

**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)

**Khaled Mahmoud Mahmoud Metwalli**  
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

M	S	R	D
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Dept. Requiring this Doc.

Amended Article Number/Section

**598**  
Total No. of Stockholders

Total Amount of Borrowings  
**Php6.1Billion**  
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, 2019**
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 2019 (Unaudited)	December 31 2018 (Audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	11	P525,963	P548,598
Receivables - net	9, 11	2,385,516	2,542,413
Inventories		3,959,238	5,039,641
Due from related parties	8, 11	560,328	567,309
Prepaid expenses and other current assets		532,521	281,643
<b>Total Current Assets</b>		<b>7,963,566</b>	<b>8,979,604</b>
<b>Noncurrent Assets</b>			
Investments in associates		625,765	612,656
Bottles and cases - net		5,219,149	4,440,968
Property, plant and equipment - net	6	11,736,500	11,819,220
Right-of-use asset		467,344	-
Deferred tax assets - net		102,664	115,781
Other noncurrent assets		185,754	204,411
<b>Total Noncurrent Assets</b>		<b>18,337,176</b>	<b>17,193,036</b>
		<b>P26,300,742</b>	<b>P26,172,640</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	9, 11	P8,609,886	P9,221,397
Short-term debt	11	1,050,000	1,000,000
Current portion of long-term debt		798,319	795,456
Dividends payable		162,526	-
Income tax payable		135,833	8,861
<b>Total Current Liabilities</b>		<b>10,756,564</b>	<b>11,025,714</b>
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	11	4,266,898	4,626,874
Deferred tax liabilities - net		634,214	696,564
Other noncurrent liabilities		1,210,081	664,423
<b>Total Noncurrent Liabilities</b>		<b>6,111,193</b>	<b>5,987,861</b>
<b>Total Liabilities</b>		<b>16,867,757</b>	<b>17,013,575</b>

Forward

		<b>June 30 2019</b>	December 31 2018
	<b>Note</b>	<b>(Unaudited)</b>	(Audited)
<b>Equity</b>			
Share capital	7	<b>P1,751,435</b>	P1,751,435
Remeasurement losses on net defined benefit liability		<b>(195,079)</b>	(195,079)
Retained earnings		<b>7,876,629</b>	7,602,709
<b>Total Equity</b>		<b>9,432,985</b>	9,159,065
		<b>P26,300,742</b>	P26,172,640

*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	
		2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
<b>GROSS SALES</b>		<b>P20,875,131</b>	P19,001,066	<b>P11,502,977</b>	P10,845,659
Less sales returns and discounts		<b>2,474,076</b>	2,420,486	<b>1,389,977</b>	1,365,723
<b>NET SALES</b>		<b>18,401,055</b>	16,580,580	<b>10,113,000</b>	9,479,936
<b>COST OF GOODS SOLD</b>		<b>14,544,962</b>	13,871,890	<b>7,958,135</b>	7,853,635
<b>GROSS PROFIT</b>		<b>3,856,093</b>	2,708,690	<b>2,154,865</b>	1,626,301
<b>OPERATING EXPENSES</b>		<b>3,078,810</b>	2,815,131	<b>1,579,226</b>	1,514,335
<b>PROFIT (LOSS) FROM OPERATIONS</b>		<b>777,283</b>	(106,441)	<b>575,639</b>	111,966
<b>NET FINANCE AND OTHER INCOME (EXPENSES) – Net</b>		<b>(145,838)</b>	33,119	<b>(42,948)</b>	17,932
<b>PROFIT (LOSS) BEFORE TAX</b>		<b>631,445</b>	(73,322)	<b>532,691</b>	129,898
<b>INCOME TAX EXPENSE (BENEFIT)</b>		<b>185,389</b>	(24,680)	<b>157,732</b>	38,357
<b>PROFIT (LOSS) / TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>P446,056</b>	(P48,642)	<b>P374,959</b>	P91,541
<b>Basic/Diluted Earnings (Loss) Per Share</b>	5	<b>P0.12</b>	(P0.01)	<b>P0.10</b>	P0.02

*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, 2019, as previously reported	P554,066	P1,197,369	P1,751,435	(P195,079)	P7,602,709	P9,159,065
Impact of adoption of PFRS 16	3	-	-	-	(9,610)	(9,610)
As at January 1, 2019	554,066	1,197,369	1,751,435	(195,079)	7,593,099	9,149,455
<b>Total comprehensive income</b>						
Net Income	-	-	-	-	446,056	446,056
<b>Transaction with owners directly recorded in equity</b>						
Cash dividends during the period	-	-	-	-	(162,526)	(162,526)
<b>As at June 30, 2019</b>	<b>P554,066</b>	<b>P1,197,369</b>	<b>P1,751,435</b>	<b>(P195,079)</b>	<b>P7,876,629</b>	<b>P9,432,985</b>
As at January 1, 2018	P554,066	P1,197,369	P1,751,435	(P270,754)	P7,964,775	P9,445,456
<b>Total comprehensive loss</b>						
Net Loss	-	-	-	-	(48,642)	(48,642)
<b>Transaction with owners directly recorded in equity</b>						
Cash dividends during the period	-	-	-	-	(162,526)	(162,526)
As at June 30, 2018	P554,066	P1,197,369	P1,751,435	(P270,754)	P7,753,607	P9,234,288

*See Notes to the Condensed Interim Financial Information.*

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

	<b>For The Six Months Ended June 30</b>	
	<b>2019</b>	2018
	(Unaudited)	
<i>Note</i>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit (Loss) before tax	<b>P631,445</b>	(P73,322)
Adjustments for:		
Depreciation and amortization	<b>1,351,381</b>	1,320,286
Interest expense	<b>211,208</b>	118,321
Impairment losses on receivables, inventories, bottles and cases, machinery and equipment and others	<b>97,467</b>	12,563
Retirement cost	<b>57,876</b>	61,940
Equity in net earnings of associates	<b>(13,109)</b>	(8,567)
Loss (gain) on sale of property and equipment	<b>(10,269)</b>	12,677
Interest income	<b>(2,545)</b>	(2,559)
Operating profit before working capital changes	<b>2,323,454</b>	1,441,339
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Inventories	<b>1,025,281</b>	(513,185)
Receivables	<b>113,308</b>	97,166
Due from related parties	<b>6,981</b>	6,061
Prepaid expenses and other current assets	<b>(250,878)</b>	(20,942)
Decrease in accounts payable and accrued expenses	<b>(661,437)</b>	(495,699)
Cash generated from operations	<b>2,556,709</b>	514,740
Interest received	<b>2,525</b>	2,509
Income taxes paid	<b>(107,649)</b>	(75,737)
Contribution to plan assets	<b>(20,000)</b>	(109,000)
Retirement benefits directly paid by the Company	<b>(8,757)</b>	(22,038)
Net cash provided by operating activities	<b>2,422,828</b>	310,474
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of property and equipment	<b>20,053</b>	4,140
Additions to:		
Bottles and cases	<b>(1,436,934)</b>	(369,674)
Property, plant and equipment	<b>(522,361)</b>	(735,819)
Decrease in other noncurrent assets	<b>18,657</b>	33,650
Net cash used in investing activities	<b>(1,920,585)</b>	(1,067,703)

*Forward*

		<b>For The Six Months Ended June 30</b>	
	<b>Note</b>	<b>2019</b>	2018
		(Unaudited)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availments of:			
Short-term debt		<b>P5,050,000</b>	P8,150,000
Long-term debt		-	3,500,000
Payments of:			
Short-term debt		<b>(5,000,000)</b>	(10,300,000)
Long-term debt		<b>(362,500)</b>	(250,000)
Interest paid		<b>(212,378)</b>	(107,629)
Cash dividends paid		-	(162,526)
Debt issuance cost		-	(26,250)
Net cash provided (used) by financing activities		<b>(524,878)</b>	803,595
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>(22,635)</b>	46,366
<b>CASH AT BEGINNING OF PERIOD</b>		<b>548,598</b>	498,352
<b>CASH AT END OF PERIOD</b>	<i>11</i>	<b>P525,963</b>	P544,718

*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 Corporation, with a 42.22% 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 Corporation 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, 2018.

##### 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, 2019, management reassessed its estimates in respect of the following:

*Estimating Allowance for Impairment Losses on Receivables*

As at June 30, 2019 and December 31, 2018, allowance for impairment losses on receivables amounted to P251.8 million and P221.9 million, respectively.

*Estimating Net Realizable Value of Inventories*

As at June 30, 2019 and December 31, 2018, inventories amounted to P3.959 billion and P5.040 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-month period ended June 30, 2019, and have been applied in preparing these condensed interim financial information. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Company's condensed interim financial information:

- PFRS 16 *Leases*, introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Company has applied PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under PAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Before January 1, 2019, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether and Arrangement contains a Lease*. Starting from January 1, 2019, the Company assesses whether a contract is or contains a lease based on the new definition of a lease. Under PFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to PFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied PFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under PAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under PFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Company has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

As a lessee

The Company leases land and vehicles which includes cars and trucks.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under PFRS16, the Company recognizes right-of-use assets and lease liabilities for its leases. The carrying amounts of right-of-use assets are as below:

	<b>Total</b>
Balance at January 1, 2019	P556,901
Balance at June 30, 2019	467,344

The Company presents lease liabilities in “Other noncurrent liabilities” in the statements of financial position which amounts to P516.5 million as at June 30, 2019.

*Significant accounting policies*

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Company's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

*Transition*

Previously, the Company classified property leases as operating leases under PAS 17. These include warehouse and factory facilities. The leases typically run for a period of 10 years. Some leases include an option to renew the lease for an additional five years after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

At transition, for leases classified as operating leases under PAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

*Impacts on financial statements*

*Impacts on transition*

On transition to PFRS 16, the Company recognized additional right-of-use-assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

	<b>January 1, 2019</b>
Right-of-use assets	P556,901
Deferred tax asset	9,610
Accrued Rental	38,189
Lease liabilities	(595,090)
Retained earnings	(9,610)

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019.

*Impacts for the period*

As a result of initially applying PFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized P467.34 million of right-of-use assets and P516.54 million of lease liability as at June 30, 2019.

Also in relation to those leases under PFRS 16, the Company has recognized depreciation and interest costs, instead of operating lease expense. During the six months ended June 30, 2019, the Company recognized P89.56 million of amortization charges and P28.05 million of interest costs from these leases.

- *Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments*, clarifies how to apply the recognition and measurement requirements in PAS 12 *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.
  
- *Prepayment Features with Negative Compensation (Amendments to PFRS 9)*. The amendments cover the following areas:
  - *Prepayment features with negative compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.
  
  - *Modification of financial liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e., the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.

If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

- *Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28, Investment in Associates and Joint Ventures)*. The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests (LTIs) that, in substance, form part of the entity's net investment in an associate or joint venture.

The amendment explains the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any prior years' PAS 28 loss absorption. If necessary, prior years' PAS 28 loss allocation is trued-up in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

- *Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits)*. The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

#### 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, 2019, and have not been applied in preparing these condensed interim financial information.

#### *Effective January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:
  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)*. The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
  - (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
  - (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - (d) clarifying the explanatory paragraphs accompanying the definition; and
  - (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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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.

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

Basic EPS is computed as follows:

	<b>For The Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
	(Unaudited)	
Profit (loss) (a)	<b>P446,055</b>	(P48,642)
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>P0.12</b>	(P0.01)

As at June 30, 2019 and 2018, 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, 2018 (Audited)	P18,224,873	P3,868,259	P60,349	P1,246,966	P23,400,447
Additions	188,812	105,960	139	227,450	522,361
Disposals/write- offs/adjustments	(281,020)	-	(195)	-	(281,215)
Transfers/reclassifications	(1,568)	(34,877)	379	36,066	-
<b>June 30, 2019 (Unaudited)</b>	<b>18,131,097</b>	<b>3,939,342</b>	<b>60,672</b>	<b>1,510,482</b>	<b>23,641,593</b>
<b>Accumulated depreciation and amortization</b>					
December 31, 2018 (Audited)	10,491,310	1,050,839	39,078	-	11,581,227
Depreciation and amortization	537,999	55,531	1,767	-	595,297
Disposals/write- offs/adjustments	(271,296)	-	(135)	-	(271,431)
Transfers/reclassifications	(4,521)	4,269	252	-	-
<b>June 30, 2019 (Unaudited)</b>	<b>10,753,492</b>	<b>1,110,639</b>	<b>40,962</b>	<b>-</b>	<b>11,905,093</b>
<b>Carrying Amount</b>					
December 31, 2018 (Audited)	P7,733,563	P2,817,420	P21,271	P1,246,966	P11,819,220
<b>June 30, 2019 (Unaudited)</b>	<b>P7,377,605</b>	<b>P2,828,703</b>	<b>P19,710</b>	<b>P1,510,482</b>	<b>P11,736,500</b>



## 7. Equity

### Share Capital

This account consists of:

	June 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
	Shares	Amount	Shares	Amount
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:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
(a) Debt*	<b>P6,115,217</b>	P6,422,330
(b) Total equity	<b>P9,234,288</b>	P9,159,065
Bank debt to equity ratio (a/b)	<b>0.66:1</b>	0.70:1

\* Pertains to bank debts

### Dividend declaration

The Company's Board of Directors (BOD) approved the declaration of cash dividends amounting to P162.5 million or P0.044 per share on June 20, 2019 to all stockholders on record as of July 16, 2019, payable no later than August 9, 2019.

The Company's Board of Directors (BOD) approved the declaration of cash dividends amounting to P162.5 million or P0.044 per share on April 16, 2018 to all stockholders on record as of April 30, 2018 and was paid on May 25, 2018.

## 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, 2019 and 2018 are as follows:

Category	Nature of Transaction	Note	2019 2018	Amount of Transactions for the Period P - 40,638	Outstanding balance of Due from Related Parties P - -	Terms	Conditions
Stockholder*	Purchases	8a	2019 2018	P - 40,638	P - -		
Associates	Advances	8b, 8c	2019 2018	- -	560,328 574,113	Collectible on demand	Unsecured; no impairment
	Various	8b	2019 2018	10,621 10,621	- -	Collectible on demand	Unsecured; no impairment
					<b>P560,328</b>		
					2018	P574,113	

\* 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:

- The Company purchased finished goods from Lotte Corporation, a major stockholder. Total purchases for the six-month periods ended June 30, 2019 and 2018 amounted to P4.2 million and P56.5 million, respectively.
- The Company leases parcels of land where some of its bottling plants are located. Lease expenses recognized amounted to P14.4 million for the six-month periods ended June 30, 2019 and 2018, 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-month periods ended June 30, 2019 and 2018. The Company also has outstanding net receivables from NRC amounting to P518.5 million and P525.5 million as at June 30, 2019 and December 31, 2018,

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, 2019 and December 31, 2018 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 2019 and Pepsi Lipton International Limited (“Pepsi Lipton”), a joint venture of PepsiCo and Unilever N.V., up to year 2019 (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. Until August 2017 purchases made from PepsiCo is made thru Pepsi-Cola Far East Trade Development Co., Inc. (PCFET), a company incorporated under Philippines laws. Starting September 2017, purchases made from PepsiCo is made mainly thru Concentrate Manufacturing (Singapore) PTE Ltd. (CMSPL). There are no purchases from PCFET for the six-month periods ended June 30, 2019 and 2018, respectively. Total net purchases from CMSPL amounted to 2.79 billion and nil for the six-month periods ended June 30, 2019 and 2018, 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 P6.7 million as at June 30, 2019 and December 31, 2018, respectively. The Company’s outstanding payable to CMSPL (included under “Accounts payable and accrued expenses” account in the statements of financial position) amounted to P1.3 billion and P1.2 billion as at June 30, 2019 and December 31, 2018, respectively. Total purchases from Pepsi Lipton amounted to P11.9 million and P81.6 million for each of the six-month periods ended June 30, 2019 and 2018, 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 P9.6 million and P54.8 million as at June 30, 2019 and December 31, 2018, respectively.

- b. The 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 P312.3 million and P318.2 million for the six-month periods ended June 30, 2019 and 2018, respectively. The Company's outstanding receivable from CMSPL and PCFET included under "Receivables" account in the condensed interim statements of financial position, which are unsecured and are payable on demand, amounted to P200.1 million and P218.4 million as at June 30, 2019 and December 31, 2018, 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 (CMCI), 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, CMCI 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, CMCI 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 CMCI 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 P3.0 million and P40.9 million for the six months ended June 30, 2019 and 2018. Purchases from CMCI is made thru Pepsi-Cola International Cork (Cork), a company incorporated under the laws of Ireland. No marketing expense incurred under this agreement in 2014. Total net purchases from Cork amounted to P14.7 million and P23.0 million for the six-month periods ended June 30, 2019 and 2018, respectively. The Company's outstanding payable to Cork (included under "Accounts payable and accrued expenses" account in the statements of financial position) amounted to P2.6 million and P14.0 million as at June 30, 2018 and December 31, 2018, 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, 2019			
	CSD	NCB	Snacks	Total
<b>Net sales</b>				
External sales	P15,592	P5,233	P50	P20,875
Sales returns and discounts	1,842	607	25	2,474
<b>Net sales</b>	<b>P13,750</b>	<b>P4,626</b>	<b>P25</b>	<b>P18,401</b>
<b>Result</b>				
Segment result*	P2,900	P976	(P40)	P3,836
Unallocated expenses				(3,060)
Interest and financing expenses				(211)
Equity in net earnings of associates				13
Interest income				3
Other income - net				50
Income tax (expense) benefit				(185)
<b>Profit</b>				<b>446</b>
<b>Other information**</b>				
Segment assets				P25,386
Investment in associates				626
Deferred tax assets - net				103
Other noncurrent assets				186
<b>Combined total assets</b>				<b>P26,301</b>
Segment liabilities				P9,983
Loans payable				6,115
Income tax payable				136
Deferred tax liabilities - net				634
<b>Combined total liabilities</b>				<b>P16,868</b>
Capital expenditures				P1,959
Depreciation and amortization of bottles and cases and property, plant and equipment				1,351
Noncash items other than depreciation and amortization				341

(Amounts in millions)	For the Six Months Ended June 30, 2018			
	CSD	NCB	Snacks	Total
Net sales				
External sales	P14,179	P4,699	P123	P19,001
Sales returns and discounts	1,814	586	20	2,420
Net sales	P12,365	P4,113	P103	P16,581
Result				
Segment result*	P2,022	P673	P14	P2,709
Other income - net				(2,815)
Equity in net earnings of associates				(118)
Interest income				9
Unallocated expenses				3
Income tax expense				140
Interest and financing expenses				25
Profit				(47)
Other information**				
Segment assets				P23,406
Investment in associates				605
Deferred tax assets - net				105
Other noncurrent assets				247
Combined total assets				P24,363
Segment liabilities				P8,414
Loans payable				5,923
Income tax payable				24
Deferred tax liabilities - net				767
Combined total liabilities				15,128
Capital expenditures				P903
Depreciation and amortization of bottles and cases and property, plant and equipment				1,320
Noncash items other than depreciation and amortization				12

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 Risk Management

### Classifying Financial Instruments

The Company exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the 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 Company's maximum credit exposure before effect of any collateral and any master netting agreements. The maximum exposure to credit risk is as follows:

	<b>June 30, 2019</b> <b>(Unaudited)</b>	December 31, 2018 (Audited)
Cash in banks	<b>P115,816</b>	P295,510
Receivables - net	<b>2,385,516</b>	2,542,413
Due from related parties	<b>560,328</b>	567,309
<b>Total credit exposure</b>	<b>P3,061,660</b>	P3,405,232

The Company has Plant Credit Committee (PCC) for each of the plant. The PCC has established a credit policy under which each new customer is analyzed individually for creditworthiness before standard credit terms and conditions are granted. The PCC'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 (list of blacklisted customers), 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.

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.



To pursue timely realization of collateral in an orderly manner, the Company's policy discourages the acceptance of chattel and real estate collateral. For chattel and real estate collaterals, the Company created rules governing the acceptance of such guarantees. On instances of customer default, the PCC, with the support of the corporate legal department, is responsible for the foreclosure of collaterals in the form of real and movable personal properties. Series of demand letters are sent to the defaulting customer to command for payment and to propose for debt repayment agreements. If the customer fails to cooperate, the case will be endorsed to the legal department to facilitate the foreclosure of the collateral. The Company generally does not use non-cash collateral for its own operations.

The aging on analysis per class of financial assets is as follows:

### **June 30, 2019**

	Neither past due nor impaired	Past due			Impaired	Total
		1 to 30 days	31 to 60 days	More than 60 days		
Cash in banks	P115,816	P -	P -	P -	P -	P115,816
Receivables:						
Trade	1,299,344	374,325	68,686	35,000	169,564	1,946,920
Others	355,734	9,065	112,312	131,050	82,250	690,411
Due from related parties	560,328	-	-	-	-	560,328
	<b>2,331,222</b>	<b>383,390</b>	<b>180,998</b>	<b>166,050</b>	<b>251,814</b>	<b>3,313,475</b>
Less allowance for impairment losses	-	-	-	-	251,814	251,814
	<b>P2,331,222</b>	<b>P383,390</b>	<b>P180,998</b>	<b>P166,050</b>	<b>P -</b>	<b>P3,061,661</b>

### **December 31, 2018**

	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	P295,510	P -	P -	P -	P -	P295,510
Receivables:						
Trade	1,320,925	432,973	62,442	83,270	150,392	2,050,002
Others	481,056	9,312	27,902	124,533	71,541	714,344
Due from related parties	567,309	-	-	-	-	567,309
	<b>2,664,800</b>	<b>442,285</b>	<b>90,344</b>	<b>207,803</b>	<b>221,933</b>	<b>3,627,165</b>
Less allowance for impairment losses	-	-	-	-	221,933	221,933
	<b>P2,664,800</b>	<b>P442,285</b>	<b>P90,344</b>	<b>P207,803</b>	<b>P -</b>	<b>P3,405,232</b>

As at June 30, 2019 and December 31, 2018, the Company has an allowance for impairment loss amounting to P251.8 million and P221.9 million, respectively, relating to its 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.

*Expected credit loss assessment as at June 30, 2019*

*Trade and other receivables*

The Company allocates each exposure to a credit risk based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying expected credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Exposures within each credit risk grade are segmented by market or customer type and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience

Loss rates are based on actual credit loss experience over three years considering circumstances at the reporting date. Any adjustment to the loss rates for forecasts of future economic conditions are not expected to be material. The Company applies the simplified approach in providing for expected credit losses prescribed by PFRS 9, which permits the use of the lifetime expected loss provision and applies a provision matrix. The application of the expected loss rates to the receivables of the Company does not have a material impact on the financial statements.

The maturity of the Company's trade and other receivables is less than one year, which implies that the lifetime expected credit losses and the 12-month expected credit losses are similar.

*Cash in banks*

The Company held cash in banks amounting to P115.8 million and 295.5 million as at June 30, 2019 and December 31, 2018, respectively. The cash in banks is deposited in local banks, which is rated as high grade.

Impairment on cash in banks has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash in banks have low credit risk based on the external credit ratings of the counterparties and any ECL is expected to be immaterial.

*Due from related parties*

The Company has due from related parties amounting to P560.3 million and P567.3 million as at June 30, 2019 and December 31, 2018, respectively. Due from related parties consists of receivables from counterparties that have a very remote likelihood of default because there is no known significant financial difficulty of the counterparties and no probability that the counterparties will enter bankruptcy based from the available financial information.

Impairment on due from related parties has been measured on a 12-month expected credit loss basis and reflects the short maturities of the exposures. The Company considers that its due from related parties has low credit risk based on the external credit ratings of the counterparties and any ECL is expected to be immaterial.

#### 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 in operations. 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, 2019 and December 31, 2018 under the line of credit is P16.4 billion and P16.85 billion, of which the Company had drawn P6.1 billion and P6.7 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
- P1.5 billion domestic bills purchased line, which are available as at June 30, 2019 and December 31, 2018.

#### *Exposure to Liquidity Risk*

The table summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted amount, including estimated interest payments and excluding the impact of any netting arrangements:

	As at June 30, 2019 (Unaudited)			
	Carrying Amount	Contractual Cash Flow	One year or less	More than one year
<b>Financial liabilities:</b>				
Short-term debt	P1,050,000	P1,057,024	P1,057,024	P -
Accounts payable and accrued expenses*	8,975,771	8,975,771	8,975,771	-
Long-term debt	5,026,571	5,673,409	1,294,176	4,379,232
	<b>P15,052,342</b>	<b>P15,706,204</b>	<b>P11,326,971</b>	<b>P4,379,232</b>

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

	As at December 31, 2018			
	Carrying Amount	Contractual Cash Flow	One Year or Less	More than One Year
<b>Financial Liabilities</b>				
Short-term debt	P1,000,000	P1,004,833	P1,004,833	P -
Accounts payable and accrued expenses *	8,922,129	8,922,129	8,922,129	-
Long-term debt	5,422,329	6,210,803	1,061,200	5,149,603
	<b>P15,344,458</b>	<b>P16,137,765</b>	<b>P10,988,162</b>	<b>P5,149,603</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 P8.0 billion and P9.7 billion as at June 30, 2019 and December 31, 2018, 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, 2019 and December 31, 2018.

### 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, 2019 and December 31, 2018 is as follows:

<b>June 30, 2019</b>	<b>Gross Amount</b>	<b>Amount Offset</b>	<b>Net Amount</b>
Due from related parties	<b>P782,892</b>	<b>(P222,564)</b>	<b>P560,328</b>
<hr/>			
December 31, 2018	Gross Amount	Amount Offset	Net Amount
Due from related parties	P779,995	(P212,686)	P567,309

### 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**

Volume recovery strongly aided by favorable product mix and pricing delivered Net Sales of P10.1 billion in Q2 2019, growing 7% from prior year. Sustained recovery enabled double digit growth in Net Sales to P18.4 billion in the first half of 2019, a year after the implementation of excise tax on Sugar Sweetened Beverages.

Topline growth drivers of favorable product mix and pricing flowed through Gross Profit and contributed to gross margin expansion of 415 bps in Q2 2019. Coupled with cost efficiencies and productivity initiatives in Operations, the company posted an Operating Profit of P576 million in the 2nd Quarter and P777 million in the First Half of 2019, a turnaround from the net loss position in the same period last year.

2019 to-date, Net Income stands at P446 million.

### **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 decreased by P307 million in comparison with December 31, 2018 balance.

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

1. Decrease in total current assets by 11% due to decreases in cash and cash equivalent by P23 million, net receivable by P157 million, inventories by P1.1 billion, due from related parties by P7 million and increase in prepaid expenses and other current assets by P251 million.
2. Increase in total noncurrent assets by 7% due to increases in investment in associates by P13 million, bottles and cases – net by P778 million, right of use assets by P467 million, and decreases in property, plant and equipment – net by P83 million, deferred tax assets by P13 million, and other noncurrent assets by P19 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 P1,959 million and P1,105 million for the six months ended June 30, 2019 and 2018, 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 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, 2019	December 31, 2018
Current ratio	Current assets over current liabilities	0.7 : 1	0.8 : 1
Solvency ratio	Net income plus depreciation and amortization over total liabilities	0.1 : 1	0.1 : 1
Bank debt-to-equity ratio	Bank debt over total equity	0.7 : 1	0.7 : 1
Asset-to-equity ratio	Total assets over equity	2.8 : 1	2.9 : 1

		For the six months ended June 30		For the three months ended June 30	
		2019	2018	2019	2018
Gross sales		P20.9 billion	P19.0 billion	P11.5 billion	P10.8 billion
Gross profit margin	Gross profit over net sales	21.0%	16.3%	21.3%	17.2%
Operating margin	Operating income over net sales	4.2%	-0.6%	5.7%	1.2%
Net profit margin	Net profit over net sales	2.4%	-0.3%	3.7%	1.0%
Interest rate coverage ratio	Earnings before interest and taxes over interest expense	4.0:1	0.4:1	6.3:1	3.0:1



## 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:



**KHALED MAHMOUD MAHMOUD METWALLI**

Senior Vice-President,  
Chief Financial Officer and  
Chief Audit Executive

Date: August 14, 2019