

**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	G	F	D
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Dept. Requiring this Doc.

Amended Article Number/Section

Total No. of Stockholders

Total Amount of Borrowings  
**Php4.195Billion**  
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, 2017
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.**

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

	<i>Note</i>	June 30 2017 (Unaudited)	December 31 2016 (Audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	11	P550,754	P320,048
Receivables - net	9, 11	1,934,005	1,927,216
Inventories		2,167,187	2,069,001
Due from related parties	8, 11	579,317	585,174
Prepaid expenses and other current assets		269,443	259,814
<b>Total Current Assets</b>		<b>5,500,706</b>	5,161,253
<b>Noncurrent Assets</b>			
Investments in associates		596,544	584,197
Bottles and cases - net		5,216,528	5,057,831
Property, plant and equipment - net	6	11,622,769	11,015,132
Deferred tax assets – net		118,393	117,678
Other noncurrent assets		291,456	268,669
<b>Total Noncurrent Assets</b>		<b>17,845,690</b>	17,043,507
		<b>P23,346,396</b>	P22,204,760
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	9, 11	P7,920,730	P7,426,471
Short-term debt	11	2,100,000	1,600,000
Current portion of long-term debt	11	598,512	598,410
Income tax payable		64,406	5,145
<b>Total Current Liabilities</b>		<b>10,683,648</b>	9,630,026
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	11	1,496,909	1,745,755
Deferred tax liabilities - net		1,001,914	900,095
Other noncurrent liabilities		788,105	766,281
<b>Total Noncurrent Liabilities</b>		<b>3,286,928</b>	3,412,131
<b>Total Liabilities</b>		<b>13,970,576</b>	13,042,157

*Forward*

		<b>June 30 2017</b>	December 31 2016
	<b>Note</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Equity</b>			
Share capital	7	<b>P1,751,435</b>	P1,751,435
Remeasurement losses on net defined benefit liability		<b>(267,152)</b>	(267,152)
Retained earnings		<b>7,891,537</b>	7,678,320
<b>Total Equity</b>		<b>9,375,820</b>	9,162,603
		<b>P23,346,396</b>	P22,204,760

*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	
		2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
<b>GROSS SALES</b>		<b>P17,882,087</b>	P18,187,271	<b>P9,695,865</b>	P9,988,822
<b>LESS SALES RETURNS AND DISCOUNTS</b>		<b>2,757,302</b>	2,655,703	<b>1,418,037</b>	1,458,292
<b>NET SALES</b>		<b>15,124,785</b>	15,531,568	<b>8,277,828</b>	8,530,530
<b>COST OF GOODS SOLD</b>		<b>11,639,314</b>	11,940,391	<b>6,323,869</b>	6,504,392
<b>GROSS PROFIT</b>		<b>3,485,471</b>	3,591,177	<b>1,953,959</b>	2,026,138
<b>OPERATING EXPENSES</b>		<b>2,786,582</b>	2,769,336	<b>1,411,988</b>	1,435,183
<b>PROFIT FROM OPERATIONS</b>		<b>698,889</b>	821,841	<b>541,971</b>	590,955
<b>NET FINANCE AND OTHER EXPENSE</b>		<b>(35,587)</b>	(28,347)	<b>(8,530)</b>	(22,386)
<b>PROFIT BEFORE TAX</b>		<b>663,302</b>	793,494	<b>533,441</b>	568,569
<b>INCOME TAX EXPENSE</b>		<b>195,215</b>	234,423	<b>158,296</b>	168,758
<b>PROFIT/ TOTAL COMPREHENSIVE INCOME</b>		<b>P468,087</b>	P559,071	<b>P375,145</b>	P399,811
<b>Basic/Diluted Earnings Per Share</b>	5	<b>P0.13</b>	P0.15	<b>P0.10</b>	P0.11

*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		Total	Remeasurement Losses on Net Defined Benefit Liability	Retained Earnings	Total Equity
	Capital Stock (see Note 7)	Additional Paid-in Capital				
As at January 1, 2017	P554,066	P1,197,369	P1,751,435	(P267,152)	P7,678,320	P9,162,603
<b>Total comprehensive income</b>						
Profit	-	-	-	-	468,087	468,087
<b>Transaction with owners directly recorded in equity</b>						
Cash dividends during the period	-	-	-	-	(254,870)	(254,870)
<b>As at June 30, 2017</b>	<b>P554,066</b>	<b>P1,197,369</b>	<b>P1,751,435</b>	<b>(P267,152)</b>	<b>P7,891,537</b>	<b>P9,375,820</b>
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 period	-	-	-	-	(243,789)	(243,789)
As at June 30, 2016	P554,066	P1,197,369	P1,751,435	(P277,813)	P7,384,269	P8,857,891

*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>	2017 (Unaudited)	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>P663,302</b>	P793,494
Adjustments for:			
Depreciation and amortization		<b>1,295,412</b>	1,239,656
Interest expense		<b>75,589</b>	68,234
Retirement cost		<b>54,945</b>	54,945
Allowance for probable losses in values of bottles and cases, machinery and equipment, impairment losses, inventory obsolescence and others - net		<b>42,728</b>	25,601
Loss on sale of property and equipment		<b>16,776</b>	4,112
Equity in net earnings of associates		<b>(12,347)</b>	(12,147)
Interest income		<b>(2,313)</b>	(2,394)
Operating profit before working capital changes		<b>2,134,092</b>	2,171,501
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables		<b>(4,780)</b>	3,624
Inventories		<b>(139,048)</b>	(402,216)
Due from related parties		<b>5,857</b>	3,739
Prepaid expenses and other current assets		<b>(11,352)</b>	(139,085)
Increase in accounts payable and accrued expenses		<b>497,331</b>	830,333
Cash generated from operations		<b>2,482,100</b>	2,467,896
Interest received		<b>2,309</b>	2,299
Income taxes paid		<b>(33,127)</b>	(149,924)
Retirement benefits directly paid by the Company		<b>(22,331)</b>	(35,728)
Contribution to plan assets		<b>(15,000)</b>	(20,000)
Net cash provided by operating activities		<b>2,413,951</b>	2,264,543
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of property and equipment		<b>643</b>	137
Additions to:			
Property, plant and equipment	6	<b>(1,235,281)</b>	(1,248,892)
Bottles and cases		<b>(845,361)</b>	(1,119,865)
Increase in other noncurrent assets		<b>(22,787)</b>	(6,683)
Net cash used in investing activities		<b>(2,102,786)</b>	(2,375,303)

Forward

**For The Six Months Ended June 30**

	<b>Note</b>	<b>2017</b> (Unaudited)	2016
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availments of short-term debt		<b>P6,150,000</b>	P2,200,000
Repayments of:			
Short-term debt		<b>(5,650,000)</b>	(1,650,000)
Long-term debt		<b>(250,000)</b>	(200,000)
Cash dividends paid		<b>(254,870)</b>	(243,789)
Interest paid		<b>(75,589)</b>	(65,784)
Net cash provided by (used in) financing activities		<b>(80,459)</b>	40,427
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>230,706</b>	(70,333)
<b>CASH AT BEGINNING OF PERIOD</b>		<b>320,048</b>	464,786
<b>CASH AT END OF PERIOD</b>	<i>11</i>	<b>P550,754</b>	P394,453

*See Notes to the Condensed Interim Financial Information.*



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## 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, 2016.

##### 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, 2017, management reassessed its estimates in respect of the following:

*Estimating Allowance for Impairment Losses on Receivables*

As at June 30, 2017 and December 31, 2016, allowance for impairment losses on receivables amounted to P222.6 million and P232.6 million, respectively.

*Estimating Net Realizable Value of Inventories*

As at June 30, 2017 and December 31, 2016, inventories amounted to P2.167 billion and P2.069 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, 2017, 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:

- *Disclosure initiative (Amendments to PAS 7, Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.
- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes)*. The amendments clarify that:
  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

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

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

#### *Effective 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 2016 financial reporting. Based on management's review, the new standard will potentially have an impact on the classification and measurements of its financial assets and impairment methodology for financial assets, but will have no significant impact on the measurement of its outstanding and financial liabilities.

- Annual Improvements to PFRSs 2014 - 2016 Cycle. This cycle of improvements contains amendments to three standards. The following are the said improvements or amendments to PFRSs effective for annual periods beginning on or after January 1, 2018, none of which has a significant effect on the condensed interim financial information of the Company :
  - Measuring an associate or joint venture at fair value (Amendments to PAS 28, *Investments in Associates and Joint Ventures*). The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The amendments are applied retrospectively, with early application permitted.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*. The amendments clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- 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.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the potential impact of PFRS 15 and plans to adopt this new standard on the required effective date.

#### *Effective January 1, 2019*

- *PFRS 16, Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. 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.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The Company is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

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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>2017</b>	<b>2016</b>
	(Unaudited)	
Profit (a)	<b>P468,087</b>	P559,071
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>P0.13</b>	P0.15

As at June 30, 2017 and 2016, 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, 2016 (Audited)	P16,310,819	P3,319,448	P51,804	P944,723	P20,626,794
Additions	739,442	313,933	4,148	177,758	1,235,281
Disposals/write-offs/adjustments	(187,423)	(6,413)	(435)	-	(194,271)
Transfers/reclassifications	53,868	(90,652)	(59)	36,843	-
<b>June 30, 2017 (Unaudited)</b>	<b>16,916,706</b>	<b>3,536,316</b>	<b>55,458</b>	<b>1,159,324</b>	<b>21,667,804</b>
<b>Accumulated depreciation and amortization</b>					
December 31, 2016 (Audited)	8,744,277	834,891	32,494	-	9,611,662
Depreciation and amortization	557,593	51,055	1,577	-	610,225
Disposals/write-offs/adjustments	(171,937)	(4,552)	(363)	-	(176,852)
Transfers/reclassifications	(318)	348	(30)	-	-
<b>June 30, 2017 (Unaudited)</b>	<b>9,129,615</b>	<b>881,742</b>	<b>33,678</b>	<b>-</b>	<b>10,045,035</b>
<b>Carrying Amount</b>					
December 31, 2016 (Audited)	P7,566,542	P2,484,557	P19,310	P944,723	P11,015,132
<b>June 30, 2017 (Unaudited)</b>	<b>P7,787,091</b>	<b>P2,654,574</b>	<b>P21,780</b>	<b>P1,159,324</b>	<b>P11,622,769</b>

## 7. Equity

### Share Capital

This account consists of:

	<b>June 30, 2017 (Unaudited)</b>		<b>December 31, 2016 (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, 2017</b> <b>(Unaudited)</b>	December 31, 2016 (Audited)
(a) Debt*	<b>P4,195,421</b>	P3,944,165
(b) Total equity	<b>P9,375,820</b>	P9,162,603
Bank debt to equity ratio (a/b)	<b>0.45:1</b>	0.43:1

\* Pertains to bank debts

#### Dividend declaration

The Company's Board of Directors (BOD) approved the declaration of cash dividends amounting to P254.9 million or P0.069 per share on May 9, 2017 to all stockholders on record as of May 18, 2017 and was paid on June 14, 2017.

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.

## **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, 2017 and 2016 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	2017	<b>P42,037</b>	<b>P -</b>		
			2016	32,450	-		
Associates	Advances	8b, 8c	2017	-	<b>579,317</b>	<b>Collectible on demand</b>	<b>Unsecured; no impairment</b>
			2016	-	590,339		
	Various	8b	2017	<b>15,098</b>	-		
			2016	16,362	-		
			<b>2017</b>		<b>P579,317</b>		
			2016		P585,174		

\* 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, 2017 and 2016 amounted to P42.0 million and P32.5 million, respectively.
- b. The Company leases parcels of land where some of its bottling plants are located. Lease expenses recognized amounted to P13.2 million and P14.4 million for the six months ended June 30, 2017 and 2016, 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, 2017 and 2016. The Company also has outstanding net receivables from NRC amounting to P537.5 million and P542.4 million as at June 30, 2017 and December 31, 2016, 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, 2017 and December 31, 2016 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 P2.75 billion and P2.82 billion for the six months ended June 30, 2017 and 2016, 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 P401.4 million as at June 30, 2017 and December 31, 2016, respectively. Total purchases from Pepsi Lipton amounted to P182.2 million and P104.1 million for each of the six months ended June 30, 2017 and 2016, 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 P32.9 million and P14.9 million as at June 30, 2017 and December 31, 2016, 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 P320.0 million and P448.2 million for the six months ended June 31, 2017 and 2016, 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 P202.0 million and P205.8 million as at June 30, 2017 and December 31, 2016, 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 P44.1 million for the six months ended June 30, 2017. Total net purchases from CGMI amounted to P18.5 million for the six months ended June 30, 2017. The Company's outstanding payable to CGMI (included under "Accounts payable and accrued expenses" account in the statements of financial position) amounted to P14.3 million and P4.1 million as at June 30, 2017 and December 31, 2016, 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, 2017			
	CSD	NCB	Snacks	Total
<b>Net sales</b>				
External sales	P13,138	P4,589	P156	P17,883
Sales returns and discounts	2,088	635	34	2,757
<b>Net sales</b>	<b>P11,050</b>	<b>P3,954</b>	<b>P122</b>	<b>P15,126</b>
<b>Result</b>				
Segment result*	P2,572	P920	(P7)	P3,485
Other income - net				27
Equity in net earnings of associates				12
Interest income				2
Unallocated expenses				(2,787)
Income tax expense				(195)
Interest and financing expenses				(76)
<b>Profit</b>				<b>P468</b>
<b>Other information**</b>				
Segment assets				P22,340
Investment in associates				597
Deferred tax assets - net				118
Other noncurrent assets				291
<b>Combined total assets</b>				<b>P23,346</b>
Segment liabilities				P8,709
Loans payable				4,195
Income tax payable				64
Deferred tax liabilities - net				1,002
<b>Combined total liabilities</b>				<b>P13,970</b>
Capital expenditures				P2,081
Depreciation and amortization of bottles and cases and property, plant and equipment				1,295
Noncash items other than depreciation and amortization				43

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 Expense" 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, 2017</b> <b>(Unaudited)</b>	December 31, 2016 (Audited)
Cash in banks	<b>P324,894</b>	P22,408
Receivables - net	<b>1,934,005</b>	1,927,216
Due from related parties	<b>579,317</b>	585,174
<b>Total credit exposure</b>	<b>P2,838,216</b>	P2,534,798

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, 2017 and December 31, 2016, the aging analysis per class of financial assets that were past due but not impaired is as follows:

### June 30, 2017

	Neither Past Due nor impaired	Past due			Impaired	Total
		1 to 30 days	31 to 60 days	More than 60 days		
Cash in banks	P324,894	P -	P -	P -	P -	P324,894
Receivables:						
Trade	1,048,557	346,268	54,248	32,541	166,838	1,648,452
Others	229,262	2,906	66,460	153,763	55,741	508,132
Due from related parties	579,317	-	-	-	-	579,317
	<b>2,182,030</b>	<b>349,174</b>	<b>120,708</b>	<b>186,304</b>	<b>222,579</b>	<b>3,060,795</b>
Less allowance for impairment losses	-	-	-	-	222,579	222,579
	<b>P2,182,030</b>	<b>P349,174</b>	<b>P120,708</b>	<b>P186,304</b>	<b>P -</b>	<b>P2,838,216</b>

### December 31, 2016

	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	P22,408	P -	P -	P -	P -	P22,408
Receivables:						
Trade	1,068,094	363,720	59,084	-	178,272	1,669,170
Others	235,128	20,144	38,503	142,543	54,339	490,657
Due from related parties	585,174	-	-	-	-	585,174
	<b>1,910,804</b>	<b>383,864</b>	<b>97,587</b>	<b>142,543</b>	<b>232,611</b>	<b>2,767,409</b>
Less allowance for impairment losses	-	-	-	-	232,611	232,611
	<b>P1,910,804</b>	<b>P383,864</b>	<b>P97,587</b>	<b>P142,543</b>	<b>P -</b>	<b>P2,534,798</b>

As at June 30, 2017 and December 31, 2016, there was an impairment loss of P222.6 million and P232.6 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, 2017 and December 31, 2016 under the line of credit is P13.2 and P11.5 billion of which the Company had drawn P4.3 billion and P4.3 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
- P1.3 billion domestic bills purchased line, which are available as at June 30, 2017 and December 31, 2016.

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, 2017 and December 31, 2016, 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, 2017 (Unaudited)			
	Carrying Amount	Contractual Cash Flow	One year or less	More than one year
<b>Financial Liabilities</b>				
Short-term debt	P2,100,000	P2,105,262	P2,105,262	P -
Accounts payable and accrued expenses*	7,621,591	7,621,591	7,621,591	-
Long-term debt	2,095,421	2,366,491	679,862	1,686,629
Other noncurrent liabilities*	13,581	19,089	-	19,089
	<b>P11,830,593</b>	<b>P12,112,433</b>	<b>P10,406,715</b>	<b>P1,705,718</b>

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

	As at December 31, 2016			
	Carrying Amount	Contractual Cash Flow	One Year or Less	More than One Year
<b>Financial Liabilities</b>				
Short-term debt	P1,600,000	P1,610,951	P1,610,951	P -
Accounts payable and accrued expenses *	7,100,372	7,100,372	7,100,372	-
Long-term debt	2,344,165	2,560,863	690,996	1,870,167
Other noncurrent liabilities*	11,288	11,477	-	11,477
	<b>P11,055,825</b>	<b>P11,283,663</b>	<b>P9,402,019</b>	<b>P1,881,644</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 P8.629 billion and P7.179 billion as at June 30, 2017 and December 31, 2016, 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, 2017 and December 31, 2016.

#### 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, 2017 and December 31, 2016 is as follows:

<b>June 30, 2017</b>	<b>Gross Amount</b>	<b>Amount Offset</b>	<b>Net Amount</b>
Due from related parties	<b>P761,418</b>	<b>(P182,101)</b>	<b>P579,317</b>

  

<b>December 31, 2016</b>	<b>Gross Amount</b>	<b>Amount Offset</b>	<b>Net Amount</b>
Due from related parties	<b>P758,337</b>	<b>(P173,163)</b>	<b>P585,174</b>

#### 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**

Gross sales for first half of 2017 stands at P17.9 billion, or 2% lower versus same period last year while for Q2 alone, it was P9.7 billion or 3% lower versus same period last year. This was due to overlap of last year elections thus leading to category slowdown, plus unrest in Mindanao. At the same time market competitiveness continued in first half of this year. The Company continued to focus on increasing distribution across geographies.

Cost of goods sold was in line with volume. Sugar prices were favourable versus last year and offset by expansion in manufacturing footprint thus increase in fixed cost.

All things considered, gross profit stands at P3.5 billion in first half, or 3% lower versus last year, with second quarter contributing P2.0 billion representing decline of 4% versus same period last year.

Operating expenses as % of revenue were by and large in line with last year.

Capital expenditure in the first half of 2017 amounted to P2.1 billion as the Company continues to invest in capacity and containers.

In all, second quarter net income is much stronger than the first quarter. First half income stands at P468.1 million, or 16% lower versus last year, with second quarter contributing P375.1 million, or decline of 6% versus same period last year.

The Company continues to make progress in snacks business with focus on increasing distribution.

### **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 P251 million in comparison with December 31, 2016 balance.

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

1. Increase in total current assets by 7% due to increases in cash by P231 million, net receivable by P7 million, inventories by P98 million and prepaid expenses and other current assets by P10 million, and decreases in due from related parties by P6 million.
2. Increase in total noncurrent assets by 5% due to increases in investment in associates by P12 million, net bottles and cases by P159 million, property, plant and equipment by P608 million, net deferred tax assets by P1 million and other noncurrent assets by P23 million.
3. Increase in total current liabilities by 11% due to increases in accounts payable and accrued expenses by P494 million, short-term debt by P500 million and income tax payable by P59 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 P2.08 billion and P2.37 billion for the six months ended June 30, 2017 and 2016, 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.

		June 30, 2017	December 31, 2016
Current ratio	Current assets over current liabilities	0.5 : 1	0.5 : 1
Solvency ratio	Net income plus depreciation and amortization over total liabilities	0.1 : 1	0.3: 1
Bank debt-to-equity ratio	Bank debt over total equity	0.45 : 1	0.43 : 1
Asset-to-equity ratio	Total assets over equity	2.5 : 1	2.4 : 1

		For the six months ended June 30		For the three months ended June 30	
		2017	2016	2017	2016
Gross sales		P17.9 billion	P18.2 billion	P9.7 billion	P10.0 billion
Gross profit margin	Gross profit over net sales	23.0%	23.1%	23.6%	23.8%
Operating margin	Operating income over net sales	4.6%	5.3%	6.5%	6.9%
Net profit margin	Net profit over net sales	3.1%	3.6%	4.5%	4.7%
Interest rate coverage ratio	Earnings before interest and taxes over interest expense	9.7:1	12.6:1	15.1:1	14.4:1

## 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 Mold**  
Senior Vice-President and  
Chief Financial Officer

Date: August 14, 2017