

# COVER SHEET

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S.E.C. Identification No.

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

(Company's Full Name)

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

**Imran Moid**  
 Contact Person

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

0	3
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Month  
Calendar Year

3	1
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Day  
Calendar Year

**SEC Form 17-Q**  
 FORM TYPE

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

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Secondary License Type, If Applicable

M	S	R	D
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Dept. Requiring this Doc.

Amended Article Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Php6.2Billion Domestic
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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2018**
2. Commission identification number **0000160968** 3. BIR Tax Identification No **000-168-541**
4. Exact name of issuer as specified in its charter: **PEPSI-COLA PRODUCTS PHILIPPINES, INC.**
5. Province, country or other jurisdiction of incorporation or organization: **Philippines**
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office and Postal Code:  
**Km. 29 National Road, Tunasan, Muntinlupa City 1773**
8. Issuer's telephone number, including area code: **(632) 887-37-74**
9. Former name, former address and former fiscal year, if changed since last report: **not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common Shares of Stock</b>	<b>3,693,772,279</b>

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

Yes  No

Stock Exchange: **Philippine Stock Exchange**

Securities Listed: **Common Shares of Stock**

12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

**Part 1 – Financial Information**

**Item 1. Financial Statements.**

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

	<i>Note</i>	<b>March 31 2018 (Unaudited)</b>	December 31 2017 (Audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	11	<b>P440,338</b>	P498,352
Receivables - net	9, 11	<b>2,174,940</b>	2,404,681
Inventories		<b>3,084,052</b>	2,484,230
Due from related parties	8, 11	<b>576,145</b>	580,174
Prepaid expenses and other current assets		<b>376,045</b>	284,299
<b>Total Current Assets</b>		<b>6,651,520</b>	6,251,736
<b>Noncurrent Assets</b>			
Investments in associates		<b>602,423</b>	596,077
Bottles and cases - net		<b>4,993,472</b>	4,970,119
Property, plant and equipment - net	6	<b>12,162,728</b>	11,920,635
Deferred tax assets - net		<b>128,030</b>	125,397
Other noncurrent assets		<b>273,170</b>	280,407
<b>Total Noncurrent Assets</b>		<b>18,159,823</b>	17,892,635
		<b>P24,811,343</b>	P24,144,371
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	9, 11	<b>P7,598,717</b>	P8,132,493
Short-term debt	11	<b>1,150,000</b>	3,100,000
Current portion of long-term debt		<b>598,869</b>	598,749
Income tax payable		<b>63,648</b>	42,343
<b>Total Current Liabilities</b>		<b>9,411,234</b>	11,873,585
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	11	<b>4,498,157</b>	1,147,783
Deferred tax liabilities - net		<b>788,294</b>	870,002
Other noncurrent liabilities		<b>808,385</b>	807,545
<b>Total Noncurrent Liabilities</b>		<b>6,094,836</b>	2,825,330
<b>Total Liabilities</b>		<b>15,506,070</b>	14,698,915

Forward

		<b>March 31 2018</b>	December 31 2017
	<b>Note</b>	<b>(Unaudited)</b>	(Audited)
<b>Equity</b>			
Share capital	7	<b>P1,751,435</b>	P1,751,435
Remeasurement losses on net defined benefit liability		<b>(270,754)</b>	(270,754)
Retained earnings		<b>7,824,592</b>	7,964,775
<b>Total Equity</b>		<b>9,305,273</b>	9,445,456
		<b>P24,811,343</b>	P24,144,371

*See Notes to the Condensed Interim Financial Information.*

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

		<b>For The Three Months Ended March 31</b>	
		<b>2018</b>	<b>2017</b>
		(Unaudited)	
	<i>Note</i>		
<b>GROSS SALES</b>		<b>P8,155,407</b>	P8,186,222
Less sales returns and discounts		<b>1,054,763</b>	1,339,265
<b>NET SALES</b>		<b>7,100,644</b>	6,846,957
<b>COST OF GOODS SOLD</b>		<b>6,018,255</b>	5,315,445
<b>GROSS PROFIT</b>		<b>1,082,389</b>	1,531,512
<b>OPERATING EXPENSES</b>		<b>1,300,796</b>	1,374,594
<b>PROFIT (LOSS) FROM OPERATIONS</b>		<b>(218,407)</b>	156,918
<b>NET FINANCE AND OTHER INCOME</b>			
<b>(EXPENSES) - Net</b>		<b>15,187</b>	(27,059)
<b>PROFIT (LOSS) BEFORE TAX</b>		<b>(203,220)</b>	129,859
<b>INCOME TAX EXPENSE (BENEFIT)</b>		<b>(63,037)</b>	36,920
<b>PROFIT (LOSS) / TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>(P140,183)</b>	P92,939
<b>Basic/Diluted Earnings (Loss) Per Share</b>	<b>5</b>	<b>(P0.04)</b>	P0.02

*See Notes to the Condensed Interim Financial Information.*

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

**For The Three Months Ended March 31**

	Share Capital			Remeasurement Losses on Net Defined Benefit Liability	Retained Earnings	Total Equity
	Capital Stock (see Note 7)	Additional Paid-In Capital	Total			
As at January 1, 2018	P554,066	P1,197,369	P1,751,435	(P270,754)	P7,964,775	P9,445,456
<b>Total comprehensive loss</b>						
Loss	-	-	-	-	(140,183)	(140,183)
<b>As at March 31, 2018</b>	<b>P554,066</b>	<b>P1,197,369</b>	<b>P1,751,435</b>	<b>(P270,754)</b>	<b>P7,824,592</b>	<b>P9,305,273</b>
As at January 1, 2017	P554,066	P1,197,369	P1,751,435	(P267,152)	P7,678,320	P9,162,603
<b>Total comprehensive income</b>						
Profit	-	-	-	-	92,939	92,939
As at March 31, 2017	P554,066	P1,197,369	P1,751,435	(P267,152)	P7,771,259	P9,255,542

*See Notes to the Condensed Interim Financial Information.*

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

		<b>For The Three Months Ended March 31</b>	
	<i>Note</i>	<b>2018</b>	2017
		(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit (Loss) before tax		<b>(P203,220)</b>	P129,859
Adjustments for:			
Depreciation and amortization		<b>651,626</b>	629,493
Interest expense		<b>52,688</b>	37,730
Retirement cost		<b>29,171</b>	27,473
Impairment losses (reversal of impairment losses) on receivables, inventories, bottles and cases, machinery and equipment and others		<b>3,938</b>	(3,173)
Loss on sale of property and equipment		<b>1,938</b>	16,147
Equity in net earnings of associates		<b>(6,346)</b>	(6,073)
Interest income		<b>(1,228)</b>	(1,139)
Operating profit before working capital changes		<b>528,567</b>	830,317
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables		<b>240,384</b>	56,383
Due from related parties		<b>4,029</b>	3,324
Inventories		<b>(624,074)</b>	(332,327)
Prepaid expenses and other current assets		<b>(91,746)</b>	(56,941)
Increase (decrease) in accounts payable and accrued expenses		<b>(572,460)</b>	(150,035)
Cash generated from (absorbed by) operations		<b>(515,300)</b>	350,721
Interest received		<b>1,178</b>	1,139
Contribution to plan assets		<b>(15,000)</b>	(15,000)
Retirement benefits directly paid by the Company		<b>(13,331)</b>	(10,802)
Net cash provided by (used in) operating activities		<b>(542,453)</b>	326,058
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of property and equipment		<b>67</b>	379
Additions to:			
Property, plant and equipment	6	<b>(566,860)</b>	(607,322)
Bottles and cases		<b>(314,693)</b>	(302,073)
Decrease (increase) in other noncurrent assets		<b>7,237</b>	(7,699)
Net cash used in investing activities		<b>(874,249)</b>	(916,715)

*Forward*

				<b>For The Three Months Ended March 31</b>	
				<b>2018</b>	<b>2017</b>
				(Unaudited)	
				<b>Note</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from availments of:					
Short-term debt				<b>P6,450,000</b>	P3,500,000
Long-term debt				<b>3,500,000</b>	-
Payments of:					
Short-term debt				<b>(8,400,000)</b>	(2,650,000)
Long-term debt				<b>(150,000)</b>	(150,000)
Interest paid				<b>(41,312)</b>	(37,924)
Net cash provided by financing activities				<b>1,358,688</b>	662,076
<b>NET INCREASE (DECREASE) IN CASH</b>				<b>(58,014)</b>	71,419
<b>CASH AT BEGINNING OF PERIOD</b>				<b>498,352</b>	320,048
<b>CASH AT END OF PERIOD</b>			<i>11</i>	<b>P440,338</b>	P391,467

*See Notes to the Condensed Interim Financial Information.*



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## PEPSI-COLA PRODUCTS PHILIPPINES, INC.

### NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

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

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#### 1. Reporting Entity

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

The Company is listed in the Philippine Stock Exchange (PSE) and has been included in the PSE composite index since February 1, 2008. Lotte Corporation, with a 40.85% stake in the Company, is the largest shareholder of the Company. Quaker Global Investments B.V. is the other major shareholder with a 25.00% stake. Lotte Corporation was organized under the laws of South Korea. Quaker Global Investments B.V. was organized under the laws of the Netherlands.

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#### 2. Basis of Preparation

##### Statement of Compliance

These condensed interim financial information have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. These condensed interim financial information do not include all of the information required for a complete set of financial statements and should be read in conjunction with the annual financial statements of the Company as at December 31, 2017.

##### Basis of Measurement

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

##### Functional and Presentation Currency

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

##### Use of Judgments and Estimates

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

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

During the three months ended March 31, 2018, management reassessed its estimates in respect of the following:

*Estimating Allowance for Impairment Losses on Receivables*

As at March 31, 2018 and December 31, 2017, allowance for impairment losses on receivables amounted to P195.5 million and P215.0 million, respectively.

*Estimating Net Realizable Value of Inventories*

As at March 31, 2018 and December 31, 2017, inventories amounted to P3.084 billion and P2.484 billion, respectively.

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### **3. Significant Accounting Policies**

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

Changes in Accounting Policies

The following amendments to standards are effective for the three-month period ended March 31, 2018, and have been applied in preparing these condensed interim financial information. The adoption of these amendments to standards did not have any significant impact on the Company's condensed interim financial information:

- 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.

*Impairment of Financial Assets.* Under the new impairment model based on ECL, impairment losses resulting either from (1) possible default events within the twelve (12) months after the reporting date; or (2) all possible default events over the expected life of financial assets, are recognized on initial recognition, and at each subsequent reporting period, even in the absence of a credit event or if the loss has not yet been incurred, considering for their measurement past events and current conditions, as well as reasonable and supportable forecasts affecting collectability.

*Classification and Measurement.* PFRS 9 changes the classification categories for financial assets and replaces them with categories that reflect the measurement method, the contractual cash flow characteristics and the entity's business model for managing the financial asset: 1) amortized cost; 2) fair value through other comprehensive income; and 3) fair value through profit or loss.

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

*Timing of Revenue Recognition.* PFRS 15 changes the timing of revenue recognition from risk and reward model to control based model. Transfer of the control over the goods coincides with its delivery and acceptance by the customer.

*Variable Consideration.* Variable considerations such as discounts and allowances are deducted from the transaction price.

*Listing and Slotting Fees/ Display Allowances.* Under PFRS 15, payments to distributors and retailers are recognized as a reduction of revenue unless a distinct goods or service has been received. If a distinct goods or service has been received, then it will be recognized as an expense. The Company has assessed that it does not receive any distinct goods or service in exchange for its payments to customers including but not limited to listing and slotting fees/display allowances.

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

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

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

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

#### *Effective January 1, 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 is currently on the initial assessment of 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 and facilities. 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 was approved by the FRSC on July 12, 2017 but is still subject to the approval by the BOA.

- *Prepayment Features with Negative Compensation (Amendments to PFRS 9)*. The amendments cover the following areas:
  - *Prepayment features with negative compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

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.

The amendments were approved by the FRSC on November 8, 2017 but is still subject to the approval by the BOA.

- *Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28, Investment in Associates and Joint Ventures)*. The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests (LTIs) that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any prior years' PAS 28 loss absorption. If necessary, prior years' PAS 28 loss allocation is trued-up in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

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.

The amendments were approved by the FRSC on November 8, 2017 but is still subject to the approval by the BOA.

- *Deferral of the local implementation of Amendments to PFRS 10, Consolidated Financial Statements and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28)*. The amendments address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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#### 4. Seasonality of Operations

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

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

Basic EPS is computed as follows:

	<b>For The Three Months Ended March 31</b>	
	<b>2018</b>	<b>2017</b>
	<b>(Unaudited)</b>	
Profit (loss) (a)	<b>(P140,183)</b>	P92,939
Issued shares at the beginning of the year/weighted average number of shares outstanding (b)	<b>3,693,772,279</b>	3,693,772,279
Basic/Diluted EPS (a/b)	<b>(P0.04)</b>	P0.02

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

## 6. Property, Plant and Equipment

The movements in this account are as follows:

	<b>Machinery and Other Equipment</b>	<b>Buildings and Leasehold Improvements</b>	<b>Furniture and Fixtures</b>	<b>Construction in Progress</b>	<b>Total</b>
<b>Gross carrying amount</b>					
December 31, 2017 (Audited)	P17,672,161	P3,675,330	P57,721	P1,136,298	P22,541,510
Additions	183,190	29,527	635	353,508	566,860
Disposals/write- offs/adjustments	(61,823)	(1,433)	(285)	-	(63,541)
Transfers/reclassifications	10,346	201	(63)	(10,484)	-
<b>March 31, 2018 (Unaudited)</b>	<b>17,803,874</b>	<b>3,703,625</b>	<b>58,008</b>	<b>1,479,322</b>	<b>23,044,829</b>
<b>Accumulated depreciation and amortization</b>					
December 31, 2017 (Audited)	9,645,936	939,525	35,414	-	10,620,875
Depreciation and amortization	295,571	26,329	862	-	322,762
Disposals/write- offs/adjustments	(60,278)	(976)	(282)	-	(61,536)
Transfers/reclassifications	(2,800)	2,790	10	-	-
<b>March 31, 2018 (Unaudited)</b>	<b>9,878,429</b>	<b>967,668</b>	<b>36,004</b>	<b>-</b>	<b>10,882,101</b>
<b>Carrying Amount</b>					
December 31, 2017 (Audited)	P8,026,225	P2,735,805	P22,307	P1,136,298	P11,920,635
<b>March 31, 2018 (Unaudited)</b>	<b>P7,925,445</b>	<b>P2,735,957</b>	<b>P22,004</b>	<b>P1,479,322</b>	<b>P12,162,728</b>

## 7. Equity

### Share Capital

This account consists of:

	<b>March 31, 2018 (Unaudited)</b>		<b>December 31, 2017 (Audited)</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>
Authorized - P0.15 par value per share	<b>5,000,000,000</b>	<b>P750,000</b>	5,000,000,000	P750,000
Issued, fully paid and outstanding balance at beginning/end of period	<b>3,693,772,279</b>	<b>P554,066</b>	3,693,772,279	P554,066



### Capital Management

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

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

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

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

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

	<b>March 31, 2018</b> <b>(Unaudited)</b>	December 31, 2017 (Audited)
(a) Debt*	<b>P6,247,026</b>	P4,846,532
(b) Total equity	<b>P9,305,273</b>	P9,445,456
Bank debt to equity ratio (a/b)	<b>0.67:1</b>	0.51:1

\* Pertains to bank debts

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## **8. Related Party Transactions**

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

Related party transactions are shown under the appropriate accounts in the condensed interim financial information as at and for the period ended March 31, 2018 and 2017 are as follows:

Category	Nature of Transaction	Note	2018	Amount of Transactions for the Period	Outstanding balance of Due from Related Parties	Terms	Conditions
Stockholder*	Purchases	8a	2018	<b>P15,855</b>	<b>P -</b>		
			2017	22,745	-		
Associates	Advances	8b, 8c	2018	-	<b>576,145</b>	<b>Collectible on demand</b>	<b>Unsecured; no impairment</b>
			2017	-	581,850	Collectible on demand	Unsecured; no impairment
	Various	8b	2018	<b>3,397</b>	-		
			2017	7,555	-		
					<b>P576,145</b>		
					P581,850		

\* Entity with significant influence over the Company

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

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

- a. The Company purchased finished goods from Lotte Corporation, a major stockholder. Total purchases for the three-month periods ended March 31, 2018 and 2017 amounted to P15.9 million and P22.8 million, respectively.
- b. The Company leases parcels of land where some of its bottling plants are located. Lease expenses recognized amounted to P7.2 million for the three-month periods ended March 31, 2018 and 2017, respectively. The Company has advances to Nadeco Realty Corporation (NRC) amounting to P38.0 million, which bear interest at a fixed rate of 10% per annum and which are unsecured and payable on demand. The related interest income amounted to P1.0 million each for the three-month periods ended March 31, 2018 and 2017. The Company also has outstanding net receivables from NRC amounting to P534.3 million and P538.3 million as at March 31, 2018 and December 31, 2017, respectively, which are unsecured and payable on demand. The advances and receivables are included under "Due from related parties" account in the condensed interim statements of financial position.
- c. The Company has outstanding working capital advances to Nadeco Holdings Corporation, an associate, amounting to P3.8 million as at March 31, 2018 and December 31, 2017 and which are unsecured, noninterest-bearing and payable on demand. The advances are included under "Due from related parties" account in the condensed interim statements of financial position.

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## 9. Significant Agreements

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

- a. The Company has Exclusive Bottling Agreements with PepsiCo, Inc. (“PepsiCo”), the ultimate parent of Quaker Global Investments B.V, a shareholder, up to year 2018 and Pepsi Lipton International Limited (“Pepsi Lipton”), a joint venture of PepsiCo and Unilever N.V., up to year 2018 (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 thru Concentrate Manufacturing (Singapore) PTE Ltd. (CMSPL). Total net purchases from PCFET amounted to nil and P1.205 billion for the three-month periods ended March 31, 2018 and 2017, respectively. There are no purchases from CMSPL for the three-month periods ended March 31, 2018 and 2017, respectively. The Company’s outstanding payable to PCFET (included under “Accounts payable and accrued expenses” account in the condensed interim statements of financial position) amounted to nil million and P62.5 million as at March 31, 2018 and December 31, 2017, respectively. The Company’s outstanding payable to CMSPL (included under “Accounts payable and accrued expenses” account in the statements of financial position) amounted to P514.3 million and P918.9 million as at March 31, 2018 and December 31, 2017, respectively. Total purchases from Pepsi Lipton amounted to P17.5 million and P64.6 million for each of the three-month periods ended March 31, 2018 and 2017, 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 P6.5 million and P17.0 million as at March 31, 2018 and December 31, 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. The Company incurred marketing expenses amounting to P172.8 million and P218.5 million for the three-month periods ended March 31, 2018 and 2017, respectively. The Company’s outstanding receivable from PCFET included under “Receivables” account in the condensed interim statements of financial position, which are unsecured and are payable on demand, amounted to P 245.8 million and P314.6 million as at March 31, 2018 and December 31, 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 P9.2 million and P10.0 million for the three months ended March 31, 2018 and March 31, 2017. Purchases from CMCI is made thru Pepsi-Cola International Cork (Cork), a company incorporated under the laws of Ireland. Total net purchases from Cork amounted to P16.8 million and P18.5 million for the three-month periods ended March 31, 2018 and 2017, respectively. The Company's outstanding payable to Cork (included under "Accounts payable and accrued expenses" account in the statements of financial position) amounted to P2.3 million and nil million as at March 31, 2018 and December 31, 2017, respectively.

## 10. Segment Information

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

(Amounts in millions)	For the Three Months Ended March 31, 2018			
	CSD	NCB	Snacks	Total
<b>Net sales</b>				
External sales	P6,045	P2,052	P58	P8,155
Sales returns and discounts	811	234	9	1,054
<b>Net sales</b>	<b>P5,234</b>	<b>P1,818</b>	<b>P49</b>	<b>P7,101</b>
<b>Result</b>				
Segment result*	P799	P278	P5	P1,082
Unallocated expenses				(1,301)
Interest and financing expenses				(53)
Equity in net earnings of associates				6
Interest income				1
Other income - net				62
Income tax benefit				63
<b>Profit</b>				<b>(P140)</b>
<b>Other information**</b>				
Segment assets				P23,808
Investment in associates				602
Deferred tax assets - net				128
Other noncurrent assets				273
<b>Combined total assets</b>				<b>P24,811</b>
Segment liabilities				P8,407
Loans payable				6,247
Income tax payable				64
Deferred tax liabilities - net				788
<b>Combined total liabilities</b>				<b>P15,506</b>
Capital expenditures				P882
Depreciation and amortization of bottles and cases and property, plant and equipment				652
Noncash items other than depreciation and amortization				4

(Amounts in millions)	For the Three Months Ended March 31, 2017			
	CSD	NCB	Snacks	Total
Net sales				
External sales	P6,030	P2,091	P65	P8,186
Sales returns and discounts	1,022	300	17	1,339
Net sales	P5,008	P1,791	P48	P6,847
Result				
Segment result*	P1,141	P408	(P17)	P1,532
Other income - net				3
Equity in net earnings of associates				6
Interest income				1
Unallocated expenses				(1,375)
Income tax expense				(37)
Interest and financing expenses				(37)
Profit				P93
Other information**				
Segment assets				P21,903
Investment in associates				590
Deferred tax assets - net				119
Other noncurrent assets				276
Combined total assets				P22,888
Segment liabilities				P8,045
Loans payable				4,645
Income tax payable				35
Deferred tax liabilities - net				908
Combined total liabilities				P13,633
Capital expenditures				P909
Depreciation and amortization of bottles and cases and property, plant and equipment				629
Noncash items other than depreciation and amortization				(3)

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

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

*Major Customer*

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

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## 11. Financial Risk Management

### *Overview*

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

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

### *Risk Management Framework*

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

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

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

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

#### Credit Risk

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

#### *Exposure to Credit Risk*

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

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Cash in banks	<b>P148,686</b>	P151,228
Receivables - net	<b>2,174,940</b>	2,404,681
Due from related parties	<b>576,145</b>	580,174
<b>Total credit exposure</b>	<b>P2,899,771</b>	P3,136,083

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

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

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



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

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

As at March 31, 2018 and December 31, 2017, the aging analysis per class of financial assets that were past due but not impaired is as follows:

### **March 31, 2018**

	Neither past due nor impaired	Past due			Impaired	Total
		1 to 30 days	31 to 60 days	More than 60 days		
Cash in banks	P148,686	P -	P -	P -	P -	P148,686
Receivables:						
Trade	1,145,948	239,304	125,899	101,455	138,968	1,751,574
Others	323,955	5,793	97,499	135,087	56,520	618,854
Due from related parties	576,145	-	-	-	-	576,145
	2,194,734	245,097	223,398	236,542	195,488	3,095,259
Less allowance for impairment losses	-	-	-	-	195,488	195,488
	P2,194,734	P245,097	P223,398	P236,542	P -	2,899,771

### **December 31, 2017**

	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
Cash in banks	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 March 31, 2018 and December 31, 2017, the Company has an allowance for impairment loss amounting to P195.5 million and P215.0 million, respectively, relating to its trade and other receivables.

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

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

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

#### Liquidity Risk

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

In addition, the Company has the following credit facilities:

- The total commitment as at March 31, 2018 and December 31, 2017 under the line of credit is P16.4 billion and P13.1 billion, of which the Company had drawn P6.3 billion and P5.0 billion, respectively, under letters of credit short-term loans and long term loans. All facilities under the omnibus line bear interest at floating rates consisting of a margin over current Philippine treasury rates except for the long term loan which have a fixed interest rate; and

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

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

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

As at March 31, 2018 and December 31, 2017, the Company is in compliance with the debt covenants in the loan agreements.

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

	As at March 31, 2018 (Unaudited)			
	Carrying Amount	Contractual Cash Flow	One year or less	More than one year
<b>Financial liabilities:</b>				
Short-term debt	P1,150,000	P1,157,212	P1,157,212	P -
Accounts payable and accrued expenses*	7,161,700	7,161,700	7,161,700	-
Long-term debt	4,498,157	4,705,162	660,224	4,044,938
	<b>P12,809,857</b>	<b>P13,024,074</b>	<b>P8,979,136</b>	<b>P4,044,938</b>

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

	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
	<b>P12,577,365</b>	<b>P13,167,293</b>	<b>P11,510,936</b>	<b>P1,656,357</b>

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

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

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

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

#### Market Risk

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

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

#### *Exposure to Commodity Prices*

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

The Company minimizes its exposure to risks in changes in commodity prices by entering into contracts with suppliers with duration ranging from six months to one year; with fixed volume commitment for the contract duration; and with stipulation for price adjustments depending on market prices. The Company has outstanding purchase commitment amounting to P10.8 billion and P9.2 billion as at March 31, 2018 and December 31, 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, long-term debt and finance lease obligation. These financial instruments bear fixed interest rates and accordingly, the Company is not significantly exposed to interest rate risk.

*Foreign Currency Risk*

The Company is exposed to foreign currency risk on purchases that are denominated in currencies other than the Philippine peso, mostly in United States (U.S.) dollar. In respect of monetary assets and liabilities held in currencies other than the Philippine peso, the Company ensures that its exposure is kept to an acceptable level, by buying foreign currencies at spot rates where necessary to address short-term imbalances. The Company considered the exposure to foreign currency risk to be insignificant. Further, the Company does not hold any investment in foreign securities as at March 31, 2018 and December 31, 2017.

Offsetting

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

<b>March 31, 2018</b>	<b>Gross Amount</b>	<b>Amount Offset</b>	<b>Net Amount</b>
Due from related parties	<b>P775,035</b>	<b>(P198,890)</b>	<b>P576,145</b>
<b>December 31, 2017</b>	<b>Gross Amount</b>	<b>Amount Offset</b>	<b>Net Amount</b>
Due from related parties	<b>P773,436</b>	<b>(P193,262)</b>	<b>P580,174</b>

### Fair Values

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

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

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

### **Results of Operations**

PCPPI has delivered Gross Sales for the First Quarter of 2018 of P8.2 billion in line with prior year while delivering Gross Profit of P1.1 billion. This has been achieved even with the volume softening due to the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) Law on January 1, 2018.

Efficiencies in Operating Expenses has led to a 5% decline in expenses even while inflation rate accelerated to 3.8% for the First Quarter 2018. This partially tempered the impact of the volume deleverage and higher cost of goods as the company posted a net loss of P140 million for the quarter.

### **Financial Condition**

The Company's financial condition remained solid. Cash flows from operating activities were used to fund capital expenditures needs and payoff a portion of the Company's bank debt. Consequently, our bank debt increased by P1.4billion in comparison with December 31, 2017 balance.

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

1. Increase in total current assets by 6% due to increases in inventories by 600 million and prepaid expenses and other current assets by P92 million, and decreases in cash by P58 million, net receivable by P230 million, and due from related parties by P4 million.
2. Decrease in total current liabilities by 21% due to decrease in accounts payable and accrued expenses by P534 million and in short-term debt by P1.95 billion, and an increase in income tax payable by P21 million.
3. Increase in total noncurrent liabilities by 116% due to the increase in long term debt – net of current portion by P3.35 billion, and increases in other noncurrent liabilities by P1 million.

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

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

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

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

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

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

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

The Company has ongoing definite corporate expansion projects approved by the BOD. As a result of this expansion program, the Company spent for property, plant and equipment as well as bottles and cases amounting to P882 million and P909 million for the three months ended March 31, 2018 and 2017, respectively. To this date, the Company continues to invest in major capital expenditures in order to complete the remaining expansion projects lined up in line with prior calendar year spending.

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

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

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

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

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

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

### **Key Performance Indicators**

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

		March 31, 2018	December 31, 2017
Current ratio	Current assets over current liabilities	0.5 : 1	0.5 : 1
Solvency ratio	Net income plus depreciation and amortization over total liabilities	0.03 : 1	0.2 : 1
Bank debt-to-equity ratio	Bank debt over total equity	0.7 : 1	0.5 : 1
Asset-to-equity ratio	Total assets over equity	2.7 : 1	2.6 : 1



		For the three months ended March 31	
		2018	2017
Gross sales		P8.2 billion	P8.2 billion
Gross profit margin	Gross profit over net sales	15.2%	22.4%
Operating margin	Operating income over net sales	-3.1%	2.3%
Net profit margin	Net profit over net sales	-2.0%	1.4%
Interest rate coverage ratio	Earnings before interest and taxes over interest expense	-2.9:1	4.4:1

## SIGNATURES

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

Issuer: Pepsi-Cola Products Philippines, Inc.

By:



**Imran Moid**  
Senior Vice-President,  
Chief Financial Officer and  
Chief Audit Executive

Date: May 15, 2018