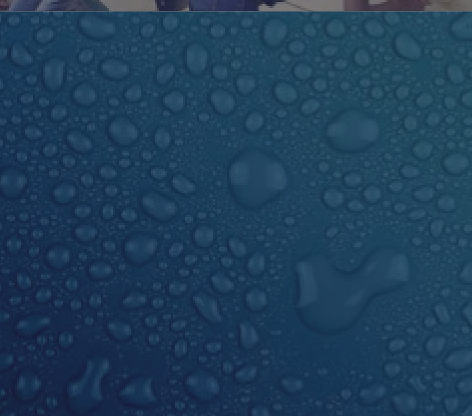
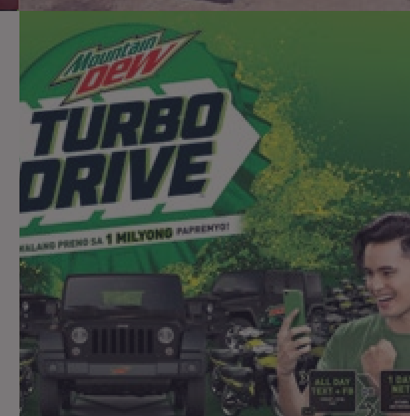
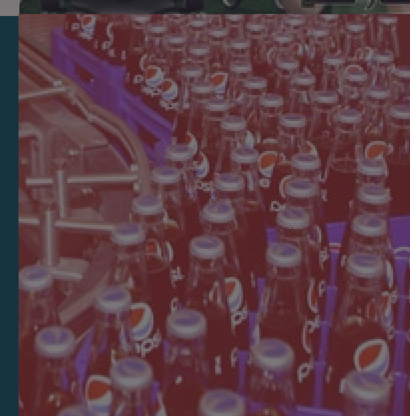
PCPPI

WIN as one!



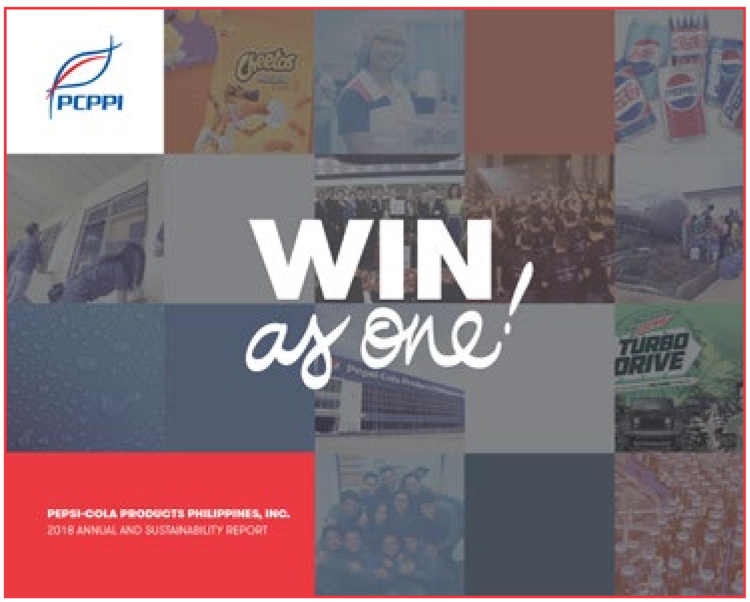




PEPSI-COLA PRODUCTS PHILIPPINES, INC.

2018 ANNUAL AND SUSTAINABILITY REPORT

about the cover



PCPPI trusts that we will succeed by working as a team. This philosophy applies to our economic, environmental, social, and governance (EESG) goals. Though there were challenges in the past and likely more to come, we know from experience that working together to overcome any hurdle will make us stronger. Each PCPPI team player adds value, and when we win, we win as one.

about this report

REPORTING FRAMEWORK	REPORTING PERIOD
Sustainability Reporting Guidelines for Publicly Listed Companies	Jan to Dec 2018
DATE OF MOST RECENT REPORT	**REPORTING CYCLE**
May 2017	Annual

Though Pepsi-Cola Products Philippines, Inc. (PCPPI) has long published Annual Reports, "Win as One" is our first Annual and Sustainability Report. The scope of the report covers our operations in all our plants and offices, nationwide. It is structured in compliance with the Sustainability Reporting Guidelines for Publicly Listed Companies of the Securities and Exchange Commission (SEC) .

We follow the good example set by PepsiCo, Inc., which started sustainability reporting in 2016 to mark their progress on the group's Performance with a Purpose 2025 Agenda. For some time now, we at PCPPI have also been focused on local initiatives that would redound to our long-term growth and sustainability. This inaugural report marks the next level in our disciplined approach toward triple bottom-line performance.

"Win as One" serves both as a playbook and a scorecard, as we outline our policies and strategies at PCPPI, and at the same time monitor and evaluate how we implement them in our day-to-day practices, in pursuit of our goal to become a more profitable and sustainable company.

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this is us

Pepsi-Cola Products Philippines Inc. (PCPPI) is the **exclusive manufacturer** of PepsiCo food and beverage products in the Philippines, with a relationship spanning for **more than 70 years**.

Pepsi has operated since **1946** in the country. In 1989, we were named Pepsi-Cola Products Philippines Inc. (PCPPI). 2018 marks our **10th year as a listed company** in the Philippine Stock Exchange. We are co-managed by our two biggest shareholders:

- Lotte Chilsung Beverage Company Ltd., with a 42.45% stake, and
- PepsiCo (Quaker Global Investments B.V.), with a 25% stake.

OUR BRAND PORTFOLIO INCLUDES:

carbonated drinks

1. pepsi
2. mountain dew
3. 7up
4. mirinda
5. mug
6. milkis

non-carbonated drinks

7. gatorade
8. sting
9. tropicana
10. lipton
11. aquafina
12. premier

snack

13. cheetos

We are the 2nd PepsiCo snacks franchisee in the world.

plants

We employ
3,290 individuals,
primarily working
at **13 manufacturing plants**
across the country:

1 **TUNASAN**
Muntinlupa
2 **STO. TOMAS**
Batangas
3 **ROSARIO**
La Union
4 **CABUYAO**
Laguna
5 **SAN FERNANDO**
Pampanga
6 **NAGA CITY**
Camarines Sur
7 **MINGLANILLA**
Cebu
8 **TANAUAN**
Leyte
9 **MANDALAGAN**
Bacolod
10 **SAN MIGUEL**
Iloilo
11 **TALOMO DISTRICT**
Davao
12 **TIN-AO AGUSAN**
Cagayan de Oro
13 **CULIANAN**
Zamboanga

...to serve the needs of
more than **700,000** retail
and distribution
outlets nationwide.

what we believe

Our VISION is to be the **premier food and beverage company** in the Philippines.

Our MISSION, as a responsible company, is stated thus:

- We will continue to market **a portfolio of international and homegrown branded quality products** at **prices that provide good value** to our consumers in key food and beverage companies.
- We are committed to expand the business and **provide healthy financial returns** to our shareholders, and **opportunities for growth and enrichment** of our employees, business partners and the communities where we operate.

The consistency of our performance is anchored on our VALUES:

We believe in synergy, and so we partner with industry peers in the following associations:

- American Chamber of Commerce of the Philippines (AmCham)
- Association of Safety Practitioners of the Philippines, Inc. (ASPPI)
- Beverage Industry Association of the Philippines (BIAP)
- European Chamber of Commerce of the Philippines (ECCP)
- International Association of Business Communicators (IABC)
- Management Association of the Philippines (MAP)
- Philippine Alliance for Recycling and Materials Sustainability (PARMS)
- People Management Association of the Philippines (PMAP)
- Philippine Chamber of Commerce, Inc. (PCCI)
- Philippine Disaster Resilience Foundation (PDRF)
- Pollution Control Association of the Philippines (PCAPI)
- Procurement and Supply Institute of Asia (PSIA)
- Public Relations Society of the Philippines (PRSP)

AWARDS AND RECOGNITIONS

PCPPI is committed to the sustainability mission of doing business without compromising the environment and the community where we operate. While we do not work for the accolades,
we are nonetheless heartened by the following recognitions received in 2018:

By the Team

PCPPI received a **Commendation** from the Department of Energy in recognition rites held at Mindanao State University-Marawi for initiatives that helped reinstall electricity to several communities in Marawi City.

The company was also honored by the City of Muntinlupa and the Department of Education in the **Gawad Pampahalaga** for participating in the Brigada Eskwela 2018.

Finally, PCPPI also received a **Gold Reward** from the South Korean government at the 2018 Corporate Social Responsibility Awards for Korean Companies in the Philippines. The award highlights South Korean companies' CSR initiatives that aid in fostering stronger ties between South Korea and the Philippines.

By Valued Team Players

Zamboanga plant received three major awards from the Department of Labor and Employment during the 2nd Industry Tripartite Councils Summit, namely:

- Most Outstanding Company with **Zero Accident**
- Most Outstanding Company for **Regularly Submitting Occupational Safety and Health (OSH) Reports**
- Most Outstanding **Unionized Company for Sustainable Livelihood Program**

San Fernando plant was recognized by the local government of San Fernando City as the **Healthiest Workplace** for promoting the health, safety, and welfare of Fernandinos under the City Health Promotions Program.

Modern Trade Unit won **three Excellence Awards** from 7-Eleven, and was nominated for **Best Supplier** by Robinson's Supermarket and Ministop.


year in review

2018 proved a good year for strategic plays that resulted in big wins.

Php 38.4 billion
gross sales

Php 5.7 billion
gross profit

Php 2 billion
CAPEX

Php 2.5 billion
EBITDA

Php 23 million
cost savings from packaging innovations

Php 108 million
savings in power cost due to internal and supplier energy initiatives

approximately 10 million safe man-hours
across our plants, nationwide

zero accidents
in 7 out of 13 plants:
Southern Tagalog Region Operations, Naga, Rosario, Cebu, Iloilo, Zamboanga, and Cabuyao

37 hours
average training hours per employee

1,776 hours
of community service rendered by 437 employees

FROM 2017-2018

10.7% reduction
in water consumption

11.3% improvement
in electricity yield

12.9% improvement
in fuel yield

14% improvement
in recycling

38.3 MT
less plastic resin
due to packaging innovations

ECONOMIC VALUE GENERATED
in Php billion

NET SALES	**33.6**

ECONOMIC VALUE DISTRIBUTED
in Php billion

OPERATING COSTS *Cost of Sales, Operating Expenses (Net of Personnel Expenses and Government Payments)*	**23.7**
EMPLOYEE WAGES & BENEFITS *(Personnel Expenses)*	**1.9**
GOVERNMENT PAYMENTS *(Excise Taxes, Real Property Taxes, Local Business Taxes)*	**8.1**

COMMUNITY INVESTMENTS
in Php million

TOTAL	**12.0**

our positive transformation

2018 marks a year spent in the pursuit of greater efficiency at Pepsi-Cola Products Philippines, Inc. We had been progressively implementing changes in our resource management for the past several years, but we have become more targeted in our efforts this year.

Group-wide, we are continuing with our Reuse, Reduce, and Recycle programs. We are meeting, and even surpassing, most of our targets under the Luntiang Yaman program. Our improved water efficiency has allowed us to lower our non-revenue water by 40%. Our energy efficiency, meanwhile, has provided us with cost savings. We have also optimized our use of plastic, paper, and glass by innovating on our packaging design. Our use of fewer materials results in fewer waste sent to landfill; it also means less electricity and fuel are used in processing these materials. Finally, we are currently recycling 81% of our materials, and we are confident that we will soon meet our recycling target of 85%.

From the start, we have been doing business with due observance of environmental laws. In 2018, an issue was raised over our use of deepwells at our Muntinlupa plant—as a result, we needed to pivot quickly and instead source from the water concessionaire serving our district. It has been a challenging time, no doubt, but I am happy to report that we faced it head-on and have gone past the hurdle. Our relationship with our regulators has remained amicable throughout. Apart from the quick resolution, the year 2018 also ended with Muntinlupa being one of our top three best-performing plants in terms of water conservation.

We invested more than Php 202 million in strengthening our Environment, Health & Safety compliance initiatives in 2018. We tapped SGS Philippines, one of country's leading auditors for International Organization for Standardization (ISO), to conduct a compliance audit in our plant facilities nationwide. This is an ongoing project that we expect will provide insight on how to further improve our operations.

It only proves that PCPPI is not only committed to remaining a strong, viable company—we are also seeking to create positive change for the Philippines. Our commitment extends to acting as a responsible corporate citizen, contributing to nation-building, and finding ways to empower the communities where we operate.

> **"PCPPI is not only committed to remaining a strong, viable company—we are also seeking to create positive change for the Philippines."**

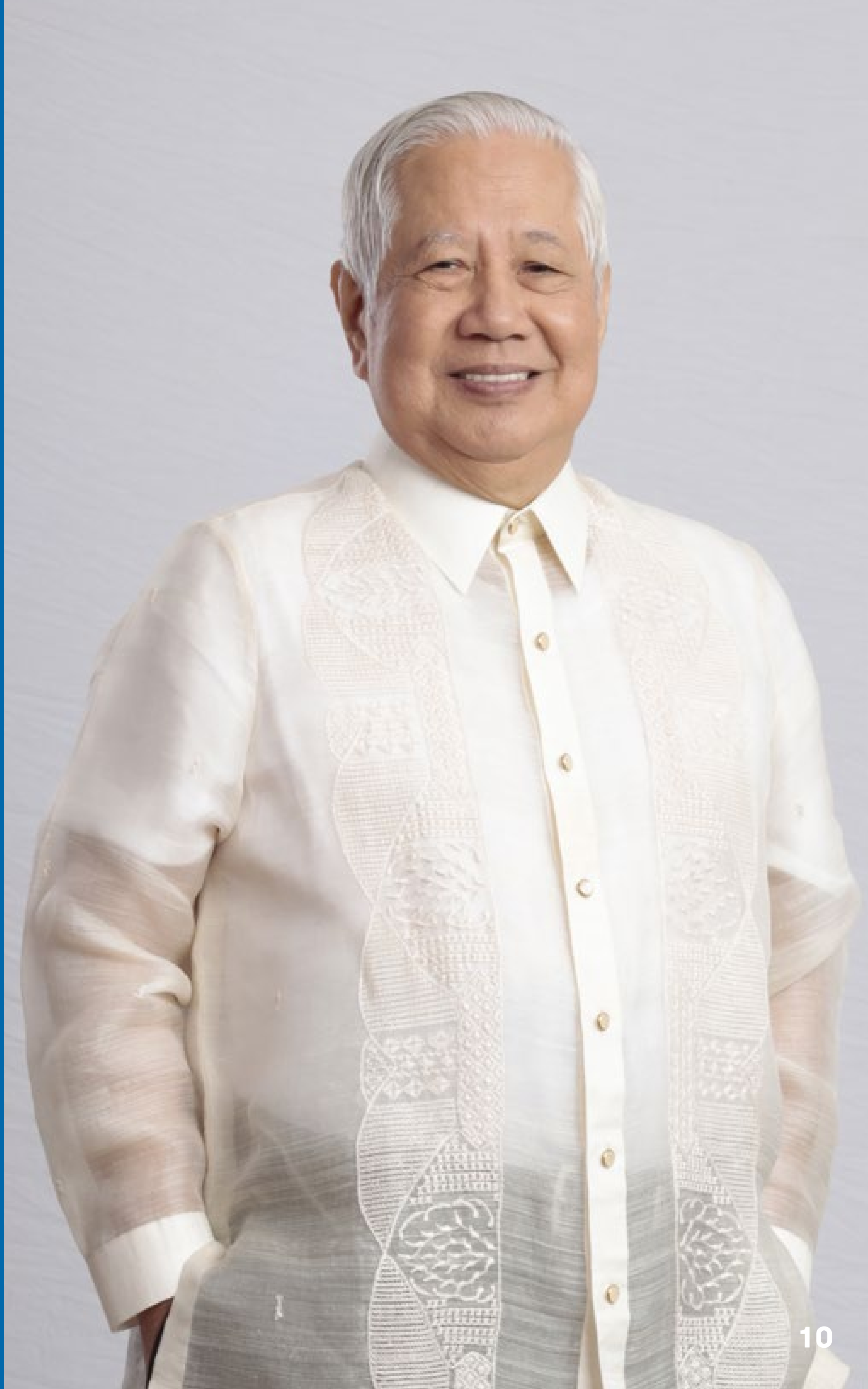
Ours is a business with a long reach. Across our value chain, we support thousands of Filipinos, and not just our employees and direct hires. We have suppliers, distributors, and retailers that rely on our business, among them micro-, small, and medium enterprises (MSMEs). We impact not just the giants of industry, but also the mom-and-pop eateries and sari-sari stores that carry our products. What we do affects them as well.

We are looking more closely at our impact by embracing sustainability reporting. We are even more determined to achieve a circular economy, especially in our use of water, energy, and packaging materials. We hope that by discussing our best practices, we could contribute to—or even lead—the conversation on sustainability. Documenting our sustainability efforts will also encourage our people to continue their good work.

I am therefore quite proud to be able to share with you their accomplishments in this inaugural sustainability report. Until now, our environmental and social initiatives have been relegated to the background. I am grateful that our people, who strongly emulate the P.E.P.S.I. values of passion, excellence, professionalism, and integrity, have been tirelessly finding ways to improve our ways of working, without seeking reward or recognition. They have also reached out to the community through various initiatives, from coastal cleanups to school rehabilitation to relief efforts in war-torn Marawi City. PCPPI as a company wholeheartedly supports their initiative and drive.

We will continue to work together to realize our vision of being a premier food and beverage company, while being protective of the environment and society.

OSCAR S. REYES
Chairman



beating the odds

At PCPPI, we act on our responsibility to our stakeholders by creating value in the present, even as we continue to position the company for future growth. Success is often defined by how one stays relevant to the people whom one serves. Our business is highly dependent on continuing relationships—in our case, we cultivate lasting partnerships with our wholesalers, distributors, and resellers, even as we retain the loyalty of our customers. Their satisfaction in our service is the gauge by which we measure our progress.

The year 2018 was fraught with challenge, beginning with the higher excise taxes, at Php 6 per liter on beverages containing caloric or non-caloric sweetener and Php 12 per liter on beverages with high fructose corn syrup (HFCS), following the implementation of the Tax reform for Acceleration and Inclusion (TRAIN) law.

PCPPI stayed its course despite the unprecedented headwinds, focused on finding and acting on opportunities: affordable pack-price offerings and sustained distribution expansion helped temper the impact on our topline while unrelenting drive for productivity and sustainability across functions and locations partially offset the impact of the excise tax on our costs.

With the above, we delivered Gross Profit at Php 5.7 billion and EBITDA (earnings before interest, taxes, depreciation, and amortization) of Php 2.5 billion during the year. Total comprehensive loss for the year is Php 124 million.

We continued to invest for future growth and efficiencies with Php 2 billion of capital expenditures in 2018. Our committed investment in the implementation of an automated and fully integrated IT system for increased productivity and efficiency in our business is on track to meet scheduled go-live in 2019.

We continue to transform the company in strategic ways to ensure long-term growth and sustainability. This year, we renewed our commitment to sustainability through our new policy framework, with our mantra being: “Engage. Lead. Transform.” Our sustainability practice is centered on the people behind our brand and who share in the P.E.P.S.I. values.

We have intensified our training programs to make sure that our employees and brand ambassadors stay engaged with the company and the community, that they lead in the conversation on sustainability, and continue to transform lives through their work.

We do our part by crafting a safe and productive environment where our employees can thrive. This year, PCPPI achieved 100% compliance in the wearing of personal protection equipment (PPE). This is a definite return on our EHS awareness campaigns from the previous year, and instrumental in the attainment of a low overall lost time incident rate (LTIR).

Ours is an inclusive business, fostering a culture of sharing blessings. To this end, our employees have been active proponents of community initiatives. Through the employee-driven Bukluran, for example, PCPPI employees have supported the Brigada Eskwela program and Earth Hour. They are also our staunchest advocates for Water for Peace in Marawi.

Seeing the dedication, spirit, and sheer passion of our PCPPI employees and our partners gives us hope—because whatever we may face in the future, we do not face it alone.

We walk this path to sustainability as a team.

YONGSANG YOU
Chief Executive Officer

SAMUDRA BHATTACHARYA
President

our sustainability play

In response to the global effort to achieve the United Nations' Sustainable Development Goals (SDGs), in 2018, we began to craft our own approach to sustainability. In developing the sustainability framework, we took our cue not only from developments on the global front, but from the specific, local context within which we operate. In this way, PCPPI hopes to develop even more strategic and focused sustainability initiatives that respond to the needs and concerns of stakeholders.

Understanding the country's development context and focus, as well as the government's vision for a more sustainable and prosperous future, was the first step in the development of a framework for our sustainability efforts.

The National Economic and Development Authority (NEDA) formulated a roadmap for the country until 2040. Ambisyon Na! details the features and characteristics of "The Life We Want." It outlines the Philippines' overall vision of a future where Filipinos are prosperous and healthy, and live in a smart, innovative, and high-trust society. This vision is aligned with the Philippine Development Plan (PDP2022), a document that lays down the foundation and ways forward for inclusive national growth, a high-trust and resilient society, and a globally competitive knowledge economy.

The Philippines is faced with significant environmental challenges, not the least of which being the country's vulnerability to climate change and high risk to natural disaster. Our population is also challenged by the limitations of basic services, particularly the lack of access to water and sanitation facilities. In terms of demographics, the Philippines is predominantly a young country, and this presents both an opportunity as well as a challenge. While this means that the country will have the potential to grow and develop its people to meet the needs of the labor market, significant investments are still needed to advance the country's human capital.

The PDP2022 priorities are echoed in the global SDGs. Cross-checking these three sets of documents against each other, PCPPI determined that the immediate and most urgent steps in this process are to accelerate human capital development and reduce the vulnerability of individuals. These are the two areas where we feel we can meaningfully contribute the most to the country's development.

From framework to action

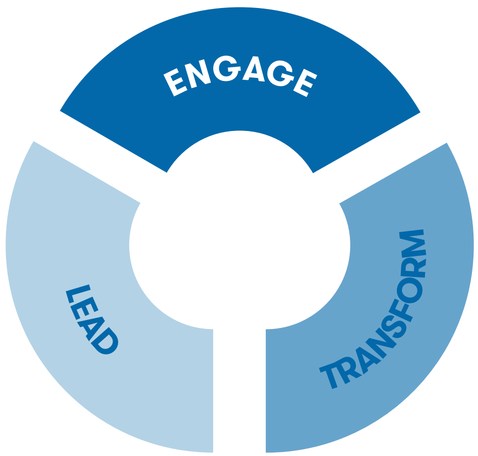
Armed with a better understanding of the country's situation, we turned to the challenge of setting up our own framework and model for implementation. In order to contribute to nation-building, and to address the country's most pressing development concerns, we understood that we had to leverage on our business' footprint. Being present nationwide, with 13 facilities across the country, we are able to implement our activities on a larger scale.

We are able to tap our active and engaged workforce and channel their spirit of volunteerism to participate in these activities, particularly in information, education, and communication campaigns.

PCPPI works together with other organizations, and benefits from the experience and expertise of professionals and practitioners in sustainable development. With our employee-volunteers' valuable input, PCPPI is able to make informed decisions about CSR activities, and through our partnerships and strategic alliances with other organizations in the private sector and civil society, engage in more effective evidence-based advocacy.

We also aligned our sustainability focus areas to PepsiCo's Performance with Purpose framework. We have not adopted this framework in full, rather, we have taken direction from PepsiCo's global goals and localized these to the Philippine context.

PCPPI has a three-pronged approach to addressing our key sustainability priorities:



Engage: To strengthen engagement with internal and external stakeholders

Transform: To define key priority areas and establish associated programs across all plants in a concerted manner

Lead: To be a thought leader in priority areas with sufficient national/ASEAN visibility

With these objectives in mind, we pursue PCPPI's main sustainability priorities:

WATER

- Integrated watershed management
- Access to safe water, sanitation, and hygiene

We utilize significant amounts of water in our beverage manufacturing. We acknowledge that we share this resource with others. Therefore, not only do we aim for efficient water in our operations, but we also promote resource management at the watershed level. We contribute to SDGs and to local human development efforts by implementing programs that will facilitate greater access to water and sanitation, particularly in our areas of operation.

CIRCULAR ECONOMY

- Circular supplies
- Resource efficiency across the value chain

We recognize that our products contribute to waste generation, and as such, we are focusing on initiatives that can help us manage our waste at source and achieve greater efficiency across our value chain. We aim to move away from the traditional make-use-dispose cycle, and instead establish a process where we extract the maximum value from the resources we use, and then recover and regenerate where possible. PCPPI is working in partnership with other organizations in the sector to make improvements in the way we use plastic, as well as with how we recover and recycle waste from our products.

INCLUSIVE BUSINESS

- Women entrepreneurship
- Education for children
- Integrate MSME and underserved communities

Through our focus on inclusive business, we seek to share the benefits of our business with others, particularly those in the SME sector. We also facilitate access to basic services, with an emphasis on education for young girls.

We consider the framework and priorities as initial steps on our sustainability journey in the Philippines. While we may not have specific goals and targets in mind for all aspects of our sustainability practice, this first attempt at reporting on our initiatives will guide how we monitor and manage our performance on material metrics in the future.

OUR FIRST SUSTAINABILITY REPORT

The Securities and Exchange Commission released guidelines on sustainability reporting for publicly listed companies in 2018. This is a big step forward for sustainability in the Philippines and will provide the much-needed impetus for businesses to take greater responsibility for managing their operations and impact and promote more collaboration in support of the Sustainable Development Goals.

PCPPI was already in the process of defining its framework and sustainability priorities in 2017, and the guidelines serve to confirm that we are on the right path. While sustainability reporting is not mandatory yet in 2018, this report marks our first effort to comply with the new reporting requirement. We commit to full compliance with the guidelines by 2020, and in the meantime, will be establishing our internal systems and processes to enable us to monitor and capture the relevant data on our sustainability performance.

OUR STAKEHOLDER AND MATERIALITY REVIEW

Our stakeholders include our investors/shareholders, regulators, employees, suppliers, wholesale distributors, retailers, and resellers. We engage with our stakeholders regularly, through business dealings and scheduled meetings, and when warranted, through focus group discussions (FGDs), interviews, and surveys. We also keep communication lines open, and as an independently listed company, make transparent disclosures via the Philippine Stock Exchange, our company website, and various press releases. We ensure that the pertinent information about the company reaches the intended audience.

What is important to our stakeholders is important to us. We owe it to them to address these concerns and communicate how we manage our operations and their impact. In an FGD with key representatives from our different business units, we surfaced the top concerns of our stakeholders in 2018. Taking guidance from the SEC Sustainability Reporting Guidelines for Publicly Listed Companies, with cross-reference checks on the GRI Standards 2016, we also did a scan of the critical impact of our operations on the economy, environment, and society.

The SEC guidelines dictate that publicly listed companies should only report on their material topics. To apply the materiality principle, PCPPI's technical working group (TWG) reviewed the top stakeholder issues and concerns, and then asked the following questions:

- ✓ Does our business create impacts for which we can be held accountable?
- ✓ Do these issues/impacts affect or influence how we run our business?
- ✓ Do these issues/impacts affect or influence our stakeholders' decision-making?

We determined topics as material if they present as a key risk or opportunity to PCPPI's business; our key business activities impact on this topic or issue; our supply chain has significant impact on this topic or issue, or, there is evidence that this topic will be relevant to the sector or to our business in the future.

Given these questions and analysis, the following are the topics that we have deemed material for this reporting year:

MATERIAL TOPICS

ECONOMIC PERFORMANCE

- Profitability
- Impacts of regulation (TRAIN law, sugar tax, single-use plastics ban)
- Partnerships
- Maximizing resources and improvements in efficiency across the supply chain

MATERIAL TOPICS

CORPORATE GOVERNANCE

- Strong drive for EHS and compliance with PLC
- Suppliers' Code of Conduct (i.e., development of the policy, accreditation, and onboarding of suppliers in keeping with the Code)

ENVIRONMENTAL MANAGEMENT

- Water use
  - Water sourcing
  - Water-related problems in the community
- Energy use
- Waste management
  - Proper waste disposal
  - Packaging materials use (initiatives to reduce and recycle)

SOCIAL PERFORMANCE

- Community
  - Local employment
  - Health projects
  - Partnerships with government, barangays
- Employees
  - Career path, talent management, training and development (Navigating your Career)
  - Diversity and inclusion
  - Wages and benefits
  - Workplace safety
  - Labor-management relations (collective bargaining)
- Customers
  - Food quality and safety
  - Product design improvements

creating better choices

PCPPI seeks to be the preferred partner of our retailer and distributors. Our team is passionate to meet and exceed their expectations, with the mindset of providing solutions that will keep our customers satisfied. Recognizing that we work in a highly competitive environment, we ensure that we continue to offer the best value proposition to our partners.

PRODUCT DESIGN

PCPPI intends to stay in touch with the needs of the market. We develop and market products that our customers crave. Catering to the consumer's tastes and wants, we launched several products in 2018: the 8-oz. Mountain Dew Idol, the Cheetos Balls and Cheetos Mustache, and Pepsi in Lime and Vanilla flavors.

With the strong trend toward health and wellness (now going strong for over five years) we know that our customers are seeking healthier options, and this will be part of our strategy in the mid- to long-term. As part of this effort, we have launched products such as reduced sugar carbonated drinks. We also expanded our hydration categories to include water and value-added water.

We cater to varying tastes and preferences. To help people indulge while still managing their calories, we also offered smaller snack packs of Cheetos. But, for customers who want "family-size," we also introduced bigger sizes for some of our product variants in 2018.

SERVICE DESIGN

We have a wide range of products with well-known brands in both the food and beverage categories, but we realize we must also provide the best in service. Our team works to continuously strengthen our partnerships with key customers in order to provide better service levels, more collaborative business planning, as well as innovations in the kinds of products we provide.

Our commitment is to provide the best service to our customers, as well as to ensure the right product, right package, right pricing.

Best value proposition. Our Sales and Distribution team is set up to ensure that we continue to offer the best value proposition to our partners. PCPPI has two main channels for distribution: traditional trade and modern trade (e.g., food service, hypermarkets, modern wholesalers, and schools).

Total account management. Our business grows and succeeds when our partners succeed. Therefore, we seek to provide total account management, that includes regular business reviews, insight and syndicated studies sharing, sharing of best practices, top-to-top meetings, and joint business planning.

Business reviews. Our exclusivity partnerships for food service are usually for a period of two to five years, and we conduct regular business reviews with our customers to ensure that we are able to meet our business objectives. The business reviews allow us to check on volume commitments, as well as to assess the performance of marketing programs. To properly manage our accounts and ensure a successful partnership, our teams conduct weekly or monthly calls, as well as business reviews, on a monthly or quarterly basis. We also have a business development group that is tasked to look for new customers.

Support services. Key to managing our accounts is to maximize the sales and distribution structure for our partners. We have sales managers and key account managers who work closely with our customers—from top-level management down to the store-level servicing. We have a technical services team that is tasked to ensure that we serve quality beverages in our food service channels. We provide an in-house team to manage our machines to maintain the top-quality standards of our products. To further strengthen our service, our team is cross-functional. We wire our teams based on functions in order to address all the needs of our customers. Our strength is in our team and our ability to meet the needs of our customers, whether these are in terms of sales, operations, technical services, and logistics.

Customized contracts. We offer a range of contracts and can customize our partnership in order to meet the needs of our customers. Our teams can also design product packages that can be bundled with food (food pairing). We innovate on the products and services we provide to our customers. We develop unique beverages through our partnership with leading companies who specialize in developing special beverage flavors. We also collaborate with our customers on account-specific promotions.

PCPPI RANKS 9TH AMONG 19 FMCGs IN SURVEY

In 2018, Canadian insights company Advantage Group International, Inc. conducted a survey among large fast-moving consumer goods (FMCG) companies in order to compare certain performance metrics, namely: Strategic Alignment, People, Category Development, Consumer Marketing, Trade and Shopper Marketing, Supply Chain and Customer Service. PCPPI ranked 9th overall out of 19 FMCGs. One of our directions is to ensure that we continue improving on these performance metrics moving forward.

The Advantage Group International regularly publishes the Advantage Report, which covers programs in over 40 countries and over 60 markets worldwide. The Group focuses on what drives higher business performance for retailers and suppliers alike and uncover better practices for both parties in order to show the pathways to improved business outcomes.

KEY WINS FOR OUR GROUP IN 2018

Secured new partnerships with:
Fast-food & QSR: S&R Food Service, LC Big Mak
Fine dining: Barcino, Meat Depot, Lorenzo Group, and Blue Smith

Renewed partnerships with:
Fast-food & QSR: Amici Pizza and Pasta, Chicken Deli, Cabalen
Malls, supermarkets, department stores: Liberty Commercial Center (Bicol)
Amusement and recreational center: Tom's World

PCPPI ranked 9 out of 19 FMCG companies in a trade survey that compared certain performance metrics (service levels, business category management, product portfolio, trade marketing and others)

PCPPI Modern Trade Operations (MTO) **won three Excellence Awards from 7-Eleven** for Innovation, Account Management, and Brand Partnership Activation.

PCPPI MTO was **nominated as Supplier of the Year** in Robinsons Supermarket and convenience stores (Ministop).

PEPSI PHILIPPINES WINS BIG AT 7-ELEVEN SUPPLIERS' NIGHT 2019

PCPPI bagged three Excellence Awards during the 7-Eleven Suppliers' Night for having implemented various creative, customer-intuitive sales and marketing initiatives, which contributed to 7-Eleven's business growth in 2018.

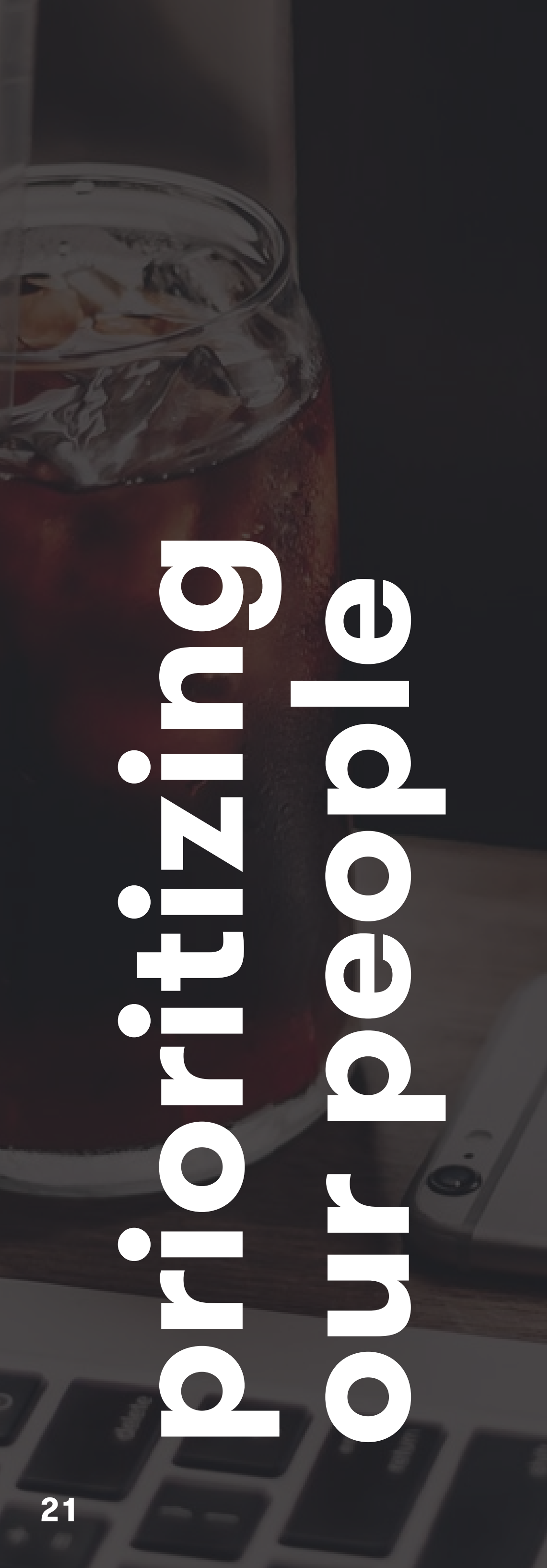
The company won an Innovation Award for its initiative in developing activities and projects tailor-made for 7-Eleven, in particular the exclusive launch of Pepsi Vanilla 500ml in stores. The award also acknowledged the company's consistent run of price promotions for summer and Christmas which helped maximize sales of the Softdrinks category.

PCPPI also received the Brand Activation Partnership Award for its strong support of 7-Eleven's marketing activities. For 2018, the company contributed to campaigns for Gulp (co-branded with Deadpool and Pokémon), and Slurpee activations (Slurpee Summer Hit Song, and Slurpee Build Your Own Concert). As a result of the latter, PCPPI helped regain sales for Slurpee, in spite of TRAIN and subsequent price increase. In addition, PCPPI also supported 7-Eleven's other events (the annual Run 2018 and Trail 2018) and promotions (New Year New Ride Promotion).

Finally, PCPPI also won the Account Management Award which recognizes the sales team's dedication in client-servicing. The company maintained excellent service through continuous weekly coordination with CDI and PSC Marketing on requirements and system improvements, and by sending Quality Service Assistants on daily store visits to assess product assortment quality and execution.

"Even with market challenges, our strong working partnership with 7-Eleven can still definitely give us avenues for mutual growth,"

said Maricel Guro, PCPPI AVP/General Manager for Modern Trade Operations.



prioritizing our people

Through strategic investments in its workforce, PCPPI helps support the goals and objectives of the business. The main drivers of PCPPI's people management are the P.E.P.S.I. values: **PASSION, EXCELLENCE, PROFESSIONALISM, SERVICE, AND INTEGRITY**.

These values were further demonstrated and more effectively communicated through "Great to Be Pepsi," PCPPI's employee brand. Great to be Pepsi embraces everything positive about the culture of PCPPI and its competitive advantage. PCPPI stands apart from the rest because of this values-driven culture that is seen in every aspect of the business: in its ways of working, in the teamwork and collaboration within the company, and the focus on helping people grow.

BUILDING A WINNING TEAM

In 2018, PCPPI's approach to managing its people focused on three main themes, with corresponding key messages:

CAPABILITY AND CAPACITY	CULTURE AND ENGAGEMENT	COMMITMENT TO LEARNING
PCPPI drives a high-performing and high-integrity work culture.	PCPPI has a robust people engagement program that makes it a great place to bond.	PCPPI encourages growth.
• Bukluran-led activities • Talakayan and Pulung-pulong • Annual Summit • Plant Summits	• P.E.P.S.I. Values • Long-term industrial peace • Corporate Social Responsibility	• Leadership and Technical Capability Programs • Trainings and Learning Sessions • Rewards and Recognition • Pepsi University

PCPPI implements programs to respond to these themes and promote the *Great to be Pepsi!* brand among its employees.

WOMEN MOST WELCOME

Gender diversity is not considered an issue at PCPPI as the company's policy is zero tolerance for discrimination based on gender, age, ethnicity, religion, or background. Leadership trainings are provided to qualified members of the team, and learning opportunities are open to all. Initiatives for gender mainstreaming and inclusion are also regular features in the annual calendar.

MEET OUR NEW GM

After 17 years of working for PCPPI, Maricel "Mayette" Guro has not felt the need to "lean in"—the action being entirely unnecessary in an environment where women's voices are not just heard but heeded. If there had ever been a glass ceiling, Mayette already smashed it, being an assistant vice-president and the first female General Manager (GM) of the company.

"According to most, I made history for being the first female GM in PCPPI. Having been trusted the position is a great privilege for me," said Mayette, explaining that of the many considerations tied to her acceptance of the job, entering into a leadership role dominated by men was never a factor.

"I am not concerned at all in entering a 'man's world.' That confidence is coming from my core, my faith in God...My husband's support is also a big factor."

Mayette earned her position through sheer hard work. She joined PCPPI after seven years as external auditor for SGV & Co. Initially, she worked as PCPPI's Internal Audit Manager before becoming the Finance Manager of Modern Trade Operations (MTO), and then Director, until finally being promoted as GM for MTO.

Promotion is based on merit and the confidence of top management, said Mayette. In her case, she was selected among the other shortlisted candidates—

incidentally, all male—regardless of her gender. Nor was age an issue. "I am younger than most of our ManCom members. Yet, we have mutual respect for each other," she said.

Mayette does not expect special treatment, nor will she give it. "I believe the expectations from us (GMs) are the same," she said. If there is any "special favor" she is willing to grant, it would be to prioritize internal candidates for promotion. "This, I believe, brought high morale to the team because people are now seeing that their career can grow within PCPPI. This high morale resulted in MTO delivering excellent results in 2018," she said.

As far as her own unit is concerned, gender or sexual preference is never a consideration in hiring. Around 35% of regular employees are currently female. Employees are acknowledged for doing a good job and counseled if they falter, equally. "What makes you stay in PCPPI is its family-like work environment and having an 'open-door' policy that makes you easily reach even the top executives of this company. I believe this is true for both men and women. There are no gender biases in PCPPI."

our workforce

Regular Employees

3,290

Rank & File

1,168

2,488 Outsourced

Specialist

1,780

Managerial

332

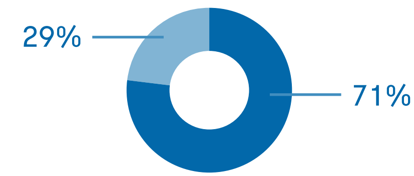
Executive

10

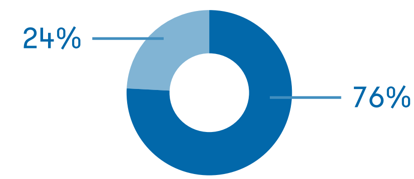
Employees by gender

● Male ● Female

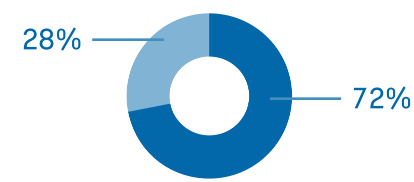
We have a diverse workforce.



Specialist



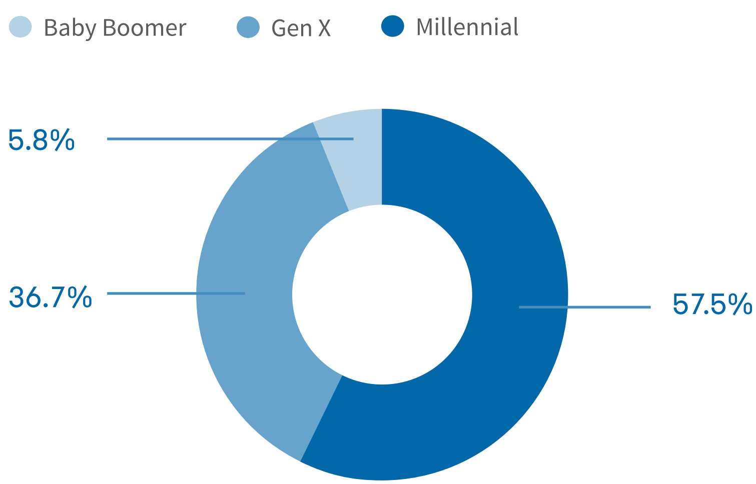
Managerial



Total PCPPI

Employees by age group

We have a good mix of talents.



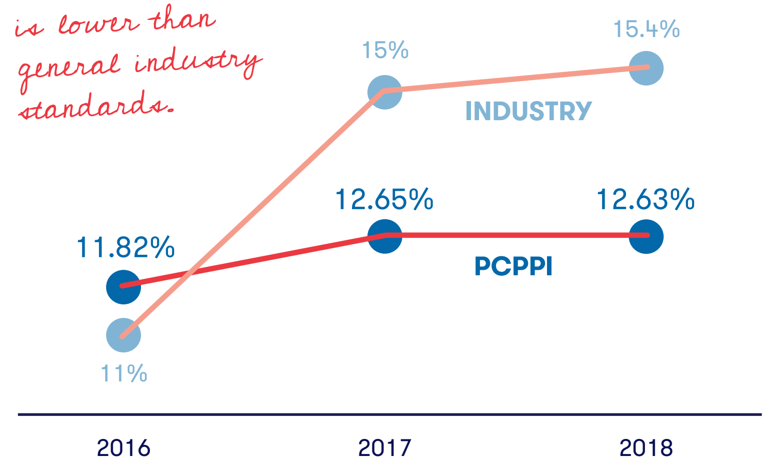
Baby Boomer	Gen X	Millennial
(born 1964 & below)	(born 1965-1980)	(born 1981-2001)

Generation Definition Source: Pitt-Catsouphes, Marcie, Christina Matz-Costa, and Elyssa Besen. "Age & Generations: Understanding Experiences at the Workplace". Research Highlight, Chestnut Hill, Mass.: Sloan Center on Aging & Work at Boston College, 2009.

Attrition Rate

2016-2018

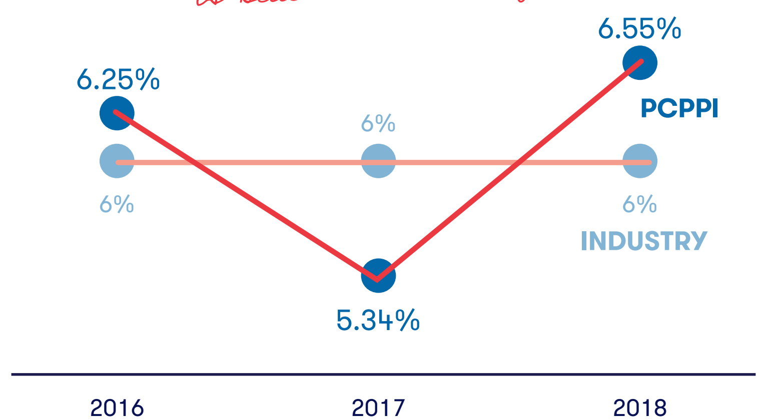
Our attrition rate is lower than general industry standards.



Internal Promotion Benchmark

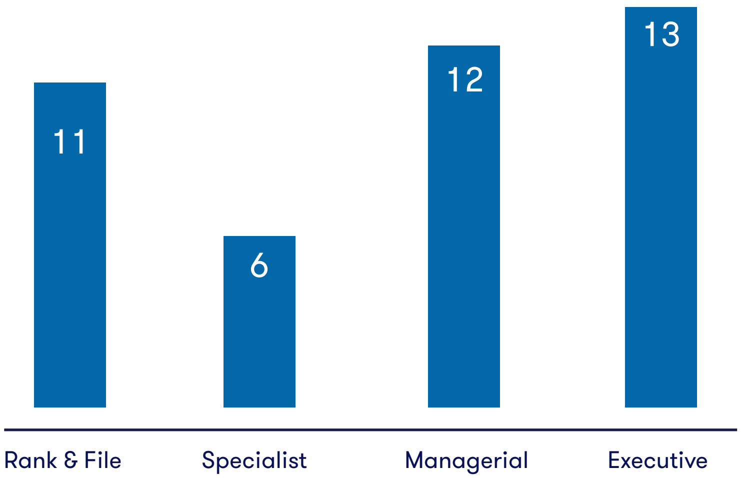
2016-2018

Our promotion rate is better than industry.

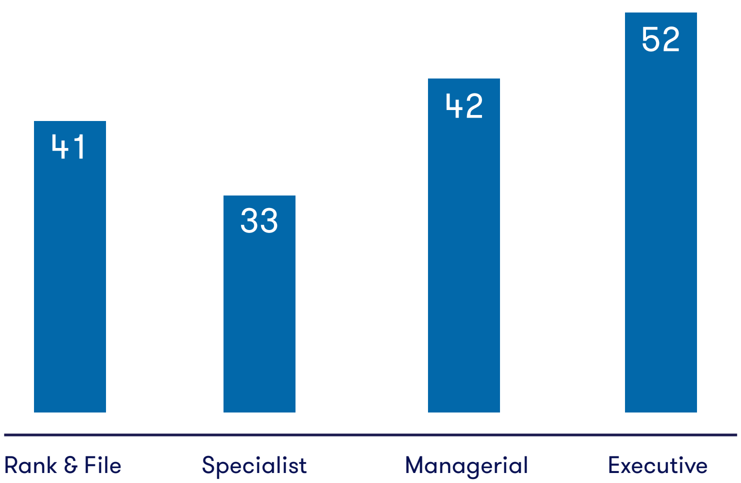


Average Tenure

Our employees stay an average of 10 years in the company.



Average Age



Employee satisfaction rate

89%

Higher by +2%
than the Philippine industry norm*

Learning & Development (L&D)

37
man hours per employee

Despite the decrease in L&D expenses, HR was able to keep up with the industry-standard training hours per employee.

Employee Volunteerism

2018

COMMUNITY PROJECT	VOLUNTEERS	VOLUNTEER HOURS
Marawi Water for Peace	30	200
Brigada Eskwela	392	1,568
National Teachers' Month	15	8
TOTAL	**437**	**1,776**

**People Engagement Survey (PES) through Willis Towers Watson surpassed all high performing company benchmarks, foremost of which: Higher by +2% than the Philippine national norm.*

IT'S GREAT TO BE PEPSI!

In 2018, the Human Resources team launched the Great to be Pepsi employee brand that sustains the positive work culture in PCPPI. It further highlights the company as a great place to work, bond, and grow.

Aside from the traditional internal communications channels such as emails, newsletters, and cascades used for promoting this initiative, the Human Resources team activated the Great to be Pepsi Facebook group. It aimed to give the Bravehearts another platform where they can share their celebrations and successes across the PCPPI network.

The Facebook group gathered more than 1,000 employee-members within three months of its activation. It brought in positive feedback from the employees.

BUILDING SUPERIOR TALENT

Operations Leadership Development Program (OLDP)

The Operations Leadership Development Program (OLDP) was launched to develop the skills of Operations associates and train them to become line leaders.

The OLDP is a structured capability-building program covering both functional/ technical and leadership skills. Launched on July 11, 2018, the intensive 12-week training program covered five main modules, namely; Environment, Health and Safety (EHS), Manufacturing, Maintenance, Quality, and Logistics. A business case from each candidate was required so they could graduate from the program.

YTD TRAINING REPORT

CORE	FUNCTIONAL	LEADERSHIP
Programs that will address non-negotiables in the strategy house	Function-specific skill-up programs that will deliver business goals	Programs that will boost leadership capability of incumbents and incoming leaders as they grow in the role
e.g., Basic Occupational Safety and Health, First-Aid, Earthquake and Fire Drill, Values Workshop	e.g., SLDP, OLDP, Finance Refresher Course, National Logistics Roadshow, National Quality Assurance Training	e.g., Pepsimula 2
52 runs **35,478** hours **561** participants	**73** runs **14,971** hours **999** participants	**1** run **240** hours **10** participants
NATIONAL TRAINING DATA		
126 runs	18.759 hours	1,570 participants

Ten candidates across all plants and BUs were carefully selected to get into the program. Apart from the learned skills and abilities, the candidates' key takeaways were the lessons and experiences they had as a team. Upon graduation, the 10 participants were deployed as line leaders.

Developing the Coaching Culture

Meanwhile, Developing the Coaching Culture (DCC) is a program designed by the National Sales Team to push capability development as an enabler to achieve PCPPI's business objectives. DCC starts with Training the Trainers/ Coaches, which entails refreshing the Coaches regarding the established principles, processes, and best practices, and enabling them to cascade to and facilitate the learning of their respective teams. Sales coaches include the General Managers, Sales & Distribution Systems Manager, Sales Managers, Trade Marketing Managers, HR Managers, and Territory Managers.

However, developing the functional capability of sales front-liners is very critical in driving growth strategies; what matters is that the coaches are able to teach the players what they know and ensure that these front-liners are able to implement what they've learned in their actions.

In addition, the DCC program highlights the importance of having the discipline to use the different monitoring tools: Territory University (TU) Tools such as the HealthCheck, Work-Withs, One-With-One, etc. As stressed during the DCC runs, at PCPPI, our monitoring tool is our coaching tool.

For 2018, there were a total of 22 DCC runs, covering 487 Sales Coaches, in 8,208 learning hours.

A learning culture is not just having a classroom-training nor a one-session affair; *developing capability is a journey* and DCC intends to make coaching a way of life.

TEAM LOYALTY

In June 2018, Willis Towers Watson (WTW) administered the People Engagement Survey (PES), to measure PCPPI's employee engagement. Proof that the P.E.P.S.I. values are embodied by PCPPI's workforce is the overwhelming 99.9% response/return rate—the highest ever recorded by WTW in the Philippines. Ultimately, the PES showed that PCPPI succeeded in its aim to have above-industry people engagement.

PEOPLE ENGAGEMENT SURVEY RESULTS

89% overall sustainable engagement score

2% points above Philippine industry norm
7% higher than Global Fast-Moving Consumer Group norm
2% higher than Global High-Performing Companies norm

The 2018 PES results also showed where PCPPI's strengths lay:

- ✓ **Values.** Employees champion the P.E.P.S.I. values.
- ✓ **Communication.** Employees are aware of their objectives and knowledgeable about their department's performance.
- ✓ **Image.** Employees have a high regard for the company.
- ✓ **Leadership.** The top management are visible to the employees; they are perceived to act on matters related to the company

PEPSI'S POSITIVE WORK CULTURE

As part of culture and engagement, the Human Resources team drives a positive work culture in PCPPI through its engagement programs anchored on innovation, culture-building, people initiatives, and community-building projects.

BUKLURAN

The success of PCPPI's high level of engagement is fueled by the Bukluran Council, composed of men and women of PCPPI, taking active roles in promoting the four pillars of people engagement.

Led by the Bukluran Council, our employees participated in several community initiatives, including coastal clean-up drives, a medical mission in partnership with the Department of Health in Iloilo, and Brigada Eskwela activities nationwide. In the latter activity alone, 392 employee-volunteers rendered 1,568 hours of service, refurbishing school facilities, including cleaning and repainting classroom walls, and personally donating plants, school supplies, and the company-sponsored printers.

Fellowship activities, meanwhile, included a fun run (proceeds of which funded Brigada Eskwela) and bowling day. To promote the value of family, a number of business units (BUs) also took part in trick-or-treat activities for the children of the employees.

VALUES CHAMPIONS

As PCPPI promotes a values-based culture, the company observes the month of November as P.E.P.S.I. Values Month. Values Month activities include national and plant-wide values recognition programs and employees' renewal of certificate of compliance (COC). This November 2018, in another landmark achievement, 100% of employees signed off on the COC.

INDUSTRIAL PEACE AT THE PEPSI PLANTS

PCPPI respects the freedom of association and bargaining. Currently, PCPPI has 13 unions with 1,111 members.

Management and union members enjoy positive relations backed by mutually accepted agreements through Collective Bargaining Agreements (CBA), Labor Management Discussions (LMDs), and constant issues management and resolution.

This relationship fosters the continuing industrial peace enjoyed in the company.

OCCUPATIONAL SAFETY AND HEALTH (OSH)

Recognizing that occupational safety and health are critical to our operations, PCPPI's top management are committed to providing both resources and management direction to ensure the safety of our workplace, and promote the health and well-being of our employees. Our goal is to achieve compliance with all relevant regulations and standards in all our PCPPI plants. We understand that this will help us reduce the risk of incidents, as well as any potential regulatory action.

A major milestone for PCPPI is the continuous upgrading of resources to comply with all structural requirements. The company invested in the following:

Fire Detection and Alarm System (FDAS)

Fire Protection System

Rehabilitation of Drainage System

Materials Recovery Facility

Hazardous Waste Storage

This commitment to OSH means that PCPPI must fill the necessary positions to enable the implementation of environment, health, and safety programs and guarantee regulatory compliance. PCPPI hires the required EHS personnel safety practitioners, Pollution Control Officers (PCO), Registered Electrical Engineers (REE), Professional Mechanical Engineers (PME)/Registered Mechanical Engineers (RME), Licensed Chemists, and Chemical Technologists. Required medical professionals, such as Occupational Physicians, Dentists, and Nurses also form part of our staff complement.

To further cement PCPPI's safety culture, all 13 plants also celebrate Fire Prevention Month and the World Day for Safety and Health at Work.

seeking positive change

Sustainability is not new to PCPPI insofar as our employees have always acted out of genuine concern for the environment. In line with PepsiCo's Performance with a Purpose 2025 Agenda, we at PCPPI have been enforcing limits on our consumption and wastage in a bid to minimize our environmental footprint.

As part of our commitment to excellence and adopting environment-friendly ways of working, PCPPI has invested in significant resources in programs to improve resource use and efficiency.

We implement the following environmental programs:

Luntiang Yaman
PCPPI's overall program for water, electricity, and material sustainability spearheaded by Operations and supported by Corporate Affairs & Communications

Coastal Clean-Up and Adopt-A-Creek
All the plants participate in clean-up activities on a quarterly or annual basis, in partnership with local Department of Energy and Natural Resources (DENR)-Environmental Management Bureau (DENR-EMB) and respective local government units (LGUs)

SUSTAINABILITY VISION
To be a Prime Advocate for a Greener Earth

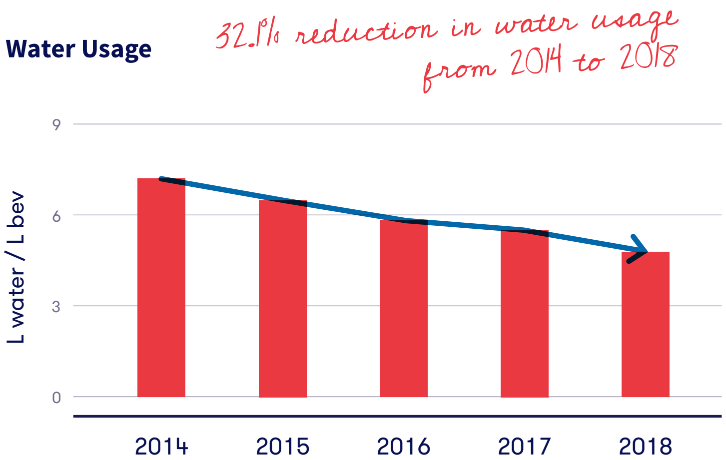
SUSTAINABILITY MISSION
Doing what's right for the business without compromising the environment and the communities where we operate

WATER

Water is essential to our operations. As such, we make sure that we consume 100% of our freshwater, which we source primarily from deepwells and/or local water concessionaires. We make sure to withdraw only what we need.

Historically, we have reduced the amount of water contained in our products:

Water Usage



We also apply, under the Luntiang Yaman program, the principle of the 3Rs:

Reduce	optimize water consumption through improved operations and maintenance
Reuse	instead of discharging to drain the final rinse of the clean-in-place (CIP) process, it was collected and re-used in the first stage of rinsing
Recycle	ongoing development of recycling process

We have invested Php 125 million in Muntinlupa Plant as the pilot plant for the recycling project "Bottle Washers Water Recovery" and reusing project "Final Rinse Water Recovery" in collaboration with PepsiCo India.

Under Luntiang Yaman, PCPPI has set standards for electricity and water use, as well as fuel efficiency, that are applicable across all its plants. These standards guide employees to conserve these valuable resources, from monitoring their usage to practicing eco-friendly personal habits, such as turning off the light and air-conditioning units when not in use, and practicing wise water use in the pantries and restrooms. By promoting these behaviors among the employees, PCPPI creates a culture of environmental awareness and responsibility in the workplace.

We have also instituted assessment and evaluation of our water-savings programs. We started our Resource Conservation Program in 2015 to account for water use in our nationwide network. This 2018, we consumed 32.1% less water, which is more than triple the expected reduction goal. Our best-performing plants for the year have been Muntinlupa, Zamboanga, and Cagayan de Oro.

In total, PCPPI's water withdrawal nationwide amounts to 5.79 million cubic meters, of which 1.11 million cubic meters come from Muntinlupa alone.

LUNTIANG YAMAN CHALLENGE

The Luntiang Yaman program focuses on five critical areas for environmental conservation and development—water, electricity, fuel, solid waste, and community responsibility. The target is to accomplish these goals by 2020.

Performance	Targets	2014-2017	2014 to 2018
Water Use	10% reduction	24%	32.1%
Electricity Use	5% improvement	53%	36.2%
Fuel Consumption	5% improvement	28%	6.5%
Solid Waste Management	Improve recycling by 85%		
Community-Building	Conduct social responsibility initiatives through management systems and community volunteerism projects		

PEPSI JOINS ADOPT-AN-ESTERO PROGRAM

As part of PCPPI's commitment and compliance to the Effluent Standards of the Philippine Clean Water Act, the company ensures that all its discharged wastewater is treated according to the limits set by law as far as biochemical oxygen demand, oil and grease, total suspended solids, acidity, and alkalinity are concerned.

In fact, our Sto. Tomas plant goes the extra mile by cultivating a small pond, where our wastewater is first treated and "tested" before being discharged into Laguna de Bay. The pond experiment attempts to discover whether the wastewater will be capable of supporting life—in fact, the pond is flourishing, with plants, and fingerlings.

PCPPI is also participating in the Adopt-an-Estero program of the Department of Environment and Natural Resources (DENR)-Environment Management Bureau (EMB), which encourages alliances between private companies, the local community, and the local government unit to address the deteriorating conditions of water bodies.

PCPPI adopted the one-kilometer stretch of Maimpis Creek, near the San Fernando plant, on March 22, 2017, and the Wee Sin Yen Creek, near the Davao plant, on June 23, 2017.

Since then, clean-up activities have been conducted regularly, with volunteers from the respective plants as active participants. These volunteers support the progress monitoring together with partners, and with PCPPI offering funding for the activities and equipment used in geo-tagging the clean-ups. The plants also take the lead, alongside the DENR-EMB in information and education campaigns promoting conservation and discouraging pollution of the water bodies.

This past year, the residual waste collected at the sites have been markedly minimized. Trash is now being collected from the trimmed grasses along the creek, rather than from the creek itself. Post-cleanup, visibly there are fewer water lilies in the creek. In particular, in Maimpis Creek, one sees fingerlings instead, during the rainy season. Children are also starting to fish in the area, and sometimes catch tilapia.

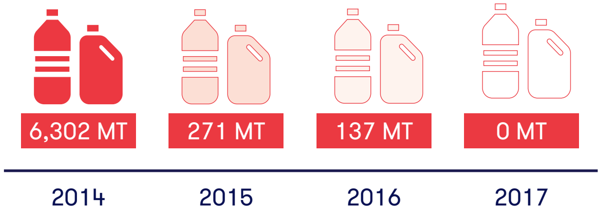
We intend to continue to improve our care of the esteros, and adopt additional water bodies in the future, starting with Sto. Tomas in Batangas, and Cebu.

PACKAGING MATERIALS

PCPPI is also conscious of the need to lessen the amount of solid waste that ends up in the landfill, or worse, pollutes bodies of water. Solid waste management is a critical concern in the Philippines; the country ranks third in terms of waste, globally. Given that the FMCG sector is a major waste generator, PCPPI joined PARMS, a coalition of companies seeking a solution to the problem of waste, particularly plastic waste.

Since 2014, in collaboration with PepsiCo and Lotte, PCPPI has implemented a packaging innovations program with the objective of optimizing packaging materials used in our products. This involves “material lightweighting” or reducing the amount of material that goes into packaging, from the bottle itself to the plastic wrapping used.

The packaging innovations we adopted resulted in smaller amounts of plastic resin in our packaging every year:



In 2018, PCPPI was able to deliver the intended volumes to consumers but with a sizeable reduction in packaging materials usage:

Plastic resin used
in our PET containers by

38.3 MT

Glass material reduction
in our glass bottles by

1,040.4 MT

Carton material
usage reduction by

68.95 MT

The program is aligned with PCPPI's commitment to reduce our waste footprint. The lightweighting program has resulted in both economic and environmental benefits, not the least being diverting tons of solid waste from landfills by minimizing the use of glass, PET, and paper.

ELECTRICITY

We encourage our business units to collaborate and find solutions with widespread benefits. Under our energy management system roadmap, we are already using energy-efficient lighting and machinery in our plants; we also encourage our distributors to do the same.

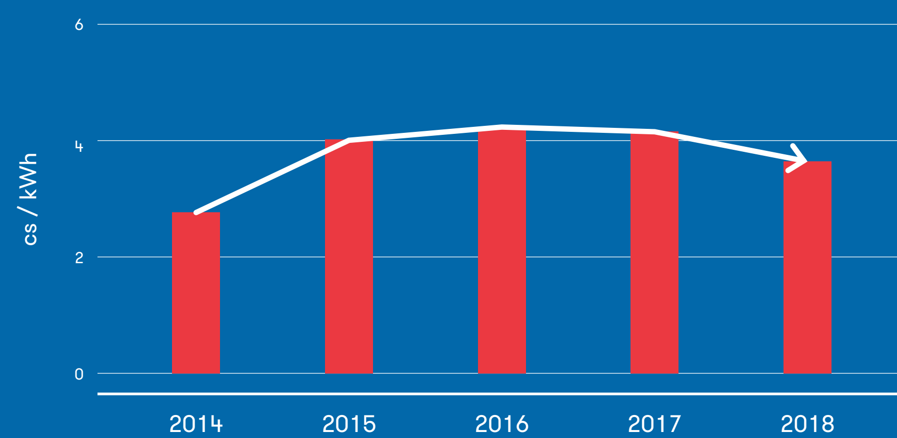
In the interests of energy reduction, we shut down our CO_2 plant and increased the capacity of our third-party provider to produce what we need for our carbonated drinks. Given that this supplier is using biomass, we have further minimized our emissions. Down the line, we expect that most of our operations will be powered by a cogeneration plant.

Similar to our water-savings initiatives, we have also initiated a more stringent process of monitoring our energy usage, as a crucial step in limiting our use. Efficient use of steam has improved maintenance implementations, particularly in bottle washers. In 2018, the need for steam and fuel meters was identified, for investment and full implementation in 2019.

2019 CAPEX BUDGET	
Boiler meter:	Php 20 million
Boiler control:	Php 23 million
Steam meter:	Php 1.5 million

Luntiang Yaman aims to improve the electricity utilization by 5% year-on-year by implementing improvements in practices such as use of skylights to reduce dependency in electronic lighting, and replacement of high bay lamps with LED bulbs to reduce consumptions.

Electricity Yield



The implementation of EPIRA law in 2016 enabled PCPPI to attain financial savings of at least Php 63 million in 17 billing periods by shifting the five mandatory contestable plants to Retail Electricity Supply. In 2018, PCPPI saved 7.7 million kWh of direct electricity from manufacturing operations and 9.1 million kWh indirect electricity from packaging initiatives.

WITH OUR SUPPLIERS:

Our packaging innovations program also has the added benefit of using less energy to process less material.

In 2018, we helped our suppliers save on energy* that would have been used to produce our packaging materials:

Plastic resin	Glass	Paper
940,927 kWh	**7,426,447 kWh**	**718,803 kWh**

Did you know?
The energy saved through packaging innovations is enough to light up 40,745 households.**

* Computation based on the following factors, itemizing the amount of energy it takes to produce a kilogram per material type:
Paper: 25-50 MJ (6,950 to 13,9000 watt-hours)
Plastics: 62-108 MJ (17,200 to 31,950 watt-hours)
Glass: 18-35 MJ (5,000 to 9,700 watt-hours)
Source of computation: https://www.lowtechmagazine.com/what-is-the-embodied-energy-of-materials.html

** Computation based on Philippine household consumption of electricity per capita of 248.1 kilowatts per hour, from the years 2000-2016 from www.statista.com.

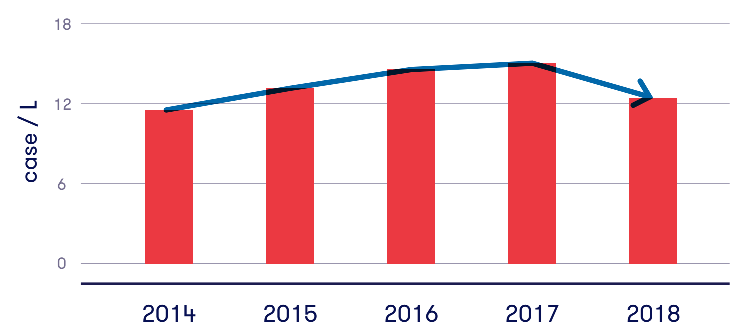
CLEANER FUEL FOR FORKLIFTS

Our Talas Kaisipan ("Sharp Intellect") initiative encourages our people to be problem-solvers by looking for smarter ways to improve on productivity and efficiency. In 2018, our Supply Chain and Operations personnel plotted our delivery truck routes and delivery times to find the most expedient, least-traffic-hitting ways to reach our consumers, thus saving on our fuel needs. They also made sure to increase the capacity of our trucks so that we are able to load and distribute more product, minimizing the number of return trips. [Please see related story on Supply Chain Management.]

The company has also started transitioning from diesel fuel to cleaner-burning liquid petroleum gas (LPG). This continues an earlier initiative of transitioning to clean and/or renewable energy, when PCPPI shifted its energy source from bunker fuel to steam for its plant production facilities in 2010.

Forklifts, now running on LPG, move the raw and packaging materials, and finished products from production area to delivery trucks up to the receiving plants and sales offices. As of 2018, all our forklifts are using LPG as fuel. Not only did this shift entail cost savings, it also resulted in fewer gaseous emissions, such as NOx and SOx, as well as particulate matter, than if diesel had been used.

Fuel Yield



SUPPLY CHAIN MANAGEMENT

PCPPI Supply Chain Group performs three primary functions that contribute a great deal to product manufacturing and availability. These functions include planning, procurement and, finally, the distribution of the items going to the various Business Units that manufacture them.

The planning process starts with the demand outlook provided by the sales team. From there, the Inventory Planning and Control (IPC) team determines the required Raw Materials, Packaging Materials over the next three to 12 months and completes a supply plan for the items that will be used by the various manufacturing plants.

Once the plan is determined, the procurement team collaborates with various vendors in order to acquire the materials/items that are necessary for the company's operations at best value. Within that scope, the team works to negotiate the best price, and at times, together with the manufacturing team, drive the innovation of the materials in order to reduce the amount needed by the company for its operations generating less usage and better cost of operations.

After procuring the items and once the imported items start to arrive, the importation team collaborates with various brokers in order to release our imported items from the bureau of customs. Once released, the central warehousing team steps in to manage the receiving of the items as well as the distribution of the items going to the various manufacturing plants in alignment with the plan that was determined by the IPC team. The central warehousing team is also responsible for the locally procured RMPM that will be directly delivered to the central warehouse before being distributed to the various manufacturing sites.

Due to the setup of our manufacturing plants nationwide, the manufacturing of the finished goods (FGs) are either centralized or de-centralized: controlled either centrally or de-centrally. For the de-centrally controlled FGs, the affected FGs are the returnable glass bottles (RGB) stock keeping units (SKUs) as the quantity to be produced at each RGB manufacturing line is determined independently by the Business Unit that operates the RGB manufacturing line. For the Non-returnable SKUs, the manufacturing of these are controlled centrally by the National Logistics Services (NLS) based in HO Operations.

- Decentralized Manufacturing: RGB SKUs (quantities to be produced at each manufacturing line is determined independently by the Business Unit operating the RGB manufacturing line.)
- Centralized Manufacturing: Non-Returnable SKUs (managed by NLS, based in HO operations)

NLS provides support solutions to plant logistics, as well as for the raw materials and packaging. National logistics handles the national planning, production and distribution of non-returnable stocks, including beverage in bottle (returnable and non-returnable). Within NLS, there are two teams, the Product Availability Management (PAM) Team and Logistics & Transport Solutions Team. Additionally, all the Logistics Service Managers of the Business Units report functionally to the NLS.

The PAM Team manages the planning and production of the Non-returnable SKUs at the national level. While the Logistics & Transport Solutions Team provide support services related to warehousing and storage of products, storage capacity planning, and volumes. They also check the actual capacity of the warehouses to see how these can be improved. The Logistics & Transport Solutions Team also provide support in relation to Inbound Logistics (sourcing, storage and distribution of raw and packaging materials) and Outbound Logistics (end-of-line storage, transfer to warehouses, storage and distribution of finished products)

For third-party warehouses at the sales offices, these are contract warehousing operations and are handled by finance. At the business unit level, Inbound Logistics handles raw materials and packaging materials, while Outbound Logistics handles FGs which is majority of the operations at the business unit level.

SUPPLY CHAIN IMPROVEMENTS AND ENHANCEMENTS

Enhanced sales and operation planning (S&OP)

- ✓ PCPPI implemented a more rigorous sales and operation planning process which encompass the processes involved in sales, operations, supply chain, and finance. This process was formalized in October 2018.
- ✓ The main objective is to align the functions in terms of the direction of the company; establish the demand for the product we are selling; establish the supply plan (which includes evaluating the risks that we foresee in terms of our direction), and then, together with finance, look at the commercial impact of our planned activities. This is then elevated to the executive committee for approval.
- ✓ The S&OP serves as a venue where the functions can discuss and communicate the overall direction, demand outlook, supply risks, and commercial viability on a monthly basis. This allows PCPPI to make the necessary preparations and adjustments within each function with a common objective.
- ✓ The main risks that the S&OP process is trying to reduce significantly, if not eliminate completely, are shortfall to customer (service level) and wastages.

SKU Streamlining

- ✓ One major project of National logistics was SKU streamlining. This project had major financial impact, in terms of minimizing losses and wastage due to expiration both for RMPM and FG. The SKU streamlining was a collaboration between national logistics, sales and marketing, and production and the supply chain. This was a comprehensive project that went all the way up to the president.

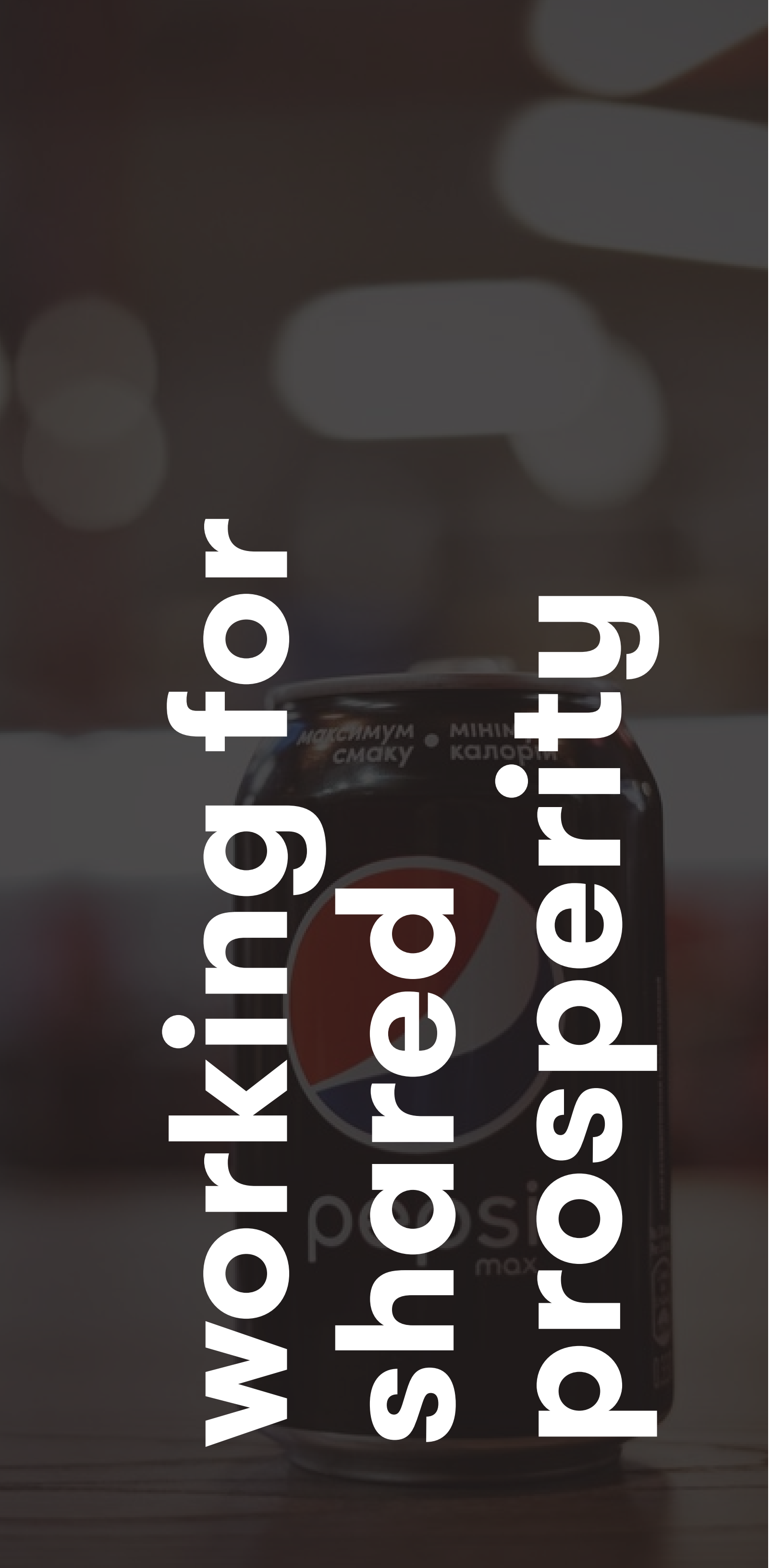
Warehouse Streamlining Project

- ✓ Two years ago, PCPPI implemented a warehouse streamlining project, undertaken by National Logistics. We were able to expand our warehouse capacity, which directly benefited our operations.
- ✓ National Logistics services also spearheaded a warehouse streamlining project. Part of the effort included relocating our warehouses nearer to our plant sites, and to reduce or compress the number of warehouses for greater efficiency.
- ✓ Objectives of the project were to drive profitability by optimizing resources, and to maximize efficiency by reducing costs. If, for instance, products can be shipped directly to the retail site instead of transporting to another location, it is possible to reduce costs.
- ✓ The warehouse streamlining project also involved central storage and shipping, Modern Trade Operations, and the Muntinlupa plant operation. With respect to raw materials and distribution per se, the effort is to reduce or eliminate waste. PCPPI must manage anything that is bought or procured to avoid wastage. One of the initiatives was to implement efficiency reporting for the inventory and planning side.
- ✓ We also work with a network of partner truckers and haulers (PCPPI currently has five partners), as well as over-water forwarding operations. Before, we used to only work with only a few overwater partners, but we have since tried to diversify and have expanded our network of partners in order to have better options, improved rates, and greater flexibility in terms of the service required.
- ✓ In terms of transport, in 2018, we had a project for domestic freight over water. Effective negotiations with shipping lines for better rates enable us to generate substantial savings on shipping costs. We now have five partners for shipping.
- ✓ From a supplier management side, with more suppliers available, there is greater flexibility of operations as dependency on to a single supplier is eliminated. Having more suppliers also helps in managing the company's cash flow as it provides greater flexibility in managing the operating capital.

Streamlining Sales Offices

- ✓ There is a national project for the network redesign of sales office. Previously, PCPPI had more than 90 sales offices across the Philippines.
- ✓ By streamlining our sales offices, PCPPI was able to reduce transport and inventory carrying costs, which had significant impact on our bottom line.
- ✓ In 2018, PCPPI started merging selected sales offices. PCPPI distributors can go straight to the plant instead of having to go to a sales office. Direct delivery is also possible from plant to the customers (distributors or key accounts.) This lessens transport costs and handling.
- ✓ In relation to product handling, PCPPI also implemented initiatives to maximize and optimize load/pallet capacity. Instead of 30 cases to a pallet, it is now possible for us to achieve 40 to 50 cases to a pallet.

working for shared prosperity



PCPPI CSR INITIATIVES

PCPPI believes in more than being the best performer when it comes to corporate processes and plant operations. Spurred by the management's vision of promoting innovation and creating positive impact on communities, the company seizes the opportunity to be a vital part of progress at the grassroots through its corporate social responsibility (CSR) initiatives.

In line with PCPPI's main sustainability priorities, the following programs were implemented for 2018:

WATER STEWARDSHIP

Access to safe water, sanitation, and hygiene (WaSH) is of utmost importance to PCPPI. Among the PCPPI initiatives which have greatly benefited communities across the country is PCPPI's Water for Peace in Marawi. Responding to the local community's cry for help, PCPPI committed to turning over 12 water tanks to the city with the goal of servicing more than 140,000 individuals and providing more than 3,551 students access to clean water. [See accompanying feature.]

PCPPI's employees uphold the company's spirit of service by participating in the company's CSR initiatives. For the Water for Peace in Marawi project, 30 volunteers devoted a total of 200 hours to bring the water tanks to the schools and temporary shelters and distribute water to the city's residents.

In line with PCPPI's water stewardship, employees have also consistently participated in estero and coastal clean-up activities, as well as watershed replenishment through tree-planting, and World Water Day.

CIRCULAR ECONOMY

Aside from the internal initiative of Luntiang Yaman, PCPPI has embraced the concept of a circular economy by being a regular participant in (and sponsor of) seminars and summits that promote responsible manufacturing. All 13 plants of PCPPI also participate in Earth Hour, signifying the company's support to address plant emissions and help combat climate change. This 2018, the plants saved 621.60 kWh for Earth Hour, equivalent to 0.46 MT of CO2, or 52.1 gallons of gasoline, or 1,135 miles driven by an average passenger vehicle.

As a member of the Philippine Alliance for Recycling and Materials Sustainability (PARMS), PCPPI has also been addressing post-consumer waste through a joint recycling facility. Together with PARMS partners, and in coordination with the Lake Management Office of Muntinlupa, PCPPI joined the International Coastal Cleanup (ICC) 2018. Volunteers cleaned the waterway system in Muntinlupa City, home to PCPPI's largest plant and home office. Simultaneous clean-ups were also conducted along Batangas, Subic, and Cebu.

To further promote environmental awareness, PCPPI is also a supporter of Miss Earth and Miss Econest pageants. The latter's inaugural competition in 2018, for example, crowned the "ecoguardian" who will serve as the ambassador for promoting proper solid waste management.

INCLUSIVE BUSINESS

As a partner in nation-building, PCPPI concentrates on capacity-building activities in the localities where the company operates. This could be in the form of livelihood or educational support. In some cases, PCPPI acts as helpmate to the government in bringing basic services to the local communities.

INCLUSIVE PROSPERITY FOR MICRO-, SMALL, AND MEDIUM ENTERPRISES (MSMES)

PCPPI provides direct employment opportunities for startup entrepreneurs. Started over 10 years ago, the company's Entrepreneurial Distribution System (EDS) offers enterprising individuals the opportunity to serve as distributors of Pepsi products. EDS works by allowing independent contractors to service one or more sales routes, usually by truck, to supply retail outlets.
These contractors also collect the empty returnable bottles (RGBs). EDS also partners with sari-sari stores, which serve as points-of-sale.

INCLUSIVE PROSPERITY THROUGH EDUCATION

PCPPI is a long-time partner of the Department of Education (DepEd), through the Adopt-a School program and the Brigada Eskwela program or nationwide school maintenance week. The Adopt-A-School program assists public schools by linking them with private institutions. Employee-volunteers were active not just in the Brigada Eskwela but also in turning over equipment to the Muntinlupa National High School and the Muntinlupa Elementary School.

In addition, PCPPI supported DepEd's culmination of National Teachers' Month on October 5, 2018. Established in 2008, this year's celebration—which features a talent show, games, and other activities had over 6,000 teachers in attendance in its host city of Ormoc, its biggest celebration by far.

INCLUSIVE GROWTH FOR UNDERSERVED AREAS

PCPPI employees have the heart to be of service to underserved communities. In partnership with the Department of Health (DOH) Philippine Centers for Specialized Health care internship program, post-graduate interns and Pepsi employees hosted a two-day medical mission in the underserved communities of Batad, Iloilo. The "G sa Iloilo: Reach the Unreachable" project provided locals with free consultation and medicines, along with complimentary Pepsi products such as Aquafina and Premier mineral water, Tropicana juice, and Gatorade. The project provided hundreds of locals in the communities of Bulak Norte, Binon-an, and Cabagohan with comprehensive, holistic medical service. PCPPI aims to expand this initiative to reach more beneficiaries in rural Visayas.

We continue to engage internal and external stakeholders through CSR programs that provide them with opportunities to help transform their lives.

PEPSI AND PDRF: 'WATER FOR PEACE IN MARAWI'

Marawi City's five-month siege from May to October 2017 had a costly toll: millions in infrastructural damage and 72,000 families displaced. Given that water facilities were destroyed, access to clean water has been limited. A year has passed, and the region is still recovering.

PCPPI saw the need to bring aid to Marawi. Embodying the spirit of unity, Pepsi teamed up with Philippine Disaster Resilience Foundation (PDRF) and Task Force Bangon Marawi to provide the displaced communities, and various elementary schools sheltering them, with water tanks. The company believes that with a stable water source, the locals will have a renewed determination to rebuild their city.

The goal to provide hope and a better standard of living for Marawi locals became a part of Pepsi Philippines' 'Water for Peace in Marawi' initiative.

Rather than just providing water donations, the partner-organizations came up with the solution of providing water tanks as a more sustainable solution to the region's problem. The project's initial goal was to provide a total of 12 cylindrical stainless-steel water tanks with 20,000-liter capacity to underserved shelter sites. Upon the beneficiaries' request, these 12 tanks have since been converted to seven 20,000-liter water tanks for camps, 10 3,200-liter tanks for schools, and one 50,000-liter tank for the new camp.

WE HAVE PROVIDED

140,000+
internally displaced persons

3,551+
students in Marawi City

ACCESS TO 222,000 LITERS OF WATER

7	**20,000-liter water tanks** for 6 camps
10	**3,200-liter water tanks** for 10 schools
1	**50,000-liter water tank** for the new camp

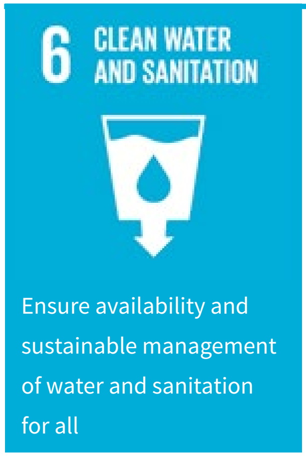
On August 28, 2018, the first water tank was turned over to the village of Bito Buadi Itowa. The 20,000-liter water tank serviced the underserved shelter sites across Lanao del Sur. On November 23, 2018, two more 3,200-liter water tanks were turned over to various elementary schools, with the first beneficiaries being Rorogagus Elementary School and Abdulazis Elementary School.

Beyond providing a water source, PCPPI and PDRF also conducted Water Sanitation and Hygiene (WaSH) activities for the children at the Area 1 Sagonsongan Village. Proper hygiene and waste management were taught through simple lessons, games, and songs. Hygiene kits containing basic toiletries like soap, toothpaste and toothbrush, and hand towel, were also distributed. By the end of 2018, Pepsi and PDRF have been able to provide seven 20,000-liter tanks and 10 3,200-liter water tanks. Come 2019, a 50,000-liter tank is set for turnover to a new camp in Marawi, and nine more WaSH training workshops will be conducted for the community.

MAPPING AGAINST THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

The United Nations Sustainable Development Goals (UN SDGs) serve as a universal guide by which governments, and now corporations, model initiatives that would help solve shared challenges confronting the world. Ever a team player, PCPPI believes in aligning our own sustainability priorities with the global community—through the Performance with Purpose 2025 Agenda of PepsiCo, but as well as the UN SDGs. At the very least, we believe our contributions, however small, will have a meaningful impact. In batting for the same goals, our chances of winning the fight for a safer, healthier, and more humane world become much better.

WATER



Pepsi treats water as a precious resource. Since 2014, we have been able to practice conservation and to reduce our water consumption every year.

In the absence of a stable water source in Marawi City, we contributed water tanks to ensure that residents have a reliable access to safe, potable water.

We expanded our hydration categories to include water and have launched products such as carbonated drinks with reduced sugar.

CIRCULAR ECONOMY

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Ensure sustainable consumption and production patterns

All our manufacturing plants practice materials conservation, resource management, and recycling through the Luntiang Yaman Program.

13 CLIMATE ACTION

Take urgent action to combat climate change and its impacts

All our manufacturing plants participate in Earth Hour activities and practice solid waste management, and energy-saving and emissions reduction activities through the Luntiang Yaman Program.

14 LIFE BELOW WATER

Take urgent action to combat climate change and its impacts

All our manufacturing plants participate in clean-up activities through the Adopt-A-Creek program and the annual International Coastal Clean-Up.

17 PARTNERSHIPS FOR THE GOALS

Revitalize the global partnership for sustainable development

PCPPI, as a member of the Philippine Alliance for Recycling and Materials Sustainability (PARMS), is directly involved in recycling efforts and coastal clean-ups to lessen plastic pollution.

INCLUSIVE BUSINESS

8 DECENT WORK AND ECONOMIC GROWTH

Ensure sustainable consumption and production patterns

We have ramped up our Occupational Safety and Health (OSH) campaigns. In 2019, we will also be holding our Environment, Health, and Safety (EHS) Summit.

5 GENDER EQUALITY

Achieve gender equality and empower all women and girls

PCPPI practices gender parity in employee hiring and promotions, and calendars initiatives for gender mainstreaming and inclusion yearly.

4 QUALITY EDUCATION

Ensure inclusive and equitable quality education

PCPPI regularly participates in the Department of Education’s Brigada Eskwela program and supports National Teachers’ Month.

it's a team effort!

PCPPI's approach to corporate governance enables our company to manage and direct our operations, address risks to the business, and respond to the needs and concerns of our stakeholders. Our commitment to integrity and our drive to maintain the highest standards of corporate governance allow us to sustain our business operations, serve our customers with the products that they love, and adapt to the needs and preferences of a growing market.

Passion and excellence, two of our PEPSI values, shape our corporate culture, and we believe that these are also what motivates our people to give their best. We take responsibility for our people, in terms of giving them work that is both challenging and rewarding, and we strive to give them opportunities to grow with us. At the same time, we work closely with our service providers, suppliers, and contractors and seek to build productive and mutually beneficial relationships with them. As they are partners in our business, we share our commitment to service and best practices with them.

OUR BOARD COMPOSITION

The PCPPI Board of Directors (BOD) holds the responsibility for establishing and developing standards and strategies for the company, and to ensure that all activities are aligned with our mission and vision. The board members are industry leaders in their own right and are well-positioned to contribute their experience and expertise to our organization. Beyond their business acumen, they are also selected for their commitment to social responsibility. The BOD is led by an independent, non-executive chairperson, and includes two independent directors to facilitate conflict management and ensure affiliations do not hamper governance.

The Executive Committee oversees financial and operating performance. This committee is also responsible for formulating pricing, sales, and marketing strategies, as well as planning for capital expenditures. Our senior general managers are accountable for our workforce, as well as market strategies.

Nomination Committee. Led by an independent director, this committee ensures that leaders are identified and selected based on their qualifications, as well as their vision, and integrity.

Compensation and Remuneration. This committee is led by an independent director, while another independent director also sits as a member of the committee. It is tasked to ensure that the compensation of the BOD remains fair and competitive.

Audit Committee. This is led by an independent director, with another sitting as a committee member. The committee assists the BOD in executing its fiduciary responsibilities and maintains oversight over the company's financial reporting and internal control. It also coordinates with external auditors and ensures the integrity of the audited financial statements.

The internal audit group conducts regular and ad hoc reviews of risk management procedures; these are then submitted for the review of the Audit Committee at the Board level. An external audit firm is tasked to conduct annual risk audits, as well as matters relevant to financial reporting and internal controls. These reports are submitted to the Audit Committee.

PCPPI also has a compliance officer, who reports directly to the BOD. This helps establish a culture of integrity and transparency.

UPDATES ON OUR CORPORATE GOVERNANCE POLICIES

Data Privacy Act

In compliance with the Data Privacy Act of 2012 (DPA), PCPPI has established its Data Protection Office with the appointment of Atty. Lope R. Manuel, Jr., PCPPI's Vice-President for Legal, Corporate and Government Affairs. In 2018, PCPPI embarked on its Data Privacy Compliance Project with the assistance of PricewaterhouseCoopers. This project endeavours to evaluate the data processing systems of the company, conduct privacy impact assessment and increase the awareness and compliance of the employees with the DPA.

Compliance with Regulatory Requirements

In furtherance of PCPPI's efforts to build a culture of compliance, PCPPI, with the assistance of its legal consultant, conducted a company-wide review of the availability of legal and regulatory requirements, and implemented its plan of action on the observations.

Henceforth, regular monitoring and reporting of permits and licenses of the head office, plants, and sales offices are being conducted by the Compliance Team.

Policies and Guidelines for Employees

PCPPI has made effective and cascaded several policies and guidelines mandated by the Department of Labor and Employment (DOLE). These include policies and guidelines on prolonged sitting and standing, prevention and control of heat stress; awareness and prevention of HIV-AIDS, severe acute respiratory syndrome (SARS), tuberculosis, and Hepatitis B; maintaining a drug-free, alcohol-free and smoke-free workplace; breastfeeding; and anti-sexual harassment.

The anti-graft and corruption policy was also enhanced, particularly providing for the procedure for approval of giving out products.

PCPPI also has a whistleblowing policy in place, entitled Speak-Up Program, which provides for various channels, i.e., sms, call, email for employees and third parties to report on any possible infraction or violation of policies by PCPPI employees.

Suppliers' Code of Conduct

PCPPI has worked toward building a positive reputation in the fast-moving consumer goods (FMCG) industry as a company driven by professionalism and integrity in pursuit of being the premier beverage company in the Philippines. PCPPI's commitment to adhere to the highest legal and ethical standards of business conduct is fundamental to that reputation. Adherence to these standards protects the consumers, as well as the company and its business partners.

PCPPI has improved its current Compliance Guidelines for Suppliers and came up with the Suppliers' Code of Conduct in 2018 which will be completely rolled-out in 2019. Aside from the anti-corruption/bribery principles which have been included in the previous guidelines, PCPPI has specifically provided for in the Suppliers' Code of Conduct the compliance with Business Integrity and Ethical Standards, Human Rights and Labor Standards, Health and Safety, and Quality and Food Safety, and Environmental Impact. It also provides for the modes by which PCPPI can be contacted if there are complaints or concerns to be addressed.

It is the responsibility of every supplier to be knowledgeable about and comply with this Supplier Code. In addition to the standards described therein, the suppliers are expected to comply with all applicable laws, regulations and contractual terms. The company takes violations seriously, so it is important to know the applicable requirements, and comply accordingly.

Respecting human rights, minimizing environmental impacts, providing safe places to work, and ensuring the sustainability of business operations — these are highly considered when we choose and work with suppliers. By working together on these issues we can create strong business relationships and ensure we have a positive impact on the people and communities we work with and depend upon. We believe it also strengthens both PCPPI and our partners' businesses.

management committee

Yongsang You
CEO

Samudra Bhattacharya
President

Khaled Mahmoud Metwalli
Chief Financial Officer
and Chief Audit Executive

Allan A. Frias II
SVP, Operations

Domingo F. Almazan
SVP, National Sales

Ma. Vivian A. Cheong
SVP, Human Resources

Samuel M. Dalisay, Jr.
VP, Supply Chain

Aristedes H. Alindogan
VP, Senior General Manager (Luzon)

Lyndon Ferdinand J. Cuadra
VP, Senior General Manager (Visayas)

Roberto E. Tongcua
VP, Senior General Manager (Mindanao)

Lope R. Manuel, Jr.
VP, Legal and Government Affairs/ Compliance Officer/ Data Protection Officer

BOARD OF DIRECTORS

Oscar S. Reyes
Chairman

Yongsang You
CEO

Samudra Bhattacharya
President

Younggoo Lee
Director

Byoung Tak Hur
Director

Mohammad Qasim Khan
Director

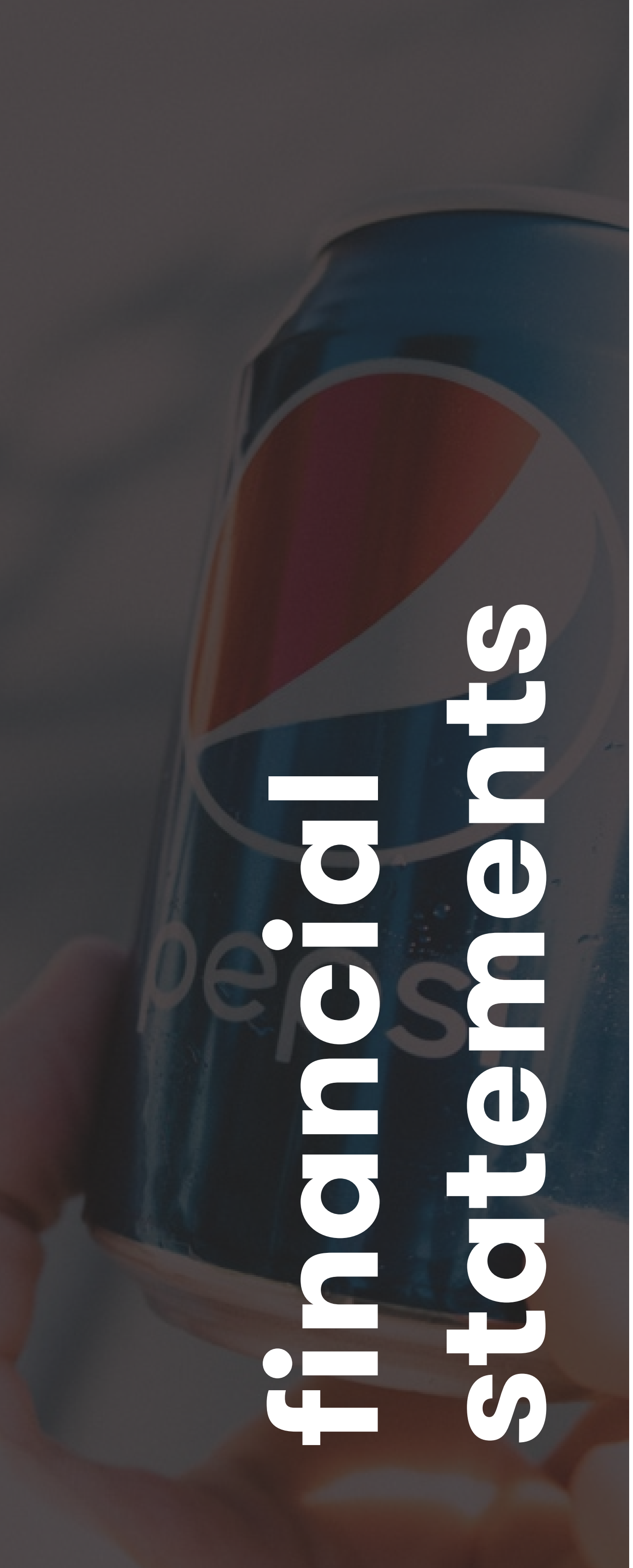
Kaushik Gunakar Mitra
Director

Tae Hyeon Kim
Director

Rafael M. Alunan III
Director

Kristine Ninotschka L. Evangelista
Corporate Secretary

Camille Maria L. Castolo
Assistant Corporate Secretary



Pepsi-Cola Products Philippines, Inc.
Km. 29, National Road, Tunasan, Muntinlupa City, 1773 Philippines
Tel.: (632) 88-PEPSI(73774) • www.pepsiphilippines.com

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **Pepsi-Cola Products Philippines, Inc.** (the "Company") is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, as at **December 31, 2018 and 2017** and for each of the three years in the period ended December 31, 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the Stockholders.

R. G. Manabat & Co., the independent auditor appointed by the Stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

OSCAR S. REYES
Chairman of the Board

YONGSANG YOU
Chief Executive Officer

SAMUDRA BHATTACHARYA
President

KHALED MAHMOUD MAHMOUD METWALLI
Senior Vice-President,
Chief Financial Officer and
Chief Audit Executive

Signed this 28th day of March 2019

R.G. Manabat & Co.
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Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

The Stockholders and Board of Directors
Pepsi-Cola Products Philippines, Inc.
Km. 29, National Road
Tunasan, Muntinlupa City

Opinion

We have audited the financial statements of Pepsi-Cola Products Philippines, Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Revenue Recognition

The Company's accounting policy with respect to revenue recognition is included in Note 3, Significant Accounting Policies, to the financial statements.

The risk: The nature of the Company's selling and distribution system, the high volume of products, its geographical locations, and various stakeholders' expectations pose a risk that the Company may recognize certain revenue from sale of goods at or near the year-end without meeting all the required recognition criteria and conditions under Philippine Financial Reporting Standard (PFRS) 15, *Revenue from Contracts with Customers.*

Our response: Our audit procedures included, among others: assessment of the design and effectiveness of controls in respect of revenue; identifying and testing the Company's key revenue controls in selected locations with detailed testing of transactions; assessment of whether the Company's revenue recognition policy in place complies with PFRS15 and ensuring its consistent application; performing sales cut-off procedures prior to and post year-end; and testing of credit memos issued after year-end. In addition, we evaluated the reasonableness of revenues by developing an expectation of the current year balance based on trend analysis, taking into account historical monthly sales data and circumstances in the current year. We also tested a sample of manual journal entries to identify unusual or irregular items.

Provisioning

The Company's accounting policies with respect to provisions is included in Note 3, Significant Accounting Policies, to the financial statements.

The risk: The Company is subject of a disputed assessment for deficiency taxes for the taxable periods in 2010. The Company appealed this assessment to the Court of Tax Appeals, for which on-going proceedings are being conducted. The Company applied judgment when determining whether to provide, and how much to provide for these tax matters. The magnitude of potential exposures and the inherent uncertainty of the case and judgment involved in determining whether to make additional provisions and disclosures pose a risk on the appropriate recognition of provisions under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

Our response: Our audit procedures included assessment of the design and implementation of controls around the recognition and continuous re-assessment of tax provisions. With the assistance of our tax specialists, we assessed the Company's tax positions, its correspondence with the relevant tax authorities and its external tax advisors, assessed assumptions used to determine tax provisions and inspected relevant supporting documentation through audit sampling. In addition, we obtained formal confirmation from the Company's legal counsel. We also considered the adequacy of the Company's disclosures in the financial statements with respect to these proceedings.

PRC-BOA Registration No. 0003, valid until March 15, 2020
SEC Accreditation No. 0004-FR-5, Group A, valid until November 15, 2020
IC Accreditation No. F-2017/010-R, valid until August 26, 2020
BSP - Selected External Auditors, Category A, valid for 3-year audit period (2017 to 2019)

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of the accounting estimates and related disclosures by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements, or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Vernilo G. Yu.

R.G. MANABAT & CO.

VERNILO G. YU
Partner
CPA License No. 108798
SEC Accreditation No. 1574-A, Group A, valid until August 11, 2019
Tax Identification No. 225-454-652
BIR Accreditation No. 08-001987-35-2018
Issued September 20, 2018; valid until September 19, 2021
PTR No. MKT 7333641
Issued January 3, 2019 at Makati City

March 28, 2019
Makati City, Metro Manila

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

		December 31	
	Note	2018	2017
ASSETS			
Current Assets			
Cash	*4, 25*	**P548,598**	P498,352
Receivables - net	*5, 23, 25*	**2,542,413**	2,404,681
Inventories	*6*	**5,039,641**	2,484,230
Due from related parties	*22, 25*	**567,309**	580,174
Prepaid expenses and other current assets		**281,643**	284,299
Total Current Assets		**8,979,604**	6,251,736
Noncurrent Assets			
Investments in associates	*7*	**612,656**	596,077
Bottles and cases - net	*8*	**4,440,968**	4,970,119
Property, plant and equipment - net	*9*	**11,819,220**	11,920,635
Deferred tax assets	*12*	**115,781**	125,397
Other noncurrent assets		**204,411**	280,407
Total Noncurrent Assets		**17,193,036**	17,892,635
		P26,172,640	P24,144,371
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*10, 13, 23, 25, 26*	**P9,221,397**	P8,132,493
Short-term debt	*11, 25*	**1,000,000**	3,100,000
Current portion of long-term debt	*11, 25*	**795,456**	598,749
Income tax payable		**8,861**	42,343
Total Current Liabilities		**11,025,714**	11,873,585
Noncurrent Liabilities			
Long-term debt - net of current portion	*11, 25*	**4,626,874**	1,147,783
Deferred tax liabilities	*12*	**696,564**	870,002
Other noncurrent liabilities	*13, 25, 26*	**664,423**	807,545
Total Noncurrent Liabilities		**5,987,861**	2,825,330
Total Liabilities		**17,013,575**	14,698,915
Equity			
Share capital	*14*	**1,751,435**	1,751,435
Remeasurement losses on net defined benefit liability	*13*	**(195,079)**	(270,754)
Retained earnings	*11, 15*	**7,602,709**	7,964,775
Total Equity		**9,159,065**	9,445,456
		P26,172,640	P24,144,371

See Notes to the Financial Statements.

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

		Years Ended December 31		
	Note	2018	2017	2016
GROSS SALES	*24*	**P38,437,515**	P35,866,107	P35,751,495
LESS SALES DISCOUNTS, RETURNS AND ALLOWANCES	*24*	**4,843,097**	5,560,539	5,431,027
NET SALES		**33,594,418**	30,305,568	30,320,468
COST OF GOODS SOLD	*16*	**27,883,367**	23,032,590	23,406,143
GROSS PROFIT		**5,711,051**	7,272,978	6,914,325
OPERATING EXPENSES				
Selling and distribution	*17*	**3,998,494**	4,418,587	3,676,995
General and administrative	*18*	**1,190,181**	1,055,267	970,232
Marketing	*23*	**666,062**	941,953	1,005,630
		5,854,737	6,415,807	5,652,857
OPERATING PROFIT (LOSS)		**(143,686)**	857,171	1,261,468
FINANCE AND OTHER INCOME (EXPENSES)				
Equity in net earnings of associates	*7*	**16,579**	11,880	13,920
Interest income	*4, 22*	**5,354**	4,725	4,427
Interest expense	*11, 26*	**(275,329)**	(136,837)	(90,768)
Other income - net	*26*	**134,544**	31,065	23,304
		(118,852)	(89,167)	(49,117)
PROFIT (LOSS) BEFORE TAX		**(262,538)**	768,004	1,212,351
INCOME TAX BENEFIT (EXPENSE)	*12*	**62,998**	(226,679)	(359,229)
PROFIT (LOSS) FOR THE YEAR		**(199,540)**	541,325	853,122
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified to profit or loss				
Remeasurement gains (losses) on defined benefit liability - net of deferred tax	*12, 13*	**75,675**	(3,602)	10,661
TOTAL COMPREHENSIVE INCOME (LOSS)		**(P123,865)**	P537,723	P863,783
Basic/Diluted Earnings Per Share	*21*	**(P0.05)**	P0.15	P0.23

See Notes to the Financial Statements.

PEPSI-COLA PRODUCTS PHILIPPINES, INC.
STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

		Years Ended December 31					
		Share Capital					
	Note	**Capital Stock** (see Note 14)	**Additional Paid-in Capital** (see Note 14)	**Total**	**Remeasurement Gains (Losses) on Net Defined Benefit Liability** (see Note 13)	**Retained Earnings** (see Note 15)	**Total Equity**
Balance as at December 31, 2015		P554,066	P1,197,369	P1,751,435	(P277,813)	P7,068,987	P8,542,609
Total comprehensive income							
Profit for the year		-	-	-	-	853,122	853,122
Other comprehensive loss - net		-	-	-	10,661	-	10,661
Total comprehensive income		-	-	-	10,661	853,122	863,783
Transaction with equity holders of the Company directly recorded in equity							
Cash dividends during the year	*15*	-	-	-	-	(243,789)	(243,789)
Balance as at December 31, 2016		554,066	1,197,369	1,751,435	(267,152)	7,678,320	9,162,603
Total comprehensive income							
Profit for the year		-	-	-	-	541,325	541,325
Other comprehensive gain - net		-	-	-	(3,602)	-	(3,602)
Total comprehensive income		-	-	-	(3,602)	541,325	537,723
Transaction with equity holders of the Company directly recorded in equity							
Cash dividends during the year	*15*	-	-	-	-	(254,870)	(254,870)
Balance as at December 31, 2017		554,066	1,197,369	1,751,435	(270,754)	7,964,775	9,445,456

Forward

		Share Capital					
	Note	Capital Stock (see Note 14)	Additional Paid-in Capital (see Note 14)	Total	Remeasurement Gains (Losses) on Net Defined Benefit Liability (see Note 13)	Retained Earnings (see Note 15)	Total Equity
Total comprehensive income							
Profit (loss) for the year		P -	P -	P -	P -	(P199,540)	(P199,540)
Other comprehensive loss - net		-	-	-	75,675	-	75,675
Total comprehensive income		-	-	-	75,675	(199,540)	(123,865)
Transaction with equity holders of the Company directly recorded in equity							
Cash dividends during the year	15	-	-	-	-	(162,526)	(162,526)
Balance as at December 31, 2018		P554,066	P1,197,369	P1,751,435	(P195,079)	P7,602,709	P9,159,065

Years Ended December 31

See Notes to the Financial Statements.

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

			Years Ended December 31	
	Note	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before tax		**(P262,538)**	P768,004	P1,212,351
Adjustments for:				
Depreciation and amortization	*8, 9, 19*	**2,632,271**	2,952,727	2,739,392
Interest expense	*11, 26*	**275,329**	136,837	90,768
Retirement cost	*13, 20*	**123,879**	116,684	112,462
Impairment losses on (reversal of) receivables, inventories, bottles and cases, and machinery and equipment	*5, 6, 8, 9*	**61,559**	327,306	(3,292)
Loss on disposal of property and equipment	*9*	**14,566**	24,516	6,243
Equity in net earnings of associates	*7*	**(16,579)**	(11,880)	(13,920)
Interest income	*4, 22*	**(5,354)**	(4,725)	(4,427)
Operating profit before working capital changes		**2,823,133**	4,309,469	4,139,577
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Due from related parties		**12,865**	5,000	8,904
Prepaid expenses and other current assets		**2,656**	(76,791)	(44,349)
Inventories		**(2,593,478)**	(773,110)	(251,245)
Receivables		**(174,718)**	(485,270)	(251,483)
Increase in accounts payable and accrued expenses		**1,010,496**	639,019	694,992
Cash generated from operations		**1,080,954**	3,618,317	4,296,396
Interest received		**5,278**	4,718	4,432
Income taxes paid		**(166,737)**	(173,443)	(444,848)
Contribution to plan assets	*13*	**(124,000)**	(33,000)	(50,000)
Retirement benefits paid directly to employees	*13*	**(36,036)**	(36,276)	(47,580)
Net cash provided by operating activities		**759,459**	3,380,316	3,758,400

Forward

	Note	2018	Years Ended December 31 2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of property and equipment		**P2,667**	P6,347	P267
Additions to:				
Property, plant and equipment	*9*	**(1,205,087)**	(2,215,112)	(2,055,792)
Bottles and cases	*8*	**(771,168)**	(1,472,332)	(1,602,419)
Decrease (increase) in other noncurrent assets		**75,996**	(11,737)	13,759
Net cash used in investing activities		**(1,897,592)**	(3,692,834)	(3,644,185)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:	*11*			
Short-term debt		**16,250,000**	18,200,000	10,550,000
Long-term debt		**4,300,000**	-	-
Repayments of:	*11*			
Short-term debt		**(18,350,000)**	(16,700,000)	(9,850,000)
Long-term debt		**(600,000)**	(600,000)	(550,000)
Cash dividends paid	*15*	**(162,526)**	(254,870)	(243,789)
Interest paid	*9, 11*	**(279,345)**	(154,308)	(165,164)
Debt issuance cost	*11*	**30,250**	-	-
Net cash provided by (used in) financing activities		**1,188,379**	490,822	(258,953)
NET INCREASE (DECREASE) IN CASH		**50,246**	178,304	(144,738)
CASH AT BEGINNING OF YEAR		**498,352**	320,048	464,786
CASH AT END OF YEAR	*4*	**P548,598**	P498,352	P320,048

See Notes to the Financial Statements.

PEPSI-COLA PRODUCTS PHILIPPINES, INC.
NOTES TO THE FINANCIAL STATEMENTS
(Amounts in Thousands, Except Per Share Data and When Otherwise Indicated)

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 of carbonated soft-drinks (CSD), non-carbonated beverages (NCB) 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.

On May 16, 2014 and May 30, 2014, the Company's Board of Directors (BOD) and Stockholders approved (on the respective dates) the amendments to the Article of Incorporation, particularly on its primary purpose to engage in, operate, conduct and maintain the business of manufacturing, importing, buying, selling, handling, distributing, trading or otherwise dealing in, at wholesale and (to the extent allowed by law) retail, food and food products, snacks, confectionery drinks and other beverages in bottles, cans and other containers or dispensers and other related goods of whatever nature, and any and all materials, suppliers and other goods used or employed in or related to the manufacture of such finished products as well as the amendment of the Company's principal office address. The said amendments were approved by the Securities and Exchange Commission (SEC) on August 27, 2014.

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.

2. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations.

The accompanying financial statements as at December 31, 2018 and 2017 and for each of the three years period ended December 31, 2018 were approved and authorized for issue by the Company's BOD on March 28, 2019. The BOD has the power to amend the financial statements after issuance.

Details of the Company's accounting policies are included in Note 3 to the financial statements.

This is the first set of the Company's annual financial statements in which PFRS 15 *Revenue from Contracts with Customers* and PFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 3 to the financial statements.

Basis of Measurement
The financial statements have been prepared on the historical cost basis of accounting, except for the net defined benefit liability which is recognized at the present value of the defined benefit obligation less fair value of plan assets.

Functional and Presentation Currency
These 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
In preparation of these financial statements, management has made judgments, estimates and 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.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized prospectively.

Judgments
Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in the following notes:

- Note 24 - Determination of whether the Company is acting as a Principal or an Agent
- Note 25 - Classifying financial instruments
- Note 26 - Determination of whether an arrangement contains a lease
- Note 26 - Lease classification
- Note 26 - Commitments, Contingencies and Losses

Assumptions and Estimation Uncertainties
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets, liabilities and equity within the next financial year are included in the following notes:

- Note 5 - Estimation of allowance for impairment losses on receivables
- Note 26 - Commitments, Contingencies and Losses

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Company has adopted the following new standards, amendments to standards and interpretations starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Company's financial statements.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC-13 *Customer Loyalty Programmes*, IFRIC-18 *Transfer of Assets from Customers*, and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled.

  PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price.

  Depending on whether certain criteria are met, revenue is recognized over time in a manner that best reflects the Company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of other PFRS, then the guidance on separation and measurement contained in other PFRS takes precedence.

  During the year ended December 31, 2018, the Company carried out a detailed review of the revenue recognition criteria applying the requirements of PFRS 15 to ensure that the same principles were being applied consistently. This review in particular examined the timing of revenue recognition and variable consideration such as discounts, allowances and certain payments to customers post the initial sale of goods.

  Timing of Revenue Recognition
  The Company concluded that PFRS 15 will not impact the timing of revenue recognition as revenue from sale of goods is currently recognized when the goods are delivered to the customers' premises, which is taken to be point in time at which control over the goods is transferred.

Variable Consideration
The revised accounting policy establishes that revenue is recognized to the extent that it is highly probable that a reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently settled. This means that discounts, allowances, listing and slotting fees/display allowances are deducted from revenue unless it is highly probable that they will not be incurred. When these payments to customers relate to a distinct service or goods, they will be recorded as operating expenses. Based on management's assessment, the application of PFRS 15 did not impact the current classification of these variable consideration, i.e. discounts and allowances are recorded as a reduction to revenue and listing and slotting fees/display allowances are recorded as operating expenses.

Consideration was also given to the disclosure of revenue into different categories. It was determined that all revenue would be disclosed as 'sale of goods' as revenue from other sources was immaterial.

The Company has adopted PFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application (January 1, 2018). Accordingly, the information presented in 2017 has not been restated. It is presented as previously reported under PAS 18 and related interpretations. Additionally, the disclosure requirements in PFRS 15 have not generally been applied to comparative information.

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

Classification and Measurement of Financial Instruments
PFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVTPL). The classification of financial assets under PFRS 9 is generally based on business model in which a financial asset is managed and its contractual cash flow characteristics. PFRS 9 eliminates the previous PAS 39 categories of held to maturity, loans and receivables and available for sale.

PFRS 9 largely retains the existing requirements in PAS 39 for the classification and measurement of financial liabilities.

The adoption of PFRS 9 has not had a significant effect on the Company's accounting policies related to classification of financial assets and liabilities.

All classes of financial assets and financial liabilities as at December 31, 2018, had the same carrying values under PFRS 9 as they had under PAS 39.

Impairment of Financial Asset
PFRS 9 replaces the 'incurred loss' model in PAS 39 with an 'expected credit loss (ECL) model'. The new impairment model applies to financial assets measured at amortized cost. Under PFRS 9, credit losses are recognized earlier than PAS 39.

The impact of expected credit loss (ECL) model for the year ended December 31, 2018 did not result in a restatement of Company's results as it is not material.

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

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

  The interpretation was approved by the FRSC on January 11, 2017 but is still subject to the approval by the BOA.

- Annual Improvements to PFRSs 2014 - 2016 Cycle. This cycle of improvements contains amendments to three standards. The following is the said improvements or amendments to PFRSs effective for annual periods beginning on or after January 1, 2018, which has no significant effect on the financial statements of the Company:

  - Measuring an associate or joint venture at fair value (Amendments to PAS 28, *Investments in Associates and Joint Ventures*). The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The amendments are applied retrospectively, with early application permitted.

Financial Instruments
Date of Recognition. Financial instruments are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

I. *Initial Recognition of Financial Instruments*
Financial instruments are recognized initially at fair value. Except for financial instruments designated as at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs that are directly attributable to their acquisition cost or issue.

II. Classification and Measurement

Financial Assets - Policy Applicable from January 1, 2018
The Company classifies its financial assets into the following categories: amortized cost, FVOCI - debt investment, FVOCI - equity investment, or FVTPL. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification of financial assets depends on both the business model in which the financial asset is managed and whether the cash flows from the financial asset represent, on specified date, solely payment of principal and interest (SPPI) on the principal amount outstanding. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets and there is a change in the contractual cash flow characteristics of the financial asset, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model.

As at December 31, 2018, the Company does not have any financial assets and financial liabilities at FVPL and FVOCI.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if the asset is held within a business model whose objective is to collect contractual cash flows and its contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such assets are recognized initially at fair value plus any incremental transaction cost.

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

After initial recognition, these financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Losses are recognized in profit or loss and reflected in the allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant account is written-off. Gains and losses are recognized in profit or loss when these financial assets are derecognized or impaired, as well as through amortization process. Financial assets at amortized cost are classified as current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

Financial Assets - Policy Applicable before January 1, 2018
The Company classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Company's cash (excluding cash on hand), receivables and due from related parties are included in this category.

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

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

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

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

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

Included in this category are the Company's short-term and long-term debts, accounts payable and accrued expenses and finance lease liability (under "Other noncurrent liabilities" account in the statements of financial position) that meet the above definition (other than liabilities covered by other PFRSs, such as income tax payable, deferred tax liabilities and defined benefit liability).

III. Derecognition of Financial Instruments
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the financial asset have expired;
- the Company retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the financial asset and either: (a) has transferred substantially all the risks and rewards of the financial asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

When the Company has transferred its rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset.

Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Company could be required to pay.

A financial liability is derecognized when the obligation is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the carrying amount of the original liability and the recognition of a new liability at fair value, and any resulting difference in the respective carrying amounts is recognized in profit or loss.

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions of the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss. In cases where no observable data are used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit amount.

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

Fair Value Measurement
A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. exit price), regardless of whether that price is directly observable or estimated using another valuation technique. Where applicable, the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

When measuring the fair values of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels of the fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). The cost of inventories (finished goods, work in process, raw and packaging materials and spare parts and supplies), which is determined using weighted average and is valued at standard cost method adjusted to approximate actual costs through the allocation of manufacturing variances on a periodic basis, includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing these inventories to their present location and condition. In the case of manufactured inventories and work in process, cost includes an appropriate share of production overheads based on normal operating capacity.

The NRV of finished goods is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. The NRV of raw and packaging materials, spare parts and supplies is the estimated current replacement costs.

When inventories are sold, the carrying amounts of those inventories are recognized under "Cost of Goods Sold" account in the statements of profit or loss and other comprehensive income in the period when the related revenue is recognized.

Investments in Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies and which are neither subsidiaries nor joint ventures. The financial statements include the Company's share of the total recognized earnings and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. The application of the equity method of accounting is based on the Company's beneficial interest in the net profits and net assets of the associates. Distributions received from the associates reduce the carrying amount of the investments. Income and expense resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associates. When the Company's share of losses exceeds the cost of the investment in an associate, the carrying amount of that interest is reduced to nil and recognition of further losses is discontinued, except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company's investments in associates include an amount that represents the excess of acquisition cost of investment over the fair value of the net identifiable assets of the investee companies at the date of acquisition, net of impairment in value, if any.

The financial statements of the associates are prepared for the same period as the Company's financial statements.

Bottles and Cases

Bottles and cases include returnable glass bottles and cases stated at deposit values and the excess of the acquisition costs of returnable bottles and cases over their deposit values. Bottles and cases also include certain pallets acquired under finance lease. These assets are deferred and amortized using the straight-line method over their estimated useful lives (EUL) (5 years for returnable bottles and 7 years for cases and pallets) determined principally by their actual historical breakage and trippage. Amortization of bottles and cases commences once they are available for use and is recognized in profit or loss. An allowance is provided for excess, unusable and obsolete returnable bottles and cases based on the specific identification method.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation, amortization and impairment losses, if any.

Initially, an item of property, plant and equipment is carried at cost, which comprises its purchase price and any directly attributable cost in bringing the asset to working condition and location for its intended use. Subsequent costs (including costs of replacing a part of an item of property, plant and equipment) that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Company. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss as incurred.

Construction in-progress represents assets under construction and is stated at cost. This includes costs of construction and other direct costs. Construction in-progress is not depreciated until such time that the relevant assets are completed and put into operational use but tested for impairment losses. Assets under construction are transferred to the related property, plant and equipment account when the construction and installation and related activities necessary to prepare the property, plant and equipment for the intended use are completed and the property, plant and equipment are ready for services.

Major spare parts and stand-by equipment items that the Company expects to use over more than one period and can be used only in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Depreciation and amortization of these major spare parts and stand-by equipment commence once these have become available for use (i.e., when they are in the location and condition necessary for them to be capable of operating in a manner intended by the Company).

The EUL of property, plant and equipment are as follows:

	Number of Years
Machinery and other equipment	3 - 25
Buildings and leasehold improvements	15 - 40 or term of the lease, whichever is shorter
Furniture and fixtures	10

Depreciation and amortization commences once the assets become available for use. Depreciation and amortization are computed on a straight-line basis over the EUL of the assets. Leasehold improvements are amortized over the shorter of their EUL and the corresponding lease terms.

The assets' residual values, EUL and depreciation and amortization methods are reviewed at each reporting date and adjusted, if appropriate, to ensure that the period and depreciation and amortization methods are consistent with the expected pattern of economic benefits from those assets. Any change in the expected residual values, EUL and methods of depreciation and amortization are adjusted prospectively from the time the change was determined necessary.

When an item of property, plant and equipment is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognized in profit or loss.

Impairment

Financial Assets

The Company measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following, which are measured as 12-month ECL:

- cash in bank that is determined to have low credit risk at the reporting date; and
- due from related parties for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contracts assets are always measured at an amount equal to lifetime ECL.

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument while 12-month ECLs are the portion of ECLs that result from default events that are possible default within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). Default is defined as financial assets for which contractual payments are more than 60 days past due. However, the Company may also consider a financial assets to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into accounts any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. The maximum period over which the Company exposed to credit risk.

ECLs are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 60 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

The carrying amount of the asset is reduced through the use of an allowance account. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial asset, together with the associated allowance accounts, is written-off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. Impairment loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal is recognized in profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date had no impairment loss been recognized.

Non-financial Assets

The carrying amounts of the Company's non-financial assets, such as investments in associates, bottles and cases, property, plant and equipment and other noncurrent assets, are reviewed at each reporting date to determine whether there is any indication that an asset may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exist or may have decreased. If any such indication exists and when the carrying amount of an asset exceeds its estimated recoverable amount, the asset or cash-generating unit (CGU) to which the asset belongs is written-down to its recoverable amount. Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the CGU to which the asset belongs.

The recoverable amount of a non-financial asset is the greater of the asset's fair value less costs of disposal and its value in use. Fair value less costs of disposal is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less the costs of disposal. Value in use is the present value of the future cash flows expected to be delivered from an asset or CGU. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is recognized in profit or loss in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization for property, plant and equipment and bottles and cases) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in profit or loss. After such reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Provisions

A provision is a liability of uncertain timing or amount. It is recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions are revisited at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money, and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense under "Finance and Other Income (Expenses)" account in statements of profit or loss and other comprehensive income (see Note 26).

Share Capital

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

The amount of contribution in excess of par value is accounted for as "Additional paid-in capital." Additional paid-in capital also arises from additional capital contributions from the shareholders.

Retained Earnings and Dividend Distribution
Retained earnings represent the cumulative balance of periodic profit (loss), dividend distributions, prior period adjustments and effects of changes in accounting policy and capital adjustments.

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company. Dividends for the year that are approved after the reporting date are dealt with as a nonadjusting event after the reporting date.

Other Comprehensive Income
Other comprehensive income are items of income and expenses that are not recognized in profit or loss for the year in accordance with PFRSs.

Revenue Recognition
The Company has initially applied PFRS 15 from January 1, 2018.

Sale of Goods

Revenue Recognition under PFRS 15 (Applicable from January 1, 2018)
Revenue is recognized as or when performance obligations are satisfied by transferring control of goods to the customer. Control is transferred at the time of delivery of the products to the customers, and under normal credit terms. Revenue is recognized to the extent that it is highly probable that a significant reversal will not occur. Therefore, sale of goods is measured at transaction price or the amount to which the Company expects to be entitled in exchange for transferring goods to customer, net of expected discounts, allowances, and certain payments to customers including but not limited to listing/slotting fees and display allowances for which no distinct goods or service is received.

Revenue Recognition under PAS 18 (Applicable before January 1, 2018)
Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of discounts, returns and allowances. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing involvement with the goods. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sale is recognized. Transfer of risks and rewards of ownership coincides with the delivery of the products to the customers, and under normal credit terms.

Other Income
Other income is recognized in profit or loss when earned.

Cost and Expense Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the expenses are incurred.

Cost of Goods Sold
Cost of goods sold includes direct material costs, labor and manufacturing expenses. This is recognized when the goods are delivered or when the expenses are incurred.

Selling, Distribution and Marketing Expenses
Selling, distribution and marketing expenses consist of costs associated with the development and execution of marketing promotion activities and all expenses connected with selling, servicing and distributing the Company's products. Selling, distribution and marketing expenses are generally recognized when the service is rendered or the expense is incurred.

General and Administrative Expenses
Expenses incurred in the general administration of the day-to-day operation of the Company are generally recognized when the service is rendered or the expense is incurred.

Employee Benefits
Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined Benefit Plan
The Company has a funded, noncontributory, final salary defined benefit plan covering substantially all of its employees.

The Company's net obligation in respect of the defined benefit plan is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets. The Company presents the amount of expected contribution to the plan assets in the next fiscal year as a current liability, while the remaining amount of the net defined benefit liability is presented as noncurrent.

The calculation of the defined benefit obligation is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the opening net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The Company's plan assets that are held by entities (trustees) that are legally separate and independent from the Company and exist solely to pay or fund the defined benefit plan, are not available to the Company's own creditors (even in bankruptcy), and cannot be returned to the Company, unless the remaining assets of the fund are sufficient to meet all the defined benefit obligation of the plan or the Company.

Finance Income and Finance Expense

Finance income comprises interest income on bank deposit, net foreign currency gains on asset and liabilities and dividend income. Interest income is recognized in profit or loss as it accrues, using the effective interest method and is presented net of final tax. Dividend income, if any, is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance expense comprises interest expense on borrowings and net foreign currency loss on financial assets and liabilities. All finance expense are recognized in profit or loss as they accrue.

Leases

Determination of whether an Arrangement Contains a Lease

The determination of whether an arrangement is, or contains a lease is, based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances give rise to the reassessment for scenarios *a*, *c* or *d* above, and at the date of renewal or extension period for scenario *b*.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income and expense from operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Finance Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of fair value of the leased property and the present value of the minimum lease payments at the inception of the lease. Lease payments are apportioned between the finance cost and reduction of the outstanding lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance cost is recognized in profit or loss.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and the respective lease terms, unless it is with reasonable certainty that the Company will obtain ownership by the end of the lease term, in which case the asset is depreciated over its EUL.

Borrowing Costs

Interest and other finance costs incurred on borrowings used to finance property development are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs: (a) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (b) is suspended during extended periods in which active development, improvement and construction of the assets are interrupted; and (c) ceases when substantially all the activities necessary to prepare the assets are completed. These costs are amortized using the straight-line method over the EUL of the related property, plant and equipment to which it is capitalized. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method. Other borrowing costs are generally expensed in the period in which these are incurred.

Foreign Currency Transactions

Transactions in foreign currencies are recorded in Philippine peso based on the prevailing exchange rates at the dates of the transactions. Foreign currency denominated monetary assets and liabilities are translated in Philippine peso using the exchange rates prevailing at the reporting date. Exchange gains or losses arising from translation of foreign currency denominated items at rates different from those at which they were previously recorded are recognized in profit or loss.

Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of transaction.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case it is recognized in equity or in other comprehensive income, respectively.

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred Tax
Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and the carryforward tax benefits of unused net operating loss carryover (NOLCO), if any, and unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for carryforward tax benefits of unused NOLCO, unused tax credits from excess MCIT and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recognized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Value-added Tax (VAT)
Revenue, expenses and assets are recognized net of the amount of VAT except:

- where the VAT incurred on purchase of assets or services are not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Accounts payable and accrued expenses" accounts in the statements of financial position.

Earnings Per Share (EPS)
Basic EPS is computed by dividing the profit applicable to common stock by the weighted average number of common shares outstanding during the period, with retroactive adjustments for any stock dividends declared.

Diluted EPS is calculated by dividing the profit attributable to common equity holders by the weighted average number of common shares outstanding during the year, adjusted for the effects of any potentially dilutive common shares.

Contingencies
Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the realization of income is virtually certain, the related asset is not a contingent asset and its recognition is appropriate.

When losses are expected to be reimbursed by another party, the reimbursement should be recognized when and only when, it is virtually certain that the reimbursement will be received. The reimbursement shall be treated as a separate asset. The expense relating to a provision is presented net of the amount recognized for the reimbursement.

Segment Reporting
An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Executive Officer to make decisions about the resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Events After the Reporting Date
Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Standards Issued But Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2018. However, the Company has not applied the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

The Company will adopt the following new standards and amendments to standards that are relevant to the Company in the respective effective dates:

Effective January 1, 2019

- *PFRS 16, Leases,* supersedes PAS 17, *Leases,* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

  The Company has assessed the potential impact of the new standard. The actual impact of applying PFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's borrowing rate at January 1, 2019, the composition of the Company's lease portfolio at that date, the Company's latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

  So far, the most significant impact identified is that the Company will recognize right-of-use (ROU) assets and liabilities for its operating leases of land, warehouse, facilities and vehicles amounting to P595 million. In addition, the nature of expenses related to those leases will now change as PFRS 16 replaces the straight-line operating lease expense with depreciation charge for the ROU assets and interest expense on lease liabilities.

  No significant impact is expected on the Company's finance leases.

  The Company does not expect the adoption of PFRS 16 to impact its ability to comply with its loan covenants.

- *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.

  The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The interpretation can be initially applied retrospectively applying PAS 8, if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

- *Prepayment Features with Negative Compensation (Amendments to PFRS 9 Financial Instruments).* 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.

    The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

  - *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 Investments 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 PAS 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.

  The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- *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.

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.

4. Cash

Cash consists of:

	Note	2018	2017
Cash on hand		P253,088	P347,124
Cash in banks	25	295,510	151,228
		P548,598	P498,352

Cash in banks earns annual interest at the respective bank deposit rates.

Interest income earned from cash in banks amounted to P1.5 million, P0.9 million and P0.6 million in 2018, 2017 and 2016, respectively.

The Company's exposures to credit risk and interest rate risk are disclosed in Note 25 to the financial statements.

5. Receivables

Receivables consist of:

	Note	2018	2017
Trade receivables - third parties	*25*	**P2,050,002**	P1,744,447
Others	*23, 25*	**714,344**	875,189
		2,764,346	2,619,636
Less allowance for impairment losses and others		**221,933**	214,955
	25	**P2,542,413**	P2,404,681

Trade receivables are all current, noninterest-bearing and are generally on a 15 to 60 days' term. Other receivables consist mainly of receivables from employees, freight and marketing related reimbursements (see Note 23), which are normally collected in cash.

Impairment
The Company maintains an allowance for impairment losses at a level considered adequate to provide for expected credit losses. The Company performs regular review of the age and status of these accounts, designed to identify accounts with expected credit losses and provides these with the appropriate allowance for impairment losses. The review is accomplished using lifetime expected credit losses, with the impairment losses being determined for each risk grouping identified by the Company. The amount and timing of recorded expenses for any period would differ if the Company made different judgments. An increase in the allowance for impairment losses would increase the recorded operating expenses and decrease current asset.

The movements in the allowance for impairment losses on receivables are as follows:

		2018			2017		
	Note	Trade	Others	Total	Trade	Others	Total
Balance at beginning of year		**P159,522**	**P55,433**	**P214,955**	P178,272	P54,339	P232,611
Impairment losses recognized during the year	17	**19,268**	**17,794**	**37,062**	6,667	1,145	7,812
Write-offs during the year		**(28,398)**	**(1,686)**	**(30,084)**	(25,418)	(50)	(25,468)
Balance at end of year		**P150,392**	**P71,541**	**P221,933**	P159,521	P55,434	P214,955

Impairment losses recognized during the period are included as part of "Selling and distribution expenses" account in the statements of profit or loss and other comprehensive income.

The Company's exposure to credit risk related to receivables is disclosed in Note 25 to the financial statements.

6. Inventories

Inventories consist of:

	2018	2017
Raw and packaging materials	**P3,720,082**	P1,603,387
Finished goods	**1,101,781**	680,072
Spare parts and supplies	**214,634**	195,129
Work in process	**3,144**	5,642
	P5,039,641	P2,484,230

Raw and packaging materials, finished goods and work in process included in "Cost of Goods Sold" account in the statements of profit and loss and other comprehensive income amounted to P14.1 billion in 2018, P16.2 billion in 2017 and P16.9 billion in 2016 (see Note 16).

In determining the NRV of inventories, the Company considers inventory obsolescence based on specific identification and as determined by management for inventories estimated to be unsaleable in the future. The Company adjusts the cost of inventories to NRV at a level considered adequate to reflect any market decline in the value of the recorded inventories. The Company reviews, on a continuous basis, the product movement, changes in consumer demands and introduction of new products to identify inventories which are to be written-down to NRV. The amount and timing of recorded expense for any period would differ if different judgments were made or different estimates were utilized. The increase in inventory obsolescence and market decline would increase the recorded cost of goods sold and decrease current assets. The cost of inventories stated at NRV are as follows:

	2018	2017
Raw and packaging materials	**P3,919,513**	P2,007,210
Finished goods	**1,159,392**	748,514
Spare parts and supplies	**182,073**	176,471
	P5,260,978	P2,932,195

Net write-down of inventories to NRV amounted to P38.0 million, P357.9 million and P91.2 million for the years ended December 31, 2018, 2017 and 2016, respectively. The write-down of inventories to NRV which is directly related to production is included as part of "Cost of Goods Sold" account, otherwise it is recognized as part of "Operating Expenses" account in the statements of profit and loss and other comprehensive income.

7. Investments in Associates

Investments in associates consist of investments in other companies, which are incorporated under Philippine Laws, as follows:

	Percentage (%) of Ownership		Amount	
	2018	2017	2018	2017
Acquisition cost:				
Nadeco Realty Corporation (NRC)	40%	40%	P231,490	P231,490
Nadeco Holdings Corporation (NHC)	40%	40%	132	132
			231,622	231,622
Accumulated equity in net earnings:				
Balance at beginning of year			364,455	352,575
Equity in net earnings for the year			16,579	11,880
Balance at end of year			381,034	364,455
			P612,656	P596,077

The financial statements of the associates are prepared for the same reporting period as the Company's financial statements. The financial statements used for the purpose of applying equity method are the most recent management accounts of the associates as at December 31, 2018 and 2017.

None of the Company's equity-accounted associates are publicly listed entities and consequently, do not have published price quotations.

As at December 31, 2018 and 2017, the undistributed earnings of the associates included in the Company's retained earnings amounting to P381.0 million and P364.5 million respectively, is not available for distribution to stockholders unless declared by the associates. Equity in net earnings from investments in associates amounted to P16.6 million, P11.9 million and P13.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Summarized below is the financial information pertaining to the Company's associates:

As at and For the Year Ended December 31, 2018

	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Revenues	Profit/Total Comprehensive Income
NRC	P233,179	P1,275,375	P767,944	P138,059	P30,241	P15,402
NHC (consolidated)	242,223	1,275,705	773,781	138,059	31,141	15,623

As at and For the Year Ended December 31, 2017

	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Revenues	Profit/Total Comprehensive Income
NRC	P224,326	P1,275,075	P776,379	P137,096	P29,334	P11,790
NHC (consolidated)	232,509	1,275,405	781,576	137,096	30,234	12,067

The associates do not have contingent liabilities incurred jointly with other investors. Also, the Company is not severally liable for all or part of the liabilities of the associates.

8. Bottles and Cases

Bottles and cases consist of:

	2018	2017
Deposit values of returnable bottles and cases on hand - net of allowance for unusable containers of P39,146 as at December 31, 2016	P650,427	P563,989
Excess of cost over deposit values of returnable bottles and cases - net of accumulated amortization*	3,687,021	4,195,306
	4,337,448	4,759,295
Bottles and cases in-transit	103,520	210,824
	P4,440,968	P4,970,119

*This includes pallets with net book value of P333.4 million and P365.2 million as at December 31, 2018 and 2017, respectively.

The rollforward of excess of cost over deposit values of returnable bottles and cases is as follows:

	Note	2018	2017
Gross Carrying Amount*			
Balance at beginning of year		P11,088,506	P9,565,438
Additions		805,602	1,523,067
Balance at end of year		11,894,108	11,088,505
Accumulated Amortization*			
Balance at beginning of year		6,893,199	5,294,768
Amortization for the year	16, 17	1,343,002	1,648,021
Other movements		(29,114)	(49,590)
Balance at end of year		8,207,087	6,893,199
Carrying Amount*			
Balance at end of year		P3,687,021	P4,195,306

*This includes pallets with gross carrying amount of P790.7 and P765.8 million as at December 31, 2018 and 2017, respectively, with related accumulated amortization amounting to P457.3 and P400.6 million as at December 31, 2018 and 2017, respectively, and net book value of P333.4 and P365.2 million as at December 31, 2018 and 2017, respectively.

Amortization

Amortization was charged to:

	Note	2018	2017	2016
Cost of goods sold	16	P1,291,021	P1,495,879	P1,262,209
Selling and distribution	17	51,981	152,142	109,770
		P1,343,002	P1,648,021	P1,371,979

The Company annually reviews the EUL of returnable bottles and cases based on the period over which the assets are expected to be available for use, principally determined by their historical breakage and trippage. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of bottles and cases would increase the recorded amortization expense and decrease noncurrent assets.

Purchase Commitments
The Company has outstanding purchase commitment for the bottles and cases amounting to P470.1 million and P137.6 million as at December 31, 2018 and 2017, respectively.

Impairment
The Company provides an allowance for unusable containers at circulation that failed to meet the Company's quality standards and excess bottles as determined by management based on the containers profile and optimal float analyses conducted.

The movements in the allowance for unusable containers are as follows:

	Note	**2018**	2017
Balance at beginning of year		**P -**	P39,146
Impairment (reversal of impairment) losses during the year	*17*	**13,570**	(38,387)
Reversal of write-off (write-off) during the year		**(7,012)**	(759)
Balance at end of year		**P6,558**	P -

The Company assesses at each reporting date whether there is an indication that the bottles and cases may be impaired. Determining the amount of the assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Company to conclude that these assets are impaired. Any resulting impairment loss could have material impact on the financial position and financial performance of the Company. The preparation of the estimated future cash flows involves estimations and assumptions. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the recoverable amounts and may lead to future additional impairment charges. An increase in the allowance for unusable containers would increase the recorded operating expenses and decrease noncurrent assets.

Allowance for impairment losses for bottles and cases relates to excess bottles, as well as those that failed to meet the prescribed quality standards prescribed, such as chipped, faded logos and broken bottles and cases.

9. 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, 2016	P16,310,819	P3,319,448	P51,804	P944,723	P20,626,794
Additions	1,590,306	386,087	5,833	258,846	2,241,072
Disposals/write-offs/adjustments	(318,528)	(7,080)	(748)	-	(326,356)
Transfers/reclassifications	89,564	(23,125)	832	(67,271)	-
December 31, 2017	17,672,161	3,675,330	57,721	1,136,298	22,541,510
Additions	945,867	153,974	2,384	102,862	1,205,087
Disposals/write-offs/adjustments	(343,863)	(1,966)	(321)	-	(346,150)
Transfers/reclassifications	(49,292)	40,921	565	7,806	-
December 31, 2018	**18,224,873**	**3,868,259**	**60,349**	**1,246,966**	**23,400,447**
Accumulated Depreciation and Amortization					
December 31, 2016	8,744,277	834,891	32,494	-	9,611,662
Depreciation and amortization	1,192,247	109,071	3,388	-	1,304,706
Disposals/write-offs/adjustments	(290,182)	(4,788)	(523)	-	(295,493)
Transfers/reclassifications	(406)	351	55	-	-
December 31, 2017	9,645,936	939,525	35,414	-	10,620,875
Depreciation and amortization	1,175,526	110,038	3,705	-	1,289,269
Disposals/write-offs/adjustments	(327,093)	(1,507)	(317)	-	(328,917)
Transfers/reclassifications	(3,059)	2,783	276	-	-
December 31, 2018	**10,491,310**	**1,050,839**	**39,078**	**-**	**11,581,227**
Carrying Amount					
December 31, 2017	P8,026,225	P2,735,805	P22,307	P1,136,298	P11,920,635
December 31, 2018	**P7,733,563**	**P2,817,420**	**P21,271**	**P1,246,966**	**P11,819,220**

Depreciation and Amortization
Depreciation and amortization were charged to:

	Note	**2018**	2017	2016
Cost of goods sold	*16*	**P838,787**	P795,285	P799,163
Selling and distribution	*17*	**396,286**	454,771	485,770
General and administrative	*18*	**54,196**	54,650	82,480
		P1,289,269	P1,304,706	P1,367,413

The Company annually reviews the EUL of property, plant and equipment based on the period over which the assets are expected to be available for use and updates those expectations if actual results differ from previous estimates due to physical wear and tear and technical or commercial obsolescence. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property, plant and equipment would increase the recorded depreciation and amortization expenses and decrease noncurrent assets.

The Company has ongoing corporate expansion projects or programs 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 (see Note 8), amounting to P2.0 billion, P3.7 billion and P3.7 billion for the years ended December 31, 2018, 2017 and 2016, respectively.

Borrowing Cost
In 2018 and 2017, the Company obtained bank loans to partially fund its capital expenditures and has capitalized borrowing costs amounting to nil in 2018 and P26.0 million, with a capitalization rate of 3.21% in 2017. These costs are included as part of additions to "Property, plant and equipment" account in the statements of financial position (see Note 11).

Impairment
The Company assesses at each reporting date whether there is an indication that its property, plant and equipment may be impaired. Determining the amount of the assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Company to conclude that these assets are impaired. Any resulting impairment loss could have material impact on the financial position and financial performance of the Company. The preparation of the estimated future cash flows involves estimations and assumptions. While the Company believes that its assumptions are appropriate and reasonable, an increase in impairment losses would decrease profit or loss and consequently, decrease equity. No impairment indicators exists on the Company's property, plant and equipment as at December 31, 2018 and 2017.

Disposal
Loss on disposal of property and equipment amounted to P14.6 million, P24.5 million and P6.2 million in 2018, 2017 and 2016, respectively.

10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2018**	2017
Trade payables - third parties	23	**P6,057,175**	P4,877,365
Accrued advertising and marketing		**813,019**	935,846
Accrued contract services		**711,678**	737,014
Non-trade payables		**672,795**	560,041
Accrued personnel cost	13	**235,194**	271,563
Accrued rent		**104,098**	82,749
Accrued utilities		**77,055**	52,540
Accrued financing charges		**26,141**	30,157
Current portion of finance lease liability	26	**-**	3,728
Other accrued expenses		**524,242**	581,490
		P9,221,397	P8,132,493

The Company's trade payables mostly pertain to raw material purchases made by the Company with a general payment term of 30 to 90 days.

Accrued contract services pertain to accrued freight charges, tolling fees and other services.

Non-trade payables mainly consist of withholding taxes, payables to other government agencies and other items that are individually immaterial or insignificant.

Accrued personnel cost includes current portion of defined benefit liability, salaries and other employee benefits.

The Company's other accrued expenses consist of various accruals for operating expenses that are individually immaterial.

The Company's exposure to liquidity risk related to accounts payable and accrued expenses is disclosed in Note 25 to the financial statements.

11. Short-term and Long-term Debt

a. *Short-term Debt*
As at December 31, 2018, this account represents unsecured, interest-bearing short-term loans from local banks, with various maturity dates up to February 22, 2019. These short-term loans were acquired to finance the Company's working capital requirements. Interest rates on the said loans ranged from 4.8% to 5.15% in 2018 and 2.20% to 3.00% in 2017.

Total proceeds from these short-term loans amounted to P16.25 billion and P18.2 billion in 2018 and 2017, respectively, while total payments totaled P18.35 billion and P16.7 billion in 2018 and 2017, respectively. As at December 31, 2018 and 2017, the balance of short-term debt amounted to P1 billion and P3.1 billion, respectively.

b. *Long-term Debt*
This account consists of:

	2018	2017
7 year P1 billion term loan from Metropolitan Bank & Trust & Co. (MBTC)	**P300,000**	P500,000
Two (2) 7 year P1 billion term loan each from Bank of the Philippine Islands (BPI)	**850,000**	1,250,000
7 year P800 million term loan from Bank of the Philippine Islands (BPI)	**800,000**	-
5 year P2.5 billion term loan from Metropolitan Bank & Trust & Co. (MBTC)	**2,500,000**	-
5 year P500 million term loan from Shinhan Bank	**500,000**	-
3 year P500 million term loan from Industrial Bank of Korea (IBK)	**500,000**	-
	5,450,000	1,750,000
Less debt issuance cost	**27,670**	3,468
	P5,422,330	P1,746,532
Current	**P795,456**	P598,749
Noncurrent	**4,626,874**	1,147,783
	P5,422,330	P1,746,532

Term Loan from MBTC
In March 2013, the Company entered into a loan agreement with MBTC amounting to P1 billion, to partially finance the Company's capital expenditure for its CSD and NCB business. The loan is unsecured and with a term of seven (7) years, payable in twenty (20) successive quarterly principal repayments to commence at the end of the 9th quarter from the initial drawdown date and with a fixed interest rate based on PDST-F at drawdown date plus certain spread. PDST-F rate is the average of the best sixty percent (60%) of the live bids of participating fixing banks in the secondary market for the 5-year Philippine peso-denominated Treasury bills and bonds.

In March 2018, the Company entered into a P2.5 billion loan agreement with MBTC to refinance its short-term debt and partially finance its capital expenditures. The loan is unsecured and a term five (5) years payable in twelve (12) successive quarterly principal repayments to commence at the end of the 9th quarter from the drawdown date.

Under the terms of the long-term loan agreement with MBTC, the Company may, at its option, prepay the loan in full or in part without penalty, together with interest due. Prepayment shall be applied against the scheduled installment payments in the inverse order of their maturity. The Company shall give a notice of such prepayment not less than thirty (30) days prior to such proposed date of prepayment.

The loan agreement also provides for certain covenants, the more significant of which are as follows:

- Debt-to-equity ratio shall not exceed 2:1 based on the financial statements;
- Current ratio of at least 0.40:1 based on the financial statements; or
- The Company shall not declare or pay any cash dividends or redeem or repurchase any outstanding share or make any capital or asset distribution to its stockholders without prior written consent of the lender.

Term Loan from BPI

On October 16, 2013 and March 31, 2014, the Company entered into a loan agreement with BPI to refinance the Company's short-term debt totaling to P2 billion. The loans are unsecured and with a term of seven (7) years, payable in twenty (20) successive quarterly principal repayments to commence at the end of the 8th quarter from the initial drawdown date and with a fixed interest rate which shall be determined using the base rate plus a certain spread per annum on the drawdown date.

On December 28, 2018, the Company entered into a P800 million loan agreement with BPI to refinance or partially refinance its short-term bank loans. The loan is unsecured and with a term of seven (7) years, payable in twenty (20) equal quarterly principal repayments to commence at the end of the 9th quarter from the drawdown date.

Under the terms of the long-term loan agreement with BPI, the Company may, at its option, prepay the loan in full or in part without penalty, together with interest due. Prepayment shall be applied against the scheduled installment payments in the inverse order of their maturity. The Company shall give a notice of such prepayment not less than thirty (30) days prior to such proposed date of prepayment.

The loan agreement also provides for certain covenants, the more significant of which are as follows:

- Debt-to-equity ratio shall not exceed 2:1 based on the financial statements;
- Current ratio of at least 0.40:1 based on the financial statements;
- Debt service coverage ratio of 1:1 based on the financial statements; or
- The Company shall not declare or pay any cash dividends or redeem or repurchase any outstanding share or make any capital or asset distribution to its stockholders without prior written consent of the lender.

Term Loan from Shinhan Bank

On March 23, 2018, the Company entered into a loan agreement with Shinhan Bank amounting to P500 million, to be used by the Company exclusively to refinance its short term loans. The loan is unsecured and with a term of five (5) years, payable in twelve (12) successive quarterly principal repayments to commence at the end of the 9th quarter from the drawdown date and with a fixed interest rate.

Term Loan from IBK

On March 16, 2018, the Company entered into a loan agreement with IBK amounting to P500 million, to be used by the Company exclusively for financing its capital working loan. The loan is unsecured and with a term of three (3) years, payable in ten (10) successive quarterly principal repayments to commence at the end of the 5th quarter from the drawdown date and with a fixed interest rate.

As at December 31, 2018 and 2017, the Company is compliant with all of the financial covenants of its loan agreements.

Interest expense on the above loans recognized in the statements of profit or loss and other comprehensive income amounted to P269.3 million, P135.5 million and P87.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. Amortization of debt issuance cost amounted to P6.9 million in 2018, P2.4 million in 2017 and P2.9 million in 2016.

Total interest capitalized in 2018 and 2017 relating to the abovementioned long-term debt amounted to nil and P26.0 million, respectively (see Note 9).

Information about the Company's exposures to interest rate risk and liquidity risk are disclosed in Note 25 to the financial statements.

Repayment Schedule

As of December 31, 2018, the annual maturities of long-term debt are as follows:

Year	Gross Amount	Amortization of Debt Issuance Cost	Net
2019	P800,000	P3,680	P796,320
2020	1,450,000	6,619	1,443,381
2021	1,310,000	5,073	1,304,927
2022	1,160,000	2,494	1,157,506
2023	410,000	358	409,642
2024	160,000	548	159,452
2025	160,000	217	159,783
	P5,450,000	P18,989	P5,431,011

Reconciliation of Opening and Closing Balances of Total Bank Debt

	Bank Debt	Accrued Interest	Total
Balance, December 31, 2017	P4,846,532	P30,157	P4,876,689
Proceeds - short term	16,250,000	-	16,250,000
Proceeds - long term	4,300,000	-	4,300,000
Interest expense	6,048	269,281	275,329
Payment of:			
Principal - short term	(18,350,000)	-	(18,350,000)
Principal - long term	(600,000)	-	(600,000)
Interest	-	(279,345)	(279,345)
Debt issuance cost	(30,250)	-	(30,250)
Balance, December 31, 2018	**P6,422,330**	**P20,093**	**P6,442,423**

12. Income Taxes

The components of the income tax expense are as follows:

	2018	2017	2016
Current tax expense	**P133,256**	P262,948	P317,348
Deferred tax expense (benefit) from origination and reversal of temporary differences and others	**(196,254)**	(36,269)	41,881
	(P62,998)	P226,679	P359,229

The details of the net deferred tax assets and liabilities are as follows:

2018	Balance at December 31, 2017	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31, 2018 Net	Deferred Tax Assets	Deferred Tax Liabilities
Net defined benefit liability	P250,883	(P10,846)	(P32,432)	P207,605	P207,605	P -
Allowance for impairment losses on bottles and cases, inventories and others	261,356	(64,230)	-	197,126	284,531	(87,405)
Bottles and cases	(949,123)	192,101	-	(757,022)	-	(757,022)
Property, plant and equipment - net	(307,721)	69,620	-	(238,101)	-	(238,101)
MCIT	-	9,609	-	9,609	9,609	-
Tax assets (liabilities) before set off	(744,605)	196,254	(32,432)	(580,783)	501,745	(1,082,528)
Set off of taxes	-	-	-	-	(385,964)	385,964
Net tax assets (liabilities)	(P744,605)	P196,254	(P32,432)	(P580,783)	P115,781	(P696,564)

2017	Balance at December 31, 2016	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31, 2017 Net	Deferred Tax Assets	Deferred Tax Liabilities
Net defined benefit liability	P235,118	P14,222	P1,543	P250,883	P250,883	P -
Allowance for impairment losses on bottles and cases, inventories and others	188,884	72,472	-	261,356	344,142	(82,786)
Bottles and cases	(912,552)	(36,571)	-	(949,123)	-	(949,123)
Property, plant and equipment - net	(293,867)	(13,854)	-	(307,721)	-	(307,721)
Tax assets (liabilities) before set off	(782,417)	36,269	1,543	(744,605)	595,025	(1,339,630)
Set off of taxes	-	-	-	-	(469,628)	469,628
Net tax assets (liabilities)	(P782,417)	P36,269	P1,543	(P744,605)	P125,397	(P870,002)

Deferred tax expense relating to remeasurements of net defined benefit liability recognized in other comprehensive income amounted to P32.4 million, P1.5 million and P4.6 million in 2018, 2017 and 2016, respectively.

The Company has MCIT amounting to P9.6 million, which could be available as deduction against future RCIT liabilities until 2021.

Net deferred tax liabilities as at December 31, 2018 are estimated to be recovered as follows:

	Amount
To be recovered within 12 months	**P81,312**
To be recovered after more than 12 months	**499,470**
	P580,782

The Company reviews the carrying amounts of deferred tax assets at each reporting date and reduces the deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact of deferred tax accordingly. The Company's assessment on the recognition of deferred tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses.

The Company has no unrecognized deferred tax assets as at December 31, 2018 and 2017.

The reconciliation of the income tax expense computed at the statutory income tax rate to the income tax expense shown in the statements of profit or loss and other comprehensive income is as follows:

	2018	2017	2016
Profit (loss) before tax	**(P262,538)**	P768,004	P1,212,351
Tax rate at 30%	**(P78,761)**	P230,401	P363,705
Addition to (reductions in) income tax resulting from the tax effects of:			
Nondeductible expenses and others	**21,196**	111	60
Equity in net earnings of associates	**(4,974)**	(3,564)	(4,176)
Interest income subjected to final tax	**(459)**	(269)	(360)
	(P62,998)	P226,679	P359,229

13. Defined Benefit Plan

The Company has a funded, noncontributory, final salary defined benefit plan covering substantially all of its regular and full time employees. The Company has a Retirement Committee, which is composed mainly of the Company's employees, that sets the policies for the plan and has appointed two Philippine banks as trustees to manage the retirement fund pursuant to the plan. Annual cost is determined by a qualified actuary using the projected unit credit method. The latest actuarial valuation was made on December 31, 2018.

Under the existing regulatory framework, Republic Act 7641, *"The Retirement Pay Law,"* a company is required to provide retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits under collective bargaining and other agreement shall not be less than those provided for under the law. The law does not require minimum funding of the plan.

The determination of the Company's net defined benefit liability and retirement cost is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Remeasurements of the net defined benefit liability are recognized in other comprehensive income and comprise actuarial gains and losses on the net defined benefit liability, return on plan assets and any change in the effect of asset ceiling, excluding amounts included in the net interest on the net defined benefit liability.

The following table shows reconciliation from the opening balances to the closing balances for net defined benefit liability and its components:

	Defined Benefit Obligation (DBO)		Fair Value of Plan Assets		Net Defined Benefit Liability	
	2018	2017	**2018**	2017	**2018**	2017
Balance at January 1	**P941,652**	P896,160	**(P105,371)**	(P112,432)	**P836,281**	P783,728
Included in profit or loss						
Current service cost	**80,501**	78,185	**-**	-	**80,501**	78,185
Interest expense	**51,430**	46,926	**-**	-	**51,430**	46,926
Interest income	**-**	-	**(8,052)**	(8,427)	**(8,052)**	(8,427)
	131,931	125,111	**(8,052)**	(8,427)	**123,879**	116,684
Remeasurements loss (gain):						
Actuarial loss (gain):						
- financial assumptions	**(152,105)**	(24,447)	**-**	-	**(152,105)**	(24,447)
- experience adjustment	**31,751**	22,946	**-**	-	**31,751**	22,946
Return on plan assets excluding interest income	**-**	-	**12,248**	6,646	**12,248**	6,646
	(120,354)	(1,501)	**12,248**	6,646	**(108,106)**	5,145
Other						
Contributions paid	**-**	-	**(124,000)**	(33,000)	**(124,000)**	(33,000)
Benefits paid directly by the Company	**(36,036)**	(36,276)	**-**	-	**(36,036)**	(36,276)
Benefits paid	**(122,135)**	(41,842)	**122,135**	41,842	**-**	-
	(158,171)	(78,118)	**(1,865)**	8,842	**(160,036)**	(69,276)
Balance at December 31	**P795,058**	P941,652	**(P103,040)**	(P105,371)	**P692,018**	P836,281

The current portion of defined benefit liability (included under "Accounts payable and accrued expenses" account in the statements of financial position) amounted to P28.7 million as at December 31, 2018 and 2017, while the noncurrent portion (included under "Other noncurrent liabilities" account in the statements of financial position) amounted to P664.2 million and P807.5 million as at December 31, 2018 and 2017, respectively.

Retirement cost is allocated between "Cost of Goods Sold" account in the statements of profit or loss and other comprehensive income, which amounted to P7.8 million, P7.5 million and P7.1 million for the years ended December 31, 2018, 2017 and 2016, respectively, and "Operating Expenses" account in the statements of profit or loss and other comprehensive income, which amounted to P116.0 million, P109.2 million and P105.4 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Notes 16, 17, 18 and 20).

As at December 31, 2018 and 2017, the present value of defined benefit obligation amounting to P795.0 million and P941.7 million, respectively, pertains to active members.

Principal actuarial assumptions used in determining retirement cost at reporting date (expressed as weighted averages) are as follows:

	2018	2017
Discount rate	**7.25%**	5.50%
Rate of future salary increase	**5.00%**	5.00%

Plan assets at December 31 comprised:

	2018	2017
Cash and cash equivalents	**P5,587**	P3,743
Debt securities:		
Investment in government securities	**86,250**	92,784
Investment in debt securities	**9,601**	6,897
	95,851	99,681
Investment in equity securities*		
Food and drink	**149**	147
Holding Company	**330**	330
Real estate	**132**	118
	611	595
Others	**991**	1,352
Total	**P103,040**	P105,371

*includes investment in NHC amounting to P330 thousand

Debt and equity instruments have quoted prices in active markets. All government bonds and securities are issued by the Philippine government, which are rated "BBB" by Standard and Poor's Financial Services.

Other financial assets held by the Plan are primarily receivables and payables.

Maturity analysis of the benefit payments:

During the Year Ending December 31	Expected Benefit Payments
2019	P3,141
2020	170,931
2021	42,901
2022	46,280
2023	55,761
2024 through December 31, 2028	368,498

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected DBO by the amounts shown below:

2018		**Sensitivity Analysis**	**Effect on DBO**
Discount rate	**8.25%**	**1.00% increase**	**-8.67%**
Discount rate	**6.25%**	**1.00% decrease**	**10.23%**
Rate of salary increase	**6.00%**	**1.00% increase**	**10.36%**
Rate of salary increase	**4.00%**	**1.00% decrease**	**-8.92%**

2017		Sensitivity Analysis	Effect on DBO
Discount rate	6.50%	1.00% increase	-9.34%
Discount rate	4.50%	1.00% decrease	11.11%
Rate of salary increase	6.00%	1.00% increase	11.05%
Rate of salary increase	4.00%	1.00% decrease	-9.46%

As at December 31, 2018 and 2017, the weighted-average duration of the defined benefit obligation is 10.18 years and 11.31 years, respectively.

These defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

The Retirement Committee reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligations.

The Company's expected contribution to the plan for the year 2018 is P30 million. Any future contribution to the plan is determined taking into account the cash flow and financial condition as at the date of intended contribution, as well as other factors as the Company may consider relevant.

The Company's funding policy is to contribute to the Plan's fund as required under actuarial principles to maintain the fund balance in sound condition. In addition, the Company reserves the right to discontinue, suspend or change the rate and amount of the contributions to the fund at any time due to the business necessity or economic conditions.

14. Share Capital

Capital stock consists of:

	Years Ended December 31					
	2018		2017		2016	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized - P0.15 per value per share	**5,000,000,000**	**P750,000**	5,000,000,000	P750,000	5,000,000,000	P750,000
Issued, fully paid and outstanding balance at beginning/end of year	**3,693,772,279**	**P554,066**	3,693,772,279	P554,066	3,693,772,279	P554,066

On January 21, 2008, the Company obtained a certificate of permit to offer securities for sale issued by the SEC consisting of 3,693,772,279 common shares with a maximum offer price of P3.50 per share.

On February 1, 2008, the Company's initial public offering of 1,142,348,680 shares at P3.50 per share culminated with the listing and trading of its shares of stock under the First Board of the Philippine Stock Exchange, Inc. Of the total shares offered, 380,782,893 shares pertain to the primary offering, which resulted in an increase in capital stock amounting to P57.0 million and additional paid-in capital of P1.2 billion, net of P138.0 million transaction cost that is accounted for as a reduction in equity.

The Company has approximately 597 and 594 holders of common equity securities as at December 31, 2018 and 2017, respectively, based on the number of accounts registered with the Stock Transfer Agent. The PCD Nominee Corporation (Filipino) and (Non-Filipino) were considered as two holders.

The Company is compliant with the minimum public float of 15% that is required by the Philippine Stock Exchange, Inc. where the Company's shares are traded.

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 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 debt to equity ratio as at reporting dates is as follows:

	2018	2017
(a) Debt*	**P6,422,330**	P4,846,532
(b) Total equity	**P9,159,065**	P9,445,456
Debt to equity ratio (a/b)	**0.70:1**	0.51:1

* Pertains to bank debts

15. Retained Earnings

On April 20, 2016, the Company's BOD approved the declaration of cash dividends with the record date of May 10, 2016, and a payment date of June 3, 2016, amounting to P243.8 million or P0.07 per share for the year ended December 31, 2016.

On May 4, 2017, the Company's BOD approved the declaration of cash dividends with the record date of May 18, 2017, and a payment date of June 14, 2017, amounting to P254.9 million or P0.07 per share for the year ended December 31, 2017.

On April 16, 2018, the Company's BOD approved the declaration of cash dividends with the record date of April 30, 2018, and a payment date of May 25, 2018, amounting to P162.5 million or P0.044 per share for the year ended December 31, 2018.

As at December 31, 2018, the Company has retained earnings of P7,886,063 (as adjusted per Securities Regulation Code Rule 68, As Amended), and share capital of P1,751,435. The Company has a dividend policy to declare dividends to stockholders of record, which are paid out of its unrestricted retained earnings. Any future dividends it pays will be at the discretion of the BOD after taking into account the following: the Company's earnings; cash flows; financial position; loan covenants; capital and operating progress (see Note 9); and other factors as the BOD may consider relevant. Subject to the foregoing, the policy is to pay up to 50% of the annual profit as dividends. In addition, the Company must obtain prior written consent from its lenders before it can declare or pay any cash dividends or redeem or repurchase any outstanding share or make any capital or asset distribution to its stockholders (see Note 11). The Company obtained the consents from its lenders prior to declaring dividends in 2018, 2017 and 2016.

16. Cost of Goods Sold

Cost of goods sold consists of:

	Note	**2018**	2017	2016
Materials and supplies used, and taxes	*6, 23*	**P21,919,552**	P16,204,904	P16,872,502
Depreciation and amortization	*8, 9, 19*	**2,129,808**	2,291,164	2,061,372
Delivery and freight		**1,708,230**	2,301,750	2,237,284
Rental and utilities	*26*	**632,748**	660,152	601,847
Personnel expenses	*13, 20*	**541,278**	529,246	524,709
Others		**951,751**	1,045,374	1,108,429
		P27,883,367	P23,032,590	P23,406,143

The "Others" account includes repairs and maintenance, outside services and other various items of manufacturing overhead which are individually insignificant.

17. Selling and Distribution

Selling and distribution expenses consist of:

	Note	**2018**	2017	2016
Distribution		**P1,093,547**	P1,474,158	P966,083
Delivery and freight		**922,811**	873,601	776,535
Personnel expenses	*13, 20*	**701,071**	659,009	615,281
Depreciation and amortization	*8, 9, 19*	**448,267**	606,913	595,540
Taxes		**209,993**	123,906	111,615
Rental and utilities	*26*	**198,465**	166,546	122,617
Sales commission		**171,708**	219,741	188,400
Others	*5, 8*	**252,632**	294,713	300,924
		P3,998,494	P4,418,587	P3,676,995

The "Others" account includes impairment losses on receivables and unusable containers, and various individually insignificant items.

18. General and Administrative

General and administrative expenses consist of:

	Note	**2018**	2017	2016
Personnel expenses	*13, 20*	**P706,558**	P642,803	P601,195
Outside services		**187,526**	152,308	125,697
Rental and utilities	*26*	**104,357**	87,515	101,606
Depreciation	*9, 19*	**54,196**	54,650	82,480
Others		**137,544**	117,991	59,254
		P1,190,181	P1,055,267	P970,232

The "Others" account includes depreciation and amortization of property, plant and equipment and other items that are individually immaterial.

19. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	Note	**2018**	2017	2016
Cost of goods sold	*16*	**P2,129,808**	P2,291,164	P2,061,372
Selling and distribution	*17*	**448,267**	606,913	595,540
General and administrative	*18*	**54,196**	54,650	82,480
		P2,632,271	P2,952,727	P2,739,392

20. Personnel Expenses

Personnel expenses consist of:

	Note	**2018**	2017	2016
Salaries and wages		**P1,825,028**	P1,714,374	P1,628,723
Retirement cost	*13*	**123,879**	116,684	112,462
		P1,948,907	P1,831,058	P1,741,185

The above amounts are distributed as follows:

	Note	**2018**	2017	2016
Cost of goods sold	*16*	**P541,278**	P529,246	P524,709
Selling and distribution	*17*	**701,071**	659,009	615,281
General and administrative	*18*	**706,558**	642,803	601,195
		P1,948,907	P1,831,058	P1,741,185

21. Basic/Diluted Earnings Per Share (EPS)

Basic EPS is computed as follows:

	2018	2017	2016
Profit (loss) for the year attributable to equity holders of the Company (a)	**(P199,540)**	P541,325	P853,122
Number of issued shares at beginning and end of year	**3,693,772,279**	3,693,772,279	3,693,772,279
Number weighted average number of shares outstanding (b)	**3,693,772,279**	3,693,772,279	3,693,772,279
Basic/diluted EPS (a/b)	**(P0.05)**	P0.15	P0.23

As at December 31, 2018, 2017 and 2016, the Company has no dilutive equity instruments.

22. 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 stockholders.

Related party transactions are shown under the appropriate accounts in the financial statements as follows:

Category	Nature of Transaction	*Note*	Year	Amount of Transactions for the Period	Outstanding Balance of Due from Related Parties	Terms	Conditions
Stockholder*	Purchases	22a	**2018**	**P61,500**	**P -**		
			2017	78,979	-		
			2016	72,534	-		
Associates	Advances	22b, 22c	**2018**	**-**	**567,309**	**Collectible on demand**	**Unsecured; no impairment**
			2017	-	580,174	Collectible on demand	Unsecured; no impairment
			2016	-	585,174	Collectible on demand	Unsecured; no impairment
	Various	22b	**2018**	**25,070**	**-**		
			2017	22,568	-		
			2016	25,436	-		
Key Management Personnel	Short-term employee benefit	22d	**2018**	**133,630**	**-**		
			2017	114,666	-		
			2016	120,836	-		
	Post-employment benefits	22d	**2018**	**2,736**	**-**		
			2017	3,346	-		
			2016	2,700	-		
			2018		**P567,309**		
			2017		P580,174		
			2016		P585,174		

*Entity with significant influence over the Company

The above outstanding balances of due from related parties are unsecured and expected to be settled in cash. No impairment losses have been recognized in 2018 and 2017 in respect of amounts of due from related parties as these are considered to be collectible.

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 years ended December 31, 2018, 2017 and 2016 amounted to P61.5 million, P79.0 million and P72.5 million, respectively.

b. The Company leases parcels of land where some of its bottling plants are located. Rental expenses recognized under "Cost of Goods Sold" and "Operating Expenses" accounts in the statements of profit or loss and other comprehensive income amounted to P28.9 million, P26.4 million and P29.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. The Company has advances to NRC amounting to P38.0 million as at December 31, 2018 and 2017, which bear interest at a fixed rate of 10% per annum and which are unsecured and collectible on demand. The related interest income amounting to P3.8 million each for the years ended December 31, 2018, 2017 and 2016 is recognized as part of "Other income - net" under "Finance and Other Income (Expenses)" account in the statements of profit or loss and other comprehensive income. The Company also has outstanding net receivables from NRC amounting to P525.5 million and P538.3 million as at December 31, 2018 and 2017, respectively, which are unsecured and collectible on demand. The advances and receivables are included under "Due from related parties" account in the statements of financial position.

c. The Company has outstanding working capital advances to NHC, an associate, amounting to P3.8 million as at December 31, 2018 and 2017, and which are unsecured and collectible on demand. The advances are included under "Due from related parties" account in the statements of financial position.

d. In addition to their salaries, the Company also provides non-cash benefits to key management personnel and contributes to a defined benefit plan on their behalf. There are no agreements between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits for which they may be entitled under the Company's retirement plan.

Transactions with the Defined Benefit Plan

The Company's retirement fund is being held in trust by trustee banks.

As at December 31, 2018 and 2017, the fair value of the retirement fund amounted to P103.0 million and P105.4 million, respectively. The retirement fund consists of government and debt securities, equities and other items such as cash and cash equivalents, receivables and payables, which accounted for 85%, 6%, 3%, and 6% of plan assets, respectively in 2018 and 95%, 1%, and 4% of plan assets, respectively, in 2017 (see Note 13). The retirement plan has no investments in the Company or any receivables from the Company.

The Company made contributions to the retirement fund amounting to P124.0 million and P33.0 million in 2018 and 2017, respectively.

23. 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 2018 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). Total net purchases from PCFET amounted to nil, P3.7 billion and P5.6 billion for the years ended December 31, 2018, 2017 and 2016, respectively. Total net purchases from CMSPL amounted to P3.4 billion for the year ended December 31, 2018. The Company's outstanding payable to PCFET (included under "Accounts payable and accrued expenses" account in the statements of financial position) amounted to P6.7 million and P62.5 million as at December 31, 2018 and 2017, respectively. The Company's outstanding payable to CMSPL (included under "Accounts payable and accrued expenses" account in the statements of financial position) as at December 31, 2018 amounted to P1.2 billion. Total purchases from Pepsi Lipton amounted to P201.7 million, P236.3 million and P132.5 million for the years ended December 31, 2018, 2017 and 2016, respectively. The Company's outstanding payable to Pepsi Lipton (included under "Accounts payable and accrued expenses" account in the statements of financial position) amounted to P54.8 million and P17.0 million as at December 31, 2018 and 2017, 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 and CMSPL. The Company incurred marketing expenses amounting to P628.3 million, P817.8 million and P937.4 million for the years ended December 31, 2018, 2017 and 2016, respectively. The Company's outstanding receivable from PCFET included under "Receivables" account in the statements of financial position, which are unsecured and are payable on demand, amounted to P218.4 million and P314.6 million P179.9 million as at December 31, 2018 and 2017, 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 P37.7 million, P124.2 million and P68.2 million for the years ended December 31, 2018, 2017 and 2016, respectively. 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 P34.9 million, P24 million and P130.1 million in 2018, 2017 and 2016, respectively. The Company's outstanding payable to Cork (included under "Accounts payable and accrued expenses" account in the statements of financial position) amounted to P14 million and nil as at December 31, 2018 and 2017, respectively.

24. 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, Let's be coffee and Premier and Aquafina drinking water, 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 operting segment is as follows (in millions):

	Year Ended December 31, 2018			
(Amounts in Millions)	**CSD**	**NCB**	**Snacks**	**Total**
Net Sales				
External sales	P28,670	P9,506	P262	P38,438
Sales returns and discounts	3,578	1,203	62	4,843
Net Sales	P25,092	P8,303	P200	P33,595
Result				
Segment result*	P4,294	P1,415	P2	P5,711
Unallocated expenses				(5,855)
Interest and financing expenses				(275)
Equity in net earnings of associates				17
Interest income				5
Other income - net				135
Income tax benefit				63
Profit				(P199)
Other Information**				
Segment assets				P25,240
Investment in associates				613
Deferred tax assets - net				116
Other noncurrent assets				204
Combined Total Assets				P26,173
Segment liabilities				P9,886
Loans payable				6,422
Deferred tax liabilities - net				697
Income tax payable				9
Combined Total Liabilities				P17,014
Capital expenditures				P1,976
Depreciation and amortization of bottles and cases and property, plant and equipment				2,632
Noncash items other than depreciation and amortization				62

	Year Ended December 31, 2017			
(Amounts in Millions)	CSD	NCB	Snacks	Total
Net Sales				
External sales	P26,262	P9,265	P339	P35,866
Sales returns and discounts	(4,192)	(1,297)	(72)	(5,561)
Net Sales	P22,070	P7,968	P267	P30,305
Result				
Segment result*	P5,329	P1,924	P20	P7,273
Unallocated expenses				(6,416)
Interest and financing expenses				(137)
Equity in net earnings of associates				12
Interest income				5
Other income - net				31
Income tax expense				(227)
Profit				P541
Other Information**				
Segment assets				P23,143
Investment in associates				596
Deferred tax assets - net				125
Other noncurrent assets				280
Combined Total Assets				P24,144
Segment liabilities				P8,940
Loans payable				4,847
Deferred tax liabilities - net				870
Income tax payable				42
Combined Total Liabilities				P14,699
Capital expenditures				P3,687
Depreciation and amortization of bottles and cases and property, plant and equipment				2,953
Noncash items other than depreciation and amortization				327

(Amounts in Millions)	Year Ended December 31, 2016 CSD	NCB	Snacks	Total
Net Sales				
External sales	P26,142	P9,419	P190	P35,751
Sales returns and discounts	(4,115)	(1,285)	(31)	(5,431)
Net Sales	P22,027	P8,134	P159	P30,320
Result				
Segment result*	P5,061	P1,884	(P31)	P6,914
Unallocated expenses				(5,652)
Interest and financing expenses				(91)
Equity in net earnings of associates				14
Interest income				4
Other income - net				23
Income tax expense				(359)
Profit				P853
Other Information**				
Segment assets				P21,234
Investment in associates				584
Deferred tax assets - net				118
Other noncurrent assets				269
Combined Total Assets				P22,205
Segment liabilities				P8,193
Loans payable				3,944
Deferred tax liabilities - net				900
Income tax payable				5
Combined Total Liabilities				P13,042
Capital expenditures				P3,658
Depreciation and amortization of bottles and cases and property, plant and equipment				2,739
Noncash items other than depreciation and amortization				(3)

*The Company presents its operating segments performance based on profit. There were no intersegment sales recognized between the three reporting segments.

**The Company uses its assets and incurs liabilities to produce CSD, NCB and snacks, hence, the assets and liabilities are not directly attributable to a segment and cannot be allocated into each segment on a reasonable basis.

The Company derived operations within the Philippines. The Company does not present geographic information required by PFRS 8.

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.

Determining whether an entity is acting as a principal or as an agent depends on certain facts and circumstances and requires judgment by management. Features that, individually or in combination, indicate that an entity is acting as a principal include:

- the entity has the primary responsibility for providing the goods or rendering services;
- the entity has inventory risk; and
- the entity has discretion in establishing prices.

An entity is acting as an agent when it does not obtain control of the goods or right to the services. The Company assessed its revenue arrangements and concluded that it is acting as principal in all arrangements.

25. Financial Risk Management and Financial Instruments

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 of the Company 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 Company's 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 amounts of the financial assets represent the Company's maximum credit exposure before effect of any collateral and any master netting agreements. The maximum exposure to credit risk as at December 31 is as follows:

	Note	**2018**	2017
Cash in banks	*4*	**P295,510**	P151,228
Receivables - net	*5*	**2,542,413**	2,404,681
Due from related parties	*22*	**567,309**	580,174
Total credit exposure		**P3,405,232**	P3,136,083

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.

Collaterals are required from customers for credit limit applications that exceed certain thresholds. The Company has policies for acceptable collateral securities that may be presented upon submission of credit applications. Collaterals include bank guarantees, time deposits, surety bonds, real estate and/or chattel mortgages. The aggregate fair market value of these collateral securities amounted to P225.6 million and P253.1 million as at December 31, 2018 and 2017, respectively. Total amount of receivables that have collateral amounted to P194.8 million and P224.8 million as at December 31, 2018 and 2017, respectively.

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.

As at December 31, the aging analysis per class of financial assets is as follows:

December 31, 2018

	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	**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**
	2,664,800	**442,285**	**90,344**	**207,803**	**221,933**	**3,627,165**
Less allowance for impairment losses	**-**	**-**	**-**	**-**	**221,933**	**221,933**
	P2,664,800	**P442,285**	**P90,344**	**P207,803**	**P -**	**P3,405,232**

December 31, 2017

	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	P151,228	P -	P -	P -	P -	P151,228
Receivables:						
Trade	1,113,708	318,082	94,392	58,744	159,521	1,744,447
Others	453,411	32,081	67,490	266,773	55,434	875,189
Due from related parties	580,174	-	-	-	-	580,174
	2,298,521	350,163	161,882	325,517	214,955	3,351,038
Less allowance for impairment losses	-	-	-	-	214,955	214,955
	P2,298,521	P350,163	P161,882	P325,517	P -	P3,136,083

As at December 31, 2018 and 2017, there was an impairment loss of P221.9 million and P215.0 million, respectively, relating to trade and other receivables.

The Company believes that the unimpaired amounts that are past due by more than thirty (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 Company's exposure to credit risk arises from default of the counterparty. There is no significant concentration of credit risk within the Company.

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 is 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 high grade quality financial assets, where the counterparties 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 December 31, 2018

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.

The following table provides information about the exposure to credit risk for trade and other receivables as at December 31, 2018:

	Gross Carrying Amount	Impairment Loss Allowance	Credit-impaired
Current (not past due)	P1,801,981	P -	No
1 - 30 days past due	442,285	-	No
31 - 60 days past due	90,344	-	No
More than 60 days past due	429,736	221,933	Yes
Balance at December 31, 2018	**P2,764,346**	**P221,933**	

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 P295.5 million and P151.2 million as at December 31, 2018 and 2017, 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 P567.3 million and P580.1 million as at December 31, 2018 and 2017, 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 maintains the following credit facilities:

- Total commitment as at December 31, 2018 and 2017 under the line of credit is P16.85 billion and P13.1 billion, respectively, of which the Company had drawn P6.7 billion and P5.0 billion, respectively, under letters of credit, short-term loans and term loans. All facilities under the omnibus lines and term loans bear negotiated interest at floating rates consisting of a margin over current Philippine treasury rates; and

- P1.5 billion domestic bills purchased line, which are available as at December 31, 2018 and 2017.

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 December 31, 2018			
	Carrying Amount	Contractual Cash Flow	One Year or Less	More than One Year
Financial Liabilities				
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
	P15,344,458	P16,137,765	P10,988,162	P5,149,603

* Excluding statutory payables, accrual for operating leases and defined benefit liability amounting to P299.3 million

	As at December 31, 2017			
	Carrying Amount	Contractual Cash Flow	One Year or Less	More than One Year
Financial Liabilities				
Short-term debt	P3,100,000	P3,113,352	P3,113,352	P -
Accounts payable and accrued expenses *	7,730,833	7,730,833	7,730,833	-
Long-term debt	1,746,532	2,323,108	666,751	1,656,357
	P12,577,365	P13,167,293	P11,510,936	P1,656,357

* Excluding statutory payables, accrual for operating leases and defined benefit liability amounting to P401.7 million.

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 outflow requirements.

<u>Market Risk</u>

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 profit 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 P9.7 billion and P9.2 billion as at December 31, 2018 and 2017, 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 debt, 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 December 31, 2018 and 2017.

<u>Offsetting</u>

The following table sets out the carrying amounts of due from related parties that are presented net of due to related parties in the statements of financial position as at December 31, 2018 and 2017:

December 31, 2018	**Gross Amount**	**Amount Offset**	**Net Amount** (see Note 22)
Due from related parties	**P779,995**	**(P212,686)**	**P567,309**

December 31, 2017	Gross Amount	Amount Offset	Net Amount
Due from related parties	P773,436	(P193,262)	P580,174

<u>Fair Values</u>

As at December 31, 2018 and 2017, 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.

The table below shows the carrying amounts and fair values of financial assets and liabilities, including their level of the fair value hierarchy. The table below does not include the fair value information for financial assets and liabilities not measured at fair value if the carrying amounts are the reasonable approximation of their fair values.

2018	Valuation Technique	Significant Unobservable Inputs	Carrying Amount	Level 1	Level 2	Level 3	Total
Type							
Long-term debt	Discounted cash flows	Not applicable	P5,422,329	P -	P5,253,300	P -	P5,253,300

2017	Valuation Technique	Significant Unobservable Inputs	Carrying Amount	Level 1	Level 2	Level 3	Total
Type							
Finance lease liability	Discounted cash flows	Not applicable	P3,728	P -	P3,618	P -	P3,618
Long-term debt	Discounted cash flows	Not applicable	1,746,532	-	1,525,836	-	1,525,836
			P1,750,260	P -	P1,529,454	P -	P1,529,454

There were no transfers between level 1, 2, 3 of the fair value hierarchy.

26. Commitments, Contingencies and Losses

a. Leases

The Company uses its judgment in determining whether an arrangement contains a lease, based on the substance of the arrangement at inception date and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership to the Company.

- *Operating Lease Commitments as Lessee*

  The Company leases certain warehouses, facilities and vehicles for a period of one to twenty-five years, renewable for another one to twenty-five years. The Company has determined that all significant risks and rewards of ownership of these properties remain with the lessors and the lease do not provide for an option to purchase or transfer ownership of the property at the end of the lease.

  None of these leases includes contingent rentals. Rental expense (included under "Cost of Goods Sold" and "Operating Expenses" accounts in the statements of profit or loss and other comprehensive income) pertaining to these leased properties amounted to P202.4 million, P193.3 million, and P214.4 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Notes 16, 17 and 18).

  Future minimum lease payments under such non-cancellable operating leases are as follows:

	2018	2017	2016
Less than one year	**P169,471**	P114,814	P116,189
Between one and five years	**394,218**	350,690	397,396
More than five years	**28,364**	28,364	148,353
	P592,053	P493,868	P661,938

- *Finance Lease Commitments as Lessee*

  The Company entered into finance lease agreements covering pallets (see Note 8). The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it has substantially acquired all the significant risks and rewards incidental to ownership of these pallets and the provisions of the lease agreements effectively transfer ownership of the assets to the Company at the end of the lease term.

  Future minimum lease payments and their present value are as follows:

	2018			2017		
	Future Minimum Lease Payments	**Interest**	**Present Value of Minimum Lease Payments**	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Less than one year	**P -**	**P -**	**P -**	P8,947	P5,219	P3,728
Between one and five years	**-**	**-**	**-**	-	-	-
	P -	**P -**	**P -**	P8,947	P5,219	P3,728

  The current portion of the obligation under finance lease, which is presented as "Current portion of finance lease liability" under "Accounts payable and accrued expenses" account in the statements of financial position, amounted to nil and P3.7 million as at December 31, 2018 and 2017, respectively, while the noncurrent portion, which is included under "Other noncurrent liabilities" account in the statements of financial position, amounted to nil as at December 31, 2018 and 2017, respectively.

  Interest rates are fixed at the contract date. The average effective interest rate contracted approximates 6.0% to 6.5% per annum. There were no unguaranteed residual values of assets leased under finance lease agreements as at December 31, 2018 and 2017. Interest expense related to the obligation under finance lease amounted to nil, P1.3 million and P3.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

b. The Company is currently involved in various tax, legal and administrative proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside legal counsels handling the Company's defense relating to these matters and is based upon an analysis of potential results. The Company received a Final Demand on Disputed Assessment from the Bureau of Internal Revenue for tax assessments relating to various taxes covering the taxable year June 30, 2010 and taxable period from July 1 to December 31, 2010 totaling P1.5 billion. Consequently, the Company filed a petition for review before the Court of Tax Appeals. As at the reporting date, these proceedings are still ongoing. The Company does not believe that these proceedings will have material adverse effect on its financial statements based on the assessment of the management's legal counsels. It is possible, however, that future financial performance could be affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.


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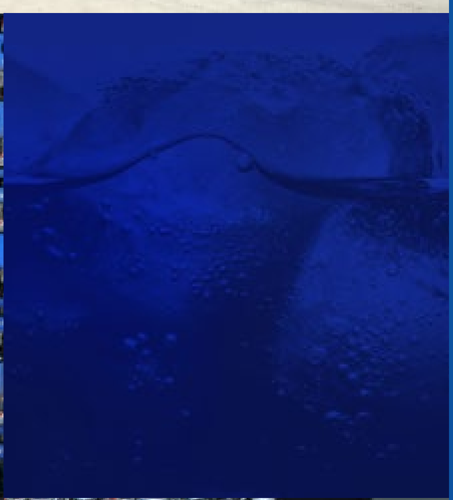


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