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)

Agustin S. Sarmiento	(632) 887-37-74
Contact Person	**Company Telephone Number**

0 3	3 1	SEC Form 17-Q	Last Friday of May
Month	**Day**	**FORM TYPE**	**Month Date**
Calendar Year			**Annual Meeting**

Secondary License Type, If Applicable

M	S	R	D

Dept. Requiring this Doc.

Amended Article Number/Section

Total Amount of Borrowings

579	Php7.2Billion	
Total No. of Stockholders	**Domestic**	**Foreign**

To be accomplished by SEC Personnel concerned

File Number **LCU**

Document I.D. **Cashier**

Remarks = pls. Use black ink for scanning purposes

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 **March 31, 2020**

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
Common Shares of Stock	

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

Yes [X] 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 [X] No [ ]

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

Yes [X] No [ ]

Part 1 – Financial Information

Item 1. Financial Statements.

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

	Note	March 31 2020 (Unaudited)	December 31 2019 (Audited)
ASSETS			
Current Assets			
Cash	*11*	**P967,499**	P711,895
Receivables - net	*9, 11*	**2,427,553**	2,823,843
Inventories – net		**4,335,291**	3,915,506
Due from related parties	*8, 11*	**487,666**	552,990
Prepaid expenses and other current assets		**975,005**	618,693
		9,193,014	8,622,927
Assets held for sale		**126,428**	126,428
Total Current Assets		**9,319,442**	8,749,355
Noncurrent Assets			
Investments in associates		**642,239**	635,384
Bottles and cases - net		**4,670,646**	4,669,755
Property, plant and equipment - net	*6*	**10,631,183**	11,162,438
Right-of-use asset		**339,874**	422,948
Intangible assets		**264,053**	264,053
Deferred tax assets – net		**102,354**	102,354
Other noncurrent assets		**207,891**	218,519
Total Noncurrent Assets		**16,858,240**	17,475,451
		P26,177,682	P26,224,806
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*9, 11*	**P8,153,680**	P8,733,614
Short-term debt	*11*	**1,687,500**	1,250,000
Current portion of long-term debt		**1,042,091**	1,494,541
Total Current Liabilities		**10,883,271**	11,478,155
Noncurrent Liabilities			
Long-term debt - net of current portion	*11*	**4,496,993**	4,142,877
Deferred tax liabilities – net		**560,378**	560,378
Other noncurrent liabilities	*3*	**1,256,918**	900,886
Total Noncurrent Liabilities		**6,314,289**	5,604,141
Total Liabilities		**17,197,560**	17,082,296

Forward

	Note	March 31 2020 (Unaudited)	December 31 2019 (Audited)
Equity			
Share capital	*7*	**P1,751,435**	P1,751,435
Remeasurement losses on net defined benefit liability		**(338,224)**	(338,224)
Retained earnings		**7,566,911**	7,729,299
Total Equity		**8,980,122**	9,142,510
		P26,177,682	P26,224,806

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)

		For The Three Months Ended March 31	
	Note	**2020** (Unaudited)	2019
GROSS SALES	*10*	**P8,785,451**	P9,372,153
Less sales returns and discounts	*10*	**1,084,336**	1,084,100
NET SALES	*10*	**7,701,115**	8,288,053
COST OF GOODS SOLD		**6,436,753**	6,586,827
GROSS PROFIT		**1,264,362**	1,701,226
OPERATING EXPENSES		**1,442,081**	1,499,584
PROFIT (LOSS) FROM OPERATIONS		**(177,719)**	201,642
NET FINANCE AND OTHER INCOME (EXPENSES) – Net		**(69,890)**	(102,890)
PROFIT (LOSS) BEFORE TAX		**(247,609)**	98,752
INCOME TAX EXPENSE (BENEFIT)		**(85,221)**	27,657
PROFIT (LOSS) / TOTAL COMPREHENSIVE INCOME (LOSS)		**(P162,388)**	P71,095
Basic/Diluted Earnings (Loss) Per Share	*5*	**(P0.04)**	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)

For The Three Months Ended March 31
(Unaudited)

		Share Capital					
	Note	Capital Stock (see Note 7)	Additional Paid-In Capital	Total	Remeasurement Losses on Net Defined Benefit Liability	Retained Earnings	Total Equity
As at January 1, 2020		P554,066	P1,197,369	P1,751,435	(P338,224)	P7,729,299	P9,142,510
Total comprehensive income							
Loss		-	-	-	-	(162,388)	(162,388)
As at March 31, 2020		**P554,066**	**P1,197,369**	**P1,751,435**	**(P338,224)**	**P7,566,911**	**P8,980,122**
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		-	-	-	-	(9,609)	(9,609)
As at January 1, 2019		P554,066	P1,197,369	P1,751,435	(P195,079)	P7,593,100	9,149,456
Total comprehensive Income							
Profit		-	-	-	-	71,095	71,095
As at March 31, 2019		P554,066	P1,197,369	P1,751,435	(P195,079)	P7,664,195	P9,220,551

See Notes to the Condensed Interim Financial Information.

PEPSI-COLA PRODUCTS PHILIPPINES, INC.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

		For The Three Months Ended March 31	
	Note	**2020**	2019
		(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (Loss) before tax		**(P247,609)**	P98,753
Adjustments for:			
Depreciation and amortization		**685,995**	678,987
Interest expense		**82,726**	110,085
Retirement cost		**29,582**	27,007
Impairment losses (reversal of impairment losses) on receivables, inventories, bottles and cases, machinery and equipment and others		**10,111**	62,439
Loss on sale of property and equipment		**334**	3,613
Equity in net earnings of associates		**(6,855)**	(6,404)
Interest income		**(1,189)**	(1,223)
Operating profit before working capital changes		**553,095**	973,257
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables		**384,696**	400,980
Due from related parties		**65,324**	4,155
Inventories		**(427,487)**	347,027
Prepaid expenses and other current assets		**(185,871)**	(118,730)
Increase (decrease) in accounts payable and accrued expenses		**1,198,208**	(1,348,979)
Cash generated from (absorbed by) operations		**1,587,965**	257,710
Interest received		**6,332**	1,208
Income taxes paid		**(85,221)**	(7,335)
Contribution to plan assets		**-**	(8,069)
Retirement benefits directly paid by the Company		**-**	(3,251)
Net cash provided by (used in) operating activities		**1,509,076**	240,263
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		**539**	660
Additions to:			
Property, plant and equipment	*6*	**(1,081,916)**	(223,290)
Bottles and cases		**(347,222)**	(460,870)
Decrease in other noncurrent assets		**10,628**	18,534
Net cash used in investing activities		**(1,417,971)**	(674,966)

Forward

	Note	For The Three Months Ended March 31 2020	2019
		(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availments of:			
Short-term debt		**P437,500**	P3,200,000
Long-term debt		**526**	-
Payments of:			
Short-term debt		**-**	(2,550,000)
Long-term debt		**(98,385)**	(150,000)
Principal payments of lease liability		**(87,377)**	-
Interest paid		**(86,765)**	(92,248)
Net cash provided by financing activities		**164,499**	407,752
NET DECREASE IN CASH		**255,604**	(26,951)
CASH AT BEGINNING OF PERIOD		**711,895**	548,598
CASH AT END OF PERIOD	*11*	**P967,499**	P521,647

See Notes to the Condensed Interim Financial Information.

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.

On December 11, 2019, the Company received a Tender Offer Report from Lotte Chilsung Beverage Co. Ltd. to acquire up to 2,134,381,838 common shares of the Company through a tender offer to all shareholders other than Lotte Corporation and the members of the BOD with respect to their qualifying common shares and the officers of the Company.

On June 17, 2020, Lotte Chilsung Beverage Co. Ltd has competed its tender offer which effectively increase its ownership to the Company by 30.7%

2. Basis of Preparation

<u>Statement of Compliance</u>
These condensed interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting.* These interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRSs) and should be read in conjunction with the annual financial statements of the Company as at December 31, 2019.

<u>Basis of Measurement</u>
These condensed interim financial statements 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.

<u>Functional and Presentation Currency</u>
These condensed interim financial statements 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 three months ended March 31, 2020, management reassessed its estimates in respect of the following:

Estimating Allowance for Impairment Losses on Receivables
As at March 31, 2020 and December 31, 2019, allowance for impairment losses on receivables amounted to P247.2 million and P249.4 million, respectively.

Estimating Net Realizable Value of Inventories
As at March 31, 2020 and December 31, 2019, inventories amounted to P4.335 billion and P3.916 billion, respectively.

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 three-month period ended March 31, 2020, and have been applied in preparing these condensed interim financial statements. 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:

- *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.

- *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.

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:

	For The Three Months Ended March 31	
	2020 (Unaudited)	2019
Profit (loss) (a)	**(P162,388)**	P71,095
Issued shares at the beginning of the year/weighted average number of shares outstanding (b)	**3,693,772,279**	3,693,772,279
Basic/Diluted EPS (a/b)	**(P0.04)**	P0.02

As at March 31, 2020 and 2019, the Company has no dilutive equity instruments.

6. Property, Plant and Equipment

The movements in this account are as follows:

	Machinery and Other Equipment	Buildings and Leasehold Improvements	Furniture and Fixtures	Construction in Progress	Total
Gross carrying amount					
December 31, 2019 (Audited)	P17,945,299	P3,990,593	P54,771	P1,597,244	P23,587,907
Additions	524,545	843,857	4,177	(290,663)	1,081,916
Disposals/write-offs/adjustments	(20,108)	-	(2,270)	-	(22,378)
Transfers/reclassifications	2,106,646	463,440	29,798	(1,361)	2,598,523
March 31, 2020 (Unaudited)	**20,556,382**	**5,297,890**	**86,476**	**1,305,220**	**27,245,968**
Accumulated depreciation and amortization					
December 31, 2019 (Audited)	11,205,424	1,179,484	40,561	-	12,425,469
Depreciation and amortization	279,013	41,250	452	-	320,715
Disposals/write-offs/adjustments	(19,236)	-	(2,269)	-	(21,505)
Transfers/reclassifications	3,483,871	383,026	23,209	-	3,890,106
March 31, 2020(Unaudited)	**14,949,072**	**1,603,760**	**61,953**	**-**	**16,614,785**
Carrying Amount					
December 31, 2019 (Audited)	P6,739,875	P2,811,109	P14,210	P1,597,244	P11,162,438
March 31, 2020 (Unaudited)	**P5,607,310**	**P3,694,130**	**P24,523**	**P1,305,220**	**P10,631,183**

7. Equity

Share Capital

This account consists of:

	March 31, 2020 (Unaudited)		December 31, 2019 (Audited)	
	Shares	**Amount**	Shares	Amount
Authorized - P0.15 par value per share	**5,000,000,000**	**P750,000**	5,000,000,000	P750,000
Issued, fully paid and outstanding balance at beginning/end of period	**3,693,772,279**	**P554,066**	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:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
(a) Debt*	**P7,226,584**	P6,887,418
(b) Total equity	**P8,980,122**	P9,142,510
Bank debt to equity ratio (a/b)	**0.80:1**	0.75:1

* Pertains to bank debts

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 March 31, 2020 and 2019 are as follows:

Category	Nature of Transaction	***Note***		Amount of Transactions for the Period	Outstanding balance of Due from Related Parties	Terms	Conditions
Stockholder*	Purchases	*8a*	**2020**	**P -**	**P -**		
			2019	4,166	-		
Associates	Advances	*8b, 8c*	**2020**	**-**	**487,666**	**Collectible on demand**	**Unsecured; no impairment**
			2019	-	552,990	Collectible on demand	Unsecured; no impairment
	Various	*8b*	**2020**	**-**	**-**		
			2019	3,397	-		
			2020		**P487,666**		
			2019		P552,990		

**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 the three-month periods ended March 31, 2020 and 2019 amounted to nil and P4.2 million, respectively.

b. The Company leases parcels of land where some of its bottling plants are located. Lease expenses recognized amounted to P7.2 million for the three-month periods ended March 31, 2020 and 2019, 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 P1.0 million each for the three-month periods ended March 31, 2020 and 2019. The Company also has outstanding net receivables from NRC amounting to P723.8 million and P511.2 million as at March 31, 2020 and December 31, 2019, 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 and P3.8 million as at March 31, 2020 and December 31, 2019 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.

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 three-month periods ended March 31, 2020 and 2019, respectively. Total net purchases from CMSPL amounted to P736.9 million and P604.1million for the three-month periods ended March 31, 2020 and 2019, 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 as at March 31, 2020 and December 31, 2019, respectively. The Company’s outstanding payable to CMSPL (included under “Accounts payable and accrued expenses” account in the statements of financial position) amounted to P1.4 billion and P1.7 billion as at March 31, 2020 and December 31, 2019, respectively. Total purchases from Pepsi Lipton amounted to nil for each of the three-month periods ended March 31, 2020 and 2019, 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 and P12.6 million and P24.7 million as at March 31, 2020 and December 31, 2019, 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 P130.4 million and P181.9 million for the three-month periods ended March 31, 2020 and 2019, 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 P173.9 million and P512.8 million as at March 31, 2020 and December 31, 2019, 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.

   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 P1.7 million and P2.8 million for the three months ended March 31, 2020 and 2019, respectively. Purchases from CMCI is made thru Pepsi-Cola International Cork (Cork), a company incorporated under the laws of Ireland. Total net purchases from Cork amounted to P million and P12.0 million for the three-month periods ended March 31, 2020 and 2019, respectively. The Company's outstanding payable to Cork (included under "Accounts payable and accrued expenses" account in the statements of financial position) amounted to nil as at March 31, 2020 and December 31, 2019, 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):

	For the Three Months Ended March 31, 2020			
(Amounts in millions)	**CSD**	**NCB**	**Snacks**	**Total**
Net sales				
External sales	**P7,149**	**P1,633**	**P3**	**P8,785**
Sales returns and discounts	**834**	**250**	**-**	**1,084**
Net sales	**P6,315**	**P1,383**	**P3**	**P7,701**
Result				
Segment result*	**P1,035**	**P227**	**P3**	**P 1,265**
Unallocated expenses				**(1,433)**
Interest and financing expenses				**(83)**
Equity in net earnings of associates				**7**
Interest income				**1**
Income tax expense				**85**
Profit				**(P162)**
Other information**				
Segment assets				**P24,886**
Investment in associates				**642**
Right of use asset				**340**
Deferred tax assets - net				**102**
Other noncurrent assets				**208**
Combined total assets				**P26,178**
Segment liabilities				**P8,414**
Loans payable				**7,224**
Deferred tax liabilities - net				**560**
Combined total liabilities				**P17,198**
Capital expenditures				**P1,429**
Depreciation and amortization of bottles and cases and property, plant and equipment				**686**
Noncash items other than depreciation and amortization				**10**

(Amounts in millions)	For the Three Months Ended March 31, 2019 CSD	NCB	Snacks	Total
Net sales				
External sales	P6,954	P2,396	P22	P9,372
Sales returns and discounts	812	267	5	1,084
Net sales	P6,142	P2,129	P17	P8,288
Result				
Segment result*	P1,271	P440	(P10)	P1,701
Other income - net				-
Equity in net earnings of associates				6
Interest income				1
Unallocated expenses				(1,499)
Income tax expense				(28)
Interest and financing expenses				(110)
Profit				P71
Other information**				
Segment assets				P24,577
Investment in associates				619
Right of use Asset				510
Deferred tax assets - net				102
Other noncurrent assets				186
Combined total assets				P25,994
Segment liabilities				P9,128
Loans payable				6,925
Income tax payable				88
Deferred tax liabilities - net				633
Combined total liabilities				P16,774
Capital expenditures				P694
Depreciation and amortization of bottles and cases and property, plant and equipment				679
Noncash items other than depreciation and amortization				62

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.

11. Financial Instruments and 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.

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:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash in banks	**P778,696**	P379,379
Receivables - net	**2,427,553**	2,823,843
Due from related parties	**487,666**	552,990
Total credit exposure	**P3,693,915**	P3,756,212

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, denied and absconded credit accounts. Receivables from these customers are considered by the Company to be impaired.

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:

March 31, 2020

	Neither past due nor impaired	**Past due**				
		1 to 30 days	**31 to 60 days**	**More than 60 days**	**Impaired**	**Total**
Cash in banks	**P778,696**	**P -**	**P -**	**P -**	**P -**	**P778,696**
Receivables:						
Trade	**828,629**	**497,039**	**80,313**	**149,859**	**167,143**	**1,722,983**
Others	**464,004**	**4,871**	**(22,688)**	**425,526**	**80,047**	**951,760**
Due from related parties	**487,666**					**487,666**
	2,558,995	**501,910**	**57,625**	**575,385**	**247,190**	**3,941,105**
Less allowance for impairment losses	**-**	**-**	**-**	**-**	**247,190**	**247,190**
	P2,558,995	**P501,910**	**P57,625**	**P575,385**	**P -**	**P3,693,915**

December 31, 2019

	Neither Past Due nor Impaired	Past Due but not Impaired				
		1 to 30 Days	31 to 60 Days	More than 60 Days	Impaired	Total
Cash in banks	P379,379	P -	P -	P -	P -	P379,379
Receivables:						
Trade	1,230,369	559,641	76,420	114,270	158,270	2,138,970
Others	649,897	57,681	(28,913)	164,478	91,160	934,303
Due from related parties	552,990	-	-	-	-	552,990
	2,812,635	617,322	47,507	P278,748	249,430	4,005,642
Less allowance for impairment losses	-	-	-	-	249,430	249,430
	P2,812,635	P617,322	P47,507	P278,748	P -	3,756,212

As at March 31, 2020 and December 31, 2019, the Company has an allowance for impairment loss amounting to P247.2 million and P249.4 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

Trade and other receivables
The Company allocates each exposure to a credit risk based on data that is determined to 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 P778.7 million and P379.4 million as at March 31, 2020 and December 31, 2019, 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 P487.7 million and P553.0 million as at March 31, 2020 and December 31, 2019, 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 March 31, 2020 and December 31, 2019 under the line of credit is P15.05 billion and P15.2 billion, of which the Company had drawn P7.3 billion and P6.9 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

- P1.4 billion and P1.4 billion domestic bills purchased line, which are available as at March 31, 2020 and December 31, 2019, respectively.

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 March 31, 2020 (Unaudited)			
	Carrying Amount	**Contractual Cash Flow**	**One year or less**	**More than one year**
Financial liabilities:				
Short-term debt	**P1,687,500**	**P1,693,069**	**P1,693,069**	**P**
Accounts payable and accrued expenses*	**7,667,294**	**7,667,294**	**7,667,294**	
Long-term debt	**5,539,084**	**6,334,117**	**1,766,522**	**4,567,595**
	P14,893,878	**P15,694,480**	**P11,126,885**	**P4,567,595**

*Excluding statutory payables and defined benefit liability.

	As at December 31, 2019			
	Carrying Amount	Contractual Cash Flow	One Year or Less	More than One Year
Financial Liabilities				
Short-term debt	P1,250,000	P1,258,757	P1,258,757	P -
Accounts payable and accrued expenses *	8,223,694	8,223,694	8,223,694	-
Long-term debt	5,367,418	6,334,117	1,766,522	4,567,595
	P15,111,112	P15,816,568	P11,248,973	P4,567,595

*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 financials 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 P8.3 billion and P8.1 billion as at March 31, 2020 and December 31, 2019, 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.

Exposure to 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 March 31, 2020 and December 31, 2019.

<u>Fair Values</u>
The carrying amounts of the financial assets and liabilities, which include cash, receivables, due from related parties, short-term debt and accounts payable and accrued expenses, reasonably approximate fair values due to the short-term nature of these financial instruments.

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

Results of Operations

Q1 Net Sales declined 7% to P7.7 billion mainly driven by the government's imposition of the Enhanced Community Quarantine (ECQ) in mid-March in response to the Covid-19 pandemic. The decline in sales owing to limitation of people movement during ECQ saw March Net Sales drop 31% breaking the volume momentum of previous months which, until February was growing double-digit. Consequently, this impacted Q1 profitability and the business registered a net loss of P162 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 increased by P339 million in comparison with December 31, 2019 balance.

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

1. Increase in total current assets by P570 million or 7% is due to increase of cash by P255 million, inventories by P420 million and prepaid and other current assets by P356 million and decrease in receivables by P396 million and due from related parties by P65 million.

2. Decrease in total current liabilities by P594 million or 5% due to decreases in accounts payable and accrued expenses by P580 million, current portion of long-term debt by P452 million, and increases in short-term debt by P438 million.

3. Increase in total non-current liabilities by 13% due to increases in long-term debt - net of current portion by P354 million and other noncurrent liabilities by P356 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 P1.42 billion and P694 million for the three months ended March 31, 2020 and 2019, 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.

		March 31, 2020	December 31, 2019
Current ratio	Current assets over current liabilities	0.9 : 1	0.8 : 1
Solvency ratio	Net income plus depreciation and amortization over total liabilities	0.03 : 1	0.2 : 1
Bank debt-to-equity ratio	Bank debt over total equity	0.8 : 1	0.8 : 1
Asset-to-equity ratio	Total assets over equity	2.9 : 1	2.9 : 1

		For the three months ended March 31	
		2020	2019
Gross sales		P 8.8 billion	P9.4 billion
Gross profit margin	Gross profit over net sales	16.4%	20.5%
Operating margin	Operating income over net sales	-2.3%	2.4%
Net profit margin	Net profit over net sales	-2.1%	0.9%
Interest rate coverage ratio	Earnings before interest and taxes over interest expense	2.0:1	1.9:1

SIGNATURES

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

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

By:

AGUSTIN S. SARMIENTO
Assistant Vice-President - Tax & Reporting
and Chief Risk Officer

Date: June 30, 2020