trade and Other Payables account in the 2014 consolidated statement of financial position (see Note 15). These loans had all been fully paid in the first half of 2015. There were no existing covenants on these loans and borrowings.

14. EQUITY-LINKED DEBT SECURITIES

On November 7, 2014, EMP (Issuer) entered into a subscription agreement with Arran for the issuance of 1.1 billion common shares of EMP at a total subscription price of P12.3 billion and an equity-linked debt securities instrument (ELS) amounting to P5.3 billion (see Notes 22.11 and 23.1). The ELS may be converted into 480.0 million common shares (conversion shares) of EMP.

(Amounts in Philippine Pesos)

The shares and the ELS were issued on December 4, 2014. The holder of the ELS may exercise the holder conversion right (HCR) which calls for the conversion of the ELS into all of the conversion shares at any time during the period beginning on the issue date until December 4, 2019. The Issuer may exercise the issuer conversion right (ICR) which calls for the conversion of the ELS into all of the conversion shares at any time during the period beginning on the date that is two years after the issue date until December 4, 2019; provided that the share market price must be greater than P11.0 per share on the date the ICR is exercised. If the holder and the Issuer fail to exercise their conversion rights within said dates and the ELS are not converted into shares, the Issuer has the right to extend the redemption date for the ELS until December 4, 2021. As a result of the extension of the redemption date, the ELS shall be mandatorily converted into the conversion shares if, at any time during the period beginning on December 5, 2019 until December 4, 2021, the share market price of EMP's common share is greater than P11.0.

The ELS bears a fixed annual interest rate of 5.0% and variable interest in an amount equal to the dividends that would be payable on the conversion shares if they were issued prior to the date that any dividend is declared by EMP. The fixed interest is payable either in cash or in new EMP shares (interest shares) on the conversion date, December 4, 2019, or December 4, 2021, as applicable. The variable interest is payable in cash on the date that the Issuer pays such dividends to its shareholders. Interest expense amounted to P341.2 million and P19.8 million in 2015 and 2014, respectively, and presented as part of Other Charges in the consolidated statements of comprehensive income. Interest expense includes the variable interest paid in 2015 amounting to P72.0 million. The related interest payable amounting to P283.5 million and P19.5 million as of December 31, 2015 and 2014, respectively, are presented as Accrued Interest Payable in the consolidated statements of financial position.

The documentary stamp taxes (DST) paid by the Issuer for the issuance of shares amounted to P6.7 million and are charged against APIC; while the capitalized DST paid for the issuance of the ELS amounted to P26.4 million, which is presented net of the outstanding liability. The amortization of DST amounted to P5.2 million in 2015 and P0.3 million in 2014 and presented as part of Other Charges in the consolidated statements of comprehensive income.

There were no related collaterals on the ELS.

15. TRADE AND OTHER PAYABLES

The breakdown of this account is as follows:

	Notes		2015		2014
Trade payables	22.1, 22.2, 22.3, 22.8	P	**6,460,787,974**	P	4,978,612,531
Advances from related parties	22.6		**4,672,827,792**		11,210,404,733
Accrued expenses	13		**3,488,704,748**		2,810,763,798
Output VAT payable			**507,067,987**		448,793,411
Others			**37,833,244**		195,244,258
		P	**15,167,221,745**	P	19,643,818,731

Trade payables arise mostly from purchases of raw materials such as alcohol, molasses, flavorings and other supplies. Also included in the trade payables are amounts due to Tradewind Estates, Inc. (TEI), a related party under common ownership (see Note 1.8), for purchases of machinery and equipment in 2010 (see Note 22.2).

Accrued expenses include the interest payable relating to the interest-bearing loans and borrowings obtained by the Group during the year. The interest payable is expected to be settled upon settlement of the related interest-bearing loans and borrowings (see Note 13).

(Amounts in Philippine Pesos)

16. PROVISIONS

The breakdown of this account as of December 31, 2015 and 2014 is as follows:

	Onerous Lease	Dilapidations	Total
Balance at January 1, 2015	P 649,364,390	P 270,105,211	P 919,469,601
Utilized amounts	(99,148,389)	(11,020,331)	(110,168,720)
Reversal of unused amount	(73,300,746)	-	(73,300,746)
Additional provisions	-	58,258,375	58,258,375
Balance at December 31, 2015	**P 476,915,255**	**P 317,343,255**	**P 794,258,510**
Balance at January 1, 2014	P -	P -	P -
Additions from acquired subsidiary	638,998,483	268,059,709	907,058,192
Additional provisions	10,365,907	2,045,502	12,411,409
Balance at December 31, 2014	P 649,364,390	P 270,105,211	P 919,469,601

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, 2015 and 2014, is between one and 15 years and one and 14 years, respectively.

Reversal of unused amount in 2015 are presented as part of Other revenues under Revenues account in the 2015 consolidated statement of comprehensive income (see Note 17).

Additional provisions in 2014 are presented as part of Provisions under the General and Administrative Expenses account in the 2014 consolidated statement 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 for 2015 and 2014 is presented as part of Provisions under the General and Administrative Expenses account in the consolidated statements of comprehensive income (see Note 19).

17. REVENUES

The details of revenues are shown below.

	Notes	2015	2014	2013
Sale of goods		**P 43,267,918,045**	P 31,458,174,710	P 28,606,991,751
Other revenues – net	5, 6, 7, 9, 12, 22.7	**377,158,639**	551,210,935	1,257,753,091
		P 43,645,076,684	P 32,009,385,645	P 29,864,744,842

(Amounts in Philippine Pesos)

18. COSTS OF GOODS SOLD

The details of costs of goods sold for the years ended December 31, 2015, 2014 and 2013 are shown below.

	Notes	2015	2014	2013
Finished goods at beginning of year	8	P 2,109,429,719	P 1,036,441,587	P 424,547,140
Finished goods purchased	22.1	2,384,152,378	1,202,416,778	859,632,805
Costs of goods manufactured				
Raw and packaging materials at beginning of year	8	3,237,689,432	2,377,755,995	2,811,441,882
Net raw material purchases during the year	22.1	25,456,308,272	18,159,533,602	17,151,812,901
Addition due to acquired subsidiary	1.5	-	10,688,421,748	-
Raw and packaging materials at end of year	8	(2,257,901,494)	(3,237,689,432)	(2,377,755,995)
Raw materials used during the year		26,436,096,210	27,988,021,913	17,585,498,788
Work-in-process beginning of year	8	9,901,698,258	3,035,664	7,793,883
Work-in-process acquired during the year		-	316,808,140	-
Direct labor	20.1	355,826,127	93,864,030	49,226,855
Manufacturing overhead				
Depreciation and amortization	9	473,317,155	322,671,428	273,193,221
Labor	20.1	352,087,287	114,026,630	71,253,109
Fuel and lubricants		276,502,232	432,885,779	390,560,857
Rentals	22.3	263,111,349	147,436,893	127,222,844
Outside services	22.8	243,896,811	225,434,391	154,489,851
Communication, light and water		199,722,841	202,545,524	190,878,831
Repairs and maintenance		118,267,079	99,947,875	85,629,818
Consumables and supplies		90,219,850	99,277,030	104,633,273
Taxes and licenses		37,985,924	35,531,721	25,056,208
Commission		33,583,497	4,198,004	-
Insurance		29,015,520	18,059,843	8,659,262
Impairment losses	8	15,631,536	-	-
Waste disposal		14,938,896	23,129,521	16,820,331
Transportation		14,062,146	13,284,965	12,196,959
Meals		13,080,531	12,087,221	11,097,156
Gasoline and oil		9,084,216	13,288,166	10,789,061
Miscellaneous		38,842,169	15,871,867	12,022,432
Work-in-process at end of year	8	(11,494,183,891)	(9,901,698,258)	(3,035,664)
		986,689,533	(7,708,313,566)	1,548,488,287
Finished goods at end of year	8	(2,326,981,897)	(2,109,429,719)	(1,036,441,587)
		P 29,589,385,943	P 20,409,136,993	P 19,381,725,433

(Amounts in Philippine Pesos)

19. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

	Notes	2015	2014	2013
Advertising and promotions		P 1,388,252,577	P 661,229,806	P 445,362,991
Freight and handling		888,372,559	914,947,142	822,268,286
Salaries and employee benefits	20.1	823,714,569	302,080,228	146,500,624
Professional fees and outside services		548,353,765	426,245,706	135,721,291
Travel and transportation		179,234,217	101,249,853	79,119,776
Other services		152,280,665	111,888,961	77,704,381
Representation		139,968,574	128,966,974	147,959,470
Rentals	22.3	116,178,960	70,608,662	51,461,439
Amortization of trademarks	10	102,872,668	102,872,668	102,334,204
Fuel and oil		64,562,374	70,192,920	75,741,673
Taxes and licenses		63,810,806	96,165,503	46,221,123
Depreciation and amortization	9	63,324,580	51,884,148	39,566,987
Meals expense		59,476,344	57,581,600	56,575,401
Provisions	16	58,258,375	12,411,409	-
Repairs and maintenance		46,097,042	32,928,870	32,434,020
Supplies		31,426,274	13,498,408	6,770,522
Communication, light and water		28,405,326	16,551,549	13,066,103
Insurance		7,339,131	5,454,213	4,707,088
Trading fees		1,614,932	8,247,862	-
Others		314,304,224	145,004,020	31,307,850
		P 5,077,847,962	P 3,330,010,502	P 2,314,823,229

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

	2015	2014	2013
Selling and distribution expenses	P 3,249,646,048	P 2,652,209,005	P 2,097,852,769
General and administrative expenses	1,828,201,914	677,801,497	216,970,460
	P 5,077,847,962	P 3,330,010,502	P 2,314,823,229

(Amounts in Philippine Pesos)

20. EMPLOYEE BENEFITS

20.1 Salaries and Employee Benefits Expense

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

	Notes	2015	2014	2013
Salaries and wages		P 951,654,565	P 280,672,577	P 232,971,073
Post-employment defined contribution		178,991,900	18,156,445	-
Social security costs		144,009,108	33,020,810	14,936,644
Post-employment defined benefit	20.3	14,382,872	42,441,169	6,787,638
Share options	20.2	4,493,028	-	-
Other short-term benefits		238,096,510	135,679,887	12,285,233
	18, 19	P 1,531,627,983	P 509,970,888	P 266,980,588

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

	Notes	2015	2014	2013
Costs of goods sold	18	P 707,913,414	P 207,890,660	P 120,479,964
General and administrative expenses	19	649,792,651	154,758,134	14,845,730
Selling and distribution expenses	19	173,921,918	147,322,094	131,654,894
		P 1,531,627,983	P 509,970,888	P 266,980,588

In 2015 and 2014, salaries and wages, post-employment benefits and other short-term benefits totaling P473.4 million and P100.8 million, respectively, was capitalized to form part of the work-in-process inventory. Such capitalized amount represents salaries and employee benefits of personnel directly involved in the production of whisky.

20.2 Employee Share Option

Employee share option expense, included as part of Salaries and employee benefits under the General and Administrative Expenses account in the consolidated statements of comprehensive income amounted to P4.5 million in 2015 (nil in 2014 and 2013) while the corresponding cumulative credit to Share Options account amounting to P4.1 million, net of DST amounting to P0.4 million, is presented under the equity section of the consolidated statements of financial position (see Note 23.3).

20.3 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit 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 and certain employees of WMG, and provides a retirement benefit ranging from eighty-five percent (85%) to one hundred fifty percent (150%) of plan salary for every year of credited service. Before the amended plan became effective for EDI on January 1, 2014, the normal retirement benefit is an amount equivalent to 22.5 days' pay for every year of credited service.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan provides for an early retirement at the age of 50 with a minimum of 10 years of credited service and likewise a late retirement age that is not beyond 65, with a minimum of 5 years of credited service both subject to the approval of the Group's BOD.

(Amounts in Philippine Pesos)

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

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

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

	2015	2014
Present value of the obligation	P **11,005,614,208**	P 11,586,730,756
Fair value of plan assets	(**10,541,446,500**)	(10,454,636,149)
	P **464,167,708**	P 1,132,094,607

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

	Notes	2015	2014	2013
Balance at beginning of year		P **11,586,730,756**	P 87,780,322	P 54,124,877
Benefits paid		(**467,788,594**)	(55,266,194)	-
Interest expense		**405,138,473**	76,915,933	2,899,330
Current service costs	20.1	**14,382,872**	7,977,365	6,787,638
Past service costs from plan amendment	20.1	**-**	34,463,804	-
Remeasurements:				
Actuarial losses (gains) arising from:				
Changes in financial assumptions		(**540,878,062**)	728,687,650	4,554,459
Experience adjustments		**182,473**	(17,086,024)	19,414,018
Foreign exchange adjustment		**7,846,290**	-	-
Additions due to acquired subsidiary	1.5	**-**	10,723,257,900	-
Balance at end of year		P **11,005,614,208**	P 11,586,730,756	P 87,780,322

On August 7, 2014, EDI made an initial plan contribution amounting to P10.0 million to its retirement plan maintained by a trustee bank which was placed in cash and cash equivalents.

(Amounts in Philippine Pesos)

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

	Note	2015	2014
Balance at beginning of year		P 10,454,636,149	P -
Interest income		368,948,000	68,156,724
Contributions to the plan		278,000,000	31,932,306
Return on plan assets (excluding amounts included in net interest)		(120,860,500)	358,967,998
Benefits paid		(453,418,000)	(53,165,021)
Foreign exchange adjustment		14,140,851	-
Additions due to acquired subsidiary	1.5	-	10,048,744,142
Balance at end of year		P 10,541,446,500	P 10,454,636,149

The composition and the fair value of plan assets as at December 31, 2015 and 2014 by category and risk characteristics are shown below.

	2015	2014
Quoted equity securities	P 4,789,493,115	P 4,753,908,263
Debt securities	2,228,356,955	2,212,183,813
Government bonds	2,197,817,091	2,181,367,460
Diversified growth fund	739,275,323	734,109,377
Property	541,292,758	528,805,838
Cash and cash equivalents	45,211,259	44,261,398
	P 10,541,446,500	P 10,454,636,149

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

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

	2015	2014	2013
Reported in profit and loss			
Interest expense – net	P 36,190,473	P 8,759,209	P 2,899,330
Current service costs	14,382,872	42,441,169	6,787,638
	P 50,573,345	P 51,200,378	P 9,686,968
Reported in other comprehensive income			
Actuarial losses (gains) arising from:			
Changes in financial assumptions	(P 540,878,062)	P 740,445,578	P 4,554,459
Experience adjustments	121,042,973	(381,820,441)	19,414,018
	(P 419,835,089)	P 358,625,137	P 23,968,477

(Amounts in Philippine Pesos)

The amounts of post-employment benefits expense recognized in profit or loss are presented as part of General and Administrative Expenses (for current service costs) and Other Charges (for interest expense) accounts in the consolidated statements of comprehensive income. In 2015 and 2014, post-employment benefits expense amounting to P54.1 million and P8.8 million, respectively, was capitalized to form part of the work-in-process inventory. Such capitalized amount represents post-employment benefits of personnel directly involved in the production of whisky.

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

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

	2015	2014	2013
Discount rate	**3.55%-5.38%**	3.55%-4.75%	4.37%-5.10%
Expected rate of salary increase	**4.00%-5.00%**	4.00%-5.00%	4.00%-5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of an individual retiring at the age of 60 is 23 years for both male and female. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the retirement benefit obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

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

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

(i) *Interest Rate Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a 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, debt securities and government bonds. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the participants during their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the participants will result in an increase in the retirement benefit obligation.

(Amounts in Philippine Pesos)

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of the end of the reporting periods:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2015			
Discount rate	**+14.30/-11.60%**	**(P 508,080,000)**	**P 542,880,000**
Salary growth rate	**+13.20%/-11.00%**	**146,160,000**	**(146,160,000)**
Turn-over rate	**- 14.6%**	**361,920,000**	**-**
December 31, 2014			
Discount rate	+14.30/-11.60%	(P 562,913,365)	P 608,116,030
Salary growth rate	+13.20%/-11.00%	176,595,591	(143,161,632)
Turn-over rate	- 14.6%	507,498,807	-
December 31, 2013			
Discount rate	+9.25/-11.25%	(P 5,591,008)	P 6,778,993
Salary growth rate	+10.28%/-8.65%	6,212,881	(5,251,093)
Turn-over rate	- 8.15%	5,111,492	-

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the retirement benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the retirement benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Funding Arrangements and Expected Contributions

As of December 31, 2015 and 2014, the plan is underfunded by P0.5 billion and P1.1 billion, respectively, based on the latest actuarial valuation. While there are no minimum funding requirement in the countries where the Group is operating, the size of the underfunding may pose a cash flow risk in about 13 years' time when a significant number of employees is expected to retire.

The expected maturity of undiscounted expected benefits payments is as follows:

	2015	2014
Within one year	**P 303,015,613**	P 301,829,838
More than one but less than five years	**1,134,567,872**	1,132,415,110
More than five years	**527,318,223**	528,137,119
	P 1,964,901,708	P 1,962,382,067

The weighted average duration of the retirement benefit obligation at the end of the reporting period is 13 years.

(Amounts in Philippine Pesos)

21. CURRENT AND DEFERRED TAXES

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

	2015	2014	2013
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	P **1,698,770,747**	P 1,903,211,139	P 2,053,474,821
Final tax on interest income at 20% and 7.5%	**26,760,146**	26,562,983	25,572,537
Minimum corporate income tax (MCIT) at 2%	**2,033,000**	-	-
Deferred tax income relating to origination and reversal of temporary differences	(**237,781,829**)	(25,602,114)	(4,753,855)
	P **1,489,782,064**	P 1,904,172,008	P 2,074,293,503
Reported in other comprehensive income			
Deferred tax expense (income) relating to remeasurements of retirement benefit obligation	P **69,367,587**	(P 70,563,930)	(P 7,190,543)

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

	2015	2014	2013
Tax on pretax profit at 30%	P **2,534,951,505**	P 2,432,507,155	P 2,371,531,045
Adjustment for income subjected to different tax rates	(**1,047,847**)	(13,874,741)	(12,887,979)
Additional deduction in claiming optional standard deduction (OSD)	(**558,234,820**)	(488,708,892)	(35,183,168)
Tax effects of:			
Non-taxable income	(**396,976,869**)	(19,928,998)	(249,484,428)
Unrelieved non-trading losses	(**134,317,507**)	(20,444,562)	-
Unrecognized DTA on:			
Provision for interest expense	**80,767,742**	-	-
NOLCO	(**8,710,298**)	32,885,656	318,033
MCIT	**2,033,000**	-	-
Equity in net income of joint venture	(**39,002,292**)	(11,860,448)	-
Non-deductible expenses	**10,319,450**	16,809,717	-
Accelerated capital allowances and other short-term temporary differences	-	(13,297,879)	-
Capitalized DST on issuance of ELS	-	(7,920,000)	-
DST directly charged against APIC	-	(1,995,000)	-
	P **1,489,782,064**	P 1,904,172,008	P 2,074,293,503

(Amounts in Philippine Pesos)

The Group is subject to the higher of RCIT at 30% of net taxable income or minimum corporate income tax (MCIT) which is at 2% of gross income, as defined under the tax regulations. The Group paid RCIT in 2015, 2014 and 2013 as RCIT was higher in those years.

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:

	2015	2014
Brand valuation	(P 1,797,409,000)	(P 1,994,428,801)
Fair value adjustment	(363,554,500)	(426,376,168)
Short-term temporary differences	142,409,392	90,927,120
Retirement benefit obligation	97,375,172	237,496,520
Contingent liability	28,703,500	32,412,695
Allowance for impairment	8,607,647	7,579,748
Unamortized past service costs	854,844	961,699
Net deferred tax liabilities	(P 1,883,012,945)	(P 2,051,427,187)

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

	Profit or Loss			Other Comprehensive Income		
	2015	2014	2013	2015	2014	2013
Brand valuation	(P197,019,801)	P -	P -	P -	P -	P -
Retirement benefit obligation	70,753,761	(10,397,151)	(2,906,090)	(69,367,587)	70,563,930	7,190,543
Fair value adjustment	(62,821,668)	(2,821,384)	-	-	-	-
Short-term temporary difference	(51,482,272)	(7,472,182)	-	-	-	-
Contingent liability	3,709,195	(2,271,214)	-	-	-	-
Allowance for impairment	(1,027,899)	(1,678,484)	(1,847,765)	-	-	-
Unamortized past service costs	106,855	(961,699)	-	-	-	-
Deferred tax income (expense)	(P237,781,829)	(P25,602,114)	(P 4,753,855)	(P69,367,587)	P70,563,930	P7,190,543

In 2015, 2014 and 2013, the Group opted to claim itemized deductions in computing its income tax due except for EDI who opted to claim OSD in 2015 and 2014, and AWGI, for 2015, 2014 and 2013.

(Amounts in Philippine Pesos)

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 below.

The summary of the Group's transactions with its related parties in 2015, 2014 and 2013 and the related outstanding balances as of December 31, 2015 and 2014 are as follows:

Related Party Category	Notes	Amount of Transaction 2015	2014	2013	Outstanding Receivable (Payable) 2015	2014
Ultimate Parent Company:						
Dividends paid	23.2	**P1,970,737,499**	P1,872,000,000	P3,702,134,051	**P -**	P -
Advances granted (collected)	22.7	**(355,000,000)**	1,910,000,000	-	**1,555,000,000**	1,910,000,000
Lease of properties	22.3	**8,000,000**	8,000,000	8,000,000	**(11,462,366)**	(9,525,576)
Advances obtained	22.6	**-**	-	(13,751,812)	**-**	-
Issuance of shares	1.2, 1.3	**-**	-	13,500,000,000	**-**	-
Related Parties Under Common Ownership:						
Advances paid (obtained)	22.6	**6,537,641,100**	(10,305,469,774)	346,656,270	**(4,668,500,616)**	(11,206,141,716)
Purchase of raw materials	22.1	**3,014,462,087**	4,654,005,633	418,361,736	**(1,200,024,526)**	(1,616,937,584)
Advances granted (collected)	22.7	**(1,960,700,222)**	2,034,499,022	-	**73,798,800**	2,034,499,022
Disposal of financial assets at FVTPL	7	**(1,040,340,021)**	-	-	**-**	-
Purchase of land	22.14	**992,082,400**	-	-	**-**	-
Management services	22.8	**135,000,000**	120,000,000	49,500,000	**(102,975,000)**	(56,100,000)
Lease of property	22.3	**82,457,771**	79,686,189	102,210,918	**(88,221,500)**	(73,054,000)
Sale of goods	22.4	**40,865,368**	9,436,183	26,996,239	**35,027,581**	7,038,742
Purchase of finished goods	22.1	**4,686,357**	3,475,578	146,501,368	**(207,002)**	(160,919)
Issuance of shares	22.11	**-**	-	1,431,764,995	**-**	-
Acquisition of distilling facility	22.9	**-**	-	897,569,335	**-**	-
Acquisition of machinery and equipment	22.2	**-**	-	-	**(191,584,700)**	(191,584,700)
Stockholder:						
Subscription of EMP shares	22.11	**-**	12,320,000,000	-	**-**	-
Issuance of ELS	22.10	**-**	5,280,000,000	-	**(5,280,000,000)**	(5,280,000,000)
Advances paid (obtained)	22.6	**64,159**	1,192,302	-	**(4,327,176)**	(4,263,017)
Officers and Employees – Advances granted (collected)	22.5	**10,771,388**	(3,509,426)	4,055,227	**21,491,459**	10,720,071
Key Management Personnel Compensation	22.12	**186,716,324**	30,174,688	22,034,504	**-**	-

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 in 2015, 2014 and 2013 for related party receivables.

Transactions with related parties are also discussed in the succeeding pages.

22.1 Purchase of Goods

The Group imports raw materials such as alcohol, flavorings and other items through Andresons Global, Inc. (AGL). There are also finished goods purchased through AGL and from Condis (for 2013). Total purchases for 2015, 2014 and 2013 amounted to P39.9 million, P56.6 million and P418.4 million, respectively, whereas total finished goods importations during the years 2015, 2014 and 2013 amounted to P4.7 million, P3.5 million and P146.5 million, respectively. These transactions are payable within 30 days.

The related unpaid purchases of raw materials as of December 31, 2015 and 2014 amounted to P140.4 million and P348.8 million, respectively. The outstanding liability related to the Group's finished goods importations as of December 31, 2015 and 2014 both amounted to P0.2 million. These liabilities are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

The Group imports raw materials from Alcoholera dela Mancha Vinicola, S.L., a wholly owned subsidiary of BLC, now considered a related party under common control. Total purchases for 2015 and 2014 amounted to P2.9 billion and P4.6 billion, respectively (see Notes 8 and 18). The related unpaid purchases as of December 31, 2015 and 2014 amounting to P1.1 billion and P1.3 billion, respectively, are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

22.2 Acquisition of Machinery and Equipment

In 2010, the Group purchased certain machinery and equipment from TEI for P285.4 million. Of the total purchase price, P191.6 million remain unpaid as of December 31, 2015 and 2014 and is shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

22.3 Lease Agreements

On January 1, 2014, the Group renewed the lease agreement with TEI as the lessor, for a period of ten years ending on December 31, 2023, covering its main manufacturing plant facilities which include the production building, storage tanks for raw materials, and water treatment area, among others.

Total rental expense arising from the above lease contract amounted to P58.2 million for the years ended December 31, 2015 and 2014 and P84.0 million for the year ended December 31, 2013, and presented as part of Rentals under the Costs of Goods Sold account in the consolidated statements of comprehensive income (see Note 18). As of December 31, 2015 and 2014, unpaid rentals relating to this lease agreement amounted to P88.2 million and P73.1 million, respectively, and 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 Group has renewed a five-year lease contract with another related party, for the head office space of the Group's sales and bottling division. Total rental expense from this contract for the years ended December 31, 2015, 2014 and 2013 amounted to P24.3 million, P21.5 million and P18.2 million, respectively, and presented as part of Rentals under the Selling and Distribution Expenses, General and Administrative Expenses, and Cost of Goods Sold accounts in the consolidated statements of comprehensive income (see Notes 18 and 19). The outstanding liability from this transaction amounted to P0.3 million as of December 31, 2015 and is shown as Trade payables under the Trade and Other Payables account in the 2015 consolidated statement of financial position (see Note 15). There are no unpaid rentals related to this lease agreement as of December 31, 2014.

In relation to the above lease agreements, the Group paid the lessors refundable security deposits shown as part of Other Non-current Assets in the consolidated statements of financial position with carrying amounts of P21.2 million as of December 31, 2015 and 2014 (see Note 11).

Meanwhile, AWGI leases the glass manufacturing plant located in Laguna from AGI. The amount of rental is mutually agreed annually between AGI and AWGI. Rentals amounting to P8.0 million for each of three years in the period ended December 31, 2015, were charged to operations as part of Rentals under the Costs of Goods Sold account in the consolidated statements of comprehensive income (see Note 18). The outstanding liability from this transaction is shown as Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

(Amounts in Philippine Pesos)

22.4 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 three to six months. These receivables are presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

22.5 Advances to Officers and Employees

In the normal course of business, the Group grants noninterest-bearing, unsecured, and payable on demand cash advances to certain officers and employees. The outstanding balance arising from these transactions is presented as Advances to officers and employees under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The movements in the balance of Advances to Officers and Employees are as follows:

	2015	2014
Balance at beginning of year	P 10,720,071	P 14,463,297
Additions	20,619,238	43,755,362
Repayments	(9,847,850)	(47,498,588)
Balance at end of period	P 21,491,459	P 10,720,071

22.6 Advances from Related Parties

Certain 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 upon demand in cash. 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:

	2015	2014
Balance at beginning of year	P 11,210,404,733	P 903,742,657
Net additions (repayments)	(6,537,576,941)	10,306,662,076
Balance at end of year	P 4,672,827,792	P 11,210,404,733

22.7 Advances to Related Parties

In 2014, the Group made unsecured, interest-bearing cash advances to AGI and New Town Land Partners (New Town), a related party under common ownership, for financial and working capital purposes, which are payable in cash upon demand. The outstanding receivable amounting to P1.6 billion and P2.3 billion as of December 31, 2015 and 2014, respectively, and presented as part of Advances to related parties under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6). Interest income earned from these advances amounted to P83.2 million and P34.3 million in 2015 and 2014, respectively, and presented as part of Other revenues under the Revenues account in the consolidated statements of comprehensive income. There were no similar transactions in 2013.

The Group also made an unsecured, noninterest-bearing cash advance to Greenspring Investment Holdings Properties Ltd., a related party under common ownership, for financial support. The outstanding receivable amounting to P1.6 billion as of December 31, 2014, is presented as part of Advances to related parties under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6). The receivable was collected in full in 2015. There were no similar transactions in 2013.

(Amounts in Philippine Pesos)

22.8 Management Services

In 2013, EDI entered into a management agreement with TEI, whereby the latter shall provide EDI with consultancy and advisory services in relation to the operation, management and development and maintenance of machineries, as well as the operation, management and maintenance of such machineries. In 2014, EDI entered into another management agreement with Condis in relation to EDI's operation, management and maintenance of its distillery plant. As consideration for the services provided by TEI and Condis, EDI incurs monthly management fees amounting to P4.25 million and P4.5 million, respectively. During the same year, EDI and Condis amended their management agreement thereby increasing the monthly management fees from P4.5 million to P7.0 million effective July 1, 2014. The management agreements shall continue to be in effect until terminated by the contracting parties.

Total management fees incurred in 2015, 2014 and 2013 amounting to P135.0 million, P120.0 million and P49.5 million, respectively, 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 arising from management fees as of December 31, 2015 and 2014 amounting to P103.0 million and P56.1 million, respectively, 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 and noninterest-bearing.

22.9 Acquisition of Distilling Facilities

In 2013, the Group acquired the distillery facilities of Condis, which include the following assets:

	Note		
Property, plant and equipment	9	P	756,990,993
Inventories			140,578,342
		P	897,569,335

The acquisition was fully settled in cash in 2013. There were no similar transactions in 2015 and 2014.

22.10 Issuance of Equity-linked Debt Securities

In 2014, the Group issued an equity-linked debt securities instrument to a stockholder amounting to P5.3 billion, with outstanding amount presented as Equity-linked Debt Securities in the 2014 consolidated statement of financial position. The ELS may be converted into 480.0 million common shares of EMP with a par value of P1.0 per share. The ELS bears fixed annual interest rate of 5.0% and variable interest in an amount equal to the dividends that would be payable on the conversion shares if they were issued prior to the date that any dividend is declared by EMP (see Note 14).

22.11 Subscription of EMP Shares

In 2013, Shiok Success International Ltd. (SSIL) and Dew Dreams International Ltd. (DDIL), related parties under common ownership as of December 31, 2015 and 2014, have subscribed and fully paid 711.8 million shares and 720.0 million shares, respectively, of EMP with P1.0 par value.

In 2014, Arran subscribed to 1.1 billion common shares of EMP with P1.0 par value. The subscription price amounting to P12.3 billion was fully paid on December 4, 2014 (see Notes 14 and 23.1). The excess of the subscription price over the par value amounting to P11.2 billion was recorded as APIC.

22.12 Key Management Personnel Compensation

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

		2015		2014		2013
Short-term benefits	P	**185,587,151**	P	29,256,173	P	21,270,635
Post-employment defined benefits		**1,129,173**		918,515		763,869
	P	**186,716,324**	P	30,174,688	P	22,034,504

(Amounts in Philippine Pesos)

22.13 Retirement Plan

The Group's retirement fund 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, 2015 are presented in Note 20.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments covered by any restrictions or liens.

22.14 Purchase of Land

In 2015, the Group purchased certain parcels of land from Empire East Land Holdings, Inc., a related party under common ownership, located in Balayan, Batangas with an area of 169,336 square meters for a total consideration of P1.0 billion, and is included as part of Property, Plant and Equipment in the 2015 consolidated statement of financial position. There was no outstanding liability arising from this transaction as of December 31, 2015.

22.15 Execution of Supplemental Trust Deed

The Group executed a supplement trust deed as part of the requirements of the U.S.$500,000,000 6.50% Guaranteed Notes due 2017 issued by Alliance Global Group Cayman Islands, Inc., a related party under common ownership.

23. EQUITY

23.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	2015	2014	**2015**	2014
Common stock – P1.0 par value				
Authorized	**20,000,000,000**	20,000,000,000	**P20,000,000,000**	P 20,000,000,000
Issued:				
Balance at beginning of year	**16,120,000,000**	15,000,000,000	**16,120,000,000**	15,000,000,000
Issued during the year	-	1,120,000,000	-	1,120,000,000
Balance at end of year	**16,120,000,000**	16,120,000,000	**P16,120,000,000**	P 16,120,000,000

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

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

On December 27, 2012, the Company issued additional 6.0 million shares with an offer price of P5.5 per share through private placement.

On June 19, 2013, August 27, 2013 and September 5, 2013, the Company's BOD, stockholders, and SEC, respectively, approved the increase in authorized capital stock of the Company from P100.0 million divided into 100.0 million shares to P20.0 billion divided into 20.0 billion shares both with par value of P1.00 per share (see Note 1.2). On July 4, 2013, the Company's BOD approved the issuance of 6.5 million shares at par value to two foreign investors. On August 28, 2013, AGI and other investors subscribed to an aggregate of 14.9 billion shares. Under the terms of AGI's subscription, the Company acquired all of EDI shares held by AGI (see Notes 1.2 and 1.3).

On September 17, 2013, AGI launched an offering of 1.8 billion shares of EMP's 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 proceeds was directly remitted to EMP as an additional subscription price from AGI under the terms of AGI's amended agreement; such amount is recorded as APIC in EMP's books. Costs related to the issuances amounting to P176.3 million were deducted from APIC.

(Amounts in Philippine Pesos)

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

On December 4, 2014, the Company issued additional 1.1 billion common shares with an offer price of P11.0 per share through private placement (see Notes 14 and 22.11). 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.

As of December 31, 2015 and 2014, the quoted closing price per share is P8.95 and P10.4, respectively, and there are 184 and 181 stockholders as of those dates, which include nominee accounts, of the Parent Company's total issued and outstanding shares. The percentage shares of stocks owned by the public are 18.50% and 18.54% as of December 31, 2015 and 2014, respectively.

23.2 Declaration of Dividends

On June 17, 2015 and August 6, 2014, EMP's BOD approved the declaration of cash dividends both amounting to P2.4 billion (P0.15 per share in 2015 and P0.16 per share in 2014) to all stockholders of record as of July 3, 2015 and August 22, 2014, respectively. These were paid on July 28, 2015 and September 9, 2014. The Company did not declare cash dividends in 2013.

EDI's BOD approved the declaration of cash dividends of P3.7 billion (P0.3 per share) on July 5, 2013, payable to stockholders of record as of July 16, 2013, which was AGI for those dates.

23.3 Employee Share Option

On November 7, 2014, the Parent Company's BOD approved an employee share option plan (ESOP) for qualified employees of the Group.

The options shall generally vest on the 60th birthday of the option holder and may be exercised until the date of his/her retirement from the Group provided that the employee has continuously served for 11 years of service after the option offer date. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Parent Company's shares for nine months immediately preceding the date of grant. Pursuant to this ESOP, on November 6, 2015, the Parent Company granted share options to certain key executives of EDI to subscribe to 118.0 million common shares of the Parent Company, at an exercise price of P7.00 per share.

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

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

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

A total of P4.5 million employee share option expense presented as part of Salaries and employee benefits under the General and Administrative Expenses account was recognized in the 2015 consolidated statement of comprehensive income, with a corresponding credit to Share Options account amounting to P4.1 million, net of DST amounting to P0.4 million.

23.4 Retained Earnings

In 2015, AWGI appropriated portion of its retained earnings amounting to P550.0 million for the rehabilitation of the glass manufacturing plant in 2016.

(Amounts in Philippine Pesos)

24. EARNINGS PER SHARE

Earnings per share were computed as follows:

	2015	2014	2013
Consolidated net profit for the year	**P6,960,056,286**	P 6,204,185,176	P 5,830,809,981
Divided by the weighted average number of outstanding common shares	**16,120,000,000**	15,093,333,333	11,133,917,808
Basic and diluted earnings per share	**P 0.43**	P 0.41	P 0.52

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.

On December 4, 2014, the Group issued an ELS instrument amounting to P5.3 billion, convertible to 480.0 million new and fully paid-up shares (see Note 14). In addition to this, it has also issued an investment option that would allow the holder to subscribe to 280.0 million new and fully paid-up shares and an ELS instrument with principal amount of P1.3 billion, convertible to 120.0 million new and fully paid-up shares. The investment option is exercisable during the 13-month period beginning on the date of issuance. As of December 31, 2015 and 2014, the ELS instrument and the investment option have not been converted and exercised, respectively.

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 in 2015 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, the weighted average number of issued and outstanding common shares presented above does not include the effect of the potential common shares from the employee share options and convertible ELS.

25. COMMITMENTS AND CONTINGENCIES

The Group entered into non-cancellable leases covering certain manufacturing plant facilities, storage tanks and office spaces. The leases are for periods ranging from one to 50 years which are renewable thereafter upon mutual agreement of both parties. Several warehouse lease agreements with different lessors were likewise executed in 2013 and 2012 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, 2015 and 2014 are as follows:

	2015	2014
Within one year	**P 138,060,125**	P 102,767,390
After one year but not more than five years	**328,006,684**	318,080,215
More than five years	**232,800,000**	291,099,806
	P 698,866,809	P 711,947,411

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 a variety of financial risks which result from its operating activities. 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.

There have been no significant changes in the Group's financial risk management objectives and policies during the period.

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.

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 both its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, U.S. dollars, Euros, and U.K. 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. EDI has outstanding interest-bearing loan denominated in U.S. dollars in 2014 and also holds U.S. dollar-denominated cash and cash equivalents as of December 31, 2015 and 2014. 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:

	2015	2014
Financial assets	P 1,525,900	P 6,658,928,139
Financial liabilities	(1,256,461)	(9,253,110,233)
	P 269,439	(P 2,594,182,094)

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
2015	**3.47%**	**P 9,350**	**P 6,545**
2014	3.85%	(P 99,876,011)	(P 69,913,208)

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.

(Amounts in Philippine Pesos)

(b) Interest Rate Risk

As at December 31, 2015 and 2014, 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 a one-year loan that is based on EURIBOR. The EURIBOR, , however, which 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) Price Risk

The Group's market price risk arises from its investments carried at fair value recorded under financial assets at FVTPL with risk to earnings or capital arising from changes in stock exchange indices. The Group manages exposures to price risk by monitoring the changes in the market price of the investments to determine the impact on its financial position, and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

For equity securities listed in the Philippines, an average volatility of 28% has been observed during 2014. If quoted price for these securities increased or decreased by that amount, profit before tax would have changed by P289.1 million in 2014, while equity would have changed by the same amount.

The investments in listed equity securities are considered short-term strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored.

26.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting advances and selling goods to customers including related parties and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown in the consolidated statements of financial position or in the detailed analysis provided in the notes to the consolidated financial statements, as summarized below.

	Notes		2015		2014
Cash and cash equivalents	5	P	**29,177,542,237**	P	35,234,629,567
Trade and other receivables – net	6		**13,256,561,568**		12,630,621,370
Refundable security deposits	11		**41,422,457**		38,829,045
		P	**42,475,526,262**	P	47,904,079,982

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.

(Amounts in Philippine Pesos)

(b) Trade and Other Receivables

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. In determining credit risk, trade and other receivables exclude advances to suppliers amounting to P336.4 million and P1.3 billion as of December 31, 2015 and 2014, respectively (see Note 6).

The age of trade and other receivables that are past due but unimpaired is as follows:

	2015	2014
Not more than three months	P 1,720,342,929	P 4,496,496,622
More than three months but not more than six months	734,704,966	489,486,972
	P 2,455,047,895	P 4,985,983,594

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

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

26.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring cash 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.

As at December 31, 2015 and 2014, the Group's financial liabilities are presented below.

	Within 6 Months	6 to 12 Months	1 to 5 Years
December 31, 2015			
Interest-bearing loans and borrowings	P 5,689,201,950	P 18,539,668,551	P -
Trade and other payables	14,630,899,514	-	-
ELS	-	-	6,738,766,650
	P 20,320,101,464	P 18,539,668,551	P 6,738,766,650
December 31, 2014			
Interest-bearing loans and borrowings	P 23,910,614,733	P -	P -
Trade and other payables	19,174,828,576	-	-
FVTPL liability	233,751,463	-	-
ELS	-	-	6,738,766,650
	P 43,319,194,772	P -	P 6,738,766,650

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

(Amounts in Philippine Pesos)

27. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

		2015		2014	
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	5	P 29,177,542,237	P 29,177,542,237	P 35,234,629,567	P 35,234,629,567
Trade and other receivables - net	6	13,256,561,568	13,256,561,568	12,630,621,370	12,630,621,370
Refundable security deposits	11	41,422,457	41,422,457	38,829,045	38,829,045
FVTPL financial assets	7	2,654,900	2,654,900	1,040,340,021	1,040,340,021
		P 42,478,181,162	P 42,478,181,162	P 48,944,420,003	P 48,944,420,003
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	13	P 23,899,762,792	P 23,899,762,792	P 23,827,219,465	P 23,827,219,465
Trade and other payables	15	14,630,899,514	14,630,899,514	19,174,828,576	19,174,828,576
ELS	14	5,259,137,443	5,259,137,443	5,253,911,638	5,253,911,638
Accrued interest payable	14	283,528,767	283,528,767	19,528,767	19,528,767
FVTPL liability	7	-	-	233,751,463	233,751,463
		P 44,073,328,516	P 44,073,328,516	P 48,509,239,909	P 48,509,239,909

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, 2015 and 2014. 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, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Amounts in Philippine Pesos)

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 table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the consolidated statements of financial position on a recurring basis as of December 31, 2015 and 2014.

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial asset – Financial assets at FVTPL	P -	P 2,654,900	P -	P 2,654,900

	2014			
	Level 1	Level 2	Level 3	Total
Financial asset – Financial assets at FVTPL	P1,040,340,021	P -	P -	P1,040,340,021
Financial liability – Financial liabilities at FVTPL	P -	P 233,751,463	P -	P 233,751,463

There were no financial liabilities measured at fair value as of December 31, 2015.

There were no transfers between Levels 1 and 2 in both years.

Described below are the information about how the fair values of the Group's classes of financial assets and financial liabilities were determined.

(a) Derivatives

The financial assets at FVTPL as of December 31, 2015 and the financial liabilities at FVTPL as of December 31, 2014 that are included in Level 2 comprise of foreign exchange spots and forward contracts classified as financial instruments at FVTPL (see Note 7). The fair values of derivative financial instruments that are not quoted in an active market are determined through valuation techniques using the net present value computation (see Note 3.2).

(b) Equity securities

As of December 31, 2014, financial assets included in Level 1 comprise equity securities classified as financial assets at FVTPL (see Note 7). These securities were valued based on their market prices quoted in the PSE at the end of the reporting period.

(Amounts in Philippine Pesos)

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 2015 and 2014 consolidated statements of financial position but for which fair value is disclosed.

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Cash and cash equivalents	P 29,177,542,237	P -	P -	P 29,177,542,237
Trade and other receivables	-	-	13,256,561,568	13,256,561,568
Refundable security deposits	-	-	41,422,457	41,422,457
	P29,177,542,237	**P -**	**P13,297,984,025**	**P 42,475,526,262**
Financial liabilities:				
Interest-bearing loans and borrowings	P -	P -	P 23,899,762,792	P 23,899,762,792
Trade and other payables	-	-	14,630,899,514	14,630,899,514
ELS	-	-	5,259,137,443	5,259,137,443
Accrued interest payable	-	-	283,528,767	283,528,767
	P -	**P -**	**P44,073,328,516**	**P 44,073,328,516**

	2014			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 35,234,629,567	P -	P -	P 35,234,629,567
Trade and other receivables	-	-	12,630,621,370	12,630,621,370
Refundable security deposits	-	-	38,829,045	38,829,045
	P 35,234,629,567	P -	P 12,669,450,415	P 47,904,079,982
Financial liabilities:				
Interest-bearing loans and borrowings	P -	P -	P 23,827,219,465	P 23,827,219,465
Trade and other payables	-	-	19,174,828,576	19,174,828,576
ELS	-	-	5,253,911,638	5,253,911,638
Accrued interest payable	-	-	19,528,767	19,528,767
	P -	P -	P 48,275,488,446	P 48,275,488,446

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

(Amounts in Philippine Pesos)

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 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 consolidated statements of financial position. Capital at the end of each reporting period is summarized as follows:

	2015	2014
Total liabilities	P 48,172,981,524	P 53,656,554,216
Total equity	50,079,901,034	45,901,997,251
Debt-to-equity ratio	0.96 : 1.00	1.17 : 1.00

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

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