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(Company's Full Name)

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**KRISTINE ANN CATINDIG-ONG**

Contact Person

8635-0680

Company Telephone Number

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Month \_\_\_\_\_ Day \_\_\_\_\_  
Fiscal Year \_\_\_\_\_

SEC Form 17-A as of December 31, 2022

FORM TYPE

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Secondary License Type, if Applicable

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Amended Articles Number/Section

200

Total No. of  
Stockholders

**P 15,477,823,713**

Domestic

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Foreign

### Total Amount of Borrowings

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To be accomplished by SEC personnel concerned

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Stamps

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED  
ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: **December 31, 2022**
2. Commission identification number: **44852**
3. BIR Tax Identification No: **000-421-957-000**
4. Exact name of issuer as specified in its charter: **D&L Industries, Inc.**
5. Province, country or other jurisdiction of incorporation or organization: **Metro Manila**
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of issuer's principal office: **65 Calle Industria, Bagumbayan, Quezon City** Postal Code: **1110**
8. Issuer's telephone number, including area code: **(02) 8635 0680**
9. Former name, former address and former fiscal year: **not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class: **Common Stock, P1 par value**

No. of Shares of Common Stock Issued and Outstanding: **7,142,857,990 Shares\***

*\*Reported by stock transfer agent as of December 31, 2022*

Amount of Debt Outstanding: **P15,477,823,713 (as of December 31, 2022)**

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

Yes [ ☒ ] No [ ☐ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

**Philippine Stock Exchange; A total of 7,142,857,990 shares of common stock with par value of P1.00 each.**

12. Check whether the issuer:

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

Yes ☒ No ☐

- (b) Has been subject to such filing requirements for the past one hundred eighty (90) days. Yes

☒ No ☐

13. Aggregate market value of the voting stock held by non-affiliates of the registrant:

**The aggregate market value of the 1,979,248,316 voting stock held by non-affiliates (public shares) as of December 31, 2022 computed based on the closing share price of P7.90 on the last trading day on December 31, 2022 is P15,636,061,696.**

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## PART I - BUSINESS AND GENERAL INFORMATION

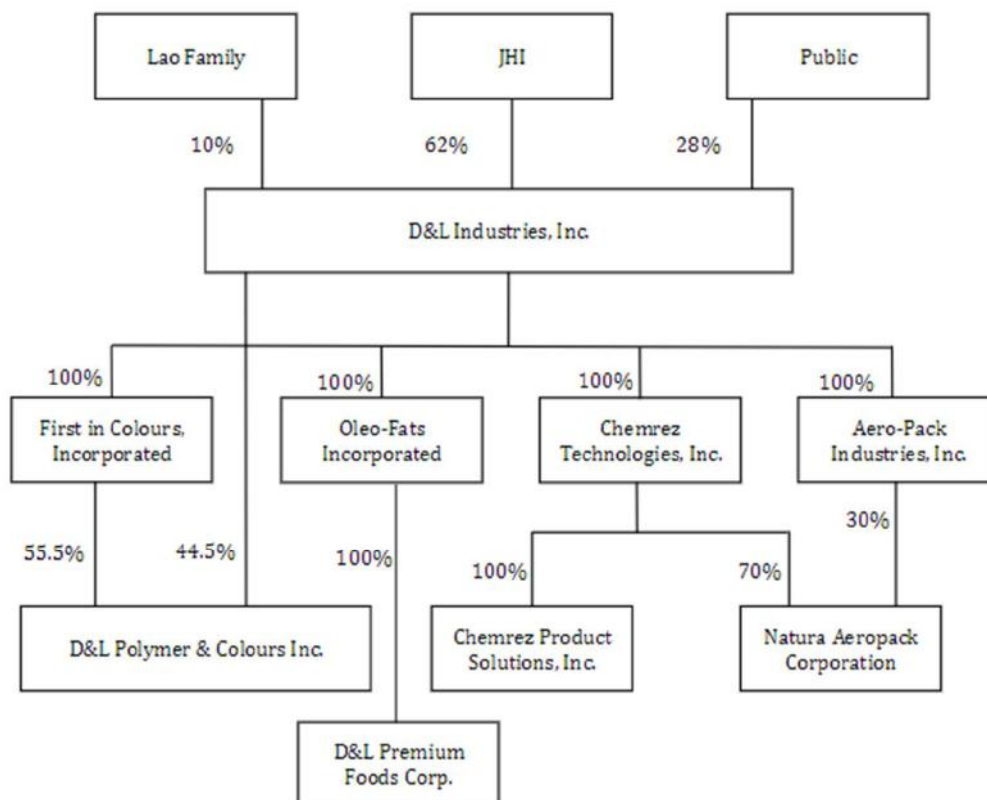
### Item 1. Business

#### The Company

D&L Industries, Inc. (the "Company" or "D&L") was incorporated on July 27, 1971. The Company is a publicly listed company, which is 72% beneficially owned by the Lao family and 28% by the public. The Company's registered office address and principal place of business is 65 Calle Industria, Brgy Bagumbayan, Quezon City.

The Company is the holding company for a group of companies engaged in product customization and specialization for the food, chemicals, plastics and consumer products ODM (Original Design Manufacturing) industries. The company's principal business activities include manufacturing of customized food ingredients, oleochemicals for personal and home care use, and specialty raw materials for plastics. It also renders management and other services to subsidiaries and affiliate companies. It was officially listed on the Philippine Stock Exchange (PSE) on December 12, 2012.

The following diagram shows the corporate structure of the Company, excluding beneficial ownership of securities held by the Lao family members. As of December 31, 2022, the Company is 62% owned by Jadel Holdings Co., Inc. (JHI) and 10% owned by the Lao Family. The remaining 28% of the shares outstanding are publicly held.



D&L's major subsidiaries and their corresponding dates of incorporation with the SEC are as follows:

Subsidiary / Affiliate	Date of incorporation
Oleo-Fats, Incorporated (OFI)	May 04, 1987
Chemrez Product Solutions, Inc. (CPSI)	November 16, 1988
First in Colours, Incorporated (FIC)	November 17, 1988
Chemrez Technologies, Inc. (CTI)	June 01, 1989
Aero-Pack Industries, Inc. (API)	September 29, 1989
D&L Polymer & Colours, Inc. (DLPC)	March 30, 2006
Natura Aeropack Corporation (NAC)	July 20, 2016
D&L Premium Foods Corp. (DLPF)	June 29, 2017

## Overview of the Business

The Company today is principally a holding company, which derives the majority of its income from subsidiaries engaged in four principal business lines, as set out below:

- *Food ingredients* – The Company, operating through its subsidiary Oleo-Fats, Incorporated (OFI) and soon through D&L Premium Foods Corp (DLPF), manufactures a line of bulk and specialty fats and oils, culinary and other specialty food ingredients. The Company contract manufactures and provides food ingredient products to most of the leading food manufacturers and quick-service restaurant chains in the Philippines, and also produces food safety solutions such as cleaning and sanitation agents for various customers.
- *Oleochemicals, resins and powder coatings* – The Company, through Chemrez Technologies, Inc. (CTI) and its subsidiary Chemrez Product Solutions, Inc. (CPSI), and soon through Natura Aeropack Corporation (NAC), focus on developing, manufacturing, and supplying high value customized resins, oleochemicals, and specialty products that are sustainable and cost-efficient, while enabling customers to build bigger markets. Its customer base include many industries such as biofuels, personal and home care, health and nutrition, and construction industries. CTI and CPSI serve local and international customers.
- *Colorants and plastics additives* – The Company, operating through its subsidiaries First in Colours, Inc. (FIC) and D&L Polymer and Colours, Inc. (DLPC), develops and manufactures innovative plastic solutions that make plastics aesthetically appealing, functional, and sustainable. The group's products are mainly classified as plastic colorants, additive masterbatches, and engineered polymers. Plastic colorants give plastics precise coloring and special effects mainly used for brand and product identification. Additive masterbatches add functional features to plastics such as higher processability, antimicrobial properties, and anti-static properties. Meanwhile, engineered polymers are plastic compounds that have improved mechanical and thermal properties that make them ideal for films, bottles, furniture, appliances, electronic and automotive parts, etc. Lastly, the group offers sustainable options such as compostable plastics, biodegradable plastics, bio-based plastics, recycled compounds, and upcycled materials.
- *Consumer Products ODM* – The Company, operating through its subsidiary Aero-Pack Industries, Inc. (API), and soon through NAC, is a full original design manufacturer (ODM) and original equipment manufacturer (OEM) that offers customized aerosols and non-aerosols products to other businesses across different industries such as home care, personal care, and maintenance chemicals. The Company offers a full turnkey solution from product formulation to design, packaging, production, and delivery to customers. It is the first and the biggest aerosol manufacturing company in the Philippines with almost all of its sales coming from the domestic market.

## **Principal Products, Markets and Revenue Contribution**

### **Food Ingredients**

The Company, through OFI, markets and distributes a line of bulk edible oils and specialty food ingredients. The Company believes that it is the leading manufacturer of bulk and specialty fats and oils and other food ingredients in the Philippines. It serves customers across the food and beverage industry, including manufacturers of instant noodles and snack food, dairy and culinary, food service, biscuits and confectionery and bakeries, as well as domestic and international quick-service restaurant chains. The Company also contract manufactures food ingredient products for certain customers. The Company's product line has expanded to thousands of varieties of food ingredients, including specialty fats, dry and liquid mixes, and specialty condiments, driven by its ability to create customized products according to its customers' requirements.

In addition to food ingredients and oils, the Company provides food safety solutions and services such as customized cleaning and sanitation systems, designed and manufactured to meet the needs of customers. All of the Company's food safety solutions are supported by professional and technical services.

### **Colorants and Plastics Additives**

The Company, through its subsidiaries FIC and DLPC, manufactures custom designed and formulated pigment blends, color and additive masterbatches and engineered polymers for a wide range of applications in the plastics industry. FIC focuses on the domestic market, while DLPC focuses primarily on the export market.

The Company believes it has the longest history in the Philippine plastics color and compound industries, and its brands have been trusted by customers for over 50 years for their color concentrate requirements for films, tapes, moldings, wires and cables, high-end fibers and other engineered polymers. The Company at various times has entered into technical assistance agreements with select international partners to increase its expertise in terms of research and development. Also, the Company works with customers to create color products and solutions that best represent the customer's products in the market, with research showing that a product's color and appearance are key factors in a consumer's buying decision and a critical element in the successful marketing of products. The state-of-the-art technology used by the Company has given end-user customers a broad range of color choices and forms.

The Company also provides additives for plastics processed by customers that enable reduced production costs or add desirable features and properties to plastics. Appropriate filler additives can reduce production costs by substituting polymers with relatively inert and inexpensive materials that make the end product cheaper by weight. Filler additives may also increase the performance of a plastic by modifying its properties, as additives contribute a wide range of properties to plastic products. For example, additives can make plastic products biodegradable and compostable. Additives can also lower the flammability of plastics used in household items, reduce friction between plastic parts, or increase a plastic's resistance to degradation caused by light sources for items such as outdoor furniture.

In addition to providing colorants or additives to customers for their own processing, the Company also provides custom engineered polymers, or engineered polymers, designed to have the precise color and properties required by the customer. Custom compounded products are delivered as plastic pellets to the customer's production plant for conversion into end-use products.

The Company also offers its customers toll compounding services. Toll compounding services enable customers to offer specialty compounds branded with their own label. Customers may take advantage of the Company's extensive engineering and manufacturing experience to handle production and logistics,

increasing their effective manufacturing capacity without incurring expansion costs.

### **Oleochemicals, Resins, and Powder Coatings**

The Company, through Chemrez Technologies, Inc. (CTI) and its subsidiary Chemrez Product Solutions, Inc. (CPSI), and soon through NAC, focus on developing, manufacturing, and supplying high value customized resins, oleochemicals, and specialty products that are sustainable and cost-efficient, while enabling customers to build bigger markets. Its customer base include many industries such as biofuels, personal and home care, health and nutrition, and construction industries. CTI and CPSI serve local and international customers.

#### **Oleochemicals – CME/biodiesel**

Under its Oleochemicals division, Chemrez manufactures commodity biodiesel and high margin oleochemicals.

Biodiesel accounts for about half of the revenues of the Oleochemicals business. The Company's biodiesel facility is certified with an integrated management system covering ISO 9001, ISO 14001, and ISO 45001 and it is the pioneer and the only continuous process methyl ester facility in the Philippines. The said facility and coco-biodiesel products are accredited with the Department of Energy and registered with the Board of Investments with pioneer status.

Chemrez serves as a major contributor to the National Biofuels Program under RA 9367, otherwise known as the Biofuels Act of 2006. The Biofuels Act provides a national mandate for use of biofuels at 2% blend (B2).

The Company is one the DOE-accredited biodiesel producers in the country. The Company believes that its commitment to excellence in quality, delivery, and cost competitiveness would allow it to be a primary domestic supplier of choice by oil companies and institutional buyers. The extensive quality management systems of the Company and its investments in logistics infrastructure and supply chain management were designed to help assure the continuous bulk supply of compliant biodiesel to local oil companies and generate cost efficiencies that are passed on to its customers.

While biodiesel accounts for about half of the revenues of the Oleochemicals business, high margin oleochemicals account for the majority of the gross profit given that its margins are higher than that of biodiesel. Products under high margin oleochemicals include Glycerin and other Coconut Methyl Ester (CME) derivatives which are used mainly as surfactants or foaming agents for soaps and detergents. Chemrez also manufactures and sells medium-chain triglyceride (MCT) oil derived from coconut oil. Products under this segment are sold principally in the export markets. As part of the Company's strategy to grow its CME exports, Chemrez continues to develop new applications of CMEs to expand its product and market base. Through the use of pioneering process technology, products that have high export potential have been recently developed.

#### **Other Specialty Chemicals**

The Company has a solid record of experience and expertise in the manufacture and marketing of powder coating, resins, and other specialty resin-based chemicals.

- Powder coatings are protective materials applied to metal and other surfaces through an electrostatic coating process to provide resistance against heat, weather and UV light, and certain chemicals. It is used in home appliances, metal furniture, fixtures and fittings, mechanical parts, tools and equipment



and also in the construction industry.

- Resins are polymerized or chemically modified substances, which are manufactured in a variety of technical specifications to suit specific industry uses, end-user applications, and customer requirements. It includes polystyrene resins for the plastics industry, polymer emulsions for the paint industry, and polyester resins for the construction, shipping, and furniture industries.
- Other specialty resin-based chemicals consist of additives, colorants, and solvents.

The Company has maintained its market leadership in powder coatings and resins through competitive pricing, consistent quality, and the ability to offer product customization and provide on-site after-sales technical support to customers. The Company also continues to invest in research and development to develop new powder coating and resin products with improved and innovative features. It competes mainly against importers and traders.

The Company attributes its strong market position to several factors. Its operating scale allows it to manufacture products at highly competitive costs. Beyond price competition, the Company has established long-standing relationships with its customers. These partnerships allow the Company to respond quickly to customer requirements and offer newer and better products out of its extensive efforts and achievements in research and development.

#### **Consumer Products Original Design Manufacturing**

The Company, operating through its subsidiary Aero-Pack Industries, Inc., and soon through NAC, is a full original design manufacturer (ODM) and original equipment manufacturer (OEM) that offers customized aerosols and non-aerosols products to other businesses across different industries such as home care, personal care, and maintenance chemicals. The Company offers a full turnkey solution from product formulation to design, packaging, production, and delivery to customers. It is the first and the biggest aerosol manufacturing company in the Philippines with almost all of its sales coming from the domestic market.

#### **Management and administration**

D&L maintains significant operational control of OFI, DLPF, FIC, DLPC, CTI, CPSI, API and NAC as well as of several affiliate companies that provide goods and services complimentary to those provided by the Company, including FIC Marketing Co. Inc., FIC Tankers, Inc., Consumer Care Products Inc. and LBL Prime Properties, Inc., among others, through a contractual “shared services” model. In particular, D&L Industries provides the following services to its subsidiaries and affiliate companies:

- *Executive Management* - including supervision of all business operations;
- *Administrative Support* - including finance, treasury, accounting, internal audit, human resources, information technology and legal services;
- *Logistics Support* - which includes warehousing, distribution and delivery, transportation fleet management, tank farm management, port clearing and procurement; and
- *Technical Services* - which include research and development, quality control and assurance and use of trademarks. The technical services for all business operations are concentrated in D&L’s research and development department, which the Company believes has been a critical driver for the success of each of its business lines.

D&L maintains its own analytical laboratory that provides technical services and is located in its headquarters in Quezon City, Metro Manila. While D&L continues to provide management services for this facility, specific research, development and application activities are conducted, and expenses are incurred,

by OFI, FIC (including DLPC), Chemrez Technologies, and Aero-Pack independently. D&L's and its subsidiaries' research laboratories employ highly qualified chemical engineers, chemists, consultants, technicians and support staff who service the customers of the Company in various industries.

### **General Operations**

- Additional discussion on other business risks are also provided in Note 22 of the 2022 Consolidated Audited Financial Statement of the Company attached herein.
- The Company, in the ordinary course of business, transacts with related parties. These transactions include the purchase/sale of goods and services. Details of the Related Party Transaction are discussed under Notes 18 (Related Party Transaction) of the Notes to the Consolidated Financial Statements of the Company.
- As of December 31, 2022, the Company and its subsidiaries have a total of 952 employees. There are ancillary processes however serviced by different outsourced providers. None of the employee groups have a collective bargaining agreement. The Company does not expect any significant change in its existing workforce level for 2023.

### **Management of Key Risks related to the Company**

#### **Risks relating to the Philippines**

As of end 2022, 69% of the Company's consolidated revenues are domestic. With a substantial portion of its business conducted and all of its assets located in the Philippines, the Company is exposed to risks associated with the Philippines, including political instability, exchange rate fluctuations, and occurrence of natural disasters such as typhoons and earthquakes.

The Company has contingency plans in place in cases of incidents – natural and man-made. These include centralized fire protection and disaster prevention systems. The Company also self-insures by maintaining a relatively high level of asset liquidity in the form of cash and cash equivalents and receivables, to protect its businesses against other potential risks. As of end-2022, cash and cash equivalents were 8% of the Company's total assets.

#### **Risk relating to failure to keep up with technological innovation**

The Company derives 51% of its consolidated revenues from high margin specialties. These are innovation-driven products, mostly tailor-made to the customer's needs. The higher the level of customization involved, the higher the profitability. Failure to anticipate and meet the requirements of our customers, as well as keep pace with evolving technological innovations in its markets might adversely impact business activities and profitability.

To make sure that the Company can respond effectively and efficiently to market needs, about 14% of its workforce is in the technical department (R&D and IT). These employees pursue various research and development activities, including product development and application, as well as quality assurance.

### **Risk from volatility in raw material prices**

As a manufacturing company, 86% of total costs and expenses are raw materials, primarily palm oil, coconut oil, and other types of vegetable oils, as well as monomers, polymers, and other chemicals. Prices of these raw materials tend to be volatile and the Company's ability to pass on significant changes in the cost of raw materials to customers is largely dependent upon contractual relationships and market conditions.

The Company does not fix the selling price for most of its contracts with customers. Prices for the contracts are reset every month on average, enabling the Company to pass on relevant price changes in raw material costs.

### **Risk from customer concentration**

The Company's largest customers account for a sizable portion of the business. The top three largest customers, mostly food ingredients customers, accounted for 17% of consolidated revenues in 2022. These customers are large multinational and local corporations. Significant changes in any of these customers' purchases might have material impact on the Company's businesses and profitability.

The products sold to these customers are mostly customized for which the Company is almost the sole supplier, in turn generating a stable base of sales volume for the Company. Nonetheless, cognizant of the risk of customer concentration, the Company continues to work closely with customers in order to get good demand visibility. Part of managing risks associated with customer concentration is assessing such risks against operational and strategic factors including economies of scale and knowledge accumulation.

### **Risk associated with the identity of the company's controlling shareholders**

The Company is effectively controlled by the Lao Family and their interests may differ significantly from the interests of other shareholders.

Through direct and indirect interests, the Lao Family effectively controls the Company and its subsidiaries. Mr. Dean A. Lao, Jr., Mr. Vincent D. Lao, Mr. Lester A. Lao and Mr. Alvin D. Lao, along with other second-generation members of the Lao Family, serve in various capacities as officers and directors of the boards and officers of D&L Industries and its subsidiaries. These positions allow the Lao Family to control shareholder decisions and exercise significant control over decisions of the Board in D&L Industries and each of its subsidiaries. The interests of the Lao Family may differ significantly from the interests of other shareholders.

The Company has a track record of good corporate governance. From the time of its public listing in December 12, 2012, D&L and its key officers have been recognized by certain award-giving bodies as one of the best in the Philippines and the ASEAN region such as those cited below.

'Finance Asia', a financial publication in the ASEAN region, named D&L as the country's 3rd best mid-cap company in 2014, best mid-cap company in 2015 and 2016, 2nd best mid-cap company in 2018, and best mid-cap in 2019. D&L also ranked as 7th best in the investor relations category.

New York-based Institutional Investor has named D&L as among the Most Honored Companies in ASEAN in 2017, 2019, 2020 and 2022. The Company's investor relations program, ESG and corporate governance initiatives were likewise recognized as among the best in the country.

The Institute of Corporate Directors (ICD) gave D&L 1-golden arrow recognition in 2019, 2020 and 2021. ICD evaluates companies in five areas: right of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the Board.

Six of the seven members of the Board of Directors of the Company are non-executive officers, with four independent directors. Independent directors also chair several committees of the Board of directors such as audit, corporate governance, related-party transaction, and risk oversight.

## **Item 2. Properties**

### **Real Properties**

The Company does not own any land and operates an asset-light business model. It leases real property, barges, and storage tanks used in its businesses from related parties LBL Prime Properties, Inc, FIC Tankers, Inc., and FIC Marketing, as well as from other third party lessors. The Company's lease agreements are typically for a period of one to five years and are renewable unless terminated by either party. Lease rates are all at arm's-length basis, and annual escalations are done at reasonable levels. None of the Company's properties used in its operations are subject to any material liens, encumbrances or restrictions of use.

To support the Company's centralized distribution and motor pool functions, the Company owns 62 delivery trucks, with a total capacity of 1,613 MT. The Company also contracted 6 cargo barges owned by affiliates with an aggregate capacity of approximately 10,400 MT.

The company's supply chain facilities are are ISO 9001 (quality), ISO 14001 (environmental), ISO 45001 (Occupational Health and Safety) certified which indicate its commitment to excellence in quality, delivery, care for the environment, health and safety of its employees, and cost competitiveness to its customers. In addition, OFI's facility is FSSC 22000 (Food Safety Standard Certification) and HALAL certified.

In January 2019, the Company's laboratory facility renewed its Certificate of Accreditation as an ISO 17025 Chemical Testing Lab by the Department of Trade and Industry's Philippine Accreditation Office, attesting to its high-quality facilities and employees. The Company has continuously upgraded this and its other application laboratories to allow it to continuously seek and implement innovations across the Company's entire product design and development cycle.

### **Intellectual Properties**

The Company believes that all proprietary product names, devices and logos used by the Company and its subsidiaries are registered with or are covered by a pending Application for Registration with the Intellectual Property Office of the Philippines, and have been filed or are owned by the Company.

As of December 31, 2022, the Company and its affiliates had over 421 registered trademarks covering a wide range of products such as resins, colorants, foam concentrates, fats and oils, powder coating and biofuel compounds, among others.

## **Item 3. Legal Proceedings**

As of date of this report, the Company is not a party to any litigation or arbitration proceedings of material importance, which could be expected to have a material adverse effect on the Company or on the results of its operations. No litigation or claim of material importance is known to be pending or threatened against the Company or any of its properties.

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

There were no matters submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

(1) The Company's common shares are traded on the First Board of the Philippine Stock Exchange. The common shares were listed on December 12, 2012. The following table shows the high and low prices (in pesos) of the Company's shares in the Philippines Stock Exchange for the year 2022:

	High	Low
Full Year 2022 (January 01 - December 31)	P9.00	P6.50

Source: Bloomberg

The market capitalization of the Company's common shares as of end-2022, based on the closing price of P7.90 per share was P56,428,578,121.

The last traded price of the Company's shares as of April 3, 2023 was P8.08.

(2) Total shares outstanding as of December 31, 2022 was 7,142,857,990 with a par value of P1.00.

The top 20 shareholders <sup>(1)</sup> as of the same date are:

Name	No. of shares held	% to total outstanding
1 JADEL HOLDINGS CO., INC.	3,930,114,072	55.02%
2 PCD NOMINEE CORPORATION (FILIPINO)	1,496,995,748	20.96%
3 PCD NOMINEE CORPORATION (NON-FILIPINO)	992,570,268	13.90%
4 SMARTWORKS TRADING CO., INC.	146,133,498	2.05%
5 CEE INDUSTRIES INC.	113,139,897	1.58%
6 JADANA INC.	100,521,710	1.41%
7 ALLVEE UNITED, INC.	95,524,564	1.34%
8 PRIME SPIN INC.	80,146,296	1.12%
9 JOHN L. LAO	65,987,202	0.92%
10 YIN YONG L. LAO	32,993,601	0.46%
11 ALEX L. LAO	32,579,888	0.46%
12 VINCENT D. LAO ITF LORENZO VINCE TAN LAO	5,025,000	0.07%
13 LAO ALVIN DIM AND/OR LAO JOHANNA SY	4,025,000	0.06%
14 HANSEVIAN , INC.	3,760,000	0.05%

15	IVIE MAE DIM LAO YVETTE ANN DIM LAO ITF KYLE ZACHARY LAO	3,125,000	0.04%
16	CHUA-UNSU YVETTE ANN DIM LAO ITF STELLA KATHLYN LAO	3,012,500	0.04%
17	CHUA-UNSU	3,012,500	0.04%
18	YVONNE KEH	2,246,500	0.03%
19	IVIE MAE DIM LAO ITF MARC AARON LAO SY	2,018,500	0.03%
20	OTHER SHAREHOLDERS	29,926,246	0.42%
	<b>Total</b>	<b>7,142,857,990</b>	<b>100%</b>

*Note:* <sup>(1)</sup> Figures are based on the report rendered by the stock transfer agent and exclude shares under the PCD accounts.

### Dividends

The Company's current dividend policy provides that at least 50% of its prior year's consolidated recurring net income shall be declared as dividends in favor of the stockholders of record date to be determined by the Board.

The dividends to be received by the stockholders shall be based on the recommendation of the Board after considering factors such as the Company's operating expenses, implementation of business plans, working capital requirements, cash flow position and capital expenditure requirements, as among other factors. The Company's Board of Directors may change the dividend policy at any time, as well as declare special dividends on top of the 50% commitment.

Declaration date	Payment Date	Dividend rate per share	Amount
June 06, 2022	July 15, 2022	P0.24 per share	P 1,714,285,918
June 07, 2021	July 15, 2021	P0.191 per share	P1,364,285,876
September 18, 2020	October 28, 2020	P0.183 per share	P1,307,143,012
June 11, 2019	July 22, 2019	P0.286 per share	P2,042,857,385
June 04, 2018	July 09, 2018	P0.260 per share	P1,857,143,077
July 13, 2017	August 10, 2017	P0.235 per share	P1,678,571,628
June 06, 2016	July 08, 2016	P0.20 per share	P1,428,571,598
June 08, 2015	July 08, 2015	P0.15 per share	P535,714,350
June 02, 2014	June 30, 2014	P0.20 per share	P714,285,799
June 24, 2013	August 19, 2013	P0.15 per share	P535,714,350

### Item 6. Management's Discussion and Analysis of Financial Condition, Changes of Financial Conditions and Result of Operations

As at December 31, 2022, 2021 and 2020, the consolidated financial statements include the Company and 100% of its subsidiaries, namely: FIC, DLPC, OFI, API, CTI, CSPI, NAC, and DLPF.

## **FY2022 versus FY2021**

### **Results of Operations**

- Reported net income available to common shareholders increased by 26% to P3.32 billion in 2022 from P2.64 billion in 2021, or earnings per share of P0.46 versus 2021's P0.37.
- Consolidated revenues of P43.5 billion in 2022 were 41% higher than P30.9 billion in 2021. The increase in revenue was mainly due to higher sales volume as well as higher average selling prices.
- Gross profit for the year increased by 33% to P6.07 billion from P4.57 billion in 2021, mainly due to higher volume for the year.
- Selling and marketing expenses increased by 34% to P1.15 billion for the period due to higher delivery expenses.
- Administrative expenses increased by 81% to P806 million for the period mainly due to higher depreciation and amortization, provision for impairment of receivables, taxes & licenses.
- The company booked other operating income of P225 million in 2022 mainly due to forex gains for the period.
- Finance cost increased by 67% y-o-y to P236 million due to higher debt level and higher average interest rate for the year.
- Income tax expense increased by 35% to P777 million in 2022 due to higher income for the year.

### **Segment Operations**

#### **Food Ingredients**

- With the reopening of the economy, the food ingredients segment continues to recover as overall volume for the year was up 14% YoY. In addition, as commodity prices continue to stabilize, margins have likewise started to improve. In 4Q22 alone, the gross profit margin (GPM) for the segment was up 3.3ppts YoY resulting in a 82% jump in profits for the quarter. Overall, the food ingredients division managed to end the year with a net income growth of 10% YoY, reversing the 6% income decline recorded in 9M22.
- This business was the segment most heavily affected by the pandemic, hence it is also expected to post the sharpest recovery post-pandemic. With quarantine restrictions now easing across the country and in the economic hub of Metro Manila, the company anticipates that further recovery is set to continue as fully vaccinated individuals are granted more freedom of movement, especially when frequenting restaurants, hotels, and the service industry.

#### **Oleochemicals and Specialty Oleochemicals**

- With higher export market penetration and the strong demand for organic, sustainable, and natural coconut oil-based products, Chemrez booked a record income for the year which was up 47% YoY. Oleochemicals division, which was the main growth driver, saw its volume grow by 46% YoY and GPM increase by 3.7ppts.

- Under the Oleochemicals division, the company sells various coconut oil derivatives which are categorized as either commodity (biodiesel) or high margin coconut oil-based products mostly for exports. As the economy continues to reopen, demand for biodiesel has started to pick up. Meanwhile, the high margin coconut-based products which are sustainable substitutes for petroleum-based raw materials used in many applications such as personal hygiene and home cleaning products continue to benefit from the increasing consumer awareness and preference for natural, organic, and sustainable products.

### Specialty Plastics

- Specialty plastics managed to end the year with an earnings growth of 11% YoY as the 1.2ppt margin expansion more than offset the impact of the 14% YoY volume decline for the period. The disruptions brought about by the Omicron surge in January and the global shortage of semiconductor chips used in automotives resulted in lower demand for wire harnesses. Nonetheless, over the long term, the company expects this division to continue to grow fuelled by the company's R&D investments that are aimed at developing new applications for its products and introducing new technologies that will make plastics more economical and environmentally-friendly at the same time.

### Aerosols

- With the continued economic reopening, the personal care division of the Consumer Products ODM segment saw its volume grow by 44% YoY in FY22. This offset the normalizing demand for disinfection and sanitation products as the world moves towards the tail end of the pandemic. In 4Q22 alone, earnings jumped 75% YoY, bringing the full year earnings decline to just 7% YoY from a decline of 23% YoY as of 9M22.
- Despite the slight YoY earnings contraction, FY22 earnings were still well-above pre-pandemic income level recorded in FY19. D&L expects this segment to return to profit growth as quarantine restrictions continue to ease, leading to greater foot traffic in retail outlets and more consumers resuming the regular use of personal hygiene products.

### **Key Financial Performance Indicators**

	<b>2022</b>	<b>2021</b>
Gross Profit margin <sup>a</sup>	14%	15%
Net profit margin <sup>b</sup>	8%	9%
Return on Equity <sup>c</sup>	16%	14%
Current ratio <sup>d</sup>	1.51x	1.82x
Interest cover <sup>e</sup>	18x	24x
Net debt to equity ratio <sup>f</sup>	0.59x	0.45x
Asset-to-Equity ratio <sup>g</sup>	1.97x	1.90x
Book Value per share <sup>h</sup>	2.89	2.67
Return on Invested Capital <sup>i</sup>	13%	12%



- <sup>a</sup> Gross Profit/ Revenues
- <sup>b</sup> Net Income available to common shareholders/ Revenues
- <sup>c</sup> Net Income available to common shareholders/ Shareholders' Equity
- <sup>d</sup> Current Assets/ Current Liabilities
- <sup>e</sup> Earnings before interest and taxes/ Interest Expense
- <sup>f</sup> (Borrowings – Cash)/ Shareholders' Equity
- <sup>g</sup> Total Assets/Total Equity
- <sup>h</sup> Shareholders' Equity (available to owners of the Parent) / weighted average outstanding number of common shares
- <sup>i</sup> Pre-tax income / invested capital (total assets – cash – non-interest bearing liabilities)

## Financial Condition

- The Company's current ratio stood at 1.51x in 2022 vs 1.82x in 2021.
- Cash level at the end of 2022 stood at P3.25 billion from P5.22 billion at the end of 2021.
- Excluding the impact of VAT in the account balances, cash conversion cycle stood at 99 days with Accounts Receivable days, Inventory days, and Accounts Payable days at 43, 74, and 18, respectively.
- Prepayments and other current assets increased by 32% to P4.1 billion in 2022 due to input taxes and creditable withholding taxes.
- Net debt to equity ratio in 2022 stood at 59%. Interest cover remains comfortable at 18x. Total borrowings as of end-2022 stood at P15.48 billion.
- Retained earnings increased by 19% in 2022 to P10.06 billion mainly as a result of net income for the year. Total dividends paid amounted to Php1.71 billion which translated to a 65% payout ratio based on previous year's net income.
- Total equity increased by 8% to P20.65 billion on the back of higher retained earnings.
- Due to higher raw material prices and the capex involved with the company's expansion in Batangas, free cash flow remained negative in 2022.
  - Net cash generated by operating activities stood at P2.47 billion.
  - Net cash used in investing activities amounted to P3.03 billion which was mainly spent on acquisition of property and equipment for the company's expansion site in Batangas.
  - Net cash used in financing activities amounted to P0.78 billion which mainly went to dividend payment and proceeds from loan.

## **FY2021 versus FY2020**

### Results of Operations

- Reported net income available to common shareholders increased by 31% to P2.64 billion in 2021 from P2.0 billion in 2020, or earnings per share of P0.37 versus 2020's P0.28.
- Consolidated revenues of P30.9 billion in 2021 were 42% higher than P21.7 billion in 2020. The increase in revenue was mainly due to higher sales volume as well as higher average selling prices.

- Gross profit for the year increased by 17% to P4.57 billion from P3.9 billion in 2020, mainly due to higher volume for the year.
- Selling and marketing expenses increased by 26% to P860 million for the period due to higher delivery expenses.
- Administrative expenses increased by 1% to P445 million for the period.
- The company booked other operating income of P101 million in 2021 mainly due to forex gains for the period.
- Finance cost decreased by 8% y-o-y to P142 million due to lower average interest rate for the year.
- Income tax expense increased by 6% to P577 million in 2021.

## **Segment Operations**

### Food Ingredients

- The food ingredients segment ended the year with net income higher by 70% YoY, just 15% lower than pre-pandemic levels. Both HMSP and commodity segments saw volume recovery with overall volume growth at 11% YoY. This business was the segment most heavily affected by the pandemic, hence it is also expected to post the sharpest recovery post-pandemic. With quarantine restrictions now easing across the country and in the economic hub of Metro Manila, the company anticipates that further recovery is set to continue as fully vaccinated individuals are granted more freedom of movement, especially when frequenting restaurants, hotels, and the service industry. In addition, election campaign spending may provide an added boost to food companies. In the 2016 Presidential elections, this segment saw its volume increase by 13% YoY.

### Oleochemicals and Specialty Oleochemicals

- Chemrez posted 15% YoY growth in net income in FY21, while volume grew by 13% YoY. This boost in volume more than offset the overall margin compression of 7%. The margin compression mainly came from the Oleochemicals segment (chemicals derived from coconut oil), due to a surge in coconut oil prices. It takes the company 30-45 days to adjust prices to account for changes in prices of its underlying raw materials. As such, in an environment of rapid price changes, temporary margin contraction is possible. Nonetheless, the company sees its margins recovering in the succeeding quarters once coconut oil prices stabilize.

### Specialty Plastics

- Specialty plastics income increased by 37% YoY in FY21. This was driven by higher volume which was up 7% YoY and a slight margin expansion of 0.3 ppt. Moving forward, the company expects steady and consistent demand given the crucial role that plastics play during the current pandemic -- from various medical applications to packaging for parcel and food deliveries. In addition, D&L has several projects in its R&D pipeline that relate to sustainable inputs for plastic manufacturing.

## Aerosols

- Consumer products ODM, previously referred to as Aerosols, continues to post strong volume growth. Total volume in this segment grew by +17%, as consumer demand for sanitation and disinfectant products remains strong in the new normal. However, given overarching raw material price surges, margins were down 4% which resulted in a 6% decline in profits. Nonetheless, the company does expect margins to recover as it continues to adjust prices every 30-45 days. The company also anticipates demand for its consumer products to strengthen as quarantine restrictions ease, leading to greater foot traffic in retail outlets and more consumers resuming the regular use of personal hygiene products.

## **Key Financial Performance Indicators**

	<b>2021</b>	<b>2020</b>
Gross Profit margin <sup>a</sup>	15%	18%
Net profit margin <sup>b</sup>	9%	9%
Return on Equity <sup>c</sup>	14%	11%
Current ratio <sup>d</sup>	1.82x	2.05x
Interest cover <sup>e</sup>	24x	12x
Net debt to equity ratio <sup>f</sup>	0.45x	0.17x
Asset-to-Equity ratio <sup>g</sup>	1.90x	1.43x
Book Value per share <sup>h</sup>	2.67	2.49
Return on Invested Capital <sup>i</sup>	12%	12.9%

<sup>a</sup> Gross Profit/ Revenues

<sup>b</sup> Net Income available to common shareholders/ Revenues

<sup>c</sup> Net Income available to common shareholders/ Shareholders' Equity

<sup>d</sup> Current Assets/ Current Liabilities

<sup>e</sup> Earnings before interest and taxes/ Interest Expense

<sup>f</sup> (Borrowings – Cash)/ Shareholders' Equity

<sup>g</sup> Total Assets/Total Equity

<sup>h</sup> Shareholders' Equity (available to owners of the Parent) / weighted average outstanding number of common shares

<sup>i</sup> Pre-tax income / invested capital (total assets – cash – non-interest bearing liabilities)

## **Financial Condition**

- The Company's current ratio stood at 1.82x in 2021 vs 2.05x in 2020.
- Cash level at the end of 2021 stood at P5.2 billion from P2.1 billion at the end of 2020. The company issued a P5 billion bond in September 2021, the proceeds of which was not yet fully disbursed by the end of the year which resulted in a jump in cash levels.
- Excluding the impact of VAT in the account balances, cash conversion cycle stood at 120 days with Accounts Receivable days, Inventory days, and Accounts Payable days at 50, 91, and 21, respectively.

- Prepayments and other current assets increased by 26% to P3.1 billion in 2021 due to input taxes and creditable withholding taxes.
- Net debt to equity ratio in 2021 stood at 45%. Interest cover remains comfortable at 24x. Total borrowings as of end-2021 stood at P8.6 billion.
- Retained earnings increased by 18% in 2021 to P8.46 billion mainly as a result of net income for the year. Total dividends paid amounted to Php1.36 billion which translated to a 68% payout ratio based on previous year's net income.
- Total equity increased by 8% to P19.1 billion on the back of higher retained earnings.
- Due to higher raw material prices and the capex involved with the company's expansion in Batangas, operating cash flow and free cash flow turned negative in 2021.
  - Net cash used in operating activities stood at P0.204 million.
  - Net cash used in investing activities amounted to P 3.6 billion which was mainly spent on acquisition of property and equipment for the company's expansion site in Batangas.
  - Net cash generated from financing activities amounted to P 6.5 billion which largely came from the P5 billion bond issuance of the company in September 2021.

### **D&L's Plan of Operation for 2023**

As the world recovers from the pandemic, D&L is emerging more resilient than ever, having instituted various adjustments and operational contingencies. While there are renewed risks to global growth and recovery, the company believes that it is now in a far better position to thrive in an adverse environment and a potentially protracted economic recovery period. Moreover, as most products that the company manufactures cater to essential industries such as food, oleochemicals, plastics and other basic materials, the company sees continued strong demand ahead.

From a capital structure perspective, the company is in a solid position to withstand external pressures. As of end-December 2022, net gearing continues to remain manageable at 59%, interest cover at 18x, and average interest rate at 4.7%. The issuance of the P5 billion maiden bond offering of the company is helping cushion the recent increase in interest rates. The bonds carry a coupon rate of 2.7885% p.a. and 3.5962% p.a. for 3-year and 5-year tenors, respectively, which would have been significantly higher at approximately 6.4029% for the 3-year tenor and 6.6087% for the 5-year tenor if the company were to issue the bonds today. Meanwhile, the cash conversion cycle for the period was lower at 99 days vs. 120 days in 2021, given lower inventory and account receivables days.

While risk remains in the form of elevated inflation, threat of a US recession, and a global banking turmoil, the company remains optimistic and focused on its long-term structural growth story. D&L's expansion plan in Batangas is set to start commercial operations by mid-2023. The said expansion facility will mainly cater to D&L's growing export businesses in the food and oleochemicals segments. It will add the capability to manufacture downstream packaging, thus allowing the company to capture a bigger part of the production chain. For instance, while the company primarily sells raw materials to customers in bulk, the new plants will allow it to "pack at source". This means that D&L will have the ability to process the raw materials and package them closer to finished consumer-facing products. This will enable D&L to move a step closer to its customers by providing customized solutions and simplifying their supply chain, which is of high importance given logistical challenges in general.

In addition, the company continues to pursue areas of opportunities that will bring the next leg of growth. With coconut oil continuing to gain traction globally as a natural and sustainable substitute to many petroleum-based raw materials, D&L plans to further capitalize on this by entering more export markets

and by using its R&D expertise to introduce more highly specialized, coconut-oil based products. Over the medium-term, the company targets a 50% export revenue contribution.

## **Item 7. Financial Statements**

The Financial Statements of the Company are incorporated herein by reference and attached as an integral part of this SEC Form-17A.

## **Item 8. Information on Independent Public Accountant and Other Related Matters**

### **1. Independent Public Accountant**

#### **(a) Audit and Audit-Related Fees**

The Company's independent public accountant is the accounting firm of Isla Lipana & Co. The Company's Audit Committee recommended for approval of the Board the appointment of external auditor for the ensuing year. The stockholders then approved and ratified the appointment of external auditor at the annual stockholder's meeting held on June 6, 2022. Isla Lipana has not expressed any intention to resign as the Company's principal auditor nor has it indicated any hesitance to accept re-election after the completion of their last audit.

Pursuant to the General Requirements of the SRC Rule 68, paragraph 3 (Qualifications and Reports of Independent Auditors), the Company has engaged Isla Lipana & Co. as external auditor. Mr. Roderick M. Danao was the audit engagement partner-in-charge for the Company's financial statement audit from 2018 up to 2022. Ms. Gina S. Detera was the audit engagement partner-in-charge for the Company's financial statement audit in 2017 and 2016.

The aggregate fees billed for each of the last three (3) fiscal years for professional services that are normally rendered by Isla Lipana & Co (formerly Joaquin Cunanan & Co.) for the audit of the company's Annual Financial Statements are the following:

<b>Year</b>	<b>Audit Fees</b>
2020	P4,500,000
2021	P5,400,000
2022	P5,780,000

There are no other assurance and related services by Isla Lipana & Co. that are related to the performance of the audit or review of the Company's Financial Statements.

#### **(b) All Other Fees**

Isla Lipana & Co was engaged to provide the comfort letter and arrangement letter covering years 2017 to 2020 required for the Company's Bond Issuance last 2021, for which fees in the amount of P1,528,000 were paid to Isla Lipana & Co.. There are no aggregate fees billed in each of the last three (3) fiscal years for products and services provided by Isla Lipana & Co., other than this and the services reported under item (a) above.

#### **(c) Audit Committee's Approval Policies and Procedures**

The composition of the Audit Committee is as follows:

Mrs. Corazon S. de la Paz-Bernardo, as Chairman (Independent Director), Atty. Mercedita S. Nollado (Independent Director), Mr. Filemon T. Berba Jr. (Independent Director) and Mrs. Lydia R. Balatbat-Echauz (Independent Director).

The Audit Committee meets on a regular basis to:

- a) Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations;
- b) Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the corporation;
- c) Perform oversight functions over the corporation's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- d) Review the annual internal audit plan to ensure its conformity with the objectives of the corporation. The plan shall include the audit scope, resources and budget necessary to implement it;
- e) Prior to the commencement of the external audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- f) Establish an internal audit function, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
- g) Monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, including financial reporting control and information technology security;
- h) Review the reports submitted by the internal and external auditors;
- i) Review the quarterly, half-year and annual financial statements before their submission to the Board, with particular focus on the following matters:
  - Any change/s in accounting policies and practices
  - Major judgmental areas
  - Significant adjustments resulting from the audit
  - Going concern assumptions
  - Compliance with accounting standards
  - Compliance with tax, legal and regulatory requirements
- j) Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- k) Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed,

should be disclosed in the corporation's annual report; and

- I) Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee. The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.

## **2. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

### Changes in Accounting Policies

Refer to Note 23 – Summary of Significant Accounting Policies under Changes in Accounting Policies and Disclosures discussion on the Consolidated Financial Statement as of the year ended December 31, 2022 included in this report.

## **PART III - CONTROL AND COMPENSATION INFORMATION**

### **Item 9. Directors and Executive Officers of the Issuer**

The Articles of Incorporation provide for the election of seven (7) directors to the Board to serve for a term of one year. The Board is responsible for the overall management and direction of the Company. It meets on a regular basis to review and monitor the Company's financial position and operations.

The following sets forth certain information as to the Directors and executive officers of the Company and key officers of the Company's wholly-owned subsidiaries:

#### Advisory Board Members

<b>Name</b>	<b>Age</b>	<b>Nationality</b>	<b>Position</b>
Dean L. Lao	84	Filipino	Chairman Emeritus
Leon L. Lao	80	Filipino	Member, Advisory Board
Alex L. Lao	77	Filipino	Member, Advisory Board

#### Directors, Executive Officers, and Key Officers of wholly-owned subsidiaries:

<b>Name</b>	<b>Age</b>	<b>Nationality</b>	<b>Position</b>
Yin Yong L. Lao	70	Filipino	Chairman
John L. Lao	68	Filipino	Director and Vice Chairman
Alvin D. Lao	51	Filipino	Director, President and Chief Executive Officer
Mercedita S. Nollado	82	Filipino	Independent Director
Filemon T. Berba, Jr. †	85	Filipino	Independent Director
Corazon S. de la Paz-Bernardo	82	Filipino	Independent Director
Lydia R. Balatbat-Echauz	75	Filipino	Independent Director
Franco Diego Q. Lao	44	Filipino	CFO, Treasurer, Compliance Officer
Joselito P. Rivera	60	Filipino	Chief Operating Officer

Dean A. Lao, Jr.	55	Filipino	President & CEO, Chemrez Technologies
Lester A. Lao	54	Filipino	President & CEO, FIC and DLPC
Vincent D. Lao	49	Filipino	President & CEO, Oleo-Fats, Inc.
Kristine Ann C. Catindig-Ong	41	Filipino	Corporate Secretary, CIO
Ainslee Anne T. Lao	32	Filipino	Assistant Corporate Secretary

† Mr. Berba passed on last April 4, 2023. His position remains to be vacant as of this writing.

The business experience for the past five years of each of the directors and executive officers is set forth below.

**Dean L. Lao** is the Co-founder and Chairman Emeritus of the Company, having previously served as Chairman and President of the Company from 1971 to 2013. He now sits on the Advisory Board of the Company since 2017. He was the founder of the various companies belonging to the Lao Family which include FIC Marketing, Inc. (1986), Oleo-Fats, Incorporated (1988), Corro-Coat, Inc (1990), Aero-Pack Industries, Inc. (1990), First in Colors, Incorporated (1991), and Chemrez Product Solutions, Inc. (1991). He currently serves as Director of the following companies: Aero-Pack Industries, Inc., Chemrez Product Solutions, Inc., First in Colours, Incorporated, Oleo-Fats Incorporated, Malay Resources, Inc., FIC Tankers Corporation, LBL Prime Properties Incorporated, Ecozone Properties, Inc., First Batangas Industrial Park, Inc., Color-Chem Corp., North Mactan Industrial Corporation and Jadel Holdings Co., Inc. Dean obtained his B.S. in Chemical Engineering from the Polytechnic Colleges of the Philippines.

**Leon L. Lao** is the co-founder of D&L Industries, Inc. Having previously served the Company in various capacities (Director, Chairman, President and Chief Operating Officer), Leon Lao now sits on the Advisory Board of the Company since 2017. He currently serves as the Chairman of First in Colors, Incorporated and D&L Polymer & Colours, Inc., and Director of Aero-Pack Industries, Inc., Chemrez Product Solutions, Inc., Chemrez Technologies, Inc., First in Colours, Incorporated, Oleo-Fats Incorporated, Malay Resources, Inc., LBL Prime Properties Incorporated, Ecozone Properties, Inc., First Batangas Industrial Park, Inc., Color-Chem Corp., North Mactan Industrial Corporation and Jadel Holdings Co., Inc. Leon obtained his B.S. in Chemical Engineering from the Polytechnic Colleges of the Philippines.

**Alex L. Lao** is a member of the Advisory Board of the company. He was a Director of the Company from 1971 to 2017. He has also been a Director of other subsidiaries and affiliates of D&L Industries. He previously served as Alternate Director of Axis REIT, a real estate investment trust listed in Malaysia. Mr. Lao is also a Director of the following: Aero-Pack Industries, Inc., Chemrez Product Solutions, Inc., First in Colours, Incorporated, Oleo-Fats Incorporated, Malay Resources, Inc., Palmera Resources, Inc., LBL Prime Properties Incorporated, First Batangas Industrial Park, Inc., Anonas LRT Property and Dev't Corp., Hotel Acropolis, Inc., Color-Chem Corp., North Mactan Industrial Corporation and Jadel Holdings Co., Inc. Alex obtained his B.S. in Chemical Engineering from the Polytechnic Colleges of the Philippines.

**Yin Yong L. Lao** is the Chairman of the Company, having been a Director since 1971 and having previously served as President. He is a Director as well as President and Chief Executive Officer of LBL Prime Properties Incorporated, Anonas LRT Property and Dev't Corp., Hotel Acropolis, Inc. and Ecozone Properties, Inc. Yin Yong is also a Trustee of the Association of Petrochemical Manufacturers of the Philippines. He also serves as a director of the following: Aero-Pack Industries, Inc., Chemrez Technologies, Inc., Chemrez Product Solutions, Inc., First in Colours, Incorporated, Oleo-Fats, Incorporated, Palmera Resources, Inc., Malay Resources, Inc., First Batangas Industrial Park, Inc., Color-Chem Corp., North Mactan Industrial Corporation, and Jadel Holdings Co., Inc. He graduated from the Ateneo de Manila University with a Bachelor of Arts degree in General Studies.

**John L. Lao** is the Vice Chairman of the Company. He previously served as the President until August 2016. He is currently the President of Aero-Pack Industries, Inc. His other directorships include North Mactan Industrial Corporation, Chemrez Technologies, Inc., Chemrez Product Solutions, Inc., First in Colours, Incorporated, D&L Polymer & Colours, Inc., D&L Powder Coating, Inc., Oleo-Fats Incorporated, Malay Resources, Inc., Palmera



Resources, Inc., LBL Prime Properties Incorporated, Ecozone Properties, Inc., Anonas LRT Property and Dev't Corp., Hotel Acropolis, Inc., First Batangas Industrial Park, Inc., Color-Chem Corp. and Jadel Holdings Co., Inc. John obtained his B.S. in Business Administration from the University of the East.

**Mercedita S. Nollado** is an independent director of the Company. She also serves currently as a Director and/or officer in various capacities for BPI Foundation, Inc., BPI Investment Management, Inc., Xurpas, Inc., Ayala Foundation, Inc., Ayalaland Commercial REIT, Inc., Anvaya Cove Beach & Nature Club, Michigan Holdings, Inc., and Sonoma Properties, Inc. She is also a member of the Advisory Board of Ayala Land, Inc. and Bank of the Philippine Island. Mrs. Nollado obtained a B.S. in Business Administration and Accountancy (Magna Cum Laude and class valedictorian) and a Bachelor of Laws (L.I.B degree – cum laude and class valedictorian) from the University of the Philippines. She placed 2<sup>nd</sup> in both the Certified Public Accountant exams and bar exams in 1960 and 1965, respectively.

**Filemon T. Berba, Jr.<sup>†1</sup>** was an independent director of the Company. He was the Chairman of the Philippine Foundation for Science & Technology, President Emeritus of the Philippine Quality Award Foundation. Mr. Berba also previously served as Senior Managing Director of Ayala Corporation from 1991 to 2003, seconded as Vice Chairman and President of Manila Water Company from 1997 to 2003, President of Globe Telecom from 1995 to 1997, Vice Chairman and President of Integrated Microelectronics, Inc. from 1991 to 2003, President and Chief Executive Officer of Philippine Electric Corporation from 1987 to 1990, President of Westinghouse Asia Controls Corporation from 1979-1987, Group President of various companies under the Herdis Group from 1975-1979, Vice President for Manufacturing and Logistics Services for United Laboratories from 1973 to 1975, as well as other senior management positions in the First Philippine Holdings Group. Mr. Berba obtained a B.S. in Electrical Engineering (Magna Cum Laude) from the University of the Philippines and obtained his Masters of Business Administration degree (with distinction) from the Wharton School of the University of Pennsylvania.

**Corazon de la Paz-Bernardo** is an independent director of the Company. She headed the Social Security System from 2001 to 2008 as President and CEO. Prior to this, she built a successful career as a certified public accountant at Joaquin Cunanan & Co (PriceWaterhouseCoopers Philippines) from 1967 to 2001 where she was the Chairman and Senior Partner of the firm from 1981 to 2001. She was also the first non-European President of the International Social Security Association from 2004 to 2010. She continues to be an independent director or trustee of other companies including Roxas & Co., Republic Glass Holdings Corp., University of the East, University of the East RMMMCI, Del Monte Philippines, and Phinma Education Holdings Inc.. She is an adviser to the board and audit committee of BDO Unibank, Inc. and adviser to the audit committee of PLDT. Mrs. de la Paz-Bernardo is a graduate of the University of the East (Magna Cum Laude) and obtained first place in the 1960 CPA board examination. She obtained her MBA from the Cornell University Johnson School of Management as a Fulbright grantee and UE scholar.

**Lydia Balatbat-Echauz** is an independent director of the Company. She has more than three decades of leading the country's top schools. She served as President of publicly listed Far Eastern University from 2002 to 2012. Previous to this, she was Associate Director at the Graduate School of Business, Ateneo de Manila University until 1985 and Dean of the Graduate School of Business, De La Salle University from 1986 to 2002. Her expertise extends beyond the academe as she also sits on the board of several companies which include Meralco, Pilipinas Shell Petroleum Corp., PLDT Beneficial Trust Fund, SM Foundation, Inc., Henry Sy Foundation, Inc., PhilStar Group, Riverside College, Inc., NBS College, Felicidad T. Sy Foundation, Inc., Mano Amiga Academy, FERN Realty Corporation, BusinessWorld Publishing Corporation, and Tahanan Mutual Building, Museo del Galeon, Inc., Akademyang Filipino Association, Inc., DLS College of St. Benilde and Loan Association.

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<sup>†1</sup> † Mr. Berba passed on last April 4, 2023. His position remains to be vacant as of this writing.

**Alvin D. Lao** became a Director and President and Chief Executive Officer of the Company in August 2016. He also serves as a Director of Axis REIT, a REIT (real estate investment trust) listed in Malaysia. He is the President of the Technology Club of the Philippines (Philippine alumni of the Massachusetts Institute of Technology) and past president of the Entrepreneurs Organization (EO, Philippine Chapter). He is a current member of the Financial Executives Institute of the Philippines (FINEX), Wallace Business Forum, Akademyang Filipino, and Management Association of the Philippines. He is a member of the Advisory Board of Urban Land Institute – Philippine Branch. He is also the Executive Vice President and Treasurer of LBL Prime Properties Incorporated and Ecozone Properties, Inc. His other directorships include: First in Colours, Incorporated, D&L Polymer & Colours, Incorporated, FIC Marketing, Inc., FIC Tankers Corporation, Palmera Resources, Inc., Anonas LRT Property and Dev't Corp., Ecozone Properties, Inc. and Hotel Acropolis, Inc. He was previously a faculty member of the De La Salle University Graduate School of Business. He graduated from the University of Western Australia with a Bachelor of Science in Information Technology (Honours) and Statistics. He also holds a Master's degree in Business Administration from the MIT Sloan School of Management.

**Joselito P. Rivera** was appointed as the Chief Operating Officer in August 2017. Mr. Rivera's corporate leadership experience was gained through multi-disciplinary roles at local and multinational companies. He was the Global Head for Leadership at Ericsson Corporate Headquarters in Stockholm, Sweden for six years. Prior to that, he was with Ericsson Philippines for nine years where he held various management positions such as Senior Vice President for Business Development and Head for Market Communications, Vice President for Human Resources and Operations Development, Asia Pacific Head for Ericsson University and Talent Management. He also held positions in human resources and organization effectiveness roles at Basic/Foote, Cone & Belding, and Philippine Airlines. He is currently the Chairperson, Board of Trustees and OIC President of Pamantasan Lungsod ng Marikina and Lead Adviser for Marikina Local Government, Office of the Mayor, with focus areas in education, DRRM, livelihood and health. He was formerly Lead Adviser for several organizations such as the McCann World Group, Philippine Business for Social Progress, Staff House International, SEA Institute, Ateneo Law School, Puno Law and various Government Agencies.

**Franco Diego Q. Lao** was appointed as the Chief Financial Officer, Treasurer and Chief Compliance Officer of the Company on May 4, 2021. He has 21 years of experience with the group. Immediately before his appointment as CFO, he was the Finance Director of Oleo-Fats, Incorporated since February 2021. He was the Group Supply Chain Director for D&L Industries from 2017 to 2020. Before that, he was Supply Chain Manager from 2010-2016, Product Manager from 2006 to 2009 and Product Representative from 2000-2006 of Oleo Fats. He currently serves as Director of the following companies: D&L Polymer & Colours, Inc., Best Value Factory Outlet Corp., D&L Premium Foods Corp. and Natura Aeropack Corporation. He holds a Bachelor of Commerce major in Accounting and Marketing degree from the University of Western Australia.

**Dean A. Lao, Jr.** is the President and CEO of Chemrez and a member of the Management Committee of D&L Industries. He is currently the Chairman of the United Coconut Association of the Philippines, Director of the ASEAN Oleochemical Manufacturing Group, President of the Philippine Oleochemical Manufacturers Association, President of The Philippine Biodiesel Association and member of the Wallace Business Forum, Chemical Industries Association of the Philippines, Philippine Association of Paint Manufacturers and the Entrepreneurial Organization, Philippine Chapter. He graduated from Curtin University in Western Australia with a Bachelor of Business in Information Processing after completing his freshman year at the Ateneo de Manila University in the Philippines with a BA in Interdisciplinary Studies. He also completed the Advanced Management Program of Harvard Business School.

**Lester A. Lao** is the President and CEO of First in Colours, Incorporated and D&L Polymer & Colours, Inc. and a member of the Management Committee of D&L Industries. He also serves as Director of First in Colours, Incorporated, D&L Polymer & Colours, Inc., FIC Marketing, Inc., Anonas LRT Property and Dev't Corp. and Hotel Acropolis, Inc. He finished his Bachelor of Applied Science (Information Business) in Edith Cowan University Australia.

**Vincent D. Lao** is the President and CEO of Oleo-Fats and a member of the Management Committee of D&L Industries. He also serves as the President of Best Value Factory Outlet Corp. He was previously Assistant Trader at Shuwa Co. Ltd. in Japan from 1994 to 1995. He also serves as Director of D&L Polymer & Colours, Incorporated, Oleo-Fats, Incorporated, FIC Marketing, Inc., Anonas LRT Property and Dev't Corp., and Hotel Acropolis, Inc. He graduated from the University of Western Australia with a Bachelor of Arts in Economics and Japanese Studies.

**Kristine Ann C. Catindig-Ong** is the Corporate Secretary of the Company, Corporate Information Officer and Corporate Legal Counsel of the Company. She is likewise the Corporate Secretary of Chemrez Technologies, Inc. and Chemrez Product Solutions, Inc., and Assistant Corporate Secretary of the following subsidiaries: Oleo-Fats, Incorporated, D&L Polymer & Colours, Inc., First in Colours, Incorporated and Aero-Pack Industries, Inc.. She is a lawyer with a juris doctor degree from the Ateneo School of Law and a member of the Integrated Bar of the Philippines.

**Ainslee Anne T. Lao** is the Assistant Corporate Secretary of the Company. She also serves as Director and Corporate Secretary of D&L Premium Foods Corp., Natura Aeropack Corporation and Jadel Research Center, Incorporated. She is likewise the Assistant Corporate Secretary of the following subsidiaries: Oleo-Fast, Incorporated, D&L Polymer & Colours, Inc., First In Colours, Incorporated, Aero-Pack Industries, Inc., Chemrez Product Solutions, Inc. and Chemrez Technologies, Inc. She also serves as Chief Financial Officer of the following: LBL Prime Properties Incorporated, Anonas LRT Property and Dev't. Corporation, Ecozone Properties, Inc., Hotel Acropolis, Inc., LBL Land Corporation, Malay Resources, Inc. and Star Anise Properties Corporation. She holds a Bachelor of Arts degree in History and a Master's degree in International Business from the University of London.

#### **Involvement in Certain Legal Proceedings**

No Director, executive officer or senior officer of the Company during the past five (5) years has been subjected to:

- (a) Any bankruptcy petition files 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;
- (b) Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- (c) 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, and commodities or banking activities.

No Director, executive officer or senior officer of the Company has been 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.

### **Board Meetings and Attendance**

<b>Board</b>	<b>Name</b>	<b>Date of Election</b>	<b>No. of Meetings Held during the year</b>	<b>No. of Meetings Attended</b>	<b>%</b>
Chairman	Yin Yong L. Lao	06-6-22	7	7	100
Member	John L. Lao	06-6-22	7	7	100
Member	Alvin D. Lao	06-6-22	7	7	100
Independent	Filemon T. Berba, Jr.	06-6-22	7	7	100
Independent	Mercedita S. Nollado	06-6-22	7	7	100
Independent	Corazon S. de la Paz-Bernardo	06-6-22	7	7	100
Independent	Lydia R. Balatbat-Echauz	06-6-22	7	7	100

### **Item 10. Executive Compensation**

The total annual compensation received by Executive Officers and key senior personnel of the Company and its wholly-owned subsidiaries and affiliates in 2020, 2021, and 2022 amounted to P38,468,761, P39,812,011 and P49,384,255 respectively. The projected total annual compensation for the current year 2023 is P54,322,681. The table below shows the most highly compensated key officers and senior personnel of the Company.

<b>Name</b>	<b>Position</b>	<b>Year</b>	<b>Salary</b>	<b>Bonus</b>	<b>Other Compensation</b>
Alvin D. Lao	President and CEO	2022	-	-	-
Dean A. Lao, Jr.	Managing Director - Chemrez	2022	-	-	-
Lester A. Lao	Managing Director - DLPC/FIC	2022	-	-	-
Vincent D. Lao	Managing Director - Oleo Fats	2022	-	-	-
Other Senior Officers		2022	-	-	-
<b>Total</b>			<b>P49,384,255</b>	-	-

The following are given to Directors for each meeting attended:

- P60,000 for the Chairman of the Board
- P50,000 for each Board member
- P35,000 for the chairman of the Board Committee
- P25,000 for each member of the Board Committee

Aside from the aforementioned director fee no other compensation is paid to Directors of the Company. Further, the Company does not have any stock option or management incentive plan as part of its current compensation for Directors and officers.

#### **Item 11. Security Ownership of Certain Beneficial Owners and Management**

As of December 31, 2022, the beneficial owners of more than five (5) percent of any class of the Company's voting securities are as follows:

Common	JADEL Holdings Co., Inc. (2) 65 Calle Industria, Bagumbayan, Quezon City, Stockholders	n/a	Filipino	3,930,114,072	55.02%
Common	PCD Nominee Corp (Non-Filipino) G/F Makati Stock Exchange, Ayala Avenue, Makati City	Standard Chartered Bank	Foreign	577,455,510	8.08%

*Note: (1) Percentage is based on total number of shares issued – 7,142,857,990*

*(2) Figures are based on the report rendered by the stock transfer agent*

The following table shows the security ownership of the Company's senior management as of December 31, 2022:

Title of Class	Name of Beneficial Owner	Position	Amount and Nature of Beneficial Ownership (1) - Balance as of 1/1/2022	Amount and Nature of Beneficial Ownership (1) - Balance as of 12/31/2022	Citizenship	% to Total Outstanding
Common	Dean L. Lao	Chairman Emeritus	28,105,048	1,081,600 (D)	Filipino	0.02%
			34,579	42,059 (I)		0.00%
Common	Leon L. Lao	Member, Advisory Board	100,000	100,000 (D)	Filipino	0.00%
			1,910,493	1,910,493 (I)		0.03%
Common	Alex L. Lao	Member, Advisory Board	54,286,226	48,706,338 (D)	Filipino	0.68%
			7,050,972	7,465,369 (I)		0.10%
Common	Yin Yong L. Lao	Chairman	32,993,601	32,993,601 (D)	Filipino	0.46%
			14,780,566	14,780,566 (I)		0.21%
Common	John L. Lao	Vice Chairman	71,212,202	71,797,202 (D)	Filipino	1.01%
			8,450,178	8,450,178 (I)		0.12%
Common	Filemon T. Berba	Independent Director	200,002	200,002 (D)	Filipino	0.00%
Common	Mercedita S. Nollado	Independent Director	700,000	700,000 (D)	Filipino	0.01%
Common	Corazon S. de la Paz-Bernardo	Independent Director	100	100 (D)	Filipino	0.00%
Common	Lydia R. Balatbat - Echaiz	Independent Director	89,500	89,500 (D)	Filipino	0.00%
Common	Alvin D. Lao	President & Chief Executive Officer	8,910,500	11,053,000 (D)	Filipino	0.15%
			1,927,838	1,931,578 (I)		0.03%
Common	Dean A. Lao, Jr.	Managing Director, Chemrez Technologies	1,653,000	1,763,000 (D)	Filipino	0.02%
			2,290,577	2,298,057 (I)		0.03%
Common	Lester A. Lao	Managing Director, FIC and DLPC	1,023,000	1,023,000 (D)	Filipino	0.01%
			35,225,710	42,682,872 (I)		0.60%
Common	Vincent D. Lao	Managing Director, Oleo-Fats, Inc.	2,643,000	6,668,000 (D)	Filipino	0.09%
			1,927,780	1,931,520 (I)		0.03%
Common	Franco Diego Q. Lao	Chief Financial Officer, Treasurer, & Chief Compliance Officer	1,279,000	1,279,000 (D)	Filipino	0.02%
			18,443,918	18,443,918 (I)		0.26%
Common	Joselito P. Rivera	Chief Operating Officer	250,000	300,000 (D)	Filipino	0.00%
Common	Kristine Catindig-Ong	Corporate Secretary	296,000	326,000 (D)	Filipino	0.00%
Common	Ainslee Anne T. Lao	Assistant Corporate Secretary	1,383,600	1,383,600 (D)	Filipino	0.01%
			17,988,402	18,424,611 (I)		0.26%
Common	Crissa Marie U. Bondad	Investor Relations Manager	353,800	453,800 (D)	Filipino	0.01%

Percentage is based on total number of shares issued of 7,142,857,990

(1) Indirectly owned shares are attributable to the individual Lao family member's direct (D) and indirect (I) interests in the following companies, which are principal stockholders of the Company

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Name of Company	No. of shares in the Company	% to Total Outstanding
Jadel Holdings Co., Inc.	4,419,146,596	61.87%
SmartWorks Trading Co., Inc.	153,533,498	2.15%
Allvee United, Inc.	95,524,564	1.34%
Jadana, Inc.	100,521,710	1.41%
Prime Spin, Inc.	84,501,296	1.18%
CEE Industries, Inc.	113,139,897	1.58%
Hansevian, Inc.	3,760,000	0.05%

## Item 12. Certain Relationships and Related Transactions

Mr. Dean L. Lao, Mr. Leon L. Lao, Mr. Alex L. Lao, Mr. Yin Yong L. Lao and Mr. John L. Lao are brothers. Mr. Dean A. Lao, Jr. and Mr. Lester A. Lao are sons of Mr. Dean L. Lao. Mr. Alvin D. Lao and Mr. Vincent D. Lao are sons of Mr. Leon L. Lao. Ms. Ainslee Anne T. Lao and Franco Diego Lao are the children of Mr. Alex L. Lao.

All other directors and officers are not related either by consanguinity or affinity.

Details of the Related Party Transaction are discussed under Notes 1 (General Corporate Information) and 18 (Related Party Transaction) of the Notes to the Consolidated Financial Statements of the Company. There were no transactions with directors, officers or any principal stockholders (owning at least 10% of the total outstanding shares of the Company) that are not in the ordinary course of business of the Company.

## PART IV – CORPORATE GOVERNANCE

### Item 13. Compliance with Leading Practice on Corporate Governance


For compliance with leading practices on corporate governance, please refer to the latest I-ACGR which can be accessed through the Company's website at this link: <https://dnl.com.ph/wp-content/uploads/2022/05/Integrated-Annual-Corporate-Governance-Report-2021-1.pdf>. The Company will submit its I-ACGR covering the year 2022 on or before the deadline set by the SEC and upload the same on the Company's website as soon as it is available.

In addition, the Company has a Code of Business Principles (CoBP) which encapsulates the Company's general policies relative to its stakeholders. The CoBP contains policies on customer's welfare, dealing with suppliers and the government, whistle blowing, community welfare, the environment and sustainable development and employee welfare. The COBP can be accessed through the Company's website at this link: <https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf>. The Company's programs for employee health, safety and welfare and training and development are presented in the I-ACGR.


## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed in behalf of the issuer by the undersigned thereunto duly authorized, in the city of QUEZON on April \_\_, 2023.

By:

  
Alvin D. Lao  
President/CEO

  
Marife M. Maddawin  
Controller

  
Franco Diego T. Lao  
Chief Finance Officer

  
Kristine Ann Catindig-Ong  
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this 14 APR 2023 day of April 2023 affiant (s) exhibiting to me his/their Driver's License, as follows:

NAMES	VALID ID	EXPIRE ON
Alvin D. Lao		
Franco Diego T. Lao		
Kristine Ann Catindig-Ong		
Marife M. Maddawin		

## NOTARY PUBLIC

Doc.No. 196  
Page No. 21  
Book No. XV  
Series of 2023

  
Atty. Richard Leo M. Baldueza

Notary Public for Quezon City  
Until December 31, 2023

Roll No. 53953

PTR No. 0531977 / 01/03/2023 / Plaridel Bulacan  
MCLE Compliance No. VII - 0007663 / 11/04/2021  
IBP Lifetime No. 7203 (01-17-08)



## PART V – EXHIBITS AND SCHEDULES

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

**D&L INDUSTRIES, INC.  
LIST OF CORPORATE DISCLOSURES/REPLIES TO SEC LETTERS  
UNDER SECTION FORM 17-C  
JANUARY 1, 2020 TO DECEMBER 31, 2020  
D&L INDUSTRIES, INC.**

<b>Date</b>	<b>Description of disclosure</b>
Jan 14, 2022	List of Top 100 Stockholders (Common Shares)
Jan 14, 2022	Public Ownership Report
Mar 04, 2022	Material Information/Transactions
Mar 04, 2022	Press Release
Mar 15, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 15, 2022	[Amend-1] Public Ownership Report
Mar 15, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 18, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 21, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 22, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 23, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 23, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 23, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 23, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 23, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 24, 2022	Notice of Analysts'/Investors' Briefing
Mar 30, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 30, 2022	Press Release
Mar 30, 2022	Material Information/Transactions
Mar 30, 2022	Notice of Annual or Special Stockholders' Meeting
Mar 30, 2022	Material Information/Transactions
Apr 12, 2022	Public Ownership Report
Apr 13, 2022	List of Top 100 Stockholders (Common Shares)
Apr 28, 2022	Material Information/Transactions
Apr 29, 2022	Notice of Analysts'/Investors' Briefing
Apr 29, 2022	Amendments to By-Laws
Apr 29, 2022	Information Statement
Apr 29, 2022	[Amend-1] Notice of Annual or Special Stockholders' Meeting
May 05, 2022	Press Release
May 05, 2022	Material Information/Transactions
May 10, 2022	Annual Report
May 12, 2022	Quarterly Report
May 13, 2022	Information Statement
May 26, 2022	Integrated Annual Corporate Governance Report
Jun 06, 2022	Material Information/Transactions

Jun 06, 2022	[Amend-1] Amendments to By-Laws
Jun 06, 2022	Results of Organizational Meeting of Board of Directors
Jun 06, 2022	Results of Annual or Special Stockholders' Meeting
Jun 06, 2022	Press Release
Jun 06, 2022	Declaration of Cash Dividends
Jun 06, 2022	Declaration of Cash Dividends
Jun 15, 2022	Statement of Changes in Beneficial Ownership of Securities
Jun 15, 2022	Statement of Changes in Beneficial Ownership of Securities
Jun 15, 2022	Statement of Changes in Beneficial Ownership of Securities
Jun 17, 2022	Statement of Changes in Beneficial Ownership of Securities
Jun 20, 2022	Statement of Changes in Beneficial Ownership of Securities
Jun 20, 2022	Statement of Changes in Beneficial Ownership of Securities
Jun 23, 2022	Statement of Changes in Beneficial Ownership of Securities
Jun 23, 2022	Statement of Changes in Beneficial Ownership of Securities
Jun 23, 2022	Statement of Changes in Beneficial Ownership of Securities
Jun 23, 2022	Statement of Changes in Beneficial Ownership of Securities
Jun 30, 2022	Statement of Changes in Beneficial Ownership of Securities
Jul 06, 2022	Other SEC Forms, Reports and Requirements
Jul 07, 2022	Public Ownership Report
Jul 07, 2022	Statement of Changes in Beneficial Ownership of Securities
Jul 08, 2022	[Amend-1] Public Ownership Report
Jul 11, 2022	List of Top 100 Stockholders (Common Shares)
Jul 12, 2022	Statement of Changes in Beneficial Ownership of Securities
Jul 18, 2022	Statement of Changes in Beneficial Ownership of Securities
Jul 25, 2022	[Amend-4] Amendments to By-Laws
Jul 25, 2022	[Amend-2] Amendments to By-Laws
Jul 25, 2022	Statement of Changes in Beneficial Ownership of Securities
Aug 02, 2022	[Amend-5] Amendments to By-Laws
Aug 02, 2022	[Amend-3] Amendments to By-Laws
Aug 05, 2022	Notice of Analysts'/Investors' Briefing
Aug 10, 2022	Notice of Analysts'/Investors' Briefing
Aug 10, 2022	Press Release
Aug 10, 2022	Material Information/Transactions
Aug 15, 2022	Quarterly Report
Aug 25, 2022	Statement of Changes in Beneficial Ownership of Securities
Aug 25, 2022	Statement of Changes in Beneficial Ownership of Securities
Sep 08, 2022	Statement of Changes in Beneficial Ownership of Securities
Sep 08, 2022	Statement of Changes in Beneficial Ownership of Securities
Oct 12, 2022	Statement of Changes in Beneficial Ownership of Securities
Oct 13, 2022	List of Top 100 Stockholders (Common Shares)
Oct 13, 2022	Public Ownership Report
Oct 24, 2022	Press Release
Oct 24, 2022	Material Information/Transactions
Oct 24, 2022	Statement of Changes in Beneficial Ownership of Securities
Oct 25, 2022	Statement of Changes in Beneficial Ownership of Securities
Nov 02, 2022	Notice of Analysts'/Investors' Briefing
Nov 08, 2022	Press Release

Nov 08, 2022	Material Information/Transactions
Nov 14, 2022	Quarterly Report
Nov 18, 2022	Other SEC Forms, Reports and Requirements
Dec 05, 2022	Press Release
Dec 06, 2022	Statement of Changes in Beneficial Ownership of Securities
Jan 14, 2022	List of Top 100 Stockholders (Common Shares)
Jan 14, 2022	Public Ownership Report
Mar 04, 2022	Material Information/Transactions
Mar 04, 2022	Press Release
Mar 15, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 15, 2022	[Amend-1] Public Ownership Report
Mar 15, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 18, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 21, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 22, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 23, 2022	Statement of Changes in Beneficial Ownership of Securities
Mar 23, 2022	Statement of Changes in Beneficial Ownership of Securities

**INDEX TO FINANCIAL STATEMENTS**  
**Form 17-A, Item 7**

**Consolidated Financial Statements**

Statement of Management's Responsibility for Financial Statements

Independent Auditor's Report

Consolidated Balance Sheets as of December 31, 2022 and 2021

Consolidated Statements of Income for the years ended December 31, 2022, 2021 and 2020

Consolidated Statements of Changes in Equity for the years ended December 31, 2022, 2021 and 2020

Consolidated Statements of Cash Flows for the years ended December 31, 2022, 2021 and 2020

Notes to Consolidated Financial Statements

# ***D&L Industries, Inc. and Subsidiaries***

**Consolidated Financial Statements  
With Supplemental Schedules  
For the Securities and Exchange Commission  
December 31, 2022**

# **FIRST SECTION**

Audited Consolidated Financial Statements with  
Supplemental Schedules for the  
Securities and Exchange Commission  
December 31, 2022

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First Section

Statement of management responsibility
Report of independent auditors
Consolidated statements of financial position
Consolidated statements of total comprehensive income
Consolidated statements of changes in equity
Consolidated statements of cash flows
Notes to the consolidated financial statements

Securities and Exchange Commission  
SEC Building, EDSA corner  
Ortigas Avenue, Mandaluyong City

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of D&L Industries, Inc. is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the year ended December 31, 2022, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Board of Directors reviews and approved the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

Isla Lipana & Co, the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

\_\_\_\_\_  
Yin Yong L. Lao  
Chairman of the Board

Alvin D. Lao  
President & CEO

Franco Diego T. Lao  
Chief Finance Officer

**D&L INDUSTRIES, INC.**

65 Calle Industria, Bagumbayan, Quezon City, 1110 Philippines

☎ (632) 8635-0680 📠 (632) 8635-0703 ✉ info@dnl.com.ph 🌐 www.dnl.com.ph



SUBSCRIBED AND SWORN to before me this APR 14 2023 at QUEZON CITY,  
affiants exhibiting to me their Passports Nos:

Valid ID

Expiration/Place of Issuance

YIN YONG L. LAO  
ALVIN D. LAO  
FRANCO DIEGO T. LAO

Doc. No. 431  
Page No. 22  
Book No. XXII  
Series of 2023

**ATTY. KRISTINE ANN C. CATINDIG**  
NOTARY PUBLIC for QUEZON CITY  
Adm. Matter No. NP-047, Until Dec. 31, 2024  
No. 65 Calle Industria, Bagumbayan, QC  
PTR No. 4024475, 1-3-23, QC / IBP No. 257474, 1-2-23, QC  
TIN NO. 210-016-964 / ROLL NO. 52735  
MCLE No. VII - 0017985, 5-13-2022



## **Independent Auditor's Report**

To the Board of Directors and Shareholders of  
**D&L Industries, Inc.**  
No. 65 Industria Street  
Bagumbayan, Quezon City

### ***Our Opinion***

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of D&L Industries, Inc. (the "Parent Company") and its subsidiaries (together, the "Group") as at December 31, 2022 and 2021, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2022 in accordance with Philippine Financial Reporting Standards (PFRS).

### ***What we have audited***

The consolidated financial statements of the Group comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of total comprehensive income for each of the three years in the period ended December 31, 2022;
- the consolidated statements of changes in equity for each of the three years in the period ended December 31, 2022;
- the consolidated statements of cash flows for each of the three years in the period ended December 31, 2022; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### ***Basis for Opinion***

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

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Independent Auditor's Report  
To the Board of Directors and Shareholders of  
D&L Industries, Inc.  
Page 2

*Independence*

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

***Our Audit Approach***

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

*Key audit matters*

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

Independent Auditor's Report  
To the Board of Directors and Shareholders of  
D&L Industries, Inc.  
Page 3

Key audit matter identified in our audit is impairment of goodwill.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Impairment of goodwill</b></p> <p>Refer to note 1.3 to the consolidated financial statements.</p> <p>As at December 31, 2022, the Group reported goodwill amounting to P3.4 billion in the consolidated statement of financial position. An annual impairment review is performed based on the requirements of PAS 36, Impairment of Assets. Goodwill impairment testing was performed by management related to the oleochemicals, resins and powder coating segment which was assessed to be the lowest level of cash-generating unit (or CGU).</p> <p>Management's impairment testing over goodwill was significant to our audit because the assessment process is complex, and requires significant management estimate and judgement. The most significant assumptions used in management's impairment testing relate to the discount rate and terminal growth rate applied together with the assumptions supporting the underlying forecasted cash flows, in particular the revenue growth rate and cost ratio.</p>	<p>We addressed the matter by evaluating management's impairment testing which includes cash flow forecasts approved by the Board of Directors of the business segment.</p> <p>We tested the key assumptions and methodologies used, in particular the CGU determination, discount rate, terminal growth rate, revenue growth rate and cost ratio. Specific procedures are discussed below:</p> <ul style="list-style-type: none"> <li>• Reviewed management's basis for identifying the CGU where goodwill is allocated.</li> <li>• Involved our valuation experts to independently assess the reasonableness of the assumptions used in determining the Weighted Average Cost of Capital (WACC), which is the basis of discount rate, with reference to comparable companies. In addition, we compared other key assumptions such as terminal growth rate and revenue growth rate, to externally derived data.</li> <li>• Tested reasonableness of cost ratio based on historical results and forecasted product mix based on future economic outlook that affects demand.</li> </ul> <p>In testing the discounted cash flow calculation, we also performed the following:</p> <ul style="list-style-type: none"> <li>• Tested mathematical accuracy of the discounted cash flow calculation.</li> <li>• Tested the calculation of the carrying amount of the CGU.</li> <li>• Performed sensitivity analysis of certain assumptions such as discount rate, terminal growth rate and revenue growth rate to ensure that no reasonable change in the assumptions would cause the carrying amount of the CGU to exceed its recoverable amount.</li> </ul>



Independent Auditor's Report  
To the Board of Directors and Shareholders of  
D&L Industries, Inc.  
Page 4

### ***Other Information***

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

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

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

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

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

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

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

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

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



Independent Auditor's Report  
To the Board of Directors and Shareholders of  
D&L Industries, Inc.  
Page 5

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



Isla Lipana & Co.

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

The engagement partner on the audit resulting in this independent auditor's report is  
Roderick M. Danao.

**Isla Lipana & Co.**

A handwritten signature in black ink, appearing to read 'R. Danao', with a long horizontal stroke extending to the right.

Roderick M. Danao  
Partner

CPA Cert. No. 88453

P.T.R. No. 0011280, issued on January 9, 2023, Makati City

SEC A.N. (individual) as general auditors 88453-SEC, Category A;  
valid to audit 2022 financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A;  
valid to audit 2020 to 2024 financial statements

TIN 152-015-078

BIR A.N. 08-000745-042-2020, issued on December 14, 2020; effective until December 13, 2023

BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City  
April 5, 2023



Isla Lipana & Co.

Statement Required by Rule 68  
Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of  
**D&L Industries, Inc. and Subsidiaries**  
No. 65 Industria Street  
Bagumbayan, Quezon City

We have audited the consolidated financial statements of D&L Industries, Inc. (the "Parent Company") and its subsidiaries as at and for the year ended December 31, 2022, on which we have rendered the attached report dated April 5, 2023.

In compliance with SRC Rule 68 and based on the certification received from the Parent Company's corporate secretary and the results of our work done, the Parent Company has one hundred ninety-four (194) shareholders owning one hundred (100) or more shares each as at December 31, 2022.

**Isla Lipana & Co.**

Roderick M. Danao  
Partner

CPA Cert. No. 88453

P.T.R. No. 0011280, issued on January 9, 2023, Makati City

SEC A.N. (individual) as general auditors 88453-SEC, Category A;  
valid to audit 2022 financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A;  
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Makati City  
April 5, 2023

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Isla Lipana & Co.

Statement Required by Rule 68  
Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of  
**D&L Industries, Inc.**  
No. 65 Industria Street  
Bagumbayan, Quezon City

We have audited the consolidated financial statements of D&L Industries, Inc. (the “Parent Company”) and its subsidiaries (together, the “Group”) as at and for the year ended December 31, 2022, on which we have rendered the attached report dated April 5, 2023. The supplementary information shown in the *Reconciliation of Parent Company’s Retained Earnings Available for Dividend Declaration, Map Showing the Relationships between and among the Parent Company and its Ultimate Parent Company, Middle Parent, Subsidiaries or Co-subsidiaries and Associates*, and Schedules A, B, C, D, E, F, and G, as additional components required by the Revised Rule 68 of the SRC, are presented for purposes of filing with the Securities and Exchange Commission and are not a required parts of the basic consolidated financial statements. Such supplementary information is the responsibility of management and has been subjected to auditing procedures applied in the audit of the basic consolidated financial statements. In our opinion, the supplementary information has been prepared in accordance with the Revised Rule 68 of the SRC.

**Isla Lipana & Co.**

Roderick M. Danao  
Partner

CPA Cert. No. 88453

P.T.R. No. 0011280, issued on January 9, 2023, Makati City

SEC A.N. (individual) as general auditors 88453-SEC, Category A;  
valid to audit 2022 financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A;  
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TIN 152-015-078

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Makati City  
April 5, 2023

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Isla Lipana & Co.

Statement Required by Rule 68  
Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of  
**D&L Industries, Inc.**  
No. 65 Industria Street  
Bagumbayan, Quezon City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of D&L Industries, Inc. (the “Parent Company”) and its subsidiaries (together, the “Group”) as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated April 5, 2023. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The *Supplementary Schedule on Financial Soundness Indicators*, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group’s management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised SRC Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group’s consolidated financial statements as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 and no material exceptions were noted.

**Isla Lipana & Co.**

Roderick M. Danao  
Partner

CPA Cert. No. 88453

P.T.R. No. 0011280, issued on January 9, 2023, Makati City

SEC A.N. (individual) as general auditors 88453-SEC, Category A;  
valid to audit 2022 financial statements

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Makati City  
April 5, 2023

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## D&L Industries, Inc. and Subsidiaries

### Consolidated Statements of Financial Position

As at December 31, 2022 and 2021

(All amounts in Philippine Peso)

	Notes	2022	2021
<b><u>ASSETS</u></b>			
<b>Current assets</b>			
Cash and cash equivalents	3	3,250,165,008	5,223,083,857
Receivables, net	4	5,617,741,525	5,338,691,748
Inventories, net	5	8,745,436,857	7,325,509,881
Due from related parties	18	210,796,097	108,686,787
Financial assets at fair value through profit or loss (FVPL)	22.2	82,705,350	650,480,414
Prepayments and other current assets	6	4,129,573,588	3,139,624,407
<b>Total current assets</b>		<b>22,036,418,425</b>	<b>21,786,077,094</b>
<b>Non-current assets</b>			
Right-of-use (ROU) assets, net	9	896,810,952	382,653,460
Investments in equity securities at fair value through other comprehensive income (FVOCI)	7	236,763,755	198,000,979
Property, plant and equipment, net	8	11,540,250,974	8,431,481,393
Deferred income tax assets, net	20	89,444,470	55,966,965
Goodwill	1.3	3,367,846,840	3,367,846,840
Other non-current assets	6	2,592,866,790	2,103,789,219
<b>Total non-current assets</b>		<b>18,723,983,781</b>	<b>14,539,738,856</b>
<b>Total assets</b>		<b>40,760,402,206</b>	<b>36,325,815,950</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities</b>			
Trade payables and other liabilities	10	3,265,972,921	2,897,975,943
Lease liabilities	9	473,553,419	163,757,878
Due to related parties	18	324,775,844	40,663,060
Borrowings	11	10,520,000,000	8,850,000,000
Income tax payable		48,317,023	45,032,050
<b>Total current liabilities</b>		<b>14,632,619,207</b>	<b>11,997,428,931</b>
<b>Non-current liabilities</b>			
Bonds payable	11	4,957,823,713	4,940,005,642
Lease liabilities, net of current portion	9	349,099,083	236,951,645
Retirement benefit obligation	19	169,636,787	46,492,893
<b>Total non-current liabilities</b>		<b>5,476,559,583</b>	<b>5,223,450,180</b>
<b>Total liabilities</b>		<b>20,109,178,790</b>	<b>17,220,879,111</b>
<b>Equity</b>			
Attributable to the owners of the Parent Company:			
Share capital	12	7,142,857,990	7,142,857,990
Share premium	12	3,255,166,445	3,255,166,445
Reserve for remeasurement on retirement benefit		35,064,640	124,206,351
Fair value reserve on investments in equity securities at FVOCI		154,667,426	122,473,227
Retained earnings	12	10,063,466,915	8,460,232,826
<b>Total equity</b>		<b>20,651,223,416</b>	<b>19,104,936,839</b>
<b>Total liabilities and equity</b>		<b>40,760,402,206</b>	<b>36,325,815,950</b>

(The notes on pages 1 to 63 are integral part of these consolidated financial statements)

## D&L Industries, Inc. and Subsidiaries

Consolidated Statements of Total Comprehensive Income  
For each of the three years in the period ended December 31, 2022  
(All amounts in Philippine Peso, except earnings per share data)

	Notes	2022	2021	2020
<b>Revenues</b>				
Sales, net	13	43,379,421,431	30,755,098,002	21,672,526,076
Service income	13	105,125,970	100,162,560	66,481,870
		43,484,547,401	30,855,260,562	21,739,007,946
<b>Cost of sales and services</b>				
Cost of sales	14	(37,331,646,208)	(26,204,790,361)	(17,756,439,617)
Cost of services	14	(86,838,399)	(85,752,358)	(64,789,728)
		(37,418,484,607)	(26,290,542,719)	(17,821,229,345)
<b>Gross profit</b>		6,066,062,794	4,564,717,843	3,917,778,601
Selling and marketing expenses	15	(1,154,427,645)	(859,626,777)	(683,421,324)
General and administrative expenses	16	(805,690,529)	(444,986,746)	(438,877,967)
Other income (expense), net	17	225,170,340	101,371,603	(85,392,602)
<b>Operating profit</b>		4,331,114,960	3,361,475,923	2,710,086,708
Finance costs	9,11	(236,142,201)	(141,631,292)	(154,301,897)
<b>Profit before income tax</b>		4,094,972,759	3,219,844,631	2,555,784,811
<b>Income tax (expense) benefit</b>				
Current		(801,621,164)	(570,341,109)	(603,610,251)
Deferred		24,168,412	(6,806,278)	59,490,071
	20	(777,452,752)	(577,147,387)	(544,120,180)
<b>Profit for the year</b>		3,317,520,007	2,642,697,244	2,011,664,631
<b>Other comprehensive income</b>				
<i>Items that will not be subsequently reclassified to profit or loss</i>				
Remeasurement (loss) gain on retirement benefit, net of tax	19	(89,141,711)	47,874,176	(49,647,671)
Fair value adjustment on investments in equity securities at FVOCI, net of tax	7	32,194,199	11,722,405	-
		(56,947,512)	59,596,581	(49,647,671)
<b>Total comprehensive income for the year</b>		3,260,572,495	2,702,293,825	1,962,016,960
<b>Profit for the year attributable to:</b>				
Owners of the Parent Company		3,317,520,007	2,642,697,244	2,011,664,631
Non-controlling interest		-	-	-
		3,317,520,007	2,642,697,244	2,011,664,631
<b>Total comprehensive income attributable to:</b>				
Owners of the Parent Company		3,260,572,495	2,702,293,825	1,962,016,960
Non-controlling interest		-	-	-
		3,260,572,495	2,702,293,825	1,962,016,960
<b>Earnings per share</b>				
Basic and diluted	12.4	0.46	0.37	0.28

(The notes on pages 1 to 63 are integral part of these consolidated financial statements)

## D&L Industries, Inc. and Subsidiaries

### Consolidated Statements of Cash Flows For each of the three years in the period ended December 31, 2022 (All amounts in Philippine Peso)

	Notes	2022	2021	2020
<b>Cash flows from operating activities</b>				
Profit before income tax expense		4,094,972,759	3,219,844,631	2,555,784,811
Adjustments for:				
Depreciation and amortization	8	398,364,143	404,250,943	433,856,339
Depreciation of ROU Asset	9	408,441,210	303,192,020	234,320,732
Interest expense on lease	9	30,254,624	18,924,775	13,522,385
Unrealized foreign exchange loss (gain), net	22.4	32,236,709	(36,589,724)	45,074,118
Provision for retirement benefit obligation	19	36,380,561	37,724,084	30,685,341
Provision for (Reversal of) inventory obsolescence	5	12,186,636	(10,497,746)	51,608,880
Gain on disposal of property and equipment	17	(455,813)	-	-
Input VAT not recoverable	6	12,000,000	76,788,485	75,460,707
Realized gain on redemption of FVPL	17	31,543	-	-
Provision for impairment of receivables	4	92,436,584	10,645,576	57,053,157
Unrealized (gain) loss on FV changes	17	(4,413,155)	(22,818,740)	(15,466,321)
Dividend income	17	(128,909)	(64,449)	(77,312)
Interest income	17	(3,833,465)	(5,394,857)	(3,305,612)
Interest expense from borrowings	11	205,887,577	141,631,292	140,779,512
Operating profit before working capital changes		5,314,361,004	4,137,636,290	3,619,296,737
(Increase) decrease in:				
Receivables		(334,569,868)	(1,640,866,143)	(239,844,323)
Inventories		(1,432,113,612)	(1,482,474,899)	(837,944,648)
Due from related parties		(102,109,310)	(63,958,465)	(7,363,545)
Prepayments and other current assets		(1,002,312,412)	(906,762,235)	(732,386,307)
Retirement benefit assets		(3,015,833)	93,509	2,074,838
Other non-current assets		(489,077,571)	(441,955,641)	269,859,352
Increase (decrease) in:				
Trade payables and other liabilities		367,996,977	965,545,770	647,254,016
Due to related parties		284,112,784	19,381,788	(194,429,848)
Cash generated from operations		2,603,272,159	586,639,974	2,526,516,272
Income taxes paid		(623,319,536)	(387,584,073)	(265,492,956)
Interest received from banks		3,833,465	5,394,857	3,305,612
Net cash provided by operating activities		1,983,786,088	204,450,758	2,264,328,928
<b>Cash flows from investing activities</b>				
Dividend received	17	128,909	64,449	77,312
Additions to property and equipment and ROU assets	6, 8, 11	(3,707,412,534)	(3,593,155,678)	(2,438,922,822)
Acquisition of financial assets at FVPL	23.2	-	-	(12,084,942)
Proceeds from redemption of FVPL	17	572,156,676	-	-
Proceeds from disposal of property and equipment	8	181,616	110,616	-
Net cash used in investing activities		(3,134,945,333)	(3,592,980,613)	(2,450,930,452)
<b>Cash flows from financing activities</b>				
Proceeds from bonds	11	-	4,934,873,061	-
Proceeds from borrowings	11	8,500,000,000	4,700,000,000	5,750,000,000
Repayments of borrowings	11	(8,000,000,000)	(1,000,000,000)	(4,000,000,000)
Proceeds from loans from related party	18	1,170,000,000	-	300,000,000
Payments of loan to related party		-	(300,000,000)	-
Lease payments	9	(399,427,420)	(291,957,933)	(244,865,361)
Interest paid from lease liabilities	9	(30,254,624)	(18,924,775)	(13,522,385)
Dividends paid	12	(1,714,285,918)	(1,364,285,876)	(1,307,143,012)
Interest paid from bonds		(155,579,000)	-	-
Interest paid from borrowings	11	(152,679,308)	(193,182,897)	(139,692,491)
Net cash from (used in) financing activities		(782,226,270)	6,466,521,580	344,776,751
<b>Net (decrease) increase in cash and cash equivalents</b>		(1,933,385,515)	3,077,991,725	158,175,227
Cash and cash equivalents, January 1	3	5,223,083,857	2,136,611,930	1,989,650,111
Effect of foreign exchange rate changes		(39,533,334)	8,480,202	(11,213,408)
<b>Cash and cash equivalents, December 31</b>	3	3,250,165,008	5,223,083,857	2,136,611,930

(The notes on pages 1 to 63 are integral part of these consolidated financial statements)

# D&L Industries, Inc. and Subsidiaries

Consolidated Statements of Changes in Equity  
For each of the three years in the period ended December 31, 2022  
(All amounts in Philippine Peso)

			Reserve for remeasurement on retirement benefit (Note 19)	Fair value reserve on investments in equity securities at FVOCI (Note 7)	Retained earnings		
	Share capital (Note 12)	Share premium (Note 12)			Appropriated (Note 12)	Unappropriated (Note 12)	Total equity
<b>Balances at January 1, 2020</b>	7,142,857,990	3,255,166,445	125,979,846	110,750,822	500,000,000	5,977,299,839	17,112,054,942
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	2,011,664,631	2,011,664,631
Other comprehensive income for the year	-	-	(49,647,671)	-	-	-	(49,647,671)
<b>Total comprehensive income for the year</b>	-	-	(49,647,671)	-	-	2,011,664,631	1,962,016,960
<b>Transaction with owners</b>							
Declaration of cash dividend (Note 12)	-	-	-	-	-	(1,307,143,012)	(1,307,143,012)
<b>Balances at December 31, 2020</b>	7,142,857,990	3,255,166,445	76,332,175	110,750,822	500,000,000	6,681,821,458	17,766,928,890
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	2,642,697,244	2,642,697,244
Other comprehensive income for the year	-	-	47,874,176	11,722,405	-	-	59,596,581
<b>Total comprehensive income for the year</b>	-	-	47,874,176	11,722,405	-	2,642,697,244	2,702,293,825
<b>Transaction with owners</b>							
Declaration of cash dividend (Note 12)	-	-	-	-	-	(1,364,285,876)	(1,364,285,876)
<b>Balances at December 31, 2021</b>	7,142,857,990	3,255,166,445	124,206,351	122,473,227	500,000,000	7,960,232,826	19,104,936,839
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	3,317,520,007	3,317,520,007
Other comprehensive income for the year	-	-	(89,141,711)	32,194,199	-	-	(56,947,512)
<b>Total comprehensive income for the year</b>	-	-	(89,141,711)	32,194,199	-	3,317,520,007	3,260,572,495
<b>Transaction with owners</b>							
Declaration of cash dividend (Note 12)	-	-	-	-	-	(1,714,285,918)	(1,714,285,918)
<b>Balances at December 31, 2022</b>	7,142,857,990	3,255,166,445	35,064,640	154,667,426	500,000,000	9,563,466,915	20,651,223,416

(The notes on 1 to 63 are integral part of these consolidated financial statements)

## **D&L Industries, Inc. and Subsidiaries**

Notes to the Consolidated Financial Statements

As at December 31, 2022 and 2021 and for each of the three years

in the period ended December 31, 2022

(All amounts are shown in Philippine Peso, unless otherwise stated)

### **Note 1 - General information**

#### **1.1 Business information**

D&L Industries, Inc. (the “Parent Company” or “D&L”) was registered with the Securities and Exchange Commission (SEC) on July 27, 1971 primarily to invest in, purchase or otherwise acquire and own, hold, use, mortgage, pledge, exchange, or otherwise dispose of personal property of any corporation. The Parent Company is also engaged to carry on and conduct its business through any subsidiary companies or managers, or to enter into working agreements with other corporations including providing its subsidiaries corporate support services.

On November 5, 2012 and November 16, 2012, the SEC and Philippine Stock Exchange (PSE), respectively, approved the Parent Company’s application for the initial public offering. The Parent Company attained its status of being a “public company” on December 12, 2012 when it listed its shares in the PSE. As a public company, it is covered by the Securities Regulation Code (SRC) Rule 68. There is no follow-on offering after initial public offering.

On May 11, 2015, the Parent Company’s Board of Directors (BOD), through an amendment of the Parent Company’s Articles of Incorporation, added, as an additional secondary purpose, the business of establishing and operating an analytical laboratory and rendering chemical testing services. This amendment was approved and ratified by the Parent Company’s stockholders during the annual stockholders meeting on June 8, 2015. The SEC approved the amendment on July 24, 2015.

The Parent Company is a subsidiary of Jadel Holdings Co., Inc. (JHI). As at December 31, 2022, of the total shares outstanding, JHI holds 61.87% (2021 - 60.84%) and local individuals hold 10.42% (2021 - 10.32%). The remaining 27.71% (2021 - 28.84%) are publicly held.

The Parent Company is ultimately owned by Jadel II Trust, represented by BDO Unibank as Trustee, and beneficially owned by the Lao Family.

As at December 31, 2022, the Parent Company has 194 shareholders owning one hundred (100) or more shares each (2021 - 164).

The Parent Company’s registered office address which is also its principal place of business is at No. 65 Calle Industria, Bagumbayan, Quezon City. As at December 31, 2022, the Parent Company has 319 regular employees (2021 - 275).

The consolidated financial statements of the Group as at December 31, 2022 have been approved and authorized by the Parent Company’s BOD on March 28, 2023. There were no significant events that occurred from March 29, 2023 until April 5, 2023 requiring adjustment or disclosure in the consolidated financial statements.

## 1.2 Consolidation

As at December 31, 2022 and 2021, the consolidated financial statements include the financial statements of the Parent Company and its subsidiaries, namely, Oleo-Fats, Incorporated (OFI) and its subsidiary, D&L Premium Foods Corp. (DLPF), First in Colours, Incorporated (FIC), D&L Polymer and Colours, Inc. (DLPCI), Chemrez Technologies, Inc. (CTI) and its subsidiaries, Chemrez Product Solutions, Inc. (CPSI), and Natura Aeropack (NAC), and Aero-Pack Industries, Inc. (API).

The Parent Company and its subsidiaries are collectively referred to here as the “Group”.

The principal activities of the subsidiaries are set out below.

	Ownership interest/ participating share held			Registered place of business/ Country of incorporation	Main activity
	2022	2021	2020		
OFI	100%	100%	100%	Philippines	<p>OFI was registered with the SEC on May 4, 1987 to carry on the business of manufacturing, processing, sourcing, marketing, selling, utilizing fats and oils, oleo chemicals and derivatives, distributing locally and abroad.</p> <p>OFI's registered address, which is also its principal place of business, is at No. 5 Mercury Avenue, Bagumbayan, Quezon City, Metro Manila.</p>
DLPF	100%	100%	100%	Philippines	<p>DLPF was registered with the SEC on June 29, 2017 to carry on the business of importing, exporting, distributing, processing, manufacturing, wholesale and retail of food and food safety products, machineries and equipment, and generally engage in and conduct any form of manufacturing or mercantile enterprise.</p> <p>DLPF is a wholly-owned subsidiary of OFI. Its registered address, which is also its principal place of business, is at Admin Bldg., First Industrial Township - SEZ, Brgy. Pagaspas, Tanauan City, Batangas.</p> <p>On December 6, 2018, the Philippine Economic Zone Authority (PEZA) approved DLPF's registration as an Ecozone Export Enterprise engaged in manufacturing of vegetable fats and oils and specialty food ingredients.</p> <p>As at December 31, 2022 and 2021, DLPF has not yet started its commercial operations.</p>
DLPCI	100%	100%	100%	Philippines	<p>DLPCI was incorporated and registered with the SEC on March 30, 2006 primarily to carry on the business of buying, selling, importing, exporting, bartering, distributing, exchanging, processing, manufacturing, producing, refining, beneficiating and disposing at wholesale and retail of chemical products, compounds, derivatives or chemical substances and all kinds of goods, wares, manufactures, such as, but not limited to, machines, supplies and products and generally to engage in the conduct of manufacturing or mercantile enterprises.</p> <p>DLPC has existing tax incentives granted by PEZA for various registered activities (Note 20).</p> <p>DLPCI is indirectly a wholly-owned subsidiary of the Company. Its registered address, which is also its principal place of business, is at Carmelray Industrial Park, Laguna.</p>
FIC	100%	100%	100%	Philippines	<p>FIC was registered with the SEC on November 17, 1988 primarily to carry on the business of importing, exporting, manufacturing and distributing at wholesale and retail chemical products, compounds, derivatives or chemical substances and generally, engage in and conduct any form of manufacturing or mercantile enterprises.</p> <p>FIC's registered address, which is also its principal place of business, is at No. 65 Calle Industria, Bagumbayan, Quezon City, Metro Manila.</p>



	Ownership interest/ participating share held			Registered place of business/ Country of incorporation	Main activity
	2022	2021	2020		
CTI	100%	100%	100%	Philippines	<p>CTI was incorporated and registered with the SEC on June 1, 1989. CTI is engaged in the business of manufacturing, processing, refining all kinds of chemical products, compounds, derivatives or chemical substances and all kinds of goods, wares, supply and manufacture, buy, sell, trade, distribute or otherwise dispose of the same, locally or abroad, in the normal course of business without engaging in the business of manufacturing food, drugs and cosmetics.</p> <p>On May 12 and June 9, 2007, CTI's BOD and Shareholders, respectively, authorized CTI to invest and/or engage in the manufacture, sale and distribution of biodiesel under the brand "BioActiv".</p> <p>CTI's registered address, which is also its principal place of business, is at No. 65 Calle Industria, Bagumbayan, Quezon City, Metro Manila.</p>
CPSI	100%	100%	100%	Philippines	<p>CPSI was registered with the SEC on November 16, 1988 to carry on the business of buying, selling, importing, exporting, bartering, distributing, exchanging, processing, manufacturing, and disposing at wholesale and retail of chemical products, compounds, derivatives of chemical substances and generally engage in and conduct any form of manufacturing or mercantile enterprises.</p> <p>CPSI is a wholly-owned subsidiary of CTI, and indirectly a wholly-owned subsidiary of the Parent Company. Its registered address, which is also its principal place of business, is at No. 65 Calle Industria, Bagumbayan, Quezon City, Metro Manila.</p>
NAC	100%	100%	100%	Philippines	<p>NAC was incorporated and registered with the SEC on July 20, 2016 primarily to carry on the business of buying, selling, importing, exporting, bartering, distributing, exchanging, processing, manufacturing, and disposing at wholesale and retail chemical products, compounds, derivatives of chemical substances and generally engage in and conduct any form of manufacturing or mercantile enterprises.</p> <p>Subsequently on January 4, 2018, the Philippine Economic Zone Authority (PEZA) approved NAC's registration as an Ecozone Export Enterprise engaged in manufacturing of coconut oil fractions and coconut-based surfactants and downstream consumer products.</p> <p>NAC is a subsidiary of CTI, and indirectly a wholly-owned subsidiary of the Parent Company. NAC is 70% owned by CTI and 30% owned by API. Its registered address, which is also its principal place of business, is at Admin Bldg., First Industrial Township - SEZ, Brgy. Pagaspas, Tanauan City, Batangas.</p> <p>As at December 31, 2022 and 2021, NAC has not yet started its commercial operations.</p>
API	100%	100%	100%	Philippines	<p>API was incorporated and registered with the SEC on September 29, 1989 to engage in the manufacture of aerosol packaging materials, aerosol products, chemical derivatives and compounds and other related products.</p> <p>API's registered address, which is also its principal place of business, is at No. 65 Calle Industria, Bagumbayan, Quezon City, Metro Manila.</p>

### 1.3 Acquisition of controlling interest in CTI

On August 29, 2014, the Parent Company's BOD resolved to acquire all the outstanding shares of CTI not previously owned by the Parent Company for P6.00 per share through a public tender offer for a total acquisition cost of P5,078.5 million. On October 7, 2014 (the acquisition date), a total of 846,408,196 shares had been tendered, representing approximately 65% of the issued and outstanding shares of CTI. As a result, CTI became 99.7% owned by the Parent Company effective October 7, 2014.

The consideration given with respect to the acquisition is based on the fair market value of CTI's shares on the date of acquisition totaling P5,078.5 million net of acquisition-related costs amounting to P6.5 million which was charged to profit or loss in 2014. Goodwill amounting to P3,367 million was recognized from this acquisition.

*1.3.1 Critical accounting estimate and judgment: Impairment tests for goodwill; key assumptions used for value-in-use (VIU) calculations*

The Group reviews goodwill annually for impairment or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Goodwill is monitored by management at the level of oleochemicals, resin and powder coatings segment (lowest level of cash generating unit) following the business acquisition of CTI.

As at December 31, 2022 and 2021, the recoverable amount of oleochemicals, resin and powder coatings CGU (the "CGU") was determined based on VIU calculation (using Level 3 inputs) and require the use of assumptions. The calculations use cash flow projections over a five-year period.

The cash flow forecast reflects management's expectation of revenue growth, operating costs and margins based on past experience and outlook, consistent with internal measurements and monitoring. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rate derived from the long-term domestic consumer price index forecast of 3.7%. The growth rates are consistent with externally derived data.

A weighted average of cost of capital (WACC) is used in discounting the free cash flows projected.

The following are the key assumptions used in the impairment testing for the years ended December 31:

	2022	2021	2020
Revenue growth rate	10%	10%	10%
Cost of sales ratio	80%	82%	80%
WACC (or discount rate)	14%	13%	11%
Terminal growth rate	3.7%	3%	3%

Based on the above assessment, goodwill is not impaired as at December 31, 2022 and 2021 as the recoverable amount exceeds the carrying amount of the CGU included in the financial statements.

The Group's goodwill impairment review includes sensitivity analysis on changes in key assumptions used for VIU calculations to those assumptions that are highly sensitive such as revenue growth rate, terminal growth rate and WACC. The changes in recoverable amount of CGU based on reasonable possible shift in the following assumptions as of December 31 is as follows:

	2022			2021		
	In Php millions			In Php millions		
	Reasonable possible shift	+Impact on VIU	-Impact on VIU	Reasonable possible shift	+Impact on VIU	-Impact on VIU
Revenue growth rate	+2%/-2%	1,670	(1,564)	+2%/-2%	1,254	(1,191)
Cost of sales ratio	+2%/-2%	(2,722)	2,722	+2%/-2%	(1,442)	1,442
Terminal growth rate	+/-0.50%	816	(741)	+/-0.50%	525	(423)
WACC	+/-1%	(2,097)	2,545	+/-1%	(1,285)	1,583

Based on the sensitivity analysis performed using market-driven changes, management concluded that no reasonable change in the assumptions would cause the carrying amount of the CGU to exceed its recoverable amount because the calculated headroom is significant.

#### **1.4 Impact of COVID-19 pandemic**

The Group's manufacturing activities, including the ongoing construction of new manufacturing facilities in Batangas have continued. The Group has complied with all the health and safety protocols imposed by the Government.

The Group has been able to fully recover from the pandemic as the local and global economies have reopened generating record sales and results.

#### **Note 2 - Segment information**

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM), which is represented by the members of the Management Committee (ManCom), in making collective operating decisions with regard to the business segments. The ManCom, which is responsible for allocating resources and assessing performance of the operating segments, is identified as the one that makes strategic decisions for the Group.

##### *Primary reporting - business segments*

The Group's operating businesses are organized and managed according to the nature of the products marketed. Each segment, representing a strategic business unit, offers different products and services to different markets.

The Group has organized its reporting structure based on the grouping of similar products and services resulting in the following business segments:

##### *(i) Food ingredients*

The Group, operating through its subsidiary OFI and DLPPF, manufactures a line of industrial fats and oils, food ingredients, specialty fats and oils and culinary and other specialty food ingredients. The Group supplies food ingredients to leading food manufacturers and quick-service restaurant chains in the Philippines, and also produces food safety solutions such as cleaning and sanitation agents for various customers.

##### *(ii) Colorants and plastic additives*

The Group, operating through its subsidiaries FIC and DLPCI, manufactures a line of pigment blends, color and additive master batches and engineered polymers for a wide range of applications, for the Philippine and export markets. The Group's products add properties such as precise coloring, reduced friction or increased resistance to degradation for plastics used in consumer goods, appliances and outdoor furniture.

##### *(iii) Oleochemicals, resins and powder coatings*

The Group, operating through its subsidiary, CTI, and subsidiaries, CPSI, and NAC, manufactures Coconut Methyl Ester ("CME", also known as coco-biodiesel), other oleochemicals or chemicals derived from vegetable oils, resins such as polystyrene, acrylic emulsions and polyester; and a line of powder coatings.

*(iv) Aerosols*

The Group, operating through its subsidiary, API, manufactures aerosol cans and components, and provides contract aerosol filling and compounding services. The Group also toll manufactures a range of products, including insect control, industrial maintenance chemicals, and home and personal care products, among others.

*(v) Management and administrative*

The Parent Company maintains significant operational control of its subsidiaries through a contractual "shared services" model (Note 18). The Parent Company also performs such management and administrative services for other related entities that are not consolidated in the Group.

The following table presents the segment information provided to the ManCom about the Group's business segments for the years ended December 31:

	Food ingredients	Colorants and plastic additives	Oleochemicals, resin and powder coatings	Aerosols	Management and administrative	Eliminations	Total
<i>2022</i>							
External revenue	27,600,809,194	3,192,519,602	10,910,445,686	748,307,886	-	-	42,452,082,368
Sales to related parties	532,062,804	10,486,055	66,129,636	318,660,569	105,125,970	-	1,032,465,034
Intersegment sales	432,283,859	75,980,711	2,191,619,596	43,546,163	2,439,850,206	(5,183,280,535)	-
Total revenues	28,565,155,857	3,278,986,368	13,168,194,918	1,110,514,618	2,544,976,176	(5,183,280,535)	43,484,547,402
Segment result	1,428,541,770	796,929,979	1,596,167,928	284,349,896	(20,275,355)	20,230,401	4,105,944,619
General corporate income (loss)	93,189,350	26,549,828	91,946,795	(762,612)	198,618,567	(184,371,587)	225,170,341
Finance costs	(212,289,649)	(5,936,598)	(13,467,033)	(1,889,710)	(174,114,562)	171,555,351	(236,142,201)
Income tax expense	(355,322,810)	(57,714,312)	(310,324,710)	(49,877,436)	(6,849,378)	2,635,894	(777,452,752)
Profit for the year	954,118,661	759,828,897	1,364,322,980	231,820,138	(2,620,728)	10,050,059	3,317,520,007
<i>2021</i>							
External revenue	19,075,084,495	3,001,593,454	7,493,080,295	648,542,595	-	-	30,218,300,839
Sales to related parties	120,798,411	1,705,875	1,691,425	412,601,452	100,162,560	-	636,959,723
Intersegment sales	148,295,406	81,339,376	102,612,926	46,784,718	1,991,961,937	(2,370,994,363)	-
Total revenues	19,344,178,312	3,084,638,705	7,597,384,646	1,107,928,765	2,092,124,497	(2,370,994,363)	30,855,260,562
Segment result	1,252,426,234	708,821,845	1,062,999,455	298,093,670	1,372,169,109	(1,447,132,269)	3,247,378,044
General corporate (loss) income	14,874,344	155,214,942	156,406,477	(1,578,860)	69,043,513	(279,862,537)	114,097,879
Finance costs	(113,898,392)	(3,974,593)	(2,568,822)	(2,365,810)	(58,253,812)	39,430,137	(141,631,292)
Income tax expense (benefit)	(286,262,984)	(42,338,671)	(190,516,134)	(45,728,067)	(3,693,416)	(8,608,115)	(577,147,387)
Profit for the year	867,139,202	817,723,523	1,026,320,976	248,420,933	1,379,265,394	(1,696,172,784)	2,642,697,244
<i>2020</i>							
External revenue	12,529,487,544	2,490,455,338	5,503,351,749	613,150,749	-	-	21,136,445,380
Sales to related parties	94,455,251	1,241,429	27,966,187	412,417,829	66,481,870	-	602,562,566
Intersegment sales	162,705,876	82,978,618	52,460,626	61,923,688	1,779,250,526	(2,139,319,334)	-
Total revenues	12,786,648,671	2,574,675,385	5,583,778,562	1,087,492,266	1,845,732,396	(2,139,319,334)	21,739,007,946
Segment result	911,630,414	569,087,068	1,080,948,249	331,951,635	1,269,106,949	(1,367,245,005)	2,795,479,310
General corporate income (loss)	(36,311,515)	251,390,051	29,286,853	920,884	22,536,349	(353,215,224)	(85,392,602)
Finance costs	(139,310,714)	(7,303,162)	(15,085,411)	(1,343,958)	(19,310,261)	28,051,609	(154,301,897)
Income tax expense (benefit)	(227,028,555)	(43,929,174)	(233,230,859)	(68,492,093)	28,560,501	-	(544,120,180)
Profit for the year	508,979,630	769,244,783	861,918,832	263,036,468	1,300,893,538	(1,692,408,620)	2,011,664,631

Eliminations pertain to the consolidation adjustments in the preparation of the consolidated financial statements as discussed in Note 23.6.1.

Other segment information as at December 31 are as follows:

	Food ingredients	Colorants and plastic additives	Oleochemicals, resin and powder coatings	Aerosols	Management and administrative	Total
<i>2022</i>						
Segment assets	19,879,398,359	2,703,069,289	15,647,839,576	813,100,345	1,716,994,637	40,760,402,206
Segment liabilities	11,083,729,941	163,771,869	3,475,436,907	226,523,180	5,159,716,892	20,109,178,789
Capital expenditures	1,979,896,235	29,251,153	1,349,359,724	13,495,499	135,405,311	3,507,407,922
Depreciation and amortization	379,166,865	55,121,880	253,079,878	48,166,687	70,995,600	806,530,910
<i>2021</i>						
Segment assets	17,569,639,567	2,721,093,208	13,724,573,721	724,872,330	1,585,637,124	36,325,815,950
Segment liabilities	9,204,804,889	538,816,742	2,136,495,435	200,731,302	5,140,030,743	17,220,879,111
Capital expenditures	1,831,759,613	20,572,459	1,223,973,528	8,688,377	56,986,598	3,141,980,575
Depreciation and amortization	317,778,312	90,243,670	177,279,066	49,415,740	72,726,178	707,442,966
<i>2020</i>						
Segment assets	10,975,414,712	2,206,976,817	10,196,243,381	638,478,753	1,375,070,731	25,392,184,394
Segment liabilities	5,400,715,559	373,898,241	1,094,628,271	147,517,834	608,495,599	7,625,255,504
Capital expenditures	1,369,756,824	13,215,541	692,840,392	23,441,675	21,660,577	2,120,915,009
Depreciation and amortization	295,779,817	97,154,854	164,203,462	27,978,640	83,060,298	668,177,071

The amounts provided to the ManCom with respect to total assets, liabilities and profit or loss are recognized and measured in a manner consistent with those of the consolidated financial statements.

### *Secondary reporting - geographical information*

Geographical information of the Group's revenue for each of the three years ended December 31 are as follows:

	2022	2021	2020
Customers in the Philippines	31,524,241,055	23,053,796,064	15,428,722,406
Customers in other countries	11,960,306,346	7,801,464,498	6,310,285,540
	43,484,547,401	30,855,260,562	21,739,007,946

Customers in other countries include exports to Asia, and developed economies such as China, USA, United Kingdom, EU and Australia. The table below shows the breakdown of revenue from outside Philippines based on geographical region.

	2022	2021	2020
China	4,970,942,249	2,346,690,101	1,069,375,131
United Kingdom	1,952,863,241	1,549,719,978	895,880,449
United States of America	1,593,084,704	1,036,451,905	1,057,231,679
Others (mainly EU and Australia)	3,443,416,152	2,868,602,514	3,287,798,281
	11,960,306,346	7,801,464,498	6,310,285,540

There were no non-current assets located outside the Philippines.

### **Note 3 - Cash and cash equivalents**

Cash and cash equivalents as at December 31 consist of:

	2022	2021
Cash in banks	3,215,249,838	5,209,955,015
Cash on hand	29,204,641	7,489,005
Cash equivalents	5,710,529	5,639,837
	3,250,165,008	5,223,083,857

Cash in banks earn interest at the bank deposit rates of 0.05% to 3.25% per annum for the year ended December 31, 2022 (2021 - 0.13% to 0.90% per annum). Cash equivalents pertain to cash placements with a local bank with maturity of less than 3 months.

For the year ended December 31, 2022, the Group earned interest income from cash accounts amounting to P3,833,465 (2021 - P5,394,857; 2020 - P3,305,612) (Note 17).

### **Note 4 - Receivables, net**

Receivables, net as at December 31 consist of:

	2022	2021
Trade receivables	5,756,799,660	5,387,974,677
Allowance for impairment of receivables	(146,332,149)	(54,885,595)
	5,610,467,511	5,333,089,082
Advances to officers and employees	6,963,976	3,730,272
Other receivables	310,038	1,872,394
	5,617,741,525	5,338,691,748

Trade receivables arose from sale of goods and services. These are unsecured and non-interest bearing with an average credit term ranging from 30 to 90 days.

Movements in the allowance for impairment of receivables for the years ended December 31 are as follows:

	Note	2022	2021	2020
Beginning of year		54,885,595	69,202,300	12,149,143
Provision	16	92,436,584	10,645,576	57,053,157
Write-off		(990,030)	(24,962,281)	-
End of year		146,332,149	54,885,595	69,202,300

#### 4.1 Critical accounting estimate and judgment: Recoverability of receivables

Provision for impairment of receivables is maintained at a level considered adequate to provide for uncollectible receivables. Provision for impairment is calculated using expected credit losses (ECLs). ECLs are unbiased probability-weighted estimates of credit losses which are determined by evaluating a range of possible outcomes and taking into account past events, current conditions and assessment of future economic conditions.

The Group used relevant historical information and loss experience to determine the probability of default of the receivables arising from sale of goods and services to third parties and incorporated forward-looking information. The Group also evaluates specific account of customers who were unable to meet their financial obligations. In these cases, management uses judgment and assessment based on the best available facts, supported by historical defaults and credit losses.

#### **Note 5 - Inventories, net**

Inventories, net as at December 31 consist of:

	2022	2021
At net realizable value		
Finished goods	2,266,606,054	1,845,011,807
Allowance for inventory obsolescence	(41,130,804)	(25,431,091)
	2,225,475,250	1,819,580,716
At net realizable value		
Raw materials	5,471,578,243	5,137,819,056
Raw materials - in transit	1,082,880,735	406,120,558
Allowance for inventory obsolescence	(34,497,371)	(38,010,449)
	6,519,961,607	5,505,929,165
	8,745,436,857	7,325,509,881

The cost of inventories sold recognized in cost of sales for the year ended December 31, 2022 amounted to P33,888,330,435 (2021 - P23,143,728,341; 2020 - P15,394,694,401) (Note 14).

Movements in the allowance for inventory obsolescence for the years ended December 31 are as follows:

	2022	2021	2020
Beginning of year	63,441,539	73,939,286	22,330,406
Provision (reversal)	12,186,636	(10,497,746)	51,608,880
End of year	75,628,175	63,441,540	73,939,286

Reversal of allowance for inventory obsolescence was due to sale and usage of previously provided inventories.



## 5.1 Critical accounting estimate and judgment: Provision for inventory obsolescence

Allowance for inventory obsolescence is maintained at a level considered adequate to provide for potential loss on inventory items. The level of provision is based on past experience and other factors affecting the recoverability and obsolescence of inventory items. An evaluation of inventories, designed to identify potential charges to the provision, is performed on a continuous basis throughout the period. Management uses judgment based on the best available facts and circumstances, including but not limited to evaluation of individual inventory items' future recoverability and utilization. The amount and timing of recorded provision for inventory obsolescence for any period would therefore differ based on the judgments made. A change in provision for inventory obsolescence would impact the Group's recorded expenses and carrying value of inventories.

The carrying values of the inventories at the end of the reporting period and the amount and timing of recorded provision for any period could be materially affected by actual experience and changes in such judgments such as effect of product obsolescence, competition in the market and changes in prices of finished products and manufacturing costs.

Management believes that the allowance for inventory obsolescence as at December 31, 2022 and 2021 is adequate.

### **Note 6 - Prepayments and other current assets; other non-current assets**

Prepayments and other current assets as at December 31 consist of:

	2022	2021
Input value-added tax (VAT)	3,460,131,070	2,282,151,917
Allowance for unrecoverable input VAT	(22,540,197)	(10,540,197)
	3,437,590,873	2,271,611,720
Deposit to suppliers	482,308,357	646,130,144
Prepaid tax	28,775	967,152
Creditable withholding taxes (CWT)	177,492,943	124,865,261
Others	32,152,640	96,050,130
	4,129,573,588	3,139,624,407

Movements in allowance for unrecoverable input VAT for the years ended December 31 are as follows:

	Note	2022	2021
Beginning balance		10,540,197	10,540,197
Provision for unrecoverable input VAT	16	12,000,000	-
Ending balance		22,540,197	10,540,197

### **Input VAT**

The Group's total input VAT, net of output VAT as at December 31 consist of:

	2022	2021
Current portion		
Carry-over claimable against output VAT	3,053,014,363	1,871,849,607
Tax credit claim (a)	367,268,542	379,268,542
Deferred input VAT (b)	17,307,968	20,493,571
	3,437,590,873	2,271,611,720
Non-current portion - carry-over claimable against output VAT	1,058,515,569	740,470,901
	4,496,106,442	3,012,082,621

(a) Tax credit claim

Tax credit claim pertains to excess input VAT from zero-rated sales claimed by the Group for refund.

Movements in tax credit claim for the years ended December 31 are as follows:

	Note	2022	2021
Beginning balance		379,268,542	460,896,270
Reversal of allowance		-	(4,839,243)
Expensed	14	-	(76,788,485)
Ending balance		379,268,542	379,268,542
Allowance for unrecoverable tax credit claim		(12,000,000)	-
		367,268,542	379,268,542

(b) Deferred input VAT

Deferred input VAT pertains to input VAT paid on services which is claimable upon payment of related liabilities and input VAT from purchase of capital goods which is subject to amortization.

Deposits to suppliers

Deposits to suppliers are payments made in advance for goods and services that have not yet been received or incurred. It will be derecognized when goods or services are received.

Prepaid taxes

Prepaid taxes as at December 31, 2022 and 2021 mainly pertain to actual tax credit certificates (TCC) issued by the Bureau of Internal Revenue (BIR) in favor of the Group relating to filed application claims to convert excess input VAT into TCC. The TCC may be applied to future income tax liabilities.

Movements in prepaid taxes for the years ended December 31 are as follows:

	2022	2021
Beginning balance	967,152	1,513,324
Applied against income tax liabilities	(938,377)	(546,172)
Ending balance	28,775	967,152

CWT

CWT pertains to taxes withheld from income payments made to the Group and are creditable against future income tax payable.

Other non-current assets as at December 31 consist of:

	2022	2021
Input VAT	1,058,515,569	740,470,901
Refundable deposits	926,576,702	106,459,514
CWT	339,576,808	345,096,320
Advances to contractors	163,897,021	870,810,355
Software licenses	64,803,003	-
Others	39,497,687	40,952,129
	2,592,866,790	2,103,789,219

As at December 31, 2022, the Group has reviewed the expected utilization of its input VAT and CWT, and accordingly classified input VAT and CWT amounting to P1,058,515,569 and P339,576,808, respectively, to non-current assets (2021 - P740,470,901 and P345,096,320, respectively).

Refundable deposits pertain to the security deposits covering the Group's lease of office space, warehouse and land (Note 9).

Advances to contractors are related to construction in progress. These are presented within investing activities in the statements of cash flow.

#### **6.1 Critical accounting judgment: Recoverability of input VAT**

Provision for impairment of input VAT is maintained at a level considered adequate to provide for recoverable claims or refund from excess input VAT. An evaluation of the tax credit claims from input VAT designed to identify potential charges to the provision, is performed on a continuous basis throughout the period. Management uses judgment based on the best available facts and circumstances, including but not limited to the evaluation of the aggregate tax credit future utilization, completeness of supporting documents and actual refund experiences with similar claims. Changes in those judgments could have a significant effect on the net amount of input VAT and the timing of recorded provision for any period.

On September 28, 2020, CTI received a letter of denial from the BIR related to the claim for VAT refund covering 2018 transactions amounting to P379,268,541. The denial of the claim is based on BIR's interpretation that sale of biofuels constitutes sale of services, hence, official receipts, not invoices should have been submitted to support the claims. Prior to this denial, CTI has successfully received refunds for input VAT arising from prior year transactions, with almost no disallowance, arising from sale of biodiesel treated as sale of goods. CTI has submitted a petition for review with the Court of Tax Appeals (CTA) within the time prescribed in the denial letter. As of the issuance date of the financial statements, the case is still pending with the CTA. CTI believes that claim is supported by sufficient documentary evidence and strong legal basis under the tax code. Consequently, management believes that the claims will be recovered.

Management has assessed that the carrying amount of input VAT as at December 31, 2022 and 2021 is recoverable based on management forecasts, strong legal basis and compliant supporting documents.

#### **6.2 Critical accounting judgment: Recoverability of CWT**

The Group recognizes CWT to the extent that it is probable that future tax liabilities will be available against which tax credits can be utilized. Determining the realizability and classification of CWT requires the assessment of the availability and timing of future taxable profit expected to be generated from the operations.

Significant judgment is required in determining the realizability of CWT. CWT arise mainly from the Parent Company's management and support services to its affiliates. Management believes based on long term forecasts that the Parent Company would be able to generate sufficient taxable income and future tax liabilities against which the CWT can be fully applied.

Based on management's assessment and judgment, no allowance for unrecoverable CWT is necessary to be recognized as of December 31, 2022 and 2021 as there are no indications of impairment or changes in circumstances indicating that the CWT may not be fully recoverable.

**Note 7 - Investments in equity securities at FVOCI**

As at December 31, 2022, investments in equity securities at FVOCI pertains to investment in shares of stock of a listed company and proprietary golf club share amounted to P236,763,755 (2021 - P198,000,979).

For the year ended December 31, 2022, fair value changes net of deferred income tax, amounted to P32,194,199 (2021 - P11,722,405; 2020 - nil).

For the year ended December 31, 2022, dividend income from these investments amounted to P128,909 (2021 - P64,449; 2020 - P77,312) (Note 17).

## **Note 8 - Property, plant and equipment, net**

Property, plant and equipment, net as at December 31 consist of:

	Building and leasehold improvements	Transportation and delivery equipment	Office, furniture and fixtures	Tools, machinery and equipment	Construction in progress	Total
<b>At January 1, 2021</b>						
Cost	1,031,504,274	217,981,157	487,181,140	4,962,380,644	3,349,079,292	10,048,126,507
Accumulated depreciation and amortization	(350,704,947)	(174,027,783)	(383,600,024)	(3,445,931,376)	-	(4,354,264,130)
Net carrying value	680,799,327	43,953,374	103,581,116	1,516,449,268	3,349,079,292	5,693,862,377
<b>For the year ended December 31, 2021</b>						
Opening net carrying value	680,799,327	43,953,374	103,581,116	1,516,449,268	3,349,079,292	5,693,862,377
Additions	-	3,242,500	8,153,566	25,416,173	3,105,168,336	3,141,980,575
Disposals						
Cost	-	(3,869,551)	-	-	(110,616)	(3,980,167)
Accumulated depreciation	-	3,869,551	-	-	-	3,869,551
Transfers	3,236,593	8,858,036	17,838,427	95,461,685	(125,394,741)	-
Depreciation and amortization	(32,736,509)	(13,599,820)	(50,986,093)	(306,928,521)	-	(404,250,943)
Closing net carrying value	651,299,411	42,454,090	78,587,016	1,330,398,605	6,328,742,271	8,431,481,393
<b>At December 31, 2021</b>						
Cost	1,034,740,867	226,212,142	513,173,133	5,083,258,502	6,328,742,271	13,186,126,915
Accumulated depreciation and amortization	(383,441,456)	(183,758,052)	(434,586,117)	(3,752,859,897)	-	(4,754,645,522)
Net carrying value	651,299,411	42,454,090	78,587,016	1,330,398,605	6,328,742,271	8,431,481,393
<b>For the year ended December 31, 2022</b>						
Opening net carrying value	651,299,411	42,454,090	78,587,016	1,330,398,605	6,328,742,271	8,431,481,393
Additions	14,942,694	15,179,026	39,378,289	41,198,757	3,396,709,156	3,507,407,922
Disposals						
Cost	-	(3,514,740)	-	(1,455,898)	-	(4,970,638)
Accumulated depreciation	-	3,514,740	-	1,181,700	-	4,696,440
Transfers	1,450,273	13,016,696	40,373	118,582,898	(133,090,240)	-
Depreciation and amortization	(29,517,750)	(17,969,145)	(43,726,807)	(307,150,441)	-	(398,364,143)
Closing net carrying value	638,174,628	52,680,667	74,278,871	1,182,755,621	9,592,361,187	11,540,250,974
<b>At December 31, 2022</b>						
Cost	1,051,133,834	250,893,124	552,591,795	5,241,584,259	9,592,361,187	16,688,564,199
Accumulated depreciation and amortization	(412,959,206)	(198,212,457)	(478,312,924)	(4,058,828,638)	-	(5,148,313,225)
Net carrying value	638,174,628	52,680,667	74,278,871	1,182,755,621	9,592,361,187	11,540,250,974

Construction in progress represents building, leasehold improvements, various plant developments and machineries and equipment that will be used in operations. These will be used in operations and are expected to be fully completed in the next twelve (12) months.

Transfers represent reclassification of completed construction in progress to the appropriate class of property, plant and equipment.

Depreciation and amortization are charged for the years ended December 31 are as follows:

	Notes	2022	2021	2020
Depreciation		398,364,143	404,250,943	433,856,339
Amortization of ROU	9	408,441,210	303,192,020	234,320,732
		806,805,353	707,442,963	668,177,071
Cost of sales	14	648,311,428	681,341,301	641,481,344
Cost of services	14	9,641,046	10,916,317	11,628,435
General and administrative expenses	16	148,852,879	15,185,345	15,067,292
		806,805,353	707,442,963	668,177,071

The acquisition of property, plant and equipment as shown in the statements of cash flows for the years ended December 31 was determined as follows:

	2022	2021	2020
Capital expenditures payable, beginning	266,379,904	137,637,973	78,556,656
Additions during the year	3,608,636,226	3,655,249,867	2,474,768,723
Capitalized borrowing costs	184,449,732	66,647,742	23,235,416
Capital expenditures payable, ending	(352,053,328)	(266,379,904)	(137,637,973)
Additions per statement of cash flows	3,707,412,534	3,593,155,678	2,438,922,822

Additions during the year include advance lease payments (Note 9).

### 8.1 Critical accounting estimate: Useful life of property, plant and equipment

The useful life of each of the Group's property, plant and equipment is estimated based on the period over which these assets are expected to be available for use. Such estimation is based on a collective assessment of internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A change in the estimated useful life of any property, plant and equipment would impact the recorded depreciation expense and carrying value of property, plant and equipment.

### **Note 9 - Leases**

The Group leases various office space, warehouse, and equipment for its back office and manufacturing operations.

The lease agreements do not require any covenants other than the security deposits in the leased assets that are held by the lessor.

(i) Amounts recognized in the consolidated statements of financial position

Leased assets are presented as a separate line item in the statement of financial position. The statements of financial position show the following amounts relating to leases:

	2022	2021
<i>Right-of-use assets, net</i>	896,810,952	382,653,460
<i>Lease liabilities</i>		
Current	473,553,419	163,757,878
Non-current	349,099,083	236,951,645
	822,652,502	400,709,523

Among lease liabilities, P700,377,945 is pertaining to related party (2021 - P360,618,011) (Note 18).

Movements in the right-of-use assets are presented below:

	2022	2021
Beginning balance	382,653,460	103,819,960
Additions during the year	925,663,176	583,027,612
Lease modification	(3,064,474)	(1,002,092)
Amortization	(408,441,210)	(303,192,020)
Ending balance	896,810,952	382,653,460

Additions to ROU assets during the year amounting to P101,228,304 pertain to advance lease payments (Note 8).

Movements in lease liabilities are presented below:

	Beginning balance	Principal and interest payments	Additions during the year	Non-cash changes		Ending balance
				Lease modification	Interest expense	
2022	400,709,524	(429,682,043)	824,434,872	(3,064,474)	30,254,624	822,652,503
2021	110,641,936	(310,882,708)	583,027,612	(1,002,092)	18,924,775	400,709,523

Lease modification represents discount provided by the lessor to the group in consideration of the COVID-19 pandemic. The Group has elected to account for the rent concession as a lease modification.

*(ii) Amounts recognized in the consolidated statements of total comprehensive income*

The statements of total comprehensive income show the following amounts relating to leases:

	2022	2021
Amortization of ROU (Note 8)	408,441,210	303,192,020
Interest expense (included in interest expense)	16,394,499	18,924,775
Expense relating to short-term leases (included in cost of goods sold and operating expenses)	149,287,319	108,726,056
	574,123,028	430,842,851

The total cash outflows for leases for the year ended December 31, 2022 is P478,969,362 (2021 – P419,608,764).

*(iii) Discount rate*

Payments for leases of properties and equipment are discounted using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

*(iv) Lease term*

The lease term applied in the calculation of right-of-use assets and lease liabilities are based on the contractual agreements of the Group with the lessor. There were no extension options applied in the calculation.

**Note 10 - Trade payables and other liabilities**

Trade payables and other liabilities as at December 31 consist of:

	Note	2022	2021
Trade payables		2,831,205,613	2,544,954,000
Accrued operating expenses		181,533,831	252,518,811
Accrued interest expense	11	179,344,553	32,256,183
Due to regulatory agencies		72,234,884	66,930,860
Advances from customers		261,697	493,426
Others		1,392,343	822,663
		3,265,972,921	2,897,975,943

Trade payables mainly pertain to purchases of inventories, repairs and maintenance and supplies. These are unsecured and non-interest bearing payable within six months.

Accrued operating expenses mainly pertain to contracted services of manpower providers for manufacturing operations. These are unsecured and non-interest bearing.

Due to regulatory agencies consists of VAT payable, expanded withholding tax payable and withholding tax payable on compensation as at December 31, 2022 and 2021.



## **Note 11 - Borrowings; Bonds payable**

### **(a) Borrowings**

As at December 31, 2022 and 2021, the Group has outstanding short-term borrowings amounting to P9,350,000,000 and P8,650,000,000 from local banks and a branch of a foreign bank, with maturity dates ranging from one to eleven months from reporting date. These borrowings bear interest rates ranging from 3.70% to 5.87% (2021 - 1.95% to 2.00%).

On December 13, 2022, the Group also has an outstanding one-month unsecured short-cycle cash transfers from Immediate Parent Company amounting to P1,170,000,000 (2021 - P200,000,000) (Note 18).

As at December 31, 2022 and 2021, all outstanding external short term borrowings of the Group are covered by surety and corporate guarantee agreements discussed in Note 18.4.

### **(b) Bonds payable**

On March 15, 2021, the Board of Directors authorized the offer and issuance of the bonds in an aggregate principal amount of P3,000,000,000 with an oversubscription option of up to P2,000,000,000, for public distribution and sale in the Philippines.

On September 14, 2021, the Group issued P5,000,000,000 fixed rate bonds. The amount comprises P3,000,000,000 ("Series A" bonds) and P2,000,000,000 ("Series B" bonds) fixed rate bonds due in 2024 and 2026, with interest rate of 2.79% and 3.60%, respectively. The net proceeds of the issue were used for the purpose of financing the ongoing construction of the manufacturing plant in Batangas presented in property, plant and equipment (Note 8) and partially repay maturing loans and its interest costs drawn by the Group to fund capital expenditure. Any excess amounts will be used for general corporate purposes as indicated in the prospectus.

The bonds will be redeemed in whole upon maturity dates except for Series B bonds which may be redeemed by the Group starting two years before maturity date and on the anniversary thereafter at a price equal to 101.00% and 100.50%, respectively, of the principal amount of the bonds and all accrued interest to the date of the redemption.

The carrying amount of the bonds as of December 31, 2022 and 2021 are as follows:

	2022	2021
Face amount	5,000,000,000	5,000,000,000
Debt issuance cost	(59,994,358)	(65,126,939)
Net proceeds	4,940,005,642	4,934,873,061
Amortization of debt issuance cost for the year	17,818,071	5,132,581
	4,957,823,713	4,940,005,642

The movements in the Group's borrowings and the net debt reconciliation for the years ended December 31 are as follows:

	2022	2021	2020
Beginning of year	13,790,005,642	5,150,000,000	3,400,000,000
Availment of borrowings and loans	9,670,000,000	4,700,000,000	6,050,000,000
Repayment of borrowings	(8,000,000,000)	(1,000,000,000)	(4,000,000,000)
Issuance of bonds	-	4,940,005,642	-
Amortization of debt issuance cost for the year	17,818,071	-	-
End of year	15,477,823,713	13,790,005,642	5,450,000,000
Cash at end of year	(3,250,165,008)	(5,223,083,857)	(2,136,611,930)
Net debt	12,227,658,705	8,566,921,785	3,313,388,070

Interest expense related to borrowings and bonds for the year ended December 31, 2022 amounted to P204,045,858 (2021 - P141,630,292; 2020 - P140,779,512). Accrued interest expense presented under trade payables and other liabilities amounted to P179,344,553 (2021 - P32,256,183) (Note 10).

Movement of accrued interest expense for the years ended December 31 are as follows:

	2022	2021	2020
Beginning of year	32,256,183	25,639,788	5,150,684
Expense	205,887,577	122,706,517	140,779,512
Capitalized borrowing cost	111,698,172	82,225,356	19,402,083
Amortization of bond issuance cost	(17,818,071)	(5,132,581)	-
Payment	(152,679,308)	(193,182,897)	(139,692,491)
End of year	179,344,553	32,256,183	25,639,788

The Group capitalized borrowing cost using a capitalization rate of 3% for the year ended December 31, 2022 (2021 - 3.1%).

Except for the maintenance of financial ratios as discussed below, there are no covenants and warranties, including breaches thereof, related to these borrowings other than surety and corporate guarantee as disclosed in Note 18.4.

In relation to the bond offering, the Group is required to maintain current ratio of 1.0 and debt to equity ratio of not more than 2.5. The Group has complied with this requirement.

## **Note 12 - Equity**

### **12.1 Share capital and share premium**

Details of share capital and share premium as at December 31, 2022 and 2021 are as follows:

	Number of shares	Amount
Share capital		
Common shares at P1 par value per share		
Authorized	18,000,000,000	18,000,000,000
Subscribed, issued and outstanding	7,142,857,990	7,142,857,990
Share premium	3,255,166,445	3,255,166,445

The Parent Company undertook a public offering of its common shares on December 12, 2012 (Note 1), in which the Parent Company issued 1 billion additional shares at P4.30 per share for a total consideration of P4.3 billion, net of share issuance costs of P280.5 million. As a result of the public offering, share premium amounting to P3.3 billion has been recognized by the Parent Company as at December 31, 2022.

On November 5, 2013, which is also the date of approval by the SEC, the Parent Company registered its shares under the SRC with an issue/offer price of P4.30.

As at December 31, 2022 and 2021, the Parent Company's record of registration of its securities under the SRC reported 7,142,857,990 shares registered.

On May 11, 2015, the Parent Company's BOD, through an amendment of the Parent Company's Articles of Incorporation, resolved to increase its authorized share capital from four billion pesos (P4,000,000,000) divided into four billion (4,000,000,000) common shares with a par value of P1.00 each to eighteen billion pesos (P18,000,000,000) divided into eighteen billion (18,000,000,000) common shares with a par value of P1.00 each. The amendment was approved and ratified by the Parent Company's stockholders during the annual stockholders meeting on June 8, 2015. The SEC approved the increase in authorized share capital on July 24, 2015.

## 12.2 Dividend declaration

### *Stock dividends*

On May 11, 2015, the Parent Company's BOD approved the declaration of 100% stock dividends amounting to P3,571,428,995 (P1 per share) out of the unrestricted retained earnings of the Parent Company as at March 31, 2015 to be issued out of the increase in authorized share capital to all shareholders as at a record date set by the SEC after approval of the increase in the Parent Company's authorized capital stock. Following the approval by the SEC of Parent Company's increase in authorized capital stock, the Parent Company set the Record Date on August 20, 2015, and the issue and listing date on September 17, 2015.

PSE approved the issue and listing of the additional shares on September 17, 2015.

### *Cash dividends*

The Parent Company's BOD declared, and paid cash dividends as follows:

Declaration date	Payment date	Dividend rate per share	Amount
June 6, 2022	July 15, 2022	P0.240 per share (consisting of P0.185 regular cash dividend and P0.055 special cash dividend)	1,714,285,918
June 7, 2021	July 15, 2021	P0.191 per share (consisting of P0.141 regular cash dividend and P0.050 special cash dividend)	1,364,285,876
September 8, 2020	October 28, 2020	P0.183 per share (regular cash dividend)	1,307,143,012

## 12.3 Appropriation of retained earnings

On December 20, 2017, the BOD of CTI approved the appropriation of retained earnings amounting to P500,000,000 for additional investments needed for plant expansion of CTI and its subsidiaries which is expected to be completed in 2023.

### **Reacquisition of shares held by non-controlling interest**

On October 9, 2017, CTI reacquired its own shares for a total consideration amounting to P24,083,269. As a result of this reacquisition, D&L owns 100% of the issued and outstanding shares of CTI as at December 31, 2017.

## 12.4 Earnings per share calculation

The calculation of earnings per share as at December 31 is as follows:

	2022	2021	2020
Profit for the year attributable to the owners of the Parent Company	3,317,520,007	2,642,697,244	2,011,664,631
Weighted average number of common shares	7,142,857,990	7,142,857,990	7,142,857,990
Basic and diluted earnings per share	0.46	0.37	0.28

The Parent Company has no potential dilutive ordinary shares. Therefore, the amount reported for basic and diluted earnings per share is the same.

**Note 13 - Revenues from contracts with customers**

For the years ended December 31, revenues consist of the following:

	2022	2021	2020
Sale of goods, gross	43,471,262,528	30,876,190,176	21,745,872,880
Sales discounts	(70,284,520)	(85,387,060)	(63,444,872)
Sales returns	(21,556,577)	(35,705,114)	(9,901,932)
Sale of goods, net	43,379,421,431	30,755,098,002	21,672,526,076
Service income	105,125,970	100,162,560	66,481,870
	43,484,547,401	30,855,260,562	21,739,007,946

Details of segment revenues are presented on Note 2.

**Note 14 - Cost of sales and services**

The components of cost of sales and services for the years ended December 31 consist of:

	Notes	2022	2021	2020
Raw materials used	5	34,294,224,969	23,326,129,398	15,676,576,884
Net change in inventories	5	(405,894,534)	(182,401,057)	(281,882,483)
Direct labor		346,668,771	316,592,506	69,783,868
Overhead				
Depreciation and amortization	8	648,311,428	681,341,301	641,481,344
Fuels and oil		523,640,927	284,900,568	236,932,365
Contracted services		491,042,032	521,031,844	536,006,308
Utilities		362,650,185	259,244,248	226,027,172
Repairs and maintenance		356,686,440	336,796,701	165,775,970
Indirect labor		244,738,585	199,087,581	165,364,329
Rental	9	146,691,548	106,446,523	50,165,334
Supplies		140,727,420	122,874,028	100,652,000
Indirect materials used		67,626,833	83,597,751	38,280,048
Input VAT not recovered	6	-	76,788,485	75,460,707
Provision for unrecoverable input VAT	6	12,000,000	-	-
Other direct costs		102,531,604	72,360,484	55,815,771
Cost of sales		37,331,646,208	26,204,790,361	17,756,439,617
Employee costs		41,632,844	41,043,686	31,632,897
Depreciation and amortization	8	9,641,046	10,916,317	11,628,435
Supplies		7,444,164	7,327,589	5,400,293
Contracted services		7,142,443	7,239,271	5,491,729
Utilities		3,572,362	3,079,223	1,933,269
Repairs and maintenance		3,293,803	3,090,757	2,857,288
Rental	9	2,595,771	2,279,533	268,875
Others		11,515,966	10,775,982	5,576,942
Cost of services		86,838,399	85,752,358	64,789,728
		37,418,484,607	26,290,542,719	17,821,229,345

**Note 15 - Selling and marketing expenses**

The components of selling and marketing expenses for the years ended December 31 consist of:

	2022	2021	2020
Delivery charges	817,518,644	603,768,333	469,377,561
Employee costs	223,668,857	197,425,228	165,282,162
Representation expenses	38,681,292	32,795,564	25,812,298
Transportation and travel	37,593,395	13,854,057	13,798,542
Advertising and promotion	36,637,311	11,550,562	9,066,360
Others	328,146	233,033	84,401
	1,154,427,645	859,626,777	683,421,324

**Note 16 - General and administrative expenses**

The components of general and administrative expenses for the years ended December 31 consist of:

	Notes	2022	2021	2020
Taxes and licenses		275,509,445	216,306,856	178,682,043
Depreciation and amortization	8	148,852,879	15,185,345	15,067,292
Provision for impairment of receivables	4	92,436,584	10,645,576	57,053,157
Contracted services		78,452,727	80,066,684	84,136,229
Bank charges		41,290,036	28,463,178	21,390,967
Utilities and supplies		49,169,770	12,024,609	4,520,277
Donations and contributions		28,014,995	20,875,388	26,420,812
Professional fees		25,555,838	21,247,714	13,134,057
Membership dues		17,438,046	8,655,054	10,526,600
Communications		13,246,824	10,894,535	9,783,995
Repairs and maintenance		12,587,401	8,868,280	4,911,914
Transportation and travel		-	308,877	158,027
Miscellaneous		23,135,984	11,444,650	13,092,597
		805,690,529	444,986,746	438,877,967

**Note 17 - Other income (expense), net**

The components of other income (expense), net for the years ended December 31 consist of:

	Notes	2022	2021	2020
Foreign exchange gain (loss), net	22.4	186,197,441	63,594,366	(122,415,203)
Commission income		8,925,399	5,833,786	4,233,485
Realized gain on sale of FVPL		6,646,238	-	-
Income from calibration services		5,524,796	-	-
Unrealized gain on FVPL		4,413,155	22,818,740	15,466,321
Freight income		3,923,097	2,844,091	13,340,304
Interest income	3	3,833,465	5,394,857	3,305,612
Gain on disposal of property and equipment		455,813	-	-
Dividend income	7	128,909	64,449	77,312
Realized gain on redemption of FVPL		31,543	-	-
Miscellaneous		5,090,484	821,314	599,567
		225,170,340	101,371,603	(85,392,602)

In 2022, the Group redeemed financial assets at FVPL and received P572,156,676 proceeds resulting to a gain of P31,543.

### **Note 18 - Related party transactions and balances**

The Group, in the ordinary course of business, has transactions with related parties. Significant related party transactions and related balances include the following:

*For the years ended December 31:*

	Transactions			Due from related parties		Terms and conditions
	2022	2021	2020	2022	2021	
(a) <i>Management service fees (18.1)</i>						The fees for management services are equivalent to 0.25% of the net receipts from operations, and 0.25% of gross profit, excluding related party transactions.  Outstanding receivables are unsecured, unguaranteed, non-interest bearing, collectible in cash at net amount, due 30 to 60 days after billing date, which is raised on a monthly basis.
Entities under common control - Trade	7,582,099	7,281,766	11,941,430	1,115,695	501,614	
(b) <i>Shared service fees (18.2)</i>						The fees for shared services range from 2.00% to 3.35% of the net receipts from operations, and 3.25 to 3.85% of gross profit, excluding related party transactions.  Outstanding receivables are unsecured, unguaranteed, non-interest bearing, collectible in cash at net amount, due 30 to 60 days after billing date, which is raised on a monthly basis.
Entities under common control - Trade	97,543,871	92,880,794	54,540,440	15,861,495	7,406,238	
(c) <i>Sale of goods and services</i>						Sale of goods and services are negotiated with related parties at a margin. These receivables are unsecured, unguaranteed, non-interest bearing, collectible in cash at net amount, due 30 to 60 days after transaction date
Entities under common control - Trade	814,899,032	560,183,140	536,080,696	193,818,907	100,778,935	
Totals	920,025,002	660,345,700	602,562,566	210,796,097	108,686,787	

	Transactions			Due to related parties		Terms and conditions
	2022	2021	2020	2022	2021	
(d) <i>Rental expenses</i>						
Entities under common control	(149,287,319)	(108,726,056)	(50,434,209)	-	(14,432,578)	Lease rental are based on contracts mutually agreed by the parties. These payables are unsecured, unguaranteed, non-interest bearing, settled in cash at net amount, due 30 to 60 days after transaction date.
(e) <i>Purchase of goods</i>						
Entities under common control - Trade	(334,028,735)	(202,456,809)	(238,713,140)	(321,915,219)	(26,230,482)	Purchases of goods are negotiated with related parties on a cost-plus basis. These payables are unsecured, unguaranteed, non-interest bearing, settled in cash at net amount, due 30 to 60 days after transaction date.
	(483,316,054)	(311,182,865)	(289,147,349)	(321,915,219)	(40,663,060)	
(f) <i>Interest payable</i>						
Immediate Parent Company	(2,860,625)	(8,586,986)	(3,794,521)	(2,860,625)	-	Accrued interest payable for loan agreements entered into by DLPF.
Totals	(1,656,176,679)	(519,769,851)	(292,941,870)	(324,775,844)	(40,663,060)	
	Transactions			Outstanding balances		Terms and conditions
	2022	2021	2020	2022	2021	
(g) <i>Short-cycle cash transfers (Note 11)</i>						
Immediate Parent Company	(1,170,000,000)	(200,000,000)	-	(1,170,000,000)	(200,000,000)	The Group has an unsecured short-cycle cash transfer from JHI as part of the Group's cash management agreement. Term is generally less than three months.
(h) <i>Long-term loan payable</i>						
Immediate Parent Company	-	-	(300,000,000)	-	-	DLPF entered into a 5.25% long-term unsecured interest bearing loans with JHI maturing on June 2024.
(i) <i>Initial recognition of lease liabilities</i>						
Entities under common control	547,872,243	502,100,302	100,017,122	533,857,233	360,618,011	The Group obtained a right of use assets and recognized lease liabilities through lease contracts with a related party. Lease payments are based on rate mutually agreed by the parties and are payable on a monthly basis. Refer further to Note 18.3 for details.
(j) <i>Interest from lease liabilities</i>						
Entities under common control	182,239,497	14,757,878	1,782,403	166,520,712	-	
Totals	730,111,740	516,858,180	101,799,525	700,377,945	360,618,011	

The long-term loans from Immediate Parent Company is presented under financing activities in the statements of cash flows consistent with the financing management of the Group.

There was no offsetting done for due from related parties and due to related parties as at December 31, 2022 and 2021.

There are no provisions for impairment recognized against due from related parties.

There are no collaterals held or guarantees issued, except as disclosed under surety and corporate guarantee agreements, with respect to related party transactions and balances.

The Group has an approved Material Related Party Transactions policy that sets forth the required thresholds for approval for related party transactions as part of the Group's corporate governance policy.

### **18.1 Management services**

The Parent Company has a management agreement with its related parties for the provision of general management services and facilities, including necessary managerial expertise and skills. The consideration for the management services are based on net receipts from operations, excluding related party transactions.

### **18.2 Shared services**

The Parent Company has a service agreement with its related parties whereby the Parent Company shall provide shared services such as asset management, production and manufacturing support, procurement, logistics and back-office support, among others. The consideration for the shared services are based on net receipts from operations, excluding related party transactions. The agreement shall remain in force until terminated by both parties.

### **18.3 Lease agreements**

#### *D&L*

D&L has existing operating lease agreement with LBL Prime Properties, Inc. (LBL) whereby D&L leases from LBL its office space. The lease contract shall remain in force until terminated by both parties.

#### *CTI*

CTI has an existing operating lease agreement with LBL covering its factory and warehouse spaces. The lease is automatically renewed yearly subject to 5% escalation rate.

#### *CPSI*

CPSI has cancellable operating lease agreements with LBL covering the latter's factory and warehouse spaces. In 2021, the agreements were renewed, and the lease terms were extended until December 31, 2021 and December 31, 2025. The 5-year lease is subject to five percent annual escalation rate starting January 1, 2022.



#### *OFI*

OFI has existing operating lease agreements with LBL covering its factory and warehouse spaces. The lease run for a period of three (3) years until December 31, 2023 and are subject to five percent annual escalation rate. The lease is automatically renewed yearly until terminated.

OFI also has existing operating lease agreement with FIC Tankers Corporation (FICT), an entity under common control, for the use of the latter's storage tanks. The agreement remains in force unless terminated by the parties.

#### *API*

API has various office and warehouse spaces for its manufacturing operations with LBL, an entity under common control, covering its factory and warehouse spaces. The lease runs for a period of five years until December 31, 2025 and is subject to five percent annual escalation rate.

#### *FIC*

The Company has a lease agreement with LBL Land Corporation (LBL), an entity under common control, for the latter's plant and warehouse in Quezon City. The term of the lease agreement commenced on January 1, 2016, subject to annual escalation rate of 5%. The leases are renewed automatically on a yearly basis.

#### *DLPCI*

DLPCI has existing operating lease agreements with Ecozone Properties, Inc. (EPI), an entity under common control, covering the lease of the latter's land and warehouse for a period of five years until December 31, 2019. The leases are renewed automatically until the new long term lease contract is executed.

### **18.4 Surety agreement and corporate guarantee**

The Parent Company and its subsidiaries (namely, FIC, DLPCI, API, CTI, CPSI, NAC, OFI and DLPIF) have an existing agreement to provide surety for the obligations and indebtedness incurred or may be incurred by all aforementioned parties arising from short-term and long-term borrowings.

Pursuant to the agreement above, the participating related parties are solidarily liable for the payment of the underlying outstanding borrowings.

As at December 31, 2022 and 2021, there was no default from the borrowings covered by above surety agreements and corporate guarantee.

The surety agreement and corporate guarantee shall remain in full force and shall be effective unless otherwise terminated by contracting aforementioned parties.

## Key management compensation

Key management compensation for the years ended December 31 consist of:

	Terms	2022	2021	2020
Salaries and wages	Key management compensation covering	281,874,840	213,603,932	194,616,940
Other short-term employee benefits	salaries and wages and other short-term benefits are determined based on contract of employment and payable in accordance with the Group's payroll period. These were fully paid as at reporting date.	20,600,675	12,235,322	11,325,176
Retirement benefits	Retirement benefits are determined and payable in accordance with policies disclosed in Notes 19 and 23.22.	27,147,386	39,812,011	23,247,199
		329,622,901	265,651,265	229,189,315

The Group has not provided share-based payments, termination benefits or other long-term benefits, other than the retirement benefits, to its key management employees for the years ended December 31, 2022, 2021 and 2020.

As at December 31, 2022, advances to officers amounting to P6,963,976 (2021 - P3,730,272) represent advances granted to officers and employees (Note 4). These are unsecured and non-interest-bearing advances, subject to liquidation and/or collectible through salary deduction.

Other related party transactions for the years ended December 31 also include transfer of employees affecting retirement obligations and contributions, and investment in shares of stock of the Parent Company by the retirement fund (Note 19) amounting to P140,167,464 (2021 - P128,183,297; 2020 - P104,445,649).

## 18.5 Amounts receivable and payable from related parties which are eliminated during consolidation of financial statements

The following related party transactions and balances were eliminated for the purpose of preparing the consolidated financial statements:

	2022	2021
As at December 31		
Investment in subsidiaries	11,022,192,481	11,022,192,481
Due to / from related parties	5,148,800,920	5,298,003,004
For the year ended December 31		
Service income	669,010,081	567,135,753
Revenue / Cost of sales	2,743,430,330	379,032,427
Other expense, net	551,156,488	279,862,537
Dividend income	1,770,840,126	1,424,826,183

There are no unrealized profits on intercompany sale of goods.

### **Note 19 - Retirement plan**

The Group maintains a non-contributory defined benefit retirement plan for the benefit of its regular employees. The normal retirement age is 60. Normal retirement benefit is equal to three-fourth month salary as of date of retirement multiplied by retiree's years of service. Three-fourth month salary is equivalent to 22.5 days basic salary, cash equivalent of 5-day vacation leaves, and one-twelfth (1/12) of the 13th month pay. Actuarial valuation is performed by an independent actuary on an annual basis.

The Group has plan assets, a group-administered fund, under the D&L Group of Companies Employees' Retirement Plan (the "Group Retirement Plan") that share risks and returns between various entities under common control within JHI. Plan assets are handled by a trustee bank, governed by local regulations and practices and approved policies and procedures by the Board of Trustees. As at December 31, 2022, the Group's equity in the fund amounted to P270,553,942 (2021 - P303,871,646) in the Group Retirement Plan based on the fund balance report of the trustee (using the Group's contribution to the plan asset and cumulative yield at balance sheet date).

Net defined benefit cost and contributions are allocated to the participating entities in the Group Retirement Plan on the basis of retirement benefit expense and obligation attributable to each of the participating entities.

Retirement benefit obligation recognized in the consolidated statements of financial position as at December 31 are determined as follows:

	2022	2021
Present value of funded obligation	440,190,729	350,364,539
Fair value of plan assets	(270,553,942)	(303,871,646)
	169,636,787	46,492,893

The movements in the defined benefit obligation for the years ended December 31 are as follows:

	2022	2021
Beginning of year	350,364,539	341,126,148
Current service cost	34,032,317	35,053,759
Interest cost	17,344,259	12,643,691
Benefits paid	(31,636,059)	(11,475,631)
Transfers from affiliates	(3,015,833)	93,509
Remeasurement loss (gain)	73,101,506	(27,076,937)
End of year	440,190,729	350,364,539

Transfer to the Group pertains to retirement obligation transferred to related parties due to allocation of retirement obligation based on actual number of employees.

The movements in the fair value of plan assets for the years ended December 31 are as follows:

	2022	2021
Beginning of the year	303,871,646	273,087,060
Benefits paid	(31,636,060)	(11,475,631)
Contribution	15,000,000	-
Actual return on plan assets		
Interest income	14,996,015	9,973,366
Remeasurement (loss) gain	(31,677,659)	32,286,851
	(33,317,704)	30,784,586
End of the year	270,553,942	303,871,646

Retirement benefit expense recognized in profit or loss for the years ended December 31 are as follows:

	2022	2021	2020
Current service cost	34,032,317	35,053,759	31,932,652
Net interest cost (income)	2,348,244	2,670,325	(1,247,311)
	36,380,561	37,724,084	30,685,341

Retirement benefit expenses is included as part of employee costs as follows:

	2022	2021	2020
Cost of sales	11,450,452	25,060,062	21,058,013
Cost of services	14,738,879	2,241,674	1,551,061
Selling and marketing expenses	5,019,605	8,725,388	6,696,891
General and administrative expenses	5,171,625	1,696,960	1,379,376
	36,380,561	37,724,084	30,685,341

Remeasurement gain (loss), net of tax recognized in other comprehensive income for the years ended December 31 are as follows:

	2022	2021	2020
Remeasurement gain (loss)			
On defined benefit obligation due to change in financial assumption	(35,490,683)	32,113,945	(11,834,770)
On defined benefit obligation due to experience adjustment	(37,610,823)	(5,037,008)	7,999,356
On plan assets due to experience adjustment	(31,677,659)	32,286,851	(58,010,728)
	(104,779,165)	59,363,788	(61,846,142)
Deferred income tax	15,637,454	(11,489,612)	12,198,471
	(89,141,711)	47,874,176	(49,647,671)

The movements in the retirement benefit obligation recognized in the consolidated statements of financial position as at December 31 are as follows:

	2022	2021
Beginning of year	(46,492,893)	(68,039,088)
Retirement benefit expense recorded in profit or loss	(36,380,561)	(37,724,084)
Remeasurement (loss) gain recognized in other comprehensive income	(104,779,166)	59,363,788
Contributions	15,000,000	-
Transfer from affiliates	3,015,833	(93,509)
End of year	(169,636,787)	(46,492,893)

The Group Retirement Plan has net investments as at December 31 consisting of the following:

	2022		2021	
	Amount	Percentage	Amount	Percentage
Listed stocks	212,431,946	69.66%	246,384,064	70.31%
Treasury bonds and notes	76,634,778	25.13%	82,257,760	23.47%
Mutual funds	6,386,725	2.09%	6,444,490	1.84%
Cash in banks	4,955,099	1.62%	9,500,044	2.71%
Unit investment trust funds	3,713,080	1.22%	5,350,470	1.53%
Other receivables	1,196,589	0.39%	845,366	0.24%
Other payables	(382,991)	(0.13%)	(362,522)	(0.10%)
	304,935,226	100.00%	350,419,672	100.00%

The defined benefit plan typically exposes the participating entities to a number of risks such as investment risk and interest rate risk.

The participating entities believe that due to the long-term nature of the retirement liability, the mix of debt and equity securities holdings of the plan is an appropriate element of the long-term strategy to manage the plan efficiently. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in equities which include highly rated stocks, although there are also investments in treasury bonds and notes, mutual fund, and unit investment trust funds. The management believes that equities offer the best returns over the long term with an acceptable level of risk.

As at December 31, 2022, listed stocks include shares of stocks of the Parent Company amounting to P107,158,523 representing 0.19% interest in the Parent Company (2021 - P128,183,297; 0.19% interest). The voting rights over these shares are exercised by the trustee bank. The Group Retirement Plan recognized change in net value on these investments in listed stocks of the Parent Company for the year ended December 31, 2022 amounted to P21,024,773 (2021 - P23,737,648 change in net value).

The allocated share of the Group in the Retirement Plan as at December 31 is as follows:

	2022		2021	
	Amount	Percentage	Amount	Percentage
Listed stocks	198,987,088	69.66%	213,655,616	70.31%
Treasury bonds and notes	71,784,549	25.13%	71,331,043	23.47%
Mutual funds	5,982,508	2.09%	5,588,436	1.84%
Cash in banks	3,478,079	1.22%	8,238,105	2.71%
Unit investment trust funds	4,641,490	1.62%	4,639,740	1.53%
Other receivables	1,120,857	0.39%	733,072	0.24%
Other payables	(358,751)	(0.13%)	(314,366)	(0.10%)
	285,635,819	100.00%	303,871,646	100.00%

The principal annual actuarial assumptions used as at December 31 were as follows:

	2022	2021
Discount rate	7.06%-7.11%	4.80%-4.98%
Future salary increase rate	7.50%	4.50%

As at December 31, 2022, the average life expectancy in years of experience of a pensioner retiring at age 60 is 23 years for both male and female (2021 - 22 years).

Assumptions regarding future mortality experience are set based on published statistics and experience.

As part of its funding policy, the Group follows the recommended contribution to the plan as determined by an independent actuary. The recommended contribution to the plan consists of the annual amortization of the excess fund plus the current service cost for the year. The expected contribution to retirement fund by December 31, 2023 is P34,940,414.

### 19.1 Critical accounting estimate: Retirement benefit obligation

The present value of the retirement benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for retirement benefit include the discount rate and future salary increases. Any changes in these assumptions will impact the carrying amount of retirement benefit obligation.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement benefit obligation and related retirement benefit expense.

Other key assumptions for retirement benefit obligation are based in part on current market conditions.

The sensitivity of the defined benefit obligation as at December 31 to changes in the significant weighted principal assumptions follows:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
<i>As at December 31, 2022</i>			
Discount rate	+/-0.50%	(24,405,466)	26,744,140
Future salary increase	+/-1.00%	53,205,883	(45,238,215)
<i>As at December 31, 2021</i>			
Discount rate	+/-0.50%	(19,010,198)	20,786,235
Future salary increase	+/-1.00%	41,566,448	(35,498,326)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the retirement benefit obligation recognized within the consolidated statement of financial position.

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

Expected maturity analysis of undiscounted retirement benefits as at December 31 is as follows:

	Less than a year	1 to 5 years	5 to 10 years
2022	43,665,763	121,211,534	265,385,070
2021	34,934,088	76,490,957	229,581,138

There are no other related party transactions with the retirement fund except for the contributions to, benefits paid and investment in shares in the Parent Company by the retirement fund.

## **Note 20 - Taxation**

### *Deferred income tax (DIT)*

DIT assets, net as at December 31 consist of:

	2022	2021
Retirement benefit obligation	33,358,860	4,416,313
Allowance for doubtful accounts	21,689,826	2,992,595
Net operating loss carry-over (NOLCO)	16,838,401	31,642,747
Provision for incentives	12,686,587	12,801,766
Allowance for inventory obsolescence	11,694,081	8,297,874
Unrealized foreign exchange loss	7,635,397	2,325,121
Minimum corporate income tax (MCIT)	6,520,316	4,691,127
Remeasurement gain on retirement benefit obligation	4,843,809	7,901,994
Effect of PFRS 16	3,249,373	2,153,305
Provision for donation	-	1,214,642
Provision for disallowance of VAT refund	-	924,503
Fair value adjustment of investment in equity securities at FVOCI	(23,845,395)	(17,276,818)
Fair value adjustment of investment at FVPL	(5,226,785)	(6,118,204)
	89,444,470	55,966,965

The offset amounts as at December 31 are as follows:

	2022	2021
DIT assets	128,405,128	91,914,397
DIT liabilities	(38,960,658)	(35,947,432)
	89,444,470	55,966,965

The movements in the DIT assets, net for the years ended December 31 are as follows:

	2022	2021
Beginning of year	55,966,965	86,649,891
Credited to profit or loss	24,408,626	(6,806,278)
Credited to other comprehensive income	9,068,879	(23,876,648)
End of year	89,444,470	55,966,965

### *Corporate income tax*

In compliance with local tax law, the entities shall pay the greater of minimum corporate income tax (MCIT), which is 1% of gross income as defined under the law, and the normal income tax which is 25% of taxable income. Any excess of MCIT over the normal income tax shall be carried forward for the next three (3) consecutive taxable years immediately following the year such MCIT was paid.

The Tax Reform Act of 1997 (the Act) introduced NOLCO as a deduction from taxable income for the three consecutive years immediately following the year such loss was incurred.

NOLCO pertains to the net operating loss of the business, outside of the Company's PEZA-registered activities, for any taxable year which can be claimed as a deduction from taxable income for the next three (3) consecutive taxable years immediately following the year of such loss.

In 2020, pursuant to Section 4 (bbb) of Bayanihan II and as implemented under RR 25-2020, the net operating losses of a business or enterprise incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years following the year of such loss.

As at December 31, 2022, the Parent Company recognized MCIT as follows:

Year of incurrence	Year of expiration	2022	2021
2019	2022	-	6,203,770
2020	2023	3,745,580	3,745,580
2021	2024	1,987,240	7,948,960
2022	2025	3,690,321	-
		9,423,141	17,898,310

As at December 31, 2022, the Parent Company recognized NOLCO as follows:

Year of incurrence	Year of expiration	2022	2021
2019	2022	-	68,538,347
2020	2025	69,861,957	69,861,957
2021	2026	3,863,897	3,863,897
Total		73,725,854	142,264,201
Applied		(6,372,250)	(11,829,317)
NOLCO at December 31		67,353,604	130,434,884
Tax effect at 25%		16,838,401	32,608,721

Realization of the future tax benefit related to these DIT asset is dependent on the entity's ability to generate future taxable income during the periods the temporary differences reverse, and before NOLCO benefit prescribes.

The Group has unrecognized NOLCO from DLPCF and NAC as at December 31, 2022 amounting to P31,462,019 (2021 - P1,722,078).

#### *PEZA registered activity*

##### **DLPC**

On October 26, 2007, the PEZA approved DLPCI's application for registration to manufacture specialty polymer and colours compound. Under this registration, such activity is entitled to a four-year income tax holiday (ITH) from the start of commercial operations in April 2008. On March 16, 2009, PEZA approved DLPCI's request for the adjustment of the start date of commercial operations to March 1, 2009.

As a result, the ITH was extended until February 28, 2013. On September 18, 2012, PEZA approved the extension of DLPCI's ITH to February 28, 2014 on the basis of its Net Foreign Exchange Earnings. On May 16, 2013, PEZA approved DLPCI's request for the grant of pioneer status. As a result, DLPCI was entitled to a six-year ITH until February 28, 2016. Beginning March 1, 2016, the gross income from the foregoing registered activity of DLPCI is subject to 5% tax rate.

On November 16, 2014, PEZA approved DLPCI's application for registration to manufacture new generation, eco-friendly specialty polymer and colour compounds. Under this registration, such activity is entitled to a four-year ITH from the start of commercial operations in November 2014. Subsequently, PEZA approved extension of ITH for another 2 years ending on October 2020. On March 25, 2019, PEZA granted additional 1 year extension (up to October 2021) due to approved Net Foreign Exchange Earnings (NFEE) criterion was met.

On June 11, 2015, the Board of Directors (BOD) of PEZA approved Resolution No. 15-317, wherein the Company's application for registration to manufacture color and effects system for paints and coating products was entitled to a four-year ITH from the start of commercial operation in July 2017 until July 2021. Subsequently, PEZA approved extension of ITH for another 2 years ending on June 2023.



On April 21, 2020 PEZA confirmed entitlement to four (4) years ITH of its new project the New Specialty High-End Polymer & Colour compounds which started commercial operation in February 2019 and will end on January 2023. On April 6, 2022, PEZA approved through a supplemental agreement an extension of the project's ITH until January 31, 2025.

#### DLPF

On December 6, 2018, the Philippine Economic Zone Authority (PEZA) approved DLPF's registration as an Ecozone Export Enterprise engaged in manufacturing of vegetable fats and oils and specialty food ingredients.

#### NAC

Subsequently on January 4, 2018, the Philippine Economic Zone Authority (PEZA) approved NAC's registration as an Ecozone Export Enterprise engaged in manufacturing of coconut oil fractions and coconut-based surfactants and downstream consumer products.

#### *BOI registered activity*

On March 4, 2011, CTI's registration with the BOI as "new export producer of oleochemical specialties and derivatives" was approved. As a result, the Group's sales generated from oleochemical segment are entitled to ITH for a period of four (4) years. Upon expiration of its ITH in March 2015, CTI pays 10% income tax on income generated from its biodiesel operations. Subsequently, through a legal service letter from Board of Investment dated October 15, 2014, CTI amended its BOI status from non-pioneer to pioneer effectively extending its ITH period from 4 to 6 years until March 2017. On March 2, 2017, the BOI conditionally approved CTI's application for extension of ITH for one year beginning March 27, 2017. On July 8, 2018, the BOI approved CTI's application for extension of ITH for one year beginning March 27, 2018. On March 22, 2019, CTI's registration with the BOI as "expanding export producer of oleochemicals specialties and derivatives" was approved. As a result, the Group's income generated from oleochemical segment are entitled to ITH for a period of three (3) years.

#### *Optional Standard Deduction*

On December 20, 2008, Revenue Regulations No. 16-2009 on the Optional Standard Deduction (OSD) was published. The regulation prescribed the rules for the OSD application by corporations in the computation of their final taxable income. For corporations, OSD shall be 40% based on gross income; "cost of sales" and "cost of services" will be allowed to be deducted from gross sales.

Following are the election of the Group on OSD or itemized deduction for the years ended December 31, 2022:

	2022	2021	2020
Parent Company	Itemized	Itemized	Itemized
OFI	Itemized	OSD	Itemized
DLPF	Itemized	Itemized	Itemized
DLPCI	ITH/Itemized	ITH/Itemized	ITH/Itemized
FIC	OSD	OSD	OSD
API	OSD	OSD	OSD
CTI	ITH/OSD	ITH/Itemized	ITH/Itemized
CHI	OSD	OSD	OSD
NAC	Itemized	Itemized	Itemized

A reconciliation of income tax expense computed at the statutory income tax rate to the income tax expense as reflected in the consolidated statement of total comprehensive income for the years ended December 31 are as follows:

	2022					Total
	PEZA registered activity (0%)	PEZA registered activity (5%)	BOI registered activity (0%)	BOI registered activity (10%)	Regular tax rate (25%)	
Net profit before tax	159,069,360	492,309,552	92,659,039	311,485,974	3,039,448,834	4,094,972,759
Availment of OSD	-	-	-	-	(428,843,216)	(428,843,216)
Interest income subject to final tax	(38,964)	(121,522)	(10,085)	(86,869)	(3,284,325)	(3,541,765)
Movement of unrecognized deferred tax	-	-	1,415,158	7,337,084	250,259,252	259,011,494
Non-deductible expenses	13,412,294	39,534,807	(3,298,235)	14,672,658	21,828,281	86,149,805
Taxable gross/net income						
Statutory income tax rates	172,442,690	531,722,837	90,765,876	429,853,074	2,840,831,135	4,065,615,612
Income tax expense before change in tax rate	-	26,586,142	-	42,985,307	710,207,784	779,779,233
Change in current tax rate of prior period	-	-	-	-	2,635,894	2,635,894
Change in tax rates for deferred tax assets	-	-	-	-	(4,962,375)	(4,962,375)
Income tax expense	-	26,586,142	-	42,985,307	707,881,303	777,452,752

	2021					Total
	PEZA registered activity (0%)	PEZA Registered activity (5%)	BOI registered activity (0%)	BOI registered activity (10%)	Regular tax rate (25%)	
Net profit before tax	300,445,216	261,225,940	149,735,405	194,845,635	2,313,592,435	3,219,844,631
Availment of OSD	-	-	-	-	(235,746,145)	(235,746,145)
Interest income subject to final tax	(58,316)	(37,274)	-	(75,712)	(2,390,051)	(2,561,353)
Movement of unrecognized deferred tax	-	-	-	-	7,209,501	7,209,501
Non-deductible expenses	35,308,261	22,568,387	-	689,947	158,891,538	217,458,133
Taxable gross/net income	335,695,161	283,757,053	149,735,405	195,459,870	2,241,557,278	3,206,204,767
Statutory income tax rates	0%	5%	0%	10%	25%	
Income tax expense before change in tax rate	-	14,187,853	-	19,545,987	560,389,319	594,123,159
Change in current tax rate of prior period	-	-	-	-	(42,287,554)	(42,287,554)
Change in tax rates for deferred tax assets	-	-	-	-	25,311,782	25,311,782
Income tax expense	-	14,187,853	-	19,545,987	543,413,547	577,147,387

	2020					Total
	PEZA registered activity (0%)	PEZA Registered activity (5%)	BOI registered activity (0%)	BOI registered activity (10%)	Regular tax rate (30%)	
Net profit before tax	222,582,264	169,472,254	127,715,782	245,539,179	1,790,475,332	2,555,784,811
Availment of OSD	-	-	-	-	(152,166,817)	(152,166,817)
Interest income subject to final tax	(116,800)	(77,420)	-	(127,990)	(7,698,053)	(8,020,263)
MCIT	-	-	-	-	(3,745,580)	(3,745,580)
Movement of unrecognized deferred tax	-	-	-	-	22,010,590	22,010,590
Non-deductible expenses	61,387,806	37,921,281	-	17,626,020	42,626,707	159,561,814
Taxable gross/net income	283,853,270	207,316,115	127,715,782	263,037,209	1,691,502,179	2,573,424,555
Statutory income tax rates	0%	5%	0%	10%	30%	
Income tax expense	-	10,365,806	-	26,303,721	507,450,653	544,120,180

#### *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill*

On March 26, 2021, RA No. 11534, otherwise known as CREATE, was signed into law. Under the CREATE bill, effective July 01, 2020, the existing 30% corporate income tax rate shall be amended as follows:

- reduction of corporate income tax (CIT) rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5,000,000 and with total assets not exceeding P100 Million (excluding land on which the business entity's office, plant and equipment are situated);
- reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT
- Minimum Corporate Income Tax (MCIT) rate shall also be amended to 1%, instead of 2%, for the period beginning July 01, 2020 until June 30, 2023.

Under CREATE, corporate taxpayers shall prepare their annual income tax return for the calendar year 2020 using the pro-rated CIT rate for CY2020 reckoned from July 1, 2020 (retrospective effect).

As a result of the change in CIT rate, the Group remeasured its current and deferred tax assets and liabilities using the new applicable corporate income tax rates.

Change in tax rate in 2019 relates to the change in effective rate as a result of the availment of OSD and itemized deductions by entities within the Group.

#### **Note 21 - Critical accounting estimates, assumptions and judgments**

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates, assumptions and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## **21.1 Critical accounting estimates and assumptions**

- 21.1.1 Key assumptions used for value-in-use calculations (Note 1.3.1)*
- 21.1.2 Recoverability of receivables (Note 4.1)*
- 21.1.3 Provision for inventory obsolescence (Note 5.1)*
- 21.1.4 Useful life of property, plant and equipment (Note 8.1)*
- 21.1.5 Key assumptions used to calculate retirement benefit obligation (Note 19.1)*

## **21.2 Critical accounting judgments in applying the Group's accounting policies**

- 21.2.1 Impairment tests for goodwill (Note 1.3.1)*
- 21.2.2 Recoverability of receivables (Note 4.1)*
- 21.2.3 Provision for inventory obsolescence (Note 5.1)*
- 21.2.4 Recoverability of input VAT (Note 6.1)*
- 21.2.5 Recoverability of CWT (Note 6.2)*

## **Note 22 - Financial risk and capital management**

### **22.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks and these activities involve the analysis, evaluation and management of some degree of risk or combination of risks. The Group's overall risk management program focuses on the unpredictability of financial markets, aims to achieve an appropriate balance between risk and return and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the ManCom.

The most important types of risk the Group manages are: credit risk, market risk and liquidity risk. Market risk includes foreign currency exchange, price and interest risks.

### **22.2 Components of financial assets and liabilities by category**

#### *22.2.1 Financial assets*

Details of the Group's financial assets as at December 31 are as follows:

	Notes	2022	2021
<i>Financial assets at amortized cost</i>			
Cash and cash equivalents	3	3,250,165,008	5,223,083,857
Receivables, gross	4	5,756,799,660	5,393,577,343
Due from related parties	18	210,796,097	108,686,787
Refundable deposits	6	926,576,702	106,459,514
		9,220,709,609	10,831,807,501
<i>Financial assets at FVPL</i>		82,705,350	650,480,414
<i>Financial assets at FVOCI</i>		236,763,755	198,000,979
		9,540,178,714	11,680,288,894

Receivables are presented gross of allowance for impairment as at December 31, 2022 amounting to P146,332,149 (2021 - P54,885,595).

The other components of other current and non-current assets are considered non-financial assets which include deposits to suppliers, input VAT, creditable withholding taxes and prepayments.

The carrying amounts of financial asset at amortized cost approximate their fair values (Level 1) as the impact of discounting is not considered significant. Financial assets at FVPL and FVOCI are measured at quoted prices (Level 1). Investments in FVPL include investments in open-ended unit investment trust funds that are redeemable anytime and reports daily net asset value.

### 22.2.2 Financial liabilities

Details of the Group's financial liabilities, categorized as other financial liabilities at amortized cost at December 31 are as follows:

	Notes	2022	2021
Trade payables and other liabilities	10	3,184,090,526	2,830,551,657
Due to related parties	18	324,775,844	40,663,060
Borrowings from a related party (long-term)	18	1,179,385,814	-
Lease liabilities	9	822,652,502	400,709,523
Bonds payable	11	4,957,823,713	4,940,005,642
Borrowings	11	9,350,000,000	8,850,000,000
		19,818,728,399	17,061,929,882

Trade payables and other liabilities exclude amounts due to regulatory agencies and advances from customers as at December 31, 2022 amounting to P79,882,605 and P261,697 (2021 - P66,930,860 and P493,426), respectively (Note 10).

The carrying amounts of financial liabilities at amortized cost approximate their fair values (Level 2) due to their short-term nature and/or the impact of discounting is not considered significant.

As at December 31, 2022, estimated fair value (Level 2) of the bonds payable approximates its carrying amount as it carries market interest rate (Note 11).

### 22.3 Credit risk

The Group's exposure to credit risk arises primarily from financial assets at amortized cost and financial assets at FVTPL.

The Group has prudent credit policies to ensure that sales of its products are made to customers with good credit history. The senior management team, product group heads and the respective sales team perform credit evaluation and monthly review of outstanding receivables as part of the regular performance assessment process. All significant receivables from key customers are monitored for collectability and actual settlement performance, and specific action plans are required for any material overdue amounts from all categories of customers.

The Group's financial assets that are subject to the expected credit loss model are as follows:

	2022	2021	Basis for recognition of ECL
Financial assets at amortized cost			
Cash and cash equivalents	3,220,960,367	5,215,594,852	12-month ECL
Trade and other receivables	5,756,799,660	5,393,577,343	Lifetime ECL
Due from related parties	210,796,097	108,686,787	12-month ECL
Refundable deposits	926,576,702	106,459,514	12-month ECL
Financial assets at FVTPL	82,705,350	650,480,414	Marked to market
	10,197,838,176	11,474,798,910	

Cash and cash equivalents exclude cash on hand as at December 31, 2022 amounting to P7,489,005 (2021 - P7,489,005) which is not subject to credit risk.

The maximum exposure to credit risk at the reporting date is the carrying value of financial assets summarized above.

None of the financial assets that are fully performing has been renegotiated as at December 31, 2022 and 2021.

The Group does not hold any collateral as security to the above financial assets.

#### *Cash in bank*

Credit risk exposure arising from cash in bank arises from default of the counter party, with a maximum exposure equal to the fair value of financial asset. To minimize credit risk exposure, the Group deposits its cash in banks with good credit rating.

Cash deposited in these banks as at December 31 are as follows:

	2022	2021
Universal banks	3,214,225,956	5,208,117,105
Thrift banks	6,734,411	7,477,747
	3,220,960,367	5,215,594,852

While cash in bank are also subject to requirements of PFRS 9, expected credit loss is considered not significant. The Group does not hold any collateral as security to the above financial assets.

#### *Due from related parties*

Due from related parties pertain to amounts receivable for sale of inventories and services to related parties. These are non-interest bearing and are collectible generally within 30 to 60 days after transaction date. Due from related parties are fully recoverable. Management does not foresee significant credit risk on the outstanding balances of due from related parties as these are transacted with related parties with strong financial and liquidity position.

#### *Trade and other receivables*

##### *(i) Trade receivables*

The Group applies the PFRS 9 simplified approach to measuring expected credit losses which used a lifetime expected loss allowance for trade receivables arising from sale of goods and services to third parties. To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the historical collection cycle.

The expected loss rates are based on the payment profiles of counterparties over a period of 36 months before January 1, 2021 and the corresponding historical credit losses experiences within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group has identified the Gross Domestic Product (GDP) and the inflation rates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at December 31 was determined as follows:

December 31, 2022	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	1.03%	2.58%	8.32%	12.74%	24.68%
Gross carrying amount -trade receivables	4,252,547,898	717,685,588	371,031,036	415,535,137	5,756,799,658
Loss allowance	(44,004,108)	(18,489,723)	(30,884,151)	(52,954,165)	(146,332,147)
Net receivables	4,208,543,790	699,195,865	340,146,884	362,580,972	5,610,467,511

December 31, 2021	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0.53%	0.45%	0.62%	5.84%	7.44%
Gross carrying amount - trade receivables	2,847,281,895	1,569,031,974	460,999,306	510,661,502	5,387,974,677
Loss allowance	(15,222,711)	(7,006,160)	(2,845,308)	(29,811,416)	(54,885,595)
Net receivables	2,832,059,184	1,562,025,814	458,153,998	480,850,086	5,333,089,082

#### (ii) Other receivables

Other receivables include loans to officers and employees amounting to P4,902,797 (2021 - P5,602,666). To address credit risk, these advances are subject to liquidation and/or collectible through salary deduction. Other receivables also include receivables from third parties to which the Group limits its exposure to credit risk by transacting only with counterparties that have appropriate and acceptable credit history. Advances to officers and employees and other receivables are considered to be fully recoverable and hence expected credit loss is considered insignificant.

#### Refundable deposits

This account pertains to security deposits on properties leased by the Group. Security deposits are generally refundable at the end of the lease term. Management does not expect significant credit risk on these deposits.

#### Financial assets measured at FVPL

The Group's investments in debt instrument are considered to have low credit risk. Management consider 'low credit risk' for unit investment trust funds, as they are managed by universal banks with good credit rating.

## 22.4 Market risk

### 22.4.1 Foreign currency exchange risk

The Group's foreign currency denominated monetary assets and liabilities as at December 31 consist of:

	2022	2021
<i>In USD</i>		
Cash	8,287,911	7,647,402
Receivables	36,525,506	23,899,276
Financial assets at FVPL	-	8,104,341
	44,813,417	39,651,019
Trade payable and other liabilities	(3,395,406)	(10,735,293)
Net assets in USD	41,418,011	28,915,726
Closing exchange rate	55.76	50.99
Philippine peso equivalent	2,309,468,293	1,474,412,869

Foreign exchange gain (loss), net for the years ended December 31 consist of:

	2022	2021	2020
Realized foreign exchange gain (loss)	218,434,150	27,004,642	(77,341,085)
Unrealized foreign exchange gain (loss)	(32,236,709)	36,589,724	(45,074,118)
Foreign exchange gain (loss), net	186,197,441	63,594,366	(122,415,203)

Foreign exchange risk arises when future commercial transactions and assets and liabilities are denominated in a currency that is not the Parent Company's functional currency.

The Group does not enter into derivative financial instruments to manage risks. Moreover, exposure to foreign currency risks is not yet considered to be material as foreign currency denominated trade receivables, partly offset by trade payables for imported raw materials, are generally short term in nature (less than 60 days terms). Also, the Group maintains sufficient cash in foreign currency to cover its maturing obligations.

A market driven change in foreign currency exchange rate, arising from US Dollar denominated assets (liabilities), as at December 31 would lead to immaterial pre-tax profit and equity movements.

#### *22.4.2 Price risk*

As at December 31, 2022, the Group is exposed to price risk in relation to its investments in debt and equity financial assets amounting to P82,705,350 and P236,763,755, respectively (2021 - P650,480,414 and P198,000,979, respectively). Components of debt and equity financial assets would increase or decrease as a result of gains or losses on these financial assets measured at fair value at the end of each reporting period. Management monitors such financial assets based on the net asset value of the debt instruments (unit investment trust funds) current market price of the shares. These financial assets are managed on an individual basis, and all buy and sell decisions are approved by the ManCom.

At December 31, 2022 and 2021, impact of a market driven change in fair value of the debt and equity investments, with all other variables held constant, would have been immaterial.

#### *22.4.3 Cash flow and fair value interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial assets and liabilities will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial assets and liabilities will fluctuate because of changes in market interest rates.

##### *Cash flow interest rate risk*

The Group's exposure to cash flow interest rate risk pertains to short-term borrowings where the related interests are repriced at periodic intervals based on the prevailing lending rate, in accordance with the terms of the agreement. The Group's practice is to manage its interest cost by reference to current market rates in borrowings. The Group's exposure arising from short term borrowing is not considered material.

The Group's fixed rate borrowings are measured at amortised cost. They are therefore not subject to cash flow interest rate risk as defined in PFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

##### *Fair value interest rate risk*

Changes in the market interest rates of the Group's financial liabilities with fixed interest rates only affect income if these are measured at their fair value. As such, the Group's financial liabilities with fixed interest rates that are measured at amortized cost are not subject to fair value interest rate risk as defined in PFRS 7.



## 22.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility by keeping credit lines available.

On a regular basis, management monitors forecasts of the Group's liquidity reserve on the basis of expected cash flows. The Group places cash in excess of immediate requirements in banks.

The table below summarizes the maturity profile of the Group's non-derivative financial liabilities based on contractual undiscounted payments:

	Due and demandable	Less than 3 months	Between 3 to 6 months	Between 7 to 12 months	Over 12 months	Total
<i>December 31, 2022</i>						
Trade payables and other liabilities	497,998,721	392,611,185	77,984,090	1,965,609,016	249,887,514	3,184,090,526
Due to related parties	27,357,665	22,417,379	-	30,439,724	244,561,076	324,775,844
Borrowings and future interest payments	-	1,170,000,000	-	-	9,359,385,814	10,529,385,814
Bonds payable and future interest payments	-	-	-	-	5,218,619,005	5,218,619,005
Lease liabilities and future interest payments	2,000	67,695,109	58,537,972	118,035,150	578,382,271	822,652,502
	525,358,386	1,652,723,673	136,522,062	2,114,083,890	15,650,835,680	20,079,523,691
<i>December 31, 2021</i>						
Trade payables and other liabilities	1,084,505,581	710,343,565	98,002,912	921,589,472	16,110,127	2,830,551,657
Due to related parties	15,273,961	3,502,204	-	21,886,895	-	40,663,060
Borrowings and future interest payments	-	200,000,000	8,654,039,444	-	-	8,854,039,444
Bonds payable and future interest payments	-	38,894,750	38,894,750	38,894,750	5,461,212,316	5,577,896,566
Lease liabilities and future interest payments	-	44,273,991	44,338,028	88,589,747	245,198,424	422,400,190
	1,099,779,542	997,014,510	8,835,275,134	1,070,960,864	5,722,520,867	17,725,550,917

At December 31, 2022, borrowings, bond payable and lease liabilities include undiscounted cash flows on interest payable until its maturity.

The Parent Company, together with its related parties entered into surety agreements with local banks and a corporate guarantee with a foreign bank. The borrowings of the Group are covered by surety agreements and corporate guarantee agreements (Note 18).

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances equal their carrying balances, as the impact of discounting is not significant.

The Group believes that cash generated from its operating activities and current assets are sufficient to meet maturing obligations required to operate the business. The Group would also be able to meet unexpected cash outflows by accessing additional funding sources from local banks.

The Group expects to settle the above financial obligations in accordance with their maturity date. However, the Group may consider to roll-over short-term loans based on working capital requirements.

## 22.6 Capital management

The Group's objective when managing capital is to generate the maximum possible returns for its shareholders while taking on a manageable degree of risk ensuring that the Group will continue to expand business and manufacturing facilities.

In order to maintain or adjust the capital structure, the Group reviews its capital structure from time to time to assess the proper financing mix necessary to grow and sustain its operations. As a matter of policy, capital expenditures have been financed from internally-generated cash flow, except for the Batangas plant expansion which has been funded partly by proceeds from bond offering, while working capital requirements will be augmented by short-term bank borrowings from time to time.

Earnings in excess of dividend distribution to shareholders have been continuously redeployed and reinvested in the growth of the Group's business. Each instance of expansion of manufacturing capacity and entry into new products and markets undergo a thorough evaluation process to ensure that such investments and marketing programs are in consonance with the Group's core competencies and would be enhancing shareholder value in the long run.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE required a minimum percentage of ten percent (10%) of the listed companies' issued and outstanding shares, exclusive of any treasury shares, to be held by the public. On May 31, 2017, the SEC issued a Memorandum Circular to increase the minimum percentage requirement to at least fifteen percent (15%) on or before end of 2018 and then to at least twenty percent (20%) on or before end of 2020. The Parent Company is compliant with respect to this requirement.

As at December 31, 2022 and 2021, total capital is equal to total equity (excluding any reserves) as shown in the consolidated statements of financial position.

	2022	2021
Total equity	20,651,223,416	19,104,936,839
Reserves	(189,732,066)	(246,679,578)
	20,461,491,350	18,858,257,261

There are no changes to the Group's capital management policies as at December 31, 2022 and 2021.

## **Note 23 - Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **23.1 Basis of preparation**

These consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of financial assets at FVPL and FVOCI, and retirement benefit plan where plan assets are measured at fair value.

The preparation of consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 21.

#### *23.1.1 Changes in accounting policy and disclosures*

##### *(a) New standards, amendments, and interpretations to existing standards adopted by the Group*

The Group has applied the following amendments for the first time for the year beginning January 1, 2022 but did not have significant impact to the Group's consolidated financial statements:

- PAS 16: Property, Plant and Equipment (PP&E): Proceeds before intended use

The amendments prohibit entities from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. The amendments have no significant impact on the Group's consolidated financial statements.

- PFRS 3: Reference to the Conceptual Framework

Minor amendments were made to PFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of PAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date. The amendments have no significant impact on the Group's consolidated financial statements.

- PAS 37: Onerous Contracts - Cost of Fulfilling a Contract

The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. The amendment has no significant impact on the Group's consolidated financial statements.

- PFRS 9 and PFRS 16: Annual Improvements

Amendment in PFRS 9 clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

Amendment of illustrative example 13 in PFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

The amendments have no significant impact on the Group's consolidated financial statements.

*(b) New standards, amendments and interpretations not yet adopted*

- PAS 1: Classification of Liabilities as Current or Non-current

The narrow-scope amendments clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group does not expect the amendments to have a significant impact on the Group's consolidated financial statements.

- PAS 1 and PFRS Practice Statement 2: Disclosure of Accounting Policies

The amendments require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Group does not expect the amendments to have a significant impact on the Group's consolidated financial statements.

- PAS 8: Definition of Accounting Estimates

The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Group does not expect the amendments to have a significant impact on the Group's consolidated financial statements.

- PAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate. PAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Group does not expect the amendments to have a significant impact on the Group's consolidated financial statements.

## **23.2 Financial assets**

### *23.2.1 Classification and presentation*

#### *Classification*

The Group classifies its financial assets in the following measurement categories:

- (a) those to be measured subsequently at fair value (either through OCI or through profit or loss), and;
- (b) those to be measured at amortized cost.

The classification depends on the Group business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income, otherwise it will be recognized at fair value through profit or loss.

The Group shall reclassify financial assets when and only when its business model for managing those assets changes.

The Group's financial assets measured at fair value through profit and loss includes unit investment trust fund (UITF) while financial assets measured at fair value through other comprehensive income includes investments in equity securities.

The Group's financial assets at amortized cost category include cash and cash equivalents, trade receivables, due from related parties and refundable deposits.

The Group's financial assets are detailed in Note 22.2.

### *23.2.2 Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

### *23.2.3 Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

#### *(a) Debt instruments - subsequent measurement*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in other income (expenses), net, using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other income (expenses), net, together with foreign exchange gains and losses. Impairment losses are presented in administrative expenses in the statement of total comprehensive income.

The Group's financial assets at amortized cost consist of cash and cash equivalents, trade receivables, due from related parties and refundable deposits (Note 22.2.1).

- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other income (expenses), net. Interest income from these financial assets is included in other income (expenses), net, using the effective interest rate method. Foreign exchange gains and losses are presented in other income (expenses), net and impairment expenses are presented as separate line item in the statement of total comprehensive income.

The Group does not have debt instruments financial assets that are measured at FVOCI.

- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented within other income, net, in the period in which it arises.

The Group's financial assets at FVPL consists of investments in mutual funds (Note 22.2).

#### *Equity instruments – subsequent measurement*

The group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the equity investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

The Group's equity instrument financial assets that are measured at FVOCI consists of investments in listed shares and proprietary golf club shares (Note 22.2)

#### *23.2.4 Impairment of financial assets*

The Group assesses on a forward-looking basis the expected credit loss associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to:

- 12-month expected credit losses (ECLs) - these are ECLs that result from default events that are possible within 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs - these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset.

*(i) Simplified approach*

The Group applies the simplified approach to provide for ECLs for all trade receivables arising from contracts with third party customers. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

*(ii) General approach*

The Group applies the general approach to provide for ECLs on all other financial instruments. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due or longer depending on the historical experience with particular customers.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

*Credit-impaired financial assets*

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the counterparty;
- a breach of contract such as actual default; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

Impairment losses and subsequent recoveries on financial assets are presented in administrative expenses within operating profit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss. Reversals of previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off were credited against operating expense in profit or loss.

### **23.3 Financial liabilities**

#### *23.3.1 Classification and presentation*

The Group classifies its financial liabilities in the following categories: (a) financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value) and (b) financial liabilities at amortized cost. The classification depends on the purpose for which the financial liabilities were incurred. Management determines the classification of its financial liabilities at initial recognition.

The Group did not hold financial liabilities at fair value through profit or loss during and at the end of each reporting period.

#### *Financial liabilities at amortized cost*

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. They are included in current liabilities, except for maturities more than twelve months after reporting date which are classified as non-current liabilities.

The Group's financial liabilities at amortized cost consist mainly of trade payables and other liabilities (excluding payables to government agencies for value-added tax, withholding and other taxes), due to related parties, lease liabilities, bonds payable and borrowings.

#### *23.3.2 Initial recognition and subsequent measurement*

The Group recognizes a financial liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

The Group's financial liabilities at amortized cost are initially measured at invoice amount, which approximates fair value plus transaction costs. Subsequently, these are measured at amortized cost using the effective interest method. Interest expense on financial liabilities is recognized within finance cost, at gross amount, in profit or loss.

#### *23.3.3 Derecognition*

Financial liabilities are derecognized when extinguished, that is, when the obligation specified in a contract is discharged or cancelled or when the obligation expires.



## **23.4 Determination of fair value**

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 Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group's FVPL and FVOCI financial assets with quoted market price are valued using Level 1 of the fair value hierarchy and those with unquoted market price are measured at cost.

For non-financial assets, the Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the Group will not fulfill an obligation.

## **23.5 Offsetting financial instruments**

Financial assets and liabilities are offset, and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## **23.6 Consolidation**

### *23.6.1 Subsidiaries*

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated.

Accounting policies and reporting period of its subsidiaries are consistent with the policies adopted by and the reporting period of the Parent Company.

### *23.6.2 Business combinations (including common control business combination)*

The Group applies the purchase or acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss in the consolidated statement of total comprehensive income.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified at equity is not re-measured, and its subsequent settlement is not accounted for within equity.

### *23.6.3 Goodwill*

Goodwill is initially measured as the excess of the aggregate of the consideration transferred (including the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree) over the fair value of the Group's share of the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognized directly in profit or loss.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

#### *23.6.4 Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired in the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### *23.6.5 Disposal of subsidiary*

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

If the Group surrenders control to a related party within the group it ultimately belongs, the difference between the consideration received and the fair value of the subsidiary at divestment date, is recognized as other charges to equity.

### **23.7 Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, cash deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from date of acquisition. These are measured in the statement of financial position at fair value which approximates the face or nominal amount. Cash in bank earns interest at the prevailing bank deposit rate.

### **23.8 Receivables**

Trade receivables arising from regular sales with an average credit term of 30 days are recorded at transaction price plus transaction cost, which approximate invoice value and subsequently measured at amortized cost using effective interest method less any provision for impairment. Provision for impairment is determined using the policies disclosed in Notes 22 and 23.2.

When a receivable is uncollectible, it is written-off against the provision account for receivables. Receivables and its related provision for impairment are written off when the Group has determined that the receivable is uncollectible as they have already exerted all collection efforts, including filing a legal case. Bad debts written off are specifically identified by the Group's marketing department after exhausting all collection efforts (i.e. sending demand letters and legal notice of default to customers), and is approved by the respective segment managing director and subsequently by the Board of Directors.

Write-offs represent either direct charge against profit or loss at the time the receivable deemed uncollectible or the release of previously recorded provision from the allowance account and credited to the related receivable account following the Group's assessment that the related receivable will no longer be collected after all collection efforts have been exhausted.

Subsequent recoveries of amounts previously written-off are credited in profit or loss under general and administrative expenses. Reversals of previously recorded impairment provision are recognized in profit or loss based on the result of management's update assessments, considering available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivable at reporting date.

### **23.9 Inventories**

Inventories are stated at the lower of cost and net realizable value (NRV). Finished goods are carried at actual manufacturing costs. Cost of raw materials used in production is measured using First-in First-out method (FIFO) while conversion costs, particularly direct labor and overhead, are initially measured at standard cost per production batch but subsequently adjusted to actual conversion costs, except for those in process inventories. Inventories in transit are valued at invoice cost including related importation costs. The cost of inventories excludes borrowing costs. NRV is the estimated selling price in the ordinary course of business, less cost to complete and to sell.

Allowance for inventory obsolescence and obsolescence is provided, when necessary, based on management's review of inventory turnover and projected future production demands, and is recognized in profit or loss. Provision for inventory obsolescence is established for slow moving, and defective inventories based on physical inspection and management evaluation. Inventories and its related allowance account are written off when the Group has determined that the related inventory is already obsolete and damaged. Destruction of the obsolete and damaged inventories is made in the presence of regulatory agencies.

Reversals of previously recorded impairment provisions are credited against provision within cost of sales account in profit or loss based on the result of management's update assessment, considering available facts and circumstances, including but not limited to net realizable value at the time of disposal.

Inventories are derecognized when sold or otherwise disposed of.

### **23.10 Claim for input VAT, prepayments and other current assets**

#### *23.10.1 Claim for input VAT and prepaid taxes*

Claims for input VAT and prepaid taxes is stated at face value less allowance for impairment, if any. They are included in current assets, except for those expected to be utilized after twelve months after the reporting date, which are classified as non-current assets.

The Group, on a continuing basis, makes a review of the status of the claim which is designed to identify those that may require provision for impairment. Provision for unrecoverable input VAT and prepaid taxes, if any, is maintained by the Group at a level considered adequate to provide for potential uncollectible portion of the claim.

A provision for unrecoverable input VAT and prepaid taxes is established when there is objective evidence that the Group will not be able to recover the claim or portions thereof. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Write-off is recognized upon receipt and acceptance of a formal notice of disallowance from tax authorities that is not subject to appeal.

Claims for input VAT and prepaid taxes is derecognized when actually collected, applied against taxes due or disallowed by tax authority.

### 23.10.2 Prepayments and other current assets

Prepayments are recognized in the consolidated statement of financial position in the event that payment has been made in advance of obtaining right of access to goods or receipt of services and measured at nominal amounts. They are included in current assets, except for maturities greater than twelve months after the reporting date, which are classified as non-current assets. These are derecognized in the consolidated statement of financial position upon delivery of goods or when services have been rendered, through amortization over a certain period of time, and use or consumption.

Other current assets consist substantially of input value-added tax and creditable withholding taxes which are recognized as assets in the period such input value-added tax and income tax payments become available as tax credits to the Group and carried over to the extent that it is probable that the benefit will flow to the Group.

Prepayments and other non-financial assets are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve months after the reporting period, or relate to advances for non-current assets such as fixed assets, in which case, are classified as non-current assets.

### 23.11 Property, plant and equipment

Property, plant and equipment is initially measured and recognized at acquisition cost which comprises of purchase price and any directly attributable cost of bringing the asset to working condition and location for intended use.

After initial measurement, property, plant and equipment is stated at historical cost less accumulated depreciation, amortization and impairment, if any.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Construction in progress, which represents properties under construction, is stated at cost and depreciated only when the relevant assets are completed and ready for operational use. Upon completion, these properties are reclassified to their appropriate class of property, plant and equipment.

Leasehold improvements are amortized over the shorter of lease term or estimated useful life of the improvements. Lease term takes into consideration renewal options that are reasonably certain.

Land is not depreciated. Depreciation on other assets is computed on the straight-line method to allocate the cost of each asset, less its residual value, over its estimated useful life (in years), determined based on the Group's historical information and experience on the use of such assets, as follows:

Building and building improvements	20 to 40
Leasehold improvements	1 to 5
Transportation and delivery equipment	5
Office furniture and fixtures	5
Tools	5
Machinery and equipment	10

The asset's residual values and useful lives are reviewed, and adjusted as appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and their accumulated depreciation are removed from the disposal accounts.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assets and are credited or charged to profit or loss.

### **23.12 Impairment of non-financial assets**

Non-financial assets that have an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment. Other non-financial assets, mainly property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). Impairment losses, if any, are recognized in profit or loss.

When impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. Reversals of an impairment loss are credited in profit or loss.

### **23.13 Current and deferred income tax**

The tax expense for the period comprises current and deferred income tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishing provisions where appropriate on the basis of amounts to be paid to tax authorities.

Deferred income tax (DIT) is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, DIT is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. DIT is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related DIT asset is realized or the DIT liability is settled.

DIT assets are recognized for all deductible temporary differences, carry-forward of unused tax credits from excess minimum corporate income tax (MCIT) and unused tax losses (net operating loss carryover or NOLCO), to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

DIT liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

DIT assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the DIT assets and liabilities relate to income taxes levied by the same taxation authority.

The Group re-assesses at each reporting date the need to recognize a previously unrecognized DIT asset, if any.

DIT assets and liabilities are derecognized when the related temporary difference are realized or settled.

### **23.14 Trade payables and other liabilities**

Trade payables and other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business with suppliers.

Trade payables and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established or when the corresponding assets or expenses are recognized. These are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables and other liabilities are recognized initially at invoice amount, which represent fair value, and subsequently measured at amortized cost using effective interest method.

These are derecognized when extinguished or when the obligation is discharged, cancelled or has expired.

### **23.15 Borrowings and borrowing costs**

#### *23.15.1 Borrowings, including bonds payable*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Borrowings are derecognized when the obligation is settled, paid or discharged.

#### *23.15.2 Borrowing costs*

Borrowing costs incurred for the construction of any qualifying asset, if any, are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Other borrowing costs are recognized and charged to profit or loss in the year in which these are incurred.

### **23.16 Provisions**

Provision are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and derecognized in the consolidated statement of financial position.

## **23.17 Equity**

### *23.17.1 Share capital*

Ordinary shares are stated at par value and are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### *23.17.2 Share premium*

Any amount received by the Group in excess of par value of the Parent Company's shares is credited to share premium which forms part of the non-distributable reserve of the Group and can be used only for purposes specified under corporate code.

### *23.17.3 Share issuance cost*

Share issuance costs incurred for the listing and offering process of the Group are recognized as deduction to share premium in accordance with PIC - Question and Answer (PIC - Q&A) 2011-04.

### *23.17.4 Retained earnings*

#### *Appropriated retained earnings*

Appropriated retained earnings pertain to the portion of the accumulated profit from operations which are restricted or reserved for a specific purpose such as capital expenditures for expansion projects and dividends to shareholders, which are approved by the Group's Board of Directors.

#### *Unappropriated retained earnings*

Unrestricted retained earnings pertain to the unrestricted portion of the accumulated profit from operations of the Group which are available for dividend declaration.

## **23.18 Dividend distribution**

Dividend distribution to the shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Parent Company's BOD.

## **23.19 Earnings per share**

### *23.19.1 Basic*

Basic earnings per share is computed by dividing the profit attributable to the owners of the Parent Company by the weighted average number of shares in issue during the year, excluding ordinary shares purchased by the Parent Company held as treasury shares.

### *23.19.2 Diluted*

The diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares, if any.

The Group has no potentially dilutive ordinary shares. Therefore, the amount reported for basic and diluted earnings per share is the same.



## **23.20 Revenue recognition**

Revenue is measured based on the consideration which the entity is expected to be entitled to for the sale of goods and services in the ordinary course of the Group's activities. The Group recognizes revenue when it transfers control over a product or performs service to a customer.

Revenue is recognized as follows:

### *23.20.1 Sale of goods*

Sale of goods are recognized in profit or loss when the Group has delivered the products to the customer and there is no unfulfilled obligation that could affect the acceptance of the products (point in time). Delivery does not occur until the products have been shipped to the agreed specific location, the risk of obsolescence and loss has been transferred to the customer, and the customer has accepted the products in accordance with the sales contract.

Sale of goods is shown net of returns, and/or discounts in the consolidated statement of total comprehensive income.

Sales price are agreed with customers upon order and credit terms vary from COD up to 90 days.

There are no warranties and other similar obligations for refunds agreed with customers for sale of goods.

### *23.20.2 Management and shared service fees*

Service fees from management and shared services agreements are stand-ready performance obligation recognized in profit or loss overtime while the services are being rendered in accordance with the agreements.

### *23.20.3 Dividend income*

Dividend income is recognized in profit or loss when the right to receive payment is established.

### *23.20.4 Interest income*

Interest income from cash in banks and short-term investments, which is presented net of final taxes paid or withheld, is recognized in profit or loss on a time-proportion basis using the effective interest method.

### *23.20.5 Other income*

Income from lighterage and sale of equipment is recognized in profit or loss when obligations have been rendered and accepted by the customer in accordance with the relevant agreements.

All other income items are recognized in profit or loss when earned.

## **23.21 Costs and expenses**

Costs and expenses are recognized when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized: (i) on the basis of a direct association between the costs incurred and the earning of specific items of income; (ii) on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or (iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to

qualify, for recognition in the statement of financial position. Costs and expenses are presented in the profit or loss according to their function.

## **23.22 Employee benefits**

### *23.22.1 Retirement benefit obligation*

The Group has a defined benefit retirement plan in accordance with the local conditions and practices in the Philippines. The plan is generally funded through payments to trustee-administered funds as determined by periodic actuarial calculations. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability (or asset) recognized in the consolidated statement of financial position is the present value of the defined benefit obligation less fair value of the plan assets at the reporting date. In cases when the amount determined results in an asset, the Group measures the resulting asset at the lower of such amount determined and the present value of any economic benefits available to the Group in the form of refunds or reductions in future contributions to the plan. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate the terms of the related retirement benefit obligation.

When the Group has a surplus in a defined benefit plan, the Group measures the net defined benefit asset at the lower of the surplus in the defined benefit plan, and the asset ceiling determined using the same discount rate in determining the present value of defined benefit obligations. The amount of the asset recognized should not exceed the aggregate of the present values of any refunds expected from the plan; and any expected reduction in future contributions arising from the surplus.

Plan assets are those that are: (a) held by an entity (a fund) that is legally separate from the Group, (b) available to be used only to pay or fund employee benefits; and (c) not available to the Group's creditors, and cannot be returned to the Group unless: (i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the Group; or (ii) the assets are returned to the Group to reimburse for employee benefits advanced by the Group. Plan assets exclude investments in group shares that are not transferrable.

Remeasurement gains or losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity (within reserve for remeasurement on retirement benefit) in other comprehensive income in the period in which they arise.

Past service costs are recognized immediately in profit or loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets.

### *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

### *23.22.2 Salaries and wages, and other short-term benefits*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented within trade payables and other liabilities in the consolidated statement of financial position.

### **23.23 Leases**

When the Group enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset or is dependent on the use of a specific asset or assets, the Group assesses whether the arrangement is, or contains, a lease. The Group does not have such arrangements during and at the end of each reporting period.

#### *23.23.1 The Group is the lessee*

The Group recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from a lease are initially measured on a present value basis. The interest expense is recognized in the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

#### *Measurement of lease liabilities*

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantee
- the exercise price of a purchase option if the lessee is reasonably certain to exercise the option
- payments of penalties for terminating the lease, if the lease term reflects the termination.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Group's leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third-party financing, and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### *Measurement of right-of-use assets*

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

### *Extension and termination options*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

### *Short-term leases*

Payments associated with short-term leases are recognized on a straight-line basis as an expense in the profit or loss. Short-term leases are leases with a lease term of 12 months or less.

## **23.24 Segment reporting**

Reportable segments are presented by aggregating operating segments based on similar products and services. The accounting policies used to recognize and measure the segment's assets, liabilities and profit or loss is consistent with those of the consolidated financial statements.

## **23.25 Related party relationships and transactions**

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among entities and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

## **23.26 Foreign currency transactions and balances**

### *23.26.1 Functional and presentation currency*

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the Group's subsidiaries operate (the "functional currency"). The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency.

### *23.26.2 Transactions and balances*

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transaction or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

For income tax purposes, foreign exchange gains or losses are treated as taxable income or deductible expense in the period such are realized/sustained.

### **23.27 Subsequent events (or events after the reporting date)**

Subsequent events that provide additional information about the Group's financial position at reporting date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes to the financial statements when material.

## **SECOND SECTION**

## Second Section

Schedules	Supplementary Schedules	Remarks
A	Financial assets	Not applicable
B	Amounts Receivable and Payable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties)	Not applicable
C	Amounts Receivable and Payable from Related Parties which are eliminated during the consolidation of financial statements	Schedule C
D	Long-term Debt	Schedule D
E	Indebtedness to Related Parties	Not applicable
F	Guarantees of Securities of Other Issuers	Not Applicable
G	Capital Stock	Schedule G
Annex 68-D	Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration	Annex 68-D
Annex 68-E	Schedule of Financial Soundness Indicator	Annex 68-E
Annex 68-I	Schedule for Listed Companies with a Recent Offering of Securities to the Public	Annex 68-I
	A Map Showing the Relationships between and among the Parent Company and its Ultimate Parent Company, Middle Parent, Subsidiaries or Co-subsidiaries and Associates	

## **SCHEDULE A**

### **D&L Industries, Inc. and Subsidiaries**

Financial assets  
during consolidation of financial statements  
As at and for the year ended December 31, 2022  
(All amounts in Philippine Pesos)

Not applicable because the cost and fair market value of the financial assets at fair value through profit or loss (FVPL) is less than 5% of total consolidated current assets.



**SCHEDULE B**

**D&L Industries, Inc. and Subsidiaries**

Amounts Receivable from Directors, Officers, Employees, Related Parties, and  
Principal Stockholders (Other than Related Parties)  
As at and for the year ended December 31, 2022  
(All amounts in Philippine Pesos)

Not applicable because there are no receivable from directors, officers, employees, and principal stockholders with more than one million (P1 million) or 1% of total assets.

**SCHEDULE C****D&L Industries, Inc. and Subsidiaries**

Amounts Receivable and Payable from Related Parties which are eliminated  
during consolidation of financial statements  
As at and for the year ended December 31, 2022  
(All amounts in Philippine Pesos)

Name of Related Party	Balance at beginning of year	Additions	Collections/ Payments	Total	Current	Non-current	Balance at end of year
Due from related parties:							
D&L Industries, Inc.	5,047,847,499	1,985,435,544	(2,041,837,183)	4,991,445,859	-	4,991,445,859	4,991,445,859
First in Colours, Incorporated	300	-	(300)	-	-	-	-
D&L Polymer and Colours, Inc.	-	370,115	(964,539)	(594,424)	(594,424)	-	(594,424)
Aero-Pack Industries, Inc.	87,395	-	(4,179,664)	(4,092,269)	(4,092,269)	-	(4,092,269)
Chemrez Product Solutions, Inc.	249,357,634	-	(17,522,678)	231,834,956	231,834,956	-	231,834,956
Oleo-Fats, Incorporated	-	-	(69,793,202)	(69,793,202)	(69,793,202)	-	(69,793,202)
Chemrez Technologies, Inc.	710,176	-	(710,176)	-	-	-	-
	5,298,003,004	1,985,805,659	(2,135,007,742)	5,148,800,920	157,355,061	4,991,445,859	5,148,800,920

**SCHEDULE D****D&L Industries, Inc. and Subsidiaries**

Long-term Debt  
December 31, 2022  
(All amounts in Philippine Pesos)

Title of Issue and Type of Obligation	Amount	Amount shown under Caption "Current Portion of Long-term Debt" in Related Statement of Financial Position	Amount shown under Caption "Long-term Debt" in Related Statement of Financial Position	Notes
Bonds payable	5,000,000,000	N/A	4,957,823,713	On September 14, 2021, the Group issued P5,000,000,000 fixed rate bonds. The amount comprises P3,000,000,000 ("Series A" bonds) and P2,000,000,000 ("Series B" bonds) fixed rate bonds due in 2024 and 2026, with interest rate of 2.79% and 3.60%, respectively.

**SCHEDULE G****D&L Industries, Inc. and Subsidiaries**

Capital Stock  
December 31, 2022

Title of issue	Number of shares authorized	Number of shares issued	Treasury shares	Number of shares outstanding	Number of shares reserved for options, warrants, conversion and other rights	Number of shares issued to		
						Related parties	Directors, officers and employees	Others
Common shares	18,000,000,000	7,142,857,990	-	7,142,857,990	-	4,419,146,586	298,726,220	2,424,985,184

**Annex 68-D****D&L Industries, Inc. and Subsidiaries**

No. 65 Industria Street  
Bagumbayan, Quezon City

Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration  
For the year ended December 31, 2022  
(All amounts in Philippine Peso)

<b>Unappropriated Retained Earnings, beginning</b>	<b>582,935,260</b>
Net income based on the Parent Company's separate audited financial statements closed to Retained Earnings	1,768,348,306
Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	(732,036)
Fair value adjustment (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain	-
Adjustment due to deviation from PFRS/GAAP - gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
<b>Net income actual earned during the year</b>	<b>1,767,616,270</b>
Add (Less):	
Cash dividends declared during the period	(1,714,285,918)
Appropriations of Retained Earnings during the period	-
Reversals of appropriations	-
Effects of prior period adjustments	-
Treasury shares	-
	<b>(1,714,285,918)</b>
<b>Total Retained Earnings, as adjusted to available for dividend distribution, ending</b>	<b>636,265,612</b>

**D&L Industries, Inc. and Subsidiaries**Schedule of Financial Soundness Indicator  
December 31, 2022 and 2021

	2022	2021
Gross Profit margin <sup>a</sup>	14%	15%
Net Profit margin <sup>b</sup>	8%	9%
Return on equity <sup>c</sup>	16%	14%
Current ratio <sup>d</sup>	1.51x	1.82x
Interest cover <sup>e</sup>	18x	24x
Net debt to equity ratio <sup>f</sup>	0.59x	0.45x
Asset-to-equity ratio <sup>g</sup>	1.98x	1.9x
Book Value per share <sup>h</sup>	P2.89	P2.67

<sup>a</sup> Gross Profit / Revenues<sup>b</sup> Net Income available to common shareholders / Revenues<sup>c</sup> Net Income available to common shareholders / Shareholder's Equity<sup>d</sup> Current Asset / Current Liabilities<sup>e</sup> Earnings before interest and taxes / Interest Expense<sup>f</sup> (Borrowings – Cash) / Shareholder's Equity<sup>g</sup> Total Assets / Total Equity<sup>h</sup> Shareholders' Equity (available to owners of the Parent) / Weighted average outstanding number of common shares

**D&L Industries, Inc. and Subsidiaries**

No. 65 Industria Street  
Bagumbayan, Quezon City

Schedule for Listed Companies with a Recent Offering of Securities to the Public  
For the year ended December 31, 2022  
(All amounts in Philippine Peso)

- (1) Gross & Net Proceeds as disclosed in the final prospectus.

Gross Proceeds P5,000,000,000 & Net Proceeds P4,933,113,375

- (2) Actual Gross & Net Proceeds

Actual Gross Proceeds P5,000,000,000 & Net Proceeds P4,934,873,061

- (3) Each expenditure item where the proceeds were used

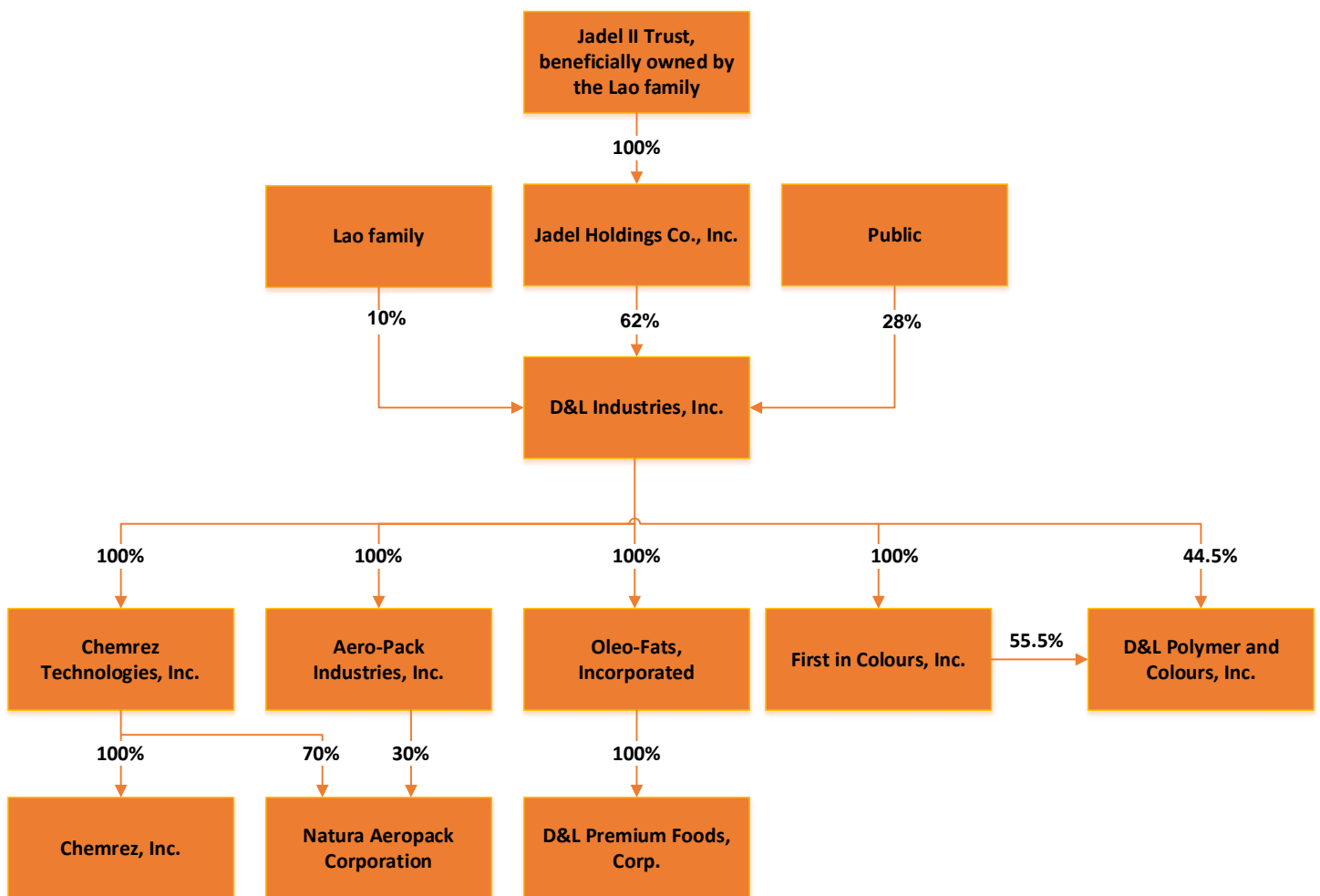
	DLPF	NAC
Loan proceeds	3,000,000,000	2,000,000,000
Capital expenditures for Batangas Plant expansion	(2,320,464,920)	(1,444,757,452)
Payment of bridge loans and interest	(426,041,264)	(284,027,509)
Security deposit	(185,166,072)	(268,182,500)
General corporate purposes	(68,327,744)	(3,032,539)
Balance, December 31, 2022	-	-

- (4) Balance of the proceeds as of end of reporting period

	DLPF	NAC
Ending balance CBC bank	-	-

## D&L Industries, Inc. and Subsidiaries

A Map Showing the Relationships between and among the Parent Company and its Ultimate Parent Company, Middle Parent, Subsidiaries or Co-subsidiaries and Associates  
December 31, 2022





# COVER SHEET

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D & L I N D U S T R I E S I N C

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[illegible][illegible]

(Company's Full Name)

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[illegible]

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

**KRISTINE ANN CATINDIG-ONG**

Contact Person

**8635-0680**

Company Telephone Number

1	2		3	1
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Month \_\_\_\_\_ Day \_\_\_\_\_  
Fiscal Year \_\_\_\_\_

2021 Integrated Annual Corporate Governance Report (I-ACGR)

FORM TYPE

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Month \_\_\_\_\_ Day \_\_\_\_\_  
Annual Meeting

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Secondary License Type, if Applicable

C	G	F	D
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Dept. Requiring this Doc.				
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Amended Articles Number/Section

170

Total No. of Stockholders

### Total Amount of Borrowings

	Total Amount

Domestic

#### Borrowings

Foreign

To be accomplished by SEC Personnel concerned

[illegible]

File Number

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Document I.D.

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Cashier

Cashier

STAMPS

## STAMPS

**SEC FORM – I-ACGR**

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

1. For the fiscal year ended: December 31, 2021

2. SEC Identification Number: 44852

3. BIR Tax Identification No.: 000-421-957-000

4. Exact name of issuer as specified in its charter: D&L INDUSTRIES, INC

5. METRO MANILA, PHILIPPINES

6.  (SEC Use Only)

Province, Country or other jurisdiction of incorporation or organization	Industry Classification Code:
---	-------------------------------

7. 65 CALLE INDUSTRIA, BAGUMBAYAN, QUEZON CITY 1110

Address of principal office

Postal Code

8. (632) 8635-0680

Issuer's telephone number, including area code

9. NOT APPLICABLE

Former name, former address, and former fiscal year, if changed since last report.

## INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT

	COMPLIANT/ NON- COMPLIANT	ADDITIONAL INFORMATION	EXPLANATION
<b>The Board's Governance Responsibilities</b>			
<b>Principle 1:</b> The company should be headed by a competent, working board to foster the long- term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the long- term best interests of its shareholders and other stakeholders.			
<b>Recommendation 1.1</b>			
1. Board is composed of directors with collective working knowledge, experience or expertise that is relevant to the company's industry/sector.	Compliant	For the policy, please refer to D&L's Manual of Corporate Governance ("CG Manual"), in particular Sec. II(A) - Board Composition, Sec. II(B) – Board Diversity and Sec II(D) – Qualifications of a Director. The same policies may be found in the Board Charter.  For the names, backgrounds and qualification of D&L's directors, please see the 2021 General Information Sheet (GIS) and Part III, Item 9 of the 2021 Annual Report ("AR").  Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> 2021 GIS: <a href="https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf">https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf</a> 2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a> Board Charter:	
2. Board has an appropriate mix of competence and expertise.	Compliant		
3. Directors remain qualified for their positions individually and collectively to enable them to fulfill their roles and responsibilities and respond to the needs of the organization.	Compliant		

		<a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
<b>Recommendation 1.2</b>			
1. Board is composed of a majority of non-executive directors.	Compliant	Six out of the seven directors are non-executive directors. Please see the 2021 GIS and Part III, Item 9, 2021 AR. Links – 2021 GIS: <a href="https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf">https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf</a> 2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
<b>Recommendation 1.3</b>			
1. Company provides in its Board Charter and Manual on Corporate Governance a policy on training of directors.	Compliant	Please see Section XV of the Board Charter and Section II(K) of the CG Manual. Links - CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
2. Company has an orientation program for first time directors.	Compliant	Please see Section XV of the Board Charter and Section II(K) of the CG Manual.  Links -	
3. Company has relevant annual continuing training for all directors.	Compliant	CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> Board Charter:	

		<a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>  The directors and officers completed the SEC mandated CG training for which Certificates of Completion were submitted to SEC. For 2021, the directors attended the seminar entitled, “ <i>Executive Briefing on Crypto Assets for Corporates</i> ”, which was held virtually on November 18, 2021 via Zoom.	
<b>Recommendation 1.4</b>			
1. Board has a policy on board diversity.	Compliant	Please see Section II(B) of the CG Manual and Section III of the Board Charter. Links: CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>  Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>  Board composed of four (4) men and three (3) women	
<b>Optional: Recommendation 1.4</b>			
1. Company has a policy on and discloses measurable objectives for implementing its board diversity and reports on progress in achieving its objectives.	Compliant	Please see Section II(B) of the CG Manual and Section III of the Board Charter.  Links: CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>  Board Charter:	

		<a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
<b>Recommendation 1.5</b>			
1. Board is assisted by a Corporate Secretary.	Compliant	<p>The Corporate Secretary is Kristine Ann Catindig-Ong. She is not a member of the Board. Please see the 2021 GIS and 2021 AR.</p> <p>Links –</p> <p>2021 GIS:  <a href="https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf">https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf</a></p> <p>2021 AR:  <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a></p>	
2. Corporate Secretary is a separate individual from the Compliance Officer.	Compliant		
3. Corporate Secretary is not a member of the Board of Directors.	Compliant		
4. Corporate Secretary attends training/s on corporate governance.	Compliant	<p>Please see Section XV of the Board Charter and Section II(K) of the CG Manual.</p> <p>Links -</p> <p>CG Manual:  <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p> <p>Board Charter:  <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a></p> <p>The directors and officers completed the SEC mandated CG training for which Certificates of Completion were submitted to SEC. For 2021, the officers attended the seminar entitled, “<i>Executive Briefing on Crypto Assets for Corporates</i>”, which was held virtually on November 18, 2021 via Zoom.</p>	

Optional: Recommendation 1.5			
1. Corporate Secretary distributes materials for board meetings at least five business days before scheduled meeting.	Compliant	Sec. IX(E) of the Board Charter - <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
Recommendation 1.6			
1. Board is assisted by a Compliance Officer.	Compliant	The Compliance Officer is Franco Diego Q. Lao for 2021. He is not a member of the Board. At the same time, he was Chief Finance Officer, a rank equivalent to the position of a Senior VP and with adequate stature and authority in the corporation. Please see the 2021 GIS and 2020 AR. Links – 2021 GIS: <a href="https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf">https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf</a> 2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
2. Compliance Officer has a rank of Senior Vice President or an equivalent position with adequate stature and authority in the corporation.	Compliant		
3. Compliance Officer is not a member of the board.	Compliant		
4. Compliance Officer attends training/s on corporate governance.	Compliant	<p>Please see Section XV of the Board Charter and Section II(K) of the CG Manual.</p> <p>Links -</p> <p>CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p> <p>Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a></p> <p>The directors and officers completed the SEC mandated CG training for which Certificates of Completion were submitted</p>	

		to SEC. For 2021, the officers attended the seminar entitled, “Executive Briefing on Crypto Assets for Corporates”, which was held virtually on November 18, 2021 via Zoom.	
<b>Principle 2:</b> The fiduciary roles, responsibilities and accountabilities of the Board as provided under the law, the company’s articles and by-laws, and other legal pronouncements and guidelines should be clearly made known to all directors as well as to stockholders and other stakeholders.			
<b>Recommendation 2.1</b>			
1. Directors act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company.	Compliant	See Sec II(J)(2) of the CG Manual and Sec X(A) of the Board Charter. Links - CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
<b>Recommendation 2.2</b>			
1. Board oversees the development, review and approval of the company’s business objectives and strategy.	Compliant	See Sec II(J)(3) of the CG Manual and Sec X(3) of the Board Charter. Links - CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
2. Board oversees and monitors the implementation of the company’s business objectives and strategy.	Compliant	Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>  The Board reviews business objectives and strategy as needed, but at least once a year.	
<b>Supplement to Recommendation 2.2</b>			



1. Board has a clearly defined and updated vision, mission and core values.	Compliant	<p>The Company's mission, vision and corporate values are in the website and are reviewed annually.</p> <p>Links –  <a href="https://dnl.com.ph/wp-content/uploads/2019/04/DL-Vision-and-Mission.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/DL-Vision-and-Mission.pdf</a>   <a href="https://dnl.com.ph/wp-content/uploads/2019/04/DL-Beliefs-and-Values.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/DL-Beliefs-and-Values.pdf</a></p>	
2. Board has a strategy execution process that facilitates effective management performance and is attuned to the company's business environment, and culture.	Compliant	<p>D&amp;L's strategy execution process is embodied in the CG Manual. Subject to the oversight powers of the Board (Sec II(J)(3), CG Manual), the CEO determines the strategic direction and formulates and implements the strategic plan (Sec V(C)(1), CG Manual). The CG Manual provides for external and internal audit functions to keep things in check.</p> <p>Link -  CG Manual:  <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p>	
<b>Recommendation 2.3</b>			
1. Board is headed by a competent and qualified Chairperson.	Compliant	<p>The Chairman of the Board is Yin Yong Lao. For his background and qualifications, see the 2021 Annual Report. Also see the 2021 GIS.</p> <p>Links –  2021 GIS:  <a href="https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf">https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf</a>  2021 AR:</p>	

		<a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
<b>Recommendation 2.4</b>			
1. Board ensures and adopts an effective succession planning program for directors, key officers and management.	Compliant	See Sec II(J)(4) of the CG Manual and Sec X(A)(4) of the Board Charter. Links - CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
2. Board adopts a policy on the retirement for directors and key officers.	Compliant	Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
<b>Recommendation 2.5</b>			
1. Board aligns the remuneration of key officers and board members with long-term interests of the company.	Compliant	See Sec II(J)(5) of the CG Manual and Sec X(A)(5) of the Board Charter. Links - CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
2. Board adopts a policy specifying the relationship between remuneration and performance.	Compliant	Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
3. Directors do not participate in discussions or deliberations involving his/her own remuneration.	Compliant		
<b>Optional: Recommendation 2.5</b>			
1. Board approves the remuneration of senior executives.			
2. Company has measurable standards to align the performance-based remuneration of the executive directors and senior executives with long-term interest, such as claw back provision and deferred bonuses.			
<b>Recommendation 2.6</b>			

1. Board has a formal and transparent board nomination and election policy.	Compliant	Sec II(F) of the CG Manual provides for the nomination and election of directors. In the selection of nominees for directors, the Board is assisted by the Nominations Committee which screens nominees in accordance with the qualifications and disqualifications provided in the Company By-Laws, CG Manual, Board Charter, Corporation Code, Securities Regulation Code and relevant SEC rules. See also the charter of the Nomination Committee. As echoed in Section X(A) of the CG Manual, D&L provides minority shareholders the opportunity to nominate candidates to the Board and encourages them to submit their nominations by including an invitation to do so in the notice sent to all shareholders. The effectiveness of the nomination and election processes are assessed through the assessment exercises conducted by the Board and Nominations Committee. The results of the assessments may be viewed on the website, link below. Links - CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> 2021 ASM Notice: <a href="https://dnl.com.ph/wp-content/uploads/2021/08/NOTICE-AND-AGENDA.pdf">https://dnl.com.ph/wp-content/uploads/2021/08/NOTICE-AND-AGENDA.pdf</a> Assessment Results <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Results-of-the-CG-Self-Assessment-Survey-2021.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Results-of-the-CG-Self-Assessment-Survey-2021.pdf</a>	
2. Board nomination and election policy is disclosed in the company’s Manual on Corporate Governance.	Compliant		
3. Board nomination and election policy includes how the company accepted nominations from minority shareholders.	Compliant		
4. Board nomination and election policy includes how the board shortlists candidates.	Compliant		
5. Board nomination and election policy includes an assessment of the effectiveness of the Board’s processes in the nomination, election or replacement of a director.	Compliant		
6. Board has a process for identifying the quality of directors that is aligned with the strategic direction of the company.	Compliant		
Optional: Recommendation to 2.6			
1. Company uses professional search firms or other external sources of candidates (such as director	Compliant	The Company relies on the member listing of the Institute of Corporate Directors as	

databases set up by director or shareholder bodies) when searching for candidates to the board of directors.		well as searches conducted by director and shareholder bodies.	
<b>Recommendation 2.7</b>			
1. Board has overall responsibility in ensuring that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions.	Compliant	See Section II(J)(7) of the CG Manual and Section X(A)(6) of the Board Charter.  Details of RPTs for 2020 are disclosed in the 2020 AR as well as on the website. Links:	
2. RPT policy includes appropriate review and approval of material RPTs, which guarantee fairness and transparency of the transactions.	Compliant	CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
3. RPT policy encompasses all entities within the group, taking into account their size, structure, risk profile and complexity of operations.	Compliant	Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a> 2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a> 2021 RPT details: See Note 18 of the 2021 Consolidated Audited Financial Statements Link – <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
<b>Supplement to Recommendations 2.7</b>			
1. Board clearly defines the threshold for disclosure and approval of RPTs and categorizes such transactions according to those that are considered <i>de minimis</i> or transactions that need not be reported or announced, those that need to be disclosed, and those that need prior shareholder approval. The aggregate amount of RPTs within any twelve (12) month period	Compliant	All RPTs, regardless of amount go through RPT Comm and Board approvals and disclosed in the financial statements. Only those agreements that are required by law to be approved by the stockholders are presented to the stockholders for approval.  Links – RPT Policy:	

should be considered for purposes of applying the thresholds for disclosure and approval.		<a href="https://dnl.com.ph/wp-content/uploads/2019/10/Material-Related-Party-Transactions-Policy-min.pdf">https://dnl.com.ph/wp-content/uploads/2019/10/Material-Related-Party-Transactions-Policy-min.pdf</a>  2021 RPT details: Note 18, 2021 Consolidated Audited Financial Statements attached to 2021 Annual Report – <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
2. Board establishes a voting system whereby a majority of non-related party shareholders approve specific types of related party transactions during shareholders' meetings.	Non-Compliant		There is no such voting system for RPTs. However, fairness and transparency are ensured by having, as a policy, all RPTs, regardless of amount, go through RPT Comm and Board approval and disclosed in the financial statements. The Company likewise recently adopted its Material RPT Policy which further ensures fairness and transparency in all RPT of the Company. The link to policy is as follows: <a href="https://dnl.com.ph/wp-content/uploads/2019/10/Material-Related-Party-Transactions-Policy-min.pdf">https://dnl.com.ph/wp-content/uploads/2019/10/Material-Related-Party-Transactions-Policy-min.pdf</a>
<b>Recommendation 2.8</b>			
1. Board is primarily responsible for approving the selection of Management led by the Chief Executive Officer (CEO) and the heads of the other control functions (Chief Risk Officer, Chief Compliance Officer and Chief Audit Executive).	Compliant	See Section II(J)(8) of the CG Manual and Section X(A)(7) of the Board Charter. Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> Board Charter:	

		<a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>  CEO – Alvin Lao CFO & Compliance Officer – Franco Diego Q. Lao COO – Joselito Rivera CAE – Elmer Brillo Chief Risk Officer – Arlene S. Denzon	
2. Board is primarily responsible for assessing the performance of Management led by the Chief Executive Officer (CEO) and the heads of the other control functions (Chief Risk Officer, Chief Compliance Officer and Chief Audit Executive).	Compliant	See Section II(J)(8) of the CG Manual and Section X(A)(7) of the Board Charter. Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>  The Board shall assess performances of the key officers annually	
<b>Recommendation 2.9</b>			
1. Board establishes an effective performance management framework that ensures that Management's performance is at par with the standards set by the Board and Senior Management.	Compliant	The performance management framework is embodied in the CG Manual as the latter lays down the duties and accountabilities of the members of senior management by which their performances will be evaluated. See also Section II(J)(9) of the CG Manual and Section X(A)(8) of the Board Charter.	
2. Board establishes an effective performance management framework that ensures that personnel's performance is at par with the standards set by the Board and Senior Management.	Compliant	Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> Board Charter:	

		<a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
<b>Recommendation 2.10</b>			
1. Board oversees that an appropriate internal control system is in place.	Compliant	See Section II(J)(10) and Section IX(A), (B) and (C) of the CG Manual and Section X(A)(9) of the Board Charter. Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
2. The internal control system includes a mechanism for monitoring and managing potential conflict of interest of the Management, members and shareholders.	Compliant	Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
3. Board approves the Internal Audit Charter.	Compliant	<a href="https://dnl.com.ph/wp-content/uploads/2019/03/DNL-Internal-Audit-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/DNL-Internal-Audit-Charter.pdf</a>	
<b>Recommendation 2.11</b>			
1. Board oversees that the company has in place a sound enterprise risk management (ERM) framework to effectively identify, monitor, assess and manage key business risks.	Compliant	See Section II(J)(10) and Section IX(A), (D) and (E) of the CG Manual and Section X(A)(10) of the Board Charter. Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
2. The risk management framework guides the board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.	Compliant	Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
<b>Recommendation 2.12</b>			
1. Board has a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary role.	Compliant	Board Charter:	

2. Board Charter serves as a guide to the directors in the performance of their functions.	Compliant	<a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
3. Board Charter is publicly available and posted on the company's website.	Compliant		
<b>Additional Recommendation to Principle 2</b>			
1. Board has a clear insider trading policy.	Compliant	<a href="https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_InsiderTrading.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_InsiderTrading.pdf</a>	
<b>Optional: Principle 2</b>			
1. Company has a policy on granting loans to directors, either forbidding the practice or ensuring that the transaction is conducted at arm's length basis and at market rates.	Compliant	See Conflict of Interest, Code of Business Principles. The link is: <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a>	
2. Company discloses the types of decision requiring board of directors' approval.	Compliant	Please see Section X, Board Charter and Material RPT Policy. The links are: Board Charter - <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>  Material RPT Policy - <a href="https://dnl.com.ph/wp-content/uploads/2019/10/Material-Related-Party-Transactions-Policy-min.pdf">https://dnl.com.ph/wp-content/uploads/2019/10/Material-Related-Party-Transactions-Policy-min.pdf</a>	
<b>Principle 3:</b> Board committees should be set up to the extent possible to support the effective performance of the Board's functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns, such as nomination and remuneration. The composition, functions and responsibilities of all committees established should be contained in a publicly available Committee Charter.			
<b>Recommendation 3.1</b>			
1. Board establishes board committees that focus on specific board functions to aid in the optimal performance of its roles and responsibilities.	Compliant	There are seven Board Committees: Executive Committee, Audit Committee, Related Party Transactions Committee, Nominations Committee, Remuneration Committee, Corporate Governance Committee and Board Risk Oversight	



		<p>Committee. See Section III of the CG Manual. For the composition of the Board Committees, see link to the website below.</p> <p>Links –</p> <p>CG Manual:  <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p> <p>Board Committee Composition:  <a href="https://dnl.com.ph/corporate-governance/#committees">https://dnl.com.ph/corporate-governance/#committees</a></p>	
<b>Recommendation 3.2</b>			
<p>1. Board establishes an Audit Committee to enhance its oversight capability over the company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations.</p>	Compliant	<p>See Section III(B) of the CG Manual and the Audit Committee Charter.</p> <p>Per Section VIII(B)(1) of the CG Manual, it is the Audit Committee's responsibility to recommend the appointment and removal of the company's external auditor.</p> <p>Links –</p> <p>CG Manual:  <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p> <p>Audit Committee Charter:  <a href="https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf</a></p>	
<p>2. Audit Committee is composed of at least three appropriately qualified non-executive directors, the majority of whom, including the Chairman is independent.</p>	Compliant	<p>The chairperson of the AudCom is Mrs. Corazon de la Paz-Bernardo, an independent director.</p> <p>Link –</p> <p>Board Committee Composition:  <a href="https://dnl.com.ph/corporate-governance/#committees">https://dnl.com.ph/corporate-governance/#committees</a></p>	

3. All the members of the committee have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance.	Compliant	The backgrounds and experiences of the AudCom members may be found in Part III, Item 9 of the 2021 Annual Report. Link – 2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
4. The Chairman of the Audit Committee is not the Chairman of the Board or of any other committee.	Compliant	That the AudCom Chair is not the Chair of the Board or of any committee, may be verified in website link provided below. Link - Board Committee Composition: <a href="https://dnl.com.ph/corporate-governance/#committees">https://dnl.com.ph/corporate-governance/#committees</a>	
<b>Supplement to Recommendation 3.2</b>			
1. Audit Committee approves all non-audit services conducted by the external auditor.	Compliant	See Section III(B)(8) of the CG Manual and Section k, Duties & Responsibilities of the Audit Committee Charter. Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> Audit Committee Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf</a>	
2. Audit Committee conducts regular meetings and dialogues with the external audit team without anyone from management present.	Compliant	Members of the AudCom regularly meet with External Auditors without the presence of management. For 2021, they met last March 2 and Nov. 9, 2021.	
<b>Optional: Recommendation 3.2</b>			
1. Audit Committee meet at least four times during the year.	Compliant	See Meetings & Quorum Section of the Audit Committee Charter which provides	

		that the committee should meet once every quarter. Link – Audit Committee Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf</a>	
2. Audit Committee approves the appointment and removal of the internal auditor.	Compliant	See Duties and Responsibilities of the Audit Committee Section of the Internal Audit Charter and Section IX(C) of the CG Manual.  Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> IA Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/DNL-Internal-Audit-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/DNL-Internal-Audit-Charter.pdf</a>	
<b>Recommendation 3.3</b>			
1. Board establishes a Corporate Governance Committee tasked to assist the Board in the performance of its corporate governance responsibilities, including the functions that were formerly assigned to a Nomination and Remuneration Committee.	Compliant	The Board decided to form the Corporate Governance Committee, Nominations Committee and Remuneration Committee separately. The composition, duties and responsibilities of each committee are outlined in the CG Manual and their respective charters. The process of identifying the quality of directors aligned with the company's strategic direction remained to be one of the duties of the Nominations Committee.  Link – CG Manual:	

		<a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> CG Com Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Corporate-Governance-Committee-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Corporate-Governance-Committee-Charter.pdf</a> Nom Com Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Nomination-Committee-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Nomination-Committee-Charter.pdf</a>	
2. Corporate Governance Committee is composed of at least three members, all of whom should be independent directors.	Compliant	The CG Com is composed of 4 directors, 3 of which are independent. Link – Board Committee Composition: <a href="https://dnl.com.ph/corporate-governance/#committees">https://dnl.com.ph/corporate-governance/#committees</a>	
3. Chairman of the Corporate Governance Committee is an independent director.	Compliant	The Chairperson of the CG Com is Atty. Mercedita Nollado, an independent director. Link – Board Committee Composition: <a href="https://dnl.com.ph/corporate-governance/#committees">https://dnl.com.ph/corporate-governance/#committees</a>	
<b>Optional: Recommendation 3.3.</b>			
1. Corporate Governance Committee meet at least twice during the year.	Compliant	The CG Committee met 2 times in 2021 on the following dates:  June 4, 2021 and August 10, 2021	
<b>Recommendation 3.4</b>			
1. Board establishes a separate Board Risk Oversight Committee (BROC) that should be responsible for the oversight of a company's Enterprise Risk Management system to ensure its functionality and effectiveness.	Compliant	See Section III(F) of the CG Manual and Risk Oversight Committee ("ROC") Charter.  Links - CG Manual:	

		<a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> BROCC Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Risk-Oversight-Committee-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Risk-Oversight-Committee-Charter.pdf</a>	
2. BROCC is composed of at least three members, the majority of whom should be independent directors, including the Chairman.	Compliant	The ROC is composed of five directors, three of which are independent. Link – Board Committee Composition: <a href="https://dnl.com.ph/corporate-governance/#committees">https://dnl.com.ph/corporate-governance/#committees</a>	
3. The Chairman of the BROCC is not the Chairman of the Board or of any other committee.	Compliant	That the ROC Chair is not the Chair of the Board or of any committee may be verified in website link provided below.  Board Committee Composition: <a href="https://dnl.com.ph/corporate-governance/#committees">https://dnl.com.ph/corporate-governance/#committees</a>	
4. At least one member of the BROCC has relevant thorough knowledge and experience on risk and risk management.	Compliant	The backgrounds and experiences of the ROC members may be found in Part III, Item 9 of the 2021 Annual Report. Link – 2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
<b>Recommendation 3.5</b>			
1. Board establishes a Related Party Transactions (RPT) Committee, which is tasked with reviewing all material related party transactions of the company.	Compliant	See Section III(C) of the CG Manual and Related Party Transactions (“RPT”) Committee Charter. Links - CG Manual:	

		<a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> RPT Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Related-Party-Transactions-Committee-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Related-Party-Transactions-Committee-Charter.pdf</a>	
2. RPT Committee is composed of at least three non-executive directors, two of whom should be independent, including the Chairman.	Compliant	The RPT Com is composed of three directors, all independent. The Chairperson of the committee is Dr. Lydia Echauz, an independent director. Link – Board Committee Composition: <a href="https://dnl.com.ph/corporate-governance/#committees">https://dnl.com.ph/corporate-governance/#committees</a>	
<b>Recommendation 3.6</b>			
1. All established committees have a Committee Charter stating in plain terms their respective purposes, memberships, structures, operations, reporting process, resources and other relevant information.	Compliant	Board and Committee Charters – <a href="https://dnl.com.ph/corporate-governance/#committees">https://dnl.com.ph/corporate-governance/#committees</a>	
2. Committee Charters provide standards for evaluating the performance of the Committees.	Compliant	Board and Committee Charters – <a href="https://dnl.com.ph/corporate-governance/#policies">https://dnl.com.ph/corporate-governance/#policies</a>	
3. Committee Charters were fully disclosed on the company's website.	Compliant	Board and Committee Charters – <a href="https://dnl.com.ph/corporate-governance/#policies">https://dnl.com.ph/corporate-governance/#policies</a>	
<b>Principle 4:</b> To show full commitment to the company, the directors should devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the corporation's business.			
<b>Recommendation 4.1</b>			
1. The Directors attend and actively participate in all meetings of the Board, Committees and	Compliant	See Article IV, Section 3 of the By-Laws, Section IV(A) of the CG Manual and	

shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission.		<p>Section IX(B) of the Board Charter. See also board attendance under Part III, Item 9 of the 2021 Annual Report.</p> <p>Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> By-Laws: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf</a> Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>  2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a></p>	
2. The directors review meeting materials for all Board and Committee meetings.	Compliant	<p>See Section IV(A) of the CG Manual.</p> <p>Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p>	
3. The directors ask the necessary questions or seek clarifications and explanations during the Board and Committee meetings.	Compliant	<p>See Section IV(A) of the CG Manual.</p> <p>Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p>	
<b>Recommendation 4.2</b>			
1. Non-executive directors concurrently serve in a maximum of five publicly-listed companies to ensure that they have sufficient time to fully	Compliant	See Section IV(B) of the CG Manual. See also Part III, Item 9 of the 2021 Annual	

prepare for minutes, challenge Management's proposals/views, and oversee the long-term strategy of the company.		Report for the list of directorships of the directors. Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>  2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
<b>Recommendation 4.3</b>			
1. The directors notify the company's board before accepting a directorship in another company.	Compliant	See Section IV(B) of the CG Manual. Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
<b>Optional: Principle 4</b>			
1. Company does not have any executive directors who serve in more than two boards of listed companies outside of the group.	Compliant	D&L's only executive director is Mr. Alvin Lao and he serves as a director in only one listed company – D&L. See Board Composition available in the website or 2021 GIS and Part III, Item 9 of the 2021 Annual Report of Mr. Alvin Lao's list of directorships. Links – Board Composition: <a href="https://dnl.com.ph/corporate-governance/#board-members">https://dnl.com.ph/corporate-governance/#board-members</a> 2021 GIS: <a href="https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf">https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf</a> 2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	



2. Company schedules board of directors' meetings before the start of the financial year.	Compliant		
3. Board of directors meet at least six times during the year.	Compliant	7 meetings in 2021  See Part III, Item 9 of the 2021 Annual Report. Link – 2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
4. Company requires as minimum quorum of at least 2/3 for board decisions.			

**Principle 5:** The board should endeavor to exercise an objective and independent judgment on all corporate affairs

**Recommendation 5.1**

1. The Board has at least 3 independent directors or such number as to constitute one-third of the board, whichever is higher.	Compliant	See Section II(A) of the CG Manual. This notwithstanding, four of the seven directors are independent (see 2020 GIS and Board Composition on the website). Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> 2021 GIS: <a href="https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf">https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf</a> Board Composition: <a href="https://dnl.com.ph/corporate-governance/#board-members">https://dnl.com.ph/corporate-governance/#board-members</a>	
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**Recommendation 5.2**

1. The independent directors possess all the qualifications and none of the disqualifications to hold the positions.	Compliant	See the Certification of Independent Directors attached to the 2021 Information Statement. Link – 2021 Information Statement <a href="https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf">https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf</a>	
<b>Supplement to Recommendation 5.2</b>			
1. Company has no shareholder agreements, by-laws provisions, or other arrangements that constrain the directors' ability to vote independently.	Compliant	See Article IV, Section 7 of the By-Laws and Sections II and IX(F) of the Board Charter which implicitly provides that each director has one vote and that directors are expected to exercise independent judgment.  Links – By-Laws: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf</a> Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
<b>Recommendation 5.3</b>			
1. The independent directors serve for a cumulative term of nine years (reckoned from 2012).	Compliant	See Section V(B) of the CG Manual and Section VIII(B) of the Board Charter. See also the Certifications of the Independent Directors attached to the 2021 Information Statement to verify the length of service as independent director.  Links – CG Manual:	

		<a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a> 2021 Information Statement <a href="https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf">https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf</a>	
2. The company bars an independent director from serving in such capacity after the term limit of nine years.	Compliant	See Section V(B) of the CG Manual and Section VIII(B) of the Board Charter. Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a>	
3. In the instance that the company retains an independent director in the same capacity after nine years, the board provides meritorious justification and seeks shareholders' approval during the annual shareholders' meeting.	Compliant	See page 22 of the 2021 Information Statement and Minutes of the 2021 ASM on the election of the Directors. Links – 2021 ASM Minutes <a href="https://dnl.com.ph/wp-content/uploads/2021/09/DNL_ASM2021_Minutes_June-7.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/DNL_ASM2021_Minutes_June-7.pdf</a>  2021 Information Statement <a href="https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf">https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf</a>	

Recommendation 5.4			
1. The positions of Chairman of the Board and Chief Executive Officer are held by separate individuals.	Compliant	<p>Chairman – Yin Yong L. Lao CEO – Alvin D. Lao</p> <p>Link – 2021 GIS <a href="https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf">https://dnl.com.ph/wp-content/uploads/2021/08/2021-DNL-GIS-for-public-release-1.pdf</a> 2021 AR <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a></p>	
2. The Chairman of the Board and Chief Executive Officer have clearly defined responsibilities.	Compliant	<p>See Article V, Section 1-A and 2 of the By-Laws, Section II(G) and V(C) of the CG Manual and Section XI(A) and (B) of the Board Charter.</p> <p>Links – By-Laws: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf</a> CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> Board Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a></p> <p>The Chairman is the uncle of the CEO.</p>	
Recommendation 5.5			
1. If the Chairman of the Board is not an independent director, the board designates a lead director among the independent directors.	Compliant	<p>Chairman is not independent. Atty. Mercedita Nollado was designated Lead Independent Director.</p>	

		<p>The designation of a Lead Independent Director was disclosed thru PSE EDGE. The link to the disclosure - <a href="https://edge.pse.com.ph/openDiscViewer.do?edge_no=72eb15cf50c23c455d542af6f1e997b9">https://edge.pse.com.ph/openDiscViewer.do?edge_no=72eb15cf50c23c455d542af6f1e997b9</a></p> <p>The information is also available on the website. The link is – <a href="https://dnl.com.ph/corporate-governance/#committees">https://dnl.com.ph/corporate-governance/#committees</a></p>	
<b>Recommendation 5.6</b>			
1. Directors with material interest in a transaction affecting the corporation abstain from taking part in the deliberations on the transaction.	Compliant	<p>Please see the policy in Section V(E) of the CG Manual</p> <p>Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p>	
<b>Recommendation 5.7</b>			
1. The non-executive directors (NEDs) have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive present.	Compliant	The NEDs met with the external auditors without the presence of any executive last March 2, May 4 and Nov. 9, 2021.	
2. The meetings are chaired by the lead independent director.	Compliant	Since AudCom has oversight on internal and external audit and risk and compliance functions, the said meetings were jointly chaired by the Lead Independent Directors and Audit Com chairperson, who is also an independent director.	
<b>Optional: Principle 5</b>			
1. None of the directors is a former CEO of the company in the past 2 years.			

**Principle 6:** The best measure of the Board's effectiveness is through an assessment process. The Board should regularly carry out evaluations to appraise its performance as a body, and assess whether it possesses the right mix of backgrounds and competencies.

**Recommendation 6.1**

1. Board conducts an annual self-assessment of its performance as a whole.	Compliant	Please see Corporate Governance Self-Assessment Survey Result on the website. The link is: Assessment Results: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Results-of-the-CG-Self-Assessment-Survey-2021.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Results-of-the-CG-Self-Assessment-Survey-2021.pdf</a>	
2. The Chairman conducts a self-assessment of his performance.	Compliant		
3. The individual members conduct a self-assessment of their performance.	Compliant		
4. Each committee conducts a self-assessment of its performance.	Compliant		
5. Every three years, the assessments are supported by an external facilitator.	Non-compliant		There are four independent directors who the Board can rely on for an objective assessment of the Board and its Committees.

**Recommendation 6.2**

1. Board has in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, individual directors and committees.	Compliant	D&L employs a self-assessment method of assessing the performance of the Board and individual members and committees. The individual directors are asked questions relating to four areas: 1) fulfilment of the key duties; 2) quality of relationship with management; 3) effectiveness of processes and meetings; and 4) individual performance. The directors shall give their satisfactory ratings based on a 5-point scale: 1 – Strongly Disagree 2 – Disagree 3 – Neither Disagree or Agree 4 – Agree 5 – Strongly Agree For more details, see Corporate Governance Self-Assessment Survey Result posted on the website. Shareholders	
2. The system allows for a feedback mechanism from the shareholders.	Compliant		

		<p>are free to provide feedback thru the contact details provided in the website as well.</p> <p>The link is: Assessment Results: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Results-of-the-CG-Self-Assessment-Survey-2021.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Results-of-the-CG-Self-Assessment-Survey-2021.pdf</a></p>	
<b>Principle 7: Members of the Board are duty-bound to apply high ethical standards, taking into account the interests of all stakeholders.</b>			
<b>Recommendation 7.1</b>			
1. Board adopts a Code of Business Conduct and Ethics, which provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings of the company.	Compliant	See Code of Business Principles. The link is: <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a>	
2. The Code is properly disseminated to the Board, senior management and employees.	Compliant	Managers and business unit heads are ultimately responsible in ensuring dissemination of compliance with the Code. Information dissemination was done thru posting on the website, COBP seminar for employees when it was launched, and inclusion in new employee orientation and training, as a continuing effort to disseminate the Code.	
3. The Code is disclosed and made available to the public through the company website.	Compliant	See Code of Business Principles. The link is: <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a>	
<b>Supplement to Recommendation 7.1</b>			
1. Company has clear and stringent policies and procedures on curbing and penalizing company involvement in offering, paying and receiving bribes.	Compliant	See section of COBP labelled “The Way We Handle Conflicts of Interest and Maintain Integrity”.  Link –	

		COBP: <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a>	
<b>Recommendation 7.2</b>			
1. Board ensures the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics.	Compliant	All employees, directors, officers and suppliers are required to comply. Monitoring compliance rests with the department heads. There was no reported non-compliance with the Code. See section of COBP labelled “The Way We Commit to the Code”.	
2. Board ensures the proper and efficient implementation and monitoring of compliance with company internal policies.	Compliant	Link – COBP: <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a>	
<b>Disclosure and Transparency</b>			
<b>Principle 8:</b> The company should establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations.			
<b>Recommendation 8.1</b>			
1. Board establishes corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that gives a fair and complete picture of a company’s financial condition, results and business operations.	Compliant	See Section VIII(A) of the CG Manual. Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
1. Company distributes or makes available annual and quarterly consolidated reports, cash flow statements, and special audit revisions. Consolidated financial statements are published within ninety (90) days from the end of the fiscal year, while interim reports are published within	Non-Compliant		As for quarterly reports, the Company is compliant as it was able to disclose reports within 45 days from end of the quarter in accordance with the SRC.  As for the 2021 Annual Report and Consolidated Financial Statements,



forty-five (45) days from the end of the reporting period.			because of the surge in COVID-19 cases early this year, the said documents were released only on May 6, 2022. However, substantial compliance may be considered in light of the release of the FY 2021 Financial Results via Press Release dated March 30, 2022 (Link - <a href="https://edge.pse.com.ph/openDiscViewer.do?edge_no=6d64a53907404d5a3470cea4b051ca8f">https://edge.pse.com.ph/openDiscViewer.do?edge_no=6d64a53907404d5a3470cea4b051ca8f</a> )
2. Company discloses in its annual report the principal risks associated with the identity of the company's controlling shareholders; the degree of ownership concentration; cross-holdings among company affiliates; and any imbalances between the controlling shareholders' voting power and overall equity position in the company.	Compliant	See <i>Management of Key Risks related to the Company</i> , Item 1, Part I of the 2021 Annual Report.  Link – 2021 Annual Report: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
1. Company has a policy requiring all directors to disclose/report to the company any dealings in the company's shares within three business days.	Compliant	See Section VIII(A)(2) of the CG Manual and Insider Trading Policy. Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
2. Company has a policy requiring all officers to disclose/report to the company any dealings in the company's shares within three business days.	Compliant	Link - Insider Trading Policy: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_InsiderTrading.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_InsiderTrading.pdf</a>  For the actual dealings of directors involving the corporation's shares including their nature, number/percentage and date of transaction, see the Statements	

		<p>of Beneficial Ownership on the website, Investor Relations Page, under Disclosures &amp; Filings.</p> <p>Link – <a href="https://dnl.com.ph/investors/#reports">https://dnl.com.ph/investors/#reports</a></p>	
<b>Supplement to Recommendation 8.2</b>			
<p>1. Company discloses the trading of the corporation's shares by directors, officers (or persons performing similar functions) and controlling shareholders. This includes the disclosure of the company's purchase of its shares from the market (e.g. share buy-back program).</p>	Compliant	<p>For trading of directors, officers and controlling shareholders, see Statements of Beneficial Ownership on the website, Investor Relations Page, under Disclosures &amp; Filings.</p> <p>Link – <a href="https://dnl.com.ph/investors/#reports">https://dnl.com.ph/investors/#reports</a></p> <p>For shareholdings of directors, management, see Public Ownership Reports, Investor Relations Page, under Disclosures &amp; Filings.</p> <p>Link – <a href="https://dnl.com.ph/investors/#reports">https://dnl.com.ph/investors/#reports</a></p> <p>Link for the Top 100 shareholders – <a href="https://dnl.com.ph/wp-content/uploads/2022/01/DNL-List-of-Top-100-Stockholders-with-PCD-Bensec-reports-as-of-December-31-2021-for-PSE-edge-Disclosure.pdf">https://dnl.com.ph/wp-content/uploads/2022/01/DNL-List-of-Top-100-Stockholders-with-PCD-Bensec-reports-as-of-December-31-2021-for-PSE-edge-Disclosure.pdf</a></p> <p>Link for the Conglomerate Map <a href="https://dnl.com.ph/wp-content/uploads/2019/04/DL-Conglomerate-Map-and-Shareholding-Structure.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/DL-Conglomerate-Map-and-Shareholding-Structure.pdf</a></p>	
<b>Recommendation 8.3</b>			
<p>1. Board fully discloses all relevant and material information on individual board members to evaluate their experience and qualifications, and</p>	Compliant	<p>Directors' backgrounds and brief bio are disclosed in the 2021 Information Statement and 2021 Annual Report.</p>	

assess any potential conflicts of interest that might affect their judgment.		<p>Links – 2021 Information Statement <a href="https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf">https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf</a></p> <p>2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a></p>	
2. Board fully discloses all relevant and material information on key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.	Compliant	<p>Key officers' backgrounds are disclosed in the 2021 Information Statement and 2021 Annual Report.</p> <p>Links – 2021 Information Statement <a href="https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf">https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf</a></p> <p>2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a></p>	
<b>Recommendation 8.4</b>			
1. Company provides a clear disclosure of its policies and procedure for setting Board remuneration, including the level and mix of the same.	Compliant	<p>See Sections II(J)(5), III(D)(7) and VIII(A)(4) of the CG Manual.</p> <p>Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p>	
2. Company provides a clear disclosure of its policies and procedure for setting executive remuneration, including the level and mix of the same.	Compliant	<p>See Sections II(J)(5), III(D)(7) and VIII(A)(4) of the CG Manual.</p> <p>Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p>	

3. Company discloses the remuneration on an individual basis, including termination and retirement provisions.	Compliant	See Item 6, 2021 Information Statement. Links- 2021 IS: <a href="https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf">https://dnl.com.ph/wp-content/uploads/2021/10/SEC-Form-20-IS-Definitive-Information-Statement-2021-for-website.pdf</a>	
<b>Recommendation 8.5</b>			
1. Company discloses its policies governing Related Party Transactions (RPTs) and other unusual or infrequently occurring transactions in their Manual on Corporate Governance.	Compliant	See Sections II(J)(7) and III(C) of the CG Manual. Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>  There are instances where members of the Lao Family sitting in the D&L Board also sit on the board of a related corporation with which D&L has a related-party transaction (RPT). In such instances, there was no danger posed to D&L, even if the common director did not categorically recuse himself, since the RPTs were scrutinized and approved by all the four independent directors and was found by the independent directors to be at arms' length.	
2. Company discloses material or significant RPTs reviewed and approved during the year.	Compliant	See details on Note 18 of the Consolidated Audited Financial Statements attached to the 2021 Annual Report.  Link – 2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
<b>Supplement to Recommendation 8.5</b>			

1. Company requires directors to disclose their interests in transactions or any other conflict of interests.	Compliant	<p>In all RPTs involving D&amp;L and other companies controlled by the Lao Family, the Board is made aware of the nature and details of the transaction. The RPTs are scrutinized and approved by the RPT Comm and Board and were found to be arms' length and without conflict of interest.</p> <p>For full transparency, the details of RPT are disclosed in Note 18 of the 2021 Consolidated Audited Financial Statements attached to 2021 Annual Report and Material RPT Policy page under Corporate Governance/Company Policies.</p> <p>Links –</p> <p>2021 AR: See Note 18 of 2021 AFS attached to the AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a></p>	
<b>Optional : Recommendation 8.5</b>			
1. Company discloses that RPTs are conducted in such a way to ensure that they are fair and at arms' length.	Compliant	<p>See Section III(C)(2) of the CG Manual and Section VI(2) of the RPT Charter.</p> <p>Links –</p> <p>CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p> <p>RPT Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Related-Party-Transactions-Committee-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Related-Party-Transactions-Committee-Charter.pdf</a></p>	
<b>Recommendation 8.6</b>			
1. Company makes a full, fair, accurate and timely disclosure to the public of every material fact or	Compliant	See Section VIII(A)(6) of the CG Manual	

event that occur, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders.		Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
2. Board appoints an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.	Compliant	See Section VIII(A)(6) of the CG Manual Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>  However, we note that there was no material acquisition or disposition of assets for the subject period.	
Supplement to Recommendation 8.6			
1. Company discloses the existence, justification and details on shareholder agreements, voting trust agreements, confidentiality agreements, and such other agreements that may impact on the control, ownership, and strategic direction of the company.	Non-compliant (not applicable)		There was no such disclosure primarily because there were no shareholder agreements, voting trust agreements, confidentiality agreements, and such other agreements that may impact on the control, ownership, and strategic direction of the company during the covered period.  As a policy, the Company will disclose such agreements should one be executed in the future.
Recommendation 8.7			
1. Company’s corporate governance policies, programs and procedures are contained in its Manual on Corporate Governance (MCG).	Compliant	Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
2. Company’s MCG is submitted to the SEC and PSE.	Compliant		
3. Company’s MCG is posted on its company website.	Compliant		
Supplement to Recommendation 8.7			

1. Company submits to the SEC and PSE an updated MCG to disclose any changes in its corporate governance practices.	Compliant	<p>Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p> <p>The said CG Manual was revised on September 18, 2020 and filed with the SEC on September 23, 2020.</p>	
<b>Optional: Principle 8</b>			
1. Does the company's Annual Report disclose the following information:		<p>Link:  2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a></p>	
2.			
a. Corporate Objectives	Compliant		
b. Financial performance indicators	Compliant		
c. Non-financial performance indicators			
d. Dividend Policy	Compliant		
e. Biographical details (at least age, academic qualifications, date of first appointment, relevant experience, and other directorships in listed companies) of all directors			
f. Attendance details of each director in all directors meetings held during the year	Compliant		
g. Total remuneration of each member of the board of directors			
2. The Annual Report contains a statement confirming the company's full compliance with the Code of Corporate Governance and where there is non-compliance, identifies and explains reason for each such issue.			
3. The Annual Report/Annual CG Report discloses that the board of directors conducted a review of			

the company's material controls (including operational, financial and compliance controls) and risk management systems.			
4. The Annual Report/Annual CG Report contains a statement from the board of directors or Audit Committee commenting on the adequacy of the company's internal controls/risk management systems.			
5. The company discloses in the Annual Report the key risks to which the company is materially exposed to (i.e. financial, operational including IT, environmental, social, economic).	Compliant	Link:  2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
<b>Principle 9:</b> The company should establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.			
<b>Recommendation 9.1</b>			
1. Audit Committee has a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditors.	Compliant	See Sections III(B)(13) and VIII(B)(1) of the CG Manual. Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
2. The appointment, reappointment, removal, and fees of the external auditor is recommended by the Audit Committee, approved by the Board and ratified by the shareholders.	Compliant	See Section VIII(B)(1) of the CG Manual. Link –  CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>  Approval of appointment of external auditor – 83.14%	



3. For removal of the external auditor, the reasons for removal or change are disclosed to the regulators and the public through the company website and required disclosures.	Compliant	<p>See Par. (b), External Audit Section of the Audit Committee Charter.</p> <p>Link – Aud Com Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf</a></p> <p>There has been no instance where the external auditor was removed or changed for the covered period.</p>	
<b>Supplement to Recommendation 9.1</b>			
1. Company has a policy of rotating the lead audit partner every five years.	Compliant	<p>See Par. (d), External Audit Section of the Audit Committee Charter.</p> <p>Link – Aud Com Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf</a></p>	
<b>Recommendation 9.2</b>			
<p>1. Audit Committee Charter includes the Audit Committee’s responsibility on:</p> <p>i. assessing the integrity and independence of external auditors;</p> <p>ii. exercising effective oversight to review and monitor the external auditor’s independence and objectivity; and</p> <p>iii. exercising effective oversight to review and monitor the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements.</p>	Compliant	<p>See Duties &amp; Responsibilities, Audit Committee Charter.</p> <p>Link – Aud Com Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf</a></p>	

2. Audit Committee Charter contains the Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.	Non-Compliant		There is substantial compliance considering the AudCom's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis is found in the CG Manual [Section VIII(B)]. Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>
<b>Supplement to Recommendations 9.2</b>			
1. Audit Committee ensures that the external auditor is credible, competent and has the ability to understand complex related party transactions, its counterparties, and valuations of such transactions.	Compliant	For 2021, the Audit Committee recommended the auditing firm of Isla Lipana & Co. as external auditor. The basis of the recommendation is that Isla Lipana & Co. is the leading auditing firm in the country and has shown adequacy, competence and probity in the conduct of the audit.	
2. Audit Committee ensures that the external auditor has adequate quality control procedures.	Compliant	Link – Aud Com Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf</a>	
<b>Recommendation 9.3</b>			
1. Company discloses the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest.	Compliant	For the policy, see Par. (k), Duties & Responsibilities, Audit Committee Charter and Section III(B)(8) of the CG Manual. There are no aggregate fees billed in each of the last three (3) fiscal years for products and services provided by Isla Lipana & Co., other than the audit services reported and a nonaudit service for IT consultancy work (P805,000) performed in	

		<p>2017. See Item 8 of the 2021 Annual Report.</p> <p>Links: CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p> <p>2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a></p> <p>AudCom Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf</a></p>	
2. Audit Committee stays alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.	Compliant	<p>See Par. (k), Duties &amp; Responsibilities, Audit Committee Charter and Section III(B)(8) of the CG Manual.</p> <p>Links –</p> <p>CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p> <p>Aud Com Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/Audit-Committee-Charter-2013.pdf</a></p>	
<b>Supplement to Recommendation 9.3</b>			
1. Fees paid for non-audit services do not outweigh the fees paid for audit services.	Compliant	<p>For 2021, Isla Lipana &amp; Co. received the following fees: For Audit Services – Php/5,400,000 For Non-Audit Services – none See Item 8 of the 2021 Annual Report.</p>	

		Links – 2021 AR: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/Full-Year-Dec-2021-Audited-with-SR_compressed.pdf</a>	
<b>Additional Recommendation to Principle 9</b>			
1. Company's external auditor is duly accredited by the SEC under Group A category.	Compliant	Roderick M. Danao Partner Isla Lipana & Co. CPA Cert No. 88453 P.T.R. No. 0011280, issued on January 5, 2021, Makati City SEC A.N. (individual) as general auditors 1585-AR-2, Category A, effective until 10-14-2022 SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements 29th Flr, Philamlife Tower, 8767 Paseo de Roxas, Makati / 8845-2728	
2. Company's external auditor agreed to be subjected to the SEC Oversight Assurance Review (SOAR) Inspection Program conducted by the SEC's Office of the General Accountant (OGA).	Compliant	As a Category A auditing firm, it is compulsory that Isla Lipana & Co. go through the SEC's SOAR Inspection Program. Isla Lipana & Co. has been accredited by the SEC as a Category A auditing firm under Accreditation No. 0142-SEC, valid for five years from Dec. 22, 2020.	
<b>Principle 10:</b> The company should ensure that the material and reportable non-financial and sustainability issues are disclosed.			
<b>Recommendation 10.1</b>			
1. Board has a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance (EESG)	Compliant	See Section VIII(C) of the CG Manual. Link – CG Manual:	

issues of its business, which underpin sustainability.		<a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
2. Company adopts a globally recognized standard/framework in reporting sustainability and non-financial issues.	Compliant	See 2021 Sustainability Report Link: <a href="https://dnl.com.ph/wp-content/uploads/2022/05/DNL-2021-Sustainability-Report_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/DNL-2021-Sustainability-Report_compressed.pdf</a>	
<b>Principle 11:</b> The company should maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This channel is crucial for informed decision-making by investors, stakeholders and other interested users.			
<b>Recommendation 11.1</b>			
1. Company has media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.	Compliant	Communication channels used by the company: website, Analyst's briefings, Quarterly reporting, Current reporting, investor conferences, investor relations office.  For details, please visit the IR page of the website at <a href="https://dnl.com.ph/investors/#events">https://dnl.com.ph/investors/#events</a>	
<b>Supplemental to Principle 11</b>			
1. Company has a website disclosing up-to-date information on the following:		D&L website –  <a href="https://dnl.com.ph/">https://dnl.com.ph/</a>	
a. Financial statements/reports (latest quarterly)	Compliant		
b. Materials provided in briefings to analysts and media	Compliant		
c. Downloadable annual report	Compliant		
d. Notice of ASM and/or SSM	Compliant		
e. Minutes of ASM and/or SSM	Compliant		

f. Company's Articles of Incorporation and By-Laws	Compliant		
<b>Additional Recommendation to Principle 11</b>			
1. Company complies with SEC-prescribed website template.	Compliant	D&L website – <a href="https://dnl.com.ph/">https://dnl.com.ph/</a>	
<b>Internal Control System and Risk Management Framework</b>			
<b>Principle 12:</b> To ensure the integrity, transparency and proper governance in the conduct of its affairs, the company should have a strong and effective internal control system and enterprise risk management framework.			
<b>Recommendation 12.1</b>			
1. Company has an adequate and effective internal control system in the conduct of its business.	Compliant	<p>The Board, with the assistance of the Audit Committee, oversees the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations. To strengthen internal controls, the Company has an Internal Audit team headed by Mr. Elmer Brillo, who also acts as the Chief Audit Executive.</p> <p>See also Financial Reporting &amp; Internal Controls, Audit Committee Charter and Part IX of the CG Manual. Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p> <p>The Internal Audit group provides independent and objective assurance and consulting services to the D&amp;L group. Reviews of internal audit control system are performed continuously as per audit engagement based on the approved audit plan.</p>	

2. Company has an adequate and effective enterprise risk management framework in the conduct of its business.	Compliant	See ERM Policy, 2021 Sustainability Report and BROC Charter. Links are:  ERM Policy - <a href="https://dnl.com.ph/corporate-governance/#policies">https://dnl.com.ph/corporate-governance/#policies</a>  2021 Sustainability Report - <a href="https://dnl.com.ph/wp-content/uploads/2022/05/DNL-2021-Sustainability-Report_compressed.pdf">https://dnl.com.ph/wp-content/uploads/2022/05/DNL-2021-Sustainability-Report_compressed.pdf</a>  BROC Charter - <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Risk-Oversight-Committee-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Risk-Oversight-Committee-Charter.pdf</a>	
<b>Supplement to Recommendations 12.1</b>			
1. Company has a formal comprehensive enterprise-wide compliance program covering compliance with laws and relevant regulations that is annually reviewed. The program includes appropriate training and awareness initiatives to facilitate understanding, acceptance and compliance with the said issuances.	Non-compliant		A policy of compliance with laws and regulations is included in the Code of Business Principles, under the heading “The Way We Do Business”. Link – COBP: <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a>
<b>Optional: Recommendation 12.1</b>			
1. Company has a governance process on IT issues including disruption, cyber security, and disaster recovery, to ensure that all key risks are identified, managed and reported to the board.		Provide information on IT governance process	
<b>Recommendation 12.2</b>			
1. Company has in place an independent internal audit function that provides an independent and objective assurance, and consulting services	Compliant	Internal audit is in-house.  The IA Charter is available on the website. Link –	

designed to add value and improve the company's operations.		IA Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/DNL-Internal-Audit-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/DNL-Internal-Audit-Charter.pdf</a>	
<b>Recommendation 12.3</b>			
1. Company has a qualified Chief Audit Executive (CAE) appointed by the Board.	Compliant	The CAE is Mr. Elmer Brillo.  The IA Charter is available on the website. Link – IA Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/DNL-Internal-Audit-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/DNL-Internal-Audit-Charter.pdf</a>	
2. CAE oversees and is responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider.	Compliant	See Duties & Responsibilities of CAE, Internal Audit Charter Link – IA Charter: <a href="https://dnl.com.ph/wp-content/uploads/2019/03/DNL-Internal-Audit-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/03/DNL-Internal-Audit-Charter.pdf</a>  No portion internal audit activity is outsourced.	
3. In case of a fully outsourced internal audit activity, a qualified independent executive or senior management personnel is assigned the responsibility for managing the fully outsourced internal audit activity.	Non-compliant (not applicable)		This recommendation is not applicable for the period covered because the entire internal audit function is done in-house.
<b>Recommendation 12.4</b>			
1. Company has a separate risk management function to identify, assess and monitor key risk exposures.	Compliant	The Company has a separate Risk Management Function led by the Head of Risk Management. See Section IX(D), CG Manual. Link – CG Manual:	



		<a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>  To have a more holistic Risk Management Process, the three lines of defense will be implemented through the following:  1. First Line of Defense: Process Owners identify, assess and monitor risk through the risk management process  2. Second Line of Defense: Risk Management provides the Framework and Process in Risk Identification, Assessment and Monitoring. This also include oversight to all first line of defense and regular reporting of top risk areas to Management.  3. Third Line of Defense: Internal Audit ensures process is effectively implemented, controls are validated and effective. Results are also communicated to Management.	
<b>Supplement to Recommendation 12.4</b>			
1. Company seeks external technical support in risk management when such competence is not available internally.	Compliant	When necessary, the Company through its Head of Risk Management will seek external technical support. However, at present, the Company has not engaged outside support for risk management.	
<b>Recommendation 12.5</b>			
1. In managing the company's Risk Management System, the company has a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM).	Compliant	The functions of the CRO are temporarily assumed by Joselito Rivera in the early part of 2021. In May 17, 2021, Ms. Arlene Denzon was appointed as the CRO.	

2. CRO has adequate authority, stature, resources and support to fulfill his/her responsibilities.	Compliant	<p>Ms. Arlene S. Denzon has a solid background and experience in Risk Management, Governance, Internal Audit, Finance, Company Restructuring, and Project Management of various industries, with over 31 years of experience leading and advising top management and operating units on managing risks, preventing leakage, improving revenues and maximizing cost efficiencies.</p> <p>For the policy, see Section IX(E) of the CG Manual. Link – <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p>	
<b>Additional Recommendation to Principle 12</b>			
1. Company's Chief Executive Officer and Chief Audit Executive attest in writing, at least annually, that a sound internal audit, control and compliance system is in place and working effectively.	Compliant	See Annex A hereof	
<b>Cultivating a Synergic Relationship with Shareholders</b>			
<b>Principle 13:</b> The company should treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.			
<b>Recommendation 13.1</b>			
1. Board ensures that basic shareholder rights are disclosed in the Manual on Corporate Governance.	Compliant	<p>See Section X(A) of the CG Manual and Corporate Governance page of the website. Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>  <a href="https://dnl.com.ph/corporate-governance/">https://dnl.com.ph/corporate-governance/</a></p>	

2. Board ensures that basic shareholder rights are disclosed on the company's website.	Compliant	Links – <a href="https://dnl.com.ph/corporate-governance/">https://dnl.com.ph/corporate-governance/</a>	
<b>Supplement to Recommendation 13.1</b>			
1. Company's common share has one vote for one share.	Compliant	See Article III, Section 6 of the By-Laws. Link – By-Laws: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf</a>	
2. Board ensures that all shareholders of the same class are treated equally with respect to voting rights, subscription rights and transfer rights.	Compliant	See Article III, Section 6 of the By-Laws. Link – By-Laws: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf</a>	
3. Board has an effective, secure, and efficient voting system.	Compliant	See Article III, Section 6 of the By-Laws. Link – By-Laws: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf</a>  Voting is by poll.	
4. Board has an effective shareholder voting mechanisms such as supermajority or “majority of minority” requirements to protect minority shareholders against actions of controlling shareholders.	Non-compliant		The Company observes the voting requirement prescribed by the Revised Corporation Code and other relevant laws.
5. Board allows shareholders to call a special shareholders' meeting and submit a proposal for consideration or agenda item at the AGM or special meeting.	Compliant	See Article III, Section 2 of the By-Laws. Link – By-Laws: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Amended-By-Laws.pdf</a>	

6. Board clearly articulates and enforces policies with respect to treatment of minority shareholders.	Compliant	See Section X(A) of the CG Manual; “Our Shareholders”, Code of Business Principles; and Shareholders’ Rights Page of the website. Links – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a> COBP: <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a> Shareholders’ Rights: <a href="https://dnl.com.ph/corporate-governance/#policies">https://dnl.com.ph/corporate-governance/#policies</a>	
7. Company has a transparent and specific dividend policy.	Compliant	Please see Investor Relations Page of the website under the heading Disclosure and Filings, Declaration of Dividends. Link – <a href="https://dnl.com.ph/investors/#reports">https://dnl.com.ph/investors/#reports</a>  In 2021, cash dividends were paid 38 days after declaration.	
<b>Optional: Recommendation 13.1</b>			
1. Company appoints an independent party to count and/or validate the votes at the Annual Shareholders’ Meeting.	Compliant	In 2021, the votes were counted by Isla Lipana & Co.	
<b>Recommendation 13.2</b>			
1. Board encourages active shareholder participation by sending the Notice of Annual and Special Shareholders’ Meeting with sufficient and relevant information at least 28 days before the meeting.	Compliant	The notice, agenda and preliminary information statement were made available April 29, 2021 or 39 days before the Annual Stockholders Meeting on June 7, 2021. No remuneration or any changes therein were included in the agenda of the meeting.	

		To verify, please see PSE disclosure at this link:  <a href="https://edge.pse.com.ph/openDiscViewer.do?edge_no=201f6adeaa764d9b5d542af6f1e997b9">https://edge.pse.com.ph/openDiscViewer.do?edge_no=201f6adeaa764d9b5d542af6f1e997b9</a>	
<b>Supplemental to Recommendation 13.2</b>			
1. Company’s Notice of Annual Stockholders’ Meeting contains the following information:		See 2021 Information Statement – <a href="https://edge.pse.com.ph/openDiscViewer.do?edge_no=201f6adeaa764d9b5d542af6f1e997b9">https://edge.pse.com.ph/openDiscViewer.do?edge_no=201f6adeaa764d9b5d542af6f1e997b9</a>	
a. The profiles of directors (i.e., age, academic qualifications, date of first appointment, experience, and directorships in other listed companies)	Compliant		
b. Auditors seeking appointment/re-appointment	Compliant		
c. Proxy documents	Compliant		
<b>Optional: Recommendation 13.2</b>			
1. Company provides rationale for the agenda items for the annual stockholders meeting	Compliant	See 2021 Information Statement – <a href="https://edge.pse.com.ph/openDiscViewer.do?edge_no=201f6adeaa764d9b5d542af6f1e997b9">https://edge.pse.com.ph/openDiscViewer.do?edge_no=201f6adeaa764d9b5d542af6f1e997b9</a>	
<b>Recommendation 13.3</b>			
1. Board encourages active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders’ Meeting publicly available the next working day.	Compliant	See 2021 Information Statement – <a href="https://edge.pse.com.ph/openDiscViewer.do?edge_no=201f6adeaa764d9b5d542af6f1e997b9">https://edge.pse.com.ph/openDiscViewer.do?edge_no=201f6adeaa764d9b5d542af6f1e997b9</a>	
2. Minutes of the Annual and Special Shareholders’ Meetings were available on the company website within five business days from the end of the meeting.	Compliant	See 2021 ASM Minutes - <a href="https://dnl.com.ph/wp-content/uploads/2021/09/DNL_ASM2021_Minutes_June-7.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/DNL_ASM2021_Minutes_June-7.pdf</a>  Voting results for all agenda items, including the approving, dissenting and abstaining votes, are indicated in the minutes.	

		<p>The voting on resolutions was by poll.</p> <p>Opportunity to ask questions was given after each agenda items. Questions, if any, and the answers given were reflected in the minutes.</p>	
<b>Supplement to Recommendation 13.3</b>			
1. Board ensures the attendance of the external auditor and other relevant individuals to answer shareholders questions during the ASM and SSM.	Compliant	<p>The CFO, IRO and external auditor were present during the ASM</p> <p>See 2021 ASM Minutes - <a href="https://dnl.com.ph/wp-content/uploads/2021/09/DNL_ASM2021_Minutes_June-7.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/DNL_ASM2021_Minutes_June-7.pdf</a></p>	
<b>Recommendation 13.4</b>			
1. Board makes available, at the option of a shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner.	Compliant	<p>See Section X(C) of the CG Manual. Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p>	
2. The alternative dispute mechanism is included in the company's Manual on Corporate Governance.	Compliant	<p>See Section X(C) of the CG Manual. Link – CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p>	
<b>Recommendation 13.5</b>			
1. Board establishes an Investor Relations Office (IRO) to ensure constant engagement with its shareholders.	Compliant	<p>CRISSA BONDAD Investor Relations Officer T: 8635-0680 F: 8635-0703 E: ir@dnl.com.ph</p>	
2. IRO is present at every shareholder's meeting.	Compliant	The IRO was present during the ASM	
<b>Supplemental Recommendations to Principle 13</b>			

1. Board avoids anti-takeover measures or similar devices that may entrench ineffective management or the existing controlling shareholder group	Compliant	The Company's public float is maintained at a level well above the minimum required by law.	
2. Company has at least thirty percent (30%) public float to increase liquidity in the market.	Non-Compliant	To verify, see the Public Ownership Report at this link: <a href="https://edge.pse.com.ph/openDiscViewer.do?edge_no=8b7bb546774929073470cea4b051ca8f">https://edge.pse.com.ph/openDiscViewer.do?edge_no=8b7bb546774929073470cea4b051ca8f</a>	Company's public float as of Dec 31, 2021 is 28.84%
<b>Optional: Principle 13</b>			
1. Company has policies and practices to encourage shareholders to engage with the company beyond the Annual Stockholders' Meeting		Disclose or provide link/reference to policies and practices to encourage shareholders' participation beyond ASM	
2. Company practices secure electronic voting in absentia at the Annual Shareholders' Meeting.	Compliant	Please see notice at this link: 2021 ASM Notice: <a href="https://dnl.com.ph/wp-content/uploads/2021/08/NOTICE-AND-AGENDA.pdf">https://dnl.com.ph/wp-content/uploads/2021/08/NOTICE-AND-AGENDA.pdf</a>	
<b>Duties to Stakeholders</b>			
<b>Principle 14:</b> The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders should have the opportunity to obtain prompt effective redress for the violation of their rights.			
<b>Recommendation 14.1</b>			
1. Board identifies the company's various stakeholders and promotes cooperation between them and the company in creating wealth, growth and sustainability.	Compliant	The company's stakeholders include its shareholders, management and employees, suppliers, clients and the community. The company's policies for its stakeholders are in the Code of Business Principles. Moreover, the Company runs a CSR program. Details of its CSR initiatives are in the CSR Page of the website. Links – COBP: <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a> CSR: <a href="https://dnl.com.ph/csr/">https://dnl.com.ph/csr/</a>	

<b>Recommendation 14.2</b>			
1. Board establishes clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.	Compliant	See Section X, CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
<b>Recommendation 14.3</b>			
1. Board adopts a transparent framework and process that allow stakeholders to communicate with the company and to obtain redress for the violation of their rights.	Compliant	<p>The Company adopted a Whistleblowing Policy to encourage reporting of irregularities or any concerns and assist stakeholders in seeking redress for their grievances freely and without fear of penalty. In addition, the Company created a dedicated email where stakeholders may send their concerns. See also Section X(B)(3) of the CG Manual.</p> <p>Link –</p> <p>Whistleblowing: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_Whistleblowing.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_Whistleblowing.pdf</a></p> <p>CG Manual: <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a></p> <p>For stakeholder concerns, contact details are: T: 8635-0680 F: 8635-0703 E: <a href="mailto:info@dnl.com.ph">info@dnl.com.ph</a> (dedicated email)</p>	
<b>Supplement to Recommendation 14.3</b>			
1. Company establishes an alternative dispute resolution system so that conflicts and	Compliant	See Section X(C) of the CG Manual. Link – CG Manual:	



differences with key stakeholders is settled in a fair and expeditious manner.		<a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>	
<b>Additional Recommendations to Principle 14</b>			
1. Company does not seek any exemption from the application of a law, rule or regulation especially when it refers to a corporate governance issue. If an exemption was sought, the company discloses the reason for such action, as well as presents the specific steps being taken to finally comply with the applicable law, rule or regulation.	Compliant	There were no requests for exemption by the company for the period covered.	
2. Company respects intellectual property rights.	Compliant	There has been no complaint against the Company for infringement of intellectual property.	
<b>Optional: Principle 14</b>			
1. Company discloses its policies and practices that address customers' welfare		Identify policies, programs and practices that address customers' welfare or provide link/reference to a document containing the same.	
2. Company discloses its policies and practices that address supplier/contractor selection procedures		Identify policies, programs and practices that address supplier/contractor selection procedures or provide link/reference to a document containing the same.	
<b>Principle 15:</b> A mechanism for employee participation should be developed to create a symbiotic environment, realize the company's goals and participate in its corporate governance processes.			
<b>Recommendation 15.1</b>			
1. Board establishes policies, programs and procedures that encourage employees to actively participate in the realization of the company's goals and in its governance.	Compliant	See employee welfare policies and initiatives at this link: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_EmployeeDevelopmentandGrowth.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_EmployeeDevelopmentandGrowth.pdf</a>	
<b>Supplement to Recommendation 15.1</b>			

1. Company has a reward/compensation policy that accounts for the performance of the company beyond short-term financial measures.	Compliant	The Company initiated a Performance Incentive Scheme whereby monetary incentive shall be given to the employees when there is an increase in net income of the Company in an amount that would depend on the rate of increase.	
2. Company has policies and practices on health, safety and welfare of its employees.	Compliant	See employee welfare policies and initiatives at this link: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_EmployeeDevelopmentandGrowth.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_EmployeeDevelopmentandGrowth.pdf</a>	
3. Company has policies and practices on training and development of its employees.	Compliant	See employee welfare policies and initiatives at this link: <a href="https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_EmployeeDevelopmentandGrowth.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_EmployeeDevelopmentandGrowth.pdf</a>	
<b>Recommendation 15.2</b>			
1. Board sets the tone and makes a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct.	Compliant	See Code of Business Principles under heading “The Way We Handle Conflicts of Interest & Maintain Integrity”. Link – COBP: <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a>	
2. Board disseminates the policy and program to employees across the organization through trainings to embed them in the company’s culture.	Compliant	The policy is disseminated by posting on the website and inclusion in orientations for new employees.	
<b>Supplement to Recommendation 15.2</b>			
1. Company has clear and stringent policies and procedures on curbing and penalizing employee involvement in offering, paying and receiving bribes.	Compliant	See Code of Business Principles under heading “The Way We Commit to the Code”. Link –	

		<p>COBP:  <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a></p> <p>There has been no finding of any violations of the company policy.</p>	
<b>Recommendation 15.3</b>			
1. Board establishes a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation	Compliant	<p>See Whistleblowing Policy on the website.  Link –  Whistleblowing:  <a href="https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_Whistleblowing.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_Whistleblowing.pdf</a></p> <p>The framework includes procedures to protect the employees from retaliation.</p>	
2. Board establishes a suitable framework for whistleblowing that allows employees to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns.	Compliant	<p>See Whistleblowing Policy on the website.  Link –  Whistleblowing:  <a href="https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_Whistleblowing.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/DL-CompanyPolicies_Whistleblowing.pdf</a></p>	
3. Board supervises and ensures the enforcement of the whistleblowing framework.	Compliant	<p>See Section XI(B)(3) of the CG Manual and Section X(D)(3) of the Board Charter.  Links –  CG Manual:  <a href="https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf">https://dnl.com.ph/wp-content/uploads/2021/09/Revised-Manual-on-Corporate-Governance-2020-2.pdf</a>  Board Charter:  <a href="https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf">https://dnl.com.ph/wp-content/uploads/2019/04/Board-Charter.pdf</a></p>	

**Principle 16:** The company should be socially responsible in all its dealings with the communities where it operates. It should ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

**Recommendation 16.1**

1. Company recognizes and places importance on the interdependence between business and society, and promotes a mutually beneficial relationship that allows the company to grow its business, while contributing to the advancement of the society where it operates.	Compliant	See Code of Business Principles under the headings “Our Community” and “Our Environment”. The CSR activities are detailed in the CSR Page of the website. Link – COBP: <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a>  CSR: <a href="https://dnl.com.ph/csr/">https://dnl.com.ph/csr/</a>	
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**Optional: Principle 16**

1. Company ensures that its value chain is environmentally friendly or is consistent with promoting sustainable development	Compliant	See Code of Business Principles under the heading “Our Environment”. Link – COBP: <a href="https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf">https://dnl.com.ph/wp-content/uploads/2019/02/DnL-Code-of-Business-Principles.pdf</a>	
2. Company exerts effort to interact positively with the communities in which it operates	Compliant	The Company prioritizes the communities where it operates in its CSR efforts. For instance, among the beneficiaries of its CSR efforts are schools within the barangays it operates in. The CSR activities are detailed in the CSR Page of the website. Link – CSR: <a href="https://dnl.com.ph/csr/">https://dnl.com.ph/csr/</a>	

Pursuant to the requirement of the Securities and Exchange Commission, this Integrated Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Quezon on MAY 25 2022.

### SIGNATURES

WYN YONG L. LAO

Chairman of the Board

ALVIN D. LAO

President

MERCEDITA S. NOLLEDO

Independent Director

CORAZON S. DE LA PAZ-BERNARDO

Independent Director

FILEMON T. BERBA, JR.

Independent Director

LYDIA R. BALATBAT-ECHAUZ

Independent Director

FRANCO DIEGO Q. LAO

Compliance Officer


KRISTINE ANN C. CATINDIG-ONG

Corporate Secretary

SUBSCRIBED AND SWORN to before me this 25 MAY 2022, affiant(s) exhibiting to me their valid proof of identification, as follows:

Name	Valid ID	Issued on/Valid until
Yin Yong L. Lao		Feb. 12, 2020 / Feb. 11, 2030
Alvin D. Lao		Apr. 24, 2019 / Apr. 23, 2029
Filemon T. Berba, Jr.		July 12, 2010
Mercedita S. Nollado		Sept. 14, 2017 / Sept. 13, 2022
Corazon S. de la Paz-Bernardo		
Lydia R. Balatbat-Echauz		Oct. 2, 2007
Franco Diego Q. Lao		Nov. 10, 2018 / Nov. 9, 2028
Kristine Ann C. Catindig-Ong		May 11, 2024

Doc No.: 615;  
Page No.: 52;  
Book No.: VI;  
Series of 2022.

  
**ATTY. ROGELIO J. BOLIVAR**  
NOTARY PUBLIC IN QUEZON CITY  
AM Adm. Matter No. 204 June 21, 2021 to Dec. 31, 2022  
IBP O.R. No. 132134 MD 2021 & IBP O.R. No. 133076 MD 2022  
PTR O.R. No. 0095112 D 1/4/21 / Roll No. 33832 / TIN# 129-871-009  
MCLE No. VI-0029583 valid from 12/16/19 valid until 04/14/22 Quezon City  
Address: 31-F Harvard St. Cubao, Q.C.

**JOINT ATTESTATION**

We, **ALVIN D. LAO** and **ELMER C. BRILLO**, both of legal age, with office address at 65 Calle Industria, Bagumbayan, Quezon City, after being sworn in accordance with law hereby certify that:

1. We are the President & Chief Executive Officer and the Internal Auditor, respectively, of **D&L INDUSTRIES, INC.** (the "Company").
2. Under Section IX of the Company's Revised Manual of Corporate Governance, the Company shall have an adequate and effective internal control system and an enterprise risk management framework in the conduct of its business, taking into account its size, risk profile and complexity of operations. The internal control system shall embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; monitoring activities and correcting deficiencies. Moreover, the enterprise risk management framework may include such activities as the identification, sourcing, measurement, evaluation, mitigation and monitoring of risk.
3. Pursuant thereto, the Company established an Internal Audit Department headed by a Chief Audit Executive and overseen by the Audit Committee and with the key function of providing an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the Company, (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management; monitoring and evaluating the adequacy and effectiveness of the Company's internal control system, integrity of financial reporting, and security of physical and information assets.
4. Internal Audit shall adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.
5. The Company engaged the services of Isla Lipana & Co. as external auditor which rendered an audit opinion to the effect that the consolidated financial statements of the Company present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2020 and 2021, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2021 in accordance with the Philippine Financial Reporting Standards (PFRSs).
6. Given the foregoing framework, and based on the results of the respective activities undertaken by the internal and external auditors of the Company for the year 2021, we confirm that a sound internal audit, control and compliance system is in place and working effectively in the Company.

IN WITNESS WHEREOF, we have hereto set our hand this MAY 25 2022 in Quezon City.

**ALVIN D. LAO**  
President and Chief Executive Officer

**ELMER C. BRILLO**  
Internal Auditor

Subscribed and sworn to before me, a Notary Public for and in Quezon City, on MAY 25 2022,  
affiants personally appeared, exhibiting their respective competent evidence of identification card:

Name	Valid ID	Expiring on
Alvin D. Lao		Apr. 23, 2029
Elmer C. Brillo		July 4, 2023

Doc. No. 405 ;  
Page No. 82 ;  
Book No. XX ;  
Series of 2022.

**ATTY. KRISTINE ANN C. CATINDIG**  
NOTARY PUBLIC for QUEZON CITY  
Adm. Matter No. NP-092, Until Dec. 31, 2022  
No. 65 Industria St., Bagumbayan, QC  
PTR No. 2443924, 1-4-22, QC / IBP No. 183278, 1-3-22, QC  
TIN NO. 210-016-964 / ROLL NO. 52735  
MCLE No. VI - 0022626, 4-2-2019





# Better Lives through Sustainable Innovation

D&L Industries, Inc.  
Sustainability Report 2022  
April 15, 2023



## About the Cover

Drone shot by night of the Company's three new factories inside the First Industrial Township–Special Economic Zone (FIT-SEZ) in Tanauan, Batangas.

D&L Premium Foods, Inc. and Natura Aeropack Corporation are scheduled to commence operations in mid-2023.

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## Message from the President & CEO

GRI 2-22

Dear Fellow Stakeholders,

In 2022, our Company recorded its highest ever net income, demonstrating a full recovery from the COVID pandemic amidst a confluence of macroeconomic headwinds and an Omicron surge early in January. Last year's results outperformed expectations and were mainly driven by strong consumer spending amidst a wider economic reopening and the Company's exports undergoing resilient growth. The three biggest business segments of the Company—food ingredients, oleochemicals and other specialty chemicals, and specialty plastics—all booked positive earnings growth for the year which were either at or close to record highs.

D&L's robust earnings for 2022 demonstrated its ability to weather various macroeconomic conditions given its diversified businesses, the essential nature of the products it manufactures, and its ability to adjust its selling prices regularly.

While macroeconomic risks remain in the form of elevated inflation, the threat of a US recession, and a global banking turmoil, we remain optimistic on the structural growth story of the Company. By the middle of 2023, our plant in Batangas is slated to commence its commercial operations. It will further complement our capabilities that will allow us to increase our relevance in the overall production chain and service new and bigger customers globally.

From a sustainability perspective, the new plant is crucial in our high impact sustainability initiatives where we advocate for a dramatic reduction in the carbon footprint of the coconut oil and derivatives industry, by enabling global brands to buy direct from source. This direct from source approach simply means converting raw materials into finished goods in the country of raw material origin, instead of going through multi-leg production stages which usually happen across different locations in the globe.

We believe that our Batangas facility and our high impact sustainability efforts put us in a very good position as the world shifts towards more sustainable consumption. With a strong conviction in the long-term prospects of the businesses we are in, we look forward with eagerness and hope. We see the coming decade as transformational for us, both from a business and sustainability perspective.



We are deeply grateful for the trust and support given by our shareholders throughout the years. Rest assured that D&L's management team is working extra hard to continuously enhance shareholder value while building a more sustainable future for all of us.

Alvih D. Lao

## About this Report

GRI 2-1, 2-3

In line with its commitment to transparency, accountability, and proactive stakeholder engagement, D&L Industries, Inc. ("D&L" or "the Company") has updated its Annual Sustainability Report, reporting the material topics on economic, environmental, and social impacts for the 4<sup>th</sup> year ending December 2022.

This Report should be read in conjunction with the D&L Annual Report 2022, and both documents are available online at the Company website, (<http://www.dnl.com.ph/>).

For questions or feedback, please contact D&L Investor Relations at [ir@dnl.com.ph](mailto:ir@dnl.com.ph).



## Better Lives through Sustainable Innovation

GRI 2-29, 3-1; 3-3

### 2022 was a great year for D&L!

The Company emerged from another year of the pandemic with its strongest corporate performance in history, eclipsing its record net income in 2018.

This was not apparent in January 2022 when Omicron wreaked havoc through the ranks of management and staff returning from the Christmas holidays. Thankfully, the Company's health protocols and relentless drive to vaccinate stakeholders and their families bore fruit, as most COVID infections at this time were mild and cured within a week or so. Still, leadership prepared contingency plans as weakness in sales at the beginning of the year and the continuing supply chain disruptions threatened the hoped-for recovery from the global pandemic.

In April, the Company's leaders from across the business, operations, and support units spent the whole of the Palm Sunday weekend on a Strategic Thinking

Workshop. This laid the groundwork for how the Group would reshape and refocus its efforts for the rest of the year, and the near future.

A key theme permeating discussions during the early part of 2022 was ESG, which McKinsey & Co. defines as:

*Environmental, social, and governance (ESG) criteria [are] useful in measuring a company's progress toward achieving social goals in addition to creating shareholder value.<sup>1</sup>*

With the worst of the pandemic hopefully in the rearview mirror, external stakeholders such as investors and large business customers frequently queried the Company on its ESG policies and commitments, particularly where it stood on supply chain concerns such as traceability and social impacts, over and above economic and environmental ones, both positive and negative.

By mid-2022, the Global Reporting Initiative (GRI) released a new set of Universal, Sector, and Topic Standards for all organizations reporting from January 1, 2023 onwards, with a renewed focus on "mandatory human rights-related disclosures"<sup>2</sup>.

<sup>1</sup> "What is ESG?," McKinsey & Company, accessed January 30, 2023, <https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-esg>.

<sup>2</sup> Global Reporting Initiative, "Public FAQs on Universal Standards," accessed January 30, 2023, 7, <https://www.globalreporting.org/media/zauil2q3/public-faqs-universal-standards.pdf>.

Throughout the year, the Company developed new and tweaked existing policies and processes. Conversations vertically across ranks and horizontally across functions and stakeholder groups led to plans and actions increasingly geared towards good governance and positive impacts, as well as in mitigating risks, non-sustainable outcomes, and negative consequences. ESG filtered into Google Meets, weekly and monthly reports, and informal discussions behind COVID masks.

As leadership assessed these developments, pondered their implications, and engaged in continuing dialogues and actions with both internal and external stakeholders, the Company's commitment to ESG gained in depth and breadth.

Along the way, a battle cry emerged: Better lives through sustainable innovation!

*Better lives* is the desired outcome.

Better profits for investors. Better jobs for management and staff. Better work-life balance for families. Better business for suppliers. Better products for customers. Better air quality, productive land, and cleaner waters. Better communities. A better future for all.

To *better lives* is what D&L strives to do every day and everywhere, as a corporation and in cooperation with like-minded others.

Sustainable investments for the capital markets. Fair trade for farmers and upstream communities. Living wages. Recycling, reusing, and upcycling resources. Resilient supply chains. Non-polluting factories. Reliable distribution networks. Educational scholarships to qualified deserving students.

*Sustainable innovation* takes the Company's core strength and takes it to the next level.

D&L is known for its deep knowledge of chemistry, engineering, product design, and advanced manufacturing capabilities. Its prowess is recognized for quality and cost-competitive solutions for customized specialty and strategic ingredients for the food, plastics, oleochemicals and OEM/ODM industries. It leads in using sustainable feedstock to serve diverse basic industry market segments.

Sustainable innovation is all about telling the Company's story: what it does, how it does them, why it does them, who it does them with, who it does them for.

This is D&L's story, its ongoing ESG journey.

## ESG | Five Themes

GRI 2-9, 3-1; 3-3

D&L has identified five themes on what comprises ESG in the Company, each embodying the drive for greater positive and lesser negative impacts across a combination of environmental and human conditions.

**Sustainable Growth** is the foundation of the Company's ESG efforts, and is achieved through good governance, risk management, and a culture of ethics that promotes positive outcomes for all stakeholders. These principles lay the groundwork for how the Company builds competitive advantage on top of its capabilities.

**Responsible Products** use sustainable materials, ethical supply chains, and carefully calibrated processes to create products that have positive impacts on society and the environment.

The **Resilient Supply** chain is built through close collaboration with upstream and downstream partners to promote sustainable practices, reduce disruptions, and enhance the lives of each stakeholder in the value chain. This approach drives the Company's Coconut Sustainability Initiative.

The Company promotes **Better Lives** for its stakeholders through diversity and inclusion in the workplace, by delivering best-in-class products and services for its clients and customers, and by working with its communities on safety, training, education, and holistic development.

Finally, D&L engages in **Outreach** efforts by itself and through its various subsidiaries, especially through independent non-profit Lao Foundation, Inc. (LFI), to fund its own initiatives or forge multi sectoral partnerships that positively impact the lives of the families of its workforce, the communities and environment around its facilities, and beyond.

These five themes promote understanding, transparency, and accountability in the Company's ESG performance, fostering a culture of trust and collaboration among its various stakeholders.

# Sustainable Growth

Robust Fundamentals





## Sustainable Growth

GRI 3-1, 3-3

A strong foundation is necessary for sustainability, encompassing both stable structures and the right values.

Good governance guarantees clear and adequate objectives and processes, fair and equitable rules, and proper representation. It involves taking deliberate and dedicated action to benefit all stakeholders.

Enterprise Risk Management (ERM) aims to prevent adverse events, reduce negative impacts, and transform risks into value-creation opportunities.

Capabilities are the foundation for success, adding value and competitive advantage in the market. Though setbacks may be unavoidable, they offer opportunities for learning, and perseverance and dedication lead to success.

## The Company

GRI 2-2, 2-6

D&L Industries is a Filipino company engaged in product customization and specialization for the food, chemicals, plastics, and consumer products ODM industries. The Company's principal business activities include manufacturing of customized food ingredients, specialty

raw materials for plastics, and oleochemicals for personal and home care use.

With a track record that spans over five decades, D&L has established itself as the dominant market leader in the industries it serves. It also enjoys long-standing customer relationships with the Philippine's leading consumer and manufacturing companies.

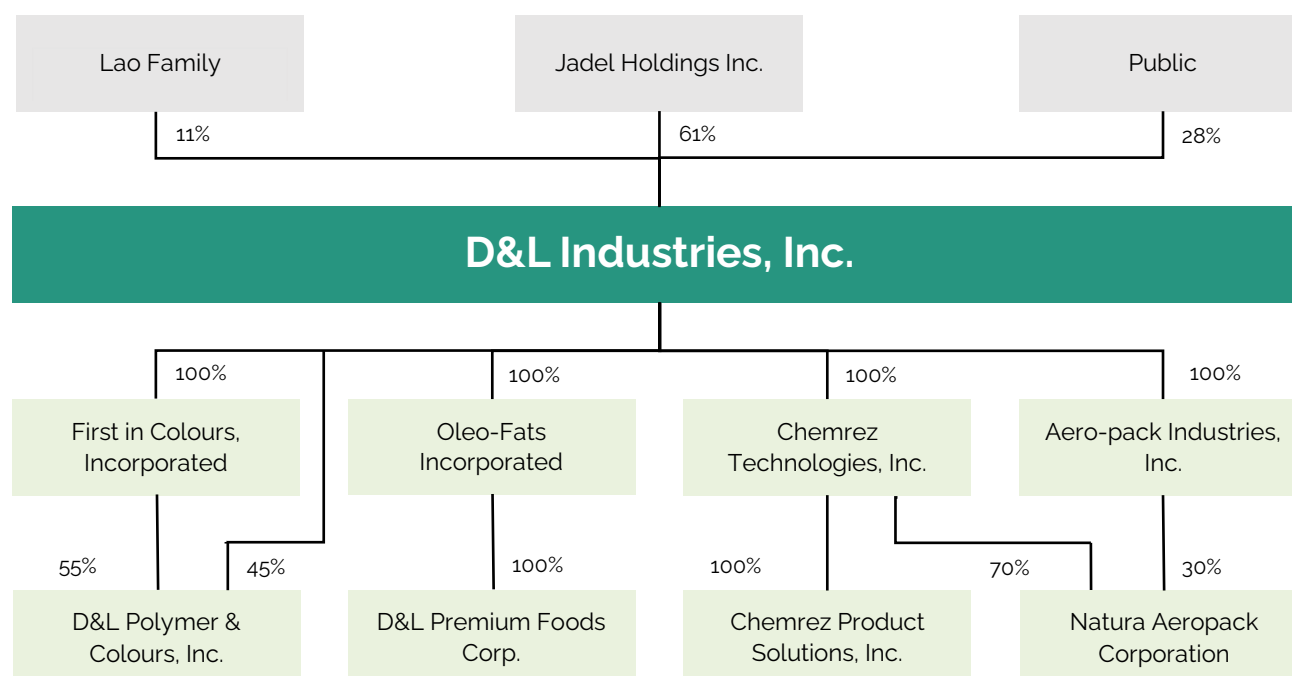
As the majority of the products that the Company manufactures caters to basic industries which are considered essential, D&L sees continued strong demand for its products even amidst global geopolitical, energy, and food supply uncertainties, even as pandemic fears still linger.

## Organization

The Company was incorporated on July 27, 1971.

It was listed on the Philippine Stock Exchange on December 12, 2012. It is 72% beneficially owned by the Lao family, the rest by the public.

The Company's registered office address and principal place of business is at 65 Calle Industria, Brgy. Bagumbayan, Quezon City, Philippines.



## Business Presence

GRI 2-2, 2-6

Food Ingredients
<b>Oleo-Fats, Incorporated</b> <b>D&amp;L Premium Foods Corp.*</b>  Fats & oils, specialty food ingredients, food safety products  Serves the domestic market Exports mostly to Asia, plus US & EU
Oleochemicals & Specialty Chemicals
<b>Chemrez Technologies, Inc.</b> Oleochemicals (cocobiodiesel & high-value coconut derivatives)  <b>Chemrez Product Solutions, Inc.</b> Resins, colorants, powder coating  Serves the domestic market Exports to Asia and US, UK, EU, & AU
Specialty Plastics
<b>First in Colours, Incorporated</b> Pigment blends, color and additive masterbatches  Predominantly domestic  <b>D&amp;L Polymer &amp; Colours, Inc.</b> Engineered polymers for various applications such as auto, construction, electrical, etc.  Domestic, plus exports predominantly to Asia
Consumer Products Original Design Manufacturer
<b>Aero-Pack Industries, Inc.</b> <b>Natura Aeropack Corporation*</b>  Consumer products for personal and home care applications in aerosol or bottle packaging  Predominantly domestic

*\*Pre-operating for the full year in 2022*

## Corporate Social Responsibility

GRI 2-2, 2-6

The Lao Foundation, Inc. (LFI) is an independent non-stock, non-profit organization which the Company partners with for its Corporate Social Responsibility (CSR) initiatives. Their work is discussed in [Resilient Supply](#), [Better Lives](#), and [Outreach](#).

## Culture

GRI 2-22, 2-24, 2-29

Altruism permeates D&L's culture, from excellence in every act, to every choice in favor of the best outcome for the majority of stakeholders.

Values passed on from the first to the second generation of leaders permeate the inclusive culture of excellence the Company cultivates and nurtures, throughout and across, within and beyond, its boundaries.

### Our Vision

To be the Philippines' Majority Leader in Sustainable Ingredients, Materials and Solutions, and a Major Exporter in identified continents.

### Our Mission

To excel and be the leader in the industries we serve.

We are dedicated to growth. We are not complacent, timid, or satisfied with the status quo.

We are research-oriented. We will keep abreast of the latest technology and have our fingers on the pulse of the market to identify the market needs that must be met.

We are committed to increase productivity and profitability, but not at the expense of ethics.

We will continuously enhance our reputation for quality and value. Our products and services must always represent good value for money and be competitive in the marketplace.

We will maintain our market leadership through creativity, innovation and excellence in performance tempered with experience.

We are proud of our employees. We consider them as our most valuable asset. We will maintain an atmosphere where our people can develop their abilities and potential while working together enthusiastically to achieve our goal.



We will contribute to the well-being of the communities in which we operate, and accept our responsibilities as citizens of the Philippines.

### Our Beliefs

Progress and development can be realized only through the combined efforts and cooperation of each member of our organization from the highest to the lowest.

Dedication to meeting customers' expectations and needs by providing them the best value from our products and the best service, through the combined efforts and cooperation of each member of the organization.

Passion for excellence in providing intelligent, responsible, and capable direction in the conduct of the business.

Conviction to manage company activities on the basis of the highest standards of conduct and ethics.

### Our Corporate Values

#### Passion to lead

Drive to excel  
Discipline and hard work  
Positive attitude

#### Being honest, fair, and humble

Integrity and honesty  
Fairness and humility

#### Caring together

Gratitude and appreciation  
Harmony and cooperation  
Courtesy and respect for others

### Code of Business Principles

GRI 2-15, 2-24, 2-27, 2-29, 415-1 | SDG 5.1, 5.5

The Company recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. Therefore, the following provisions are issued for the guidance of all internal and external parties concerned, as governance covenant between the Corporation and all its investors.

At D&L, our values are at the core of our work and our operations. Our corporate Code of Business Principles (the "Code") incorporates our commitment to this fundamental and basic belief and shows the way to doing things.

We enjoin our subsidiaries, affiliates, and member companies to adhere where ever and at all times to the set standards of conduct and behavior.

We strongly encourage our people as well as our suppliers, customers, contractors, and all those we partner with, to live up to the direction and guidance of the Code. We firmly believe upholding what is right and ethical greatly benefits all.

### The Way We Commit to the Code

We call upon our people to comply and commit to the Code of Business Principles. We exhort them to conform to the norms of conduct prescribed therein. We encourage them to seek clarification and guidance from their supervisors, the Head of HR, the Legal Counsel, and the Compliance Officer. We do not tolerate non-compliance. We enforce heavy disciplinary measures on those who ignore and fail to follow the Code. We expect more from our managers and supervisors. We look at them to inspire, lead and model the way of ethical behavior.

Our business unit heads and managers are ultimately responsible in ensuring compliance. We expect them to actively and visibly provide support. We enjoin them to patiently but persistently promote and encourage employees' adherence to the Code. We hope that our organizational leaders personally engage in assisting and training their own staff in the context of their specific duties and responsibilities.

We urge our employees to bring to the attention of their supervisor or of senior management any breach or suspected violation of the Code. We have support

provisions to safeguard strict confidentiality. We also assure that those reporting do not suffer the consequence of disclosing in confidence what they know.

### **The Way We Do Business**

We conduct business guided by the principles of honesty, integrity and transparency. We respect the legitimate rights and interests of those we transact with. We take into account the unique culture of the countries we operate in and comply with their laws and regulations.

### **The Way We Care for Our Stakeholders**

#### *Our People*

Our employees are our greatest asset. We provide them with opportunities for continuing skills and capability development. We communicate with and consult them. We provide them with safe and healthy working conditions. More importantly, we recognize the dignity and uniqueness of their person. We respect their freedom and their valid and lawful rights. We do not resort to force or any form of coercion. We do not employ child labor or engage minors to work.

We do not discriminate. We treat all equally regardless of race, religion, color, status, sexual orientation, ethnicity, or nationality. Our screening, selection, and hiring and compensation policies are solely based on qualifications. Our training, development, evaluation, promotion, reward, retention and separation procedures follow the principles of meritocracy and objectivity.

#### *Our Customers*

We offer products and services of the highest standards of quality and safety. We are committed to creating value. We make sure they are properly and accurately labelled. We use available and appropriate media communications to advertise their unique proposition.

#### *Our Community*

We recognize our responsibility as good corporate citizens. Our aim is to contribute to the development of the communities we operate in. Our goal is to create lasting and deep impact benefits to society.

We take extra care to avoid disruptions, if not minimize them.

#### *Our Environment*

We care for the environment. We are committed to sustainable development. We meet the ever-increasing needs of the business but never forget the conservation and preservation of nature. Our long-haul horizon goes beyond the present and stretches to generations yet to come. Our efforts not to endanger but rather enhance the ecosystem continue. We also recognize the importance of biodiversity and support the global community in protecting it.

#### *Our Business Partners*

We acknowledge the contribution of our customers, suppliers and business partners. We are grateful. We are strongly committed to continue building lasting and mutually benefiting relationships with them. We urge them to partner with us in the pursuit and practice of the Code.

#### *Our Shareholders*

We adopt the principles and practice of internationally accepted prescriptions of good corporate governance. We regularly update our shareholders with timely, reliable and accurate information on the company's operational performance and financial position. We continually communicate with them our key initiatives and major activities

### **The Way We Grow**

We are dedicated to growth. In pursuit thereof, we continually innovate. We develop new ways and new products to meet the changing needs of our customers.

We adopt strict standards of sound science and apply very disciplined testing procedures to ensure high level product quality and safety

### **The Way We Deal with Politics**

We cooperate with governments and other organizations in the protection and promotion of the company's legitimate business concerns. We closely collaborate with them in the development of

regulatory and legislative initiatives impacting our investments and interests. We do not in any way participate in party politics. We also neither make contributions in kind nor fund campaign connected activities

### **The Way We Handle Conflicts of Interest & Maintain Integrity**

Our employees are expected to keep clear from financial, business, or other relationships and activities that might be opposed to, in competition with, and disadvantageous to company businesses and the proper performance of their duties. We exhort them to conduct themselves in a manner that avoids even just the appearance of a conflict of interests between their personal self-interests and those of the company.

We refrain from receiving gifts beyond accepted, common, and customary courtesy, in cash or kind, directly or indirectly, that might impair judgement, provide preferential treatment, and result in unfair competition. We also do not subscribe to tendering nor accepting payments as bribes. We strongly advise that any demand or offer be readily rejected and immediately reported to management.

Our corporate funds, assets, services, and facilities are not to be used for any unlawful, unethical, and personal enrichment purpose.

## **Corporate Governance**

GRI 3-3, 2-9, 2-10, 2-11, 2-12, 2-13, 2-14, 2-17, 2-18, 2-19, 2-20, 2-22, 405-1 | SDG 5.1, 5.5, 8.5, 16.6, 16.7

D&L is committed to good Corporate Governance aligned with its purpose to Better Lives Through Sustainable Innovation for the Company's long-term success shared with all its stakeholders and the nation.

The Company's Corporate Governance provides for the system of stewardship, control and feedback that guides the organization in fulfilling its long-term economic, moral, legal and social obligations to all its stakeholders. It establishes the direction, feedback and control using regulations, performance standards, and ethical guidelines to hold everyone in the organization accountable starting from the Board of Directors (BOD) and Senior Management.

### *Commitment to Sustainability*

D&L recognizes the interdependence between business and society, and promotes a mutually beneficial relationship that allows the company to grow its businesses, while contributing to the advancement of the society. The Company commits to its social responsibility in all its dealings with the communities in which it operates and ensures that its business activities serve the environment and all its stakeholders in a positive and progressive manner. In this regard, D&L not only complies with existing regulations, but also voluntarily employs value chain processes which take into consideration Environmental, Economic, Social and Governance (EESG) issues and concerns.

## **Board of Directors**

D&L is headed by a competent BOD and is composed of directors, who individually and collectively, have working knowledge and experience relevant to the Company's industries. The Company's BOD has an appropriate mix of competence and expertise to fulfill its roles and responsibilities and respond to the needs arising from the evolving business environment and strategic direction.

To ensure the exercise of objective and independent judgement on all corporate affairs and for proper checks and balances, six (6) of the seven (7) Board seats are occupied by Non-Executives (NED), and four (4) of the six (6) NEDs are Independent Directors (ID). The BOD has three (3) female ID and sufficient diversity to ensure optimal decision-making is achieved to avoid the acceptance of a viewpoint or conclusion that represents

a perceived group consensus. In addition, the BOD has a Lead Director among the IDs to ensure independent views and perspectives. The Lead Independent Director has sufficient authority to lead the BOD in cases where management has clear conflicts of interest.

The NEDs conduct separate periodic meetings with the external auditor and head of internal audit, compliance and risk functions without any executive directors for proper checks and balance, constructive scrutiny of performance and satisfy themselves on the integrity of Company's internal control and effectiveness of the risk management systems.

Board of Directors		
Chairperson	Non-executive	Yin Yong L. Lao
Vice Chairperson	Non-executive	John L. Lao
Members	Lead Independent Director	Atty. Mercedita S. Nollado
	Independent Director	Corazon S. de la Paz-Bernardo
	Independent Director	Dr. Lydia R. Balatbat-Echaz
	Independent Director	Engr. Filemon T. Berba, Jr. <sup>†</sup>
	Executive	Alvin D. Lao

<sup>†</sup> Mr. Berba passed on last April 4, 2023. His position remains to be vacant as of this writing.

## Board Committees

The Board established committees composed of board members that focus on specific board functions to aid in the optimal performance of the BOD's roles and responsibilities. Each Committee has a Committee Charter that contains its purpose, membership, structure, operations, reporting process and other relevant information.

### Audit Committee

The Audit Committee enhances the Board's oversight capability over the Company's financial reporting, internal control system, internal and external audit as well as compliance with applicable laws, regulations, and internal policies. It is responsible for overseeing the Senior Management in establishing and maintaining an adequate, effective internal control framework that will allow operational efficiency and safeguarding of assets.

The Audit Committee is composed of four (4) IDs and all members have relevant background, knowledge, skills and experience in the areas of accounting, auditing and finance.

Audit Committee		
Chairperson	Independent Director	Corazon S. de la Paz-Bernardo
Members	Lead Independent Director	Atty. Mercedita S. Nollado
	Independent Director	Dr. Lydia R. Balatbat-Echaz
	Independent Director	Engr. Filemon T. Berba, Jr. <sup>†</sup>

### Related-Party Transaction Committee

The Related-Party Transaction (RPT) Committee evaluates relations between businesses and counterparties to continuously identify related-parties and review RPTs to ensure that these are undertaken on an arm's length basis that is appropriately monitored, reported and disclosed. The RPT Committee further ensures that no corporate or business resources are misappropriated or misapplied, and determines potential reputational risks that may arise as a result of or in connection with the RPTs.

Related-Party Transaction Committee		
Chairperson	Independent Director	Dr. Lydia R. Balatbat-Echaz
Members	Lead Independent Director	Atty. Mercedita S. Nollado
	Independent Director	Engr. Filemon T. Berba, Jr. <sup>†</sup>

### Corporate Governance Committee

The Company is committed to good corporate governance, which promotes the long-term interests of shareowners, strengthens Board and Management accountability, and helps build public trust in the Company.

The Corporate Governance (CG) Committee oversees the implementation of the corporate governance framework, principles and practices, and ensures its continued relevance in light of the Company's size, complexity, business strategy and the regulatory

environment. CG Committee also oversees the evaluation and assessment of the BOD and the Board Committees, nomination of BOD members and appointment and remuneration of key executives and officers.

Corporate Governance Committee		
Chairperson	Lead Independent Director	Atty. Mercedita S. Nollado
Members	Independent Director	Dr. Lydia R. Balatbat-Echaz
	Independent Director	Corazon S. de la Paz-Bernardo
	Non-executive	Yin Yong L. Lao

#### *Nomination Committee*

The Nomination Committee determines the nomination, screening and selection parameters of the Company's BOD, and ensures that the election and termination process conforms with applicable laws and regulations. The Nomination Committee further defines the general profile of board members in terms of knowledge, competencies and expertise that are appropriate and relevant to the Company's businesses.

Nomination Committee		
Chairperson	Non-executive	John L. Lao
Members	Independent Director	Engr. Filemon T. Berba, Jr. <sup>†</sup>
	Executive	Alvin D. Lao

#### *Compensation/Remuneration Committee*

The Compensation/Remuneration Committee establishes a formal and transparent procedure for developing a policy on the remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates.

Compensation/Remuneration Committee		
Chairperson	Non-executive	Yin Yong L. Lao
Members	Lead Independent Director	Atty. Mercedita S. Nollado
	Non-executive	John L. Lao

#### *Risk Oversight Committee*

The Risk Oversight Committee (ROC) helps the BOD in assuring that there is an effective and integrated risk management process in place. The ROC oversees that a sound Enterprise Risk Management (ERM) framework is instituted to effectively identify, monitor, assess and manage key business risks. The risk management framework guides the BOD in identifying business unit and enterprise-level risk exposures, as well as the effectiveness of the risk management strategies.

Risk Oversight Committee		
Chairperson	Independent Director	Engr. Filemon T. Berba, Jr. <sup>†</sup>
Members	Lead Independent Director	Dr. Lydia R. Balatbat-Echaz
	Independent Director	Corazon S. de la Paz-Bernardo
	Non-executive	John L. Lao
	Executive	Alvin D. Lao

## Executive Committee

During the intervals between the meetings, the BOD lawfully delegated to the Executive Committee (EXCOM) the exercise of the powers of the Board related to the management and direction of the affairs of the Company. All actions by the EXCOM are reported to the BOD at its meeting and may be subject to revision and alteration by the Board, provided that no rights of third parties are affected by targets and budgets, should there be any such revision or alteration.

Roles and responsibilities that may be relegated to the EXCOM include governance, strategic and operational leadership, drive portfolio/investment decisions, resource allocation, setting and approval budgets and hard targets, approval of strategic transactions and performance review.

Executive Committee		
Chairperson	Non-executive	Dean L. Lao
Members	Non-executive	Leon L. Lao
	Non-executive	Alex L. Lao
	Non-executive	Yin Yong L. Lao
	Non-executive	John L. Lao
	Executive	Alvin D. Lao

## Advisory Board

Acknowledging the wisdom of the Founders, the Advisory Board was established as a source of insights and advice, help explore new opportunities by stimulating robust, high-quality conversations and stimulate critical thinking to increase the confidence of decision-makers who represent the Company to help the organization achieve its goals and objectives. The Advisory Board helps fill in the knowledge gap in the Company and acts like an impartial third-party or a sounding board.

Advisory Board		
Members	Non-executive	Dean L. Lao
	Non-executive	Leon L. Lao
	Non-executive	Alex L. Lao

## Corporate Governance & External Parties

### External Auditors

**PwC Philippines - Isla Lipana & Co.**

### Government Agencies

**Board of Investments (BOI)**  
**Bureau of Animal Industry (BAI)**  
**Bureau of Customs (BOC)**  
**Bureau of Fire Protection (BFP)**  
**Bureau of Internal Revenue (BIR)**  
**Department of Environment and Natural Resources (DENR)**  
**Department of Labor and Employment (DOLE)**  
**Department of Trade and Industry (DTI)**  
**Energy Regulatory Commission (ERC)**  
**Fertilizer and Pesticide Authority (FPA)**  
**Food and Drug Administration (FDA)**  
**Intellectual Property Office (IPO)**  
**Laguna Lake Development Authority (LLDA)**  
**Land Transportation Office (LTO)**  
**Local Government Units (LGUs)**  
**National Privacy Commission (NPC)**  
**Philippine Drug Enforcement Agency (PDEA)**  
**Philippine Economic Zone Authority (PEZA)**  
**Securities and Exchange Commission (SEC)**

### Investor Conferences

#### JP Morgan Philippine Conference

January 27, 2022 | Virtual

#### Credit Suisse Finding Alpha Conference

February 24, 2022 | Virtual

#### CLSA ASEAN Forum

March 9-10, 2022 | Virtual

#### Jefferies - Regis CEO Roundtable Forum

March 24, 2022 | Virtual

#### Nomura Investment Forum Asia

June 10, 2022 | Virtual

#### PSE Star Investor Day

August 17, 2022 | Virtual

### Non Deal Roadshow in London

September 19 - 21 | In-person, London

### UBS Consumer Conference

November 15 | In-person, Manila

### Membership Associations

GRI 2-28

#### Aero-Pack Industries, Inc.

Chamber of Cosmetics Industry of the Philippines, Inc. (CCIP)  
Cosmetic Toiletry & Fragrance Association of the Philippines, Inc.

#### Chemrez Product Solutions, Inc.

Philippine Association of Paint Manufacturers, Inc. (PAPM)

#### Chemrez Technologies, Inc.

Chamber of Cosmetics Industry of the Philippines, Inc. (CCIP)  
Entrepreneurs' Organization Philippines (EO)  
Metalworking Industries Association of the Philippines, Inc. (MIAP)  
Philippine Oleochemical Manufacturers Association (POMA)  
Philippine Parts Maker Association, Inc. (PPMA)  
Private Label Manufacturers Association (PLMA)  
The Philippine Biodiesel Association (TPBA)  
United Coconut Associations of the Philippines (UCAP)

#### D&L Industries, Inc.

Association of Petrochemical Manufacturers of the Philippines (APMP)  
Entrepreneurs' Organization Philippines (EO)  
Financial Executives Institute of the Philippines (FINEX)  
Management Association of the Philippine (MAP)  
Packaging Institute of the Philippines (PIP)  
Wallace Business Forum (WBF)

#### D&L Polymers & Colours, Inc.

Technical Committee on Electric Wires And Cables (TC1)

#### First in Colours, Incorporated

Philippine Plastics Industry Association, Inc. (PPIA)

#### Oleo-Fats, Incorporated

American Oil Chemists' Society (AOCS)  
Packaging Institute of the Philippines (PIP)  
Philippine Association of Food Technologists, Inc. (PAFT)  
Philippine Chamber of Food Manufacturers, Inc. (PCFMI)  
Roundtable on Sustainable Palm Oil (RSPO)  
Sustainable Coconut and Coconut Oil Roundtable (SCCOR)

### Awards & Recognition

Institutional Investor 2022

*Honored Company*  
*Small & Mid cap category*

**D&L Industries, Inc.**

Institutional Investor 2022

*Honored Company*  
*Consumer Staples category*

**D&L Industries, Inc.**

Institutional Investor 2022

*Best IR Professional in Asia-ex China, Japan*  
*Consumer Staples Category as voted by Buyside*

**1st place | Crissa Bondad**

Institutional Investor 2022

*Best IR Professional*  
*Small and MidCap Category as voted by Buyside*

**3rd place | Crissa Bondad**



## Corporate Governance & Internal Parties

### Policies and Procedures

These are the basic guidelines on how we should do things properly and with accountability.

### Internal Audit

This team of competent auditors is our conscience. They tell us when something has to be improved in terms of control and recognize where good practices are. They report directly to the board's Audit Committee. This protects the interest of our stakeholders in economic, environment and social aspects.

### Certifications

To ensure that its manufacturing practices comply with global best practices, the company keeps itself abreast and compliant with various global standards. In addition, the company also complies with the standards of its customers, which in some cases, especially for multinational customers, are stricter than the global standards.

### Health, Safety, and Environment Committee

This team ensures that the company complies with the government-mandated requirements in the areas of health, safety, and environment.

### Data Privacy Officer

This ensures that the company does not violate the rights to privacy of its employees, customers and other stakeholders.

## Certifications

SDG 12.8

Certification	Description
<b>COSMOS</b>	Organic and Natural Certification for Cosmetics
<b>FSSC 22000</b>	Food Safety System Certification
<b>GMP</b>	Good Manufacturing Practices
<b>HACCP</b>	Hazard Analysis Critical Control Point
<b>Halal (IDCP)</b>	Halal Certification from Islamic Da'wah Council of the Philippines
<b>ISO 14001:2015</b>	Environmental Management System
<b>ISO 17025:2017</b>	Laboratory Management System
<b>ISO 45001:2018</b>	Occupational Health and Safety Management System
<b>ISO 9001:2015</b>	Quality Management System
<b>Kosher</b>	Kosher Certification
<b>Non-GMO Project</b>	Non-GMO Project Certificate of Verification
<b>Organic EU</b>	Organic Certification - European Union
<b>Organic JAS</b>	Organic Certification - Japan Agricultural Standards
<b>Organic NOP</b>	Organic Certification - USDA-NOP (National Organic Program)





## Enterprise Risk Management

GRI 3-3, 2-13, 2-24, 2-25

ERM is integral to an effective corporate governance process and the achievement of the Company's value creation objectives. With an integrated approach, the BOD and Senior Management are in a position to make well-informed decisions, having taken into consideration risks related to significant business activities, plans and opportunities.

To ensure the integrity, transparency and proper governance in the conduct of its affairs, the Company continuously institutes a strong and effective internal control system and ERM taking into account its size, risk profile, nature and complexity of operations.

Governance guides the course of the organization and the effectiveness of ERM will be highly dependent on its integration to the Governance of the organization, thus D&L adopted the Integrated Corporate Governance and ERM Framework for better risk management.

An adequate and effective internal control system and ERM framework help sustain safe and sound operations as well as implement management policies to attain corporate goals. Moreover, an effective internal control system embodies the Management's oversight and control culture, risk recognition and assessment, control

activities, information and communication, monitoring activities and correcting deficiencies. On the other hand, an effective ERM framework typically includes activities such as identification, sourcing, measurement, evaluation mitigation and monitoring of risk.

Internal control is a process designed and effected by the Company's BOD, Senior Management, and all levels of personnel to provide reasonable assurance on the achievement of Company objectives through efficient and effective operations; reliable, complete and timely financial and management of corporate information; and compliance with applicable standards, laws, regulations, as well as the Company's policies and procedures.

## Social Control

Integration with the Company's culture and core values is the foundation and the Company's first line of defense, having Risk Management in the employee's DNA is key.

The Company has a Code of Business Conduct and Ethics that provides standards for professional and ethical behavior. The Code also articulates acceptable and unacceptable conduct and practices in its internal and external dealings. A code of Business Conduct and Ethics is an important tool to instill an ethical corporate culture that pervades throughout the Company.



### *Anti-Corruption Policy*

The BOD sets the tone and makes a stand against corrupt practices. In this regard, the Company launched the iCARE (acronym from I Convey All Risks and Exposures) Program, a Whistleblowing Program that aims to create an open, transparent and safe working environment where all stakeholders can communicate their concerns like actual or suspected violation of the Company's code of ethics and policies, criminal or unlawful acts or omissions, irregularities like fraud, embezzlement, harassment, theft, corruption, collusion and nepotism, bribery and other procedural malpractice. The iCARE Program encourages employees to report corrupt practices and outlines the procedures on how to combat, resist and stop these corrupt practices.

### *People Excellence and Succession*

Policies, programs and procedures are established to encourage employees to actively participate in the realization of the Company's goals and governance. These policies and programs covering among others health, safety and welfare, training and development and employee reward/compensation, encourage employees to perform better and motivate them to take a more dynamic role in the organization.

To ensure business continuity and uninterrupted operations, succession planning is instituted for the positions of directors, key officers and other identified critical roles and functions.

### *Output Control*

The BOD oversees the development of and approves the Company's business and strategy and monitors its implementation in order to sustain the Company's long-term viability and success. Sound strategic policies and objectives guide the proper prioritization and allocation of resources for optimal value to the Company.

The President and CEOs of the business units lead in the realization of D&L's Vision to be the Philippines' Majority Leader in Sustainable Ingredients, Materials and Solutions, and a Major Exporter in identified continents.

With Capability as the Driving Force to pursue D&L's Mission to Excel and Be the Leader in the identified Industries, the President and CEOs ensure the sustainability and continued relevance of the businesses by building Strategic Capabilities that include the development of integration plans to enhance synergies

across Business Units (BUs); institution of a structured innovation process; establishment of talent development, engagement and succession plans; and building of capabilities in Business Intelligence and Operational Excellence.

Successes are measured through the following 5Ps:

<b>People</b>	Empower and place the best people for every job to allow them to function effectively and keep them engaged.
<b>Product</b>	Keep the innovative product pipeline filled and commercialize the same with the shortest lead time through proper Product Life Cycle Management.
<b>Process</b>	Continuous improvement and innovation for cost-efficiency and competitive advantage.
<b>Planet</b>	Strategic and sustainable innovation for business growth and preservation, ensuring that D&L's businesses are not negatively impacted by the effect of industrialization on the environment (e.g. sustainable supply of major raw materials like coconut).
<b>Profit</b>	Sustained growth for the benefit of all Stakeholders.

### *Process Control*

Process Controls like decision authority, segregation of duties, physical and access controls, having review, approval and audit processes, etc. are established to ensure the integrity of transactions, avoid conflict of interest situations, efficient and effective operations as well as compliance with applicable standards, laws, regulations, and the Company's policies and procedures.

Process Control includes the clear definition of roles and responsibilities which starts with the BOD. This allows the BOD to act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Company and all stakeholders. The position of the BOD Chairman and the CEO are held by separate individuals, each one has clearly defined responsibilities to foster an appropriate balance of power, increased accountability and better capacity for independent

decision-making. Identification and definition of clear roles and responsibilities are implemented across all levels in the organization to empower employees while ensuring accountability

## Management Information System

Transparency is one of the core principles of corporate governance, thus to ensure better protection of stakeholders' rights, the Company's Management Information System (MIS) is instituted to allow monitoring and immediate response should there be a red flag. MIS is continuously built to provide reliable, complete and timely financial and other relevant non-financial information critical for business management and decision-making.

The BOD establishes corporate disclosure policies and procedures that are practical and in accordance with generally acceptable practices to ensure comprehensive, accurate, reliable and timely reports to stakeholders that gives a fair and complete picture of the Company's financial condition and results of business operations. In addition, material and reportable non-financial and sustainability issues as well as RPTs are reviewed based on materiality thresholds to guarantee fairness and transparency of disclosures.

The Company maintains a website to provide a comprehensive, cost-efficient communication channel for disseminating relevant information to allow informed decision-making by investors and other stakeholders. The BOD also established an Investor Relations Office to ensure constant engagement and communication with its shareholders. This is also maximized as an avenue to receive feedback, complaints and queries from stakeholders and assure their active participation with regard to the activities and policies of the Company.

## Performance Management System

Rewards, recognition and remuneration are given to employees based on meritocracy established relating to performance and contribution to the achievement of the Company's goals and objectives.

At the Board level, the BOD conducts an annual self-assessment of its performance, including the performance of the Chairperson, individual members and committees based on minimum criteria using a predefined process that also allows feedback mechanism from stakeholders.

## Assurance

Also in place is an independent internal audit function that provides an independent and objective assurance and consulting services designed to add value and improve the Company's operations. It helps the Company achieve its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of the Company's governance, risk management and control functions.

### Climate-Related Risks & Opportunities

GRI 3-3, 2-23 | SDG 13.1, 15.9

Risk management is seen in the company as a shared responsibility between Management and Employees. At the top level, the Board Risk Oversight Committee oversees the Company's Enterprise Risk Management system to ensure its functionality and effectiveness.

Annually, or as soon as the need arises, the Committee reviews the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment.

Management requires all department heads to assess risks facing their respective business units and establish both Risk Management and Business Continuity Plans. The target is to have the shortest possible downtime, and to minimize, if not entirely eliminate, negative impacts of adverse events on the business. Risk Management and Business Continuity Plans are reviewed at least annually to keep abreast with changing economic and environmental conditions.

This section identifies the climate-related risk and opportunities the company is currently exposed to. The risks outlined below are not exhaustive and instead identify only those that are highly relevant to the business.

**Risks associated with natural and man-made disasters that may cause interruption in operations**

#### Potential impact

- Destruction of property
- Loss of life
- Delays in delivery
- Lost sales
- Quality issues in finished goods
- Customer complaints
- Damage to Company reputation

#### Mitigating measures

- + Improvements in company infrastructure to withstand extreme weather
- + Employee education and trainings on safety procedures during and after a disaster
- + Participation in company and nationwide drills
- + Adequate insurance coverage for identified assets

- + Regular review of IT Disaster Recovery and Business Continuity Plans

#### **Risks** associated with rising temperature due to climate change

##### Potential impact

- Higher than normal temperatures may lead to lower crop yield which may affect the supply of key commodities that the company uses
- Higher raw material prices and supply chain disruptions

##### Mitigating measures

- + Proactive monitoring of raw material prices, availability, and trend, and properly imputing the impact of the same in selling price structure
- + Development of local and diversified sourcing
- + Leveraging on scale in order to negotiate prices
- + Leveraging on technical know-how to develop alternative raw materials

#### **Opportunities** in changing consumer preferences towards a more sustainable and environment-friendly consumption

##### Potential impact

- + Higher demand for the company's natural, organic, and sustainable offerings across the different business segments commodities that the company uses
- + Higher margins and profitability

#### **Opportunities** in the regulatory space: Implementation of a higher biodiesel blend from the current 2% blend to the 5% blend mandated by the Biofuels Act of 2006

##### Potential impact

- + Higher demand for the company's coconut biodiesel
- + Higher margins and profitability

## **Capability**

GRI 3-3 | SDG 9.4, 15.9

D&L Industries recognizes that ensuring a sustainable future is a strategic action to future-proof the business. Identified as the Driving Force for the Company in the short to medium term, Capability<sup>3</sup> is the cornerstone for delivering ever greater value to stakeholders when building new or reinvigorating existing infrastructure for sustainability.

## **Research and Development**

One of the Company's core advantages is its strong R&D capabilities, allowing it to customize solutions and offer innovative product offerings to its customers to help them stay ahead of the competition. D&L puts strong emphasis in keeping abreast of the latest technology and having its fingers on the pulse of the market to identify the market needs that must be met. About 14% of the company's workforce are in technology-related roles.

In the past, the company has successfully helped its customers adapt to the changing consumer preferences. As a leading B2B company, D&L works hand in hand with its customers in tweaking their product formulation in order to make them more economical, appeal better to the market, and even more environmentally friendly. D&L anticipates more of these opportunities moving forward, especially in the field of making product formulation more sustainable.

As such, the Company is strategically positioning itself by investing further in R&D to equip itself and stay ahead of the curve in offering customers innovative and sustainable product solutions.

<sup>3</sup> A capability-driven company has built special capabilities into its production process that allows it to make products with features that are difficult for its competitors to duplicate.



## Next Generation Facility in Batangas

This 2023, the Company is gearing up to commercially launch its next generation manufacturing facility, the culmination of half a decade's worth of planning and more than doubling production capacity. The new plant sits on a 26-hectare property in First Industrial Township-Special Economic Zone in Batangas.

The new plant will be instrumental to the Company's future growth, in line with plans to develop more high value-added coconut-based products and penetrate new international markets. It will mainly cater to D&L's growing export business in the food and oleochemicals segment. It will also add the capability to manufacture downstream packaged products, allowing the Company to capture a bigger share of the production chain. For instance, while the Company primarily sells raw materials to customers in bulk, the new factories will allow it to "pack at source". This means that D&L will have the ability to process the raw materials and package them closer to finished consumer-facing products.

This will enable D&L to move a step closer to its customers by providing customized solutions and

simplifying their supply chain, which is of high importance given global logistical challenges and concerns.

The new facility is envisioned to showcase state of the art technology in manufacturing, as well as global best practices in incorporating sustainability in operations. The following are some of the key sustainability features of the said facility.

### *Sustainably Designed Buildings and a Central Command Center*

Energy and water efficiency, CO<sub>2</sub> emission reduction, and excellent indoor air quality are incorporated in the overall design of the new facility. In addition, a central command center will house the monitoring of all key environmental elements. It will also house the centralized security, risk management, and business continuity departments of the Company.

### *Renewable energy sources*

A significant portion of the new facility's power requirement will be coming from solar power. In



addition, the Company is also exploring other renewable energy sources as fuel for its manufacturing plants.

#### *Chilled Water System*

All cooling requirements of the new facility will be centralized. This is expected to translate into greater energy efficiency and lower maintenance costs.

#### *Water Retention System*

Surface run-off and rainwater will be collected in a water retention pond which can store up to 5 days' worth of the plant's water requirements. This is expected to mitigate risk of water scarcity.

#### *Sensors Throughout the Facility*

Several sensors will be installed throughout the facility to monitor various indicators such as water turbidity and acidity levels, effluent leakage and other possible contamination. With sufficient sensors installed, any abnormal reading will be easily detected and a corresponding corrective action can be promptly done.

#### *Continuous Emission Monitoring System (CEMS)*

While not required by the Department of Environment and Natural Resources (DENR), the Company intends to install its own CEMS to consistently test boiler emissions. This is part of the Company's initiatives to track and reduce its overall emissions.

#### *Noise Monitoring System*

In order to monitor and minimize noise pollution, noise monitors and sensors will be installed in the noisiest part of the plant to ensure adherence to the limits set by the park and to also ensure the surrounding communities are not adversely affected.

#### *Coconut Greenhouse*

The Company is awaiting industrial park approval to plant hybrid coconut trees within the compound. The planned greenhouse will serve as an R&D facility for coconut farming technologies, as well as a showcase for the Company's [Coconut Sustainability Initiative \(CSI\)](#)

### **The Sustainability Challenge for Brands** GRI 304-2

As the world slowly emerges from the throes of a global pandemic, the lingering effects of disrupted supply chains, mounting geopolitical uncertainties, and still unmitigated effects of climate change combine and continue to batter countries, companies, and consumers alike. Nations hold their breath on whether new COVID variants would again close borders and overwhelm hospitals. War in Ukraine continues to drive uncertainty in energy and global food supplies. Big business and small enterprises alike deal with wildly swinging labor supply and demand, even as ordinary shoppers flood the malls and online stores on weekends, but end the day with fewer purchases than they would like.

In this environment, how can brands win?

On the one hand, supply chains stretch and snake their way around roadblocks to and from the usual places in East Asia and their home markets. On the other, regulators, activists, and consumers alike are demanding better, cheaper... and more sustainable, everything, really.

Sustainability adds a cost burden which must be borne.

The question is, how could brands mitigate the rising cost of sustainability?

The more disrupted the supply chain, the more nodes and stops there are, especially as new connections are needed to go around blocked normal routes. Each new intermediary adds cost.

One seemingly simple but oh-so-hard-to-find solution? A one-stop shop.



*Groundbreaking at FIT Tanauan*

### **A Vision for Vertical Integration**

The middle years of the past decade saw slow but consistent GDP growth of 2%-3% for the global economy. The Philippines, in turn, was roaring ahead versus much of the world in the 6%-8% annual GDP growth range.

With excess manufacturing capacity at the time fast disappearing, listed company D&L Industries, Inc. (PSE:DNL) strategically invested in a 26-hectare property at First

Industrial Township, a PEZA export processing zone. With groundbreaking in August 2018, D&L sought to combine the capabilities of its largest business units into an integrated facility targeting the ever-growing demand in export markets in the Americas, Europe, and the Indo-Pacific.

In one fell but deliberate swoop, D&L would more than triple its capacity to fill the world's shelves, cupboards, bedrooms, and homes with sustainable alternatives for the growing Gen Z and millennial consumer segments and their environmentally enlightened and socially responsible sensibilities. Boomers and Gen Xers alike would simply be swept along in their offspring's wake of climate activism.

Then again, no one could have anticipated the ravages of COVID from March 2020 onwards. The Natura Aeropack and D&L Premium Foods factories in Batangas would face years of construction and supply chain delays hence, and here we are.

#### **Fully vertically integrated, from sourcing coconut oil to consumer packaging in one location**

Starting this 2023, Natura Aeropack offers the brand owner an integrated facility to serve its personal care and health & nutrition markets from one location. Housed at the First Industrial Township (FIT) economic zone in Tanauan, Batangas, just South of Manila, Natura Aeropack cuts through supply chain knots like a hot knife through vegan butter.

Strategically placed in the Philippines, a global leader in the supply of coconut oil, Natura Aeropack has forged backward links to oil mills and small farmers throughout the country. All told, the company sources thousands of metric tons of coconut oil per month, serving export markets for oleochemical ingredients and specialty oils & fats alike.

FIT is a nexus for a significant share of the Philippines' coconut oil production. Within its research laboratories, scientists and specialists use high-tech tools to concoct, tweak, and deliver the exact color, aroma, flavor, texture, skin care, or other health benefit a brand owner seeks. Iterate to a formulator's satisfaction. Test products to a marketer's delight.

Thereafter, Industry 4.0 automation takes over, guided through production by skilled engineers at every step. At the other end of the line, organic lotions, scented soaps, or health supplements emerge, ready to fill the shelves and virtual stores of the brand's markets.

Vertical integration brings ingredients, formulating & compounding, contract manufacturing, and OEM/ODM packaging together under the pivotal one roof, ready to ship to shelves worldwide.

#### **Green chemistry, renewables, and carbon reduction**

Three all-new factories provide oleochemical ingredients, specialty fats & oils, and OEM/ODM packaging to brand owners wherever their customers are in the world.

Copra from coconuts grown by small scale farmers are crushed into crude coconut oil (CNO) in strategic oil mills

throughout the country, just one road or barge trip away to Natura Aeropack. Henceforth, this carbon-rich plant-based oil is refined, bleached, and deodorized (RBD) to various grades, up to the highest food-grade organically-certified coconut oil suitable for infants.

Whether as food-grade specialty fats & oils or as base or high-grade carriers for beauty products, all-natural coconut oil takes the place of less sustainable alternatives, be they palm oil or petroleum-based ingredients. No rain forests or endangered orangutans were harmed. No crude oil was extracted from the sands or the deep blue seas. Coconut oil has a far smaller carbon footprint and environmental cost than both palm oil and petroleum. Coconut oil is sustainability embodied.

The Natura Aeropack facility is engineered for safety, quality, and sustainability. From Autoclaved Aerated Concrete (AAC) used in construction for better thermal and acoustic performance to smart LED lighting and LEED Gold certification for employee work areas, painstaking attention to detail has been taken to ensure both active and passive measures are in place to ensure safety, enhance efficiency, and optimize operations.

Biomass replaces fossil fuels in boiler systems. Condensate water is collected and recycled from air conditioning, providing a swimming pool's worth of distilled water every day. Waste water treatment replenishes the needs of the cooling tower used in production. When and where commercially available, renewable grid energy is preferred over non-renewable sources. Multimegawatt solar energy will be available once the panels are installed and commissioned later in the year or soon thereafter.

#### **Climate disaster is real**

Over the last decade, droughts have lasted longer, hurricane winds have become stronger, floods have destroyed more and more coasts along the Pacific, Atlantic, and Indian Oceans. Habitats for people, flora, and fauna are increasingly threatened by natural phenomena more devastating than the last. Without climate action, coastal cities and ecologies would be inundated in the next few decades. Entire species could disappear as food chains are disrupted.

In response, the United Nations has forged the Sustainable Development Goals (SDGs). As countries commit to the SDGs, more and more ordinary voices add to the clamor to mitigate climate risk, protect biodiversity and animal rights, and rights for people of all ages, sexual orientation, races, religion, and income opportunities.

Climate disasters do not discriminate between rich and poor. Hurricanes in the US Eastern seaboard, extreme drought and wildfires followed a year later by the worst flooding in decades in the Australian East, and frost devastating French vineyards have ravaged the haves in recent years. Equally tragic were the locust invasion in East Africa due to extreme rainfall, alternating floods and drought in Brazil, and thousands killed and millions displaced in Pakistan floods.



Nothing galvanizes action stronger than disasters close to home. With heatwaves and wildfires in Europe and Australia, torrential rains and storm surges in the Americas and Asia, people everywhere are bombarded with bad news whenever they pick up their smartphones. In turn, activists like Greta Thunberg, David Attenborough, and Leonardo DiCaprio amplify these messages, using combinations of carrots and sticks to entice governments and brands towards further climate action, or to desist from non-sustainable policies, products, and practices.

#### **Responsible brands can respond**

Brand owners in the consumer products space can lead the drive to sustainability. As ESG resonates louder among higher income consumers, higher margin brands have the opportunity to deploy more sustainable ingredients and processes in their products.

Take the base and carrier oils in beauty and healthcare. Petroleum production and consumption is one of the most destructive human activities vis-à-vis climate change. Removing petroleum-based ingredients should be a brand's number one priority.

Vegetable oils are a far better alternative, of which, the most prevalent and most affordable is palm oil. True, palm oil is a far better source of carbon as an ingredient than petroleum-based oil. However, in growing the palm oil industry to its current scale, vast tracts of tropical forests across Asia, Latin America, and West Africa were cut down. Orangutans have become endangered chiefly because their homes were converted into palm plantations.

In response to the global backlash against palm oil, RSPO certification seeks to greenwash away the sins of the industry. Tell that to the vanishing orangutans.

In stark contrast, coconut oil has none of the environmental trauma of palm oil. Allegations of harming biodiversity levied against the coconut oil industry are largely inflated, as anecdotal cases of endangered species in small tropical islands comprise a minuscule share of the global supply. As a leading producer of coconut oil, the Philippines has 346 million coconut palms growing in 3.64 million hectares (or 27% of agricultural land area) across most of the country. Most of these coconut plantations have been passed on from father to son across many generations, some even across centuries. No forests have been converted to coconut plantations in recent years.

Natura Aeropack and its siblings under listed company, D&L Industries, Inc., have expanded the scope of corporate social responsibility (CSR) into environmental, social, and governance (ESG) advocacies for the farmer communities from which they draw their coconut supply. Working with other stakeholders and adhering to emerging standards and best practices in sustainability, the company has conducted agricultural training for farmers and provided educational scholarships. Programs for traceability, coconut replanting, and other initiatives to improve the livelihood of small farmers are being planned and integrated into overall ESG programs.

Brand owners may even join in these smallholder initiatives, if they so wish to engage. Natura Aeropack could show them how.

## **Supply Chain Management**

GRI 3-3, 308-1, 408-1, 409-1 | SDG 16.5

Sustainability in the supply chain has been of increasing importance and of growing concern in the past years, especially for manufacturing companies such as D&L. Much like many others, the company has followed that trend, and continues to improve its approach towards several sustainability topics.

The company's Supplier Selection and Assessment procedure includes an initial and succeeding regular audit where potential suppliers' manufacturing facilities and processes, employees' welfare and human rights, health and safety programs, compliance to government regulations, waste management, and even their own supply chains are inspected and quantitatively evaluated. All materials purchased are traceable, and the company makes it a point not to purchase materials with banned or harmful minerals or chemicals. Certifications to guarantee the quality of the goods manufactured by D&L and the processes that went into them are very important to its business, so it is absolutely necessary for the company to go through great lengths, even at the beginning stages of procurement, to ensure compliance.

A Supply Chain Management System is in place across most of the companies under the group, and is compliant with the Quality Management System ISO 9001:2015, the Environmental Management System ISO 14001:2015, and the Occupational Health And Safety Management System ISO 45001:2018. It is the direction of D&L to qualify suppliers of direct and indirect materials to qualify on the said standards.

In addition, the subsidiaries of D&L also ensure that they are compliant with other rules, regulations and standards pertaining to their respective raw materials and products. The Food Division prioritizes suppliers that will support food safety concerns in order to maintain the Food Safety System Certification (FSSC), as it is fully recognized by the Global Food Safety Initiative (GFSI). The Chemicals Division is a qualified member of the Supplier Ethical Data Exchange (SEDEX) and the Sedex Members Ethical Trade Audit (SMETA), where an ethical standard practice is being followed across customers and suppliers. It also uses materials that conforms to the regulatory requirements of the Environmental Management Bureau



and other controlled chemicals that may cause harm to the public and the environment.

The logistics department maintains proper storage separating food and non-food items to ensure the safety of the products. It is a medium-term goal to implement a warehouse management system tool to equip an error-free mechanism, and achieve near-perfect picking rates.

Moving forward, the company aims to move closer to a just-in-time inventory system in order to make more efficient use of its warehouses. It has also begun looking into materials and suppliers that support the call for a "circular economy". Constantly looking towards global market trends, D&L ensures that it is always taking the necessary steps to improve holistically.

#### Procurement Practices

GRI 3-3, 2-6, 204-1

D&L believes that sustainable procurement practices are the backbone of truly sustainable operations. As such, the company is committed to constant improvements to make its procurement processes as efficient and sustainable as possible.

The company's sustainable procurement practices start with a formal Supplier Selection and Assessment guidelines which are implemented across the organization. This ensures that the suppliers the company deals with are capable of supplying consistent high-quality raw materials and are legitimate entities that are fully compliant with all applicable laws and regulations.

The company also does a regular audit of the manufacturing processes including quality assurance, handling of complaints, employee welfare, supply & delivery assurance, and even resource conservation efforts and waste management program of its suppliers. As far as environmental sustainability is concerned, the company generally favors suppliers with good manufacturing practices and are compliant with global standards such as ISO 14001 (Environmental Management), ISO 50001 (Energy Management), and ISO 46001 (Water Efficiency Management).

To institutionalize further the company's initiatives to make its supply chain more sustainable, its various business units are either in the process of formalizing or have already formalized their respective Responsible Sourcing Policies (RSP) which outlines the company's general requirements and material specification requirements for all its suppliers. General requirements usually touch on social and environmental responsibility, health, safety and hygiene, and business integrity.

#### Anti-Corruption

GRI 3-3, 2-16, 2-26, 205-2, 415-1 | SDG 16.5

D&L conducts its business guided by the principles of honesty, integrity and transparency. The company respects the legitimate rights and interests of those it transacts with. It takes into account the unique culture of the countries it operates in and comply with their laws and regulations. These principles are well-documented in the company's [Code of Business Principles](#).

#### Whistleblower Policy

With the objective of strengthening D&L's culture and core values of integrity and honesty embodied in its Employee Code of Behavior, the iCARE Whistleblowing Program was launched. iCARE also aims to intensify each employee's conviction and commitment to the highest standards of conduct consistent with its Professional Code of Conduct and Discipline.

iCARE is an avenue where concerned stakeholders can report actual or suspected violations of the Company's code of ethics and policies, criminal or unlawful acts or omissions, irregularities like fraud, embezzlement, harassment, theft, corruption, collusion and nepotism, bribery, and other procedural malpractices. Reports are handled with strict confidentiality and whistleblowers are protected against possible retaliation, reprisal, or harassment.

#### Conflicts of Interest

The company's employees are expected to keep clear from financial, business or other relationships and activities that might be opposed to, in competition with and disadvantageous to company businesses and the proper performance of their duties. The company exhorts employees to conduct themselves in a manner that avoids even just the appearance of a conflict of interests between their personal self-interests and those of the company.

#### Use of Corporate Assets

The company's funds, assets, services and facilities are not to be used for any unlawful, unethical and personal enrichment purpose.

#### Insider Trading Policy

The company's Insider Trading Policy states that all Covered Persons are prohibited from buying, selling, trading or otherwise dealing in the Securities while in possession of material non-public information. All Covered Persons are likewise prohibited from passing such material non-public information to any person who might use such information to deal in the Securities. A Covered Person should exercise prudence in evaluating whether the non-public information he possesses is material or not. Any doubt should be resolved in favor of treating such non-public information as material.

### Material Related Party Transaction Policy

The company has formed a Related Party Transaction (RPT) Committee at the Board level which is composed solely of independent directors. The RPT Committee is tasked to review the material facts of all Material RPTs and either approve or disapprove such transactions. In assessing an RPT, the RPT Committee shall be guided by the arm's length principle and consider such factors as it deems appropriate: including without limitation (i) the benefits to the Company of the transaction; (ii) the commercial reasonableness of the terms of the Material RPT; (iii) the degree of materiality of the transaction to the Company; (iv) the extent of the Related Party's interest in the Material RPT; (v) if applicable, the impact of the Material RPT on the non-employee director's independence; and (vi) the actual or apparent conflict of interest of the Related Party participating in the Related Party Transaction.

To further ensure that the Material RPTs are conducted at arm's length, the RPT Committee shall engage an external independent party to evaluate the fairness of the terms of the Material RPTs and employ an effective price discovery mechanism such as, but is not limited to, acquiring the services of an external expert, opening the transaction to a bidding process or publication of available property for sale.

Material RPTs approved by the RPT Committee shall be elevated to the Board for final approval.

### The Way the Company Deals with Politics

The company cooperates with governments and other organizations in the protection and promotion of the company's legitimate business concerns. The Company closely collaborates with them in the development of regulatory and legislative initiatives impacting its investments and interests. The company does not in any way participate in party politics. It also neither makes contributions in kind nor fund campaign connected activities.

## Path to Net Zero

GRI 3-3, 305-5 | SDG 6.4

D&L strives to reduce its carbon footprint throughout its operations, by renovating facilities, managing its use of resource, ensuring environmental compliance to regulations, and preserving biodiversity.

Cocomethyl Ester (CME), commonly known as coconut biodiesel, is the Company's biggest contribution to the Philippines GHG reduction commitments from the

inception of the B2 blend requirement under RA 9637 Biofuels Act of 2006.<sup>4</sup>

## Facility Renovation

The LBL Building has been the headquarters for D&L since 1981. The heritage building was due for several upgrades in line with the growth of the business and new building codes. The Company has completed an extensive renovation of the building to invest in the company's most important asset: its people.

Through efficient design, the capacity of the building was doubled, and staff facilities and workspaces were upgraded. All works were done while all business functions remained fully operational. In 2021, the Company celebrated the LBL Building's 40th birthday with the following installations, sustainable features, and improvements:

### Efficient Design & Systems for Employee Work Environment & Wellbeing

Fresh Air System with ERV (Energy Recovery Ventilator) for fresh air, filtering and removal of allergens/toxins for indoor workspaces. It is designed for 12 air exchanges/hour to exceed ASHRAE62.1-2010 indoor air quality standard (2-3 air exchanges) for better staff health and focus

Activated main stair to encourage office hour exercise

Training & meeting rooms with video conferencing capabilities

Acoustic improvements all throughout the building

Phone booths to give staff a place to have calls privately

Clinic, Nursing Room, and PWD/All Gender toilet provision

CPS Pump to improve overall potable water distribution

Water purifier (reverse osmosis) to improve water quality and keep staff hydrated

IP phone system upgrade to save costs & improve call clarity

Use of in-house products eg. powder coating, waterproofing, paints/colorants & special paint effects

<sup>4</sup> Republic of the Philippines, "Republic Act No. 9637," Official Gazette, accessed March 31, 2023, <https://www.officialgazette.gov.ph/2007/01/12/republic-act-no-9637/>.



### **Sustainable Equipment, Fixtures & Materials**

Electrical metering for monitoring of total building energy use

Installation of sewage treatment plant (STP) with effluent to water the gardens (only property on Calle Industria with a garden)

100% LED lights that are extremely energy efficient and low power consumption

Carpets made of renewable fibers using non-toxic glues for installation

Engineered wood made with non-toxic adhesives and finishes

Water-based, low-VOC paints which do not present an explosion hazard

UV resistant, non-toxic, low-VOC waterproofing

Aluminum Composite Panel Façade with solar reflectance instead of absorbing radiant energy

Low flow faucets with up to 20% water saving with sensors to prevent cross-contamination between users

Water closets with 0.8 gallon per flush (GPF) flow rate and 0.125 GPF for urinals

### **Safety and Security**

24/7 CCTVs to keep track of what is happening at the premises

Addressable smoke detectors to quickly identify the location of a potential emergency

Additional fire exits

Essential sanitation procedures and signage

Non-smoking building & grounds policy

Automatic Fire Sprinkler System

FM200 Fire Suppression System for Server and UPS Rooms

Maintenance

Facility management technical team for proper maintenance of equipment

Ozone generators and air purifiers for additional sanitation of work areas

Resource Management

GRI 3-3, 302-1, 302-3 | SDG 7.2, 7.3, 12.4, 12.5, 13.1, 15.9

The company uses various types of energy sources for its operations. For the office buildings, the company uses purchased electricity. For the plant operations, the company uses boilers. Meanwhile, diesel is used to run generator sets during power outages.

The company is constantly looking for ways on how to further make its operations more efficient with lower energy consumed per unit of product manufactured. These initiatives include:

Installation of motion detector lights at warehouses

Use of LED lights which are more energy efficient than fluorescent and incandescent lights

Regular maintenance of air conditioning units

Optimizing the production schedule to yield the lowest possible energy consumption per unit of product manufactured

Identification of compressed air line leaks

Megger testing and preventive maintenance

Replacing old supply pump motors with high efficiency motors

Turning off lights and air conditioning during lunch breaks

Recycling of diesel fuel for equipment cleaning

Use of biodiesel waste as fuel for diesel boiler

To monitor the company's progress and to champion the resources conservation initiatives, an Environmental Group within the company was formed. This group is composed of Pollution Control Officers from each business unit.

Water Consumption

GRI 3-3, 303-1, 303-3, 303-5 | SDG 6.4

In the Company's day to day activities, water is primarily used for the operations of the cooling tower, for equipment cleaning, and for domestic uses in the office buildings such as for restroom usage, washing, and food preparation in the canteens.

The Company is proactively looking for ways on how to further reduce its water consumption. Similarly, the company's Environmental Group, which is composed of the Pollution Control Officers from each business unit, is in charge of monitoring and championing the water conservation initiatives of the company. Some of these initiatives include:

Regular identification and repair of water leaks

Use of pressure water for product transition cleaning

Installation of stainless float valve at make-up water of cooling tower system to control water overflow

Use of knee valve faucet

Replacement of manual flush to electronic flush with automatic sensor

Recycling of condensate water from air conditioning units

Signages located at strategic areas to encourage employees to conserve water

Environmental Impact Management

GRI 3-3 | SDG 12.4, 12.5, 13.1, 15.9

Air Emissions/GHG

GRI 3-3, 305-1, 305-2, 305-6

In the normal course of operations, the Company generates greenhouse gas (GHG) emissions. Direct emissions from boilers, oil heaters, generator sets, trucks, and service vehicles represent the company's Scope 1 emissions. Meanwhile, the energy used to light up its facilities and office buildings comprise the company's Scope 2 emissions.

The Company is committed to reducing its emissions over time and making its operations more environmentally friendly. To reduce emissions, the company has instituted various initiatives from energy conservation to prudently replacing equipment to make operations more efficient.



### Air Pollutants

GRI 3-3, 305-7

D&L is fully-compliant with all the operating condition requirements by the Department of Environment and Natural Resources (DENR) and the Environmental Management Bureau (EMB). As far as air emissions and pollution are concerned, the company is strictly abides by RA8749 or Philippine Clean Air Act.

### Solid Waste

GRI 3-3, 301-1, 301-2

Waste is generated by plants and offices. In order to properly manage waste, each plant has a designated Material Recovery Facility (MRF), in compliance with R.A. 9003 for Solid Waste management. Before waste materials get transferred to the MRF, each operating section already does the first layer of waste segregation. A designated person is responsible in each MRF who receives and further sorts the waste to facilitate systematic disposition.

Wastes are classified as hazardous, non-hazardous, sellable, and garbage. Hazardous wastes are hauled by accredited treaters before being hauled off site. Non-hazardous waste may be recycled for internal use. Sellable wastes such as old plastic and steel drums, wooden and plastic pallets, cartons, packaging materials, and metal debris are sold to recycling companies. The rest are considered trash and hauled by accredited garbage collectors. The company enforces strict accreditation policies to ensure that all plant and office wastes are disposed of in accordance with the standards of the regulating government agencies.

Lastly, to increase awareness and to encourage employees to help minimize waste, the company has various programs in place such as Trash to Treasure, War on Waste (WOW), and Reduce, Reuse, Recycle, Repair, Repurpose (5R).

### Hazardous Waste

GRI 3-3, 306-1, 306-3, 306-5 | SDG 6.3, 6.6, 12.4, 15.1

Hazardous wastes are properly managed in compliance with government requirements. To ensure safe handling, procedures were established in the storage, treatment, and disposal of these materials. All facilities comply with the ISO standards for Environmental Management (ISO 14001:2015) and Occupational Health and Safety (OHSAS 18001:2007).

Each company has obtained its Generator Registration Certificate from the DENR. Waste classified as

hazardous based on the DENR-EMB standards are disposed of by DENR-accredited third-party treaters which have passed the stringent accreditation process of this government agency.

As part of risk assessment during the design and development stage for both finished products and packaging, the Company strictly adheres to health, safety, and environment standards to further reduce hazardous waste.

### Effluents

GRI 3-3, 303-4

In addition, the company invests in various infrastructure to make its operations more sustainable. For instance, its water treatment facility is much stricter than the standards set by the Department of Environment and Natural Resources, ensuring that water released is the cleanest possible.

## Environmental Compliance

GRI 3-3, 2-27 | SDG 12.4, 12.5, 13.1, 15.9

The Company is compliant with all environmental laws and regulations that are applicable to its business operations. Management provides a clear statement of the Company's responsibility towards creating, maintaining, and ensuring a healthy, safe, and clean environment for sustainable growth.

In summary, the Company is committed to:

Comply with applicable laws and regulations and other requirements and measures considered necessary to its business operations;

Create Health & Safety programs that ensure the well-being of its employees;

Conserve natural resources through efficient equipment utilization, wise use of resources, recycling, and reducing wastage, discharge, and emissions;

Continuous Health, Safety and Environment (HSE) education programs for employees, outsourced personnel, and suppliers;

Implement creative shared values with local communities through fire drills, HSE training, Emergency Response, Medical Missions, and Tree Planting activities, and promote green surroundings at its manufacturing locations as the company works in

harmony with local government units, stakeholders and NGOs; and

Promote awareness and shared responsibility for occupational health, safety and environmental protection among its contractors, suppliers, and customers.

## Ecosystem & Biodiversity

GRI 3-3, 304-2 | SDG 6.6, 15.9

Embedded in the Company's [Code of Business Principles](#) is its commitment to sustainable development. D&L cares for the environment and strives to meet the ever-increasing needs of the business but never forgets the conservation and preservation of nature.

The Company's long-haul horizon goes beyond the present and stretches to generations yet to come. The company endeavors not to endanger but rather enhance the ecosystem. The company also recognizes the importance of biodiversity and supports the global community in protecting it.

D&L is fully-compliant, and in many cases implements stricter measures than what is required by relevant laws such as:

RA 9003: Ecological Solid Waste Management Act of 2003

RA6969: Toxic substances and hazardous and nuclear wastes control act (1990)

RA8749: Philippine Clean Air Act

RA 9275: Philippine Clean Water Act of 2004

RA11285: Energy Efficiency & Conservation Act

## B5 by the Numbers

Emissions, Economy, Health  
GRI 305-5

By mandating B2 blend biodiesel for transportation, the Philippines has already reduced its carbon footprint by 16.31%, or 0.0125 kg CO<sub>2</sub>E per liter, vs. B0 fossil fuel diesel. Over the 8.8 billion liters of biodiesel used by vehicles in 2021,<sup>5</sup> we have already reduced our carbon footprint by 4.6 million tons (MtCO<sub>2</sub>E).

If we could use B5 throughout 2022, we would have further reduced our carbon footprint by another 588 thousand tons, on top of the 4.8 million tons CO<sub>2</sub>E for the year if we remained on B2.

If we started in 2022, a yearly ramp from B3 to B4 to B5 would further reduce our GHG emissions up to 2030 by a total of 6.5 million tons CO<sub>2</sub>E.<sup>6</sup>

Simply by ramping up to B5, we would achieve 14% of the energy sector's 45.9 MtCO<sub>2</sub>E target under the country's Nationally Determined Contributions (NDC),<sup>7</sup> in accordance with the Paris Agreement.

What does a reduction of 6.5 million tons of carbon dioxide over the next nine years mean?

For the biodiesel industry, it means an additional 3.1 billion liters of B100 CME sold, equivalent to an **additional 186 billion pesos to GDP**.

For the farmers, it means an additional 21.7 billion coconuts harvested and sold. On average, that amounts to over 1.9 billion additional coconuts per year until 2030, or up to **2.3x more income for the farmers in a year**, compared to now, not even factoring the rise in coconut prices due to the increased demand.

For the jeepney & truck drivers, B5 allows them to **drive 6% further in average traffic**,<sup>8</sup> compared to B2. This increased mileage somewhat offsets the increase in fuel prices due to the shift to B5, but the cleaner burn also helps declog diesel engines and fuel lines, and **decreases maintenance costs**.

For each of us 110 million Filipinos, it means **the air we breathe is up to 6.6 kilograms CO<sub>2</sub>E cleaner** each year by 2030. Simply shifting from B2 to B5 reduces particulate matter from 1.47% to 3.14%,<sup>9</sup> **more than double the PM reduction** just by using the higher biodiesel blend.

<sup>5</sup> 70% of biodiesel demand attributable to transportation, based on DOE estimates

<sup>6</sup> UPLB Interdisciplinary Life Cycle Assessment Laboratory, Carbon Footprint and GHG Reduction Potential of Coco-Biodiesel from Chemrez Technologies, Inc. (Los Baños, Laguna: UPLB, 2021).

<sup>7</sup> Philippine Energy Plan: 2020 - 2040

<sup>8</sup> UP National Center for Transportation Studies

<sup>9</sup> "Biodiesel Emissions Calculator," National Biodiesel Board, accessed January 20, 2022, <https://www.biodiesel.org/support-pages/emissions-calculator>.

Research by CREA & ICSC<sup>10</sup> finds that approximately **66,000 premature deaths every year are linked to PM<sub>2.5</sub> and NO<sub>2</sub> pollution in the country**. We thus need every tool at our disposal to protect our people from the ravages of heart disease and stroke due to polluted air. Transitioning to B5 as soon as possible helps reduce these preventable deaths.

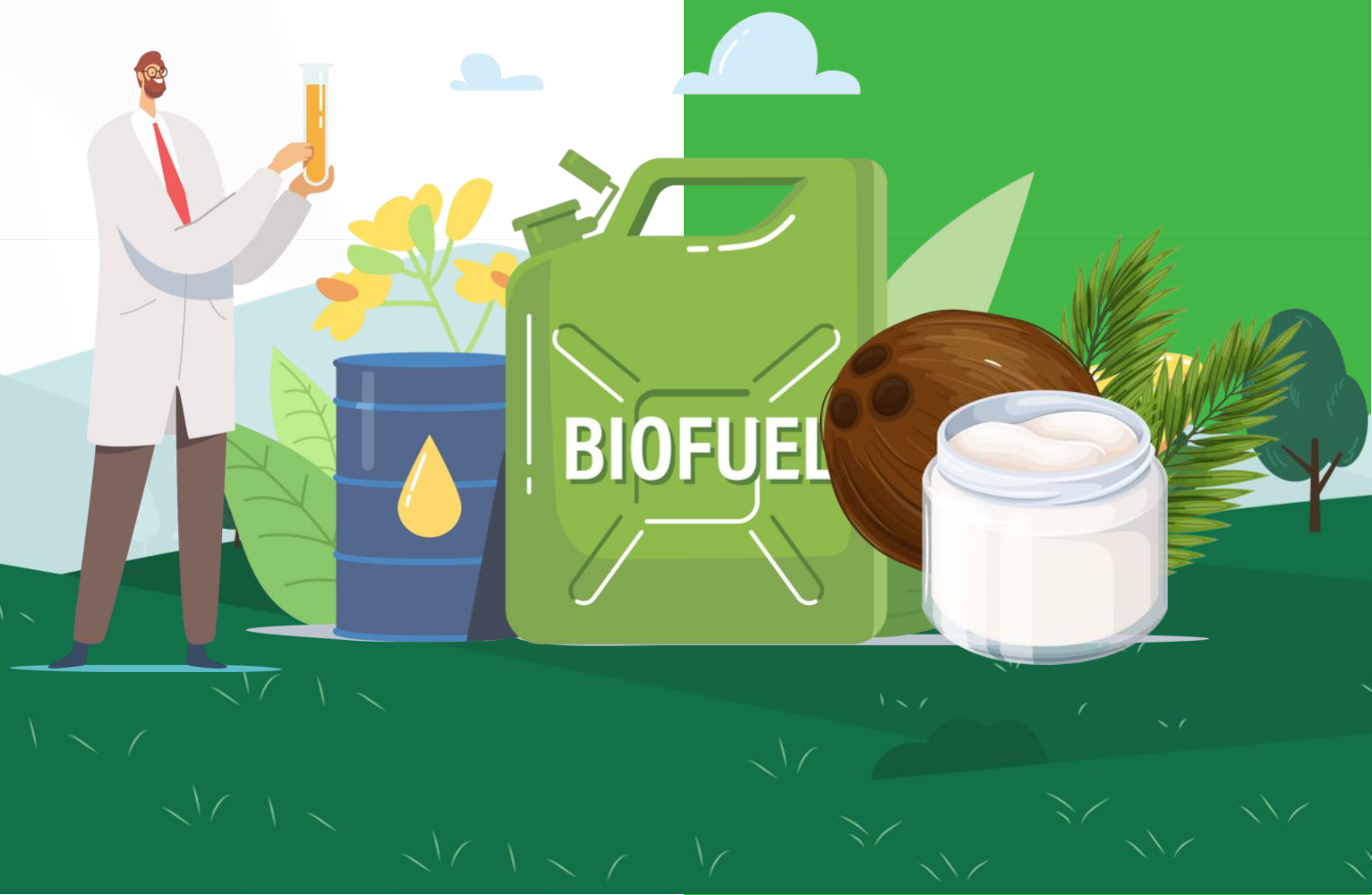
With environmental, economic, and health benefits for the country and ordinary Filipinos alike, it's time we start pumping B5 biodiesel into our jeepneys and trucks.

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<sup>10</sup> Institute for Climate and Sustainable Cities and Center for Research, Education, and Advocacy, "Benchmarking the Philippine Clean Air Act: Aiming Higher for Health and Climate," accessed January 20, 2022, 3, [https://icsc.ngo/wp-content/uploads/2021/11/AimingHigher\\_BenchmarkingthePhilippineCleanAirAct\\_CREA\\_ICSC\\_v4\\_10Nov2021.pdf](https://icsc.ngo/wp-content/uploads/2021/11/AimingHigher_BenchmarkingthePhilippineCleanAirAct_CREA_ICSC_v4_10Nov2021.pdf).

# Responsible Products

For Business & Consumers





## Responsible Products

GRI 3-1, 3-3

The modern world's dependence on fossil fuels to power its industries has resulted in a significant increase in global temperatures over the past few decades. As a result, extreme weather disturbances have become more frequent and devastating worldwide, leading to the occurrence of hurricanes, droughts, and wildfires in places where they normally do not occur, nor as often.

Petroleum has the largest carbon footprint of any substance used by man, releasing carbon dioxide into the atmosphere and contributing to global warming. It is essential that the world moves away from extracting and burning fossil fuels to allow nature to heal and reduce the number of climate disasters.

Switching to renewable sources of energy from fossil fuels is crucial in combating climate change. However, it is also necessary to replace petroleum with plant-based oils across a wide range of industries beyond energy.



## Coconut Oil

GRI 3-3

Coconut oil is a leading plant-based oil for both food and non-food use globally. It competes well with palm oil, which is the volume leader by far. However, palm oil is plagued by the environmental stigma associated with deforestation in the rainforests of Asia, Africa, and Latin America. Large palm plantations have been established, leading to the steady encroachment of endangered orangutan habitats, for example.

In contrast, coconuts are grown in smallholdings throughout the Philippines, passed on from father to son across many generations. There is no systemic deforestation to make way for coconut farms, and there is no significant danger to biodiversity. Coconut oil is a more environmentally friendly alternative to palm oil.

While the Company sells small quantities of palm oil-based products for price-sensitive B2B customers in the food sector, D&L is known for the volume and quality of its coconut oil-based products across many product segments. Whereas the Philippines is one of the world's largest producer of coconut oil, the Company is the country's largest exporter of RBD coconut oil. D&L is a pillar in the Philippine coconut industry via its supply chain and by working with the sector's various stakeholders.

**Coconut Based Products**

- Coconut Oil Spray
- Vinaigrette
- Virgin Coconut Oil
- Liquid Coconut Oil
- RBD Coconut Oil (in Jar, in Bottle)
- Popping Oil / Popcorn Oil
- Coconut All-purpose Shortening
- Cocoa Butter Substitute
- Vegan Pancake Mix
- Coconut Caramel Syrup

**Butter Substitutes and Spreads**

- Cocoa Butter Substitutes
- Buttery Spreads
- Vegan Butter

### On Palm Oil

D&L is cognizant of the various environmental and social issues associated with palm oil. It is mainly used for the company's food ingredients segment. While coconut oil is abundant in the Philippines, the country's cooking oil market has traditionally been dominated by palm oil. This is because palm oil is about 30-50% cheaper than coconut oil, hence, why many of D&L's food ingredients customers are still partial to using palm oil, despite the public pressure to prohibit or dissociate with it.

In line with D&L's view on sustainability and in conjunction with consumer preferences that are developing globally, the company's product portfolio offers a wide range of palm alternatives. In communications with customers, the company finds that they are often well-versed in sustainability issues but are hesitant to switch due to cost considerations. The company normally suggests and presents better or more sustainable alternatives to customers, but is not in a position to forcefully impose these changes. D&L can, however, address any issues from switching to sustainable sources and adjust formulation to mitigate any impact on the taste or sensory qualities of the product.

With vegetable oils accounting for the majority of D&L's raw materials, the company is conscious of the fact that supporting initiatives that lead to a more sustainable future for the planet is consistent with its goal of achieving sustainable long-term growth.

While D&L's RSPO-certified palm oil only accounts for less than 10% of its total requirements, it is important to highlight that another 70% are traceable back to the plantation. While not necessarily requiring RSPO certification, many of D&L's multinational customers require full traceability of the palm oil they use, making sure that the source plantation is not involved in any deforestation and illegal activities. In many cases, these customers provide a list of accredited sustainable plantations where D&L can source the crude palm oil it refines and supplies to them.

RSPO-certified palm oil normally commands a premium. This is the main reason why many of our customers still opt to buy either the traceable palm oil or just the regular palm oil.

### Where the Company Sees the Future

Internally, D&L targets 100% RSPO by 2025. It should be pointed out, however, that this goal is highly dependent on the readiness of the market to switch to more expensive but sustainably-sourced palm oil. The company believes the more realistic scenario is 100% traceability in the near to medium term.

D&L's involvement with palm is similar to its proactive activities related to the replacement of Chlorofluorocarbons (CFC gases) which used to be the propellant for aerosols,

lead and cadmium in chemicals, artificial transfat, salt, and sugar in food—where the company, instead of waiting for the market, promoted among its clients an early shift to more sustainable solutions.

### D&L's Influence

While D&L has limited control on its food customers who are much more price sensitive, the company's influence is more pronounced in its Oleochemicals business. Under Chemrez, the company manufactures coconut-based oleochemicals used as active ingredients for many personal and home care products. These oleochemicals are natural and sustainable direct substitutes for petroleum-based or palm-based active ingredients. Chemrez handles no palm and actively promotes sustainable and natural coconut-based raw materials especially in the export market.

## Green Chemistry

GRI 3-3 | SDG 9.4, 9.5

The Company has been practicing Green Chemistry for a while now, even before ESG became mainstream. With the increasing awareness on health, safety, and the environment, the Company is further capitalizing on this trend by developing products which are inherently sustainable. Moreover, the Company sees huge potential in incorporating Green Chemistry to improve processes and yields.

## Oleochemicals

The Company recognizes the huge potential of developing coconut-based oleochemicals as a sustainable alternative to traditional petroleum-based raw materials for various applications.

With the growing trend of sustainable consumption, the Company is well-positioned to capitalize on its expanding portfolio of low-carbon footprint products, as it actively looks beyond the Philippines and identifies significant export opportunities for these types of products.

## Health & Nutrition



**Laurin CocoMCT®** is a medium chain triglyceride derived from coconut oil. It does not contain palm or other oil products. It is used for various applications, including pharmaceuticals, food, and beverage

products, as well as carriers for flavors, colors, and vitamins. It provides a natural energy boost to muscles during strenuous physical workouts and strengthens the immune system thanks to its natural antiviral, antibacterial, and antifungal properties. **CocoMCT®** is available in various formats including oil, water soluble, and powder.



**Liquid Coconut Oil** is enriched with medium chain triglycerides, and it remains in a liquid state at temperatures up to 5 degrees Celsius. It is used in food and beverage applications and as carriers

for flavors, colors, and vitamins.

## Personal & Home Care



**Cocolatum** is an all-natural, petroleum-free, and silicone-free solution that provides maximum protection and hydration for the skin. It has been clinically tested to be safe and gentle, and it helps

treat various skin conditions such as diaper rash, chapped lips, dry hands, and elbows. It also locks in moisture, keeping the skin feeling soft, smooth, and healthy.



**Glyzer CB Coconut Butter** is a specially formulated product that instantly melts on the skin, creating a protective layer that seals in moisture. Enriched with powerful *Lauric acid* as an antibacterial agent, it helps

protect the skin from environmental aggressors. Enjoy long-lasting hydration and superior protection with **Glyzer CB Coconut Butter**.



**Glyzer CT** is a versatile, light coconut moisturizer that creates a protective layer on the skin to keep it hydrated while preventing water loss. This silicone-free product has been clinically tested and proven

to be safe and gentle for all skin types. Additionally, it feels light and non-greasy when applied to the skin.



**NatPro** is a natural preservative that can be used for cosmetics applications. This active antimicrobial has a broad spectrum of activity and helps maintain the quality and stability of your

products without altering the color or scent of the final product.



**Sufravon** is a coconut soap that offers a natural, biodegradable, and non-toxic alternative to petroleum-derived surfactants. This coco surfactant is gentle on the skin and easy to rinse,

which saves time, energy, and money. Enjoy the power of nature with **Sufravon**, which is compatible with a wide range of wash applications for personal care and home care products

## Agrochemicals

The Company produces organic, safe, and effective agrochemicals that support sustainable agriculture. By addressing the challenges of the environment, the Company contributes to food security.



**Active 32E®** and **CropGuard®** are Emulsified Organic Spray Oils that exhibit high biodegradability and excellent wetting and spreading characteristics. They possess insecticidal

and fungicidal properties and are ideal for use in organic or less chemical farming, making them highly recommended for such applications.



**BioMate Forte Foliar Fertilizer®** is an emulsifiable concentrate (EC) that contains the primary nutrients N, P, K, as well as secondary and necessary micronutrients, all of which are vital to plant

growth and development. Organic chelates used in the formulation make the nutrients easily assimilable for plant use. It is safe and effective for a wide variety of crops, including grains, plantation crops, legumes, fruit-bearing trees, fruit and leafy vegetables, orchard, and ornamentals.

## Industrial Biochemicals

The Company is a pioneer in the Philippine biodiesel industry. It is working with partners to push for the mandated higher blends and is committed to replacing petroleum-based ingredients in industrial and consumer products.



**Coco Methyl Ester (CME)** or Biodiesel is a plant oil-derived fuel oil enhancer that has fuel properties superior to petroleum diesel. It can improve the operation of compression ignition engines and

optimize engine performance due to its unique quality-enhancing features. D&L exclusively uses coconut oil as the feedstock for its biodiesel production..



**Lubricote** is a plant-based lubricant formulated from ester-based synthetic oil. It has superb features of effectively penetrating into the core and serves as a rust inhibitor for corrosion control in the inner and

outer surfaces of the wire rope, cable, or chain.



**Surfasol/Dispersa** is an organic, plant-based, and non-aromatic additive that enhances the solvency of formulations when combined with other solvents. It is commonly used in various applications

such as printing ink, paint, household cleaners, and the oil and gas industries.



## Advanced Materials

GRI 3-3 | SDG 14.1

The Company is driven by the pressing need to address plastic pollution and is dedicated to material sustainability and innovative solutions in the field of polymers. It recognizes that sustainable solutions are essential and offer significant opportunities throughout the entire waste treatment process chain.

## Reduce Plastic Waste

To combat plastic pollution, FIC & DLPC have developed a broad range of product solutions utilizing various approaches. By offering these solutions, the Company is actively contributing to reducing plastic waste and promoting a more sustainable future.

### Biodegradable Alternatives

One strategy involves using biodegradable materials as an alternative to traditional polymers. This aims to ensure that grocery bags can ideally end up in composting facilities or, at worst, landfills, where they can decompose in the solid waste heap over a period of up to two years from the production date, depending on the customer's requirements.



**Biorez® compostable polymer:** Alternative plastic material for incumbent polymers. Fully biodegradable and bio-based materials which promote sustainable waste management and cradle-to-cradle material cycle.

### Durable and Reusable Materials

Another strategy focuses on increasing the durability and high-performance characteristics of plastic products, thus extending their service life and replacement cycle, and improving their reusability.

**Proflex® Glass-Filled Compounds:** Polymer compounds for high durability and high-performance applications. This allows typical plastics to have longer service lives.

## Renewable Resources

A third strategy involves outright replacing plastic compounds with renewable resources, reflecting the company's commitment to creating sustainable, high-performing products.

**Biorez® Bio-based Compounds:** Polymer compounds made from sustainable and renewable materials. The product portfolio enables application-specific formulation which require renewable polymers or materials.



**NEU®:** An eco-friendly alternative to plastics primarily made with sustainable minerals—crafted to greatly reduce carbon footprints.

## Recycling & Upcycling

Its fourth strategy centers on improving the recyclability of plastic products, reducing plastic waste. The fifth strategy promotes the use of upcycled products with increased recycled content, further decreasing plastic waste.

The Company's multifaceted approach to developing sustainable solutions for every step of the waste treatment process chain highlights its dedication to responsible business practices and proactive stance in tackling plastic pollution.



**Polygard® Anti-Oxidant Stabilizers:** Polymer additives to improve the processing cycle of most polyolefins plastics. This allows PE, HDPE, & PP to be more recyclable and resistant to processing degradation.



**PlastiBond® Bonding Agent:** Plastic additive which allows the inclusion of contaminants in the processing of recycled polyolefin-based products. This gives manufacturers the edge to increase the recycled content of their process.

## Reduce Carbon Footprints

In addition to reducing plastic waste, businesses today are under increasing pressure to reduce their environmental impact and minimize their carbon footprint.

### *Material and Energy Optimization*

The Company offers a range of products and solutions that improves the efficiency of manufacturing processes, reduces waste, and maximizes the use of materials and energy. By implementing such sustainable manufacturing practices, a company can minimize its environmental footprint while also achieving cost savings and improving its bottom line.



#### **Polymate® Process and Material Optimization**

**Additives:** To help manufacturers achieve material and energy optimization, the company has developed **Polymate®** process and material

optimization additives. This set of additive packages is formulated to improve extrusion processes and material utilization of plastics. This allows converters to experience more efficient energy utilization, higher throughput of the extrusion machine, and better material utilization.



#### **Hi-Purge® Extruder Cleaning and Maintenance Compounds**

Efficient cleaning and maintenance are also critical components of material and energy optimization. To address this, the company has developed **Hi-Purge®** extruder cleaning and maintenance compounds. These efficient cleaning

compounds reduce the excessive use of pristine materials for cleaning and material shift during transitions. Efficient cleaning also enables lower energy and material utilization, along with faster down-times during machine maintenance or process transitions.



#### **Colormate® White Masterbatches for Laminates**

Finally, the company has developed **Colormate®** white masterbatches for laminates. This color additive is used to impart

white color for printing background in sachets and laminate packaging. This enables manufacturers to reduce the use of solvents in printing inks for white backgrounds, resulting in a more sustainable production process.

# Resilient Supply

Coconut Industry Sustainability



## Resilient Supply

GRI 3-1, 3-3

Over the years, D&L's business has grown in lockstep with the volume of coconut oil used in products across many sectors, from food ingredients to home & personal care, from biodiesel to industrial solutions. To fuel its current and future growth, the Company needs a stable, resilient, and progressive Philippine coconut industry.

On the other hand, the rising frequency of extreme weather conditions in many parts of the world has sharpened awareness among many stakeholders on the need to slow down, if not entirely reverse, anthropogenic global warming. Poor nations that bear the brunt of devastating floods and fierce forest fires call on wealthier nations to spend more to make up for the decades of burning fossil fuels that have fed the latter's industrialization. The rich nations themselves have not been immune, with hurricanes and drought alternately wreaking havoc on their cities and vineyards.

Stakeholders, from the United Nations to governments, regulators, capitalists, and industries, down to non-government organizations, activists, and workers, all see the need to act from the largest to the smallest scales.

Renewable energy sources are replacing fossil fuel power. Plant-based oils are preferred over industrial and commercial uses of petroleum-based ingredients.

## Coconut Industry Development

GRI 3-3 | SDG 17.16, 17.17

### Philippine Government Initiatives

The Philippine government launched the Coconut Farmers and Industry Development Plan (CFIDP) on June 24, 2022, as mandated by Republic Act 11524, also known as the Coconut Farmers and Industry Fund Act.<sup>11</sup> The CFIDP aims to develop the coconut industry through Executive Order 172 signed on June 2, 2022, which provides funding for programs that support farming, processing, marketing, research, development, and social protection. The plan seeks to enhance productivity, promote sustainability, integrate the value chain, and expand market access. The coconut industry,

which employs over three million workers and contributes 1.5% of the GDP, plays a crucial role in the Philippine economy, and the CFIDP is a significant initiative that supports the industry's sustainable development.

Chemrez actively engages with the Philippine Coconut Authority (PCA) and coordinates industry action with the United Coconut Association of the Philippines (UCAP). Meanwhile, the Lao Foundation works with D&L, Chemrez, Oleo-Fats, some affiliates, and a few business customers interested in smallholder initiatives for coconut farmers.

## Coconut Sustainability Initiative (CSI)

GRI 2-22

While green investors show heightened interest in the Company's sustainability profile, B2B customers have increasingly queried subsidiaries Chemrez and Oleo-Fats on their programs, if any, supporting traceability in their supply chains, as well as on improving the lives of small farmers, their families, and rural communities upstream.

Given how coconut oil plays such a huge role in its overall business, the Company formalized its Coconut Sustainability Initiative in 2022.

### Sustainable Coconut and Coconut Oil Roundtable (SCCOR)



## SUSTAINABLE Coconut & Coconut Oil Roundtable

Oleo-Fats actively participates in the Sustainable Coconut and Coconut Oil Roundtable as a Member, attending the Seventh Sustainable Coconut In-Person Event in The Peninsula Manila on November 25, 2022.<sup>12</sup>

D&L is integrating the framework of the Sustainable Coconut Charter (SCC) with Government's CFIDP. The Company's commitment to sustainability is evident in its CSI, which is rooted in the SCC's four key principles:

<sup>11</sup> Philippine Department of Agriculture, "CFIDP Launched to Strengthen PHL Coconut Industry," Department of Agriculture, June 24, 2022, accessed March 31, 2023, <https://www.da.gov.ph/cfidp-launched-to-strengthen-phl-coconut-industry/>.

<sup>12</sup> "Seventh Sustainable Coconut In-Person Event," Sustainable Coconut Charter, accessed March 31, 2023, <https://www.sustainablecoconutcharter.com/seventh-sustainable-coconut-in-person-event>.



responsible production, responsible sourcing, social responsibility, and economic viability.

The SCCOR is a global initiative that aims to promote sustainability and responsible sourcing in the coconut industry. It unites coconut industry stakeholders from all over the supply chain to work together towards a sustainable and responsible coconut industry. Oleo-Fats' membership in the SCCOR demonstrates D&L's dedication to sustainability and responsible sourcing in the Philippine coconut industry. By embracing the SCC's framework and implementing it through its CSI, the Company is contributing to the promotion of sustainable and responsible coconut production and sourcing, and positively influencing change in the industry.

#### ProForest Scorecard Criteria (SCC)



	Main scorecard criteria	Phase 1 (6-12 months)	Phase 2 (2 years)	Phase 3 (4-5 years)
Policy	Public commitment	✓	✓	Covered in P1&P2
	Scope of policy	✓	✓	Covered in P1&P2
	Policy endorsement	✓	✓	Covered P1
	Environmental elements in the sustainability policy	✓	✓	Covered in P1&P2
	Social elements in the sustainability policy	✓	✓	Covered in P1&P2
Understanding the supply base	Traceability commitment	✓	✓	Covered in P1&P2
	Transparency of traceability data	✓	✓	Covered in P1&P2
	Traceability to crusher	✓	✓	Covered in P1&P2
	Traceability to production region (village/ barangay/ desa)		✓	✓
	Traceability to farm			✓
	Frequency of traceability data	✓	✓	Covered in P1&P2
	Environmental risk assessment		✓	✓
Planning	Social and human rights risk assessment		✓	✓
	Timebound implementation plan		✓	Covered in P2
	Scope of timebound implementation plan		✓	Covered in P2
	Elements of timebound implementation plan		✓	Covered in P2
	Consultation and endorsement		✓	Covered in P2
	Responsibility & resources		✓	✓

	Main scorecard criteria	Phase 1 (6-12 months)	Phase 2 (2 years)	Phase 3 (4-5 years)
Engage within the supply chain (volumes/suppliers)	Certification / Compliant traceable volume	✓	✓	✓
	Suppliers onboarding process	✓	✓	✓
	Suppliers engagement process and activities	✓	✓	✓
	Grievance mechanism		✓	✓
Engage beyond the supply chain (landscapes/sectors)	Supporting beyond supply chain initiatives CNO sector transformation		✓	Covered in P2
	Supporting beyond supply chain initiatives for farmers support		✓	Covered in P2
	Supporting beyond supply chain initiatives for sustainability certification		✓	Covered in P2
	Other landscape initiatives		✓	Covered in P2
Monitoring and reporting	Supplier monitoring activities			✓
	Public Reporting (sustainability)		✓	✓
	Public Reporting (traceability)		✓	✓
	Public Reporting frequency		✓	✓

In 2022, Oleo-Fats began working with ProForest<sup>13</sup> to meet a set of sustainability criteria required of coconut

oil<sup>14</sup> suppliers by large multinational customers. The ProForest Scorecard Criteria evaluates and advises Oleo-Fats in developing policies and programs over three (3) phases within a five (5) year timeframe.

#### Sustainability Sourcing Policy for Coconut Oil<sup>15</sup>

Effective May 10, 2022, the Executive Committee issued the Sustainability Sourcing Policy for Coconut Oil, covering Oleo-Fats, its subsidiaries, officers, employees, contractors and suppliers. The policy states:

*The Company shall integrate sustainable practices in its operations including but not limited to traceability, reliability, credibility and compliance to ensure the sustainability of the coconut sector that protects the people, planet and profit for the best interest of all its stakeholders.*

<sup>13</sup> Proforest, accessed March 31, 2023, <https://www.proforest.net/>.

<sup>14</sup> Oleo-Fats also works with a different team from ProForest on RSPO criteria. However, most of the sustainability activities on palm oil are referred back to upstream suppliers locally and from

<sup>15</sup> Oleo-Fats, Incorporated, "Sustainable Sourcing Policy for Coconut Oil," OFI.SCG.01.01, approved by Executive Committee, effective May 10, 2022.

## Upscaling Supply & Quality

GRI 3-3 | SDG 2.3, 2.4, 17.16, 17.17

The Company collaborates with its upstream supply chain team and partners, including coconut oil mills, aggregators/dealers, and copra buying stations. The Lao Foundation plays a crucial role in this team, utilizing their multisectoral expertise to connect with and engage the coconut farming communities.

### Farmers' Registration

To ensure traceability in the coconut supply chain, copra origin is traced through multiple levels:

*Country of origin:* 100% local (Philippines);

*Crusher/oil mill:* traces origin to the geographical region where the oil mill is located, including adjacent regions and provinces where applicable;

*Municipality/Barangay:* based on the farmers' registry of aggregators, dealers, and/or copra buying stations; and

*Farm:* provides the exact address, farm ownership details, available workers, number of families, size and scale of coconut planting, and other economic and social conditions in the area.



**Farmers' Meeting in Quezon Province**

Meeting the farmers is an effective means of introducing the Company through its copra buying team, to extend the program to barangays further afield and learn firsthand of the farmers' livelihood conditions, concerns, and preferences.

### Farmers' Agricultural Training

Conducting training in established copra source communities and new outreach areas is an essential program that teaches best agricultural practices and

introduces new technology to improve coconut production.



**Agriculture training**

### Coconut Replanting

Many smallholdings have senile trees, making the replanting of coconut seedlings a critical step in improving future supply.



**Coconut replanting**

Three-month-old seedlings are replanted 10-meters apart in a triangular arrangement for optimal growth.

The Company is collaborating with the PCA to introduce dwarf hybrid coconuts, which mature a few years sooner than tall varieties. The Company is also leveraging its R&D capabilities to explore coconut tissue culture technologies with the assistance of in-country experts.

### Cash Incentives for Farmers

There is no guarantee that coconut seedlings distributed to farmers will be properly cared for in the crucial first few months after replanting. The Company's team returns to the farms after three (3) months to check on the seedlings' growth. Farmers receive a small cash reward for each successfully nurtured seedling at that milestone date. In the countryside, where every peso counts, a small financial reward is highly appreciated for a job well done.



**Mr. Romeo Baloloy** planted 30 dwarf hybrid coconut seedlings and received a cash incentive under the CSI.

### Organic Certification

Chemrez and Oleo-Fats have premium customers who require certified organic coconut oil. Consequently, the Company assists farms with their initial and annual certification inspection requirements.



Organic copra certification document review in Davao Occidental.



# Better Lives

Wellness for All Stakeholders



## Dedicated to Better Lives

*The D&L Dictionary (July 30, 2021)*

*v. ded-i-cated : devoted to a cause, ideal, or purpose : zealous<sup>16</sup>*

Two brothers started a company in 1963, manufacturing, marketing, and distributing colorants, chemicals, and additives for the plastic, paint, and ink industries. By the time they formally incorporated the company as D&L Industries in 1971, it was a rough time to run an enterprise. Buckling down to work, Dean Lao thought, "Doing business in the Philippines is a challenge. I look at the positive side. There's an opportunity in everything."

D&L thrived. Thinking back, Leon Lao mused, "We grew in spite of this crisis. Whatever the circumstance, it is the drive, hard work, and attitude that matter. That is what the spirit of an entrepreneur is all about."

Being in business is no mean feat. Look no further than our founding brothers to see how the passion to overcome the odds could nurture a dream to great heights. From just two thousand pesos in hand all those decades ago, here and now, in the midst of a pandemic in 2021, D&L Industries is valued at over 57 billion pesos in the Philippine Stock Market.<sup>17</sup>

Dedication, devotion, zeal. This is the secret sauce that drives every ka-D&L.

*adv. bet-ter : to a higher or greater degree : more<sup>18</sup>*

"It should be a matter of doing what you do best."  
-- Alex Lao

We do not settle. Hindi pwedeng pwede na.

We simply *do* better. Our products *are* better. Our service *is* better. We *are* better.

No ifs, no buts. Fact.

*adj. bet-ter : more attractive, favorable, or commendable*

It shows in the products we create & innovate for our clients & consumers, be it the perfect shade of teal for their wall, the perfect blend of taste & aroma for their sauce, the perfect balance of care & scent for their skin.

This is where each and every ka-D&L counts. When sales & marketing deliver above & beyond what their clients need & expect, when technical & production meticulously fine tune their formulations & processes for quality & efficiency, when supply chain, finance, & admin ensure the smooth running of the engine that is D&L, the result is a *better* product. We provide a *better* service.

Edwin Lao sums it best. "D&L's most important asset is our dynamic and loyal employees. How the company will grow and prosper in the next 50 years will be dependent on how we hire, train, and retain the best talents."

*n. plural lives : the sequence of physical and mental experiences that make up the existence of an individual<sup>19</sup>*

Why do we do what we do?

We do it for God. We do it for country. We do it for family. We do it for us.

By so doing, we cannot help but be driven, for these are the most important things in life. We have a burning desire to do well... nay, to do our *best*!

Every good word and every good deed fuel the fire even more. Every task well done makes it easier for the next task to be done better. We do well, we feel great.

Our peers get infected with our *joie de vivre*. Our products are delightful, our services, *par excellence*. Our customers & stakeholders are gratified.

The factory hums & thrums with efficiency. There is little or no waste. The community prospers. The environment is cleaner.

Our lives are better.

"We are always passionate about what we do. We were the first to come into the market, and we can't be stagnant. We can't take it easy or be complacent. We work together for long term growth."  
-- John Lao

This is us.

We are D&L.

<sup>16</sup> "Dedicated," Merriam-Webster.com Dictionary, accessed July 30, 2021, <https://www.merriam-webster.com/dictionary/dedicated>.

<sup>17</sup> "PSE Edge - Company Data: D&L Industries, Inc.," Philippine Stock Exchange Edge, accessed July 30, 2021, [https://edge.pse.com.ph/companyPage/stockData.do?cmpy\\_id=639](https://edge.pse.com.ph/companyPage/stockData.do?cmpy_id=639).

<sup>18</sup> "Better," Merriam-Webster.com Dictionary, accessed July 30, 2021, <https://www.merriam-webster.com/dictionary/better>.

<sup>19</sup> "Life," Merriam-Webster.com Dictionary, accessed July 30, 2021, <https://www.merriam-webster.com/dictionary/life>.

## Better Lives

GRI 3-1, 3-3

D&L Industries recognizes that its business directly impacts the lives of investors, employees, customers, suppliers, communities, and the environment.

The Company delivers long-term value for investors through sustainable investments and offers employees a safe and supportive work environment with competitive compensation & benefits, opportunities for growth, and wellness programs for body & soul.

For customers, D&L provides high-quality products and services, building long-term relationships through exceptional customer service and innovative solutions. The Company works with suppliers transparently, building strong relationships based on mutual respect and trust.

D&L invests in initiatives that support local businesses, education, and the environment, creating better lives for communities.

Throughout all this, the Company minimizes its environmental footprint through sustainable practices, protecting the planet for future generations.

## Economic Performance

GRI 2-6, 3-3, 201-1, 203-2 | SDG 1.2, 8.2, 9.4, 9.5

D&L's strong corporate performance is key to providing better lives for all. With growth comes opportunities to do more, to do better, to pursue even more sustainable action.

For FY2022, D&L Industries recorded its highest ever net income, demonstrating a full recovery from the COVID pandemic amidst a confluence of macroeconomic headwinds. The P3.3 billion of earnings exceeds the company's previous record of net income achieved in 2018. The company's full year 2022 net income stood at P3.3bn, higher by 26% YoY. In 4Q22 alone, earnings were up 62% YoY to P777 million. These results outperformed expectations and were mainly driven by strong consumer spending amidst wider economic reopening and the company's exports undergoing resilient growth. The three biggest business segments of the company—food ingredients, oleochemicals and other specialty chemicals, and specialty plastics—all booked positive earnings growth for the year which were either at record highs or slightly below.

D&L's robust earnings for the year demonstrate its ability to weather various macroeconomic conditions given its

diversified businesses, the essential nature of the products it manufactures, and its ability to adjust its selling prices regularly.

## Employee Management

GRI 3-3, 2-7.

### Employee Hiring and Benefits

GRI 3-3, 401-1, 401-2 | SDG 1.2, 3.8, 5.1, 5.5, 8.2, 8.5, 8.6, 10.3

D&L's hiring practices only give merit to the competence and skills of applicants, and match them according to job requirements as defined by the Hiring Manager and the department filling the position. Gender, race, age and other discriminatory characteristics are never standards by which applicants are decided upon.

Standard social and government-mandated benefits are provided upon employment. Minimum wage laws are complied with at the lowest entry level positions. On top of the benefits mandated by the government, the company implements programs which safeguard the health and welfare of its employees and their families through health insurance, maternity assistance, medicine subsidies, and even financial risk alleviation initiatives. The Performance Dashboard is used as the basis for merit increases, promotions, job rotations, new assignments, and training and development.

### Educational Program

SDG 4.1, 4.3, 4.4, 4.5

The Lao Foundation, under the Lao Boh Lim Educational Program, has been extending scholarships to deserving dependents of both regular and outsourced service providers (OSP) employees since 2018.

The Foundation has also been rewarding children of employees in all levels who excel academically through the Educational Excellence Awards established in 2005. It also recognizes auxiliary educational achievements such as placing in national and international competitions, passing board exams, among others.

### Talent Succession Planning

There is also a detailed succession plan organized by the Talent Management team identifying and grooming high potential employees to assume greater roles in the future. It emphasizes that employee development and progression is a top priority for the company.

## D&L Talent Planning Process



## Employee Training & Development

GRI 404-1, 404-2 | SDG 5.1, 5.5 8.2, 8.5, 8.6, 10.3

D&L takes the growth of its employees very seriously because management believes that the development of its people will ultimately redound to the benefit of the group. In this regard, D&L has established a dedicated team specifically for employee training and development called 'Infinite Learning'.

Since its formalization in 2019, the team has been organizing various training sessions and programs about many different topics including certification compliance, equipment handling, and the refinement of soft skills, among many others. The team has always been open to suggestions for new topics of interest, and is always looking at trends in order to keep training topics up to date. D&L has also forged partnerships with a number of institutions such as Dale Carnegie Training, the Ateneo Graduate School of Business, and the Philippine Red Cross to share their expertise in certain areas with the group. High potential employees are enrolled under the Leadership Development Program in the hopes of producing future leaders.

The team also maintains a feedback system for both internal and external training sessions. It is to ensure that sessions are actually useful and informative, and to take note of any subtopics that may have been missed or any additional topics that may call for extra sessions.

The Infinite Learning team, together with D&L's Information Systems Department, had launched a series of training sessions that aims to upskill its employees to be able to work better digitally. The series also came at an opportune time because COVID hit and all non-essential employees in the group were forced to work from home. The team has since pivoted and continues to conduct training sessions virtually.

## Labor-Management Relations

GRI 2-16, 2-26, 3-3, 402-1 | SDG 8.8

"Kumustahan" Sessions (or catch up sessions) are regularly conducted between upper management and all the employees in order to present the state of the business, and to respond to concerns and issues raised by employees.

D&L has always been a company that listens to its employees. Everyone has a direct line to the Managing Directors, the President and CEO, and their immediate managers. It is a two-way communication with no layers. HR has also implemented a 24/7 HR Program so employees are able to reach out to the HR Business Partners anytime, any day.



## Diversity and Equal Opportunity

GRI 405-1 | SDG 5.1, 5.5, 8.2, 8.5, 8.6, 10.3

D&L has no restrictions in hiring and promotion. There is no discrimination and no age requirement, and the company engages retirees to become consultants in order to continue working for the company for as long as they wish. Job postings do not require gender, age, and any other restriction as long as the candidate is qualified for the role being filled. Resumes are not required to contain photos or any such distinguishing information, other than their experience for the role they are being considered for. Despite operating production plants normally populated by male workers, 34% of the workforce in D&L are female.

The Infinite Learning Team reviews training requirements and works with the Talent Management Team to identify

competency gaps and deliver appropriate training programs regardless of gender, age, and race. The main consideration is the individual needs of employees.

### Occupational Health & Safety

GRI 403-1, 403-2, 403-3, 403-5, 403-8, 403-9, 403-10 | SDG 8.8

D&L implements a Safety and Health Program to comply with RA 11058 and other relevant regulations through its Health, Safety and Environment (HSE) Department. Each plant has a satellite HSE unit. The department regularly conducts virtual safety orientations for new employees (direct hire and OSPs), contractors, and third-party haulers in light of the pandemic. It also acknowledges the innumerable hazards that come with operating manufacturing plants. Thus, it also conducts various other plant-specific seminars and training sessions on topics such as hand and finger safety, aspect impact hazard and risk assessment, EPR (fire, spill, typhoon, earthquake), work environmental hazards, behavioral safety, and welding, electrical, forklift, chemical and boiler safety, among many others.

The department regularly conducts safety walkthrough audits with follow-up monitoring of corrective actions where necessary. It also enforces self-assessment audits in all of its plants, warehouses and buildings. It has an efficient accident reporting mechanism, and conducts safety drills where possible given the pandemic.

As much as physical health and safety is important, employees' mental health is also a priority for the company. D&L's HR Business Partners provide counselling to employees needing help. Employees can freely approach any of the HR representatives and discuss issues without fear of reprisals.

## Rights & Privacy

### Labor Laws & Human Rights

GRI 3-3

The family culture in the company allows employees to be open and straightforward in discussing any issues they have without fear of retaliation. Communication is top-down, bottom-up, and sideways. There are no layers and barriers, so issues are resolved at the onset and no grievances are escalated.

D&L takes human rights issues seriously, and always considers the topics of forced labor, child labor, discrimination, and harassment in its dealings within and outside its subsidiaries. Its Code of Business Principles strictly outlines the company's stance and policies on such matters, and guides all its employees on business decisions involving such.

### Customer Management

GRI 2-16, 2-26, 3-3, 416-1 | SDG 12.8

As a B2B company, D&L deals with most of its customers on a face-to-face basis, thus making customer service one of its top priorities. Its dedicated sales teams have been working throughout the pandemic to ensure that every customer is served well despite the local and global restrictions. The nature and specificity of its products also call for close coordination between the customers and the technical teams of the subsidiaries. Major concerns are elevated to top management quickly, and are dealt with immediately. The Company believes that customer feedback is very important especially when it comes to product development.

Key Concerns	Actions Taken to Address Concerns
<b>Consumer Products ODM</b>	
Worry over stock outs during pandemic, floods, unforeseen events	Created a business continuity plan for products and personnel
Stock security for imported raw materials and packaging	Aggressive forecasting, maintenance of 3 months' worth of stocks, and monthly updating of forecasts
<b>Food Ingredients</b>	
Constant shifting of consumer wants	Present customer range of product flavors and builds based on current up-to-date trends



Simplification of customer supply chain	Educate customers on proper product usage across their respective product ranges for convenience and cost efficiency
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Reduction of customer regulatory risk	Ensure products supplied to customers are compliant with local food laws and regulations, as well as global food safety standards
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#### Chemicals

Demand for formulation of natural products and use of renewable packaging	Development and innovation geared towards natural, pursuit of regulatory compliance (ecosearch, organic certification)
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Low stocks	Discuss lead times with customers, produce safe level of buffer stocks
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Warping of sealed HDPE packaging for hydraulic brake fluids	Redesign bottle, nitrogen purging
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High raw materials price	Sourcing of new suppliers, exploration of alternative materials
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Long lead time	Increased inventory levels, advanced ordering of raw materials, advanced booking of orders, and regular updating of forecasts
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#### Plastics

Limited finished goods	Close coordination between sales and warehouse teams prior delivery
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Shortage of raw materials	Regular communication between sales, technical and production teams on level of raw materials on stock and urgent items for production
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## Marketing and Labeling

GRI 3-3, 417-1 | SDG 12.8

The Company has no history of substantiated complaints on marketing and labelling and, therefore, no complaints addressed.

Most of its products and services are offered to business entities and not directly to consumers. They only indicate the product name, packing size, and batch number on the labels.

## Customer Privacy

GRI 3-3, 418-1 | SDG 16.10

Customers provide information for purposes of applying for credit extension. The information is both private and confidential and, therefore, is treated with utmost care to prevent leakage. Once the credit application has been approved, the Customer Information Sheet is kept by a Marketing Assistant for safekeeping. A separate form is prepared and submitted to the Accounting department. It contains information needed only for customer account creation and does not contain any unnecessary personal information. Access to the customer data master file is limited only to an assigned person who is at least supervisory level.

The Company is committed and motivated to protect its customers' information.

## Product Health and Safety

GRI 3-3; 416-1 | SDG 12.8

Aero-Pack's adherence to green chemistry has made many a home beneficiaries of organically sourced household products. These eco-friendly products have provided families peace of mind—secure in the belief that the likes of insect killers and dishwashing detergents are safer and greener.

Chemrez' green innovations have provided coco-based wellness solutions for health-conscious consumers. The remarkable market acceptance of its medium chain triglyceride (MCT), **Laurin™**, is a strong testimony to the company's green advocacy.

D&L Polymer & Colours (DLPC) has developed a key raw material—durable and non-toxic—used in the production of the toy sensation, Hatchimals. The use of raw materials on other products of DLPC also complies with the RoHS (Restriction of Hazardous Substance) requirement.

First in Colours provides business solutions to companies given the potential ban on single-use plastics.

Oleo-Fats' standard operating procedures mandate that all food-related products undergo shelf life studies, microbial, and sensory tests to ensure these remain safe for human consumption until the end of shelf life.

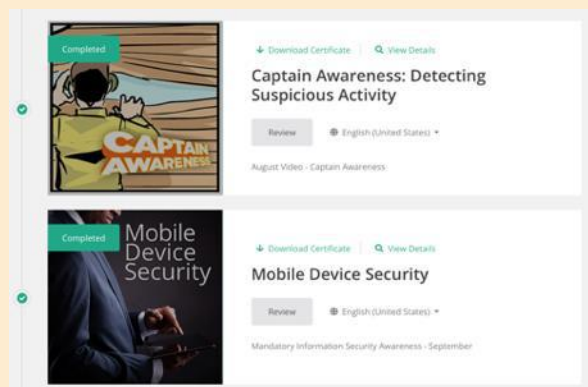
Focusing on what the customer wants and needs, subscribing to green chemistry and subjecting finished products to rigorous testing processes have helped the Company develop products that are healthy and safe for humans and the environment.

## Data Security

GRI 3-3, 418 | SDG 16.10

In the sphere of ever-evolving technology, data security and privacy have become increasingly important topics. With the emergence of alternative working arrangements, threats to cybersecurity are at an all-time high. The Company recognizes this, and ensures that various controls are in place to secure all pertinent data. It is compliant with the Data Privacy Act of 2012 and all other regulations set forth by the National Privacy Commission.

An appointed Data Protection Officer (DPO) oversees and monitors all topics concerning cybersecurity. The success of a cybersecurity program hinges on how well a company's employees understand the importance of the policies, and how consistently these rules are followed. Thus, a data security and privacy awareness program is permanently in operation. It includes a monthly wallpaper and email newsletter, as well as regular online training on cybersecurity.



The Company makes extensive use of data sharing agreements with clients, third parties, and sister companies. Client information is treated as strictly confidential, even between subsidiaries, and client permission is always sought before it is shared. When and where applicable as required by law, a privacy notice is displayed on all external websites for the information of site visitors. Privacy impact assessments are regularly conducted to evaluate each department on processes that collect or process personal information. Departments that deal with a large volume of sensitive information and those that are at high-risk of data breaches are also closely monitored by the DPO.

## Community Action

GRI 3-3 | SDG 13.1



The Company employs an in-house team of safety officers trained in firefighting, rescue, and emergency response. These assets are deployed not just for contingencies in its offices, warehouses, and facilities, but also to assist local communities and government and volunteer teams during emergencies and natural calamities.



The Company also fields volunteers in such diverse civic activities as tree planting, river clean-up, fumigation, firefighting, and first aid training in and around its communities

# Outreach

Working Together for Greater  
Impacts





## Outreach

GRI 3-1, 3-3

### Lao Foundation

Fostering a good relationship with our community is not just a matter of social responsibility, but a means to be "connected" and be aware of the conditions around us. It is better to establish early on a mutually beneficial relationship with the community. This comes in handy when problems occur or when difficult situations arise.

Our strategy is in line with our advocacy on education, which empowers and gives hope to people. It is an opportunity to uplift one's life. We choose to start with school children, as we believe that the youth is the hope of the country. We support, nurture, guide, and give them the opportunity to grow and spread their wings.

These initiatives work both for the communities and the Company. While the Company offers scholars the opportunity of a proper education, the latter become eligible for employment upon graduation.

This arrangement helps fill the manpower requirements of the Company. Successful scholars are provided with on-the-job training experience.

2011 to Present	Number
<b>Scholars with Partner Organizations</b>	
No. of scholarship/educational assistance awarded with partner organizations (elementary to college and Technical Vocational – nationwide)	<b>2,096</b>
No. of college graduates with partners	<b>137</b>
No. of Technical and Vocational graduates	<b>281</b>
Employment rate	<b>85-90 %</b>
<b>Directly managed scholars</b>	
No. of scholars in the adopted communities	<b>168</b>
No. of scholars who are children of in-need employees of D&L Group and outsourced workers assigned in the companies of D&L	<b>106</b>
No. of college graduates	<b>21</b>
Employment rate	<b>85 %</b>
<b>Educational Excellence Awards</b>	
No. of awardees (counted per year since 2005)	<b>3,607</b>



## Focus on the Youth

GRI 3.3 | SDG 4.3 4.4 8.2 8.5 8.6 10.3

### On Education

The Lao Foundation believes that it is through education—having the necessary knowledge, skills, and proper values—that one will be able to transcend poverty.

Education being the main thrust of the Foundation, is central to all its programs and projects. LFI supports the education of in-need youth nationwide through its different partner organizations. It also offers and directly manages scholarships to in-need senior high school and college students in the communities where the companies of the D&L Group are located.

In believing that charity should begin at home, LFI offers scholarships to the children of in-need employees of the D&L Group and outsourced workers assigned to the different companies of D&L. Annually, it also awards the academic excellence of the children of D&L Group employees to promote the value of education.

LFI works towards building minds through its scholarship projects, transforming hearts through values formation that is central to its scholarship projects, and changing lives through its education to employment thrust.

In 2021, a number of companies of the D&L Group were accredited by TESDA – opening its doors to the scholars of LFI from Dualtech Training Center Foundation, Inc. and Don Bosco Agro-Mechanical Technology Center in Legazpi and to other students in need of a place for their in-plant training. 133 multi-skilled trainees have been trained in the different plants thus far and 65 of them have been hired as regular employees.



Sustainable development requires holistic multi-sectoral cooperation. It is to this end that the Lao Foundation joined the Zero Extreme Poverty 2030 Movement. LFI has been collaborating with the different organizations in bringing families out of extreme poverty.

The Lao Foundation has extended its scholarship in partnership with Dualtech Training Center to identified youths from families in extreme poverty since 2019. In just 2 years of Dualtech's technical course, the youths are equipped with multi-skills, gainfully employed, and have slowly changed the lives of their families.

## Community Development

GRI 3.3, 413-1, 413-2 | SDG 2.3, 2.4



Coconut is one of the main ingredients that the D&L Group uses for its products. LFI, as a way of giving back to the coconut farming community, embarked on a challenging task of working with the communities and expanding its current programs. LFI envisions sustainable livelihood and better lives for the coconut farmers and their families.

In 2022, LFI started with the profiling of its target communities to holistically assess the needs of the target communities. LFI believes that for its projects to be sustainable and impactful, LFI must work with the different stakeholders in the community to respond to the assessed need.





"I was able to organize my own community-based training on what I have learned from this program, and I shared it too with the 50 PWD members of our community."

### Mr. Friday Moratalla

Farmer Beneficiary and Person with Disability (PWD)



### Animal livelihood

Through our Livelihood Programs, we work with non-profit organizations and farmer cooperatives to provide coconut farmers with the appropriate values, skills, knowledge and opportunities to increase their agricultural productivity and income.



### Donated solar panels

Working with communities means assessing their needs, even beyond coconut farming.

With holistic community assessments by professional third-party partners, LFI is able to plan long term, embarking on a series of projects from the most pressing needs to longer gestation ones, building on the gains for greater impacts.



## Multisectoral Cooperation

GRI 3.3 | SDG 14.1, 17.16, 17.17

The whole is more than just the sum of its parts.

Different sectors bring different strengths to the table when working beyond their normal boundaries. B2B providers and customers bring the technology and the market. National agencies and local governments serve and bring the support of their constituents.

Combining goals and means bring new opportunities for addressing gaps in environmental initiatives.

### Upcycling for residual plastic management



Figure 1 - Cebu Pacific Air Twitter post, October 16, 2018, accessed March 31, 2023, <https://twitter.com/cebupacificair/status/1052132020472635392>

**UpCycled™** initiative and partnership to convert residual plastic wastes (no value and non-recyclable plastic waste like sachets) to higher value plastic products.

### Bio-based initiatives for reduced carbon footprints



Figure 2 - Bakong Project website, accessed March 31, 2023, <https://bakong.carrd.co/#about>

#### Design Center - Bakong Project

A DTI Design Center-initiated project to use invasive indigenous plant materials for higher value products. The project is geared towards the use of *Crinum asiaticum*, locally known as "bakong", in wood-like plastic products which showcases the strength of fibers in polymer products. This is coupled with the bio-based materials used in **Biorez®** and similar technologies to produce environmentally sound materials while sustaining community-government-industry engagements.

## Frameworks & Standards

GRI 3-1, 3-3

The [Five Themes](#) present a narrative structure that allows D&L to present its ESG efforts in an engaging way without getting lost in the technical details of the frameworks. This approach captures the interconnections between economic, environmental, and social aspects of the business, providing a holistic view of the Company's sustainability efforts. The simplicity of the narrative immerses the reader in the story, while meeting the reporting requirements of the standards.

The next sections provide the depth and details on ESG performance which each framework requires, ensuring transparency, accountability, and adherence to global best practices.

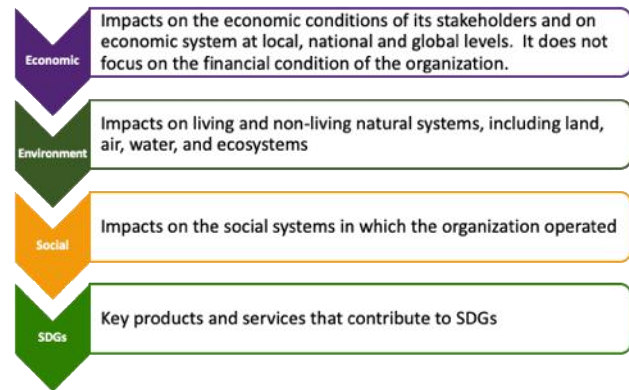
Between the story and the statistics, D&L invites investors, regulators, customers, employees, partners, and its communities into a sneak peek into the better lives it is forging.

## The Philippine SEC Sustainability Framework



SEC Sustainability Reporting Framework for PLCs

On February 15, 2019, the Philippine Securities and Exchange Commission (SEC) issued Memorandum Circular No. 4, Sustainability Reporting Guidelines for Publicly Listed Companies (PLCs), and provided a Sustainability Reporting Framework and a reporting template for Philippine companies.



SEC Reporting Template

*For companies who already have sustainability reports in accordance with internationally recognized frameworks and standards, their reports shall already be considered as their compliance with the reporting template. Companies may choose to attach the whole sustainability report to their Annual Report or just include a statement providing a link to said report.*

Since the SEC's approach relied on global sustainability standards, D&L is able to cross-reference and align its impacts with the UN Sustainable Development Goals and the GRI Standards.

For the Sustainability Report 2022 and henceforth, the Company has expanded on the SEC's suggested impacts and generated material topics in accordance with the new GRI Standards 2021 for reports issued from January 2023 onwards.



# SUSTAINABLE DEVELOPMENT GOALS



## United Nations Sustainable Development Goals (UN SDGs)

D&L Industries is strongly committed to support specific targets of the United Nations Sustainable Development Goals in areas which the Company can have significant positive while addressing negative impacts.

In the initial three years of Reporting, the Company had identified twelve (12) Goals and twenty-two (22) Targets as its own contributions to Philippine sustainability.

For 2022 onwards, the Company reviewed its principles, operations, and impacts and is pleased to report that it now covers 16 SDG Goals and contributes to 50 Targets.

## Linking the SDGs and the GRI Standards

GRI has created and regularly updates its mapping document<sup>20</sup>, linking the Disclosures with the SDGs.

*Following the adoption of the Sustainable Development Goals (SDGs), we [GRI] have supported businesses in measuring and reporting on their impacts – and hence their contribution towards the goal of sustainable development – through a number of reporting tools. This mapping document is the latest addition that we bring to the table, to help accelerate progress and drive bolder action.*

The Company uses this mapping tool to help illustrate its ESG impacts across both sets of global standards, while maintaining coherence and consistency in its reporting.

<sup>20</sup> Global Reporting Initiative, "Linking the SDGs and the GRI Standards", accessed March 31, 2023, <https://www.globalreporting.org/umbraco/Surface/ResourceCentre/PopupResource?id=8585>



## SDG 1 | No Poverty

1 NO POVERTY



The Company impacts poverty reduction in a myriad of ways during the conduct of its business.

First, as it grows, so do its suppliers, partners, and customers. Revenue generated along the value chain benefits the stakeholders therein, spurring further economic activity, whether via new investments, operational expansion, increased consumption, or savings generated. With continuing capital reinvestment and expansion, the Company generates ever higher economic value.

Second, the communities around and the people who join the Company in various capacities feel the direct and trickle-down effects of its presence, with every investment, purchase, salary, and consumption by various stakeholders within and beyond the geographic boundaries. In turn, these economic activities cascade to numerous internal and external stakeholders—staff, suppliers, customers, government, and communities—uplifting their financial and social circumstances.

Finally, Government itself, both at the local, regional, and national levels, in allowing the Company to exist and expand its business, provides avenues for employment and opportunities for its citizens, generates taxes for its development programs, and enhances the welfare of all stakeholders all around.

**Target 1.1** By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day.

**Target 1.2** By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.

[Economic Performance](#), p.46;

202-1;

203-2

**Target 1.a** Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions.

## SDG 2 | Zero Hunger

2 ZERO HUNGER



In the same way the Company impacts poverty reduction through its business, it likewise impacts the goal of Zero Hunger. In addition to the LFI's continuing programs

**Target 2.1** By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round.

**Target 2.3** By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment.

[Upscaling Supply & Quality](#), pp. 42-43;

[Community Development](#), pp. 53-54;

413-2

**Target 2.4** By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.

[Upscaling Supply & Quality](#), pp. 42-43;

[Community Development](#), pp. 53-54



## SDG 3 | Good Health and Well-Being



**3 GOOD HEALTH AND WELL-BEING** Beyond standard and mandated benefits, the Company implements programs safeguarding the health and welfare of its workers and their families, including financial risk alleviation.

### Health

Clinics in selected facilities  
Doctor & nurse consultations  
Annual physical examination  
Annual medicine subsidy  
HMO  
Maternity assistance

### Insurance

Group life insurance  
Group accident insurance

### Financial Risk Alleviation

Retirement plan  
Bereavement assistance

**Target 3.8** Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all. [Employee Hiring and Benefits](#), p.46-47: 203-2

## SDG 4 | Quality Education



**4 QUALITY EDUCATION** The Company proactively provides various training programs and opportunities for further education to its employees via its Infinite Learning Team. It also provides avenues for learning and development to high potential employees through its Talent Management Team.

The Company, through the Lao Foundation, engages in diverse projects under four core programs:

1. Partner-Based Educational Program,
2. Community-Based Educational Program,
3. Lao Boh Lim Educational Program, and
4. Evelyn Lee Lao Teacher's Welfare Program.

Projects outside these core programs that are deemed worthwhile and responsive to an assessed need are placed under Special Assistance Projects. LFI endeavors to provide target beneficiaries access to projects incorporated with values formation activities for holistic transformation of their lives.

The Company strongly believes that education is the fundamental solution to poverty. Through LFI, D&L provides full scholarships to deserving students in need within the communities it operates. The Company also has various value formation programs for the less fortunate.

The Company, through LFI, provides on the job training to the scholars of Don Bosco and Dualtech Training Center. This helps the students be better equipped for real life work.

**Target 4.1** By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes. [Employee Training & Development](#), p. 47: [Educational Program](#), p. 46

**Target 4.3** By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university. [Educational Program](#), p. 46; [Focus on the Youth](#), p. 53: 404-1

**Target 4.4** By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship. [Educational Program](#), p. 46; [Focus on the Youth](#), p. 53: 404-1

**Target 4.5** By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations. [Educational Program](#), p. 46: 404-1



**Target 4.b** By 2020, substantially expand globally the number of scholarships available to developing countries, in particular least developed countries, small island developing States and African countries, for enrolment in higher education, including vocational training and information and communications technology, technical, engineering and scientific programmes, in developed countries and other developing countries.

**Target 4.c** By 2030, substantially increase the supply of qualified teachers, including through international cooperation for teacher training in developing countries, especially least developed countries and small island developing States.

## SDG 5 | Gender Equality



From hiring to training, from promotions to leadership, gender equality permeates every facet of the Company's business and operations.

The Company does not discriminate on the basis of any social category. All employees are treated equally, and are afforded equal opportunities to learn and to progress in the workplace. Hiring, succession and all other business decisions are based on competence and quality of work.

Female employees account for about 34% of the Company's workforce. In addition, three of the four independent directors on the Company's Board are women.

**Target 5.1** End all forms of discrimination against all women and girls everywhere.

[Code of Business Principles](#), pp. 10;  
[Corporate Governance](#), pp. 11  
[Employee Hiring and Benefits](#), p.46-47;  
[Employee Training & Development](#), p. 47;  
[Diversity and Equal Opportunity](#), p.47-48;  
202-1;  
401-1,3;  
404-1;  
405-1;

**Target 5.5** Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.

[Code of Business Principles](#), pp. 10  
[Corporate Governance](#), pp. 11  
[Employee Hiring and Benefits](#), p.46-47;  
[Employee Training & Development](#), p. 47;  
[Diversity and Equal Opportunity](#), p.47-48;  
2-9;  
2-10;  
405-1

## SDG 6 | Clean Water and Sanitation



In the Company's day to day activities, water is primarily used for the operations of the cooling tower, for equipment cleaning, and for domestic uses in the office buildings such as for restroom usage, washing, and food preparation in the canteens.

The Company is proactively looking for ways on how to further reduce its water consumption. Similarly, the company's Environmental Group, which is composed of the Pollution Control Officers from each business unit, is in charge of monitoring and championing the water conservation initiatives of the company.

**Target 6.3** By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.

[Hazardous Waste](#), p.29;  
306-1



**Target 6.4** By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.

[Path to Net Zero](#), pp. 26-27;  
[Water Consumption](#), p. 28;  
303-1, 303-3, 303-5

**Target 6.6** By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes.

[Ecosystem & Biodiversity](#), p. 30;  
304-2;  
[Hazardous Waste](#), p.29;  
306-1, 306-3, 306-5

## SDG 7 | Affordable and Clean Energy



The Company actively undertakes various initiatives to improve energy efficiency. These initiatives include the use of LED lights, installation of motion detectors, optimizing production schedules, and regular maintenance, among others.

Through its biodiesel business, which uses coconut oil as feedstock, the Company is able to promote a cleaner and more sustainable alternative to diesel. Biodiesel lowers the emission of nitrous oxides and sulfur oxide—the main contributors to smog. It also significantly reduces pollutants such as black smoke and air toxics that cause lung cancer, pulmonary tuberculosis, pneumonia, bronchitis, heart attack, and stroke.

For its new facility in Batangas, the Company is exploring the use of renewable energy sources to fuel its operations.

**Target 7.2** By 2030, increase substantially the share of renewable energy in the global energy mix.

[Resource Management](#), p. 28;  
302-1

**Target 7.3** By 2030, double the global rate of improvement in energy efficiency.

[Resource Management](#), p. 28;  
302-1, 302-3

## SDG 8 | Decent Work and Economic Growth



The Company, through the ordinary course of business, provides numerous quality jobs for the communities it operates in. In pursuit of innovation, the Company invests heavily in research and development, thus encouraging the diversification of its supply chain and the growth of the enterprises it engages with.

**Target 8.1** Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries.

201-1

**Target 8.2** Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.

[Economic Performance](#), p.46;  
[Employee Hiring and Benefits](#), p.46-47;  
[Employee Training & Development](#), p. 47;  
[Diversity and Equal Opportunity](#), p.47-48;  
[Focus on the Youth](#), p. 53;  
201-1

**Target 8.5** By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

[Corporate Governance](#), pp. 11  
[Employee Hiring and Benefits](#), p.46-47;  
[Employee Training & Development](#), p. 47;  
[Diversity and Equal Opportunity](#), p.47-48;  
[Focus on the Youth](#), p. 53;  
2-7;  
202-1;  
203-2;  
401-1, 401-2;  
404-1, 404-2;  
405-1



**Target 8.6** By 2020, substantially reduce the proportion of youth not in employment, education or training.

[Employee Hiring and Benefits](#), p.46-47;  
[Employee Training & Development](#), p. 47;  
[Diversity and Equal Opportunity](#), p.47-48;  
[Focus on the Youth](#), p. 53;  
 401-1

**Target 8.8** Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

[Occupational Health & Safety](#), p. 48;  
 2-30;  
[Labor-Management Relations](#), p.47;  
 402-1;  
 403-1, 403-2, 403-3, 403-5, 403-8, 403-9,  
 403-10;

## SDG 9 | Industry, Innovation and Infrastructure



The Company is shaped and driven by R&D and disciplined innovation. It is among the largest employers of chemists in the Philippines, outside of academe. Technology staff account for about 14% of the Company's total manpower.

The Company is committed to keep itself abreast of the latest technology and to have its fingers on the pulse of the market to identify the market needs that must be met with sustainable solutions.

Through automation and installation of the latest equipment, the Company is able to increase its production yields and decrease generated waste.

With a plan to engage in IOT4.0 in the next 4-5 years, the Company plans to upskill its employees to be able to perform more complex tasks.

**Target 9.2** Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries.

**Target 9.3** Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

**Target 9.4** By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

[Capability](#), pp. 20-24;  
[Green Chemistry](#), pp. 35-36;  
[Economic Performance](#), p.46;  
 201-1;

**Target 9.5** Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending.

[Green Chemistry](#), pp. 35-36;  
[Economic Performance](#), p.46;  
 201-1

## SDG 10 | Reduced Inequalities



The Company actively espouses equality and diversity throughout its values, policies, and advocacies, as could be seen in the way it deals with employees, partners, suppliers, and members of local communities it operates in. Beyond gender neutrality, it also protects, preserves, and enhances the welfare of the youth, the elderly, and persons with disabilities.



**Target 10.2** By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

**Target 10.3** Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard.

[Employee Hiring and Benefits](#), p.46-47;  
[Employee Training & Development](#), p. 47;  
[Diversity and Equal Opportunity](#), p.47-48;  
[Focus on the Youth](#), p. 53;

2-7  
401-1;  
404-1;

**Target 10.4** Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality.

## SDG 12 | Responsible Consumption and Production



Through its various resource management initiatives, the Company constantly strives to make its operations as efficient and sustainable as possible.

The Company actively promotes its various innovative product offerings that are natural, organic, and sustainable. This helps in spreading global awareness about sustainable development and lifestyles that are in harmony with nature.

**Target 12.3** By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses.

**Target 12.4** By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.

[Resource Management](#), p. 28;  
[Environmental Impact Management](#), pp. 28-29;  
[Environmental Compliance](#), pp. 29-30;  
303-1  
[Hazardous Waste](#), p.29;  
306-1, 306-3, 306-5

**Target 12.5** By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

[Resource Management](#), p. 28;  
[Environmental Impact Management](#), pp. 28-29;  
[Environmental Compliance](#), pp. 29-30;  
301-2;

**Target 12.6** Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.

**Target 12.8** By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature.

[Certifications](#), p. 16;  
[Customer Management](#), pp. 48-49;  
[Marketing and Labeling](#), p. 49;  
[Product Health and Safety](#), p. 49;  
416-1;  
417-1

**Target 12.a** Support developing countries to strengthen their scientific and technological capacity to move towards more sustainable patterns of consumption and production.





## SDG 13 | Climate Action



The Company supports energy efficiency in its operations. Furthermore, for its expansion plans in Batangas, the Company is exploring renewable energy sources. A significant portion of the new plant's power requirement will be coming from solar energy. In addition, the Company has invested in steam boilers that utilize biomass energy.

Through its biodiesel business, which uses coconut oil as feedstock, the Company is able to promote a cleaner and more sustainable alternative to diesel.

**Target 13.1** Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

[Climate-Related Risks & Opportunities](#), pp. 19-20;  
[Resource Management](#), p. 28;  
[Environmental Impact Management](#), pp. 28-29;  
[Environmental Compliance](#), pp. 29-30  
[Community Action](#), p. 50;  
302-1, 302-3;  
305-1, 305-2, 305-3, 305-5

## SDG 14 | Life Below Water



To combat plastic pollution, FIC & DLPC have developed a broad range of product solutions utilizing various approaches. By offering these solutions, the Company is actively contributing to reducing plastic waste and promoting a more sustainable future.

**Target 14.1** By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.

[Advanced Materials](#), pp. 37-38;  
[Multisectoral Cooperation](#), p. 55

## SDG 15 | Life on Land



The Company is cognizant that protecting life on the planet is synonymous with ensuring the long-term survival of its business. The Company is fully-compliant, and in many cases, implements stricter measures than what is required by relevant environmental laws.

The Company's next generation facilities in Batangas is central to integrating sustainability into its operations. In order to protect our planet and further minimize its ecological footprint, D&L intends to use more environmentally friendly and sustainable fuel. The Company has also built environmentally-certified buildings and is securing authorization to plant trees in the area.

**Target 15.1** By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.

[Hazardous Waste](#), p.29;  
306-3, 306-5

**Target 15.4** By 2030, ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development.

**Target 15.9** Integrate ecosystem and biodiversity values into national and local planning, development processes, poverty reduction strategies and accounts.

[Climate-Related Risks & Opportunities](#), pp. 19-20;  
[Capability](#), pp. 20-24;  
[Resource Management](#), p. 28;  
[Environmental Impact Management](#), pp. 28-29;  
[Environmental Compliance](#), pp. 29-30;





[Ecosystem & Biodiversity](#), p. 30

## SDG 16 | Peace, Justice and Strong Institutions



The Company is firm in its stand to abide by human rights in all its dealings within and outside its subsidiaries. It operates within a strict code of corporate governance, and expects the same from its suppliers through a thorough supplier assessment process.

Open employee-management communication is of prime importance to the Company due to its culture as a family business. Feedback and grievances are always welcome without any fear of repercussions. Issues are oftentimes resolved before escalating into conflicts.

**Target 16.5** Substantially reduce corruption and bribery in all their forms.

[Supply Chain Management](#), pp. 24-26;  
[Anti-Corruption](#), pp.25-26  
205-2, 205-3;  
308-1  
415-1

**Target 16.6** Develop effective, accountable and transparent institutions at all levels.

2-11;  
2-15

**Target 16.7** Ensure responsive, inclusive, participatory and representative decision-making at all levels.

2-9;  
2-10;  
2-12;

**Target 16.10** Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements.

[Customer Privacy](#), p. 49;  
[Data Security](#), p. 50;  
418-1

## SDG 17 | Partnerships for the Goals



Chemrez actively engages with the Philippine Coconut Authority (PCA) and coordinates industry action with the United Coconut Association of the Philippines (UCAP). Meanwhile, the Lao Foundation works with D&L, Chemrez, Oleo-Fats, some affiliates, and a few business customers interested in smallholder initiatives for coconut farmers.

FIC & DLPC work with B2B customers & government agencies in using alternative materials, pursuing plastic waste reduction, & upcycling initiatives with local governments across the country.

**Target 17.11** Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020.

**Target 17.16** Enhance the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the Sustainable Development Goals in all countries, in particular developing countries.

[Coconut Industry Development](#), pp. 40-41;  
[Upscaling Supply & Quality](#), pp. 42-43  
[Multisectoral Cooperation](#), p. 55

**Target 17.17** Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

[Coconut Industry Development](#), pp. 40-41;  
[Upscaling Supply & Quality](#), pp. 42-43  
[Multisectoral Cooperation](#), p. 55

## Global Reporting Initiative (GRI)

GRI 2-3, 3-1, 3-2, 3-3

D&L Industries, Inc. has reported in accordance with the GRI Standards for the period January 1, 2022 to December 31, 2022.

The material topics herein cover the economic, environmental, and social impact of the Company and its subsidiaries. The sustainability information contained assets within D&L's organizational boundary.

This Sustainability Report features the Company's thirty-one (31) material topics under thirteen (13) categories in five (5) themes:

<b>Sustainable Growth</b> GRI 3-1, 3-3	<b>Responsible Products</b> GRI 3-1, 3-3	<b>Resilient Supply</b> GRI 3-1, 3-3	<b>Better Lives</b> GRI 3-1, 3-3	<b>Outreach</b> GRI 3-1, 3-3
<a href="#">The Company</a> GRI 2-2, 2-6	<a href="#">Coconut Oil</a> GRI 3-3	<a href="#">Coconut Industry Development</a> GRI 3-3   SDG 17.16, 17.17	<a href="#">Economic Performance</a> GRI 3-3, 2-6, 201-1, 203-2   SDG 1.2, 8.2, 9.4, 9.5	<a href="#">Focus on the Youth</a> GRI 3-3   SDG 4.3 4.4 8.2 8.5 8.6 10.3
<a href="#">Culture</a> GRI 2-22, 2-24, 2-29   SDG 5.1 5.5	<a href="#">Green Chemistry</a> GRI 3-3   SDG 9.4, 9.5	<a href="#">Upscaling Supply &amp; Quality</a> GRI 3-3   SDG 2.3, 2.4, 17.16, 17.17	<a href="#">Employee Management</a> GRI 3-3, 2-7	<a href="#">Community Development</a> GRI 3-3, 413-1, 413-2   SDG 2.3, 2.4
<a href="#">Code of Business Principles</a> GRI 2-15, 2-24, 2-27, 2-29, 415-1	<a href="#">Advanced Materials</a> GRI 3-3   SDG 14.1		<a href="#">Employee Hiring and Benefits</a> GRI 3-3, 401-1, 2, SDG 1.2, 3.8, 5.1, 5.5, 8.2, 8.5, 8.6, 10.3	<a href="#">Multisectoral Cooperation</a> GRI 3-3   SDG 14.1, 17.16, 17.17
<a href="#">Corporate Governance</a> GRI 3-3, 2-9, 2-10, 2-11, 2-12, 2-13, 2-14, 2-17, 2-18, 2-19, 2-20, 2-22, 405-1   SDG 5.1, 5.5, 8.5, 10.3 16.6, 16.7			<a href="#">Employee Training &amp; Development</a> GRI 3-3, 404-1, 404-2   SDG 5.1, 5.5, 8.2, 8.5, 8.6, 10.3	
<a href="#">Enterprise Risk Management</a> GRI 3-3, 2-13, 2-24, 2.25			<a href="#">Labor-Management Relations</a> GRI 2-16, 2-26, 402-1   SDG 8.8	
<a href="#">Climate-Related Risks &amp; Opportunities</a> GRI 2-23   SDG 13.1, 15.9			<a href="#">Diversity and Equal Opportunity</a> GRI 3-3, 405-1   SDG 5.1, 5.5, 8.2, 8.5, 8.6, 10.3	
<a href="#">Capability</a> GRI 3-3, 304-2   SDG 9.4, 15.9			<a href="#">Occupational Health &amp; Safety</a> GRI 3-3, 403-1, 403-2, 403-3, 403-5, 403-8, 403-9, 403-10   SDG 8.8	
<a href="#">Supply Chain Management</a> GRI 3-3, 308-1, 408-1, 409-1   SDG 16.5			<a href="#">Rights &amp; Privacy</a> GRI 3-3	
<a href="#">Procurement Practices</a> GRI 3-3, 2-6, 204-1			<a href="#">Labor Laws &amp; Human Rights</a> GRI 3-3	
<a href="#">Anti-Corruption</a> GRI 3-3, 2-16, 2-26, 205-2, 415-1   SDG 16.5			<a href="#">Customer Management</a> GRI 3-3, 2-16, 2-26, 416-1   SDG 12.8	
<a href="#">Path to Net Zero</a> GRI 3-3, 305-5   SDG 6.4			<a href="#">Marketing and Labeling</a> GRI 3-3, 417-1   SDG 12-8	
<a href="#">Resource Management</a> GRI 3-3, 302-1, 302-3   SDG 7.2, 7.3, 12.4, 12.5, 13.1, 15.9			<a href="#">Customer Privacy</a> GRI 3-3, 418-1   SDG 16.10	
<a href="#">Water Consumption</a> GRI 3-3, 303-1, 303-3, 303-5   SDG 6.4			<a href="#">Product Health and Safety</a> GRI 3-3, 416-1   SDG 12.8	
<a href="#">Environmental Impact Management</a> GRI 3-3   SDG 12.4, 12.5, 13.1, 15.9			<a href="#">Data Security</a> GRI 3-3, 418-1   SDG 16.10	
<a href="#">Air Emissions/GHG</a> GRI 3-3, 305-1, 305-2, 305-6			<a href="#">Community Action</a> GRI 3-3   SDG 13.1	
<a href="#">Air Pollutants</a> GRI 3-3, 305-7				
<a href="#">Solid Waste</a> GRI 3-3, 301-1, 301-2				
<a href="#">Hazardous Waste</a> GRI 3-3, 306-1, 306-3, 306-5   SDG 6.3, 6.6, 12.4, 15.1				
<a href="#">Effluents</a> GRI 3-3, 303-4				

**Sustainable Growth**

GRI 3-1, 3-3

**Responsible Products**

GRI 3-1, 3-3

**Resilient Supply**

GRI 3-1, 3-3

**Better Lives**

GRI 3-1, 3-3

**Outreach**

GRI 3-1, 3-3

Environmental Compliance

GRI 3-3, 2-27, 307; | SDG 12.4, 12.5, 13.1, 15.9

Ecosystem & Biodiversity

GRI 3-3, 304-2 | SDG 6.6, 15.9

## Management of Material Topics

GRI 2-12, 3-1, 3-3

The management approach is built on the Company's rich history, codified into its vision, mission, beliefs, and corporate values. Upon this foundation, the [Code of Business Principles \(COBP\)](#) further defines the Company's soul, espousing good corporate governance, ethical business practices, and high standards of personal conduct & behavior, internally and externally, among and across its various stakeholders.

At the Board level, these foundations are reviewed and assessed annually to ensure the Company remains relevant with the changing times. At the Management Committee level and down through the executive ranks, leadership strictly adheres to these core principles, setting the example for the humblest stakeholder. On the operational level, the Company's relevant core and support departments are empowered to develop, implement, and monitor the policies & programs targeted at all internal and external stakeholders.

The Board of Directors regularly revisits the Company's mission statements at the end of every fiscal year. This is undertaken to ensure the statements remain relevant and accurate in depicting the Company's objectives and strategies.

By mid-2022, the Global Reporting Initiative (GRI) released a new set of Universal, Sector, and Topic Standards for all organizations reporting from January 1, 2023 onwards, with a renewed focus on "mandatory human rights-related disclosures". Among other things, the GRI had deprecated the materiality matrix.

In response, the Company re-evaluated its material topics and developed instead the Five Theme internal ESG framework.

## GRI Metrics<sup>21</sup>

GRI 2-4

GRI Ref	Description	UM	2019	2020	2021	2022
<b>201-1</b>	<b>Direct Economic Value Generated</b>	<b>M Php</b>	<b>22,386</b>	<b>21,739</b>	<b>30,855</b>	<b>43,485</b>
	<b>Revenue breakdown</b>					
	Food ingredients	%	57 %	59 %	62 %	65%
	Chemrez	%	25 %	26 %	24 %	25%
	Plastics	%	14 %	12 %	10 %	7%
	Consumer products ODM	%	4 %	5 %	4 %	3%
<b>203-2</b>	<b>Direct Economic Value Distributed</b>					
	Payments to suppliers	M Php	16,600	18,943	25,657	36,773
	Other operating costs	M Php	1,300	874	1,088	1,616
	Employee wages and benefits	M Php	610	1,252	754	857
	Payments to providers of capital (interest)	M Php		160	142	236

<sup>21</sup> As the Company continually improves its data collection and analytics, it restates previous years' figures as needed.

GRI Ref	Description	UM	2019	2020	2021	2022
	Payments to governments (taxes)	M Php	1,147	1,004	1,063	1,267
	Community investments (CSR initiatives)	M Php	32	26	21	28
	Economic Value Retained (dividends)	M Php	2,300	1,307	1,364	1,714
<b>204-1</b>	<b>Proportion of spending on local suppliers</b>	<b>%</b>	<b>38%</b>	<b>45%</b>	<b>45%</b>	<b>61%</b>
<b>302-1</b>	<b>Energy usage</b>					
	Energy consumption	M kWh	243	190	203	224
<b>302-3</b>	Energy intensity	kWh	90	100	88	76
	(per thousand Php in net income)					
	Energy intensity (per MT of product)	kWh	964	876	838	792
<b>303-5</b>	<b>Water usage</b>					
	Water consumption	m <sup>3</sup>	284,982	267,167	288,187	243,157
	Water consumption	m <sup>3</sup>	109	133	109	73
	(per thousand Php in net income)					
	Water intensity (per MT of product)	m <sup>3</sup>	0.87	0.84	0.82	0.60
	<b>Air emissions/GHG</b>					
<b>305-1</b>	Direct (Scope 1) GHG Emissions	Tonnes CO <sub>2</sub> e	90,792	98,043	73,036	66,406
<b>305-2</b>	Energy indirect (Scope 2) GHG Emissions	Tonnes CO <sub>2</sub> e	23,265	21,363	16,621	17,366
<b>305-6</b>	Emissions of ozone-depleting substances (ODS)	Tonnes	0	0	0	0
<b>305-5</b>	<b>GHG reduction per year</b>	<b>MT CO<sub>2</sub>E<sup>22</sup></b>	<b>113,682</b>	<b>84,996</b>	<b>84,413</b>	<b>138,450</b>
	<b>GHG reduction, cumulative</b>	<b>MT CO<sub>2</sub>E</b>	<b>113,682</b>	<b>198,678</b>	<b>283,091</b>	<b>421,541</b>
<b>303-4</b>	<b>Solid waste generated by manufacturing plants</b>	<b>Kg</b>	<b>4,189,246</b>	<b>2,745,444</b>	<b>1,820,361</b>	<b>2,886,463</b>
	Reusable	Kg	380,324	303,439	201,677	110,016
	Recyclable	Kg	1,334,348	1,008,979	138,917	671,227
	Residuals/landfilled	Kg	2,474,574	1,433,026	1,479,767	2,105,220
	<b>Hazardous waste generated by manufacturing plants</b>					
<b>306-3</b>	Hazardous waste generated	Kg	151,762	141,726	205,424	90,790
<b>306-5</b>	Hazardous waste transported	Kg	64,859	38,480	54,554	62,512
<b>307-1</b>	<b>Monetary fines and non-monetary sanctions for non-compliance with environmental laws and regulations reported</b>	<b>Count</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2-7</b>	<b>Number of employees</b>	<b>Count</b>		<b>779</b>	<b>810</b>	<b>949</b>
	Female	%	46 %	43 %	42 %	34 %
	Male	%	54 %	57 %	58 %	66 %
	<b>Attrition rate</b>	<b>%</b>	<b>-2 %</b>	<b>6.71 %</b>	<b>5.14 %</b>	<b>8 %</b>
	<b>Ratio of lowest paid employee at minimum wage</b>	<b>%</b>	<b>0 %</b>	<b>0 %</b>	<b>0 %</b>	<b>0 %</b>
	<b>Employee benefits (number of employees availing)</b>					
	SSS	Count			238	267

<sup>22</sup> All GHG calculations are based on the technical report, Carbon Footprint and GHG Reduction Potential of Coco-Biodiesel from Chemrez Technologies, Inc., by the UPLB Interdisciplinary Life Cycle Assessment Laboratory, 2021.

GRI Ref	Description	UM	2019	2020	2021	2022
	PhilHealth	Count			195	194
	Pag-ibig	Count			196	259
	Parental leaves	Count			20	20
	Vacation leaves	Count			810	821
	Sick leaves	Count			810	821
	Medical benefits (aside from PhilHealth)	Count			770	837
	Housing assistance (aside from Pag-ibig)	Count			0	0
	Retirement fund (aside from SSS)	Count			5	8
	Further education support	Count			0	0
	Company stock options	Count			0	0
	Telecommuting	Count			1	0
	Flexible-working hours	Count			0	0
	<b>Total training hours provided to employees</b>	<b>Hours</b>	<b>7,626</b>	<b>4,177.0</b>	<b>15,185</b>	<b>18,107</b>
	Female	Hours	2,540	1,655.5	6,798	7,415
	Male	Hours	5,086	2,521.5	8,387	10,692
<b>404-1</b>	<b>Average training hours provided to employees</b>	<b>Hours</b>		<b>5.36</b>	<b>18.8</b>	<b>19.1</b>
	Female	Hours	7	5.22	19.8	23.3
	Male	Hours	12	4.90	18.0	16.9
	<b>Employees covered with Collective Bargaining Agreements</b>	<b>%</b>	<b>There are no labor unions in any company locations.</b>			
	<b>Consultations conducted with employees concerning employee-related policies</b> (In-premises only for on-site personnel)	<b>Count</b>	<b>51</b>	<b>10</b>	<b>6</b>	<b>12</b>
	<b>Employees from indigenous communities and/or vulnerable sector</b>	<b>Count</b>	<b>Present but not explicitly counted.</b>			
<b>403</b>	<b>Safe man-hours</b>	<b>Hours</b>	<b>2,134,790</b>	<b>1,896,768</b>	<b>1,261,782</b>	<b>1,950,600</b>
<b>403-9</b>	Work-related injuries	Count	2	1	0	2
<b>403-9</b>	Work-related fatalities	Count	0	0	0	0
<b>403-10</b>	Work-related ill health	Count	0	0	0	0
	<b>Safety drills conducted</b> (In-premises only for on-site personnel)	<b>Count</b>	<b>21</b>	<b>20</b>	<b>11</b>	<b>20</b>
<b>417</b>	<b>Substantiated complaints on marketing and labelling</b>	<b>Count</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>417</b>	<b>Complaints addressed regarding marketing and labeling</b>	<b>Count</b>	<b>No complaints received.</b>			
<b>418-1</b>	<b>Complaints on Customer Privacy</b>	<b>Count</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>418</b>	<b>Number of data breaches, including leaks, thefts, and losses of data</b>	<b>Count</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Statement of use	D&L Industries, Inc. has reported in accordance with the GRI Standards for the period January 1, 2022 to December 31, 2022.
GRI 1 used	GRI 1: Foundation 2021

GRI STANDARD / OTHER SOURCE	DISCLOSURE	LOCATION	OMISSION			SDG linkage
			REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
General disclosures						
GRI 2: General Disclosures 2021	2-1 Organizational details	<a href="#">About this Report</a> , p.3				<a href="#">SDG 1</a>
	2-2 Entities included in the organization's sustainability reporting	<a href="#">The Company</a> , p.7; <a href="#">Business Presence</a> , p. 8; <a href="#">Corporate Social Responsibility</a> , p. 8				<a href="#">SDG 1</a>
	2-3 Reporting period, frequency and contact point	<a href="#">About this Report</a> , p.3				<a href="#">SDG 1</a>
	2-4 Restatements of information	<a href="#">GRI Metrics</a> , p. 67-68				<a href="#">SDG 1</a>
	2-5 External assurance			Not applicable	The organization has determined that external assurance shall not be engaged for this report.	
	2-6 Activities, value chain and other business relationships	<a href="#">The Company</a> , p.7; <a href="#">Business Presence</a> , p. 8; <a href="#">Corporate Social Responsibility</a> , p. 8; <a href="#">Procurement Practices</a> , p. 25; <a href="#">Economic Performance</a> , p.46				
	2-7 Employees	<a href="#">Employee Management</a> , p. 46-48				<a href="#">SDG 8</a> <a href="#">SDG 10</a>
	2-8 Workers who are not employees			Confidentiality constraints	These workers are employed by external service providers.	
	2-9 Governance structure and composition	<a href="#">ESG   Five Themes</a> , p.5; <a href="#">Corporate Governance</a> , pp. 11-14				<a href="#">SDG 5</a> <a href="#">SDG 16</a>
	2-10 Nomination and selection of the highest governance body	<a href="#">Corporate Governance</a> , pp. 11-14				<a href="#">SDG 5</a> <a href="#">SDG 16</a>
	2-11 Chair of the highest governance body	<a href="#">Corporate Governance</a> , pp. 11-14				<a href="#">SDG 16</a>

GRI STANDARD / OTHER SOURCE	DISCLOSURE	LOCATION	OMISSION			SDG linkage
			REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
	2-12 Role of the highest governance body in overseeing the management of impacts	<a href="#">Corporate Governance</a> , pp. 11-14 <a href="#">Management of Material Topics</a> , p. 67				<a href="#">SDG 16</a>
	2-13 Delegation of responsibility for managing impacts	<a href="#">Corporate Governance</a> , pp. 11-14; <a href="#">Enterprise Risk Management</a> , pp. 17-19				
	2-14 Role of the highest governance body in sustainability reporting	<a href="#">Corporate Governance</a> , pp. 11-14				
	2-15 Conflicts of interest	<a href="#">Code of Business Principles</a> , pp. 9-11				<a href="#">SDG 16</a>
	2-16 Communication of critical concerns	<a href="#">Anti-Corruption</a> , pp. 25-26; <a href="#">Labor-Management Relations</a> , p.47; <a href="#">Customer Management</a> , pp. 48-49				
	2-17 Collective knowledge of the highest governance body	<a href="#">Corporate Governance</a> , pp. 11-14				
	2-18 Evaluation of the performance of the highest governance body	<a href="#">Corporate Governance</a> , pp. 11-14				
	2-19 Remuneration policies	<a href="#">Corporate Governance</a> , pp. 11-14				
	2-20 Process to determine remuneration	<a href="#">Corporate Governance</a> , pp. 11-14				
	2-21 Annual total compensation ratio			Information unavailable	This information has not been made available.	
	2-22 Statement on sustainable development strategy	<a href="#">Message from the President &amp; CEO</a> , p. 3; <a href="#">Culture</a> , pp. 8-9; <a href="#">Corporate Governance</a> , pp. 11-14				
	2-23 Policy commitments	<a href="#">Climate-Related Risks &amp; Opportunities</a> , pp. 19-20				
	2-24 Embedding policy commitments	<a href="#">Culture</a> , pp. 8-9; <a href="#">Code of Business Principles</a> , pp. 9-11;				

GRI STANDARD / OTHER SOURCE	DISCLOSURE	LOCATION	OMISSION			SDG linkage
			REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
		<a href="#">Enterprise Risk Management</a> , pp. 17-19				
	2-25 Processes to remediate negative impacts	<a href="#">Enterprise Risk Management</a> , pp. 17-19				
	2-26 Mechanisms for seeking advice and raising concerns	<a href="#">Anti-Corruption</a> , pp.25-26; <a href="#">Labor-Management Relations</a> , p.47; <a href="#">Customer Management</a> , pp. 48-49				
	2-27 Compliance with laws and regulations	<a href="#">Code of Business Principles</a> , pp. 9-11; <a href="#">Environmental Compliance</a> , pp. 29-30				
	2-28 Membership associations	<a href="#">Membership Associations</a> , p. 15				
	2-29 Approach to stakeholder engagement	<a href="#">Better Lives through Sustainable Innovation</a> , p 4; <a href="#">Culture</a> , p. 8-9; <a href="#">Code of Business Principles</a> , pp. 9-11				
	2-30 Collective bargaining agreements			Not applicable	The organization has no labor unions in any of its companies and operating facilities.	<a href="#">SDG 8</a>
Material topics						
GRI 3: Material Topics 2021	3-1 Process to determine material topics	<a href="#">Better Lives through Sustainable Innovation</a> , p 4; <a href="#">ESG   Five Themes</a> , p.5; <a href="#">Sustainable Growth</a> , p.7 <a href="#">Global Reporting Initiative (GRI)</a> , p.66 <a href="#">Management of Material Topics</a> , p. 67; <a href="#">Responsible Products</a> , p. 33; <a href="#">Resilient Supply</a> , p. 40; <a href="#">Better Lives</a> , p. 46; <a href="#">Outreach</a> , p. 52-54				
	3-2 List of material topics	<a href="#">Global Reporting Initiative (GRI)</a> , p.66				



GRI STANDARD / OTHER SOURCE	DISCLOSURE	LOCATION	OMISSION			SDG linkage
			REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
Sustainable Growth						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">ESG   Five Themes</a> , p.5; <a href="#">Sustainable Growth</a> , p.7				
The Company						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">The Company</a> , p.7;				
GRI 415: Public Policy 2016	415-1 Political contributions	<a href="#">Code of Business Principles</a> , pp. 9-11; <a href="#">Anti-Corruption</a> , pp.25-26				<a href="#">SDG 16</a>
Corporate Governance						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Corporate Governance</a> , pp. 11-14				
Enterprise Risk Management						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Enterprise Risk Management</a> , pp. 17-19				
Climate-Related Risks & Opportunities						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Climate-Related Risks &amp; Opportunities</a> , pp. 19-20				
Capability						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Capability</a> , pp. 20-24				
GRI 304: Biodiversity 2016	304-2 Significant impacts of activities, products and services on biodiversity	<a href="#">The Sustainability Challenge for Brands</a> , pp. 22-24				<a href="#">SDG 6</a> <a href="#">SDG 15</a>
Supply Chain Management						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Supply Chain Management</a> , pp. 24-26				
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	<a href="#">Supply Chain Management</a> , pp. 24-26				<a href="#">SDG 16</a>
GRI 408: Child Labor 2016	408-1 Operations and suppliers at significant risk for incidents of child labor	<a href="#">Supply Chain Management</a> , pp. 24-26				
GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	<a href="#">Supply Chain Management</a> , pp. 24-26				

GRI STANDARD / OTHER SOURCE	DISCLOSURE	LOCATION	OMISSION			SDG linkage
			REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
Procurement Practices						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Procurement Practices</a> , p. 25				
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	<a href="#">Procurement Practices</a> , p. 25				
Anti-Corruption						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Anti-Corruption</a> , pp.25-26				
GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	<a href="#">Anti-Corruption</a> , pp.25-26				<a href="#">SDG 16</a>
Path to Net Zero						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Path to Net Zero</a> , pp. 26-31 <a href="#">Advanced Materials</a> , pp. 37-38				<a href="#">SDG 6</a>
Resource Management						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Resource Management</a> , p. 28				<a href="#">SDG 12</a> <a href="#">SDG 13</a> <a href="#">SDG 15</a>
GRI 302: Energy 2016	302-1 Energy consumption within the organization	<a href="#">Resource Management</a> , p. 28				<a href="#">SDG 7</a> <a href="#">SDG 13</a>
	302-3 Energy intensity	<a href="#">Resource Management</a> , p. 28				<a href="#">SDG 7</a> <a href="#">SDG 13</a>
Water Consumption						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Water Consumption</a> , p. 28				
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	<a href="#">Water Consumption</a> , p. 28				<a href="#">SDG 6</a> <a href="#">SDG 12</a>
	303-3 Water withdrawal	<a href="#">Water Consumption</a> , p. 28				<a href="#">SDG 6</a>
	303-5 Water consumption	<a href="#">Water Consumption</a> , p. 28				<a href="#">SDG 6</a>
Environmental Impact Management						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Environmental Impact Management</a> , pp. 28-29				<a href="#">SDG 12</a> <a href="#">SDG 13</a> <a href="#">SDG 15</a>
Air Emissions/GHG						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Air Emissions/GHG</a> , p. 28				

GRI STANDARD / OTHER SOURCE	DISCLOSURE	LOCATION	OMISSION			SDG linkage
			REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
<b>GRI 305: Emissions 2016</b>	305-1 Direct (Scope 1) GHG emissions	<a href="#">Air Emissions/GHG</a> , p. 28				<a href="#">SDG 12</a> <a href="#">SDG 13</a>
	305-2 Energy indirect (Scope 2) GHG emission	<a href="#">Air Emissions/GHG</a> , p. 28				<a href="#">SDG 12</a> <a href="#">SDG 13</a>
	305-5 Reduction of GHG emissions	<a href="#">Path to Net Zero</a> , p. 26; <a href="#">B5 by the Numbers</a> , pp. 30-31				<a href="#">SDG 13</a>
	305-6 Emissions of ozone-depleting substances (ODS)	<a href="#">Air Emissions/GHG</a> , p. 28				<a href="#">SDG 12</a>
<b>Air Pollutants</b>						
<b>GRI 3: Material Topics 2021</b>	3-3 Management of material topics	<a href="#">Air Pollutants</a> , p.29				
<b>GRI 305: Emissions 2016</b>	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	<a href="#">Air Pollutants</a> , p.29		Information unavailable	Our companies have yet to standardize their units of measure for these air pollutants.	<a href="#">SDG 12</a>
<b>Solid Waste</b>						
<b>GRI 3: Material Topics 2021</b>	3-3 Management of material topics	<a href="#">Solid Waste</a> , p. 29				
<b>GRI 301: Materials 2016</b>	301-1 Materials used by weight or volume	<a href="#">Solid Waste</a> , p. 29				
	301-2 Recycled input materials used	<a href="#">Solid Waste</a> , p. 29				
<b>Hazardous Waste</b>						
<b>GRI 3: Material Topics 2021</b>	3-3 Management of material topics	<a href="#">Hazardous Waste</a> , p.29				
<b>GRI 306: Waste 2020</b>	306-1 Waste generation and significant waste-related impacts	<a href="#">Hazardous Waste</a> , p.29				<a href="#">SDG 6</a> <a href="#">SDG 12</a>
	306-3 Waste generated	<a href="#">Hazardous Waste</a> , p.29				<a href="#">SDG 6</a> <a href="#">SDG 12</a> <a href="#">SDG 15</a>
	306-5 Waste directed to disposal	<a href="#">Hazardous Waste</a> , p.29				<a href="#">SDG 6</a> <a href="#">SDG 12</a> <a href="#">SDG 15</a>
<b>Effluents</b>						
<b>GRI 3: Material Topics 2021</b>	3-3 Management of material topics	<a href="#">Effluents</a> , p.29				
<b>GRI 303: Water and Effluents 2018</b>	303-4 Water discharge	<a href="#">Effluents</a> , p.29				<a href="#">SDG 6</a>

GRI STANDARD / OTHER SOURCE	DISCLOSURE	LOCATION	OMISSION			SDG linkage
			REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
Environmental Compliance						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Environmental Compliance</a> , pp. 29-30				<a href="#">SDG 12</a> <a href="#">SDG 13</a> <a href="#">SDG 15</a>
Ecosystem & Biodiversity						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Ecosystem &amp; Biodiversity</a> , p. 30				<a href="#">SDG 15</a>
GRI 304: Biodiversity 2016	304-2 Significant impacts of activities, products and services on biodiversity	<a href="#">Ecosystem &amp; Biodiversity</a> , p. 30				<a href="#">SDG 6</a> <a href="#">SDG 15</a>
Responsible Products						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Responsible Products</a> , p. 33				
Coconut Oil						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Coconut Oil</a> , p. 33				
Green Chemistry						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Green Chemistry</a> , pp. 35-36				
Advanced Materials						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Advanced Materials</a> , pp. 37-38				<a href="#">SDG 14</a>
Resilient Supply						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Resilient Supply</a> , p. 40				
Coconut Industry Development						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Coconut Industry Development</a> , pp. 40-41				<a href="#">SDG17</a>
Upscaling Supply & Quality						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Upscaling Supply &amp; Quality</a> , pp. 42-43				<a href="#">SDG 2</a> <a href="#">SDG17</a>
Better Lives						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Better Lives</a> , p. 46				
Economic Performance						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Economic Performance</a> , p.46				
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	<a href="#">Economic Performance</a> , p.46				<a href="#">SDG 8</a> <a href="#">SDG 9</a>

GRI STANDARD / OTHER SOURCE	DISCLOSURE	LOCATION	OMISSION			SDG linkage
			REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
<b>GRI 203: Indirect Economic Impacts 2016</b>	203-2 Significant indirect economic impacts	<a href="#">Economic Performance</a> , p.46				<a href="#">SDG 1</a> <a href="#">SDG 8</a>
<b>Employee Management</b>						
<b>GRI 3: Material Topics 2021</b>	3-3 Management of material topics	<a href="#">Employee Management</a> , p. 46-48				
<b>Employee Hiring and Benefits</b>						
<b>GRI 3: Material Topics 2021</b>	3-3 Management of material topics	<a href="#">Employee Hiring and Benefits</a> , p.46-47				<a href="#">SDG 3</a>
<b>GRI 401: Employment 2016</b>	401-1 New employee hires and employee turnover	<a href="#">Employee Hiring and Benefits</a> , p.46-47				<a href="#">SDG 5</a> <a href="#">SDG 8</a> <a href="#">SDG 10</a>
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	<a href="#">Employee Hiring and Benefits</a> , p.46-47				<a href="#">SDG 8</a>
	401-3 Parental leave	<a href="#">Employee Hiring and Benefits</a> , p.46-47				<a href="#">SDG 5</a> <a href="#">SDG 8</a>
<b>Employee Training &amp; Development</b>						
<b>GRI 3: Material Topics 2021</b>	3-3 Management of material topics	<a href="#">Employee Training &amp; Development</a> , p. 47				
<b>GRI 404: Training and Education 2016</b>	404-1 Average hours of training per year per employee	<a href="#">Employee Training &amp; Development</a> , p. 47; <a href="#">Educational Program</a> , p. 46				<a href="#">SDG 4</a> <a href="#">SDG 5</a> <a href="#">SDG 8</a> <a href="#">SDG 10</a>
	404-2 Programs for upgrading employee skills and transition assistance programs	<a href="#">Employee Training &amp; Development</a> , p. 47				<a href="#">SDG 8</a>
<b>Labor-Management Relations</b>						
<b>GRI 3: Material Topics 2021</b>	3-3 Management of material topics	<a href="#">Labor-Management Relations</a> , p.47				
<b>GRI 402: Labor/Management Relations 2016</b>	402-1 Minimum notice periods regarding operational changes	<a href="#">Labor-Management Relations</a> , p.47				<a href="#">SDG 8</a>
<b>Diversity and Equal Opportunity</b>						
<b>GRI 3: Material Topics 2021</b>	3-3 Management of material topics	<a href="#">Diversity and Equal Opportunity</a> , p.47-48				
<b>GRI 405: Diversity and Equal Opportunity 2016</b>	405-1 Diversity of governance bodies and employees	<a href="#">Diversity and Equal Opportunity</a> , p.47-48				<a href="#">SDG 5</a> <a href="#">SDG 8</a> <a href="#">SDG 10</a>

GRI STANDARD / OTHER SOURCE	DISCLOSURE	LOCATION	OMISSION			SDG linkage
			REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
Occupational Health & Safety						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Occupational Health &amp; Safety</a> , p. 48				
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	<a href="#">Occupational Health &amp; Safety</a> , p. 48				<a href="#">SDG 8</a>
	403-2 Hazard identification, risk assessment, and incident investigation	<a href="#">Occupational Health &amp; Safety</a> , p. 48				<a href="#">SDG 8</a>
	403-3 Occupational health services	<a href="#">Occupational Health &amp; Safety</a> , p. 48				<a href="#">SDG 8</a>
	403-5 Worker training on occupational health and safety	<a href="#">Occupational Health &amp; Safety</a> , p. 48				<a href="#">SDG 8</a>
	403-8 Workers covered by an occupational health and safety management system	<a href="#">Occupational Health &amp; Safety</a> , p. 48				<a href="#">SDG 8</a>
	403-9 Work-related injuries	<a href="#">Occupational Health &amp; Safety</a> , p. 48				<a href="#">SDG 8</a>
	403-10 Work-related ill health	<a href="#">Occupational Health &amp; Safety</a> , p. 48				<a href="#">SDG 8</a>
Rights & Privacy						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Rights &amp; Privacy</a> , pp. 48-50				
Labor Laws & Human Rights						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Labor Laws &amp; Human Rights</a> , p. 48				
Customer Management						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Customer Management</a> , pp. 48-49				
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	<a href="#">Customer Management</a> , pp. 48-49				<a href="#">SDG 12</a>
Marketing and Labeling						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Marketing and Labeling</a> , p. 49				
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	<a href="#">Marketing and Labeling</a> , p. 49				<a href="#">SDG 12</a>

GRI STANDARD / OTHER SOURCE	DISCLOSURE	LOCATION	OMISSION			SDG linkage
			REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
Customer Privacy						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Customer Privacy</a> , p. 49				
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	<a href="#">Customer Privacy</a> , p. 49; <a href="#">Data Security</a> , p. 50		Not applicable	The organization had no substantiated complaints concerning breaches of customer privacy and losses of customer data.	<a href="#">SDG 16</a>
Customer Privacy						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Product Health and Safety</a> , p. 49				
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	<a href="#">Product Health and Safety</a> , p. 49				<a href="#">SDG 12</a>
Data Security						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Data Security</a> , p. 50				<a href="#">SDG 16</a>
Community Action						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Community Action</a> , p. 50				<a href="#">SDG 13</a>
Outreach						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Outreach</a> , p. 52-54				
Focus on the Youth						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Focus on the Youth</a> , p. 53				<a href="#">SDG 4</a> <a href="#">SDG 8</a> <a href="#">SDG10</a>
Community Development						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Community Development</a> , pp. 53-54				
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	<a href="#">Community Development</a> , pp. 53-54				
	413-2 Operations with significant actual and potential negative impacts on local communities	<a href="#">Community Development</a> , pp. 53-54				<a href="#">SDG 2</a>

GRI STANDARD / OTHER SOURCE	DISCLOSURE	LOCATION	OMISSION			SDG linkage
			REQUIREMENT(S) OMITTED	REASON	EXPLANATION	
Multisectoral Cooperation						
GRI 3: Material Topics 2021	3-3 Management of material topics	<a href="#">Multisectoral Cooperation</a> , p. 55				<a href="#">SDG 14</a> <a href="#">SDG 17</a>



## Corporate Information

Company Headquarters	GRI 2-1	D&L Industries, Inc. 65 Calle Industria Bagumbayan, Quezon City 1110 Metro Manila, Philippines
Location of Operations	GRI 2-1	Philippines
Subsidiaries	GRI 2-2	Aero-pack Industries, Inc. Chemrez Product Solutions, Inc. Chemrez Technologies, Inc. D&L Polymer & Colours, Inc. D&L Premium Foods Corp. First in Colours, Incorporated Natura Aeropack Corporation Oleo-Fats Incorporated
Investor Relations	GRI 2-3	Tel +63 2 8635 0680 Fax +63 2 8635 0703 E-mail <a href="mailto:ir@dnL.com.ph">ir@dnL.com.ph</a>

## Stockholder Inquiries

D&L Industries, Inc.'s common stock is listed and traded in the Philippine Stock Exchange under the symbol "DNL". Inquiries regarding dividend payments, accounts status, address changes, stock certificates, and other pertinent matters may be addressed to the Company's transfer agent.

### **Stock Transfer Service, Inc.**

Unit D, 34/F Rufino Pacific Tower  
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