COVER SHEET

				1	5	1	0	9	6

SEC Registration Number

TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of
LT Group, Inc.) AND
SUBSIDIARIES

(Company's Full Name)

348 J. Nepomuceno St., San Miguel
District, Manila

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

NESTOR MENDONES	519-7981
(Contact Person)	(Company Telephone Number)

1 2	3 1	17-A	0 5	0 4
Month	*Day*	(Form Type)	*Month*	*Day*
(Calendar Year)			(Annual Meeting)	

(Secondary License Type, If Applicable)

SEC	
Dept. Requiring this Doc.	Amended /Section

Total Amount of Borrowings

8		
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF CORPORATION CODE OF THE PHILIPPINES**

1. For the calendar year ended **December 31, 2013**

2. SEC Identification Number **151096**

3. BIR Tax Identification No. **000-086-108-000**

4. Exact name of registrant as specified in its charter **Tanduay Distillers, Inc.**

5. **Philippines**
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. **348 J. Nepomuceno St. San Miguel District, Manila** — **1001**
Address of principal office — Postal Code

8. **(632) 7339301**
Registrant's telephone number, including area code

9. **Not Applicable**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common shares, P1.00 par value	**1,180,765,620**

11. Are any or all of these securities listed on a Stock Exchange?

Yes [ ] No [✓]

12. Check whether the registrant:

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

Yes [✓] No [ ]

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

Yes [✓] No [ ]

13. Not applicable

14. Not applicable

DOCUMENTS INCORPORATED BY REFERENCE

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate History

Tanduay Distillers, Inc. (the Company) was incorporated in the Philippines as Twin Ace Holdings, Inc. (Twin Ace) on May 10, 1988. The Company is a wholly owned subsidiary of LT Group, Inc. (LTG) formerly Tanduay Holdings, Inc. (THI). The Company is primarily engaged in, operates, conducts and maintains the business of manufacturing, compounding, bottling, importing, exporting, buying, selling or otherwise dealing in, at wholesale and retail such goods as rhum, brandy, whiskey,gin and other liquor products; and any and all equipment, materials, supplies used and/or employed in or related to the manufacture of such finished goods. The Company sells its products in the domestic market mainly through major distributors.

On July 8, 1999, LTG acquired 100% ownership of Twin Ace via share swap with Twin Ace's existing shareholders, Tangent Holdings Corporation (THC). On July 30, 1999, the Philippine Securities and Exchange Commission (SEC) approved the change in the corporate name of Twin Ace to Tanduay Distillers Inc. (TDI) and its authorized capital increased from ₱ 2.0 million to ₱ 2.0 billion at a par value of ₱ 1.00 per share. TDI produces distilled spirits consisting of rum, wine, gin, vodka and brandy. Total sales in 2013 amounted to ₱ 10.5 billion while reported sales for 2012 was ₱ 12.9 billion. Five Year Rum brand continued to lead all brands capturing 74% of total sales in 2013.

On June 30, 2005, TDI acquired controlling interests in Asian Alcohol Corporation (AAC) and Absolut Distillers, Incorporated (ADI), formerly known as Absolut Chemicals, Inc. (ACI). AAC and ADI are domestic corporations registered with the Philippine SEC which are the suppliers of TDI's alcohol requirements.

In December 2006, TDI converted certain advances to AAC and ADI amounting to ₱200 million and ₱185 million, respectively, into equity in the subsidiaries thereby resulting in the increase in ownership by TDI over AAC and ADI to 93% and 96% respectively. In October 2007, the Philippine SEC approved ADI's equity restructuring. On the other hand, the increase in authorized capital stock of AAC was approved on January 10, 2008. In June 2008, TDI bought additional shares in AAC amounting to ₱150 million, which increased TDI's ownership from 93% to 95%. For purposes of consolidation as of December 31, 2012, the Company's ownership over AAC and ADI was 95% and 96% respectively.

In December 2011, LTG undertook a capital raising exercise to complete the financing of the capital expenditure requirements of TDI and the latter's subsidiaries, ADI and AAC and to improve operational efficiencies and rationalize operations. This involved a public share offering from which the net proceeds amounting to ₱1,627 million was invested in TDI and recognized in the Company's consolidated balance sheet and consolidated statement of changes in equity as "Deposit for future subscription." In June 2012, TDI converted the deposit for future subscription into 220,765,620 common shares which resulted to additional paid in capital amounting to ₱1,406.3 million.

Description of Subsidiaries/Investments

The following companies are majority owned by TDI:

- ***Asian Alcohol Corporation (AAC) – 95%***

  AAC is a distillery located in Pulupandan, Negros Occidental with a daily rated capacity of 130,000 liters of fine quality ethyl alcohol. AAC has a distillation process that uses molasses, yeast, water and other ingredients. It has a ten-hectare plant in Negros, which is the center of the country's sugar industry. Plant facilities include aging facilities and a modern wastewater treatment plant, which converts distillery waste into biogas energy for its power requirements. AAC also has a methane gas capture system that enables it to use the methane generated from distillation as power to fire up its boilers.

- ***Absolut Distillers, Inc. (ADI) – 96%***

ADI has a daily rated capacity of 175,000 inclusive of the ongoing expansion project that will increase daily capacity by 100,000 liters of fine ethyl alcohol located in a nine-hectare distilling plant in Lian, Batangas. The plant site also houses a water treatment facility, which converts distillery wastes into environment-friendly form. ADI sells majority of its output to TDI.

ADI and Aseagas Corporation sealed a partnership and formed the country's first venture in a technology that will convert the distillery's organic effluent into an alternative fuel named LBM or liquid biomethane. This unique technology was developed by Aseagas Corporation wherein distillery slops or effluent is converted into a purer form of methane that can provide a clean and easily controlled source of energy to supplant the use of fossil fuels as a 'greener alternative' that is both sustainable and carbon neutral.

ADI, in a joint venture with Mitsubishi Corporation of Japan, installed a high-rate thermophilic anaerobic digester and lagoon system that will capture methane from the distillation process and use it for the plant's power requirements. This will enable ADI to reduce its power cost by an estimate of 50% of current consumption levels. The project with Mitsubishi is being undertaken under the Clean Development Mechanism (CDM) Project of the 1997 Kyoto Protocol – a UN sponsored program that aims to reduce the emissions into the atmosphere of harmful gases like methane which emissions are the primary cause of global warming. Under the Protocol, developed countries are mandated to reduce their carbon emission levels by 2012. As an alternative compliance mechanism, developed countries may invest in CDM projects in developing countries like the Philippines. Mitsubishi provided the funding for the project in exchange for the certified emission reduction (CER) credits to be generated from the project. The CERs are the alternative compliance mechanisms under the Kyoto Protocol.

The Company, AAC and ADI are collectively referred to hereinafter as the "Group".

Products

The Company has brands in all major liquor categories – rum, gin, brandy, vodka, whiskey and wine. The Company's primary products consist of the following:

- **Tanduay Five Years Fine Dark Rhum -** *80 proof - 250ml, 375ml, 750ml, 1 liter*
  This rhum reflects the hallmark of Tanduay's rich and lively heritage. The ageing process of this extra special blend is extended for five long years. As a result, the aged rum reveals a lush shade of mahogany and a lasting aroma of sweet nutty smoked flavor.

  The brand accounts for 74% of TDI's total sales by volume and 76% by revenues.

- **Tanduay Rhum 65 Fine Dark Rhum** *65 proof - 375ml, 750ml*
  Exuding a well-rounded character with a smooth mellow finish, this exciting dark rum exhibits a grand array of flavors that is full-bodied yet with an edge of sweetness on the tail.

- **Tanduay E.S.Q. Fine Dark Rhum -** *65 proof - 375ml, 750ml*
  This extra smooth rum is expertly blended to obtain a more robust, pronounced flavor, with just the right amount of sweetness and aroma.

- **Tanduay White Premium Rhum -** *72 proof - 375ml, 750ml*
  Exquisitely blended and flawlessly light, this special rum is meticulously filtered resulting in a sparkling clear spirit with a subtle sweet and spicy tang, enhancing any drink it is mixed with.

- **Tanduay Superior Dark Rhum -** *80 proof - 700ml*
  This is considered the "Cognac" of rum. Aged in oak wood barrels for twelve years, this superb rum boasts of a compelling flavor with a hint of smokiness and a long well rounded finish.

- **Tanduay Rum 1854 -** *80 proof - 700ml*
  Tanduay's rich 150 year history in distilling and blending fine rums is captured in Tanduay Rum 1854, specially prepared in celebration of Tanduay's 150th year anniversary. It comes from Tanduay's collection of reserved aged rum, masterfully blended to acquire an aura of festivity and flavor.

- **Tanduay Centennial Dark Rhum -** *80 proof - 1 liter*
  Exclusive to the Philippine Centennial celebration, this distinctive rum was produced from 100 carefully selected barrels aged to perfect the bouquet and aroma of a 20-year-old rum.

- **T5 Light -** *60 proof- 700ml*
  The World's first Light Rum. Blended to a smooth, suave 60 proof. Destined to be the rum of choice, the newest "go to" drink of the young active set. Created to be enjoyed straight, "on the rocks" or with a mixer. Promises a vibrant yet light, easy-to-enjoy drinking experience.

- **Tanduay Extra Strong Rhum -** *100 proof- 700ml*
  This unique rum is specially blended to be strong, and yet smooth and easy to drink, robust without being intimidating, and vibrant without being aggressive. Its 50% alcohol content and rich character are derived from choice sugarcane and Tanduay's traditional techniques of ageing and blending.

- **Tanduay Five Years Light -** 55 *proof- 375ml, 750ml, 1 liter*
  Tanduay's Master Blender developed this rich blend aged rum with just the right sweetness and aroma. This 55 proof special blend boasts of a compelling smooth flavour without much woody notes, full-bodied yet with an edge of sweetness on the tail.

- **Boracay Rum-** *50 proof- 700ml*
  Smooth, white rum gets some attitude with the tropical sweetness of coconut, fruity taste of melon and the unique kick of cappuccino. Suit the flavor to your mood whether you take it straight, on the rocks or mixed.

- **Tanduay Asian Rum Gold –** 80 *proof- 750ml*
  Silky smooth Gold Rum from heritage Asian sugarcane that revealed how Tanduay became the global leader in dark rum.

- **Tanduay Asian Rum Silver –** 80 *proof- 750ml*
  Silky smooth Silver Rum from heritage Asian sugarcane is only moderately filtered for flavor, giving it a light straw appearance. Perfect for sipping straight yet well balanced for mixing.

- **London Gin –** *80 proof- 375, 700ml*
  Great taste and sparklingly pure, this gin is expertly distilled and packaged with the most modern methods to suit discriminating tastes worldwide. This is bottled under license from London Birmingham Distillers, Ltd., London, England.

- **Gin Kapitan –** *80 proof- 350ml*
  Gin Kapitan was produced to address the preferences of local drinkers for strong alcoholic drinks, particularly in Northern Philippines.

- **Gin Kapitan Light – 5***0 proof- 350ml*
  Gin Kapitan Light was produced to satisfy the growing preference for low-strength spirits. It has the same quality ingredients as Gin Kapitan, only at 50 proof and made smoother and lighter for longer bonding sessions.

- **Barcelona Brandy –** *65 proof- 350ml, 700 ml*
  In 2001, Tanduay entered the fast growing local brandy market by introducing its first brandy product, Barcelona. Made from the finest ingredients and blended to perfection.

- **Compañero Light Brandy –** *55 proof- 700ml*
  A blended smooth spirit with a deep golden color, characterized by a rich bold aroma, and an extra smooth, sweet flavor with the taste of real Spanish Brandy.

- **Cossack Vodka Red -** *80 proof- 250ml ,350ml, 700 ml*
  The Pure Spirit. This vodka is treated through carbon and force-filtered in the true Russian tradition to produce a premium, high quality vodka that captures the spirit of Russian brands.

- **Cossack Vodka Blue –** *65 proof- 375ml, 700ml*
  In 2009, this 65 proof vodka was introduced to address the growing preference by young drinkers for smooth and easy to drink liquor.

- **Embassy Whiskey –** *72 proof- 700ml*
  A smooth, mellow mix of imported malt whiskey and fine spirits that has been skillfully and meticulously blended together to achieve the character and rich depth of flavour associated with whiskies aged in oak barrels.

- **Mardi Gras vodka schnapps –** *40 proof- 700ml*
  With its sweet and mild 20% alcohol content, Tanduay launches the first, double-flavor Vodka Schnapps. Delight your senses with the tempting combo of chocolate and a hint of fresh mint or feast with the refreshing fusion of mango and tangy orange.

- **Tanduay Cocktails –** *30 proof- 700ml*
  Ready to serve premixed cocktails, with 15% alcohol per volume, available in four variants: Mojito, Margarita, Strawberry Daiquiri and Blue Maitai.

TDI sales are largely derived from the domestic market. Export sales comprise approximately 0.1% of total sales, mostly coming from the Company's distributor in Hong Kong, USA and UAE.

Distribution method of the products

As of December 31, 2013, TDI served more than 117,000 points of sale throughout the Philippines through eleven (11) exclusive distributors, who in turn may work with a large number of sub-distributors. TDI has generally maintained good business relationships with its distributors since 1988. As of December 31, 2013, TDI's distributors operated 22 sales offices and 27 warehouses located throughout the Philippines and TDI employs in-house sales staff who provide general administrative support to TDI's distributors. TDI's products are transported from production facilities to distributors' warehouses by third party transportation companies for the account of the distributors.

Status of any publicly-announced new product or services

At the start of 2013, TDI focused on Tanduay Light to block the entry of light brandies in Visayas and Mindanao. TDI then launched Companero Light Brandy in November to compete head-on against light brandies, both in Luzon and in VisMin. With 5% share within its first year in VisMin, Tanduay Light is considered a successful flanker, while Companero is certainly providing the desired conversion of brandy consumers into a TDI brand.

Against imported Spirits, TDI introduced its Asian Rums---products specifically developed for the international market and launched in the U.S. in July 2013 and plans to sell it domestically in 2014. This move is expected to expand Tanduay's footprint in the middle/upper class sectors in the Philippines, uplift consumer's perception of the Tanduay brand, and protect TDI's share against imports which have become relatively more accessible in price.

Competitive business condition/position in the industry

Despite a series of calamities in 2013, the Philippines posted strong GDP growth at 7.2%, driven by high household consumption and growths in the industry and service sectors. However, total retail sales volumes for Spirits and Wine as reported by Nielsen declined by 5% versus the previous year, caused primarily by higher retail prices brought about by the higher excise tax imposed on liquor products.

Brandy continued to grow but at a slower rate than 2012, and accounted for 48% of the market while rum and gin contributed 24% and 23% respectively. EDI's growth (driven by Emperador Light brandy) was also slower than prior years at 9%, with market share growing by 6 share-points to 48% at the expense of both TDI and GSMI.

The opportunity for TDI is very clearly in the brandy sector, and TDI launched Compañero Light Brandy in November 2013. Compañero has won in blind taste tests prior to launch, and consumer acceptance has been very encouraging to date.

While TDI continues to dominate the rum sector with 99% market share, it was poised to defend rums against the growing popularity of low-strength brandies with Tanduay Light (launched 2012) which contributed 2% to total TDI's market share nationally and 5% in Visayas and Mindanao

ADI, TDI's subsidiary, holds the distinction as the only alcohol producer that started the liquid fertilization program in 1999, a method of wastewater treatment wherein ADI was able to convert the liquid waste into liquid fertilizer. It became a treatment of choice of the National Biofuels Law.

ADI is the first company in the Philippines in the private and manufacturing sector to have a Clean Development Mechanism Project No.0504 in partnership with Mitsubishi Corporation of Japan. The Clean Development Mechanism Project was registered on October 1, 2006 with the United Nations Framework Convention on Climate Change. On December 16, 2009, the project was chosen and awarded by the Department of Environment and Natural Resources as one of only 8 companies with their seal of approval for qualifying under Track 1 Category of the Philippine Environment Partnership Program for its superior environmental laws, rules and regulations.

ADI was declared the winner of the "Success Story Award" on April 28-30, 2010 at the Pollution Control Association of the Philippines, Inc. 30th National Annual Convention held in Puerto Princesa, Palawan.

ADI was given an Industrial Ecowatch GREEN Rating (Very Good) twice (2008 & 2009) by the Environmental Management Bureau of the DENR regarding the implementation of the "Revised Industrial Ecowatch System Amending Implementing Guidelines of DAO 51 Series of 1998".

Another distinction was given on February 26, 2010 for being the first Philippine Distillery to be awarded the Presidential Certificate of Recognition for exemplary environmental undertakings.

On November 11, 2011, ADI was cited at the Green Apple Awards, an annual campaign established in 1994 to recognize, reward, and promote environmental best practice around the world. ADI submitted its entry for the project ADI – Mitsubishi Japan Clean Development Mechanism Project and Agro-recycling of Distillery Effluent as Fertilizer for Sugarcane. It was selected by the Department of Environment and Natural Resources to represent the Philippine Industries.

On September 26, 2013, ADI and Aseagas Corporation entered into an effluent supply agreement wherein ADI will supply effluent to Aseagas for a period of 20 years (delivery period) from the date Aseagas notifies ADI that the liquid bio-methane plant to be constructed by Aseagas becomes ready for commercial operations. The delivery period is renewable for another 10 years upon mutual agreement of both parties.

<u>Raw Materials and Principal Suppliers</u>

Principal raw materials in the rum production process are the following:

1. ***Alcohol:*** TDI uses Ethyl alcohol, which is distilled form sugarcane molasses. TDI obtains most of its ethyl alcohol from its two subsidiaries – AAC and ADI and other suppliers. It is intended that Manapla Distillery will soon be one of the exclusive alcohol suppliers to the Group. Manapla is owned by Victorias Milling and is currently being rehabilitated under the technical supervision of AAC's personnel.

   Alcohol is delivered directly to the plant by tanker. Quality of alcohol is being checked prior to acceptance. In 2013, alcohol accounts for 28% of product cost while specific tax on alcohol is at the rate of ₱20.00 per proof liter and accounts for 35% of the total cost. The tax is generally included as part of the cost charged by the alcohol supplier. With the temporary shutdown *(please refer to page 17 / Legal proceedings)* of AAC's operations, TDI increased its importation of alcohol from Pakistan, India, South Africa & Indonesia.

   The distillery companies obtain their molasses from sugar mills and traders. Major suppliers are Victorias Milling Co., Binalbagan Sugar Company and Tate & Lyle Corp.

2. ***Sugar:*** This is added when deemed necessary to enhance the sugary taste and aroma of a particular product.

3. ***Water*:** The plants use significant amounts of water for blending liquor products and cleaning bottles. The water is supplied by the local utility. Each plant has its own water storage and demineralization facilities.

4. ***Flavoring Agents*:** For some products, essences and other flavoring agents are added to attain the desired color, flavor and aroma as well as to reinforce the natural quality of rum as derived from molasses and ageing in oak barrels.

5. ***Bottles*** TDI's liquor products are bottled in glass bottles. Glass bottles account for approximately 17% of cost of goods sold for TDI's products. The cost is managed in part by recycling the bottles.

   TDI maintains a network of secondhand bottle dealers across the nation who retrieves the bottles from the market and sells them back to TDI. The cost of the secondhand bottles including its cleaning is 50% lower than the cost of purchasing new bottles.

6. ***Caps:*** All products are sealed with tamper-proof resealable aluminum caps, which average 3% of total product cost. The aluminum closure sheets being used by the main supplier in the manufacture of caps is being imported from Italy.

7. ***Labels:*** The labels being used are made from imported base coated paper as its main raw material. Label cost accounts for 1% of product cost.

There are no long-term purchase commitments as purchases are made through purchase orders on a per need basis from a list of accredited suppliers.

Dependence on one or two major customers

TDI markets, sells, and distributes its products throughout the Philippines. In the year ended December 31, 2013, sales by volume in the Visayas and Mindanao regions accounted for approximately 50% and 45% of TDI's gross sales by volume, respectively. In the same period, sales by volume in Metro Manila and Luzon accounted for 4% and 1% of TDI's gross sales by volume, respectively. TDI attributes its leading position in the distilled spirits products to strong brand equity, diverse utilization of marketing channels and an established sales and distribution network.

In July 2012, TDI appointed seven additional distributors for the Luzon market. These new distributors are current distributors of TDI's associated company Asia Brewery, Inc. (ABI), which currently enjoys leadership in four nonalcoholic beverage markets—energy drinks, bottled water, soy milk and alcopop. TDI believes ABI's network of more than 40 sales offices in Luzon will allow TDI to expand its own distribution penetration capacity in the Luzon market, which currently accounts for approximately 60% of the Philippine distilled spirits market by sales volume according to Nielsen, and is currently dominated by brandy and gin.

AAC and ADI sell majority of its alcohol to TDI. Although TDI buys most of its alcohol from AAC and ADI, it has a network of secondary suppliers locally and abroad.

Transactions with and/or dependence on related parties

Please refer to Note 18 of the Notes to Consolidated Financial Statements for the significant transactions with related parties.

Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts

All product names, devices and logo being used by TDI are registered with or are covered by pending Application for Registration with the Intellectual Property Office.

The Group also has current Environmental Compliance Certificate issued by the DENR and a license to operate from the Bureau of Food and Drugs. All products currently being produced are registered with the Bureau of Food and Drugs and the BIR.

	Product	Duration of Registration
1.	Ban De Vendange Red Wine	- five years
2.	Barcelona Brandy Solera Especial	- five years
3.	Boracay Rum Cappuccino	- five years
4.	Boracay Rum Coconut	- five years
5.	Boracay Rum Melon	- five years
6.	Boracay Sunrise White Cane Spirit	- five years
7.	Boracay Sunset Golden Cane Spirit	- five years

8. Chardon Blanc White Wine - five years
9. Compañero Brandy Blend - five years
10. Compañero Light Brandy Blend - five years
11. Cossack Blue Pure Spirit - five years
12. Cossack Currant Flavoured Spirit - two years
13. Cossack Melon Flavoured Spirit - two years
14. Cossack Vodka - five years
15. Cuvee De La Californie White Wine - five years
16. Embassy Whiskey - five years
17. Gin Kapitan - five years
18. Gin Kapian Light - five years
19. Ginebra Especial Traditional Gin - five years
20. Ginebra Lime Flavoured Gin - five years
21. Ginebra Pomelo Flavoured Gin - five years
22. Mardi Gras Vodka Schnapps Choco Mint - five years
23. Mardi Gras Vodka Schnapps Mango Orange - five years
24. Premium Dry London Gin - five years
25. T5 Light Rhum - two years
26. Tanduay Cocktails Blue Mai Ta - five years
27. Tanduay Cocktails Margarita - five years
28. Tanduay Cocktails Mojito - five years
29. Tanduay Cocktails Strawberry Daiquiri - five years
30. Tanduay Extra Strong Rhum - five years
31. Tanduay Gold Asian Rum Imported - five years
32. Tanduay Silver Asian Rum Imported - five years
33. Tanduay Gold Asian Rum Export Blend - five years
34. Tanduay Silver Asian Rum Export Blend - five years
35. Tanduay Select - five years
36. Tanduay Philippine Rhum - two years
37. Tanduay Rhum 65 - five years
38. Tanduay Rhum Dark - five years
39. Tanduay Rhum Dark Gold Seal 5 yrs - five years
40. Tanduay Rhum ESQ Dark - five years
41. Tanduay Rhum Light - five years
42. Tanduay White Premium Rhum - five years
43. Velvet Liqueur Mocha - five years
44. Velvet Liqueur Piñacolada - five years
45. Velvet Liqueur Strawberry - five years
46. Vino Agila - two years

TDI has an existing agreement with London Birmingham Distillers, Ltd. London, England for the use of the Barcelona and London Gin brands.

TDI has existing labor supply contracts with seven (3) manpower agencies and one (1) labor cooperative covering its four plants.

<u>Need for any government approval of principal products</u>

The approval of the Bureau of Food & Drugs and Bureau of Internal Revenue is required before manufacturing a new product. In addition, all new products must be registered with the BIR prior to production.

Effect of existing or probable governmental regulations on the business

Increase in value-added and excise taxes will affect manufacturing costs, which may require an increase in selling prices. Higher selling prices can lower volume of sales.

The foreign alcohol market, coupled with new technologies on alcohol production and lower tariffs, can make the price of imported alcohol cheaper than those produced locally.

With comprehensive review of the Clean Water Act Law through its Implementing Rules and Regulations (IRR), the government had recognized and exempted distilleries with liquid fertilization program from the mandatory discharge fees.

Research and development activities

	Amount	% to Revenues
2011	11,130,131	.09
2012	12,628,424	.09
2013	10,793,962	.10

Costs and effects of compliance with environmental laws

TDI regards occupational health and safety as one of its most important corporate and social responsibilities and it is TDI's corporate policy to comply with existing environmental laws and regulations. TDI maintains various environmental protection systems which have been favorably cited by the environmental regulators. Since TDI's operations are subject to a broad range of health, safety and environmental laws and regulations, TDI convenes a quarterly strategic meeting among its department leaders to review, discuss and develop goals surrounding health, safety and environmental compliance and awareness.

Environmental Management Facilities

TDI places critical importance on environmental protection. To further this aim, TDI invests in facilities which it believes will reduce the impact of its operations on the environment, as well as reduce its operating costs. On November 22, 2012, the Federation of Philippine Industries named Tanduay as the most outstanding company in the Philippines in relation to its optimum use and recycling of resources.

Bottle Recycling

A major component of TDI's operations is the retrieval of secondhand bottles and the reuse of these bottles in TDI's production process. The cost of a used bottle, including washing costs, is approximately 50% less than the cost of a new bottle. Apart from the reduced cost, TDI also benefits from the reduced waste produced from reusing bottles, as a bottle can be reused on average three to four times. TDI relies on a nationwide network of junk shops throughout the Philippines for purchasing second hand bottles. Repurchasing bottles also helps TDI to market its products, as customers can sell their bottles after consuming the contents. TDI has also invested in automated bottle washing facilities in all its bottling plants.

Bottling Plants

TDI has invested significant resources installing wastewater treatment facilities in all its bottling plants that screen, collect and neutralize all wastes from the bottling process before these are discharged. The wastes generally emanate from the bottle washing process that uses certain chemicals to thoroughly clean the bottles. Philippine regulatory agencies such as the DENR and Laguna Lake Development Authority ("LLDA") conduct annual inspections of TDI's wastewater treatment process.

TDI plant in Manila has given satisfactory "Green" rating by the LLDA while the Negros plant has been granted a five year discharge permit by the DENR.

Distillation Plants

TDI's wastewater is lodged in lagoons where it undergoes a treatment process to minimize adverse effects on the environment. Treated wastewater, along with other distillery wastes, is also usable as liquid fertilizer.

AAC and ADI have methane recovery systems that prevent emissions of harmful gases into the atmosphere and utilize the methane as biogas fuel for the distillation process. ADI's system was implemented in a joint venture with Mitsubishi Corp. of Japan and is registered with the U.N. sponsored Clean Development Mechanism ("CDM") Program. ADI, in a joint venture with Mitsubishi Corporation of Japan, installed a high-rate thermophilic anaerobic digester and lagoon system that will capture methane from the distillation process and use it for a plant's power requirements. This system will enable ADI to reduce its power expense by approximately 50% of current consumption levels. The project with Mitsubishi is being undertaken under the CDM Project of the 1997 Kyoto Protocol ("the Protocol")—a UN sponsored program that aims to reduce the emissions into the atmosphere of harmful gases like methane which emissions are the primary cause of global warming. Under the Protocol, developed countries are mandated to reduce their carbon emission levels by 2012. As an alternative compliance mechanism, developed countries may invest in CDM projects in developing countries like the Philippines. Mitsubishi provided the funding for the project in exchange for certified emission reduction credits to be generated from the project, which are part of the alternative compliance mechanisms under the Protocol. As a result of its programs aimed at environmental protection, ADI was awarded the Presidential Certificate of Recognition in 2010 for exemplary environmental undertakings. In addition, ADI received the 2011 International Green Apple Environment Award from the Green Organization in London for its CDM project and its agro recycling of distillery effluent.

<u>Human Resources and Labor Matters</u>

Total number of employees and number of full time employees as of December 31, 2013:

	TDI	AAC	ADI	TOTAL
Administrative	-	2		2
Regular monthly	203	5	60	268
Regular daily	48	7	13	68
Contractual	1,045	-	125	1,170
Total	1,296	14	198	1,508

TDI

Except for the Cagayan De Oro Plant, all regular daily employees of the TDI Plants have separately formed a labor union. On April 1, 2013, TDI closed its Quiapo plant and paid retrenchment benefit to 153 affected employees. TDI-Cabuyao has a CBA with the NAGKAKAISANG LAKAS MANGGAGAWA NG TDI-FSM, which is effective from August 1, 2011 up to August 1, 2014. TDI's Negros plant concluded its own collective bargaining agreement with its union in June 2012, with the agreement to be effective until 2015.

AAC

As of December 31, 2013 AAC had only 14employees left. The company has no existing Union and CBA after the end of its retrenchment program in 2009 due to the shutdown of operations (*see Legal Proceedings on page 17*).

ADI

As of December 31, 2012 ADI had 210 employees. The collective bargaining agreement of ADI for its regular daily employees was renewed last May 2010 and will expire on April 30, 2015. The last strike took place on June 4, 1998.

TDI and ADI expect to maintain its average number of employees in the next twelve months while AAC expects to hire new employees when it resumes normal operations.

There are no supplemental benefits or incentive arrangements that the Group has or will have with its employees.

Major risk/s and Procedures Being Taken to Address The Risks.

Market / Competitor Risk

TDI's core consumer base for its products are lower-income consumers. TDI classifies to be in the "standard" and "economy" markets, with monthly income levels of up to P10,000 and P100,000, respectively. According to the 2006 Philippine National Statistics Coordination Board ("NSCB") Family Expenditure Survey and a 2009 Usage, Attitude and Image Survey conducted by the Philippine Survey Research Council, this consumer base comprises approximately 80% of the Philippine population and likewise accounts for approximately 90% of liquor consumption. The preferences of these consumers change for various reasons driven largely by demographics, social trends in leisure activities and health effects. Entrants of new competitive and substitute products to address these customers' preferences may adversely affect the business prospects of TDI if it does not adapt or respond to these changes.

In addition, the market of TDI is highly sensitive to price changes given the purchasing power and disposable income of their customers. Any adverse change in the economic environment of the Philippines may affect the purchasing power of the consumers and adversely affect TDI's financial position and performance.

TDI responds to customer preferences by continuing to monitor market trends and consumer needs to identify potential opportunities. Its existing product portfolio covers all major liquor category and price range enabling it to respond quickly to any change in consumer preference. Development of new products and brands is continuously being undertaken to address the current and emerging requirements of the customers.

Raw Material Supply Risk

The main raw materials that TDI uses for the production of its beverage products, such as molasses, distilled alcohol, sugar and flavoring agents, are commodities that are subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls. A shortage in the local supply of molasses and the volatility in its price may adversely affect the operations and financial performance of TDI.

TDI addresses this risk by regularly monitoring its molasses and alcohol requirements. At the start of each annual sugar milling season, TDI normally negotiates with major sugar millers for the purchase in advance of the mill's molasses output at agreed upon prices and terms. It also imports raw materials in the event that the local supply is not sufficient or the prices are not favorable. Furthermore, TDI's parent company owns a 7.4% stake in Victorias Milling Company, Inc. (VMC), the largest sugar producer in the Philippines and currently TDI's major supplier of molasses.

Furthermore, the acquisition of AAC and ADI was designed to control alcohol cost and minimize the chances of shortage in supply. Adequate storage facilities have been constructed to enable TDI to buy and stock molasses at a time when sugar centrals are at their production peaks. To address any disruption in supply from AAC and ADI, TDI maintains a network of local and foreign alcohol suppliers.

Credit Risk

TDI relies on nine exclusive distributors for the sales of its liquor products. Any disruption or deterioration in the credit worthiness of these distributors may adversely affect their ability to satisfy their obligations to TDI.

The operations and financial condition of distributors are monitored daily and directly supervised by TDI's sales and marketing group. Credit dealings with these distributors for the past twenty years have been generally satisfactory and TDI does not expect any deterioration in credit worthiness. The eleven distributors also a have a wide range of retail outlets and there are no significant concentration of risk with any counterparty.

Trademark Infringement Risk

TDI's image and sales may be affected by counterfeit products with inferior quality. Its new product development efforts may also be hampered by the unavailability of certain desired brand names. TDI safeguards its brand names, trademarks and other intellectual property rights by registering them with the Intellectual Property Office in the Philippines and in all countries where it sells or plans to sell its products. Brand names for future development are also being registered in advance of use to ensure that these are available once TDI decides to use them. Except for companies belonging to LT Group, TDI also does not license any third party to use its brand names and trademarks.

The risk of counterfeiting is constantly being monitored and legal action is undertaken against any violators. The use of tamper proof caps is also seen as a major deterrent to counterfeiting.

Regulatory Risk

TDI is subject to extensive regulatory requirements regarding production, distribution, marketing, advertising and labeling both in the Philippines and in the countries where it distributes its products. Specifically in the Philippines, these include the Bureau of Food and Drugs, Department of Environment and Natural Resources, Bureau of Internal Revenue and Intellectual Property Office.

Decisions and changes in the legal and regulatory environment in the domestic market and in the countries in which it operates or seeks to operate could limit its business activities or increase its operating costs. The government may impose regulations such as increases in sales or specific taxes which may materially and adversely affect TDI's operations and financial performance.

To address regulatory risks like the imposition of higher excise taxes, TDI would employ an increase in its selling prices and make efforts to reduce costs. Other regulatory risks are managed through close monitoring and coordination with the regulatory agencies on the application and renewal of permits. TDI closely liaises with appropriate regulatory agencies to anticipate any potential problems and directional shifts in policy. TDI is a member of the Distilled Spirits Association of the Philippines which acts as the medium for the presentation of the industry position in case of major changes in regulations.

Safety, health and environmental laws risk

The operation of TDI's existing and future plants are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on the storage, handling, employee exposure to hazardous substances and other aspects of the operations of these facilities and businesses. TDI has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. The discharge of hazardous substances or other pollutants into the air, soil or water may cause TDI to be liable to third parties, the Philippine government or to the local government units with jurisdiction over the areas where TDI's facilities are located. TDI may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

There is no assurance that TDI will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters, the costs of which could be material. Clean-up and remediation costs of the sites in which its facilities are located and related litigation could materially and adversely affect TDI's cash flow, results of operations and financial condition.

It is the policy of TDI to comply with existing environmental laws and regulations. A major portion of its investment in physical facilities was allocated to environmental protection systems which have been favorably cited as compliant by the environmental regulators.

Counterfeiting risk

TDI's success is partly driven by the public's perception of its various brands. Any fault in the processing or manufacturing, either deliberately or accidentally, of the products may give rise to product liability claims. These claims may adversely affect the reputation and the financial performance of TDI.

The risk of counterfeiting is constantly being monitored and legal action is undertaken against any violators. The use of tamper proof caps also helps prevent counterfeiting. All brand names, devices, marks and logos are registered in the Philippines and foreign markets.

The Quality Program of TDI ensures that its people and physical processes strictly comply with prescribed product and process standards. It has a Customer Complaint System that gathers, analyzes and corrects all defects noted in the products. Employees are directed to be observant of any defects in company products on display in sales outlets and buy the items with defects and surrender these to TDI for reprocessing.

Item 2. Properties

TDI and its subsidiaries own the following real estate properties:

Location	Area (sqm)	Present Use
Owned by TDI		
Quiapo, Manila*	26,587	Office/Plant
Makati City	71	Investment/Condo
Talisay, Neg. Occ.	3,813	Bottle Storage
Davao City	3,000	Investment
Owned by AAC		
Pulupandan, Neg. Occ.	119,082	Distillation Plant
San Mateo, Rizal	11,401	Investment

Talisay, Batangas	139,299	Investment
Tanza, Cavite	67,507	Investment
Owned by ADI		
Ayala Ave., Makati	89	Investment/Condo
Lian, Batangas	91,722	Distillation Plant

* Effective April 1, 2013, the production facility was decommissioned to reduce costs.

The following are the leased properties of TDI and its subsidiaries:

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by TDI				
Laguna	Production Plant	188,202	1,875,812	2014
Pinamucan, Batangas	Land rental	18,522	350,000	2014
Calaca, Batangas	Tank rental		555,915	2014
Murcia, Neg. Occ.	Production Plant	29,583	650,000	2014
El Salvador, Mis. Or.	Production Plant	108,843	106,293	2014
Leased by ADI				
Lian, Batangas	Distillation Plant	50,000	50,000	2021
	Totals	**395,150**	**3,588,020**	

Except for the Distillation Plant in Lian Batangas, all lease contracts have a term of one year, renewable at the end of the lease term.

The plant and equipment are located at the following areas:

Location	**Condition**
Cabuyao plant	In good condition
Bacolod plant	In good condition
El Salvador plant	In good condition

On October 14, 2010, one of the company's buildings/warehouses located at its Cabuyao Plant was destroyed by fire. The said warehouse contained the plant's storage tanks containing alcohol and compounded liquor. The loss was ₱ 228.6 million. Insurance recovery from fire loss for the year ended December 31, 2011 amounted to ₱ 176.9 million.

AAC has its distillery plant at Pulupandan, Negros Occidental and owns the buildings, machinery and equipment and other structures in it. AAC has alcohol and molasses storage facilities at Pulupandan, Cebu and North Harbor, Manila. Office furniture and fixtures and office equipment are located in Bacolod, Pulupandan and Manila. Land owned by AAC are located in Pulupandan and Cebu. The Plant and equipment located in Negros plant and the storage facilities are all in good condition.

ADI on the other hand owns a distillery plant in Lian, Batangas. All transportation equipment owned by ADI are in good condition. There are no mortgage or lien or encumbrance over the properties and there are no limitations as to its ownership and usage.

Item 3. Legal Proceedings

- TDI

In the ordinary course of business, TDI is contingently liable for lawsuits and claims, which are either pending with the courts or are being contested, the outcomes of which are not presently determinable. In the opinion of the Group's management and legal counsel, the eventual liability under these lawsuits and claims, if any, would not have a material or adverse effect on the Group's financial position and results of operations.

Trademark Infringement Suit

To date, the pending legal proceedings to which TDI is a party thereto is the ₱ 100 million civil infringement suit filed against TDI last August 2003 by Ginebra San Miguel, Inc. (GSMI) for the launching of Ginebra Kapitan, a gin product which allegedly has a "confusing similarity" with GSMI's principal gin product. On September 23, 2003, the Mandaluyong Regional Trial Court (RTC) issued a TRO preventing TDI from manufacturing, selling and advertising Ginebra Kapitan.

On November 11, 2003, the Court of Appeals issued a 60-day TRO versus the Mandaluyong RTC, effectively allowing TDI to resume making and selling Ginebra Kapitan. The Court of Appeals (CA) however subsequently affirmed the Mandaluyong RTC TRO on January 9, 2004. On January 28, 2004, the Company filed a motion for reconsideration with the Court of Appeals. The CA denied the TDI motion for reconsideration on July 2, 2004. On Dec. 28, 2004, TDI then filed a petition for review on certiorari before the Supreme Court. On Aug. 17, 2009, the Supreme Court (SC) reversed the decision of the CA and nullified the writ of preliminary injunction issued by the Mandaluyong RTC. GSMI filed a motion for reconsideration but the SC denied the GSMIs motion with finality on Nov. 25, 2009.

On August 1, 2012, TDI received a copy of the decision of the Mandaluyong RTC dismissing the instant complaint for trademark infringement and unfair competition for lack of merit. GSMI filed a Motion for Reconsideration with the Mandaluyong RTC or appeal with the CA on September 3, 2012. On October 5, 2012, the Mandaluyong RTC denied the Motion for Reconsideration of GSMI.

On August 15, 2013, the CA rendered a decision in favor of GSMI ordering TDI to recall all gin products bearing the Ginebra brand name, cease and desist from using GINEBRA in any of its gin product, pay GSMI 50% of the gross sales of GINEBRA KAPITAN and ₱2 million as exemplary fees. TDI filed its appeal on October 18, 2013.

Opposition to Registration of Brand Name

On August 9, 2006, GSMI also filed an opposition to TDIs application for registration of the brand name Ginebra Kapitan with the Intellectual Property Office (IPO). The Bureau of Legal Affairs of the Intellectual Property Office (IPO) ruled on April 23, 2008 that the word "GINEBRA" is a generic term that is not capable of exclusive appropriation. The decision paves the way for the registration with the IPO of TDI's brand name "GINEBRA KAPITAN".

On May 29, 2008, TDI's legal counsel filed a manifestation case for the consideration of the IPO ruling in the pending cases regarding the GINEBRA brand name at the Mandaluyong RTC.

On March 4, 2009, the IPO denied GSMI's motion for reconsideration but the latter filed its appeal memorandum on April 7, 2009. TDI on the other hand filed its comment on said appeal last May 18, 2009. TDI received a copy of the Supreme Court's Resolution dated November 25, 2009 on January 5, 2010 denying San Miguel's motion for reconsideration with finality meaning they cannot file another motion for reconsideration. The Supreme Court ruled that there was no basis for the issuance of the injunction restraining Tanduay from using GINEBRA KAPITAN as a trademark for its gin product. GSMI has also filed its opposition to the use of the brand names GINEBRA ESPECIAL, GINEBRA LIME, GINEBRA ORANGE and GINEBRA POMELO. These are all currently pending with the IPO.

- AAC

1. **DENR-Administrative Proceedings**

On July 22, 2008, the DENR issued a Cease and Desist Order (CDO) against AAC upon the recommendation of the Pollution Adjudication Board (PAB) for failure to meet the effluent standards. AAC filed a Motion for a Temporary Lifting Order (TLO) on August 4, 2008 in which AAC committed to implement immediate and long term remedial measures until August 2011.

On August 8, 2008, the PAB issued a TLO to AAC for purposes of allowing AAC to operate and implement the committed remedial measures. The said TLO was subsequently extended for successive 3-month periods based on the favourable results of PABs inspection and samplings of the wastewater discharged (effluents) by the AAC plant.

In May 2009, the residents of Pulupandan complained to the local government on the alleged pollution being caused by AACs operation on the marine and aerial environment. The roads to the Plant were barricaded and some portions of the road were dug up to prevent access to the Plant. AAC was able to obtain a court TRO to lift said barricades.

On June 1, 2009, the water pipeline to the AAC Plant was damaged allegedly during a road improvement project. This forced AAC to temporary stop its operations as water is a necessary element in its operations. The local government openly supported the protests of the residents and on September 8, 2009, the town's Environment Officer recommended to the town mayor the permanent closure of AAC.

The existing Temporary Lifting Order of AAC expired on June 16, 2009 while the protests were still ongoing. AAC filed for a renewal of the Temporary Lifting Order and this time AAC requested for a one-year validity of the Temporary Lifting Order. The Regional Office of the Pollution Adjudication Board endorsed the said application to the Pollution Adjudication Board Head Office, which then issued a two-month Temporary Lifting Order in order for AAC to be able to repair its damaged water pipeline and for the Pollution Adjudication Board to eventually assess if AAC's effluents meet the effluent standards.

AAC has advised the local government of Pulupandan on the Pollution Adjudication Board resolution and has requested for a permit to repair the damaged water pipeline.

In September 2011, the local government of Pulupandan granted AAC a permit repair the damaged water line and to operate the alcohol and storage facilities. It also allowed AAC to remove and transfer its new distillery columns, which were to be used for its previous expansion plans, to ADI's plant in Batangas where expansion will now instead be pursued. As of March 4, 2013, the Company's water line is already repaired. The Company also paid the permit to rehabilitate the plant.

2. **Realty Tax Assessment Case**

On August 25, 2010, AAC received a Notice of Assessment from the Provincial Assessor of Negros Occidental representing deficiency realty taxes for the period 1997 to 2009 totaling ₱ 264 million. On September 24, 2010, AAC formally protested the assessment and asked for the cancellation of the assessment on the following grounds:

   1. The period to assess real property taxes for the years 1997 to 2004 has already prescribed;
   2. The assessments covering 2005 to 2009 are void and of no legal effect because it covers properties beyond the territorial jurisdiction of the province of Negros Occidental;
   3. The value of AAC's properties indicated in the audited financial statements, which was made the basis in determining the assessed value included properties of AAC located in Manila and Cebu;

4. The notice of assessment covered anti-pollution machinery and equipment or the biogas plant which are exempt by law from taxation;
5. The notice did not follow the legal mandate in determining assessed values.

Meanwhile, while the protest is still pending with the Local Board of Assessment Appeals (LBAA), the Municipal Treasurer of Pulupandan advised AAC that it will avail of the administrative remedy of levy under Sec. 258 of the Local Government Code. In reply, AAC's legal counsel argued that the tax was still subject to appeal and as such cannot yet be subject to collection proceedings; that the Municipal Treasurer has no authority to enforce collection under the Local Government Code; and that this authority is with the Provincial Treasurer with the Municipal Treasurer of a municipality within the Metropolitan Manila Area.

The Municipal Treasurer replied on February 28, 2012 defending his authority and duty to issue a warrant of levy.

On May 18, 2011, AAC filed an Urgent motion to Resolve Petition with the LBAA, citing that:

1. Under the Local Government Code on rules on appeals, the LBAA is given 120 days from receipt of appeal to decide on the appeal; and
2. The 120th period expired on February 18, 2011.

On June 3, 2011, the Municipal Treasurer of Pulupandan again sent a demand letter to AAC for the payment of the ₱263.7 million realty tax assessments and threatened to avail of the administrative remedy to levy.

On June 16, 2011, AAC replied to the demand letter reiterating that:

1. The tax assessment is under appeal with LBAA, AAC also has posted a bond equivalent to the amount of the assessment;
2. The Municipal Treasurer lacks the authority to impose a levy; and
3. AAC will file civil, criminal, administrative and forfeiture charges if the Treasurer persists.

On August 24, 2011, the LBAA ordered AAC to pay 50% of the alleged tax deficiency in cash and put up a surety bond for the remaining 50%. AAC filed a motion for reconsideration on August 30, 2011. On July 20, 2012, LBAA denied the motion for reconsideration of AAC. On September 18, 2012, AAC filed an appeal with the Central Board of Assessment Appeals (CBAA) questioning the LBAA order.

On May 28, 2013, the CBAA granted AAC's appeal which essentially allowed AAC to question the deficiency tax assessment without paying the said tax under protest.On November 26, 2013, the LBAA decided in favor of AAC by declaring as null and void the Notice of Assessment of the Provincial Assessor being contrary to law. The LBAA ruled that the Provincial Assessor is "declared devoid of authority to increase the valuation and assessment of the properties subject to the questioned Notices of Assessment and Statement of Real Property Tax due".

On January 13, 2014, the Municipality of Pulupandan filed a Motion for Reconsideration for the decision of LBAA which declares the Notice of Assessment and Statement of Real Property Tax due null and void. On March 11, 2014, AAC filed an Opposition to the Motion for Reconsideration filed by the Municipality of Pulupandan for lack of merit and that the LBAA decision dated November 26, 2013 be sustained.

As of March 18, 2014, the LBAA has not yet responded to the Municipality of Pulupandan and AAC.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

(a) Market Price of and Dividends on Registrant’s Common Equity and Related Stockholder Matters.

1. Market Information

The Company’s and its subsidiaries’ common shares are not publicly traded nor listed in any public market and/or exchanges.

2. Holders

The number of shareholders of record as of December 31, 2013 was 8. Common shares outstanding as of December 31, 2013 were 1,180,765,620 shares. The stockholders as of December 31, 2013 are as follows:

Stockholder's Name	No. of Common Shares Held	% to total
LT Group, Inc.	1,180,765,606	100%
Lucio C. Tan	2	0%
Harry C. Tan	2	0%
Lucio K. Tan Jr.	2	0%
Carmen K. Tan	2	0%
John G. Tan	2	0%
Peter P. Ong*	2	0%
Carlos R. Alindada*	2	0%
Total	1,180,765,620	100%

*Independent directors elected as of December 2013

TDI has no preferred shares.

3. Dividends

a.) Dividend declarations

On March 22, 2011, the Board of Directors of TDI approved the declaration and distribution of cash dividends of ₱ 0.45 per share. It was paid immediately to all of its stockholders of record as of March 31, 2011.

On December 20, 2011, the Board of Directors of TDI approved the declaration and distribution of cash dividends of ₱ 0.75 per share to all of its stockholders as of December 20, 2011which was paid on December 23, 2011.

b.) Restrictions that limit the ability to pay dividends on common equity or that are likely to happen in the future.

a. "To declare dividends out of the surplus profits when such profit shall, in the opinion of the directors, warrant the same." (par. 3, Article V (Duties of directors, Amended By-Laws).

b. " In lieu of closing the stock transfer book of the Corporation, The Board of Directors may fix in advance an appropriate date consistent with the relevant regulations as may have been issued by the Securities and Exchange Commission and/or the Philippine Stock Exchange, preceding the date of any annual or special meeting of the stockholders or the date for the allotment or rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining the consent of stockholders for any purpose, as record date for the determination of the stockholders entitled to vote, to notice at any such meeting and adjournment thereof, or to any such allotment of rights, or to give such consent, as the case may be notwithstanding any transfer of any stock on the books of the Corporation after such record date fixed as aforesaid, provided, however, that for purposes of declaring dividends, The Board of Directors may fix in advance a date to be determined in accordance with law, for the payment or distribution of such dividend as a record date for the determination of stockholders entitled to such dividend."(par C, Article XIX(Transfer of Stock, Amended By-Laws).

c. Under the Trust Agreement entered into by the Company with Metropolitan Bank & Trust Company – Trust Banking Group pursuant to the issuance of the ₱ 5 billion fixed rate bonds, the Company is precluded from making any declaration or payment of any dividends to its stockholders, other than stock dividends, unless all payments due under the bonds are current and updated.

   Other than the foregoing, there are no other restrictions in the Company's By-laws or in any of its contracts limiting its ability to pay dividends.

4. Recent Sales of Unregistered Securities (For the Past Three Years)

There was no recorded sale of unregistered securities during the past three years.

Item 6. Management's Discussion and Analysis or Plan of Operation

RESULTS OF OPERATIONS

Comparisons of key operating results for the last two years are summarized in the following tables.

(In millions)	2013	2012
Net Sales	₱ 10,540	₱ 12,950
Cost of sales	8,293	9,925
Operating expenses	1,542	1,202
Other charges-net	337	311
Income before income tax	367	1,512
Net income	188	1,017
Total Comprehensive income	182	971

2013 vs 2012

TDI posted a consolidated net income of ₱188 million, 82% lower than last year's ₱1,017 million. Stiff competition, increase in selling prices resulting from higher excise taxes and natural calamities that struck the Philippines contributed to lower net sales by 19% from ₱12,950 million in 2012 to ₱ 10,540 million in 2013 and lower sales volume by 30%. The National market share by volume of TDI dropped to 25% as of December 2013 from 29% same period last year. This decline was mostly due to the penetration of brandy in the VisMin region. TDI is in the process of increasing its market share in Luzon and protect its existing market share in the VisMin region. During the last quarter of 2013, TDI launched its Compañero Brandy to help address the slowdown in sales.

Cost of goods sold reacted similarly to the decrease in volume from ₱9,925 million in 2012 to ₱8,293 million in 2013. Gross profit margin was at 21% in 2013 compared to 23% last year as the average increase in selling price per case was not able to fully cover the increase in costs arising from higher taxes and other raw & packaging materials.

Operating expenses rose by 28% to ₱1,543 million on account of higher general and administrative expenses by 49%. This was due to separation benefits of ₱ 105 million paid to retrenched employees of the Quiapo plant, which was closed effective on April 1, 2013, to reduce costs and transfer the segment's production to the larger and more cost-efficient Cabuyao plant. Selling expenses increased by 8% to ₱648 million as a result of the launching of Tanduay Asian Rum premium product in the United States during the last quarter of 2013. The rum won the Gold Medal and Best in Class Award in the Gold Rum Category by the International Rum Expert Panel in the 2013 Miami Rum Renaissance Festival.

2012 vs 2011

The Company recorded a slight increase in Net Sales of 4% from ₱12.4 billion in 2011 to ₱13.0 billion in 2012 as against the increase of 8% registered in 2011which primarily came from the 6% increase in sales volume. Average selling price dipped by 2% as product with lower selling prices such as the new 55 proof Tanduay Light increased their share in the product mix. TanduayRhum Five Years, which accounted for approximately 77% of TDI's consolidated revenue, decreased by 4% from ₱10.2 billion in 2011 to ₱9.8 billion in 2012 but this was however offset by the ₱0.8 billion additional revenue brought in by Tanduay Light which is showing high market potential. The decrease can be attributed to the negative impact of the typhoons which hit Southern Philippines in the latter of the year which dampened consumer demand. The strong challenge from competing liquor brands also contributed to the lower volume growth.

Despite the great challenge to retain or grow sales volume, the company was able to generate a Gross Profit and Net Income of ₱3.0 billion and ₱1.0 billion, respectively. Gross Profit margin was maintained at 23% despite the decrease in average selling prices due to the softening of alcohol prices by 7% and packaging materials by 4% which negated the 5% increase in overhead costs particularly depreciation, fuel and power costs.

Operating expenses remain steady at ₱1.2 billion both in 2012 and 2011representing 9% in 2012 10% in 2011of revenues. Advertising and Promotions expenses for both years accounted for 4% of Net Sales.

Other Charges increased by 102% or ₱157 million primarily due to lower other income of ₱100.2 million in 2012 from ₱264.1 million in 2011. The other income for 2011 included the ₱186 million insurance claim recovery from the fire loss in 2010. Finance cost on the ₱5 billion retail bond with an annual interest of 8% amounted to ₱403 million for 2012.

2011 vs 2010

The Company's consolidated revenues for 2011 amounted to ₱ 12.4 billion, an increase of 8% from ₱11.5 billion in 2010. Sales volume grew by only 1.4% in 2011 compared to the 7.5% in 2010 and the 8% average growth for the last five years in view of the slowdown in the Philippine economy. The local economy grew by only 3.7% in 2011 as against the 7.3% in 2011 due to such external factors as the recession in the US and Europe , disruptions in the supply chain due natural disasters in other countries like Japan and Thailand and the high fuel costs due to political problems in Middle East Countries. Internally, bad weather which affected agriculture and delayed government spending on infrastructure products also contributed to a lower economic growth that affected consumer spending. Additionally, 2010 was a strong year due to election-induced consumer spending.

Despite the low volume growth, revenues increased by 8% due to the increase in selling prices by an average of 7%. Cost of sales increased by 7% mainly on account of higher prices of raw materials, brand new bottles and higher fuel costs. Gross profit ratio remained at 23%.

Consolidated operating expenses increased by 4% on account of higher selling expenses by 20%. This was due to the massive advertising campaigns on new products like the Boracay Rum which was launched in April 2011 and the Five Year's promotional rock band concert tours which culminated with a very successful rockfest that awed an audience of 80,000 fans in October 2011. General and administrative expenses decreased by 9% as last year's figure included higher depreciation, provision on the assets of Asian Alcohol, and bank charges as a result of the pre-termination of Tanduay's syndicated loan and the issuance of the ₱ 5 billion retail bonds.

Other charges improved significantly by 77% due to lower finance costs by 11% and the ₱186 million insurance recovery in 2011 which reversed the fire loss in 2010 of ₱228.6 million. The Company also recognized royalty income from Asia Brewery Inc. (ABI) for the use of the brand name "Tanduay" in 2011.

Consolidated net income increased by 67% from ₱ 634 million in 2010 to ₱ 1,057 million in 2011. This is another milestone for Tanduay as it reached the ₱1 billion bracket in terms of net income for the first time.

FINANCIAL CONDITION

2013

Tanduay's consolidated assets for the year ended December 2013 amounted to ₱17,041 million, a slight increase of 4% from that of last year's ₱16,322 million. Current ratio improved to 6.47:1 in 2013 from 4.37:1 in 2012. This is mainly attributable to the significant increase in cash and cash equivalents by 207% due to collection of receivables which resulted to a decrease of 17%, increase in inventories by 17% due the effect of excise tax on raw materials, increase in prepayments and other current assets by 24% on account of higher input VAT, importation charges and excise taxes. Accounts payable and other current liabilities is lower by 24% due to conversion of advances to APIC. Income tax payable also decreased by 79% due to lower income reported during the year.

Available for sale investments decreased by 28% on account of the decline in market value of Manila Golf Club shares. Reclassification of property, plant and equipment from cost to appraised values made the decrease in cost by 23% and increase in appraised values by 12%. In addition, there were various purchase of machineries by ADI for their expansion. Other non-current assets went down by 39% because of the write down of Investment in DABI. Net retirement benefits liabilities decreased to ₱39 million from ₱100 million due to the Company's retrenchment in April 2013 and the effect of PAS 19.

The conversion of advances of the parent company to APIC led to the increase in the Group's stockholder's equity by 16%. The increase in retained earnings by 9% is due to income realized during the year 2013.

2012

As of December 31, 2012, total assets of the Group increased by 10% from ₱14.8 billion to ₱16.3 billion. This is attributable to the increase in Receivables by 76% due to high sales recorded in December 2012, increase in Available For Sale Financial Assets by 55% due to rise in the fair value of the financial assets particularly shares in Manila Golf Club and the increase in Property, Plant and Equipment by 10% as the Group is undergoing various capital expenditures to increase its efficiency.

Decrease in cash by 61% is caused by the payment of short term bank loans and termination of cash equivalents. Accounts payable and other accrued liabilities increased by 56% on account of the increase in purchase of materials for production. Rise in income tax payable by 179% is attributable to the increase in revenue in the last quarter of 2012. ADI's Deposit for future Certified Emission Reduction was reversed in 2012 and was recognized as income during the year. Under the CDM agreement with Mitsubishi, the Deposit for Certified Emission Reduction (CER) shall be paid from CER carbon credits that the CDM project will earn up to 2012.

The increase in stockholders' equity by 13% is due to TDI's conversion of the deposit for future subscription into share capital amounting to ₱ 0.22 billion which resulted to additional paid in capital of ₱ 1.4 billion.

2011

Tanduay's consolidated total assets amounted to ₱14.8 billion in 2011 or an increase of 21% from last year's ₱12.2 billion. Major movements in the current assets are the increase in cash and cash equivalents by 22% and receivables by 71%. The increase in cash and cash equivalents was resulted from the proceeds received from the capital raising exercise via 2-tranche Placing and Subscription Transaction of THI. While the increase in receivables was due to higher sales in the last quarter of 2011 building up trade receivables by 78%. Prepayments and other current assets on the other hand decreased by 21% as most of the machinery and equipment purchased in 2010 were in placed by 2011.

Total noncurrent assets increased by 22% on account of increased in property, plant and equipment at appraised values by 20% and at cost by 45%. The Group is undergoing various construction projects during the year such as the Batangas alcohol depot, improvements of Laguna plant and the expansion of Negros plant. Absolut Distillers has its own expansion program as well to increase productivity. The restatement of investment properties at its fair values resulted in the increase of said properties by 25%.

Consolidated total liabilities amounted to ₱7.3 billion in 2011 or an increase of 6% from the previous years' ₱6.9 billion. This is due to TDI's short-term loan availment of ₱250 million during the year.

The significant changes in the equity portion which led to an increase of 41% was mainly due to the proceeds received from the public offering undertaken by LTG which was recognized as deposit for future subscription under TDI's books. The revaluation increment in property, plant and equipment resulted into an increase of 67% due to increase in valuation of the Group's land, land improvements, buildings and building improvement, and machinery and equipment performed by independent appraisers.

KEY PERFORMANCE INDICATORS

The Company uses the following major performance measures. The analyses are based on comparisons and measurements on financial data of the current period against the same period of the previous year. The discussion on the computed key performance indicators can be found in the "Results of Operations" in the MD & A above.

1.) **Gross Profit Ratio**

Gross profit ratio in 2013 was 21% versus 23% in 2012.

2.) **Return on Equity**

Consolidated net income for 2013 amounted to ₱ 188 million, lower by 82% from last year's ₱ 1,017 million. Ratio of net income to equity is 2% in 2013 and 12% in 2012.

3.) **Current Ratio**

Current ratio for 2013 is 6.47:1 while last year was 4.37:1.

4.) **Debt-to-equity ratio**

Debt-to-equity ratio for 2013 is 0.72:1 and for 2012 is 0.92:1.

5.) **Earnings per share**

Earnings per share attributable to equity holders of the company is ₱0.168 for 2013 and ₱0.931 for 2012.

The manner by which the Company calculates the above indicators is as follows:

Gross profit rate – Gross profit/Net sales
Return on Equity – Net income / Stockholders equity

Current ratio – Current assets/Current liabilities
Debt-to equity ratio – Total liabilities/Total equity
Earnings per share – Net income attributable to holders of Company/Common shares outstanding

OTHER MATTERS

(i.) There are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's increasing or decreasing liquidity in any material way. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.

(ii) There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

(iii) There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

(iv) The Group has on-going and planned capital expenditure projects as follows:

Expansion of Absolut Distillers
ADI was able to start up the commissioning of the new plant to improve further its operations and increased its capacity from 75,000 liters of ethyl alcohol per day to 175,000 liters per day with the addition of new distillation columns. The project which amounted to ₱279.5 million also includes the construction of an alcohol ageing plant with a capacity of 30,000 barrels. The upgrades will provide TDI with higher grade alcohol to be used in the production of new products for Luzon and export markets. The upgrades will also eliminate third party costs relating to the conversion of low grade alcohol to high grade alcohol and ensure a steady supply of high grade alcohol. In 2014, ADI will decommission the old fermentation section and operate two distilleries with a single fermentation plant.

(v) Aside from the impact on the new law, R.A. 10351, which modifies the applicable excise tax rates on alcohol and tobacco products including cigarettes effective January 1, 2013, the company has no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.

(vi) There are no other significant elements of income or loss that did not arise from the Company's continuing operations.

(vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item;

Results of our Horizontal (H) and Vertical (V) analyses showed the following material changes as of and for the years ended December 31, 2013 and 2012:

1. Cash and cash equivalents – H- 207%; V- 5%
2. Receivables-net – H- (17%); V – (7%)
3. Inventories – H- 17%
4. Prepayments and other current assets – H- 24%
5. Available-for-sale financial assets – H- (28%)
6. Property, plant and equipment-at appraised values - H- 12%
7. Property, plant and equipment-at cost - H- (23%)
8. Other noncurrent assets – H- (39%)

9. Accounts payable and accrued expenses –H- (24%)
10. Income tax payable – H- (79%)
11. Net retirement benefits liabilities – H- (61%)
12. Additional paid in capital – H- 46%
13. Revaluation increment on property, plant and equipment – H- (6%)
14. Net changes in FV of AFS financial assets – H- (39%)
15. Actuarial losses on defined benefit plans- H- (9%)
16. Retained earnings – H- 9%
17. Non-controlling interests- H- (8%)
18. Net sales- H- (19%)
19. Cost of goods sold- H- (16%); V- (77%)
20. Selling expense- H- 8%
21. General and administrative expense- H- 49%
22. Finance income – H- (94%)
23. Rental income – H- (39%)
24. Others-net – H- (20%)
25. Net income- H- (82%)
26. Total comprehensive income- H- (81%)

The causes for these material changes in the balance sheet and income statement accounts are all explained in the Management's Discussion and Analysis (MDA) –Results of Operations and Financial Condition above.

(viii) There are no seasonal aspects that have a material effect on the financial condition or results of operations of the Company.

A. Information on Independent Accountant and Other Related Matters

(1) External Audit Fees and Services

a.) Audit and Audit-Related Fees

1. The audit of the Company's annual financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2013 and 2012.

   Tanduay Distillers, Inc.
   Yr. 2013- ₱ 2,000,000
   Yr. 2012- ₱ 1,980,000

   Asian Alcohol Corp.
   Yr. 2013- ₱ 300,000
   Yr. 2012- ₱ 300,000

   Absolut Distillers, Inc.
   Yr. 2013- ₱ 350,000
   Yr. 2012- ₱ 330,000

2. Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrants' financial statements:

   Not applicable

b.) Tax Fees

None

c.) All Other Fees

The Group incurred ₱ 1,000,000 and ₱ 990,000 during the years 2013 and 2012 for its quarterly review of financial statements.

d.) The audit committee's approval policies and procedures for the above services:

Upon recommendation and approval of the audit committee, the appointment of the external auditor is being confirmed in the annual stockholders' meeting. On the other hand, financial statements should be approved by the Board of Directors before these are released**.**

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (page 42) are filed as part of this Form 17-A (pages 42 to 136)

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in and disagreements with accountants on any accounting and financial disclosures during the past two years ended December 31, 2013 or during any subsequent interim period.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

1. Directors

Name	**Age**	**Citizenship**	**Business Experience/Other Directorship within the Last five (5) years**	**Position/Term of Office/Period Served**
Lucio C. Tan	80	Filipino	Chairman of **LT Group, Inc.** (formerly Tanduay Holdings, Inc.), Philippine Airlines, Inc., Asia Brewery Inc., Eton Properties Philippines, Inc., Fortune Tobacco Corp., PMFTC Inc., Grandspan Development Corp., Himmel Industries Inc., Lucky Travel Corp., **PAL Holdings, Inc.**, Tanduay Brands International, Inc., The Charter House, Inc., AlliedBankers Insurance Corp., Allied Leasing and Finance Corp., Asian Alcohol Corp., Absolut Distillers, Inc., Progressive	Chairman and Chief Executive Officer/ 1 Year/ 1998 to present

			Farms, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Manufacturing Services & Trade Corp., REM Development Corp., Foremost Farms, Inc., Basic Holdings Corp., Dominium Realty & Construction Corp., Shareholdings, Inc., Sipalay Trading Corp. and Fortune Tobacco International Corp.; Director of **Philippine National Bank**, majority stockholder of Century Park Hotel	
Carmen K. Tan	72	Filipino	Director of Asia Brewery, Inc., The Charter House, Inc., Dominium Realty & Construction Corp., Eton City, Inc., Foremost Farms, Inc., Fortune Tobacco Corp., Fortune Tobacco International Corp., Himmel Industries, Inc., Lucky Travel Corp., **LT Group, Inc.** (formerly Tanduay Holdings, Inc.), **MacroAsia Corp.**, Manufacturing Services & Trade Corp., Progressive Farms, Inc., REM Development Corp., PMFTC Inc., Shareholdings, Inc., and Sipalay Trading Corp.	Director/ 1 Year/ May 2010 to present
Harry C. Tan	68	Filipino	Chairman of Air Philippines Corp., Vice Chairman/Treasurer of **LT Group, Inc.** (formerly Tanduay Holdings, Inc.), Eton Properties Philippines, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Pan Asia Securities, Inc., and Lucky Travel Corp.; Managing Director of The Charter House, Inc.; Director/Chairman for Tobacco Board of Fortune Tobacco Corp., Director/President of Century Park Hotel, and Landcom Realty Corp., Director of Asia Brewery Inc., Basic Holdings Corp., **MacroAsia Corporation**, Philippine Airlines Inc., **PAL Holdings, Inc.**, **Philippine National Bank**, Foremost Farms, Inc., Himmel Industries, Inc., Asian Alcohol Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Manufacturing Services & Trade Corp., PMFTC Inc., REM Development Corp., Grandspan Development Corp., Dominium	Director; Vice Chairman; Treasurer/ 1 Year/ July 2009 to present

			Realty & Construction Corp., Fortune Tobacco International Corp., Shareholdings, Inc., Sipalay Trading Corp., and Tanduay Brands International, Inc.	
Lucio K. Tan, Jr.	47	Filipino	Director/President of Eton Properties Philippines, Inc., Director/EVP of Fortune Tobacco Corp.; Director of **LT Group, Inc.** (formerly Tanduay Holdings, Inc.), AlliedBankers Insurance Corp., Philippine Airlines, Inc., **Philippine National Bank**, **PAL Holdings, Inc.**, **MacroAsia Corporation**, PMFTC Inc., Lucky Travel Corp., Air Philippines Corp., Tanduay Brands International, Inc, Asian Alcohol Corp., Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., REM Development Corporation, Grandspan Development Corporation, Dominium Realty & Construction Corp., Manufacturing Services & Trade Corp., Fortune Tobacco International Corp., and Shareholdings, Inc.	Director; President; Audit Committee member/ 1 Year/ July 2009 to present
John G. Tan	45	Filipino	Independent Director of **Filipino Fund, Inc.**, Fellow of the Institute of Corporate Directors, Former Director of **Philippine National Bank**, Former Vice President of Landcom Realty Corp., Former Vice President for Operations and Network Management and Telecommunications Service of Philippine Airlines, Inc.;	Director/ 1 Year/ October 2013 to present
Peter P. Ong	66	Filipino	Former Independent Director of **LT Group, Inc.** (formerly Tanduay Holdings, Inc.); Former Director of Air Philippines Corp.; and Consultant of PDM Philippine Industries Inc.;	Independent Director; Chairman of Nomination and Remuneration Committee; Audit Committee member/ 1 Year/ December 2009 to present
Carlos R. Alindada	77	Filipino	Independent Director of Citibank Savings, Inc., East West Banking Corporation, and Bahay Pari	Independent Director; Chairman of Audit Committee /

			Solidaritas Fund; Former Independent Director of **LT Group, Inc.** (formerly Tanduay Holdings, Inc.), Former Commissioner of the Energy Regulatory Commission; Former Chairman of the Reporting Standards Council; Former Member of the Rehabilitation Receiver Team of Philippine Airlines, Inc.; Former Chairman of the Board of Trustees of SGV Foundation, Former Trustee of Philippine Business for Social Progress	1 Year/ December 2009 to present

*(*Note: Unless otherwise indicated or qualified, the term "Director" refers to a regular director of the corporation. Corporations written in bold font style are Listed Companies)*

Independent Directors and their qualifications:

1. Peter P. Ong, 66, Filipino, and was elected as an Independent Director since December 7, 2009.

   Term of office – 1 year
   Period served – 1 year

   Educational attainment:
   Bachelor of Science Major in Management, University of the East
   Positions held in the last 5 years:
   - PDM Philippine Industries Inc. – Consultant and Former Sales Director
   - LT Group, Inc. (formerly Tanduay Holdings, Inc.) – Independent Director
   - Air Philippines Corporation – Director
   - Luna RioLand Holdings – Former Director
   - Kimberly Clark Philippines, Inc. – Former Industrial Product Sales Director

2. Carlos R. Alindada, 77, Filipino, and was elected as an Independent Director on since December 7, 2009

   Term of office – 1 year
   Period served – 1 year

   Educational attainment:
   Advanced Management Program, Harvard University, USA
   Masters in Business Administration, New York University, USA
   Bachelor in Business Administration – U.E. Manila (Magna cum laude)
   Certified Public Accountant (First Placer)
   Positions held in the last five (5) years:
   - LT Group, Inc. (formerly Tanduay Holdings, Inc.) – Independent Director
   - East West Banking Corporation - Independent Director
   - Citibank Savings, Inc. – Independent Director
   - Bahay Pari Solidaritas Fund – Independent Director
   - 3-man permanent rehabilitation receiver of PAL – Former Member
   - Accounting Standards Council – Former Chairman
   - Energy Regulatory Commission – Former Commissioner
   - SyCip Gorres Velayo & Co. – Former Chairman

The Independent Directors are duly qualified and suffer from no disqualification under Section 11(5) of the Code of Corporate Governance. Independent director refers to a person other than an officer or employee of the corporation, its parent or subsidiaries, or any other individual having any relationship with the corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from the director's fees and shareholdings, he should be independent of management and free from any business or other relationship which could materially interfere with the exercise of his independent judgment (SEC Memorandum Circular No. 2, Code of Corporate Governance).

2. Executive Officers

Name	**Age**	**Citizenship**	**Business Experience/Other Directorship within the Last five (5) years**	**Position/Term of office/Period Served**
Lucio C. Tan	80	Filipino	See above	Chairman and Chief Executive Officer/ 1 Year/1998 to present
Harry C. Tan	68	Filipino	See above	Vice Chairman/ 1 Year/ July 2009 to present Treasurer/ 1 Year/ January 2013 to present
Lucio K. Tan, Jr.	47	Filipino	See above	Director; President; Audit Committee member/ 1 Year/ July 2009 to present
Wilson T. Young	57	Filipino	Chairman of **Victorias Milling Co., Inc.**; Vice Chairman of the Board of Trustees of UERM Medical Center, Director of **LT Group, Inc.** (formerly Tanduay Holdings, Inc.), Director/President of Tanduay Brands International, Inc.; Chief Operating Officer of Asian Alcohol Corp., Absolut Distillers, Inc., and Total Bulk Corp.; Director of Flor De Caña Shipping, Inc.; Board of Trustees Member of the University of the East	Chief Operating Officer/ 1 Year/ 1988 to present
Juanita Tan Lee	71	Filipino	Director of **LT Group, Inc.** (formerly Tanduay Holdings, Inc.), and Eton Properties Philippines, Inc.; Director/Corporate Secretary of Asia Brewery, Inc., Fortune Tobacco Corp., Dominium Realty and Construction Corp., and Shareholdings, Inc.; Corporate Secretary of Asian Alcohol Corp., Absolut Distillers, Inc., The	Corporate Secretary; Nomination and Remuneration Committee member; Audit Committee member/ 1 Year/ 1998 to present

			Charter House, Inc., Far East Molasses Corp., Foremost Farms, Inc., Fortune Tobacco Int'l Corp., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., Manufacturing Services & Trade Corp., Marcuenco Realty & Development Corp., PMFTC Inc., Progressive Farms, Inc., REM Development Corp., Tanduay Brands International Inc., Tobacco Recyclers Corp., Total Bulk Corp., Zebra Holdings, Inc.; Assistant Corporate Secretary of Basic Holdings Corp.	
Ma. Cecilia L. Pesayco	61	Filipino	Corporate Secretary of **LT Group, Inc.** (formerly Tanduay Holdings, Inc.), Allied Savings Bank, and East Silverlane Realty and Development Corp.; Assistant Corporate Secretary of **PAL Holdings, Inc.** and Air Philippines Corp.; Former Corporate Secretary of Allied Banking Corp. and Eton Properties Philippines, Inc.	Assistant Corporate Secretary/1 Year/ 2013 to present
Nestor C. Mendones	59	Filipino	Deputy Financial Officer of **LT Group, Inc.**; Former Senior Vice President – Finance and Chief Finance Officer of **LT Group, Inc.** (formerly Tanduay Holdings, Inc.)	Senior Vice-President – Finance and Chief Financial Officer/ 1 Year/ 1999 to present
Andres C. Co	60	Filipino	Senior Vice President – Sales and Marketing of Tanduay Brands International, Inc.; Former Director of **LT Group, Inc.** (formerly Tanduay Holdings, Inc.)	Senior Vice-President – Sales and Marketing/ 1 Year/ 2003 to present
Randy L. Cailles	56	Filipino	Head of Production since 1989; Former Plant Manager of Paramount Vinyl Products	Senior Vice-President; Chief Production Officer/ 1 Year/ 1989 to present
Miguel C. Khao	70	Filipino	Head of Engineering since 1988	Senior Vice-President - Engineering/ 1 Year/ 1988 to present
Joseph E. Tcheng, Jr.	53	Filipino	Former Plant Manager of TDI-Cabuyao	Vice President; Assistant to the Chief Operating Officer / 1 Year/ 1990 to present

(Note: Corporations written in bold font style are Listed Companies.)

3. Significant Employees

While all of the employees of the Company are valued for their contribution to the Company, none are expected to contribute significantly more than any of the others.

4. Family Relationship

Mr. Lucio C. Tan, Chairman of Tanduay Distillers, Inc., is the brother of Mr. Harry C. Tan. He is also the father of Mr. Lucio K. Tan, Jr. and Mr. John G. Tan. Ms. Carmen K. Tan is the wife of Mr. Lucio C. Tan and the mother of Mr. Lucio K. Tan, Jr..

5. Involvement in Certain Legal Proceedings during the past 5 years

The directors and executive officers of the Company are not involved in any bankruptcy petition by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses; being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Item 10. Executive Compensation

The following compensation was given to officers and directors for the reporting year.

Summary Compensation Table

Annual Compensation

	Year	*Salary*	*Bonus*	*Others*
Four (4) most highly compensated executive officers (see explanation below)	2014 (estimate)	N/A	N/A	N/A
	2013	N/A	N/A	N/A
	2012	N/A	N/A	N/A
All other officers and directors as a group unnamed	2014 (estimate)	N/A	N/A	N/A
	2013	N/A	N/A	N/A
	2012	N/A	N/A	N/A

There are no arrangements to which the directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director, including any additional amounts payable for committee participation or special assignments, for the last completed fiscal year and the ensuing year.

There are no other arrangements, employment contract, compensatory plan, arrangement nor outstanding warrants and options in place with the Company's CEO, executive officers and all officers and directors as a group.

The Company's executive officers and directors are seconded by LTG and do not receive compensation from TDI. The Company pays a fixed amount of management fees for all the executive officers and directors seconded by LTG to TDI. The Company paid management fees of ₱48 million in 2013 and in 2012.

Warrants and Options Outstanding: Repricing

a.) There are no outstanding warrants or options held by the Company's CEO, the named executive officers, and all officers and directors as a group.

b.) This is not applicable since there are no outstanding warrants or options held by the Company's CEO, executive officers and all officers and directors as a group.

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2013

1. Security Ownership of Certain Record and Beneficial Owners of more than 5%

Title of Class	**Name and Address of Record Owner and relationship with Issuer**	**Name of Beneficial Ownership and relationship with Record Owner**	**Citizenship**	**No. of Shares**	**Percent of Class**
Common	LT Group, Inc. *11th floor Bench Tower, 30th St. corner drive Crescent Park West 5 Bonifacio Global City, Taguig City* *Controlling Stockholder*	-ditto-	Filipino	1,180,765,506 / Record Owner	100%

The right to vote or direct the voting or disposition of the Company's shares held by LT Group, Inc. is lodged in the latter's Board of Directors, the members of which are Messrs. Lucio C. Tan, Harry C. Tan, , Lucio K. Tan, Jr., Michael G. Tan, Wilson T. Young, Antonino L. Alindogan, Jr., Wilfrido E. Sanchez, Washington Sycip, Ms. Carmen K. Tan, Ms. Juanita Tan Lee and Ms. Florencia G. Tarriela.

2. Security Ownership of Management

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Beneficial Ownership
Common	Lucio C. Tan	2/r	Filipino	Nil
Common	Harry C. Tan	2/r	Filipino	Nil
Common	Lucio K. Tan Jr.	2/r	Filipino	Nil
Common	Carmen K. Tan	2/r	Filipino	Nil
Common	John G. Tan	2/r	Filipino	Nil
Common	Peter P. Ong	2/r	Filipino	Nil
Common	Carlos P. Alindada	2/r	Filipino	Nil
-	Wilson T. Young	None	Filipino	N/A
-	Juanita Tan Lee	None	Filipino	N/A
-	Nestor C. Mendones	None	Filipino	N/A
-	Andres C. Co	None	Filipino	N/A
-	Randy L. Cailles	None	Filipino	N/A
-	Miguel C. Khao	None	Filipino	N/A
-	Joseph E. Tcheng, Jr.	None	Filipino	N/A

Security ownership of all directors and officers as a group unnamed is 14 representing 0% of the company’s total outstanding capital stock.

There are no additional shares which the listed beneficial and record owners has the right to acquire within 30 days from any warrants, options, rights and conversion privileges or similar obligations or otherwise.

Each of the above named shareholders is entitled to vote only to the extent of the number of shares registered in his/her name.

3. Voting Trust Holders of 5% or more

There are no voting trust holders of 5% or more of the common shares.

4. Changes in Control

There are no arrangements which may result in a change in control of the Company.

Item 12. Certain Relationships and Related Transactions

In addition to Note 18 of the Notes to the Consolidated Financial Statements on pages 89 to 91 the following are additional relevant related party disclosures:

(1) The Company’s noted related parties are ABI, Interbev Philippines, Inc. (IPI), Packagewold, Inc. (PWI), Philippine National Bank (PNB), VMC and LTG. Transactions with these related parties are necessary in the normal course of the Company’s business. Though substantial in amount, they are still under normal trade practice. There are no special risks or contingencies since the usual business risks like problem in quality, failure to deliver when needed and price of product, which is dependent on the cost efficiency of suppliers.

a.) Business purpose of the arrangements:

We do business with related parties to avoid the risk of material shortages, unfair pricing and stronger ties, which is based on trust and confidence. There is also better coordination with the suppliers on the quality, production scheduling and pricing considerations.

b.) Identification of the related parties transaction business and nature of the relationship:

1. ABI. – supplier of bottles/royalties
2. PWI – supplier of cartons
3. PNB – investments/loans/services/deposits
4. VMC – supplier of sugar and molasses
5. LTG – advances/management fees

c.) Transaction prices are based on terms that are no less favorable than those arranged with third parties.

d.) Transactions have been fairly evaluated since we adhere to industry standards and practices.

e.) There is no other on going contractual or other commitments as a result of the arrangements. There is no long term supplier's contract. The Company can source out from outside suppliers if they are more favorable.

(2) Not applicable – there are no parties that fall outside the definition "related parties" with whom the Company or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis.

The effects of the related party transactions on the financial statements have been identified in Note 18 of the Notes to Consolidated Financial Statements.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

A. The evaluation system established by the Company to measure or determine the level of compliance of the Board of Directors and top-level management with its Manual of Corporate Governance.

The Compliance Officer is currently in charge of evaluating the level of compliance of the Board of Directors and top-level management of the Company. The implementation of the Corporate Governance Scorecard allows the Company to properly evaluate compliance to the Manual.

B. Measures being undertaken by the Company to fully comply with the adopted leading practices on good corporate governance.

Some of the measures undertaken by the Company to fully comply with the adopted leading practices on good corporate governance are the following:

1. Computerization
2. Creation of budget system
3. Various information campaign.
4. Attending seminars for Corporate Directors
5. Strengthen the oversight of the Audit Committee on the work process of the Company
6. Amendment of the Manual on Corporate Governance as of March 2011 in compliance with the Revised Code of Corporate Governance of the Securities and Exchange Commission (SEC) (Series of 2009).

C. Any deviation from the Company's Manual of Corporate Governance. It shall include a disclosure of the name and position of the person(s) involved, and the sanctions imposed on said individual.

The Company has established a procedure that imposes corresponding penalties in dealing with cases of non-compliance with the Corporate Governance Manual.

D. Any plan to improve corporate governance of the Company.

The Company will evaluate and monitor its Manual on Corporate Governance to ensure compliance with leading principles and practices on corporate governance. Further, the Company continues to improve its Corporate Governance when appropriate and warranted, in its best judgment.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

a. Exhibits - see accompanying Index to Exhibits (page 126)

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Group or require no answer

b. Reports on SEC Form 17-C

SEC Form 17-C (Current Reports), which has been filed during the year, is no longer filed as part of the exhibits.

LIST OF ITEMS REPORTED UNDER SEC FORM 17-C
(FOR THE PERIOD OF JULY 2013 TO DECEMBER 2013)

Date/Type	**Matters Approved**
September 10, 2013/ Board of Directors' Meeting	1. Calling of the Annual Stockholders' Meeting to be held on October 30, 2013, 3:00p.m. at the Century Park Hotel; and 2. All Shareholders in good standing at the close of business on the record date of September 30, 2013 shall be entitled to receive notice of, and to vote at, the meeting and any adjournment thereof.
October 30, 2013/ Organizational Meeting	1. Election of Officers; and 2. Appointment of members of the Board Committees

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized in the City of Makati on April 8, 2013.

By:

Lucio C. Tan Principal Executive Officer	Wilson T. Young Principal Operating Officer
Lucio K. Tan, Jr. President	Ador R. Gomez Principal Accounting Officer
Nestor C. Mendones Principal Financial Officer	Juanita Tan Lee Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 0 9 2013 day of ________ 2013 affiants exhibiting to me their passport numbers, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Lucio C. Tan	EB1465663	11/26/2010	Manila, Philippines
Lucio K. Tan, Jr.	EB0383181	6/14/2010	Manila, Philippines
Nestor C. Mendones	XX5338790	1/22/2010	Manila, Philippines
Juanita Tan Lee	EB4803029	2/25/2012	Manila, Philippines
Ador R. Gomez	XX3699112	5/15/2009	Manila, Philippines
Wilson T. Young	EB2519075	5/21/2011	Manila, Philippines

Doc. No. 152
Page No. 32
Book No. II
Series of 2013

CHRISTINE R. SANTOS
Notary Public until 31 December 2013
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 3676476, Makati, 10 January 2013
IBP No. 911822, Makati, 4 January 2013
Roll No. 60447, Commission No. 474

TANDUAY DISTILLERS, INC. AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
SEC FORM 17-A

TANDUAY *Distillers, Inc.*

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Tanduay Distillers, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements for each of the two years in the period ended December 31, 2012 and 2011, 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 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 financial statements and submits the same to the stockholders.

Sycip Gorres Velayo & Co., the independent auditor, appointed by the stockholders, has examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Lucio C. Tan
Chairman and Chief Executive Officer

Lucio K. Tan, Jr.
President

Harry C. Tan
Treasurer

Wilson T. Young
Chief Operating Officer

MAIN OFFICE:	348 J. Nepomuceno Street, San Miguel District, Manila, Philippines	Tel.: (632) 7339301	Fax: (632) 7339096
CABUYAO PLANT:	Km. National Highway, Barangay Sala, Cabuyao, Laguna, Philippines	Tel.: (632) 8165131	Fax: (632) 8165101
BACOLOD PLANT:	Barangay Blumentritt, Murcia, Negros Occidental, Philippines	Tel.: (6334) 83631	Fax: (6334) 83386
EL SALVADOR PLANT:	Barangay Poblacion, El Salvador City, Misamis Oriental	Tel.: 755986 / 8165590	Loc. 2001-2002

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI)

BEFORE ME, personally appeared the following persons on **April 8, 2013**

Name	Passport No.	Date Issue	Place of Issue
Lucio C. Tan	EB1465663	11/26/2010	Manila, Philippines
Lucio K. Tan, Jr.	EB0383181	6/14/2010	Manila, Philippines
Harry C. Tan	EB1637218	1/3/2011	Manila, Philippines
Wilson T. Young	EB2519075	5/21/2011	Manila, Philippines

Known to me and to me known to be the same persons who executed the foregoing instrument and acknowledged that he executed the same as his free act and deed for the use and purpose hereinabove set forth.

This instrument consisting of two (2) pages, including this whereon the acknowledgement is written, has been signed by the party on each and every page thereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this day of APR 08 2013 2013 at Makati City Philippines.

ADRIANNE MARIE C. ALAZAS
Notary Public until 31 December 2013
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 3678698, Makati, 10 January 2013
IBP No. 911819, Makati, 4 January 2013
Roll No. 58449, Commission No. 445

Doc. No. 71
Page No. 14
Book No. II
Series of 2013

PW-00151096

SEC Registration Number

TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of
LT Group, Inc.) AND SUBSIDIARIES

(Company's Full Name)

348 J. Nepomuceno Street
San Miguel District, Manila

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

Nestor C. Mendones

(Contact Person)

519-7981

(Company Telephone Number)

12 **31**

Month *Day*

(Calendar Year)

AACFS

(Form Type)

05 **19**

Month *Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

Tanduay Distillers, Inc.
(A Wholly Owned Subsidiary of LT Group, Inc.)
and Subsidiaries

Consolidated Financial Statements
December 31, 2013 and 2012
and Years Ended December 31, 2013, 2012 and 2011

and

Independent Auditors' Report

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Tanduay Distillers, Inc.
348 J. Nepomuceno Street
San Miguel District, Manila

We have audited the accompanying consolidated financial statements of Tanduay Distillers, Inc. (a wholly owned subsidiary of LT Group, Inc.) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, 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 overall 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.

SGV
Building a better working world

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tanduay Distillers, Inc. and its subsidiaries as of December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225170, January 2, 2014, Makati City

March 18, 2014

TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of LT Group, Inc.)
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012 (As Restated, Note 2, 8 and 9)	January 1, 2012 (As Restated, Note 2)
ASSETS			
Current Assets			
Cash (Notes 6, 18, 25 and 26)	**₱1,210,079,886**	₱394,076,896	₱1,010,675,119
Receivables (Notes 7, 18, 25 and 26)	**4,643,617,659**	5,593,119,512	3,186,625,906
Inventories (Notes 8 and 18)	**3,068,648,294**	2,628,152,629	4,129,595,338
Prepayments and other current assets (Note 9)	**1,149,464,908**	926,920,138	315,369,528
Total Current Assets	**10,071,810,747**	9,542,269,175	8,642,265,891
Noncurrent Assets			
Available-for-sale (AFS) financial assets (Notes 10, 25 and 27)	**30,460,269**	42,460,269	27,460,269
Property, plant and equipment (Notes 11 and 27):			
At appraised values	**5,358,650,800**	4,788,719,140	4,441,959,434
At cost	**1,152,037,035**	1,501,901,560	1,270,101,828
Investment properties (Notes 12 and 27)	**233,626,000**	231,530,000	235,988,000
Goodwill (Note 4)	**144,702,917**	144,702,917	144,702,917
Net retirement plan assets (Note 19)	**19,262,399**	19,925,185	20,736,158
Other noncurrent assets (Notes 13, 25 and 26)	**30,698,233**	50,308,986	41,777,512
Total Noncurrent Assets	**6,969,437,653**	6,779,548,057	6,182,726,118
TOTAL ASSETS	**₱17,041,248,400**	₱16,321,817,232	₱14,824,992,009
LIABILITIES AND EQUITY			
Current Liabilities			
Bank loan (Note 15)	**₱–**	₱–	₱250,000,000
Accounts payable and other current liabilities (Notes 14, 17, 18, 25 and 26)	**1,523,491,148**	2,016,205,413	1,292,161,041
Income tax payable (Note 22)	**34,402,561**	167,456,311	60,071,668
Total Current Liabilities	**1,557,893,709**	2,183,661,724	1,602,232,709
Noncurrent Liabilities			
Bonds payable (Notes 16, 25, 26 and 27)	**4,982,544,419**	4,968,295,454	4,955,147,846
Deposits for future Certified Emission Reduction (Note 30)	**–**	–	70,857,506
Net retirement benefits liabilities (Note 19)	**39,089,841**	99,885,320	12,115,104
Deferred income tax liabilities - net (Note 22)	**564,762,952**	555,199,035	639,399,792
Total Noncurrent Liabilities	**5,586,397,212**	5,623,379,809	5,677,520,248
Total Liabilities	**7,144,290,921**	7,807,041,533	7,279,752,957
Equity			
Attributable to equity holders of the Company:			
Capital stock - ₱1 par value (Note 23)	**1,180,765,620**	1,180,765,620	960,000,000
Additional paid-in capital (Note 23)	**3,817,463,482**	2,617,463,482	1,212,290,309
Deposit for future stock subscription (Note 23)	**–**	–	1,627,042,623
Effect of transactions with non-controlling interests	**52,156,083**	52,156,083	52,156,083
Other comprehensive income (Notes 10, 11 and 19)	**1,292,362,517**	1,387,795,197	1,515,453,196
Retained earnings (Note 23)	**3,422,609,606**	3,133,908,904	2,038,633,716
	9,765,357,308	8,372,089,286	7,405,575,927
Non-controlling interests	**131,600,171**	142,686,413	139,663,125
Total Equity	**9,896,957,479**	8,514,775,699	7,545,239,052
TOTAL LIABILITIES AND EQUITY	**₱17,041,248,400**	₱16,321,817,232	₱14,824,992,009

See accompanying Notes to Consolidated Financial Statements.

TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of LT Group, Inc.)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2013	2012 (As Restated, Note 2)	2011 (As Restated, Note 2)
NET SALES (Note 18)	**₱10,539,843,345**	₱12,949,591,911	₱12,406,611,972
COST OF GOODS SOLD (Notes 18 and 20)	**8,293,156,504**	9,924,896,596	9,493,584,640
GROSS PROFIT	**2,246,686,841**	3,024,695,315	2,913,027,332
OPERATING EXPENSES (Notes 18 and 20)			
Selling expenses	**648,018,234**	601,716,909	599,224,322
General and administrative expenses	**894,444,400**	600,109,161	599,331,523
	1,542,462,634	1,201,826,070	1,198,555,845
OTHER INCOME (CHARGES)			
Finance costs (Notes 15, 16 and 17)	**(416,998,965)**	(417,656,290)	(418,546,718)
Finance income (Notes 6 and 18)	**405,629**	6,686,399	951,344
Rental income (Note 12)	**653,304**	1,067,857	418,439
Others - net (Notes 19, 21 and 30)	**79,118,842**	99,172,043	263,667,220
	(336,821,190)	(310,729,991)	(153,509,715)
INCOME BEFORE INCOME TAX	**367,403,017**	1,512,139,254	1,560,961,772
PROVISION FOR INCOME TAX (Note 22)			
Current	**171,332,598**	555,857,866	424,373,209
Deferred	**8,426,321**	(60,233,256)	79,718,063
	179,758,919	495,624,610	504,091,272
NET INCOME	**₱187,644,098**	₱1,016,514,644	₱1,056,870,500
Net income attributable to:			
Equity holders of the Company	**₱198,736,275**	₱1,013,154,683	₱1,056,860,640
Non-controlling interests	**(11,092,177)**	3,359,961	9,860
	₱187,644,098	₱1,016,514,644	₱1,056,870,500
Basic/Diluted Earnings Per Share (Note 24)	**₱0.168**	₱0.931	₱1.101

See accompanying Notes to Consolidated Financial Statements.

TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of LT Group, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2013	2012 (As Restated, Note 2)	2011 (As Restated, Note 2)
NET INCOME	**₱187,644,098**	₱1,016,514,644	₱1,056,870,500
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of AFS financial assets (Note 10)	**(12,000,000)**	15,000,000	500,000
Income tax effect	**1,164,999**	(1,485,000)	(45,000)
Items that will not be reclassified to profit or loss:			
Revaluation increment on property, plant and equipment (Note 11)	**–**	–	932,966,244
Income tax effect	**–**	–	(279,889,873)
Actuarial gain (losses) on defined benefit plans (Note 19)	**7,675,261**	(84,841,667)	(2,726,577)
Income tax effect	**(2,302,578)**	25,452,500	817,973
	(5,462,318)	(45,874,167)	651,622,767
TOTAL COMPREHENSIVE INCOME	**₱182,181,780**	₱970,640,477	₱1,708,493,267
Total comprehensive income attributable to:			
Equity holders of the Company	**₱193,268,022**	₱967,617,189	₱1,699,806,551
Non-controlling interests	**(11,086,242)**	3,023,288	8,686,716
	₱182,181,780	₱970,640,477	₱1,708,493,267

See accompanying Notes to Consolidated Financial Statements.

TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of LT Group, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	Attributable to Equity Holders of the Company											
					Other Comprehensive Income							
	Capital Stock (Note 23)	Additional Paid-in Capital (Note 23)	Deposit for Future Stock Subscription (Note 23)	Effect of Transactions with Non-controlling Interests	Revaluation Increment on Property, Plant and Equipment (Note 11)	Net Changes in Fair Values of AFS Financial Assets (Note 10)	Actuarial Losses on Defined Benefit Plans (Notes 2 and 19)	Subtotal	Retained Earnings (Note 23)	Total	Non-controlling Interests	Total
BALANCES AT DECEMBER 31, 2010, AS PREVIOUSLY REPORTED	**₱960,000,000**	**₱1,212,290,309**	**₱–**	**₱52,156,083**	**₱900,128,159**	**₱13,520,000**	**₱–**	**₱913,648,159**	**₱2,080,770,536**	**₱5,218,865,087**	**₱129,584,999**	**₱5,348,450,086**
Effect of adoption of PAS 19, *Employee Benefits* (as revised) (Note 2)	–	–	–	–	–	–	–	–	11,861,666	11,861,666	1,391,410	13,253,076
BALANCES AT DECEMBER 31, 2010, AS RESTATED	**960,000,000**	**1,212,290,309**	**–**	**52,156,083**	**900,128,159**	**13,520,000**	**–**	**913,648,159**	**2,092,632,202**	**5,230,726,753**	**130,976,409**	**5,361,703,162**
Net income for the year	–	–	–	–	–	–	–		1,056,690,837	1,056,690,837	79,593	1,056,770,430
Other comprehensive income	–	–	–	–	644,376,829	455,000	–	644,831,829	–	644,831,829	8,699,542	653,531,371
Total comprehensive income, as previously reported	–	–	–	–	644,376,829	455,000	–	644,831,829	1,056,690,837	1,701,522,666	8,779,135	1,710,301,801
Effect of adoption of PAS 19, *Employee Benefits* (as revised) (Note 2)	–	–	–	–	–	–	(1,885,918)	(1,885,918)	169,803	(1,716,115)	(92,419)	(1,808,534)
Total comprehensive income, as restated	–	–	–	–	644,376,829	455,000	(1,885,918)	642,945,911	1,056,860,640	1,699,806,551	8,686,716	1,708,493,267
Deposit for future stock subscription (Note 23)	–	–	1,627,042,623	–	–	–	–		–	1,627,042,623	–	1,627,042,623
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation (Note 11)	–	–	–	–	(41,140,874)	–	–	(41,140,874)	41,140,874	–	–	–
Cash dividends (Note 23)	–	–	–	–	–	–	–		(1,152,000,000)	(1,152,000,000)	–	(1,152,000,000)
BALANCES AT DECEMBER 31, 2011, AS RESTATED	**960,000,000**	**1,212,290,309**	**1,627,042,623**	**52,156,083**	**1,503,364,114**	**13,975,000**	**(1,885,918)**	**1,515,453,196**	**2,038,633,716**	**7,405,575,927**	**139,663,125**	**7,545,239,052**
BALANCES AT DECEMBER 31, 2011, AS PREVIOUSLY REPORTED	960,000,000	1,212,290,309	1,627,042,623	52,156,083	1,503,364,114	13,975,000	–	1,517,339,114	2,026,602,247	7,395,430,376	138,364,134	7,533,794,510
Effect of adoption of PAS 19, *Employee Benefits* (as revised) (Note 2)	–	–	–	–	–	–	(1,885,918)	(1,885,918)	12,031,469	10,145,551	1,298,991	11,444,542
BALANCES AT DECEMBER 31, 2011, AS RESTATED	**960,000,000**	**1,212,290,309**	**1,627,042,623**	**52,156,083**	**1,503,364,114**	**13,975,000**	**(1,885,918)**	**1,515,453,196**	**2,038,633,716**	**7,405,575,927**	**139,663,125**	**7,545,239,052**
Net income for the year	–	–	–	–	–	–	–		1,012,875,291	1,012,875,291	3,423,203	1,016,298,494
Other comprehensive income	–	–	–	–	–	13,515,000	–	13,515,000	–	13,515,000	–	13,515,000
Total comprehensive income, as previously reported	–	–	–	–	–	13,515,000	–	13,515,000	1,012,875,291	1,026,390,291	3,423,203	1,029,813,494
Effect of adoption of PAS 19, *Employee Benefits* (as revised) (Note 2)	–	–	–	–	–	–	(59,052,494)	(59,052,494)	279,392	(58,773,102)	(399,915)	(59,173,017)
Total comprehensive income, as restated	–	–	–	–	–	13,515,000	(59,052,494)	(45,537,494)	1,013,154,683	967,617,189	3,023,288	970,640,477
Conversion of deposit for future stock subscription (Note 23)	220,765,620	1,405,173,173	(1,627,042,623)	–	–	–	–		–	(1,103,830)	–	(1,103,830)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation (Note 11)	–	–	–	–	(82,120,505)	–	–	(82,120,505)	82,120,505	–	–	–
BALANCES AT DECEMBER 31, 2012, AS RESTATED	**1,180,765,620**	**2,617,463,482**	**–**	**52,156,083**	**1,421,243,609**	**27,490,000**	**(60,938,412)**	**1,387,795,197**	**3,133,908,904**	**8,372,089,286**	**142,686,413**	**8,514,775,699**
BALANCES AT DECEMBER 31, 2012, AS PREVIOUSLY REPORTED	**1,180,765,620**	**2,617,463,482**	**–**	**52,156,083**	**1,421,243,609**	**27,490,000**	**–**	**1,448,733,609**	**3,121,598,043**	**8,420,716,837**	**141,787,337**	**8,562,504,174**
Effect of adoption of PAS 19, *Employee Benefits* (as revised) (Note 2)	–	–	–	–	–	–	(60,938,412)	(60,938,412)	12,310,861	(48,627,551)	899,076	(47,728,475)
BALANCES AT DECEMBER 31, 2012, AS RESTATED	**1,180,765,620**	**2,617,463,482**	**–**	**52,156,083**	**1,421,243,609**	**27,490,000**	**(60,938,412)**	**1,387,795,197**	**3,133,908,904**	**8,372,089,286**	**142,686,413**	**8,514,775,699**
Net income for the year	–	–	–	–	–	–	–		198,736,275	198,736,275	(11,092,177)	187,644,098
Other comprehensive income	–	–	–	–	–	(10,835,001)	5,366,748	(5,468,253)	–	(5,468,253)	5,935	(5,462,318)
Total comprehensive income for the year	–	–	–	–	–	(10,835,001)	5,366,748	(5,468,253)	198,736,275	193,268,022	(11,086,242)	182,181,780
Conversion of advances into additional paid-in capital (Note 23)	–	1,200,000,000	–	–	–	–	–		–	1,200,000,000	–	1,200,000,000
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation (Note 11)	–	–	–	–	(89,964,427)	–	–	(89,964,427)	89,964,427	–	–	–
BALANCES AT DECEMBER 31, 2013	**₱1,180,765,620**	**₱3,817,463,482**	**₱–**	**₱52,156,083**	**₱1,331,279,182**	**₱16,654,999**	**(₱55,571,664)**	**1,292,362,517**	**₱3,422,609,606**	**₱9,765,357,308**	**₱131,600,171**	**₱9,896,957,479**

See accompanying Notes to Consolidated Financial Statements.

TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of LT Group, Inc.)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱367,403,017**	₱1,512,139,254	₱1,560,961,772
Adjustments for:			
Depreciation and amortization (Note 11)	**546,895,244**	505,680,106	433,881,010
Loss (gain) on sale of property and equipment	**9,650,125**	(988,429)	–
Loss (gain) on changes in fair values of investment properties (Note 12)	**(2,096,000)**	4,458,000	(39,625,818)
Loss on write-off of net investment in an associate (Note 13)	**3,667,124**	–	–
Recovery from insurance claims (Note 21)	–	–	(186,032,805)
Finance income (Notes 6 and 18)	**(405,629)**	(6,686,399)	(951,344)
Finance costs (Notes 15, 16 and 17)	**416,998,965**	417,656,290	418,546,718
Unrealized foreign exchange losses (gains) - net	**(2,247,668)**	2,745,177	(1,323,319)
Reversal of Deposit for future Certified Emission Reduction (Notes 21 and 30)	–	(70,857,506)	–
Movement in net retirement plan assets and liabilities	**(52,457,432)**	3,739,522	1,791,474
Income before working capital changes	**1,287,407,746**	2,367,886,015	2,187,247,688
Decrease (increase) in:			
Receivables	**949,501,853**	(2,406,493,606)	(1,318,169,746)
Inventories	**(440,495,665)**	1,501,442,709	(68,730,799)
Prepayments and other current assets	**(215,573,067)**	(649,947,910)	79,143,650
Increase (decrease) in accounts payable and other current liabilities	**(476,883,131)**	724,634,959	(184,859,311)
Cash generated from operations	**1,103,957,736**	1,537,522,167	694,631,482
Interest received	**405,629**	6,686,399	951,344
Income taxes paid, including creditable withholding and final taxes	**(311,358,051)**	(410,075,923)	(405,508,058)
Net cash from operating activities	**793,005,314**	1,134,132,643	290,074,768
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment (Note 11)	**(776,680,370)**	(1,085,206,929)	(611,288,512)
Proceeds from:			
Sale of property and equipment	**4,236,750**	1,365,226	–
Recovery from insurance claims (Note 21)	**–**	–	186,032,805
Additions to other noncurrent assets	**(4,056,371)**	(8,531,474)	(260,629)
Net cash used in investing activities	**(776,499,991)**	(1,092,373,177)	(425,516,336)

(Forward)

	Years Ended December 31		
	2013	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Advances from LTG (Note 23)	**₱1,200,000,000**	₱–	₱–
Availment of bank loan (Note 15)	**–**	–	250,000,000
Deposit for future stock subscription (Note 23)	**–**	–	1,627,042,623
Payments of:			
Bank loan (Note 15)	**–**	(250,000,000)	–
Finance costs (Note 17)	**(402,750,001)**	(404,508,682)	(406,479,167)
Dividends (Note 23)	**–**	–	(1,152,000,000)
Stock issuance cost (Note 23)	**–**	(1,103,830)	–
Net cash from (used in) financing activities	**797,249,999**	(655,612,512)	318,563,456
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**2,247,668**	(2,745,177)	1,318,865
NET INCREASE (DECREASE) IN CASH	**816,002,990**	(616,598,223)	184,440,753
CASH AT BEGINNING OF YEAR	**394,076,896**	1,010,675,119	826,234,366
CASH AT END OF YEAR (Note 6)	**₱1,210,079,886**	₱394,076,896	₱1,010,675,119

See accompanying Notes to Consolidated Financial Statements.

TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of LT Group, Inc.)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information and Authorization for Issue of the Consolidated Financial Statements**

Corporate Information
Tanduay Distillers, Inc. (the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 10, 1988. The Company's corporate life is 50 years from and after May 10, 1988, the date of its incorporation. The Company's immediate parent company, LT Group, Inc. (LTG), formerly Tanduay Holdings, Inc. (THI), and its ultimate parent company, Tangent Holdings Corporation (THC), were all incorporated and domiciled in the Philippines. The Company is primarily engaged in, operates, conducts, and maintains the business of manufacturing, compounding, bottling, importing, exporting, buying, selling or otherwise dealing in, at wholesale and retail, such finished goods as rhum, spirit beverages, liquor products, and any and all equipment, materials, supplies used and/or employed in or related to the manufacture of such finished goods. The Company sells its products in the domestic market mainly through major distributors. The Company's registered business address is 384 J. Nepomuceno Street, San Miguel District, Manila.

Authorization for Issue of the Consolidated Financial Statements
The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 18, 2014.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The consolidated financial statements have been prepared under the historical cost basis, except for AFS financial assets, investment properties, land, land improvements, buildings and building improvements, and machinery and equipment which have been measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso), which is the Company's functional currency, and all amounts were rounded to the nearest Peso, except when otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the Group) have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretation which were adopted as of January 1, 2013. Adoption of these new and amended pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Government Loans*
  The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRSs. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group because the Group is not a first-time adopter of PFRSs.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;
  c) The net amounts presented in the balance sheet;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Philippine Interpretation SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The adoption of PFRS 10 will not have an impact on the consolidated financial statements because the Company has assessed that all subsidiaries that were consolidated in accordance with the old PAS 27 will continue to be consolidated in accordance with PFRS 10.

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and Philippine Interpretation SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interest in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  The Group has updated its accounting policy on fair value measurement as a result of the adoption of PFRS 13. The adoption of PFRS 13 has no significant impact on the fair value measurements of the Group. Additional disclosure requirements were made in compliance with the requirements in PFRS 13 (see Note 27).

- Amendments to PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI*
  The amendments to PAS 1 changed the grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled.

- PAS 19, *Employee Benefits* (Revised)
  For defined benefit plans, the revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to adoption of the revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

  The revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Group has adopted the revised PAS 19 retrospectively and has presented the third balance sheet in accordance with the requirements of PAS 1, *Presentation of Financial Statements*. The effects of adoption on the consolidated financial statements are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Increase (decrease) in:		*(in thousands)*	
Consolidated balance sheets			
Net retirement plan assets	**₱–**	₱10,711	₱4,218
Net retirement benefits liabilities	**56,120**	78,894	(12,131)
Deferred income tax liabilities - net	**(16,836)**	(20,455)	4,905
Actuarial loss on defined benefit plans	**(55,571)**	(60,938)	(1,886)
Retained earnings	**15,442**	12,311	12,031
Non-controlling interests	**845**	899	1,299
	2013	2012	2011
Consolidated statements of income		*(in thousands)*	
Cost of goods sold	**(4,262)**	(1,775)	(101)
Gross profit	**4,262**	1,775	101
Selling expenses	**(482)**	1,634	(30)
General and administrative expenses	**356**	(167)	(12)
Income before income tax	**4,388**	308	143
Provision for income tax	**1,316**	92	43
Net income	**₱3,072**	₱216	₱100
Attributable to:			
Equity holders of the Company	**₱3,131**	₱279	₱170
Non-controlling interests	**(59)**	(63)	(70)
Consolidated statements of comprehensive income			
Actuarial gain (loss) on defined benefit plans	**₱7,676**	(₱84,841)	(₱2,727)
Income tax effect	**(2,303)**	25,452	818
	₱5,373	(₱59,389)	(₱1,909)
Attributable to:			
Equity holders of the Company	**₱5,367**	(₱59,052)	(₱1,886)
Non-controlling interests	**6**	(337)	(23)

The adoption of the revised PAS 19 has minimal impact on the earnings per share of the Group.

- Amendments to PAS 27, *Separate Financial Statements*
  As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*
  As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Group as it is not involved in any mining activities.

Annual Improvements to PFRSs
The *Annual Improvements to PFRSs* contain non-urgent but necessary amendments to PFRSs.

Annual Improvements to PFRSs (2009-2011 cycle)

- PFRS 1, *First-time Adoption of PFRSs - Borrowing Costs*
  The amendment clarifies that, upon adoption of PFRSs, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening balance sheet at the date of transition. Subsequent to the adoption of PFRSs, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. This amendment does not apply to the Group as it is not a first-time adopter of PFRSs.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
  The amendment clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*
  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment.

Pronouncements Issued but Not yet Effective
Pronouncements issued but not yet effective as of December 31, 2013 are listed below. The Group does not expect that the future adoption of the said pronouncements to have a significant impact on its accounting policies or disclosures unless otherwise indicated. The Group intends to adopt the following pronouncements when they become effective.

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of

financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will potentially have no significant impact on the classification and measurement of the Group's financial assets and financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting. The adoption of the third phase of PFRS 9 will not have an impact to the Group because the Group does not apply hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not early adopt PFRS 9 but will continue to evaluate and conduct a study on the possible impact of adopting the limited amendments to the classification and measurement model and second phase of PFRS 9 when they are completed.

- Amendments to PFRS 10, PFRS 12 and PAS 27, *Investment Entities*
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments are effective for annual periods beginning on or after January 1, 2014.

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
  The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- Amendments to PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The amendments are not relevant to the Group because the Group does not enter into derivative transactions and does not apply hedge accounting.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle)

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  This amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted) The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The Group shall consider this amendment in its future revaluations of property, plant and equipment.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

Annual Improvements to PFRSs (2011-2013 cycle)

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRSs.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PAS 40, *Investment Property - Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property*
  The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and the following subsidiaries, which were all incorporated in the Philippines.

Subsidiary	Percentage of Ownership Held by Non-controlling Interests	Nature of Business
Absolut Distillers, Inc. (ADI)	4	Producer of potable ethyl alcohol
Asian Alcohol Corporation (AAC)	5	Producer of potable ethyl alcohol and aged alcohol

Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from involvement with the investee, and
- The ability to use power over the investee to affect the amount of the investor's returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statements of income and comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full. However, intra-group losses are also eliminated but are considered an impairment indicator of the assets transferred.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it

- derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary
- derecognizes the carrying amount of any non-controlling interests
- recognizes the fair value of the consideration received
- recognizes the fair value of any investment retained; and
- recognizes any surplus or deficit in profit or loss

- reclassifies the Group's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Non-controlling interests
Non-controlling interests represent the portion of equity not attributable to the Group. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Business Combination and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every December 31.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each balance sheet date.

Cash

Cash includes cash on hand and in banks.

Financial Instruments

Date of recognition

The Group recognizes financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition and classification of financial instruments

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those financial assets and liabilities at fair value through profit or loss (FVPL), includes transaction costs.

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities into FVPL and other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The Group has no financial assets or financial liabilities at FVPL and HTM investments as of December 31, 2013 and 2012.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within 12 months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

As of December 31, 2013 and 2012, included under loans and receivables are the Group’s cash in bank, trade receivables, other receivables and deposits.

AFS financial assets

AFS financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the three other categories. The Group designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in other comprehensive income as “Changes in fair value of AFS financial assets”, net of deferred income tax effect. When fair value cannot be reliably measured, AFS financial assets are measured at cost less any impairment in value.

When the investment is disposed of or determined to be impaired, the cumulative gains or losses recognized in other comprehensive income are recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the effective interest method. Dividends earned on investments are recognized in the consolidated statement of income as “Dividend income” when the right of payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within 12 months from the end of reporting period.

The Group’s AFS financial assets include equity securities as of December 31, 2013 and 2012.

Other financial liabilities
Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

As of December 31, 2013 and 2012, included in other financial liabilities are the Group’s trade accounts payable, non-trade accounts payable, due to related parties, accrued and other liabilities, and bonds payable.

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return of a similar financial asset.

Loans and receivables
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of income.

If in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of income under “Other income” account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group.

AFS financial assets
The Group assesses at the end of each reporting period, whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in fair value of the investments below its cost. The determination of what is “significant” or “prolonged” requires judgment. The Group treats “significant” generally as 20% or more and “prolonged” as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income is removed from other comprehensive income and recognized in the consolidated statement of income.

Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Finished goods and work in process	-	direct materials, direct labor and manufacturing overhead costs based on normal operating capacity; determined using the moving average method
Raw materials and supplies	-	purchase cost using the moving average method

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. For raw materials and supplies, NRV is the current replacement cost.

Prepayments
Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises prepaid importation charges and excise tax, prepaid rentals and insurance premiums and other prepaid items, and creditable withholding tax. Prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred. Prepaid importation charges are applied to respective asset accounts, i.e., inventories and equipment, as part of their direct cost once importation is complete. Prepaid excise taxes are applied to inventories as part of their direct cost once the finished goods are withdrawn from the plants. Creditable withholding tax is deducted from income tax payable. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets, otherwise, these are classified as other noncurrent assets.

Property, Plant and Equipment

Property, plant and equipment, other than land, land improvements, buildings and building improvements, and machinery and equipment, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in consolidated statement of income as incurred. Borrowing costs incurred during the construction of a qualifying asset is likewise included in the initial cost of property, plant and equipment.

Land, land improvements, buildings and building improvements, and machinery and equipment are stated at revalued amounts based on a valuation performed by independent appraisers. Revaluation is made every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. For subsequent revaluations, the accumulated depreciation and amortization at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals the revalued amount. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment on property, plant and equipment", net of deferred income tax effect. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset. Further, the revaluation increment in respect of an item of property, plant and equipment are transferred to retained earnings as the asset is used by the Group. The amount of the revaluation increment transferred would be the difference between the depreciation and amortization based on the revalued carrying amount of the asset and depreciation and amortization based on the asset's original cost. In case the asset is retired or disposed of, the related remaining revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

Constructions in progress are properties in the course of construction for production or administrative purposes, which are carried at cost less any recognized impairment loss. This includes cost of construction and equipment, and other direct costs. Construction in progress are reclassified to the appropriate class of property, plant and equipment when the construction of the assets are completed.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 to 15
Buildings	10 to 30
Machinery and equipment	5 to 20
Furniture, fixtures and office equipment	4 to 20
Transportation equipment	5
Warehouse, laboratory and other equipment	4 to 10

Leasehold and building improvements are amortized on a straight-line basis over the terms of the leases or the useful life the assets, whichever is shorter.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations,* and the date the item is derecognized.

Property, plant and equipment are written off when either these are disposed of or when these are permanently withdrawn from use and there is no more future economic benefits expected from its use or disposal.

<u>Borrowing Costs</u>
Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed as incurred.

<u>Investment Properties</u>
Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of reporting period. Gains or losses arising from changes in the fair values of investment properties are recognized in the consolidated statement of income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Impairment of Noncurrent Non-financial Assets
The Group assesses at each end of reporting period whether there is indication that property, plant and equipment and other noncurrent assets may be impaired. If any such indication exists, or when an annual impairment testing for such items is required, the Group makes an estimate of their recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use, and is determined for an individual item, unless such item does not generate cash inflows that are largely independent of those from other assets or group of assets or CGUs. When the carrying amount exceeds its recoverable amount, such item is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows to be generated by such items are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU.

An assessment is made at least at the end of each reporting period as to whether there is indication that previously recognized impairment losses may no longer exist or may have decreased. If any indication exists, the recoverable amount is estimated and a previously recognized impairment loss is reversed only if there has been a change in the estimate in the asset's or CGU's recoverable amount since the last impairment loss was recognized. If so, the carrying amount of the item is increased to its new recoverable amount which cannot exceed the impairment loss recognized in prior years. Such reversal is recognized in the consolidated statement of income unless the asset or CGU is carried at its revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value on a systematic basis over its remaining estimated useful life.

Retirement Benefits
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated annually by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods, shown as “Net sales” in the statement of income, is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Net sales are measured at the fair value of the consideration received or receivable, excluding discounts, returns and value-added tax (VAT).

Interest income

Interest income is recognized as the interest accrues using the effective interest method.

Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreement.

Rental income

Rental income is accounted for on a straight-line basis over the lease term.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group concluded that it is acting as a principal in all of its revenue arrangements.

Costs and Expenses

Cost and expenses are recognized in the consolidated statement of income when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Cost of goods sold

Cost of goods sold is recognized as expense when the related goods are sold.

Selling and general and administrative expenses
Selling expenses are costs incurred to sell or distribute goods. They include advertising and promotions and freight and handling, among others. General and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

Operating Leases
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease receipts (payments) under operating lease agreements are recognized as income (expense) on a straight-line basis over the term of the lease.

Foreign Currency-denominated Transactions and Translations
Transactions denominated in foreign currencies are recorded using the applicable exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are retranslated using the applicable rate of exchange at the end of reporting period. Foreign exchange gains or losses are recognized in the consolidated statement of income.

Taxes
Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the end of reporting period.

Deferred income tax
Deferred income tax is provided using the balance sheet liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of reporting period.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets and liabilities, however, are not recognized when the temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax assets and liabilities are not provided on non-taxable or nondeductible temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax assets and liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered. It is probable that sufficient future taxable profits will be available against which a deductible temporary difference can be utilized when there are sufficient taxable temporary difference relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference. In such circumstances, the deferred income tax asset is recognized in the period in which the deductible temporary difference arises.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period.

Deferred income tax assets and liabilities are offset if a legally enforceable right exists to set off the current income tax asset against the current income tax liabilities and deferred income taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax relating to items recognized outside profit or loss is recognized either in other comprehensive income or directly in equity.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Capital Stock

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Additional Paid-in Capital
Additional paid in capital represents the portion of the paid in capital in excess over the par or stated value.

Retained Earnings
Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effects of the changes in accounting policy and other capital adjustments.

Dividend Distribution
Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company.

Earnings per Share (EPS)
Basic EPS is computed by dividing net income for the year attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year.

Diluted EPS is computed by adjusting the net income for the year attributable to equity holders of the Company and the weighted average number of common shares outstanding during the year for the effects of all dilutive potential common shares.

The Company does not have potential dilutive common shares as of December 31, 2013 and 2012.

Events after the End of Reporting Period
Events after the end of reporting period that provide additional information about the Group's position at the end of reporting period (adjusting events) are reflected in the consolidated financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

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

Classification of financial instruments
The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheets.

Classifications of financial instruments are further discussed in Note 25.

Impairment of AFS financial assets
The Group analyzes its AFS equity instruments to consider changes in the issuer's industry performance, legal and regulatory framework, and other factors that affect the recoverability of the Group's investments. Further, the impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months

for quoted equity securities. No indicators of impairment on AFS financial assets existed as of December 31, 2013 and 2012.

Determination of type of lease - operating lease
The Group has various lease agreements in respect of certain properties. The Group evaluates whether significant risks and rewards of ownership of the leased properties are transferred (finance lease) or retained by the lessor (operating lease). The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that all significant risks and rewards of ownership over the leased properties are retained by the lessor. In determining risks and rewards of ownership, the Group considered, among others, the significance of the lease term as compared with the estimated useful lives of the related property. The leases are, therefore, accounted for as operating leases (see Note 28).

Total lease expense arising from operating leases recorded under “Occupancy” account amounted to ₱48.5 million, ₱62.2 million and ₱62.3 million in 2013, 2012 and 2011, respectively (see Note 20).

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Impairment of loans and receivables
The Group assesses on a regular basis if there is objective evidence of impairment of loans and receivables. The amount of impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. The determination of impairment requires the Group to estimate the future cash flows based on certain assumptions as well as to use judgment in selecting an appropriate rate in discounting. The Group uses specific impairment on its loans and receivables. The Group did not assess its loans and receivables for collective impairment due to the few counterparties which can be specifically identified. The amount of loss is recognized in the consolidated statement of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account.

Total carrying value of loans and receivables amounted to ₱5,704.7 million and ₱5,825.3 million as of December 31, 2013 and 2012, respectively, net of allowance to for doubtful accounts amounting to ₱27,290.0 million and ₱10,611.5 million as of December 31, 2013 and 2012, respectively (see Note 25).

Measurement of NRV of inventories
The Group’s estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period.

When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The Group’s inventories as of December 31, 2013 and 2012 amounting to ₱3,068.6 million and ₱2,628.2 million, respectively, are carried at cost, except for some materials and supplies which are carried at NRV amounting to ₱179.8 million and ₱214.9 million as of December 31, 2013 and 2012, respectively. Allowance for inventory obsolescence as of December 31, 2013 and 2012 amounted to ₱12.3 million (see Note 8).

Valuation of property, plant and equipment under revaluation basis
The Group's land and land improvements, buildings and building improvements, and machinery and equipment are carried at revalued amounts, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by independent appraisers. Revaluations were made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the end of reporting period.

In 2011, the Group's property, plant and equipment were appraised by a professionally qualified independent appraiser which resulted to revaluation increment amounting to ₱653.1 million presented as "Revaluation increment on property, plant and equipment", net of deferred income tax effect in the consolidated balance sheets. Property, plant and equipment at appraised values amounted to ₱5,358.7 million and ₱4,788.7 million as of December 31, 2013 and 2012, respectively (see Note 11).

Valuation of investment properties
The Group's investment properties are carried at fair value, with changes in fair values recorded in the consolidated statement of income in the year in which the fair value changes arise. The Group opted to rely on professionally qualified independent appraisers in determining the fair values of investment properties, and such fair values were determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of those transactions. The amounts and timing of recorded changes in fair value for any period would differ if different judgments and estimates were made, or utilized a different basis for determining fair value.

Total carrying value of investment properties as of December 31, 2013 and 2012 amounted to ₱233.6 million and ₱231.5 million, respectively (see Note 12).

Estimation of useful lives of property, plant and equipment
The Group estimates the useful lives of property, plant and equipment based on internal technical evaluation and experience with similar assets. Estimated useful lives of property, plant and equipment are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets.

The total carrying amount of depreciable property, plant and equipment as of December 31, 2013 and 2012 amounted to ₱4,938.2 and ₱4,409.8 million, respectively (see Note 11). There is no change in the estimated useful lives of property, plant and equipment in 2013 and 2012.

Impairment of noncurrent non-financial assets
The Group assesses, at the end of each reporting period, whether there are indications of impairment on its property, plant and equipment and other noncurrent assets. If such indication exists, impairment testing is performed except for goodwill which is tested on an annual basis. This requires an estimation of the value in use of the CGUs to which the assets belong. Estimating value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The aggregate carrying values of property, plant and equipment and other noncurrent assets amounted to ₱6,541.4 million and ₱6,340.9 million as of December 31, 2013 and 2012, respectively (see Notes 11 and 13).

Impairment of goodwill
The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Management determined that the goodwill amounting to ₱144.7 million as of December 31, 2013 and 2012 is not impaired (see Note 4).

Recognition of deferred income tax assets
The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable profits of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable profits to allow all or part of our deferred income tax assets to be utilized.

Deferred income tax assets recognized in the consolidated balance sheets amounted to ₱78.7 million and ₱122.8 million as of December 31, 2013 and 2012, respectively. On the other hand, no deferred income tax assets were recognized on NOLCO and excess MCIT amounting to ₱562.6 million and ₱441.3 million as of December 31, 2013 and 2012, respectively, based on the assessment that future taxable profits will not be available in the near future to allow the deferred income tax assets to be utilized (see Note 22).

Estimation of retirement benefits cost and liability
The determination of the obligation and cost for retirement benefits is dependent on the selection of certain assumptions provided by the Group to its actuary in calculating such amounts. Those assumptions were described in Note 19 and included among others, discount rate, and future salary increases.

Net retirement plan assets as of December 31, 2013 and 2012 amounted to ₱19.3 million and ₱19.9 million, respectively. Net retirement benefits liabilities amounted to ₱39.1 million and ₱99.9 million as of December 31, 2013 and 2012, respectively. Retirement benefits costs in 2013, 2012 and 2011 amounted to ₱22.0 million, ₱7.3 million and ₱5.3 million, respectively (see Note 19).

Provisions and contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsel handling the defense in these matters and is based upon the Group's analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or effectiveness of the strategies relating to these proceedings and assessments.

No provisions have been recorded as of December 31, 2013 and 2012 (see Note 29).

4. **Goodwill**

As at December 31, 2013, the Company performed its annual impairment testing of goodwill related to ADI, a CGU.

The key assumptions used in determining the recoverable amount of ADI based on value in use calculations are as follows:

Projected cash flows	Cash flow projections were based from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on the Company's projected sales volume increase, selling price increase and cost and expenses increase as detailed below: • *Sales volume (in number of liters)*. Management based the sales volume on the sales forecast of the Company. The increase in sales volume is based on the assumption that ADI's new column will be fully operational in 2014. • *Selling price, exclusive of tax*. Management expects that the selling price will be reduced by 10% per liter for regular alcohol and increase by 33% per liter for denatured alcohol and will remain at the same level for the next five years. • *Manufacturing costs, including molasses, fuel and other overhead*. Management expects the cost of ADI's primary raw material, molasses, to decrease by 3% throughout the projected period. Other costs are expected to have an average annual growth of 5%. • *Operating expenses*. Management expects a 3% annual increase in operating expenses.
Budgeted capital expenditure	The cash flow forecast for capital expenditure are based on past experience and includes the ongoing capital expenditure required to improve quality and production efficiency and to meet the volume requirements of the Company. It will cost approximately ₱600.0 million to complete the expansion project in 2014. Management also expects to spend ₱50.0 million for repairs and maintenance requirements for 2014 and ₱100.0 million from 2015 onwards.
5.5% growth rate	Perpetual growth rate used to compute for the terminal value is based on the forecasted long-term Philippine GDP growth rate.
8.3% pre-tax risk adjusted discount rate	The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group used discount rates based on the industry's Weighted Average Cost of Capital (WACC). The rates used to discount the future cash flows are based on risk-free interest rates in the relevant markets where the subsidiaries are domiciled taking into consideration the debt premium, market risk premium, gearing, corporate tax rate and asset betas of these subsidiaries.

As of December 31, 2013, the recoverable amount of ADI is higher than its carrying value.

5. **Operating Segments Information**

The Company's identified operating segments, which are consistent with the segments reported to the CODM, are as follows:

a. The Company, which produces distilled spirits with rhum being its main product and has four liquor bottling plants located in Quiapo, Manila; Cabuyao, Laguna; Murcia, Negros Occidental; and El Salvador, Misamis Oriental;
b. ADI, which produces fine quality ethyl alcohol from its distillery in Lian, Batangas; and,
c. AAC, which produces fine quality ethyl alcohol and aged alcohol from its distillery in Pulupandan, Negros Occidental.

The Company's BOD regularly reviews the operating results of the business units to make decisions on resource allocation and assess performance. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenues and segment expenses are consistent with the consolidated statement of income. Financing costs (including interest expense) and income taxes are managed on a per company basis and are not allocated to operating segments.

Further, the measurement of the segments assets are the same as those described in the summary of significant accounting policies, except for ADI's property, plant and equipment and investment properties which are measured at cost. Land and land improvements, buildings and building improvements, and machinery and equipment of the Company and AAC are stated at fair value based on a valuation performed by independent appraisers, while that of ADI is stated using the cost basis in their financial statements. ADI's land, land improvements, buildings and building improvements, and machinery and equipment is adjusted at the consolidated level to reflect their revalued amounts. The Company's and AAC's investment properties are stated at fair value, which reflects market conditions at the end of reporting period, while ADI's investment property is stated at cost less accumulated depreciation and any impairment in value in its financial statements. ADI's investment property is adjusted at the consolidated level to reflect its fair value.

The Group has only one geographical segment as all of its assets are located in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business information is not required. Sales from each two major distributors averaged 50% and 45%, 49% and 45% and 50% and 43%, respectively, of the total sales of the Company in 2013, 2012 and 2011.

Segment revenue includes transfers between operating segments. Such transfers are eliminated in the consolidation.

Segment expenses are those directly attributable to the segment.

The following tables present the information about the Group's operating segments:

As of and for the year ended December 31, 2013:

	(Amounts in millions)				
	The Company	**AAC**	**ADI**	**Eliminations and Adjustments**	**Consolidated**
Segment revenue					
External customers	**₱10,431.4**	**₱–**	**₱108.4**	**₱–**	**₱10,539.8**
Inter-segment	–	**45.4**	**551.3**	**(596.7)**	–
	10,431.4	**45.4**	**659.7**	**(596.7)**	**10,539.8**
Segment expenses	**9,632.2**	**229.2**	**712.8**	**(738.6)**	**9,835.6**
Operating income	**799.2**	**(183.8)**	**(53.1)**	**141.9**	**704.3**
Other income (charges)	**(326.1)**	**(2.1)**	**(3.1)**	**(5.5)**	**(336.8)**
Income (loss) before income tax	**473.1**	**(185.9)**	**(56.2)**	**136.4**	**367.4**
Provision for (benefit from) income tax	**147.9**	**(9.0)**	**(0.1)**	**41**	**179.8**
Segment profit (loss)	**₱325.2**	**(₱176.9)**	**(₱56.1)**	**₱95.4**	**₱187.6**
Depreciation and amortization	**(₱315.9)**	**(₱141.0)**	**(₱77.4)**	**(₱12.6)**	**(₱546.9)**
Royalty income	**21.0**	–	–	–	**21.0**
Changes in fair value of investment properties	**0.1**	**2.0**	–	–	**2.1**
Finance costs	**(417.0)**	–	–	–	**(417.0)**
Finance income	**0.3**	–	**0.1**	–	**0.4**

Other financial information of the operating segments are as follows:

	(Amounts in millions)				
	The Company	**AAC**	**ADI**	**Eliminations and Adjustments**	**Consolidated**
Assets					
Current assets	**₱9,099.2**	**₱1,066.1**	**₱824.3**	**(₱917.8)**	**₱10,071.8**
Noncurrent assets	**7,715.6**	**803.9**	**1,585.4**	**(3,135.5)**	**6,969.4**
Total assets	**₱16,814.8**	**₱1,870.0**	**₱2,409.7**	**(₱4,053.3)**	**₱17,041.2**
Liabilities					
Current liabilities	**₱1,807.5**	**₱13.3**	**₱700.7**	**(₱963.6)**	**₱1,557.9**
Noncurrent liabilities	**5,505.9**	**69.0**	**17.8**	**(6.3)**	**5,586.4**
Total liabilities	**₱7,313.4**	**₱82.3**	**₱718.5**	**(₱969.9)**	**₱7,144.3**
Additions to noncurrent assets					
Property, plant and equipment	**₱183.3**	**₱596.3**	**₱1.2**	**₱–**	**₱780.8**
Other noncurrent assets	**4.0**	–	–	–	**4.0**

As of and for the year ended December 31, 2012 (as restated):

	(Amounts in millions)				
	The Company	AAC	ADI	Eliminations and Adjustments	Consolidated
Segment revenue					
External customers	₱12,879.8	₱–	₱69.8	₱–	₱12,949.6
Inter-segment	–	152.2	1,056.7	(1,208.9)	–
	12,879.8	152.2	1,126.5	(1,208.9)	12,949.6
Segment expenses	11,142.2	316.0	797.8	(1,129.3)	11,126.7
Operating income	1,737.6	(163.8)	328.7	(79.6)	1,822.9
Other income (charges)	(376.3)	(1.6)	77.2	(10.1)	(310.8)
Income (loss) before income tax	1,361.3	(165.4)	405.9	(89.7)	1,512.1
Provision for (benefit from) income tax	406.1	(5.2)	121.8	(27.1)	495.6
Segment profit (loss)	₱955.2	(₱160.2)	₱284.1	(₱62.6)	₱1,016.5
Depreciation and amortization	(₱313.1)	(₱135.9)	(₱44.1)	(₱12.6)	(₱505.7)
Royalty income	35.4	–	–	–	35.4
Changes in fair value of investment properties	0.3	(5.2)	–	0.4	(4.5)
Finance costs	(417.7)	–	–	–	(417.7)
Finance income	6.5	0.1	0.1	–	6.7

Other financial information of the operating segments are as follows:

	(Amounts in millions)				
	The Company	AAC	ADI	Eliminations and Adjustments	Consolidated
Assets					
Current assets	₱9,187.1	₱1,133.3	₱406.0	(₱1,184.1)	₱9,542.3
Noncurrent assets	6,879.7	956.2	1,066.7	(2,123.1)	6,779.5
Total assets	₱16,066.8	₱2,089.5	₱1,472.7	(₱3,307.2)	₱16,321.8
Liabilities					
Current liabilities	₱2,510.7	₱ 45.9	₱708.0	(₱1,080.9)	₱2,183.7
Noncurrent liabilities	5,574.2	78.6	17.9	(47.4)	5,623.3
Total liabilities	₱8,084.9	₱124.5	₱725.9	(₱1,128.3)	₱7,807.0
Additions to noncurrent assets					
Property, plant and equipment	₱591.1	₱–	₱319.8	₱–	₱910.9
Other noncurrent assets	8.5	–	–	–	8.5

For the year ended December 31, 2011(as restated):

	(Amounts in millions)				
	The Company	AAC	ADI	Eliminations and Adjustments	Consolidated
Segment revenue					
External customers	₱12,321.9	₱–	₱ 84.7	₱–	₱12,406.6
Inter-segment	–	180.6	1,211.2	(1,391.8)	–
	12,321.9	180.6	1,295.9	(1,391.8)	12,406.6
Segment expenses	10,628.5	387.9	1,010.6	(1,334.8)	10,692.2
Operating income	1,693.4	(207.3)	285.3	(57.0)	1,714.4
Other income (charges)	(180.0)	35.3	–	(8.8)	(153.5)
Income (loss) before income tax	1,513.4	(172.0)	285.3	(65.8)	1,560.9
Provision for (benefit from) income tax	450.0	(10.8)	83.6	(18.7)	504.1
Segment profit (loss)	₱1,063.4	(₱161.2)	₱201.7	(₱47.1)	₱1,056.8
Depreciation and amortization	(₱236.2)	(₱144.5)	(₱37.0)	(₱16.2)	(₱433.9)
Recovery from insurance claims	186.0	–	–	–	186.0
Royalty income	46.4	–	–	–	46.4
Changes in fair value of investment properties	(0.3)	44.3	–	(4.4)	39.6
Finance costs	(418.5)	–	–	–	(418.5)
Finance income	0.6	0.1	0.3	–	1.0

Other financial information as of January 1, 2012 (as restated) of the operating segments are as follows:

	(Amounts in millions)				
	The Company	AAC	ADI	Eliminations and Adjustments	Consolidated
Assets					
Current assets	₱8,034.0	₱ 1,059.1	₱ 440.4	(₱891.3)	₱8,642.2
Noncurrent assets	6,578.1	1,168.1	421.6	(1,985.0)	6,182.8
Total assets	₱14,612.1	₱2,227.2	₱862.0	(₱2,876.3)	₱14,825.0
Liabilities					
Current liabilities	₱2,017.1	₱16.0	₱312.7	(₱743.6)	₱1,602.2
Noncurrent liabilities	5,529.7	85.1	79.4	(16.7)	5,677.5
Total liabilities	₱7,546.8	₱101.1	₱392.1	(₱760.3)	₱7,279.7
Additions to noncurrent assets					
Property, plant and equipment	₱508.3	₱0.8	₱124.8	₱3.6	₱637.5
Other noncurrent assets	0.3	–	–	–	0.3

6. **Cash**

	2013	2012
Cash on hand	**₱1,280,000**	₱1,215,000
Cash in banks (Note 18)	**1,208,799,886**	392,861,896
	₱1,210,079,886	₱394,076,896

Cash in banks earn interest at bank deposit rates. Interest income earned from cash in banks amounted to ₱0.4 million, ₱6.7 million and ₱1.0 million in 2013, 2012 and 2011, respectively.

7. **Receivables**

	2013	2012
Trade:		
Third parties	**₱4,322,532,023**	₱5,080,213,406
Related parties (Note 18)	**64,095,564**	279,743,702
Advances to suppliers:		
Third parties	**123,038,477**	168,890,648
Related parties (Note 18)	**61,446,703**	26,221,545
Others:		
Third parties	**71,639,957**	67,925,538
Related parties (Note 18)	**53,846,449**	6,427,694
	4,696,599,173	5,629,422,533
Less allowance for doubtful accounts	**52,981,514**	36,303,021
	₱4,643,617,659	₱5,593,119,512

a. The Group's credit term is 30 to 60 days.

b. Other receivables from third parties as of December 31, 2013 and 2012 mainly pertain to the Group's receivables from power providers and advances to its officers and employees.

c. Movement in allowance for doubtful accounts for the year ended December 31, 2013 are as follow:

	Trade	Advances to Suppliers	Others	Total
Beginning	₱5,097,676	₱25,691,507	₱5,513,838	₱36,303,021
Provision (Note 20)	16,678,493	–	–	16,678,493
Ending	₱21,776,169	₱25,691,507	₱5,513,838	₱52,981,514

There were no movements in the allowance for doubtful accounts in 2012.

8. Inventories

	2013	2012 (As Restated, Note 9)
Finished goods - at cost	**₱126,170,876**	₱404,099,707
Work in process - at cost	**915,686,786**	1,168,398,023
Raw materials - at cost (Note 18)	**1,517,185,208**	491,931,980
Materials and supplies (Note 18):		
At cost	**329,837,960**	348,862,930
At NRV	**179,767,464**	214,859,989
	₱3,068,648,294	₱2,628,152,629

Allowance for inventory obsolescence on materials and supplies amounted to ₱12.3 million as of December 31, 2013 and 2012, respectively. The cost of materials and supplies stated at NRV amounted to ₱192.0 million and ₱227.1 million as of December 31, 2013 and 2012, respectively.

9. Prepayments and Other Current Assets

	2013	2012 (As Restated)
Prepaid:		
Excise tax	**₱925,030,262**	₱774,841,415
Importation charges	**87,622,213**	49,412,968
Input VAT	**120,379,479**	93,008,640
Creditable withholding tax	**13,100,482**	6,128,779
Others	**3,332,472**	3,528,336
	₱1,149,464,908	₱926,920,138

a. The new excise tax law or Republic Act 10351 (RA 10351) became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

   To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

   The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013 however still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was ₱725.8 million. Said amount represented taxes paid previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. The Company is contesting the disallowance of the tax credit and plans to undertake appropriate legal measures to obtain a favorable outcome.

The Company has paid a total of ₱45.9 million in excise taxes for the raw materials that were purchased/imported for purposes of compounding during the subsistence of RMC No. 3-2013. The Company also would claim this amount on the basis that the RMC was issued without basis and beyond the authority granted by law to the administrative agency.

b. Prepaid importation charges pertain to the acquisition of machinery and equipment in line with the Group's expansion program and purchases of raw materials.

c. Other current assets pertain to prepaid insurance and other prepaid expenses.

10. Available-for-Sale Financial Assets

	2013	2012
Quoted equity share (Notes 25 and 27)	**₱30,000,000**	₱42,000,000
Unquoted equity shares (Note 25)	**460,269**	460,269
	₱30,460,269	₱42,460,269

The Group's investment in quoted equity share pertains to the club share in Manila Golf and Country Club, Inc. which is carried at fair value based on the quoted price of the club share at the close of business, with changes in fair value being recognized in other comprehensive income. The cost of this investment amounted to ₱11.5 million.

Presented below are the movements in the net changes in fair values of AFS financial assets:

	2013	2012
At January 1	**₱27,490,000**	₱13,975,000
Fair value changes	**(10,835,001)**	13,515,000
At December 31	**₱16,654,999**	₱27,490,000

11. Property, Plant and Equipment

	At Appraised Values				At Cost						
	Land	Land Improvements, Buildings and Building Improvements	Machinery and Equipment	Subtotal	Furniture, Fixtures and Office Equipment	Transportation Equipment	Warehouse, Laboratory and Other Equipment	Leasehold Improvements	Construction in Progress	Subtotal	Total
December 31, 2013											
Appraised Values/Cost											
January 1, 2013	**₱1,073,823,007**	**₱2,630,673,683**	**₱5,965,513,602**	**₱9,670,010,292**	**₱103,610,562**	**₱432,395,987**	**₱796,059,302**	**₱108,703,328**	**₱806,996,908**	**₱2,247,766,087**	**₱11,917,776,379**
Additions	–	**36,812,012**	**231,011,605**	**267,823,617**	**3,588,447**	**4,371,964**	**13,468,821**	–	**491,596,405**	**513,025,637**	**780,849,254**
Reclassifications	–	**214,639,008**	**535,598,571**	**750,237,579**	**72,479**	–	**33,653,525**	**15,944,847**	**(799,908,430)**	**(750,237,579)**	–
Disposals	–	**(1,826,036)**	**(29,119,645)**	**(30,945,681)**	–	–	–	–	–	–	**(30,945,681)**
December 31, 2013	**1,073,823,007**	**2,880,298,667**	**6,703,004,133**	**10,657,125,807**	**107,271,488**	**436,767,951**	**843,181,648**	**124,648,175**	**498,684,883**	**2,010,554,145**	**12,667,679,952**
Accumulated Depreciation, Amortization and Impairment											
January 1, 2013	–	**1,464,430,987**	**3,416,860,165**	**4,881,291,152**	**67,614,104**	**323,560,457**	**307,931,519**	**46,758,447**	–	**745,864,527**	**5,627,155,679**
Additions	–	**116,816,736**	**317,425,925**	**434,242,661**	**7,219,921**	**33,533,851**	**62,232,612**	**9,666,199**	–	**112,652,583**	**546,895,244**
Disposals	–	**(1,004,320)**	**(16,054,486)**	**(17,058,806)**	–	–	–	–	–	–	**(17,058,806)**
December 31, 2013	–	**1,580,243,403**	**3,718,231,604**	**5,298,475,007**	**74,834,025**	**357,094,308**	**370,164,131**	**56,424,646**	–	**858,517,110**	**6,156,992,117**
Net Book Values	**₱1,073,823,007**	**₱1,300,055,264**	**₱2,984,772,529**	**₱5,358,650,800**	**₱32,437,463**	**₱79,673,643**	**₱473,017,517**	**₱68,223,529**	**₱498,684,883**	**₱1,152,037,035**	**₱6,510,687,835**
December 31, 2012											
Appraised Values/Cost											
January 1, 2012	₱1,073,823,007	₱2,469,604,913	₱5,391,572,373	₱8,935,000,293	₱91,713,183	₱397,640,502	₱700,910,382	₱105,676,542	₱621,091,045	₱1,917,031,654	₱10,852,031,947
Additions	–	43,868,917	528,659,260	572,528,177	11,897,379	52,918,303	95,148,920	982,143	351,141,419	512,088,164	1,084,616,341
Reclassifications	–	117,199,853	45,991,060	163,190,913	–	–	–	2,044,643	(165,235,556)	(163,190,913)	–
Disposals	–	–	(709,091)	(709,091)	–	(18,162,818)	–	–	–	(18,162,818)	(18,871,909)
December 31, 2012	1,073,823,007	2,630,673,683	5,965,513,602	9,670,010,292	103,610,562	432,395,987	796,059,302	108,703,328	806,996,908	2,247,766,087	11,917,776,379
Accumulated Depreciation, Amortization and Impairment											
January 1, 2012	–	1,338,289,047	3,154,751,812	4,493,040,859	61,352,324	301,829,486	246,455,320	37,292,696	–	646,929,826	5,139,970,685
Additions	–	126,141,940	262,817,444	388,959,384	6,261,780	39,516,992	61,476,199	9,465,751	–	116,720,722	505,680,106
Disposals	–	–	(709,091)	(709,091)	–	(17,786,021)	–	–	–	(17,786,021)	(18,495,112)
December 31, 2012	–	1,464,430,987	3,416,860,165	4,881,291,152	67,614,104	323,560,457	307,931,519	46,758,447	–	745,864,527	5,627,155,679
Net Book Values	₱1,073,823,007	₱1,166,242,696	₱2,548,653,437	₱4,788,719,140	₱35,996,458	₱108,835,530	₱488,127,783	₱61,944,881	₱806,996,908	₱1,501,901,560	₱6,290,620,700

a. The Group has on-going and planned capital expenditure projects as follows:

Expansion of ADI

ADI was able to start up the commissioning of the new plant to improve further its operations and increase its capacity from 75,000 liters of ethyl alcohol per day to 175,000 liters per day with the addition of new distillation columns. The project which amounted to ₱279.5 million also includes the construction of an alcohol ageing plant with a capacity of 30,000 barrels. The upgrades will provide TDI with more high grade alcohol to be used in the production of new products for Luzon and export markets. The upgrades will also eliminate third party costs relating to the conversion of low grade alcohol to high grade alcohol and ensure a steady supply of high grade alcohol.

Expansion of Negros Plant

TDI has embarked on an additional expansion consisting of the construction of a finished goods and raw materials warehouse, and a new bottle sorting facility, all of which are expected to be completed in 2014.

The construction in progress related to the expansion of the plant amounted to ₱106.3 million as of December 31, 2013.

b. In 2011, the Group revalued its land, land improvements, buildings and building improvements and machinery and equipment based on a revaluation made by professionally qualified independent appraisers. The revaluation resulted in revaluation increment of ₱653.1 million, net of deferred income tax effect of ₱279.9 million (see Note 27).

The movements in revaluation increment on the property, plant and equipment are as follows:

	2013	2012
Beginning of the year	**₱1,430,222,470**	₱1,512,342,975
Transfer to retained earnings absorbed through depreciation	**(89,964,427)**	(82,120,505)
End of the year	**₱1,340,258,043**	₱1,430,222,470

c. If land, land improvements, buildings and building improvements, and machinery and equipment were carried at cost less accumulated depreciation and impairment, the amounts would be as follows:

December 31, 2013:

	Cost	**Accumulated Depreciation, Amortization and Impairment**	**Net Book Values**
Land	**₱247,149,987**	**₱–**	**₱247,149,987**
Land improvements, buildings, and building improvements	**1,779,827,656**	**(912,575,951)**	**867,251,705**
Machinery and equipment	**4,970,818,782**	**(2,628,397,076)**	**2,342,421,706**
	₱6,997,796,425	**(₱3,540,973,027)**	**₱3,456,823,398**

December 31, 2012:

	Cost	Accumulated Depreciation, Amortization and Impairment	Net Book Values
Land	₱247,149,987	₱–	₱247,149,987
Land improvements, buildings, and building improvements	1,530,202,670	(855,106,521)	675,096,149
Machinery and equipment	4,233,328,251	(2,397,203,260)	1,836,124,991
	₱6,010,680,908	(₱3,252,309,781)	₱2,758,371,127

d. The distribution of the Group's depreciation and amortization expense of the Group's property, plant and equipment follows:

	2013	2012	2011
Cost of sales	**₱322,579,446**	₱325,665,137	₱248,729,769
Selling expenses	**15,976,341**	23,609,358	27,288,836
General and administrative expenses	**208,339,457**	156,405,611	157,862,405
	₱546,895,244	₱505,680,106	₱433,881,010

12. Investment Properties

Movements of the Group's investment properties are as follows:

	2013	2012
January 1	**₱231,530,000**	₱235,988,000
Changes in fair values (Note 21)	**2,096,000**	(4,458,000)
December 31	**₱233,626,000**	₱231,530,000

a. The Group's investment properties consist of land, land improvements and condominium units.

   The condominium units are being leased out to third parties. Rent income derived from the rental of condominium units amounted to ₱0.7 million, ₱1.1 million and ₱0.4 million in 2013, 2012 and 2011, respectively. Expenses paid for the land and condominium units that are being leased out amounted to ₱0.2 million, which is presented under "Taxes and licenses" in 2013, 2012 and 2011.

b. Investment properties of the Company and AAC have a fair value amounting to ₱228.3 million as of December 31, 2013 determined based on valuation performed by independent appraiser whose report was dated January 2, 2014.

   Investment properties of ADI have a fair value amounting to ₱5.4 million as of January 7, 2013 determined based on valuation performed by independent appraiser whose report was dated January 23, 2013. Management believes that there is no significant change in the fair value of the investment properties from January 7, 2013 to December 31, 2013 because there were no significant improvements made to the said investment properties in 2013 and no impairment indicators existed as of December 31, 2013.

13. **Other Noncurrent Assets**

	2013	2012
Investment in shares of stock of DABI	**₱–**	₱23,667,124
Software	**18,426,554**	17,340,768
Deposits	**11,077,485**	8,704,357
Others	**1,194,194**	596,737
	₱30,698,233	₱50,308,986

On February 26, 2003, the BOD of DABI approved a resolution to cease DABI's business operations effective March 1, 2003. Consequently, DABI's Guerrero brand was transferred to the Company while Don Pedro brand was transferred to ADPI. The Group now has full ownership and control over the marketing, sales, and distribution of the Guerrero brand.

Pursuant to the Termination of Joint Venture Agreement signed by the Company and ADPI on September 15, 2003, the parties terminated the Joint Venture Agreement effective March 1, 2003. DABI shall be dissolved and liquidated, and the parties agree to take all corporate actions necessary to dissolve DABI, wind up its affairs and distribute its assets in an orderly fashion. The parties have yet to decide on the date of liquidation. The liability to DABI amounting to ₱20.0 million is only with recourse to the Company's investment in the shares of DABI.

Investment in shares of stock of DABI is net of impairment losses amounting to ₱1.3 million as of December 31, 2012. During 2013, the Company wrote off its net investment in shares of stock of DABI amounting to ₱3.7 million.

14. **Accounts Payable and Other Current Liabilities**

	2013	2012
Accounts payable:		
Trade:		
Third parties	**₱521,410,122**	₱394,299,340
Related parties (Note 18)	**493,055,031**	961,978,346
Non-trade:		
Third parties	**166,767,287**	216,489,345
Related parties (Note 18)	**43,977,588**	21,922,402
Due to related parties (Note 18)	**57,500,000**	77,500,000
Accrued and other liabilities (Notes 16 and 17)	**172,362,886**	88,959,512
VAT payable	**56,601,469**	236,927,474
Other taxes payable	**11,816,765**	18,128,994
	₱1,523,491,148	₱2,016,205,413

Non-trade accounts payable mainly pertain to payables to advertising and freight companies.

Accrued and other liabilities consist mainly of accrued interest of the Company on the bonds payable amounting to ₱54.8 million as of December 31, 2013 and 2012 (see Notes 16 and 17).

15. **Bank Loan**

On August 8, 2011, the Company availed of a ₱250.0 million loan from China Banking Corporation for the purpose of meeting its working capital requirements. The principal and interest shall be payable upon maturity on November 7, 2011. The loan carries an annual interest of 4.5% and is payable monthly. The loan was fully paid on February 5, 2012.

16. **Bonds Payable**

On November 24, 2009, the Company's BOD approved and confirmed the issuance of the retail bonds amounting to ₱5,000.0 million due in 2015 at 8.055% per annum, payable quarterly, to be used for general corporate purposes, including debt refinancing.

The balance and movements in unamortized bond issuance cost related to the bonds payable as of and for the years ended December 31 are shown below:

	2013	2012
Balance at the beginning of the year	₱31,704,545	₱44,852,153
Amortization of bond issuance cost	14,248,964	13,147,608
Balance at the end of the year	₱17,455,581	₱31,704,545

On February 12, 2010, the Company completed the bond offering and issued the Retail Bonds with an aggregate principal amount of ₱5,000.0 million. The bonds will mature on February 13, 2015.

The bond provides that the Company may at any time purchase any of the bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase bonds pro-rata from all bondholders and the bondholders shall not be obliged to sell. Any bonds so purchased shall be redeemed and cancelled and may not be re-issued.

The bond also provides for certain negative covenants on the part of the Company such as:

i. The Company shall not create or suffer to exist any lien, security interest or other charge or encumbrance, upon or with respect to any of its properties, whether now owned or hereafter acquired.

ii. The Company shall not assign any right to receive income for the purpose of securing any other debt, unless at the same time or prior thereto, its obligations under the Bond Agreement are forthwith secured equally and ratably therewith.

iii. The Company shall not have the benefit of such other security as shall not be materially less beneficial to the bondholders.

iv. The Company shall maintain, based on the most recent audited financial statements prepared in accordance with PFRSs, a maximum debt-to-equity ratio of 1.75 times and a minimum current ratio of 2.0 times.

As of December 31, 2013 and 2012, the Company has complied with the bond covenants.

17. **Finance Costs**

	2013	2012	2011
For the years ended December 31:			
Bank loan (Note 15)	**₱–**	₱1,758,681	₱3,729,166
Bonds payable (Note 16)	**402,750,001**	402,750,001	402,750,001
Amortization of bond issue cost (Note 16)	**14,248,964**	13,147,608	12,067,551
	₱416,998,965	₱417,656,290	₱418,546,718
As of December 31:			
Accrued interest (Note 14)	**₱54,818,750**	₱54,818,750	₱54,818,750

18. **Related Party Transactions**

The Company and each entity within the Group has transacted with the following related parties:

Name	**Relationship**
LTG	Parent Company
Asia Brewery, Inc. (ABI)	Subsidiary of LTG
Interbev Philippines, Inc. (IPI)	Subsidiary of LTG
Packageworld, Inc.	Subsidiary of LTG
Tanduay Brands International, Inc.	Subsidiary of LTG
Philippine National Bank (PNB)	Subsidiary of LTG
PMFTC, Inc.	Associate of LTG
Domecq Asia Brand, Inc.	Associate of the Company
Himmel Industries, Inc.	Under Common Control
Grandspan Development Corp.	Under Common Control
Total Bulk Corporation	Under Common Control
Basic Holdings Corporation	Under Common Control
Prior Holdings, Inc.	Under Common Control
Dyzum Distillers, Inc.	Under Common Control
Lapu-lapu Packaging Corporation	Under Common Control
Parity Packaging Corporation	Under Common Control
Rapid Movers & Forwarders Co. Inc.	Under Common Control
Philippine Airlines, Inc.	Under Common Control
Stockholder	Under Common Control

The consolidated balance sheets include the following assets (liabilities) account balances with related parties as of December 31:

		Amount/Volume		Outstanding Balance		Terms and Conditions
		2013	2012	**2013**	2012	
Parent Company	Nontrade accounts payable	**(₱48,000,000)**	(₱48,000,000)	**(₱7,760,000)**	₱–	On demand; noninterest bearing
Subsidiaries of LTG	Trade receivables	**87,527,958**	164,930,263	**58,991,951**	274,943,883	30 to 60 days terms; noninterest bearing
	Advances to suppliers	**(5,000,000)**	–	**–**	5,000,000	30 to 60 days terms, noninterest bearing
	Other receivables	**57,726,635**	72,971,415	**50,485,307**	3,254,194	30 to 60 days terms, noninterest bearing
	Trade accounts payable	**(726,548,698)**	(1,296,739,931)	**(263,623,919)**	(691,376,881)	30 to 60 days terms; noninterest bearing
	Cash in banks	**–**	–	**1,173,153,461**	390,794,304	On demand; at bank deposit rates
Associate of LTG	Trade receivables	**4,371,541**	641,846	**387,334**	224,892	30 to 60 days terms; noninterest bearing
Associate of the Company	Due to related parties	**–**	**–**	**–**	20,000,000	On demand; noninterest bearing
Entities Under Common Control	Trade receivables	**16,805,531**	14,322,957	**4,716,279**	4,574,927	30 to 60 days terms; noninterest bearing
	Advances to suppliers	**40,225,158**	2,051,141	**61,446,703**	21,221,545	30 to 60 days terms, noninterest bearing
	Other receivables	**187,642**	(20,308,637)	**3,361,142**	3,173,500	30 to 60 days terms, noninterest bearing
	Trade accounts payable	**(9,240,923)**	(8,808,083)	**(229,431,112)**	(270,601,465)	30 to 60 days terms; noninterest bearing
	Nontrade accounts payable	**(185,451,560)**	(240,356,717)	**(36,217,588)**	(21,922,402)	On demand; noninterest bearing
	Due to related parties	**–**	–	**(57,500,000)**	(57,500,000)	On demand; noninterest bearing

As of December 31, 2013 and 2012, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

The consolidated statements of income include the following revenues and other income-related (costs and other expenses) - related account balances arising from transactions with related parties:

	Nature	2013	2012	2011
Parent Company	Management fees	**(₱48,000,000)**	(₱48,000,000)	(₱48,000,000)
Subsidiaries of LTG	Sale of alcohol	**58,016,850**	126,368,907	118,370,357
	Sale of carbon dioxide	**29,511,107**	38,561,356	33,745,232
	Sale of cullets and other items	**26,712,550**	37,554,896	29,820,307
	Purchase of bottles	**(680,349,355)**	(1,190,467,335)	(1,161,938,202)
	Royalty income	**20,949,486**	35,416,519	46,364,899
	Finance income	**405,629**	6,686,399	951,344
	Purchase of packaging materials	**(46,199,342)**	(106,272,596)	(134,013,779)
Associate of LTG	Sale of carbon dioxide	**4,371,541**	641,846	28,701,590
Entities Under Common Control	Purchases of other raw materials	**(9,240,923)**	(8,808,083)	(11,702,589)
	Freight and handling	**(5,363,735)**	(67,039,217)	(71,613,973)
	Purchase of packaging materials	–	–	(9,860,338)
	Sale of carbon dioxide	**16,805,531**	14,322,957	15,846,801
	Management fees	**(180,087,825)**	(173,317,500)	(150,000,000)
Key Management Personnel	Short-term benefits	**(18,924,887)**	(20,565,944)	(12,403,129)
	Post-employment benefits	**(5,457,777)**	(1,841,484)	(1,333,834)

The following are the balances and transactions among related parties which are eliminated during consolidation:

Amounts owed by:	Amounts owed to:	Terms and Conditions	2013	2012
ADI	TDI	30 to 60 days terms; noninterest bearing	**₱50,986,877**	₱87,924,416
AAC	TDI	30 to 60 days terms; noninterest bearing	**528,519,461**	556,515,083
TDI	ADI	30 to 60 days terms; noninterest bearing	**57,062,500**	165,328,296
ADI	AAC	30 to 60 days terms; noninterest bearing	**271,157,727**	271,125,973

Revenue and income by:	Inventoriable costs:	Nature	2013	2012	2011
ADI	TDI	Purchases of alcohol	**₱551,233,910**	₱1,056,710,000	₱1,211,165,000
AAC	TDI	Purchases of alcohol	**45,360,000**	152,180,000	180,600,000
AAC	TDI	Rental of tanks	**5,550,000**	4,410,000	4,410,000

In 2013, the Company's BOD approved the conversion of advances to ADI amounting to ₱1.0 billion as additional investment to ADI.

19. Retirement Benefits

The Company, AAC and ADI have funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2013 and 2012, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

Net Retirement Plan Assets

The following tables summarize the components of the Group's net retirement benefits cost recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets:

The details of the Group's net retirement benefits costs are as follows:

	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
Net retirement benefits cost (gain)			
Current service cost	**₱1,108,824**	₱776,558	₱937,714
Net interest cost	**(912,574)**	(1,354,071)	(1,374,456)
Net retirement benefits cost (gain)	**₱196,250**	(₱577,513)	(₱436,742)
Portions recognized in:			
General and administrative expenses	**₱196,250**	(₱577,513)	(₱436,742)

	2013	2012 (As restated, Note 2)
Fair value of plan assets	**₱30,578,354**	₱32,091,785
Present value of defined benefit obligation	**(11,315,955)**	(12,166,600)
Net retirement plan assets	**₱19,262,399**	₱19,925,185
Fair value of plan assets:		
At January 1	**₱32,091,785**	₱31,170,801
Asset return in net interest cost	**1,469,804**	2,035,453
Benefits paid	**(2,643,501)**	(845,419)
Actuarial loss	**(339,734)**	(269,050)
At December 31	**₱30,578,354**	₱32,091,785

	2013	2012 (As restated, Note 2)
Present value of defined benefit obligation:		
At January 1	**₱12,166,600**	₱10,434,643
Current service cost	**1,108,824**	776,558
Interest cost	**557,230**	681,382
Benefits paid	**(2,643,501)**	(845,419)
Actuarial loss	**126,802**	1,119,436
At December 31	**₱11,315,955**	₱12,166,600

Net Retirement Benefits Liabilities

The following tables summarize the components of the Group's net retirement benefits cost recognized in the consolidated statements of income and the unfunded status and amounts recognized in the consolidated balance sheets:

The details of the Group's net retirement benefits costs are as follows:

	2013	2012 (As Restated, Note 2)	2011 (As Restated, Note 2)
Net retirement benefits cost			
Current service cost	**₱16,645,502**	₱7,045,968	₱5,161,429
Net interest cost	**5,180,990**	871,067	566,787
	₱21,826,492	₱7,917,035	₱5,728,216
Portions recognized in:			
Cost of goods sold	**₱13,426,695**	₱4,618,761	₱3,149,286
Selling expenses	**1,517,541**	522,032	357,896
General and administrative expenses	**6,882,256**	2,776,242	2,221,034
	₱21,826,492	₱7,917,035	₱5,728,216

	2013	2012 (As Restated, Note 2)
Present value of defined benefit obligation	**₱127,664,011**	₱190,399,775
Fair value of plan assets	**(88,574,170)**	(90,514,455)
Net retirement benefits liabilities	**₱39,089,841**	₱99,885,320
Present value of defined benefit obligation:		
At January 1	**₱190,399,775**	₱95,086,096
Current service cost	**16,645,502**	7,045,968
Interest cost	**9,859,857**	6,571,342
Benefits paid	**(8,543,938)**	(489,662)
Past service cost (Note 21)	**(70,880,174)**	–
Actuarial loss (gain)	**(9,817,011)**	82,186,031
At December 31	**₱127,664,011**	₱190,399,775

	2013	2012 (As Restated, Note 2)
Fair value of plan assets:		
At January 1	**₱90,514,455**	₱82,970,991
Asset return in net interest cost	**4,678,867**	5,700,275
Contributions	**3,600,000**	3,600,000
Benefits paid	**(8,543,938)**	(489,662)
Actuarial loss	**(1,675,214)**	(1,267,149)
At December 31	**₱88,574,170**	₱90,514,455

During 2013, the Company shutdown its Quiapo plant and retrenched its employees assigned to the plant. Past service cost amounting to ₱70.9 million representing the change in the present value of the defined benefit obligation as a result of the implementation of the retrenchment program was immediately recognized in profit or loss in 2013 and included in the Other Income (Charges) - Others account in the consolidated statement of income (see Note 21).

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation:

	2013	2012
One year and less	**₱6,573,721**	₱9,507,848
Between 1 and 5 years	**14,614,336**	30,476,225
Between 5 and 10 years	**52,610,500**	88,098,359
Between 10 and 15 years	**131,070,590**	204,510,828
Between 15 and 20 years	**200,274,467**	295,113,550
Beyond 20 years	**1,406,524,825**	1,351,583,808
Total expected payments	**₱1,811,668,439**	₱1,979,290,618

The average duration of the defined benefit plan obligations as of December 31, 2013 and 2012 is 14-23 years.

The plan assets of Group are being held by a trustee bank. The investing decisions of these plans are made by the respective authorized officers of each entity.

The following table presents the carrying amounts and fair values of the combined assets of the plans less liabilities:

	2013	2012
Cash and cash equivalents	**₱53,819,956**	₱67,100,510
Investments in debt securities	**26,780,200**	25,100,000
Investments in government securities	**38,414,020**	29,944,346
Receivable and others	**511,577**	624,125
	119,525,753	122,768,981
Less: payables	**(373,229)**	(162,741)
Total	**₱119,152,524**	₱122,606,240

The principal assumptions used in determining defined benefit obligations of the Group as of December 31 are as follows:

	2013	2012	2011
Discount rates	**3.90%-4.68%**	4.58%-5.31%	6.53%-7.33%
Future annual increase in salary	**10.00%**	10.00%	10.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2013, assuming if all other assumptions were held constant:

	Increase (decrease)	Impact on the defined benefit obligation
Discount rate		
	+0.5%	(₱10,180,834)
	–0.5%	11,295,574
Future salary increases		
	+1.0%	₱21,625,751
	–1.0%	(18,134,314)

20. Cost of Goods Sold and Operating Expenses

Cost of Goods Sold

	2013	2012 (As Restated, Note 2)	2011 (As Restated, Note 2)
Materials used and changes in inventories	**₱6,991,070,859**	₱8,383,215,678	₱7,968,434,701
Depreciation and amortization (Note 11)	**322,579,446**	325,665,137	248,729,769
Fuel and power	**300,165,890**	319,829,715	320,894,103
Personnel costs (Note 19)	**282,444,674**	323,408,282	311,926,695
Repairs and maintenance	**133,000,422**	181,025,521	181,086,457
Freight and handling	**50,308,104**	149,773,230	153,900,990
Occupancy (Note 28)	**47,175,347**	48,434,117	42,559,160
Taxes and licenses	**330,236**	147,027	147,027
Management and professional fees	**70,764**	947,544	23,395
Others	**166,010,762**	192,450,345	265,882,343
	₱8,293,156,504	₱9,924,896,596	₱9,493,584,640

Selling Expenses

	2013	2012 (As Restated, Note 2)	2011 (As Restated, Note 2)
Advertising and promotions	**₱575,567,531**	₱518,955,856	₱515,611,981
Depreciation and amortization (Note 11)	**15,976,341**	23,609,358	27,288,836
Personnel costs (Note 19)	**10,657,492**	9,283,788	6,462,141
Fuel and power	**4,417,719**	4,426,970	4,601,428
Freight and handling	**3,358,982**	3,010,905	5,946,356
Repairs and maintenance	**631,247**	694,104	147,312
Office supplies	**654,738**	1,277,243	1,816,674
Occupancy (Note 28)	**38,711**	12,528,291	18,887,254
Others	**36,715,473**	27,930,394	18,462,340
	₱648,018,234	₱601,716,909	₱599,224,322

General and Administrative Expenses

	2013	2012 (As Restated, Note 2)	2011 (As Restated, Note 2)
Personnel costs (Note 19)	**₱249,405,349**	₱97,614,331	₱93,834,237
Management and professional fees (Note 18)	**238,955,645**	229,476,021	213,293,808
Depreciation and amortization (Note 11)	**208,339,457**	156,405,611	157,862,405
Taxes and licenses	**29,444,938**	37,902,789	30,699,406
Repairs and maintenance	**28,168,873**	26,708,924	37,277,924
Utilities	**26,103,275**	19,787,196	17,117,612
Outside services	**23,187,897**	10,821	11,935
Bad debt expense	**16,678,494**	–	–
Supplies	**14,632,358**	5,934,004	9,644,773
Representation and entertainment	**5,522,335**	3,965,102	2,708,889
Donations and contributions	**5,429,539**	3,382,808	5,494,593
Insurance expense	**3,237,194**	6,702,342	7,666,648
Travel and transportation	**2,976,730**	2,632,781	1,851,054
Occupancy (Note 28)	**1,300,891**	1,233,849	871,981
Training and seminar fees	**1,200,383**	209,765	1,621,046
Others	**39,861,042**	8,142,817	19,375,212
	₱894,444,400	₱600,109,161	₱599,331,523

During 2013, the Company shutdown its Quiapo plant and retrenched its employees assigned to the plant. As a result, separation pay made by the Company to the retrenched employees amounted to ₱152.9 million and is included as part of the "Personnel costs."

21. **Other Income (Charges) - Others**

	2013	2012	2011
Past service cost (Note 19)	**₱70,880,174**	₱–	₱–
Reversal of deposit for future Certified Emission Reduction (Note 30)	–	70,857,506	–
Royalty income (Note 18)	**20,949,486**	35,416,519	46,364,899
Gain (loss) on changes in fair value of investment properties (Note 12)	**2,096,000**	(4,458,000)	39,625,818
Foreign exchange gains (losses) - net	**2,247,668**	(2,745,177)	1,323,319
Recovery from insurance claims	–	–	186,032,805
Loss on sale of properties, plant and equipment	**(9,650,125)**	–	–
Write-off of investment in DABI (Note 13)	**(3,667,124)**	–	–
Others - net	**(3,737,237)**	101,195	(9,679,621)
	₱79,118,842	₱99,172,043	₱263,667,220

In 2011, the Company recognized ₱176.9 million recovery from insurance claims for the properties that were destroyed by fire in 2010. As of December 31, 2011, the Company collected the full amount from the insurance company. The Company also recognized ₱9.1 million pertaining to recovery from insurance claim on certain assets in 2011.

22. **Income Taxes**

a. The Group's net deferred income tax liabilities as of December 31, 2013 and 2012 are as follows:

	2013	2012 (As Restated, Note 2)
Deferred income tax items recognized in profit or loss:		
Deferred income tax assets on:		
Allowance for doubtful accounts	**₱15,894,455**	₱10,890,907
Allowance for inventory obsolescence	**3,882,046**	3,882,046
Unrealized gain on inventories on hand purchased from subsidiaries	**–**	48,092,307
Unrealized gain on sale of property to a subsidiary	**6,453,676**	7,416,187
Accrued expenses	**7,014,222**	1,189,855
Provision for losses	**16,328,718**	16,328,718
Net retirement benefits liabilities	**2,430,044**	4,249,473
Unamortized past service cost	**2,720,939**	3,624,214
Unrealized foreign exchange loss	**–**	823,553
	54,724,100	96,497,260

(Forward)

	2013	2012 (As Restated, Note 2)
Deferred income tax liabilities on:		
Revaluation increment of property, plant and equipment	**(₱565,510,316)**	(₱609,104,404)
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	**(39,640,376)**	(42,724,563)
Net retirement plan assets	**(20,449,707)**	(6,531,907)
Borrowing cost capitalized to property, plant and equipment	**(15,335,246)**	(16,595,894)
Unrealized foreign exchange gain	**(674,301)**	–
	(641,609,946)	(674,956,768)
	(586,885,846)	(578,459,508)
Deferred income tax items recognized in other comprehensive income		
Deferred income tax asset on actuarial loss on defined benefit plans	**23,967,895**	26,270,473
Deferred income tax liability on AFS financial assets	**(1,845,001)**	(3,010,000)
	22,122,894	23,260,473
Deferred income tax liabilities - net	**(₱564,762,952)**	(₱555,199,035)

b. As of December 31, 2013 and 2012, the Group has not recognized deferred income tax assets on NOLCO and excess MCIT of the subsidiaries as management believes these subsidiaries may not have sufficient taxable profits in the near future against which the deferred tax assets can be utilized:

	2013	2012
NOLCO	**₱561,512,602**	₱435,507,514
Excess MCIT	**1,252,435**	5,779,664

As of December 31, 2013, the Group has NOLCO and excess MCIT that can be claimed as deductions against future taxable income and tax payable, respectively, as follows:

		NOLCO		
Incurred In	Available until	Amount	Tax Effect	Excess MCIT
2013	2016	₱206,475,505	₱61,942,652	₱492,191
2012	2015	139,758,548	41,927,564	755,951
2011	2014	215,278,549	64,583,565	4,293
		₱561,512,602	₱168,453,781	₱1,252,435

The following are the movements in NOLCO and excess MCIT:

	NOLCO		Excess MCIT	
	2013	2012	**2013**	2012
Balances at January 1	**₱435,507,514**	₱295,748,967	**₱5,779,664**	₱5,023,713
Additions	**206,475,505**	139,758,547	**492,191**	755,951
Expirations	**(80,470,417)**	–	**(5,019,420)**	–
Balances at December 31	**₱561,512,602**	₱435,507,514	**₱1,252,435**	₱5,779,664

c. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory income tax rate to the provision for income tax shown in the consolidated statements of income is as follows:

	2013	2012 (As Restated, Note 2)	2011 (As Restated, Note 2)
Provision for income tax at statutory income tax rate	**₱110,220,905**	₱453,641,776	₱468,288,532
Adjustments resulting from:			
NOLCO and excess MCIT for which no deferred income tax assets were recognized	**62,434,843**	42,683,367	64,587,858
NOLCO and excess MCIT for which no deferred income tax asset was recognized in prior years, applied in current year	–	–	(1,998,775)
Change in fair values of investment properties	**(628,800)**	1,337,400	(11,887,745)
Reversal of deferred income tax liabilities on change in fair value of investment properties	–	–	(11,093,640)
Royalty income subject to final tax	**(2,094,949)**	(3,541,652)	(4,636,490)
Interest income subjected to final tax	**(44,278)**	(673,289)	(105,732)
Nontaxable dividend income	–	(35)	(615)
Nondeductible portion of interest expense	**9,871,198**	2,177,043	937,879
Provision for income tax	**₱179,758,919**	₱495,624,610	₱504,091,272

Provision for current income tax consists of:

	2013	2012	2011
RCIT	**₱166,573,100**	₱546,685,980	₱414,916,265
MCIT	**492,191**	755,951	4,293
Final tax on interest and royalty income	**4,267,307**	8,415,935	9,452,651
	₱171,332,598	₱555,857,866	₱424,373,209

23. **Equity**

Capital Stock

As of December 31, 2013 and 2012, capital stock consists of the following shares:

	Number of Shares	
	2013	2012
Authorized capital stock at ₱1 par value per share	**2,000,000,000**	2,000,000,000
Issued capital stock at ₱1 par value per share:		
At beginning of year	**1,180,765,620**	960,000,000
Issuance of shares	–	220,765,620
At end of year	**1,180,765,620**	1,180,765,620

Deposit for Future Stock Subscription

In a meeting held on October 26, 2011, the BOD of LTG approved a capital raising exercise via the 2-tranche Placing and Subscription Transaction involving (i) the sale by THC of 398,138,889 shares in LTG to the public at an offer price of ₱4.22 each (the “Placing Tranche”) and (ii) the subscription at a price equivalent to the offer price offered to the public at the Placing Tranche, as may be adjusted to account for the expenses of the Placing Tranche (the “Subscription Tranche”).

The capital raising exercise is intended to fund the LT Group’s expansion of capacity, increase in operational efficiency and rationalization of operations and at the same time, offer the investing public the opportunity to participate in the LT Group’s growth.

Pursuant to the foregoing, LTG’s BOD accepted the offer of THC to subscribe to 398,138,889 new common shares from LTG’s unissued capital stock at the offer price mentioned above, subject to the approval at LTG’s annual shareholders’ meeting in May 2012.

The respective BODs of LTG and THC approved the execution of a Memorandum of Agreement setting forth each of their rights and obligations under the Placing and Subscription Transaction, including the undertaking of THC to use the offer proceeds to subscribe to additional new shares in LTG’s unissued capital stock.

In December 2011, LTG received from THC the net offer proceeds amounting to ₱1,639.4 million, net of offering expenses amounting to ₱40.7 million, as deposit for future subscription. Subsequently, LTG invested ₱1,627.0 million of the total proceeds in the Company for its capital and operational requirements.

In June 2012, the Company converted the deposit for future stock subscription amounting to ₱1,627.0 million into 220,765,620 common shares which resulted to the recognition of capital stock and corresponding additional paid-in capital amounting to ₱220.8 million and ₱1,406.3 million, respectively. The documentary stamp tax paid amounting to ₱1.1 million was charged against additional paid-in capital.

Conversion of Advances from LTG into Additional Paid-in Capital

In 2013, the Company received advances from LTG amounting to ₱1,200.0 million for general corporate purposes. In December 2013, the Board of LTG authorized the conversion of the said advances into additional investment to the Company. The Board of the Company approved the conversion of the said advances from LTG into additional paid-in capital of the Company.

Dividends
On March 22, 2011 and December 20, 2011, the Company's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.45 per share and ₱0.75 per share or a total of ₱432.0 million and ₱720.0 million, respectively, or a total of ₱1,152.0 million.

24. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	2013	2012 (As Restated, Note 2)	2011 (As Restated, Note 2)
Net income attributable to equity holders of the Company	**₱198,736,275**	₱1,013,154,683	₱1,056,860,640
Divided by weighted average number of common shares outstanding	**1,180,765,620**	1,088,779,945	960,000,000
Basic/diluted earnings per share	**₱0.168**	₱0.931	₱1.101

25. Financial Instruments

Shown below are the carrying amounts of the Group's financial instruments by category as of December 31:

	2013	2012
Financial Assets		
Loans and receivables:		
Cash in bank	**₱1,208,799,886**	₱392,861,896
Trade receivables	**4,319,025,948**	5,354,859,433
Other receivables	**165,798,038**	68,839,394
Deposits	**11,077,485**	8,704,357
	5,704,701,357	5,825,265,080
AFS financial assets:		
Quoted equity securities	**30,000,000**	42,000,000
Unquoted equity securities	**460,269**	460,269
	30,460,269	42,460,269
	₱5,735,161,625	₱5,867,725,349
Financial Liabilities		
Other financial liabilities:		
Accounts payable:		
Trade	**₱1,014,465,153**	₱1,356,277,686
Non-trade	**210,744,875**	238,411,747
Due to related parties	**57,500,000**	77,500,000
Accrued and other liabilities	**172,362,886**	88,959,512
Bonds payable	**4,982,544,419**	4,968,295,454
	₱6,437,617,333	₱6,729,444,399

Cash in bank, trade receivables, other receivables, deposits, accounts payable, due to related parties and accrued and other liabilities. The carrying amounts of these instruments approximate fair values due to their short-term maturities and demand feature.

AFS financial assets. Fair value of investment in club shares is determined by reference to the price of the most recent transaction at the close of the end of reporting period (Level 2 - significant observable inputs). Investments in unquoted equity shares are carried at cost as the fair value of the said shares cannot be determined reliably.

Bonds payable. The fair value of bonds payable is determined by reference to latest transaction price at the end of reporting period (Level 2 - significant observable inputs). As of December 31, 2013 and 2012, fair value of the bonds payable amounted to ₱5,250.0 million and ₱5,213.0 million

26. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of bonds payable and cash. The main purpose of these financial instruments is to ensure adequate funds for the Group's operations and capital expansion. Excess funds are invested in securities with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and accounts payable and other current liabilities which arise directly from its operations.

It is the Group's policy that no trading in financial instruments shall be undertaken. The Group does not actively enter into hedging transactions.

Risk Management Strategies

The Group's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Group. The Group's management and the BODs of the various companies comprising the Group review and approve policies for managing these risks. Management closely monitors the funds and financial transactions of the Group. Funds are normally deposited with local banks belonging to the LTG, and financial transactions are normally dealt with companies belonging to the LTG.

Financial Risk Management Policy

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. These policies are summarized as follows:

Foreign currency risk

The Group's foreign currency risk relates to its US$-denominated cash in banks. Management closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risks associated with the financial instruments.

The Group's significant US$-denominated financial assets as of December 31, 2013 and 2012 pertain to cash in banks which amounted to $215,980 (₱9,588,432) and $527,175 (₱21,640,534), respectively.

The Group recognized foreign exchange gain of ₱2.2 million in 2013, foreign exchange loss of ₱2.7 million in 2012 and foreign exchange gain of ₱1.3 million in 2011 arising from the translation and settlement of these US$-denominated financial assets. The exchange rates of the Peso to US$ as of December 31, 2013, 2012 and 2011 used in translating US$-denominated financial assets are ₱44.40, ₱41.05 and ₱43.84, respectively.

Shown below is the impact on the Group's income before income tax of reasonably possible changes in exchange rate of the US$ against the Peso.

December 31, 2013		December 31, 2012	
Change in Foreign Exchange Rate	**Effect on Income Before Income Tax**	Change in Foreign Exchange Rate	Effect on Income Before Income Tax
+5.39%	**Increase by ₱516,817**	+6.13%	Increase by ₱1,326,564
-5.39%	**Decrease by ₱516,817**	-6.13%	Decrease by ₱1,326,564

The movement in exchange rates for 2013 and 2012 was determined using a one-year historical data.

Credit risk
The Group manages its credit risk by transacting with counterparties of good financial condition and selecting investment grade securities. The Group trades only with recognized, creditworthy third parties. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. The Group limits bulk of its alcoholic beverage sales to two trusted parties with sales to them comprising about 95%, 94% and 93% of total alcoholic beverage sales for 2013, 2012 and 2011, respectively. Management closely monitors the fund and financial condition of the Group. Funds are normally deposited with affiliated banks, and financial transactions are normally dealt with related parties. These strategies, to an extent, mitigate the Group's counterparty risk.

The Group's gross maximum exposure to credit risk is equal to the carrying amounts of its financial assets as of December 31, 2013 and 2012.

Credit quality per class of financial assets
"Standard grade" accounts consist of financial assets with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults.

The following tables show the credit quality of financial assets and an aging analysis of past due but not impaired accounts as of December 31, 2013 and 2012:

As of December 31, 2013:

	Neither past due nor impaired		**Past due but not impaired**					
	Standard Grade	**Substandard Grade**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**Over 120 Days**	**Impaired Financial Assets**	**Total**
Loans and receivables:								
Cash in bank	**₱1,208,799,886**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,208,799,886**
Trade receivables	**2,133,495,938**	–	**1,203,083,704**	**563,819,939**	**359,205,981**	**59,420,386**	**21,776,169**	**4,340,802,117**
Other receivables	**44,197,328**	**685,683**	**5,433,483**	**49,936,563**	**4,810,656**	**60,734,325**	**5,513,838**	**171,311,876**
Deposits	–	–	–	–	–	**11,077,485**	–	**11,077,485**
	₱3,386,493,152	**₱685,683**	**₱1,208,517,187**	**₱613,756,502**	**₱364,016,637**	**₱131,232,196**	**₱27,290,007**	**₱5,731,991,364**

As of December 31, 2012:

	Neither past due nor impaired		Past due but not impaired					
	Standard Grade	Substandard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days	Impaired Financial Assets	Total
Loans and receivables:								
Cash in bank	₱392,861,896	₱–	₱–	₱–	₱–	₱–	₱–	₱392,861,896
Trade receivables	3,609,237,253	–	431,491,954	88,944,325	72,424,786	1,152,761,114	5,097,676	5,359,957,108
Other receivables	3,640,719	88,302	863,480	144,039	22,814	64,080,040	5,513,838	74,353,232
Deposits	–	–	–	–	–	8,704,357	–	8,704,357
	₱4,005,739,868	88,302	₱432,355,434	₱89,088,364	₱72,447,600	₱1,225,545,511	₱10,611,514	₱5,835,876,593

The main consideration for impairment assessment includes whether there are known difficulties in the cash flow of the counterparties. The Group assesses impairment in two ways: individually and collectively.

First, the Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, non-moving accounts receivable and other accounts of defaulted counterparties.

The Group assesses its loans and receivables using specific impairment due to the few counterparties which can be specifically identified. The amount of loss is recognized in the consolidated statement of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account.

In 2013, the Group recognized impairment loss on its trade receivables amounting to ₱16.7 million (see Notes 7 and 20).

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and sourcing flexibility through the use of available financial instruments. The Group manages its liquidity profile to meet its working and capital expenditure requirements and service debt obligations. As part of the liquidity risk management program, the Group regularly evaluates and considers the maturity of its financial assets (e.g., trade receivables) and avails short-term borrowings whenever its available cash is not enough to meet its daily working capital requirements. To ensure availability of short-term borrowings, the Group maintains credit lines with banks on a continuing basis.

The Group relies on budgeting and forecasting techniques to monitor cash flow concerns.

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest):

December 31, 2013:

	Less than one year	1 to less than 2 years	2 to less than 3 years	3 to less than 4 years	4 to less than 5 years	Total
Accounts payable:						
Trade	**₱1,014,465,153**	₱–	₱–	₱–	₱–	**₱1,014,465,153**
Non-trade	**210,744,875**	–	–	–	–	**210,744,875**
Due to related parties	**57,500,000**	–	–	–	–	**57,500,000**
Accrued and other liabilities	**172,362,886**	–	–	–	–	**172,362,886**
Bonds payable	**402,750,000**	**5,048,106,250**	–	–	–	**5,450,856,250**
	₱1,857,822,914	**₱5,048,106,250**	₱–	₱–	₱–	**₱6,905,929,164**

December 31, 2012:

	Less than one year	1 to less than 2 years	2 to less than 3 years	3 to less than 4 years	4 to less than 5 years	Total
Accounts payable:						
Trade	₱1,356,277,686	₱–	₱–	₱–	₱–	₱1,356,277,686
Non-trade	238,411,747	–	–	–	–	238,411,747
Due to related parties	77,500,000	–	–	–	–	77,500,000
Accrued and other liabilities	88,959,512	–	–	–	–	88,959,512
Bonds payable	402,750,000	402,750,000	5,048,106,250	–	–	5,853,606,250
	₱2,163,898,945	₱402,750,000	₱5,048,106,250	₱–	₱–	₱7,614,755,195

The Group's other financial liabilities may be settled using cash on hand and cash in banks aggregating to ₱1,210.0 million and ₱394.0 million and receivable amounting to ₱4,484.8 million and ₱5,423.7 million as of December 31, 2013 and 2012, respectively.

Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group maintains a good credit standing and a sound capital ratio to be able to support its business and maximize the value of its shareholders equity.

The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2013 and 2012.

The Group considers its total equity reflected in the consolidated balance sheet as its capital. The Group monitors its use of capital and the Group's capital adequacy by using leverage ratios, specifically, debt ratio (total debt/total equity and total debt) and debt-to-equity ratio (total debt/total equity). Included as debt are the Group's total liabilities while equity pertains to total equity as shown in the consolidated balance sheets.

The Group's policy is to keep its debt-to-equity ratio within 1.75 times.

The table below shows the leverage ratios of the Group as of December 31:

	2013	2012 (As Restated, Note 2)
Total liabilities	**₱7,144,290,921**	₱7,807,041,533
Total equity	**9,896,957,479**	8,514,775,699
Total liabilities and equity	**₱17,041,248,400**	₱16,321,817,232
Debt ratio	**0.42:1**	0.48:1
Debt-to-equity ratio	**0.72:1**	0.92:1

27. **Fair Value Measurement**

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2013:

			Fair Value Measurement Using		
	Date of Valuation	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
AFS financial assets	December 31, 2013	₱30,000,000	₱–	₱30,000,000	₱–
Property, plant and equipment - at appraised values					
Land	November 29, 2011	1,073,823,007	–	–	1,073,823,007
Land improvements, buildings and building improvements	November 29, 2011	1,300,055,264	–	–	1,300,055,264
Machinery and equipment	November 29, 2011	2,984,772,529	–	–	2,984,772,529
Investment properties					
Land	December 12-31, 2013	220,818,000	–	–	220,818,000
Buildings and condominium units	December 31, 2013 and 2012	12,808,000	–	–	12,808,000
Liability for which fair value is disclosed					
Bonds payable	December 13, 2013	5,250,000,000	–	5,250,000,000	–

In 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

AFS financial assets
Fair value of investment in club shares is determined by reference to the price of the most recent transaction at the close of the end of reporting period.

Property, plant and equipment at appraised values
The appraised values of the land, land improvements, buildings, building improvements, machinery and equipment were determined based on valuations performed by independent appraisers.

The appraised value of the land was determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-15% to 10%), location (-30% to -5%), corner influence (-10%) and utility (-20% to -5%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land.

The appraised values of all other property, plant and equipment were determined using the cost approach, a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). Significant unobservable inputs used in the fair value measurement of such property, plant and equipment would include current replacement cost and useful life of the property, plant and equipment. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Reconciliation of appraised values for the year ended December 31, 2013 is shown below:

	2013
January 1	₱4,788,719,140
Acquisitions	267,823,617
Reclassifications	750,237,579
Disposals	(13,886,875)
Depreciation and amortization	(434,242,661)
December 31	₱5,358,650,800

Investment properties
The Group's investment properties consist of land, land improvements, and condominium units.

The fair value of the investment properties was determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on terrain (-5% to 5%), size (-20%), location (-20% to 5%) and utility (-10% to 5%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of investment properties.

Reconciliation of fair value for the year ended December 31, 2013 is shown below:

	2013
January 1	₱231,530,000
Changes in fair values	2,096,000
December 31	₱233,626,000

Bonds payable
The fair value of bonds payable is determined by reference to latest transaction price at the end of reporting period.

28. Lease Commitments

ADI has an operating lease contract with monthly rental amounting to ₱50,000 covering a parcel of land in Lian, Batangas for 10 years up to December 31, 2021, renewable at the option of the lessor.

In 2012, ADI leased an additional parcel of land in Lian, Batangas with monthly rental of ₱25,000. The said lease is good for two years up to November 30, 2014 and renewable at the option of both parties.

Future minimum rentals payable under the lease contracts as of December 31 are as follows:

	2013	2012
Within one year	**₱875,000**	₱900,000
After one year but not more than five years	**2,400,000**	2,675,000
More than five years	**1,800,000**	2,400,000
	₱5,075,000	₱5,975,000

Rent expense recognized in relation to the said lease contracts amounted to ₱0.9 million, 1.0 million and ₱0.6 million in 2013, 2012 and 2011, respectively.

The Company meanwhile has various agreements in respect of certain properties. As of December 31, 2013, the Company has leased parcels of land, with a term of one year renewable at the end of lease term, for its production plants in Cabuyao, Laguna, Murcia, Negros Occidental and El Salvador, Misamis Oriental with monthly rental aggregating to ₱2.8 million.

The Company also entered into lease contracts of tanks and land in Calaca and Pinamucan, Batangas amounting to monthly rentals of ₱0.6 million and ₱0.4 million, respectively. The contract is also renewable at the end of the lease term which is usually one year.

29. Contingencies

In the ordinary course of business, the Group is contingently liable for lawsuits and claims which are either under pending decisions by the courts or are still being contested, the outcomes of which are not presently determinable.

a. On August 25, 2010, AAC received a Notice of Assessment from the Provincial Assessor of Negros Occidental representing deficiency realty taxes for the period 1997 to 2009 totaling ₱263.7 million. On September 24, 2010, AAC formally protested the assessment and asked for the cancellation of the assessment on the following grounds:

   (i) The period to assess real property taxes for the years 1997 to 2004 has already prescribed.

   (ii) The assessment covering 2005 to 2009 are void and of no legal effect because it covers properties beyond the territorial jurisdiction of the province of Negros Occidental.

   (iii) The value of AAC's properties indicated in the audited financial statements, which was made the basis in determining the assessed value, included properties of AAC located in Manila and Cebu.

   (iv) The Notice of Assessment covered anti-pollution machinery and equipment or the biogas plant which are exempt by law from taxation.

   (v) The Notice did not follow the legal mandate in determining assessed values.

   Meanwhile, while the protest is still pending with the Local Board of Assessment, the Municipal Treasurer of Pulupandan advised AAC that it will avail of the administrative remedy of levy under Section 258 of the Local Government Code. In reply, AAC's legal counsel argued that the tax was still subject to appeal and as such cannot yet be subject to collection proceedings; that the Municipal Treasurer has no authority to enforce collection under the Local Government Code; and that this authority is with the Provincial Treasurer and with the Municipal Treasurer of a municipality within the Metropolitan Manila Area.

   The Municipal Treasurer replied on February 28, 2012 defending his authority and duty to issue a warrant of levy.

   On May 18, 2011, AAC filed an Urgent Motion to Resolve Petition with the Local Board of Assessment Appeals (LBAA), citing that:

   a. Under the Local Government Code on rules on appeals, the LBAA is given 120 days from receipt of appeal to decide on the appeal; and
   b. The 120th period expired on February 18, 2011.

On June 3, 2011, the Municipal Treasurer of Pulupandan again sent a demand letter to AAC for the payment of the ₱263.7 million realty tax assessments and threatened to avail of the administrative remedy to levy.

On June 16, 2011, AAC replied to the demand letter reiterating that:

a. The tax assessment is under appeal with LBAA, AAC also has posted a bond equivalent to the amount of the assessment;
b. The Municipal Treasurer lacks the authority to impose a levy; and
c. AAC will file civil, criminal, administrative and forfeiture charges if the Treasurer persists.

On November 26, 2013, LBAA issued a decision declaring the Notices of Assessment and the Statements of Real Property Tax due issued by the Municipal Treasurer of Pulupandan null and void for being contrary to the law.

On January 13, 2014, the Municipality of Pulupandan filed a Motion for Reconsideration for the decision of LBAA which declares the Notice of Assessment and Statement of Real Property Tax due null and void. On March 11, 2014, AAC filed an Opposition to the Motion for Reconsideration filed by the Municipality of Pulupandan for lack of merit and that the LBAA decision dated November 26, 2013 be sustained.

As of March 18, 2014, the LBAA has not yet responded to the Municipality of Pulupandan and AAC.

b. On May 29, 2008, the Company’s legal counsel filed a manifestation case with the respective courts for the consideration of the Intellectual Property Office (IPO) ruling in the pending cases regarding the GINEBRA brand name. Ginebra San Miguel (GSM), Inc. filed a ₱100.0 million trademark infringement case and unfair competition versus the Company in the Court of Appeals. The Company then petitioned in the Supreme Court for review on certiorari to question the Court of Appeals ruling in favor of GSM and granting the latter’s petition for a temporary restraining order on the Company’s use of the brand name GINEBRA.

   On March 4, 2009, the IPO denied GSM’s motion for reconsideration but the latter filed its appeal memorandum on April 7, 2009. The Company, on the other hand, filed its comment on said appeal last May 18, 2009.

   On January 5, 2010, the Company received a copy of the Supreme Court’s Resolution dated November 25, 2009 denying GSM’s motion for reconsideration with finality, meaning, they cannot file another motion for reconsideration. The Supreme Court ruled that there was no basis for the issuance of the injunction restraining the Company from using GINEBRA KAPITAN as a trademark for its gin product.

   On July 25, 2012, the Mandaluyong RTC issued its decision in favor of TDI and dismissing the instant complaint for trademark infringement and unfair competition for lack of merit. GSMI filed a Motion for Reconsideration with the Mandaluyong RTC on September 3, 2012. On October 5, 2012, the Mandaluyong RTC denied the Motion for Reconsideration of GSMI. GSMI filed an appeal with the Court of Appeals (CA). On August 15, 2013, the CA rendered a decision in favor of GSMI ordering TDI to recall all gin products bearing the Ginebra brand name, cease and desist from using GINEBRA in any of its gin product, pay GSMI 50% of the gross sales of GINEBRA KAPITAN and ₱2.0 million as exemplary fees. TDI filed its appeal on October 18, 2013. On November 22 2013, the CA sustained its decision in favor of GSMI.

On December 18, 2013, the Company filed a petition before the Supreme Court questioning the decision of the CA.

As of March 18, 2014, the Company is waiting for the decision of the Supreme Court.

c. On July 22, 2008, the Department of Environment and Natural Resources (DENR) issued a Cease and Desist Order against AAC upon the recommendation of the Pollution Adjudication Board (PAB) for failure to meet the effluent standards. AAC filed a Motion for a Temporary Lifting Order (TLO) on August 4, 2008 in which AAC committed to implement immediate and long term remedial measures until August 2011.

   On August 8, 2008, the PAB issued a TLO to AAC for purposes of allowing AAC to operate and implement the committed remedial measures. The said TLO was subsequently extended for successive three-month period based on the favorable results of PAB's inspection and samplings of the wastewater discharged (effluents) by the AAC plant.

   In May 2009, the residents of Pulupandan complained to the local government on the alleged pollution being caused by AAC's operation on the marine and aerial environment. The roads to the plant were barricaded and some portions of the road were dug up to prevent access to the plant. AAC was able to obtain a court TRO to lift said barricades.

   On June 1, 2009, the water pipeline to the AAC plant was damaged allegedly during a road-drainage improvement project. This forced AAC to temporary stop its operations as water is a necessary element in its operations. The local government openly supported the protests of the residents and on September 8, 2009, the town's Environment Officer recommended to the town mayor the permanent closure of AAC.

   In the meantime and while the protests were ongoing, the existing TLO of AAC expired on June 16, 2009. AAC filed for a renewal of the TLO and this time, AAC requested for a one-year validity of the TLO. The Regional Office of the PAB favorably endorsed said application to the PAB Head Office. The PAB Head Office issued a TLO in favor of AAC initially for a period of two months to enable it to repair its damaged water pipeline in order that AAC can resume operations and that the PAB can perform inspections and samplings of its effluent as a basis for acting upon AAC's motion for a one-year TLO.

   AAC has advised the local government of Pulupandan on the PAB resolution and has requested for a permit to repair the damaged water pipeline.

   In September 2011, the local government of Pulupandan granted AAC a permit to repair the damaged water line and to operate the alcohol and storage facilities. It also allowed AAC to demolish the new distillery plant so that AAC can transfer it to ADI's plant in Batangas where it will be put up as part of ADI's expansion project.

   AAC's water line is already repaired. AAC also paid the permit to rehabilitate the plant. As of March 18, 2014, AAC is still on shutdown.

In the opinion of the Group's management and legal counsel, the eventual liability under these lawsuits, claims, events and transactions, if any, would not have a material or adverse effect on the Group's financial position and financial performance. Hence, no provision has been made as of December 31, 2013 and 2012.

30. **Other Matters**

Clean Development Mechanism Project (CDM)

On June 30, 2006, the DENR approved the implementation of a greenhouse gas (GHG) reducing project at the ADI's plant in Lian, Batangas. The project is a joint undertaking between the Company (through ADI) and Mitsubishi Corporation (MC) and involves the construction of a waste water treatment digestor and methane gas collector in accordance with the CDM of the 1997 Kyoto Protocol. The CDM allows developing countries to host emission reduction project and sell their reduction credit or CER to industrialized countries to help the latter meet their target of 5% below existing 1990 levels in the commitment period from 2008 to 2012.

By October 1, 2006, it became the biggest CDM registered project in the country thus far, and the first for the manufacturing sector.

On November 27, 2007, ADI and MC executed the CDM Project Agreement (the Agreement) which provides for the following, among others:

- ADI and MC (the Parties) acknowledge and agree that they are each entering into the Agreement in exchange for, and in reliance upon, each other party's entry into an agreement to provide funding for the construction of a biogas digester for in exchange and/or transfer of CERs from the project to MC and the payment by MC in advance therefore in accordance with that certain Certified Emission Reductions Purchase Agreement (CERPA) as of date of the Agreement.

- The Parties agree to seek a seven-year crediting period to be renewed twice, adding up to a total crediting period of 21 years. Crediting period is the period in which the GHG reductions are verified and certified for the purpose of issuance of CERs and which shall commence after the first emission reductions are generated by the Project.

- MC agrees to provide to ADI the basic design and operational parameters of the system; provided that MC shall not be deemed to have provided any representation warranty or other guarantee regarding the feasibility, operation on performance of such design or any system based on such design.

In accordance with CERPA, ADI agreed to sell and MC to purchase any and all the CERs generated by the Project up to 480,000 CERs, which are estimated by the Parties to be in the annual aggregate amount set forth in the Project Design Document (First CERs). The Parties acknowledge and agree that certain First CERs generated by the Project on or prior to December 31, 2012 will be issued and delivered after December 31, 2012. MC agreed to make an advance of US$1.6 million to ADI in exchange for the First CERs in accordance with the following Payment Schedule:

a. 30% of the Advance Payment at issuance of purchase order for the foundation and the construction of the System;

b. 30% of the Advance Payment at the time of the start of the construction for the steel structure of the System;

c. 30% of the Advance Payment at completion of the construction of the System, and

d. 10% of the Advance Payment after successful operation of the System.

With respect to the obligations of the parties, ADI shall:

a. use its best effort to conduct its business and operate its plant, machinery and equipment and other property substantially as it does at the date of this Agreement and not make any material change to its business (except due to market conditions beyond its reasonable control) or operations the result of which could reasonably be expected to reduce the ability of the Project to produce the amount of emission reductions;

b. operate and maintain its plant, machinery, equipment and other property, and make all necessary repairs and renewals thereof, all in accordance with its customary engineering, financial and environmental practices; satisfy any obligations in respect of securing and remaining in compliance with all consents;

c. deliver to MC a copy of its annual audited financial reports prepared in accordance with generally accepted accounting and auditing laws and standards in the Philippines within 180 days of the end of ADI's financial year during the term of this Agreement;

d. take all necessary measure within its powers to make the Project, after the Project Commissioning Date, result in (1) GHG reductions; (2) the creation of CERs that are merchantable under the CDM; and (3) to transfer Contracted CERs into MC's account. For this purpose, ADI shall perform all its obligations under the International Rules as a Project Participant of the Project with due diligence and efficiency and in conformity with the applicable International Rules and the Applicable Laws of the Philippines, including satisfying all requirements of:

    (i) the relevant Designated Operational Entity and the CDM Executive Board under the International Rules; and

    (ii) the Designated National Authorities in the Philippines and Japan; and

e. not create or permit to exit any claim or encumbrance of any kind over either (1) the System; or (2) the contracted CERs.

MC shall with respect to the Project:

a. pay the Advance Payment in accordance with this Agreement;

b. not take any action to prevent delivery of the contracted CERs unless ADI is in breach of this Agreement or the Agreement has been terminated; and

c. take all reasonable steps required to cause ADI to deliver the contracted CERs sold under this Agreement into its Registry Account.

In 2009, the parties agreed to increase the advance payment for the First CERs to US$2.0 million. As of December 31, 2009, MC made US$1.6 million advance payment or equivalent to ₱70.9 million. ADI completed the construction and installation of the anaerobic digester and mixing tanks which were put into operation in 2009.

In August 2010, initial validation of CERs was made; however, as of March 4, 2013, no certification on the generated CERs has been issued yet. Since the first CERs generation period has ended on December 31, 2012, ADI's obligation to operate the project regardless of whether there were CERs certified was deemed fulfilled, thus, ADI recognized the deposit for CERs amounting to ₱70.9 million as income in 2012.

Effluent Supply Agreement

On September 26, 2013, ADI and Aseagas Corporation (Aseagas) entered into an effluent (wastewater) supply agreement wherein ADI will supply effluent to Aseagas to be used in the generation of liquid bio-methane for a period of 20 years (delivery period) from the date Aseagas notifies ADI that the liquid bio-methane plant to be constructed by Aseagas becomes ready for commercial operations. The delivery period is renewable for another ten (10) years upon mutual agreement of both parties. As of March 18, 2014, the liquid bio-methane plant is still under construction.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Tanduay Distillers, Inc.
348 J. Nepomuceno Street
San Miguel District, Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Tanduay Distillers, Inc. (a wholly owned subsidiary of LT Group, Inc.) and its subsidiaries as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, included in this Form 17-A, and have issued our report thereon dated March 18, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225170, January 2, 2014, Makati City

March 18, 2014

TANDUAY DISTILLERS, INC. AND SUBSIDIARIES
SCHEDULE A. – Financial Assets
DECEMBER 31, 2013

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Value based on market quotation at end of reporting period	Income received and accrued
Unquoted equity share:				
Negros Golf & Country Club	1 share	420,000	420,000	-
PLDT		40,269	40,269	-
Quoted equity share:				
Manila Golf Country Club, Inc.	1 share	30,000,000	30,000,000	-

TANDUAY DISTILLERS, INC. AND SUBSIDIARIES
SCHEDULE B. – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2013

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Not Current	Balance at End of Period
			Amounts Collected	Amounts Written Off			

NOT APPLICABLE

TANDUAY DISTILLERS, INC. AND SUBSIDIARIES
SCHEDULE C. – AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2013

Name and Designation of Creditor	Beginning Balance	Additions	Amounts Paid	Amounts Written Off	Current	Non-Current	Ending Balance
Absolut Distillers, Inc.	₱ 165,328,296		(108,265,796)		57,062,500		₱ 57,062,500
Total	165,328,296	-	(108,265,796)	-	57,062,500	-	- 57,062,500

TANDUAY DISTILLERS, INC. AND SUBSIDIARIES
SCHEDULE D. – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2013

Name and Designation of Debtor		Beginning Balance	Additions	Amounts Collected	Amounts Written Off	Current	Non-Current		Ending Balance
Asian Alcohol Corporation	₱	556,515,083	51,794,100.00	(79,696,482)	-	528,612,701	-	₱	528,612,701
Absolut Distillers, Inc.	₱	165,328,296	191,613,700	(301,050,220)	-	55,891,776	-	₱	55,891,776
Total		721,843,379	243,407,800	(380,746,702)	-	584,504,476	-	-	584,504,476

TANDUAY DISITILLERS, INC. AND SUBSIDIARIES
SCHEDULE E. – INTANGIBLE ASSETS – OTHER ASSETS
DECEMBER 31, 2013

Description		Beginning balance		Additions at cost	Charged to cost and expenses	Disposals	Other changes additions (deductions)		Ending balance
Goodwill	P	144,702,917	P	-	-	-	-	P	144,702,917
Software	P	17,340,768	P	1,085,786				P	18,426,554

TANDUAY DISTILLERS, INC. AND SUBSIDIARIES
SCHEDULE F. – LONG TERM DEBT
DECEMBER 31, 2013

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Bonds payable" in related balance sheet
1. Five year – Fixed rate bonds	₱ 5,000,000,000		₱ 4,982,544,419
			The bonds with a fixed interest rate equivalent to 8.055% p.a matures on February 13, 2015. Interest on the bonds are payable quarterly in arrears starting May 13 for the first interest payment date, and on May 13, August 13, November 13 and February 13 of each year.

TANDUAY DISTILLERS, INC. AND SUBSIDIARIES
SCHEDULE G. - INDEBTEDNESS TO RELATED PARTIES
(LONG-TERM LOANS FROM RELATED COMPANIES)
DECEMBER 31, 2013

Name of Related Party	Balance at Beginning of Period	Balance at End of Period

NONE

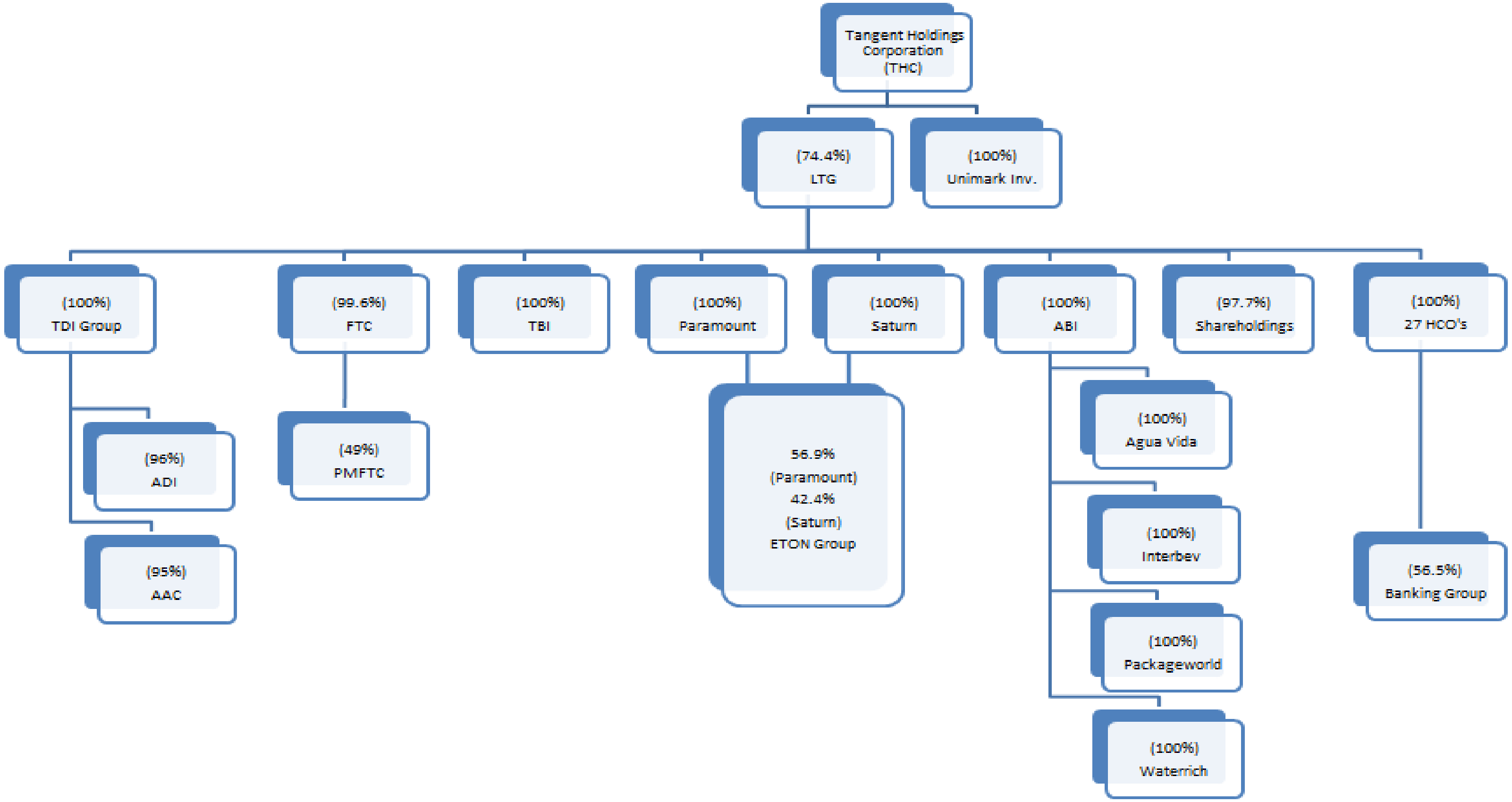
TANDUAY DISTILLERS, INC. AND SUBSIDIARIES
SCHEDULE H. - CAPITAL STOCK
FOR THE YEAR ENDED DECEMBER 31, 2013

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved Options, Warrants, Conversions, and Other Rights	Number of shares Held by Related Parties	Directors, Officers and Employees	Others
Common Stock	**2,000,000,000**	**1,180,765,620**	**-**	**1,180,765,606**	**14**	**-**

TANDUAY DISTILLERS, INC.
SCHEDULE I. - RECONCILIATION OF RETAINED EARNINGS
DECEMBER 31, 2013

Unappropriated retained earnings, As previously reported	₱2,962,918,004
Effect of adoption of PAS 19, *Employee Benefits* (as revised)	(11,175,822)
Unappropriated retained earnings, beginning	2,951,742,182
Less: Non-actual/unrealized income net of tax	
Deferred income tax assets	(11,778,848)
Accumulated income on fair value adjustments in investment property	(1,717,350)
Unappropriated retained earnings, as adjusted to amount available for dividend declaration, beginning	2,938,245,984
Net income during the year closed to retained earnings	325,204,039
Less: Fair value adjustment in investment property resulting to gain	(71,000)
Movement of deferred income tax assets that increased net income	(7,416,375)
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	67,427,313
Net income actually earned during the year	385,143,957
Unappropriated retained earnings available for dividend declaration, ending	₱3,323,389,941

TANDUAY DISTILLERS, INC. AND SUBSIDIARIES
SCHEDULE J. – RELATIONSHIPS AMONG THE GROUP AND ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES
DECEMBER 31, 2013



TANDUAY DISTILLERS, INC. AND SUBSIDIARIES
SCHEDULE K. - List of all effective Standards & Interpretations under the Philippine Financial Reporting Standards (PFRSs) effective as of December 31, 2013

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2013**		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets			✓

**Not early adopted*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓*	
	Amendments to PFRS 7: Hedge Accounting		✓*	
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments		✓*	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓*	
	Amendments to PFRS 9: Hedge Accounting		✓*	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities		✓*	
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities		✓*	
PFRS 13	Fair Value Measurement	✓		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		

**Not early adopted*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions		✓*	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities		✓*	
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		✓*	
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets		✓*	

**Not early adopted*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting		✓*	
	Amendments to PAS 39: Hedge Accounting		✓*	
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓

**Not early adopted*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
FRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies		✓*	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

**Not early adopted*

TANDUAY DISTILLERS, INC. AND SUBSIDIARIES
SCHEDULE L. - INDEX TO EXHIBITS
SEC FORM 17-A

*These exhibits are either not applicable to the Company or require no answer.

EXHIBIT 18. SUBSIDIARIES OF THE REGISTRANT

Tanduay Distillers, Inc. has the following subsidiaries:

Name	Jurisdiction
1. Asian Alcohol Corp.	Philippines
2. Absolut Distillers, Inc.	Philippines

EXHIBIT 28. ADDITIONAL EXHIBITS - OTHER DOCUMENTS TO BE FILED WITH THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL SOUNDNESS INDICATORS

	2013	2012
CURRENT RATIO	6.47	4.37
DEBT-TO-EQUITY RATIO	0.72	0.92
ASSET-TO-EQUITY RATIO	1.72	1.92
INTEREST RATE COVERAGE RATIO	1.88	4.62
SOLVENCY RATIO	0.15	0.31
PROFITABILITY RATIOS:		
PROFIT MARGIN	0.019	0.078
RETURN ON ASSETS	0.012	0.062
RETURN ON EQUITY	0.020	0.119