

**COVER SHEET**

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S.E.C. Identification No.

**PEPSI-COLA PRODUCTS PHILIPPINES, INC.**

(Company's Full Name)

**Km. 29 National Road, Tunasan, Muntinlupa City**  
(Business Address: No. Street City/Town/Province)

**Imran Moid**  
Contact Person

**(632) 887-37-74**  
Company Telephone Number

0	6
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Month  
Calendar Year

3	0
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Day  
Calendar Year

**SEC Form 17-Q**  
FORM TYPE

**Last Friday of May**  
Month Date  
Annual Meeting

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Secondary License Type, If Applicable

C	F	D
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Dept. Requiring this Doc.

Amended Article Number/Section

Total No. of Stockholders

Total Amount of Borrowings  
**Php4.142Billion**  
Domestic

Foreign

To be accomplished by SEC Personnel concerned

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File Number

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2016**
2. Commission identification number **0000160968** 3. BIR Tax Identification No **000-168-541**
4. Exact name of issuer as specified in its charter: **PEPSI-COLA PRODUCTS PHILIPPINES, INC.**
5. Province, country or other jurisdiction of incorporation or organization: **Philippines**
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office and Postal Code:  
**Km. 29 National Road, Tunasan, Muntinlupa City 1773**
8. Issuer's telephone number, including area code: **(632) 887-37-74**
9. Former name, former address and former fiscal year, if changed since last report: **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	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common Shares of Stock</b>	<b>3,693,772,279</b>

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

Yes  No

Stock Exchange: **Philippine Stock Exchange**  
Securities Listed: **Common Shares of Stock**

12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

## Part 1 – Financial Information

### Item 1. Financial Statements.

#### CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (Amounts in Thousands)

		June 30 2016 (Unaudited)	December 31 2015 (Audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	11	P394,453	P464,786
Receivables - net	9, 11	1,696,272	1,714,222
Inventories		2,305,184	1,908,987
Due from related parties	8, 11	590,339	594,078
Prepaid expenses and other current assets		347,585	215,464
<b>Total Current Assets</b>		<b>5,333,833</b>	<b>4,897,537</b>
<b>Noncurrent Assets</b>			
Investments in associates		582,424	570,277
Bottles and cases - net		5,296,690	4,838,337
Property, plant and equipment - net	6	10,793,210	10,118,703
Deferred tax assets - net		104,982	109,339
Other noncurrent assets		289,110	282,428
<b>Total Noncurrent Assets</b>		<b>17,066,416</b>	<b>15,919,084</b>
		<b>P22,400,249</b>	<b>P20,816,621</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	9, 11	P7,565,366	P6,721,734
Short-term debt	11	1,450,000	900,000
Current portion of long-term debt		647,363	547,054
Income tax payable		133,174	132,645
<b>Total Current Liabilities</b>		<b>9,795,903</b>	<b>8,301,433</b>
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	11	2,045,384	2,344,147
Deferred tax liabilities - net		917,858	845,306
Other noncurrent liabilities		783,213	783,126
<b>Total Noncurrent Liabilities</b>		<b>3,746,455</b>	<b>3,972,579</b>
<b>Total Liabilities</b>		<b>13,542,358</b>	<b>12,274,012</b>

Forward

		<b>June 30 2016 (Unaudited)</b>	December 31 2015 (Audited)
	<b>Note</b>		
<b>Equity</b>			
Share capital	7	<b>P1,751,435</b>	P1,751,435
Remeasurement losses on net defined benefit liability		<b>(277,813)</b>	(277,813)
Retained earnings		<b>7,384,269</b>	7,068,987
<b>Total Equity</b>		<b>8,857,891</b>	8,542,609
		<b>P22,400,249</b>	P20,816,621

*See Notes to the Condensed Interim Financial Information.*

**PEPSI-COLA PRODUCTS PHILIPPINES, INC.**  
**CONDENSED INTERIM STATEMENTS OF PROFIT OR LOSS**  
**AND OTHER COMPREHENSIVE INCOME**  
(Amounts in Thousands, Except Per Share Data)

	<i>Note</i>	For The Six Months Ended June 30		For The Three Months Ended June 30	
		2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
<b>GROSS SALES</b>		<b>P18,187,271</b>	P16,026,996	<b>P9,988,822</b>	P8,710,900
<b>LESS SALES RETURNS AND DISCOUNTS</b>		<b>2,655,703</b>	2,387,138	<b>1,458,292</b>	1,330,919
<b>NET SALES</b>		<b>15,531,568</b>	13,639,858	<b>8,530,530</b>	7,379,981
<b>COST OF GOODS SOLD</b>		<b>11,940,391</b>	10,228,600	<b>6,504,392</b>	5,546,666
<b>GROSS PROFIT</b>		<b>3,591,177</b>	3,411,258	<b>2,026,138</b>	1,833,315
<b>OPERATING EXPENSES</b>		<b>2,769,336</b>	2,612,014	<b>1,435,183</b>	1,329,012
<b>PROFIT FROM OPERATIONS</b>		<b>821,841</b>	799,244	<b>590,955</b>	504,303
<b>NET FINANCE AND OTHER INCOME (EXPENSE)</b>		<b>(28,347)</b>	4,440	<b>(22,386)</b>	22,708
<b>PROFIT BEFORE TAX</b>		<b>793,494</b>	803,684	<b>568,569</b>	527,011
<b>INCOME TAX EXPENSE</b>		<b>234,423</b>	243,367	<b>168,758</b>	158,683
<b>PROFIT/ TOTAL COMPREHENSIVE INCOME</b>		<b>P559,071</b>	P560,317	<b>P399,811</b>	P368,328
<b>Basic/Diluted Earnings Per Share</b>	<b>5</b>	<b>P0.15</b>	P0.15	<b>P0.11</b>	P0.10

*See Notes to the Condensed Interim Financial Information.*

**PEPSI-COLA PRODUCTS PHILIPPINES, INC.**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
(Amounts in Thousands, Except Per Share Data)  
(Unaudited)

**For The Six Months Ended June 30**

	Share Capital			Remeasurement Losses on Net Defined Benefit Liability	Retained Earnings	Total Equity
	Capital Stock (see Note 7)	Additional Paid-in Capital	Total			
As at January 1, 2016	P554,066	P1,197,369	P1,751,435	(P277,813)	P7,068,987	P8,542,609
<b>Total comprehensive income</b>						
Profit	-	-	-	-	559,071	559,071
<b>Transaction with owners directly recorded in equity</b>						
Cash dividends during the year	-	-	-	-	(243,789)	(243,789)
<b>As at June 30, 2016</b>	<b>P554,066</b>	<b>P1,197,369</b>	<b>P1,751,435</b>	<b>(P277,813)</b>	<b>P7,384,269</b>	<b>P8,857,891</b>
As at January 1, 2015	P554,066	P1,197,369	P1,751,435	(P276,443)	P6,500,694	P7,975,686
<b>Total comprehensive income</b>						
Profit	-	-	-	-	560,317	560,317
<b>Transaction with owners directly recorded in equity</b>						
Cash dividends during the year	-	-	-	-	(243,789)	(243,789)
As at June 30, 2015	P554,066	P1,197,369	P1,751,435	(P276,443)	P6,817,222	P8,292,214

*See Notes to the Condensed Interim Financial Information.*

**PEPSI-COLA PRODUCTS PHILIPPINES, INC.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
(Amounts in Thousands)

**For The Six Months Ended June 30**

	<i>Note</i>	2016 (Unaudited)	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>P793,494</b>	P803,684
Adjustments for:			
Depreciation and amortization		<b>1,239,656</b>	1,074,053
Interest expense		<b>68,234</b>	74,240
Retirement cost		<b>54,945</b>	45,023
Allowance for probable losses in values of bottles and cases, machinery and equipment, impairment losses, inventory obsolescence and others - net		<b>25,601</b>	22,036
Loss on sale of property and equipment		<b>4,112</b>	9,392
Equity in net earnings of associates		<b>(12,147)</b>	(7,517)
Interest income		<b>(2,394)</b>	(2,074)
Operating profit before working capital changes		<b>2,171,501</b>	2,018,837
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables		<b>3,624</b>	(139,693)
Inventories		<b>(402,216)</b>	193,300
Due from related parties		<b>3,739</b>	4,849
Prepaid expenses and other current assets		<b>(139,085)</b>	(50,739)
Increase in accounts payable and accrued expenses		<b>830,333</b>	182,138
Cash generated from operations		<b>2,467,896</b>	2,208,692
Interest received		<b>2,299</b>	2,074
Income taxes paid		<b>(149,924)</b>	(126,948)
Retirement benefits directly paid by the Company		<b>(35,728)</b>	(23,104)
Contribution to plan assets		<b>(20,000)</b>	(20,000)
Net cash provided by operating activities		<b>2,264,543</b>	2,040,714
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of property and equipment		<b>137</b>	4,355
Additions to:			
Property, plant and equipment	6	<b>(1,248,892)</b>	(1,222,907)
Bottles and cases		<b>(1,119,865)</b>	(932,238)
Increase in other noncurrent assets		<b>(6,683)</b>	(18,211)
Net cash used in investing activities		<b>(2,375,303)</b>	(2,169,001)

Forward

**For The Six Months Ended June 30**

	<b>Note</b>	<b>2016</b> (Unaudited)	2015
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availments of Short-term debt		<b>P2,200,000</b>	P2,300,000
Repayments of:			
Short-term debt		<b>(1,650,000)</b>	(2,150,000)
Long-term debt		<b>(200,000)</b>	-
Cash dividends paid		<b>(243,789)</b>	(243,789)
Interest paid		<b>(65,784)</b>	(65,101)
Net cash provided by (used in) financing activities		<b>40,427</b>	(158,890)
<b>NET DECREASE IN CASH</b>		<b>(70,333)</b>	(287,177)
<b>CASH AT BEGINNING OF PERIOD</b>		<b>464,786</b>	645,381
<b>CASH AT END OF PERIOD</b>	<i>11</i>	<b>P394,453</b>	P358,204

*See Notes to the Condensed Interim Financial Information.*



## PEPSI-COLA PRODUCTS PHILIPPINES, INC.

### NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

(Amounts in Thousands, Except per Share Data, Number of Shares  
and When Otherwise Stated)

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#### 1. Reporting Entity

Pepsi-Cola Products Philippines, Inc. (the "Company") was incorporated as a stock corporation in the Philippines on March 8, 1989 with a corporate life of 50 years, primarily to engage in manufacturing, sales and distribution at wholesale and (to the extent allowed by law) retail of carbonated soft-drinks (CSD), non-carbonated beverages (NCB), food and food products, snacks and confectionery products to retail, wholesale, restaurants and bar trades. The registered office address and principal place of business of the Company is at Km. 29, National Road, Tunasan, Muntinlupa City.

The Company is listed in the Philippine Stock Exchange (PSE) and has been included in the PSE composite index since February 1, 2008. Lotte Chilsung Beverage Co., Ltd., with a 38.88% stake in the Company, is the largest shareholder of the Company. Quaker Global Investments B.V. is the other major shareholder with a 25.00% stake. Lotte Chilsung Beverage Co., Ltd. was organized under the laws of South Korea. Quaker Global Investments B.V. was organized under the laws of the Netherlands.

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#### 2. Basis of Preparation

##### Statement of Compliance

These condensed interim financial information have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. These condensed interim financial information do not include all of the information required for a complete set of financial statements and should be read in conjunction with the annual financial statements of the Company as at December 31, 2015.

##### Basis of Measurement

These condensed interim financial information have been prepared on a historical cost basis, except for the net-defined benefit liability (included as part of "Other noncurrent liabilities" account in the condensed interim statements of financial position) which is measured at the present value of the defined benefit obligation less fair value of plan assets.

##### Functional and Presentation Currency

These condensed interim financial information are presented in Philippine peso, which is the Company's functional currency. All amounts have been rounded-off to the nearest thousands, except per share data and when otherwise indicated.

##### Use of Judgments and Estimates

The preparation of the condensed interim financial information requires management to make judgments, estimates and use assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments and estimates made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the annual financial statements.

During the six months ended June 30, 2016, management reassessed its estimates in respect of the following:

*Estimating Allowance for Impairment Losses on Receivables*

As at June 30, 2016 and December 31, 2015, allowance for impairment losses on receivables amounted to P214.8 million and P214.4 million, respectively.

*Estimating Net Realizable Value of Inventories*

As at June 30, 2016 and December 31, 2015, inventories amounted to P2.305 billion and P1.909 billion, respectively.

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### 3. Significant Accounting Policies

The significant accounting policies adopted in the preparation of the condensed interim financial information are consistent with those followed in the preparation of the annual financial statements.

Changes in Accounting Policies

The following amendments to standards are effective for the six months ended June 30, 2016, and have been applied in preparing these condensed interim financial information. The adoption of these amendments to standards did not have any significant impact on the Company's condensed interim financial information:

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38)*. The amendments to PAS 38, *Intangible Assets*, introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated,' or when the intangible asset is expressed as a measure of revenue.

The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g. changes in sales volumes and prices.

- *Annual Improvements to PFRSs 2012 - 2014 Cycle*. This cycle of improvements contains amendments to four standards, none of which are expected to have significant impact on the Company's financial statements.
  - *Offsetting disclosures in condensed interim financial statements (Amendment to PFRS 7)*. PFRS 7 is also amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of PAS 34, *Interim Financial Reporting* require their inclusion.

The amendment to PFRS 7 is applied retrospectively, in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

- *Disclosure of information “elsewhere in the interim financial report” (Amendment to PAS 34).* PAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed “elsewhere in the interim financial report” - i.e. incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g. management commentary or risk report). The interim financial report is incomplete if the interim financial statements and any disclosure incorporated by cross-reference are not made available to users of the interim financial statements on the same terms and at the same time.

The amendment to PAS 34 is applied retrospectively, in accordance with PAS 8.

- *Disclosure Initiative (Amendments to PAS 1, Presentation of Financial Statements)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:
  - Information should not be obscured by aggregating or by providing immaterial information.
  - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.
  - The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.
  - An entity’s share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

#### New Standards and Amendments to Standards Not Yet Adopted

The new standards and amendments to standards discussed below is effective for annual periods beginning on or after January 1, 2018, and have not been applied in preparing these condensed interim financial information.

#### *To be Adopted on January 1, 2018*

- *PFRS 9, Financial Instruments (2014).* PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Company has decided not to early adopt PFRS 9 (2014) for its 2014 financial reporting. Based on management's review, the new standard will potentially have an impact on the classification of its financial assets, but will have no significant impact on the measurement of its outstanding financial assets and financial liabilities.

*Pending approval of local adoption of PFRS 15, Revenue from Contracts with Customers*

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers*, and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

*Effective January 1, 2019*

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the following Philippine Interpretations:
  - IFRIC 4, *Determining whether an Arrangement contains a Lease*;
  - SIC-15, *Operating Leases-Incentives*; and
  - SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases.

New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is not permitted until the FRSC has adopted the new revenue recognition standard, PFRS 15.

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#### 4. Seasonality of Operations

The Company's sales are subject to seasonality. Sales are generally higher in the hot, dry months from March through June and lower during the wetter monsoon months of July through October. While these factors lead to a natural seasonality on the Company's sales, unseasonable weather could also significantly affect sales and profitability compared to previous comparable periods. Higher sales are likewise experienced around the Christmas/New Year holiday period in late December through early January. Consequently, the Company's operating results may fluctuate. In addition, the Company's results may be affected by unforeseen circumstances, such as production interruptions. Due to these fluctuations, comparisons of sales and operating results between periods within a single year, or between different periods in different financial years, are not necessarily meaningful and should not be relied on as indicators of the Company's performance.

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#### 5. Basic/Diluted Earnings Per Share (EPS)

Basic EPS is computed as follows:

	<b>For The Six Months Ended June 30</b>	
	<b>2016</b>	2015
	(Unaudited)	
Profit (a)	<b>P559,071</b>	P560,317
Issued shares at the beginning of the year/weighted average number of shares outstanding (b)	<b>3,693,772,279</b>	3,693,772,279
Basic/Diluted EPS (a/b)	<b>P0.15</b>	P0.15

As at June 30, 2016 and 2015, the Company has no dilutive equity instruments.

## 6. Property, Plant and Equipment

The movements in this account are as follows:

	<b>Machinery and Other Equipment</b>	<b>Buildings and Leasehold Improvements</b>	<b>Furniture and Fixtures</b>	<b>Construction in Progress</b>	<b>Total</b>
<b>Gross carrying amount</b>					
December 31, 2015 (Audited)	P14,083,248	P2,883,391	P42,624	P1,806,948	P18,816,211
Additions	84,705	935,964	6,879	234,609	1,262,157
Disposals	(173,659)	(6,814)	(432)	-	(180,905)
Transfers/reclassifications	1,411,865	(601,623)	(233)	(810,009)	-
<b>June 30, 2016 (Unaudited)</b>	<b>15,406,159</b>	<b>3,210,918</b>	<b>48,838</b>	<b>1,231,548</b>	<b>19,897,463</b>
<b>Accumulated depreciation and amortization</b>					
December 31, 2015 (Audited)	7,910,852	756,183	30,473	-	8,697,508
Depreciation and amortization	532,119	48,046	1,456	-	581,621
Disposals	(169,477)	(6,785)	(394)	-	(176,656)
Transfers/reclassifications	(2,840)	2,872	(32)	-	-
Impairment loss	1,780	-	-	-	1,780
<b>June 30, 2016 (Unaudited)</b>	<b>8,272,434</b>	<b>800,316</b>	<b>31,503</b>	<b>-</b>	<b>9,104,253</b>
<b>Carrying Amount</b>					
December 31, 2015 (Audited)	P6,172,396	P2,127,208	P12,151	P1,806,948	P10,118,703
<b>June 31, 2016 (Unaudited)</b>	<b>P7,133,725</b>	<b>P2,410,602</b>	<b>P17,335</b>	<b>P1,231,548</b>	<b>P10,793,210</b>

## 7. Equity

### Share Capital

This account consists of:

	<b>June 30, 2016 (Unaudited)</b>		<b>December 31, 2015 (Audited)</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>
Authorized - P0.15 par value per share	<b>5,000,000,000</b>	<b>P750,000</b>	5,000,000,000	P750,000
Issued, fully paid and outstanding balance at beginning/end of period	<b>3,693,772,279</b>	<b>P554,066</b>	3,693,772,279	P554,066

### Capital Management

The Company's objectives when managing capital are to increase the value of shareholders' investment and maintain reasonable growth by applying free cash flow to selective investments that would further the Company's product and geographic diversification. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Chief Financial Officer has overall responsibility for the monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company maintains its use of capital structure using a debt-to-equity ratio which is gross debt divided by equity. The Company includes within gross debt all interest-bearing loans and borrowings, while the Company defines equity as total equity shown in the condensed interim statements of financial position.

There were no changes in the Company's approach to capital management during the year. The Company is subject to debt covenants relating to its long-term debt (see Note 11).

The Company's bank debt to equity ratio as at reporting dates is as follows:

	<b>June 30, 2016 (Unaudited)</b>	December 31, 2015 (Audited)
(a) Debt*	<b>P4,142,747</b>	P3,791,201
(b) Total equity	<b>P8,857,891</b>	P8,542,609
Bank debt to equity ratio (a/b)	<b>0.47:1</b>	0.44:1

\* Pertains to bank debts

#### Dividend declaration

The Company's BOD approved the declaration of cash dividends amounting to P243.8 million or P0.066 per share on April 20, 2016 to all stockholders on record as of May 10, 2016 and was paid on June 3, 2016.

The Company's BOD approved the declaration of cash dividends amounting to P243.8 million or P0.066 per share on April 27, 2015 to all stockholders on record as of May 12, 2015 and was paid on June 5, 2015.

## **8. Related Party Transactions**

Related party relationship exists when one party has ability to control, directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making the financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprises, or between and/or among the reporting enterprises and their key management personnel, directors, or its shareholders.

Related party transactions are shown under the appropriate accounts in the condensed interim financial information as at and for the period ended June 30, 2016 and 2015 are as follows:

Category	Nature of Transaction	Note	Year	Amount of Transactions for the Period	Outstanding balance of Due from Related Parties	Terms	Conditions
Stockholder*	Purchases	8a	2016	<b>P32,450</b>	<b>P -</b>		
			2015	14,003	-		
Associates	Advances	8b, 8c	2016	<b>4,306</b>	<b>590,339</b>	<b>Collectible on demand</b>	<b>Unsecured; no impairment</b>
			2015	3,434	610,636		
	Various	8b	2016	<b>16,362</b>	-	Collectible on demand	Unsecured; no impairment
			2015	11,481	-		
			<b>2016</b>		<b>P590,339</b>		
			2015		P610,636		

\* Entity with significant influence over the Company

The above outstanding balances of due from related parties are unsecured and expected to be settled in cash.

The Company has significant related party transactions which are summarized as follows:

- a. The Company purchased finished goods from Lotte Chilsung Beverage Co. Ltd., a major stockholder. Total purchases for each of the six months ended June 30, 2016 and 2015 amounted to P32.5 million and P14.0 million, respectively.
- b. The Company leases parcels of land where some of its bottling plants are located. Lease expenses recognized amounted to P14.4 million and P13.2 million for the six months ended June 30, 2016 and 2015, respectively. The Company has advances to Nadeco Realty Corporation (NRC) amounting to P38.0 million, which bear interest at a fixed rate of 10% per annum and which are unsecured and payable on demand. The related interest income amounted to P1.9 million each for the six months ended June 30, 2016 and 2015. The Company also has outstanding net receivables from NRC amounting to P548.5 million and P551.7 million as at June 30, 2016 and December 31, 2015, respectively, which are unsecured and payable on demand. The advances and receivables are included under "Due from related parties" account in the condensed interim statements of financial position.
- c. The Company has outstanding working capital advances to Nadeco Holdings Corporation, an associate, amounting to P3.8 million as at June 30, 2016 and December 31, 2015 and which are unsecured, noninterest-bearing and payable on demand. The advances are included under "Due from related parties" account in the condensed interim statements of financial position.

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## 9. Significant Agreements

The Company has exclusive bottling agreement and other transactions which are summarized below:

- a. The Company has Exclusive Bottling Agreements with PepsiCo, Inc. ("PepsiCo"), the ultimate parent of Quaker Global Investments B.V, a shareholder, up to year 2017 and Pepsi Lipton International Limited ("Pepsi Lipton"), a joint venture of PepsiCo and Unilever N.V., up to year 2017 (as renewed). Under the agreements, the Company is authorized to bottle, sell and distribute PepsiCo and Pepsi Lipton beverage products in the Philippines. In addition, PepsiCo and Pepsi Lipton shall supply the Company with the main raw materials (concentrates) in the production of these beverage products and share in the funding of certain marketing programs. The agreements may be renewed by mutual agreement between the parties. Under the agreements, PepsiCo and Pepsi Lipton have the right to terminate the contracts under certain conditions, including failure to comply with terms and conditions of the agreement subject to written notice and rectification period, change of ownership control of the Company, change of ownership control of an entity which controls the Company, discontinuance of bottling beverages for 30 consecutive days, occurrence of certain events leading to the Company's insolvency or bankruptcy, change in management and control of the business, among others. Purchases made from PepsiCo is made thru Pepsi-Cola Far East Trade Development Co., Inc. (PCFET), a company incorporated under Philippines laws. Total net purchases from PCFET amounted to P2.82 billion and P2.5 billion for the six months ended June 30, 2016 and 2015, respectively. The Company's outstanding payable to PCFET (included under "Accounts payable and accrued expenses" account in the condensed interim statements of financial position) amounted to nil and P322.6 million as at June 30, 2016 and December 31, 2015, respectively. Total purchases from Pepsi Lipton amounted to P104.1 million and P74.70 million for each of the six months ended June 30, 2016



and 2015, respectively. The Company's outstanding payable to Pepsi Lipton (included under "Accounts payable and accrued expenses" account in the statements of financial position) amounted to P19.7 million and P25.8 million as at June 30, 2016 and December 31, 2015, respectively.

- b. The Company has cooperative advertising and marketing programs with PepsiCo and Pepsi Lipton thru PCFET that sets forth the agreed advertising and marketing activities and participation arrangement during the years covered by the bottling agreements. In certain instances, the Company pays for the said expenses and claims reimbursements from PepsiCo thru PCFET. The Company incurred marketing expenses amounting to P448.2 million and P397.6 million for the six months ended June 31, 2016 and 2015, respectively. The Company's outstanding receivable from PCFET included under "Receivables" account in the condensed interim statements of financial position, which are unsecured and are payable on demand, amounted to P120.2 million and P158.5 million as at June 30, 2016 and December 31, 2015, respectively.
- c. On April 11, 2007, the Company entered into a Performance Agreement with PepsiCo to meet certain marketing and investment levels from 2007 to 2017, as required by the bottling agreement with PepsiCo. The agreement requires the Company to: (1) spend a specified percentage with a minimum amount for the beverage products; (2) make certain investments based on a minimum percentage of the Company's sales to expand the Company's manufacturing capacity; (3) invest in a minimum number of coolers per year to support distribution expansion; and (4) expand the Company's distribution capabilities in terms of the number of active routes, the number of new routes and the number of trucks used for distribution support.
- d. On December 20, 2014, the Company has Exclusive Snacks Franchising Appointment with The Concentrate Manufacturing Company of Ireland ("CGMI"), a Company incorporated in Ireland. Under the agreement, the Company is authorized to manufacture, process, package, distribute and sell the products within the territory in accordance with the agreement. In addition, CGMI shall supply the Company with the main raw materials in the production of these snacks products and share in the funding of certain marketing programs. The agreements may be renewed by mutual agreement between the parties. Under the agreements, CGMI has the right to terminate the contracts under certain conditions, including failure to comply with terms and conditions of the agreement subject to written notice and rectification period, change of ownership control of the Company, change of ownership control of an entity which controls the Company, discontinuance of manufacturing products for 30 consecutive days, among others.
- e. On December 20, 2014, the Company entered into a Business Development Agreement with CGMI to meet certain sales volume objectives through: (1) growing distribution through active sales and distribution system, (2) ensuring pack price competitive presence, and (3) growing salty share and volume. The agreement sets forth the agreed advertising and marketing activities and participation and purchase of seasoning during the years covered by the agreements. The Company incurred marketing expenses amounting to P24.1 million for the six months ended June 30, 2016. Total net purchases from CGMI amounted to P109.1 million for the six months ended June 30, 2016. The Company's outstanding payable to CGMI (included under "Accounts payable and accrued expenses" account in the statements of financial position) amounted to P23.5 million and P6.6 million as at June 30, 2016 and December 31, 2015, respectively.

## 10. Segment Information

As discussed in Note 1 to the financial statements, the Company is engaged in the manufacture, sales and distribution of CSD, NCB and Snacks. The Company's main products under its CSD category include brands Pepsi-Cola, 7Up, Mountain Dew, Mirinda, and Mug. The NCB brand category includes Gatorade, Tropicana/Twister, Lipton, Sting energy drink, Propel fitness water, Milkis and Let's be coffee, while Snacks category includes Cheetos and Lays. The Company operates under three (3) reportable operating segments, the CSD, NCB and Snacks categories. These categories are managed separately because they require different technology and marketing strategy. Analysis of financial information by operating segment is as follows (in millions):

(Amounts in millions)	For the Six Months Ended June 30, 2016			
	CSD	NCB	Snacks	Total
<b>Net sales</b>				
External sales	P13,355	P4,754	P78	P18,187
Sales returns and discounts	(2,016)	(630)	(10)	(2,656)
Net sales	P11,339	P4,124	P68	P15,531
<b>Result</b>				
Segment result*	P2,646	P963	(P18)	P3,591
Other income - net				25
Equity in net earnings of associates				12
Interest income				2
Unallocated expenses				(2,769)
Income tax expense				(234)
Interest and financing expenses				(68)
<b>Profit</b>				P559
<b>Other information**</b>				
Segment assets				P21,424
Investment in associates				582
Deferred tax assets - net				105
Other noncurrent assets				289
<b>Combined total assets</b>				P22,400
Segment liabilities				P8,348
Loans payable				4,143
Income tax payable				133
Deferred tax liabilities - net				918
<b>Combined total liabilities</b>				P13,542
Capital expenditures				P2,369
Depreciation and amortization of bottles and cases and property, plant and equipment				1,240
Noncash items other than depreciation and amortization				26

(Amounts in millions)	For the Six Months Ended June 30, 2015			
	CSD	NCB	Snacks	Total
Net sales				
External sales	P11,888	P4,139	P -	P16,027
Sales returns and discounts	(1,825)	(563)	-	(2,388)
Net sales	P10,063	P3,576	P -	P13,639
Result				
Segment result*	P2,517	P894	P -	P3,411
Other income - net				69
Equity in net earnings of associates				7
Interest income				2
Unallocated expenses				(2,612)
Income tax expense				(243)
Interest and financing expense:				(74)
Profit				P560
Other information**				
Segment assets				P18,744
Investment in associates				556
Deferred tax assets - net				107
Other noncurrent assets				208
Combined total assets				P19,615
Segment liabilities				P6,273
Loans payable				3,940
Income tax payable				146
Deferred tax liabilities - net				964
Combined total liabilities				P11,323
Capital expenditures				P2,155
Depreciation and amortization of bottles and cases and property, plant and equipment				1,074
Noncash items other than depreciation and amortization				22

\* Segment result is the difference between net sales and segment expenses. Segment expenses are allocated based on the percentage of each reportable segment's net sales over the total net sales.

\*\* Segment assets and liabilities relate to balances as at June 30, 2016 and 2015

There were no intersegment sales recognized between the two reportable segments.

The Company uses its assets and incurs liabilities to produce both carbonated soft drinks and non-carbonated beverages; hence, the assets and liabilities are not directly attributable to a segment and cannot be allocated into each segment on a reasonable basis.

#### *Major Customer*

The Company does not have any single external customer from which sales revenue generated amounted to 10% or more of the net sales.

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## 11. Financial Instruments and Financial Risk Management

### Financial Instruments

The Company's financial instruments are measured as described below:

*Loans and Receivables.* Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as available for sale financial assets or at fair value through profit or loss (FVPL) financial assets. Loans and receivables are carried at amortized cost, less impairment in value. Amortization is determined using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through amortization process.

Cash includes cash on hands and in banks, which is stated at face value.

The Company's cash, receivables and due from related parties are included in this category.

*Other Financial Liabilities.* This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

All loans and borrowing are initially recognized at the fair value of the consideration received less directly attributable debt issuance costs. Debt issuance costs are amortized using the effective interest method and the unamortized portion of debt issuance costs are offset against the related carrying amount of the loan in the condensed interim statements of financial position. Such amortization is booked as part of "Net Finance and Other Income (Expense) - net" account in the condensed interim statements of profit or loss and other comprehensive income.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest.

When loan is paid, the related unamortized debt issuance costs at the date of repayment are charged against current operations. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

Included in this category are the Company's short-term and long-term debt and accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other PFRS, such as income tax payable and accrued retirement cost).

*Offsetting Financial Instruments.* Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position when, and only when, the Company has an enforceable legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements and the related assets and liabilities are presented gross in the statements of financial position.

## Financial Risk Management

### *Overview*

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

The main purpose of the Company's dealings in financial instruments is to fund its operations and capital expenditures.

### *Risk Management Framework*

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's BOD has established the Executive Committee (EXCOM), which is responsible for developing and monitoring the Company's risk management policies. The EXCOM identifies all issues affecting the operations of the Company and reports regularly to the BOD on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company has an Audit Committee, which performs oversight over financial management and internal control, specifically in the areas of managing credit, liquidity, market and other risks of the Company. The Company's Audit Committee is assisted in the oversight role by the Internal Audit (IA). The Company's IA undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

There were no changes in the Company's objectives, policies and processes for managing the risk and the methods used to measure the risk from previous year.

### Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises principally from the Company's cash in banks, receivables and due from related parties.

### *Exposure to Credit Risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk is as follows:

	<b>June 30, 2016 (Unaudited)</b>	December 31, 2015 (Audited)
Cash in banks	<b>P210,661</b>	P246,541
Receivables - net	<b>1,696,272</b>	1,714,222
Due from related parties	<b>590,339</b>	594,078
<b>Total credit exposure</b>	<b>P2,497,272</b>	P2,554,841

The credit limit and status of each customer's account are first checked before processing a credit transaction. Customers that fail to meet the Company's conditions in the credit checking process may transact with the Company only on cash basis.

Most of the Company's customers have been transacting with the Company for several years, and losses have occurred from time to time. Customer credit risks are monitored through annual credit reviews conducted on a per plant basis. Results of credit reviews are grouped and summarized according to credit characteristics, such as geographic location, aging profile and credit violations. Historically, credit violations have been attributable to bounced checks, and denied, fictitious or absconded credit accounts.

It is the Company's policy to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk.

The Plant Credit Committees have established a credit policy under which each new customer is analyzed individually for creditworthiness before standard credit terms and conditions are granted. The Company's review includes the requirements of updated credit application documents, credit verifications through confirmation that there are no credit violations and that the account is not included in the negative list, and analyses of financial performance to ensure credit capacity. Credit limits are established for each customer, which serve as the maximum open amount at which they are allowed to purchase on credit, provided that credit terms and conditions are observed.

Collateral securities are required for credit limit applications that exceed certain thresholds. The Company has policies for acceptable collateral securities that may be presented upon submission of credit applications.

As at June 30, 2016 and December 31, 2015, the aging analysis per class of financial assets that were past due but not impaired is as follows:

### June 30, 2016

	Neither Past Due nor impaired	Past due			Impaired	Total
		1 to 30 days	31 to 60 days	More than 60 days		
Cash in banks	P210,661	P -	P -	P -	P -	P210,661
Receivables:						
Trade	962,343	355,957	30,469	5,528	158,432	1,512,729
Others	133,922	24,532	19,715	163,806	56,327	398,302
Due from related parties	590,339	-	-	-	-	590,339
	1,897,265	380,489	50,184	169,334	214,759	2,712,031
Less allowance for impairment losses	-	-	-	-	214,759	214,759
	P1,897,265	P380,489	P50,184	P169,334	P -	P2,497,272

### December 31, 2015

	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
Cash in banks	P246,541	P -	P -	P -	P -	P246,541
Receivables:						
Trade	916,641	381,467	88,375	8,788	156,507	1,551,778
Others	46,280	14,679	131,965	126,027	57,901	376,852
Due from related parties	594,078	-	-	-	-	594,078
	1,803,540	396,146	220,340	134,815	214,408	2,769,249
Less allowance for impairment losses	-	-	-	-	214,408	214,408
	P1,803,540	P396,146	P220,340	P134,815	P -	P2,554,841

As at June 30, 2016 and December 31, 2015, there was an impairment loss of P214.8 million and P214.4 million, respectively, relating to trade and other receivables.

The Company believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behavior and extensive analysis of customer credit risk. In addition, the Company believes that the amounts of financial assets that are neither past due nor impaired are collectible, based on historic payment behavior and extensive analysis of counterparties credit risk. The credit qualities of financial assets that were neither past due nor impaired are determined as follows:

- Cash in banks are based on the credit standing or rating of the counterparty.
- Total receivables and due from related parties are based on a combination of credit standing or rating of the counterparty, historical experience and specific and collective credit risk assessment.

High grade cash in banks are deposited in local banks that are considered as top tier banks in the Philippines in terms of resources and profitability. Receivables and due from related parties are considered to be of high grade quality financial assets, where the counter parties have a very remote likelihood of default and have consistently exhibited good paying habits. High grade quality financial assets are those assessed as having minimal credit risk, otherwise they are of standard grade quality. Standard grade quality financial assets are those assessed as having minimal to regular instances of payment default due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

#### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations as they fall due. The Company manages liquidity risk by forecasting projected cash flows and maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements, as well as capital expenditures and debt service payments. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

In addition, the Company has the following credit facilities:

- The total commitment as at June 30, 2016 and December 31, 2015 under the line of credit is P10.765 and P10.169 billion of which the Company had drawn P4.467 billion and P4.463 billion, respectively, under letters of credit short-term loans and long term loans. All facilities under the omnibus line bear interest at floating rates consisting of a margin over current Philippine treasury rates except for the long term loan which have a fixed interest rate; and
- P1.045 billion domestic bills purchased line, which are available as at June 30, 2016 and December 31, 2015.

In 2013 and 2014, the Company entered into loan agreements with various banks to partially finance the Company's capital expenditure for its carbonated and non-carbonated beverage business. The loan agreement also provides certain covenants, the more significant of which are as follows:

- Maintain a current ratio of 0.40:1
- Maintain a debt to equity ratio of not greater than 2:1
- Maintain a debt service coverage ratio of 1:1
- The Company shall not declare or pay any cash dividends or redeem or repurchase any outstanding share or make any capital or asset distribution to its stockholders without prior written consent of the lender.

As at June 30, 2016 and December 31, 2015, the Company is in compliance with the debt covenants in the loan agreements.

The table summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted amounts:

	As at June 30, 2016 (Unaudited)			
	Carrying Amount	Contractual Cash Flow	One year or less	More than one year
<b>Financial Liabilities</b>				
Short-term debt	P1,450,000	P1,453,704	P1,453,704	P -
Accounts payable and accrued expenses*	7,266,921	7,266,921	7,266,921	-
Long-term debt	2,692,747	2,957,299	750,321	2,206,978
Other noncurrent liabilities*	28,655	31,111	2,456	28,655
	<b>P11,438,323</b>	<b>P11,709,035</b>	<b>P9,473,402</b>	<b>P2,235,633</b>

\* Excluding statutory payables, accrual for operating leases and defined benefit liability.

	As at December 31, 2015			
	Carrying Amount	Contractual Cash Flow	One Year or Less	More than One Year
<b>Financial Liabilities</b>				
Short-term debt	P900,000	P904,140	P904,140	P -
Accounts payable and accrued expenses *	6,568,528	6,568,528	6,568,528	-
Long-term debt	2,891,201	3,216,213	512,322	2,703,891
Other noncurrent liabilities*	27,785	29,487	-	29,487
	<b>P10,387,514</b>	<b>P10,718,368</b>	<b>P7,984,990</b>	<b>P2,733,378</b>

\* Excluding statutory payables, accrual for operating leases and defined benefit liability.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

#### *Financial Assets Used for Managing Liquidity Risk*

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk. To manage its liquidity risk, the Company forecasts cash flows from operations for the next six months which will result in additional available cash resources and enable the Company to meet its expected cash flows requirements.

#### Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.



The Company is subject to various market risks, including risks from changes in commodity prices, interest rates and currency exchange rates.

*Exposure to Commodity Prices*

The risk from commodity price changes relates to the Company's ability to recover higher product costs through price increases to customers, which may be limited due to the competitive pricing environment that exists in the Philippine beverage market and the willingness of consumers to purchase the same volume of beverages at higher prices. The Company is exposed to changes in Philippine sugar prices.

The Company minimizes its exposure to risks in changes in commodity prices by entering into contracts with suppliers with duration ranging from six months to one year; with fixed volume commitment for the contract duration; and with stipulation for price adjustments depending on market prices. The Company has outstanding purchase commitment amounting to P4.229 billion and P7.179 billion as at June 30, 2016 and December 31, 2015, respectively. Because of these purchase commitments, the Company considers the exposure to commodity price risk to be insignificant.

*Exposure to Interest Rate Risk*

The Company's exposure to interest rates pertains to its cash in banks, short-term, long-term debt and finance lease obligation. These financial instruments bear fixed interest rates and accordingly, the Company is not significantly exposed to interest rate risk.

*Foreign Currency Risk*

The Company is exposed to foreign currency risk on purchases that are denominated in currencies other than the Philippine peso, mostly in United States (U.S.) dollar. In respect of monetary assets and liabilities held in currencies other than the Philippine peso, the Company ensures that its exposure is kept to an acceptable level, by buying foreign currencies at spot rates where necessary to address short-term imbalances. The Company considered the exposure to foreign currency risk to be insignificant. Further, the Company does not hold any investment in foreign securities as at June 30, 2016 and December 31, 2015.

Offsetting

The following table sets out the carrying amounts of due from related parties that are presented net of due to related parties in the condensed interim statements of financial position as at June 30, 2016 and December 31, 2015 is as follows:

<b>June 30, 2016</b>	<b>Gross Amount</b>	<b>Amount Offset</b>	<b>Net Amount</b>
Due from related parties	<b>P755,226</b>	<b>(P164,887)</b>	<b>P590,339</b>
<hr/>			
December 31, 2015	Gross Amount	Amount Offset	Net Amount
Due from related parties	P750,919	(P156,841)	P594,078

Fair Values

The fair values of the financial assets and liabilities approximate their carrying amounts due to the short-term nature of these financial instruments and interest rates that they carry approximate interest rates for comparable instruments in the market.

The fair value of finance lease liability is estimated at the present value of all future cash flows discounted using the market rate at the reporting date. The discount rate used in the present value of the minimum lease payment is the interest rate implicit in the lease. The reduction on the finance lease liability is recognized using the effective interest method. The fair value of long-term debt is estimated at the present value of all future cash flows discounted using the market rate at the reporting date.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **Results of Operations**

The first half of 2016 showed the sales revenue grow by 13%, reaching P18 billion at the half-year mark. While for the quarter sales revenue reached P10 billion, a 15% growth versus last year. Revenue growth was ahead of volume growth, driven by strong focus on revenue management and new product initiatives.

Cost of goods sold increased by 17% for the quarter and for the first half of the year, primarily driven by sharp increase in sugar prices which was partially offset by significantly higher productivity versus last year. The Company achieved a gross profit of P2.0 billion or +11% for the quarter and P3.6 billion for the first half of the year or +5% versus last year. This resulted to a net income increase for the quarter of P31 million versus last year while net income for the first half versus last year was flat. Net of Snacks business start-up losses, the Company's net income grew 15% percent for the quarter and 10% for the first half versus last year.

Operating expenses expressed as a % of net sales were 118 basis points and 132 basis points better than year ago for the quarter and for the first half of the year respectively mainly due to prudent cost control. The Company plans to continue its growth momentum through distribution expansion, manufacturing infrastructure and capacity development, and product innovations.

Meanwhile, the Company continued to expand the footprint of its Snacks portfolio by growing its distribution footprint to entire Luzon.

### **Financial Condition**

The Company's financial condition remained solid. Cash flows from operating activities were used to fund capital expenditures needs and payoff a portion of the Company's bank debt. Consequently, our bank debt increased by P352 million in comparison with December 31, 2015 balance.

#### **Causes for Material Changes (+/-5% or more)**

1. Increase in total current assets by 9% due to increases in inventories by P396 million and prepaid expenses and other current assets by P132 million and a decreases in cash and cash equivalent by P70 million, receivable – net by P18 million, and due from related parties by P4 million.
2. Increase in total noncurrent assets by 7% due to increase in investment in associates by P12 million, net bottles and cases by P458 million, property, plant and equipment by P675 million, and other noncurrent assets by P7 million and a decrease in deferred tax assets – net by P4 million.
3. Increase in total current liabilities by 18% due to increase in accounts payable and accrued expenses by P844 million, short-term debt by P550 million, current portion of long term debt by P100 million, and income tax payable by P1 million.
4. Decrease in total noncurrent liabilities by 6% due to decrease in long term-debt – net of current portion by P299 million and an increase in deferred tax liabilities by P73 million.

### **Known Trends, Demands, or Uncertainties That May Affect Liquidity**

The Company is not aware of any trend that may affect its liquidity. Refer to Note 11 to the Condensed Interim Financial Statements for a discussion of the Company's liquidity risk and financial risk management.

### **Events That May Trigger Direct or Contingent Obligations**

The Company is not aware of any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

### **Off-Balance Sheet Transactions**

To the Company's knowledge, there are no material off-balance sheet transactions, arrangement, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period.

### **Material Commitments for Capital Expenditures**

The Company has ongoing definite corporate expansion projects approved by the BOD. As a result of this expansion program, the Company spent for property, plant and equipment as well as bottles and cases amounting to P1.25 billion and P1.12 billion for the six months ended June 30, 2016 and 2015, respectively. To this date, the Company continues to invest in major capital expenditures in order to complete the remaining expansion projects lined up in line with prior calendar year spending.

### **Trends or Uncertainties That May Impact Results of Operations**

The Company's performance will continue to hinge on the overall performance of the Philippine economy, the natural seasonality of operations, and the competitive environment of the beverage market in the Philippines. Refer to Note 11 to the Condensed Interim Financial Statements for a discussion of the Company's Financial Risk Management.

### **Significant Elements of Income or Loss that did not Arise from Continuing Operations**

There were no significant elements of income or loss that did not arise from continuing operations.

### **Seasonality Aspects That May Affect Financial Conditions or Results of Operations**

Please refer to Note 4 to the Condensed Interim Financial Statements for a discussion of the seasonality of the Company's operations.

### **Key Performance Indicators**

The following are the Company's key performance indicators. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year.

		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Current ratio	Current assets over current liabilities	0.5 : 1	0.6 : 1
Solvency ratio	Net income plus depreciation and amortization over total liabilities	0.1 : 1	0.2 : 1
Bank debt-to-equity ratio	Bank debt over total equity	0.47 : 1	0.44 : 1
Asset-to-equity ratio	Total assets over equity	2.5 : 1	2.4 : 1

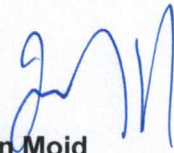
		<b>For the six months ended June 30</b>		<b>For the three months ended June 30</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Gross sales		P18.2 billion	P16.0 billion	P10.0 billion	P8.7 billion
Gross profit margin	Gross profit over net sales	23.1%	25.0%	23.8%	24.8%
Operating margin	Operating income over net sales	5.3%	5.9%	6.9%	6.8%
Net profit margin	Net profit over net sales	3.6%	4.1%	4.7%	5.0%
Interest rate coverage ratio	Earnings before interest and taxes over interest expense	12.6:1	11.8:1	14.4:1	14.9:1

## SIGNATURES

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

Issuer: **Pepsi-Cola Products Philippines, Inc.**

By:



**Imran Moid**  
*Senior Vice-President and  
Chief Financial Officer*

Date: August 12, 2016